

Issues in Revitalizing the Philippine Sugar Industry

Sugar producers have again raised the alarm of a possible crisis in the sugar industry. Prices of domestic sugar have gone down and if this continues, they warn that the industry would collapse. They blame this on the massive importation of refined sugar following the issuance of Memorandum Order 358 allowing sugar traders and millers to import

duty-free as much as 125 percent of their export commitment to the United States. They want a stop to the importation, or for the government to impose higher tariff on imported sugar, from the current 100 percent to 133 percent.

The Philippines used to be a net exporter of sugar. Today, it is a net importer. What triggered the importation?

Low productivity

Since 1986, Philippine sugar production has often hardly met local consumption and the country's share in the US import quota. The only times there had been surpluses of sugar were in crop years 1988-1989 (41,105 metric tons or MT), 1991-1992 (263,859 MT), and 1992-1993 (137,817 MT). Otherwise, there have always been shortfalls.

The biggest shortfall was 408,719 MT in 1995-1996. Previous to that, there have been shortfalls of 187,674 MT in crop year 1993-1994 and 203,478 MT in 1994-1995. If the country did not

EDITOR'S NOTES

1996 had been an eventful year for the Philippines as it played host to the fourth APEC Leaders' Summit last November, a task that boosted the country's standing at a time that it strives to be one among the Asian tiger economies.

APEC-related events have been closely followed by the DRN. For the last five issues, one finds various features—from the convening of the APEC Study Centers in Makati City to the APEC seminal thinkers symposium in Marawi City. We cap our final issue with another feature on a key and APEC-related topic: food and agriculture. Dr. Cristina David of PIDS, who helped spearhead the holding of this conference in Manila, provided the highlights of that conference (pages 2-3).

But for our main feature, we give way to another topic that's been crying out to be heard, judging from the many

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export to the US, there would have been a surplus of 83,867 MT in 1994, but there would still be shortfalls of 88,949 MT in 1995 and 179,606 MT in 1996.

The existing yield of 5.3 MT per hectare of Philippine sugar is only about one-half of the productivity of more efficient sugar-producing coun-

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Food is a natural prime concern of every society, country and government. Yet, despite the economic and political importance of food and agriculture in APEC member-economies, discussions about trade-related policy issues in this sector had not been initiated. Though an Agricultural Technical Cooperation (ATC) and a Task Force on Food (TFF) have been established, some experts think there are yet no opportunities to discuss ways to explicitly link this sector to trade liberalization and to explore ways for agricultural technical cooperation.

In October 1996, weeks before the November APEC Leaders Summit meeting which the Philippines will chair for the first time, PIDS and the APEC Foundation of the Philippines jointly sponsored the convening of a

three-day conference on "Food and Agricultural Policy Challenges for the Asia-Pacific."

Policy analysts and experts from the academic sector of member economies were gathered at the Hyatt Regency Hotel, Manila to discuss two major issues:

- * agriculture and trade, and
- * enhancing competitive advantage.

Experts presented papers for countries such as Canada, United

States (US), Japan, South Korea, Chile, New Zealand, Mexico, Philippines, Indonesia, Thailand, Malaysia and China (see box). The papers, generally, evaluated the potential impact of agricultural trade liberalization in the region, including the implications of China's entry to the World Trade Organization (WTO), reviewed the state of agricultural trade policies and constraints toward reforming trade policies, and finally, analyzed the role of technological change and market development to enhance competitive advantage and to mitigate adjustment

For APEC member-economies:

This article was excerpted from the draft summary report of the "Conference on Food and Agriculture Policy Challenges for the Asia-Pacific" by Dr. Cristina C. David, PIDS Fellow. An integrative report of the papers presented will be published by the PIDS and the APEC Foundation.

Papers Presented at the Conference

- * Asia-Pacific Food Markets and Trade in 2005: A Global, Economy-wide Perspective
by Kym Anderson, Bettina Dimaranan, Tom Hertel and Will Martin (University of Adelaide)
- * Domestic Agricultural Policies and World Markets: A Perspective from Canada
by Douglas Hedley and Bruce Huff (Agriculture and Agri-Food Canada)
- * Progress and Issues in Agricultural Trade Liberalization: United States
by Daniel Sumner (University of California Davis)
- * The Challenge of Food and Agriculture Policy in the Asia-Pacific Region
by Mitsugi Kamiya (Food and Agriculture Research Center)
- * Japanese Agriculture Under Siege (The Political Economy of Agricultural Policies)
by Yujiro Hayami (Aoyama Gakuin University)

- * Economics and Politics of Rice Policy in Japan: A Perspective on the Uruguay Round
by Yujiro Hayami and Yoshihisa Godo (Meiji Gakuin University)
- * The Progress and Constraints of Agricultural Market Liberalization in Korea
by Jaeok Lee (Korea Rural Economics Institute)
- * Progress and Issues in Agricultural Trade Liberalization in Chile
by Eugenia Muchnik (UN Economic Commission for Latin America and the Caribbean)
- * Agriculture Can Survive Unilateral Reforms: Lessons from Down Under
by Allan Rae (Massey University)
- * The Late XXth Century Liberalization of Mexican Agriculture

by Roberto Hernandez (University of Guadalajara)

- * Agricultural Policy and the WTO Agreement: The Philippine Case
by Cristina David (Philippine Institute for Development Studies)
- * Liberalization of the Agriculture Sector in Indonesia: External Pressures and Domestic Needs
by Mari Pangestu and Tubagus Feridhanusetyawan (Center for Strategic and International Studies)
- * Thai Agriculture and the WTO Agricultural Agreements: Negotiating Objectives, Implementation and Implications for Public Expenditure
by Nipon Poapongsakorn (Thailand Development Research Institute Foundation)

Making Food as Another Prime Concern

costs while member-economies move to gradually liberalize agricultural trade.

Not Just Policies

What are the policy challenges that member economies face with the advent of APEC, the GATT/WTO and the other regional and multilateral agreements? The conference aimed to identify and develop a common understanding on these issues including finding ways to address them through concerted policy action, technical cooperation, and collaborative policy research.

- * Progress and Issues in Agricultural Trade Liberalization: Malaysian Case Study
by Abdul Aziz Abdul Rahman
(Universiti Pertanian Malaysia)
- * China's Grain Trade Policy and Food Trade Pattern
by Feng Lu
(China Center for Economic Research)
- * China's Integration into the Global Economy: Longer Term Implications for Agriculture and the Agro-Food Sector
by Jikun Huang
(Center for Chinese Agricultural Policy)
- * Agricultural Productivity, Production and Trade Prospects in the APEC Region
by Robert Evenson (Yale University) and Mark Rosengrant (IFPRI)
- * Private Food and Agricultural Research and Public Policy in APEC Countries
by Carl Pray (Rutgers University)

The following were the highlights of findings and recommendations from the conference:

Impact of Trade Liberalization

How does trade liberalization affect heavy net food importers? Numerous studies have found them to be at a disadvantage as world prices are expected to increase. But such losses could be balanced off and even turn them into long-term gains if these economies participate in trade liberalization, reduce their agricultural distortions by striving to gain efficiency, and implement trade reforms in the non-agricultural sector such as the Multi-fibre Agreement for the APEC member-economies. Trade liberalization is expected to dramatically increase trade gains through technological change induced by greater competition, more incentive for private sector research, and improved allocation of public expenditures,

China's (and hence, Chinese Taipei's) membership to the World Trade Organization (WTO) is found to be greatly beneficial, not only to China but also to the world and to APEC member economies.

Resistance

But liberalization continues to be resisted in many APEC member economies, in part due to food security concerns. The rise in world grain prices, the sharp drop in per capita world grain stocks, and the World Watch Institute's alarmist projections

of massive grain imports by China in the 21st century have raised questions about the long-term prospects of world food situation. Yet, deeper analysis of empirical data and reflections from recent studies suggest that world trend in prices will be back and that no real food crisis is expected. In any case, given the likely pace of agricultural trade liberalization up to the year 2000, world prices cannot be expected to significantly increase due to these policy reforms.

Resistance also stems from an unstable world food price. It had been noted that the use of quantitative trade restrictions, variable levies, and the operations of state trading monopolies, aimed to ensure a stable domestic price, simply "exports" the price instability in the world market. It has also been shown that if every country adopts *ad valorem* trade barriers (e.g., tariffs instead of QRs), the coefficient of variation of food prices in many developing countries would be more stable than the trade regime during the 1980s.

Trade Liberalization in Agriculture: Status

Thus far, liberalization has been achieved mainly through unilateral reforms induced by budget constraints, poor economic performance, political change, and strong convictions about its benefits. The North American Free Trade Area (NAFTA), a regional approach to liberalization, had made inroads on areas where mutual benefits are high while the multilateral approach such as the WTO had succeeded mainly in setting the framework for liberalization over the long-term. Given some current agreements under the WTO and the manner a number of economies imple-



Should the government play a major or merely spectator role in a country's economic growth?

According to Dr. Joseph H. Stiglitz, an expert in various fields of economics, current Chairman of the Council of Economic Advisers (CEA) of the United States of America and leading advocate for the analysis of market failures and the approach to correct them, "*The government can be a very powerful force in economic change. Clearly, the government can't do everything but, on the other hand, the government needs to do something.*" Finding the right balance is said to be the key to this role.

Dr. Stiglitz spoke of this role before distinguished economists that includes Director-General of the National Economic and Development Authority (NEDA) and Secretary of Socioeconomic Planning Dr. Cielito F. Habito; Dean of the University of the Philippines-School of Economics (UPSE) and President of the Philippine Economic Society (PES) Dr. Felipe M. Medalla; PIDS President Dr. Ponciano S. Intal, Jr., and other known Filipino economists during a joint PES-NEDA-

Government role in economic growth: Finding the Right Mix of Intervention

PIDS seminar on the "Role of Government in Economic Growth and Development" held at the Hyatt Regency Hotel last November 21. Stiglitz is in the country to attend the Asia-Pacific Economic Cooperation (APEC) 1996 Leaders Summit.

Stiglitz, who helped create the new field of economics known as the economics of information, was bestowed a John Bates Clark Award for the American Economic Association in 1979, an award given to economists under 40 years old in recognition of their significant contributions to economics. He has written numerous textbooks and produced pioneering theoretical and relevant journal articles.

Stiglitz began his talk on the collapse of the Soviet socialist system and

the wrong lessons that people had drawn from this development. According to him, one of these (mis)lessons resulted in a major swing from one extreme system to the other, that is, a system where the government is not controlling the economy. The reason is that since the other extreme failed, it was believed that the one at the other end must be the right solution.

He then cited one major event that took place in the last decade—the economic success of East Asian countries. There were several factors that caused the East Asian miracle and Stiglitz thinks that the "third way" between the *laissez faire* paradigm (where markets run everything) and the old planning socialist paradigm (where the government has an enormous amount of responsibility) was the reason behind the said miracle.

Since the government cannot do everything but, on the other hand, the government needs to do something, finding the right balance in what the government should exactly do is, according to Stiglitz, the third way or the real struggle. He recommends some general principles to do this.

The "third way"

First, the role of the government complements the market. This answers the question on who should run the enterprise—the government or the private sector. There are various ways



The "third way." Dr. Stiglitz expounds on his theory of the "third way" which according to him is the right balance in government intervention.

in which the government can help in creating an environment where the markets can work more effectively. The *third way* proposes that the economy is market-based but that the government has a role in it.

Second, the government has a vital but circumscribed role, thus, it must be kept in its place.

Last, incentives are important. The government, as viewed through the new democratic philosophy, can not solve all problems but it has a role in ensuring that all individuals have opportunities.

The East Asian Miracle

Drawing from the lessons of the East Asian miracle, Stiglitz noted that almost 40 years ago, South Korea's standard of living was below that of India. Today, Korea is a member of the



High-powered attendance. Socioeconomic Planning Secretary and Chairman of the PIDS Board of Trustees Cielito Habito acknowledges the attendance of many well known economists to this seminar while (from left) Dr. Ponciano Intal, Jr., PIDS President, Dr. Stiglitz and Dr. Felipe Medalla, PES President, listen.

Competition from other industries abroad was given more weight than the establishment of property rights. It was promoted through exports based on the

- * Inequality did not rise along with economic growth. There were major land reforms, policies to limit the range of wage and equality, and policies in egalitarian education. The underlying belief is that equality is growth-enhancing, human capital can be upgraded, and political stability can create a willingness to accept change.
- * Government played actively in promoting universal education particularly of women.
- * New technologies imported by the governments through policies on education, export and industry closed the gap between the East Asian countries and the industrialized ones. DRN

"The whole idea of development is learning about new ideas, new ways of producing things, and a whole set of information problems that are not just problems of supply and demand."

Stiglitz

Organization of Economic Cooperation and Development (OECD), an organization of advanced industrial economies. This raised the question of what the country did to reach such stage of development. Of course, mention should be made that virtually all of the countries of East Asia experienced remarkable economic success.

He then summarized several lessons from this economic miracle, namely,

- * East Asian governments emphasized competition through open markets and trade liberalization.

view that the production of goods which can compete in the international market means success.

- * The adoption of international standards helped in the diffusion of technological knowledge which resulted in the closing of the knowledge gap between that of East Asia and the rest of the world.
- * Government played an active role in the financial markets.

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<http://www.pids.gov.ph>

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tries like Peru which yields 14.1 MT per hectare.¹

Rise and fall of sugar price

During the periods of shortfall, prices of domestic sugar rose dramatically. In January 1994, millsite price of raw sugar reached P447.44 per 50-kg bag. This surged to P602.65 per 50-kg bag in June 1994, to P711.75 in March 1995, and to P861 in September 1995. Some traders and millers tried to hold on to some of their stocks in the hope that prices would rise further.

To make up for the shortfalls and prevent a crisis, President Fidel V. Ramos allowed duty-free importation of sugar. Millers and traders imported sugar at 10 cents a pound and exported to the US at 22 cents a pound.

The country imported 300,000 MT of sugar from September 1995 to April 1996. Although the imported stocks were classified by the Sugar Regulatory Administration (SRA) as C (reserve) and D (for world market) sugar, a significant quantity was reported to have been withdrawn illegally from warehouses and released into the local market.

Sweet turning sour

As a result, prices of domestic sugar declined from P861 per 50-kg bag to P504 per 50-kg bag by December 1996, when sugar demand was

supposed to be strong because of the Christmas season. Sugar producers want government to stop the importation, or impose higher tariff on imported sugar. If this situation continues, they warned of a collapse of the industry on which some five million people depend for economic survival, would displace 556,000 agricultural workers, and close down 37 mills and

ing their products. The food processing sector uses 60 to 80 percent sugar, thus it imports an average of 10,000 to 15,000 metric tons of sugar annually for their export products. Since imported sugar is cheaper, they are naturally opposed to a clamp on importation. Their view is that the sugar industry, because of its dependence on US import quotas for many decades,

Table 1
Total Supply Production, Exports, and Imports in Raw Sugar Equivalent, Philippines (000 MT)

	1961-64	1970-74	1980-84	1990-94	1995/96
Production	1,495.8	2,079.0	2,426.8	1,894.8 (69.1)	1,710.0
Export	1,076.0 (71.9)	1,383.3 (66.5)	1,079.0 (44.5)	247.7 (13.1)	237.4 (13.9) [9.6]
Domestic use	419.8 (28.1)	695.7 (33.5)	1,347.8 (55.5)	1,647.1 (86.9)	1,472.6 (86.1) [59.5]
Imports	-	-	-	-	765.7 [30.9]
Total Supply	1,495.8	2,079.0	2,360.9	-	2,475.7

Note: Figures in parenthesis are percentages of production and in brackets percentages of total supply.

Source of data: Food and Agriculture Organization (FAO) *Production/Trade Yearbook* 1961-1994
Sugar Regulatory Administration (SRA) 1995/96

16 refineries that employ some 25,000 factory workers.

Could it be that another crisis looms in sugarland?

Controversy on importation and tariff

Exporters of processed foods use great amount of sugar in manufactur-

has grown to be inefficient and uncompetitive. They believe that instead of continuing to support it, the government should help develop the more promising food processing sector.

The Philippine Exporters Confederation, Inc. (Philexport), which represents the food processing sector, is opposed to any delay in the

¹Taken from the Opening Message of Dr. Cielito Habito, Secretary of Socioeconomic Planning and Director-General, National Economic and Development Authority (NEDA), during the PIDS Sectoral Roundtable Discussion on the Philippine sugar industry held on August 29, 1996.

country's commitment to open up the sugar market under the Asean Free Trade Area (AFTA) program for Common Effective Preferential Tariff (CEPT). The government has a commitment to grant a 35 percent margin of preference (MOP) on imported refined sugar in compliance with AFTA-CEPT. Tariff rates will be brought down to 80 percent from 100 percent starting July 1, 1997. The 35 percent MOP, imposed in 1993, means that refined sugar imported from Brunei, Malaysia, Singapore, Thailand and Vietnam would be levied a rate equivalent to 65 percent of existing rate. Thus, under the current 100 percent tariff, imported refined sugar from Asean is levied a duty of 65 percent. When the new rate takes effect on July 1, imported sugar from AFTA member countries will be slapped a 52 percent tariff, equivalent to 65 percent of 80 percent.

Under the General Agreement on Tariffs and Trade-World Trade Organization (GATT/WTO), local sugar users are allowed a minimum access volume (MAV) of 78,000 MT of sugar. The MAV is the quantity a WTO member country is allowed to import with lower tariff. Exporters say this MAV is unrealistic since the shortfall in supply is around 400,000 MT. They also lament that the 300,000 MT imported tax-free in 1996 were cornered by sugar traders and millers themselves.

Exporters also say that by protecting the sugar industry through the current 100 percent tariff on imported sugar, the consumers are being penalized. The average Filipino consumes 24 kilos of sugar a year. Imported sugar is cheaper than local sugar by P10.50 per kilo. Thus, the ordinary consumer subsidizes the sugar industry by P252 a year.

Table 2
Trends in the Share of World Trade of Selected Philippine Agricultural Exports (%)

	Sugar	Coconut Products	Bananas	Pineapple	Fishery Products
1960	11	40	0	-	-
1965	7	57	0	-	-
1970	8	51	0	-	-
1975	6	59	8	-	-
1980	4	64	9	20	1
1985	2	52	8	17	1
1990	1	53	6	14	1
1993	1	52	7	14	1

3-year averages centered at year shown

Source: FAO, *The State of Food and Agriculture* 1995.

Problems of the sugar industry: Experts' view and recommendations

Three major issues were pinpointed by experts during the PIDS Sectoral Roundtable Discussion on "The Philippine Sugar Industry: Issues and Prospects" held in August to find a consensus on how best to approach the concerns that continue to plague the sugar industry.

First is the appropriate level and mechanism of protection in the sugar industry. Since the world market is actually a residual market that absorbs supply and demand disequilibrium from the local markets, sugar price becomes naturally volatile. There is a call to come up with a more transparent and efficient protection approach as the present one has already outlived its usefulness.

The second issue is the declining productivity in the different organizational systems such as the farm level, mill level, and the social level which covers the implementation of the Com-

prehensive Agrarian Reform Program (CARP).

Implementing the land transfer scheme of the CARP had been slow due to government's administrative and financial constraints. And then there is the strong opposition from the landowners. Nonland transfer schemes which include land lease or rental, profit sharing, and corporate stock distribution have proven to be unattractive to landowners. Such delay and uncertainties discourage CARP farmer owners to invest in farm improvements, lower collateral value of agricultural land, and reduce credit flow to agriculture. In the end, low productivity becomes inevitable.

Lastly, there is the issue of strengthening institutions.

In 1996, government financial support on research and development (R&D) is only a negligible 0.02 percent of Gross Value Added (GVA) of sugar compared to 2 to 3 percent in other

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countries. The GVA is the difference between the value of goods produced and the cost of materials and supplies used in producing them. The Sugar Regulatory Administration (SRA) has also very limited funds for research and development (R&D) and as such, new varieties and technology are still scarce and inaccessible to a large part

productivity and efficiency can be attained if the relative neglect of sugar research is reversed. R&D efforts could be focused on developing yield-increasing farm and milling technologies, among others. High-value sugar by-products could also be looked into to increase the forward linkages of the sugar sector with the other industries.

Reviving the industry: Detailed recommendations

The government and the private sector realize the challenge of meeting the growing domestic and world market demand for sugar and processed food.

On tariff protection

In line with the protection thrust, the experts gathered at the PIDS sectoral roundtable discussion agreed that the domestic price should be regulated within a certain price band that is remunerative and protective to producers against the low-priced imports. The scheme should also ensure that pricing is fair to the consuming public. A weighted average sugar tariff level can be studied based on the Thailand, Indonesia, and Mexico experiences. It was seen

that tariff rate will eventually go down over time as the ASEAN Free Trade Area (AFTA) Program for a Common Effective Preferential Tariff (CEPT) imposes a 0 to 5 percent tariff level by the year 2003.

On the other hand, food processors should be allowed to buy at world market price with no tariff or at a price consistent with the tariff level of processed food. This will allow local food producers to compete with imported products and with exporters in the world market.

On strengthening the SRA

To address the issue on organizational system, a broader base of representation is called for in the SRA Board. At present, the Board of Directors is composed of three members—the Secretary of the Department of Agriculture, and representatives from the millers and planters sectors. There was a suggestion during the roundtable discussion for an initial addition of two representatives from the food manufacturers sector and the organized labor group of the industry. Such representation aims to promote a multisectoral character instead of serving only limited interests. Nominees for Board membership will undergo an election process.

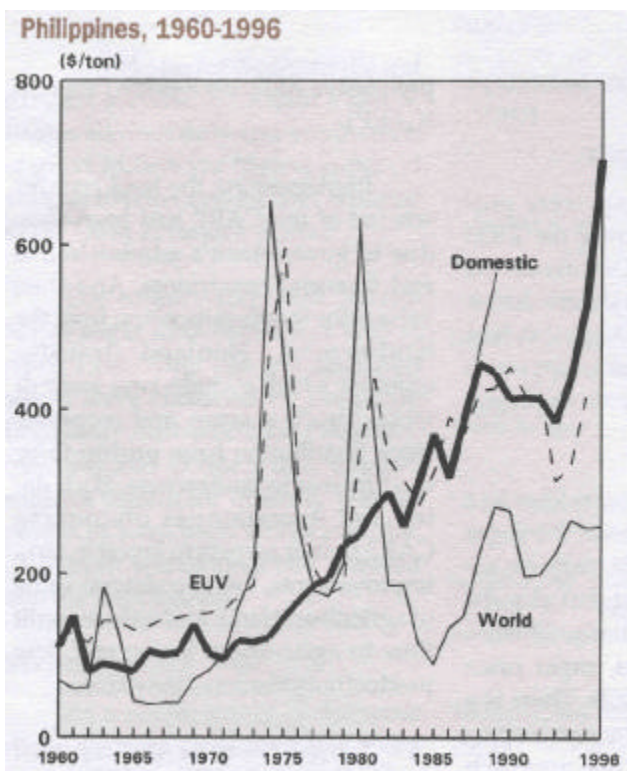
On sugar supply control

The issue on productivity was also discussed in relation to SRA's functions. Since the SRA controls the supply of sugar in the domestic market through the *quedan* system of classification, any violation of their market destination should be treated as a criminal offense to ward off unscrupulous traders.

On R&D

The R&D function of the SRA should be separated from its regulatory and policymaking role. The issue of strengthening institutions can be addressed through a new program for R&D and extension. This should be a

Figure 1
Trends in Domestic Price, World Price, and Export Unit Value (EUV) of Centrifugal Sugar, Philippines, 1960-1996



of the industry. The private sector lacks incentive and consequently has limited its involvement in R&D.

It had been suggested that substantial improvement in the industry's

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Edita!

As a Ten Outstanding Women in National Service (TOWNS) awardee in 1974, Dr. Edita Tan has served her country and people in a number of ways. As member of several professional, civic, and cultural organizations, she had been hailed by colleagues and friends for her indefatigable concern for the well-being of the majority. Her research contributions in the academe and research community have made significant impact on the vibrant discussion of significant issues.

Dr. Tan holds a doctorate degree in economics from the University of California in Berkeley and is full professor at the University of the Philippines School of Economics. At this point of her productive career, it is hard to keep track of the number of times she had been invited either as visiting Research Fellow, research

scholar, visiting professor, or consultant in a number of prestigious universities and research institutions abroad. Nor is it easy to count the number of times that she had been invited to participate or present papers in high-level conferences and discussions. Dr. Tan's expertise spans from human resources that includes education, manpower planning, and labor to banking and finance, and taxation, among others. She had also published numerous papers since 1969 in well known journals and publications both here and abroad. Her list of still unpublished papers likewise keeps on growing.

At the University of the Philippines, she was named department chairperson of the UPSE from 1991 to 1994. And in mid-1996, she was called upon to serve as the Vice-Chancellor of the UP Open University.

And closer to home, she has, for the last eight years, consistently championed the cause of quality research and the welfare of PIDS employees as member of the PIDS Board of Trustees from 1988-1996.




"Thank you, Dr. Tan." PIDS Board of Trustees Chairman Cielito Habito seems to be saying as he presents the plaque of appreciation.

Last September 1996, Dr. Tan was given recognition for her excellent and unselfish service to the Institute as member of the PIDS Board of Trustees. The event was timed to coincide with the 19th anniversary of the PIDS where Dr. Tan was feted to an appreciation dinner at The Summit of the Manila Galleria Suites. A Plaque of Appreciation was presented to Dr. Tan, a simple gesture of expressing the PIDS staff's profound gratitude.

PIDS "Family." PIDS officers, Fellows and staff express gratefulness and appreciation for Dr. Tan's contributions to PIDS.



Among those who witnessed the event were National Economic and Development Authority (NEDA) Director-General and Socioeconomic Planning Secretary Dr. Cielito F. Habito, also the chairman of the PIDS Board of Trustees; PIDS President Dr. Ponciano S. Intal, Jr.; Dr. Benjamin E. Diokno, currently a member of the Board of Trustees; Bangko Sentral ng Pilipinas Monetary Board member and former PIDS trustee Dr. Cayetano W. Paderanga; and a number of the Institute's senior research staff and management officials.

To Dr. Tan, the PIDS will always be grateful for all your support and contribution. 

Making Food as Another...

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ment reforms, agricultural trade barriers and subsidies are not expected to significantly decrease.

Lessons from Experiences

The most successful cases of countries (Chile and New Zealand) that adopted unilateral liberalization belong to APEC. On the other hand, the trade agreements of Australia and New Zealand under ANZCERTA and North American member-economies under NAFTA were beneficial because of the strong economic comple-

mentarities within the region. A number of lessons may be observed from these experiences:

- * There must be a strong domestic motivation for policy reforms (e.g., severe budget constraints or balance-of-payments problems, political change, stagnating economy, and others).

- * Reforms must be comprehensive to ensure correct macroeconomic fundamentals (i.e., exchange rate, interest rate, inflation), appropriate property rights structure, sufficient market, financial and technological infrastructure, efficient bureaucratic structure, and others.

- * Farmers, input and output markets and agro-processing industries *do* adjust to new incentive structures.

- * Adjustments in resource use take time and costs can be substantial. Appropriate sequencing and speed of implementation could raise the probability of success and lower the burden of adjustment. To support household consumption, short-term government measures decoupled from production decisions may be called for but ultimately, support for education, market infrastructure, and technology generation to facilitate factor market adjustments and enhance competitive advantage are the more cost-effective measures.

FORTHCOMING PUBLICATION



Financing Social Programs in the Philippines: Public Policy and Budget Restructuring

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For the cause of food and agriculture. Local and foreign participants to the conference take a 'break' for posterity.

APEC must take up the challenge of pushing forward the process of agricultural policy reforms because of the strategic importance of food and agriculture trade-related policies to the overall liberalization and facilitation of trade and investment.

* Benefits from agricultural liberalization are often higher and adjustment costs lower than expected due to the induced technological and efficiency gains in related sectors such as the agro-processing industries. Liberalization in the industrial sector also has substantial indirect effects on income and exchange rates which become less distorted.


Recommendations


APEC must take up the challenge of pushing forward the process of agricultural policy reforms because of the strategic importance of food and agriculture trade-related policies to the overall liberalization and facilitation of trade and investment. This call becomes particularly significant because of the limited progress made to date under the WTO umbrella. In fact, moves under APEC's wings such as:

- * voluntary and open regionalism approach;
- * the emerging mechanisms that specify trade liberalization plans, measure the size of commitments offered, and monitor the implementation progress; and
- * an annual cycle of leaders' meetings to set directions and guide progress –

all promise to be effective means by which unilateral and multilateral efforts are strengthened and facilitate the sharing of adjustment costs that accompany liberalization.

Food and agricultural policy issues may be initially pursued through a Track II process where academic and private sectors and selected government analysts participate in their individual capacities. Issues may range from rule tightening and further liberalization, to problems of state trading enterprises, environment and agricultural trade, changing roles of private and public sectors under a more open trading environment, cost-effective adjustment measures to reduce burden of structural adjustments, among others. These may be addressed through the following: collaborative research, round table discussions, workshops, and conferences under the APEC Study Centers Network, the Pacific Economic Cooperation Council (PECC), or under other institutions. For example, a collaborative research to quantify the degree of policy distortions and budget support in agriculture may be undertaken. Though this task is already being done by OECD for APEC's developed economies, a similar and coordinated effort must also be done for the developing member economies. Because of differences in policy instruments and the appropriate technologies for quantifying, a separate but linked periodic surveillance mechanism for monitoring changes would be called for. Eventually, linking this to the official APEC activities such as the ATC and TFF should be explored. These would become highly complementary and more effective if TFF can include in their

analysis the welfare, price and other impacts of varying liberalization degrees and coverage. Likewise, designing ATC programs that ease the burden of structural adjustment and maximize benefits for all will help push the momentum for agricultural trade liberalization. 


DEVELOPMENT
RESEARCH NEWS

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Lay-out and Design

...the Sugar Industry

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joint program between the government and the private sector since both are major players in determining the long-term productivity and competitiveness of the industry. If properly instituted, it could be a rich source of innovation and technology as well as a catalyst of action responsive to the dynamic changes of the sugar industry.

On CARP's significance

Agrarian reform's significance is based on the argument that unless the greater majority of the farming population becomes part of the mainstream, economic growth can neither be sustainable nor meaningful. The completion of CARP is a necessity for the sugar sector to form the essential farm economic size to be competitive in the global market. This will also remove uncertainties and ease the flow of credit and investment in the rural areas.

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On policy thrust

Sugar policy should be directed towards self-sufficiency and maintenance of the US quota while at the same time tapping other export markets. It should create investments and ensure a livelihood for its producers comparable to the urban and industrial areas to generate economic activities and prevent urban migration. In this light, the implementation of macro and micro policies to encourage the investment of transportation and communication infrastructures that will link farm to market is long overdue. 

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EDITOR'S NOTES

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issues that now buffet it. Woes continue to hound the Philippine sugar industry, and from the looks of it, more issues have yet to emerge especially with the implementation in July 1997 of the AFTA-CEPT commitment—another issue that is hotly contested by sugar millers and traders on the one hand, and the food processing sector on the other.

Is there hope for the sugar industry? This is what the feature hopes to clarify by putting together the views, recommendations and study findings of experts invited by PIDS to a roundtable discussion.

Also featured in this issue is an insight on the oft-reprised role of government in development. Dr. Joseph Stiglitz, a respected economist and author, provides a new perspective on how government could actually contribute to a country's development. Finally, we pay tribute to a well-loved, out-going member of the PIDS Board of Trustees with the short feature EDITA!