Philippines agricultural protection and insulation in international perspective

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Rationale and plan of the presentation

- Historically: economic policies have distorted agricultural incentives – penalizing farm exports, protecting farmers from import competition, insulating domestic markets from fluctuations in international agri-food prices.
- Summarized by Power (1971) to the mid-1960s, assisted by Cristina David.
- Nearly four decades later Cristina contributed to an updating to the mid-2000s (David, Intal and Balisacan 2009).
- This chapter looks at what has changed in terms of agricultural protection and food market insulation in the two decades since then. It does so by drawing heavily on the annual assessments by OECD (2024).

Rationale and plan of the presentation

1. Evolution of agricultural price and trade policies since the 1960s
2. Updated estimates of distortion measures
3. Cross-country comparisons
4. Prospects

Evolution of agricultural price and trade policies since the 1960s

Long term trends

Structural transformation – decline in contribution of agri in GDP, but slow pace of change

Erratic growth of agriculture

Annual growth rates of gross value added in agriculture by commodity, 1960 to 2020 (%)

	1960-70	1970-80	1980-90	1990-00	2000-10	2010-20
Total crops	3.8	6.3	1.6	1.3	4.6	0.6
Palay	4.5	4.7	2.7	2.3	1.5	0.9
Corn	5.3	5.9	3.5	-0.9	4.1	1.5
Coconut	2.3	4.9	-4.9	-0.6	2.4	-0.7
Sugar	4.8	2.9	-5.3	0.5	-1.0	3.7
Banana	5.5	15.6	-3.0	4.4	5.0	-0.5
Other crops	3.6	9.5	1.1	1.2	1.8	0.7
Total livestock & poultry	3.2	3.0	4.7	4.9	3.4	3.2
Livestock	3.1	0.5	4.9	4.4	2.9	2.2
Poultry	3.7	9.2	4.4	5.6	4.3	4.7

Long term trends

Declining comparative advantage – as a whole, and for specific industries

Declining SSR

Revealed comparative advantage (RCA) and self-sufficiency ratios (SSR) of major agricultural commodities, 1960 to 2020[e]

	1960	1970	1980	1990	2000	2010	2020
RCA							
All agriculture [b]	3.0	2.6	2.9	1.6	0.6	1.1	1.2
Coconut	116	145	224	212	71	69	70
Sugar [c]	18	21	12	4	1	2	2
Banana	-	4	30	23	11	15	19
Pineapple:							
Canned	32	48	83	70	28	47	54
Fresh	-	3	45	56	9	12	15
SSR							
Rice	0.95	1.00	1.03	0.94	0.95	0.81	0.85
Corn	1.00	1.00	0.93	0.93	0.91	0.99	0.91
Sugar	1.07	1.05	1.06	1.01	1.00	1.09	0.93

Policies directly and indirectly affecting farmers

- 1950s onward: import substituting industrialization – overvalued exchange rate – penalty on agriculture (esp export-oriented: sugar, coconut, and later banana)
- Trade liberalization in early 80s – suspended by BOP crisis 1983
- Restoration of democratic government in 1986: new Constitution, agrarian reform, renewed impetus for policy reform
- Dismantling of trade monopolies except rice, increasing protection through NTBs and high tariffs – untouched through series of trade liberalization programs

Agricultural policies

- Modernization program since 1997 (AFMA) – introduced broad notion of “food security” inclusive of imports (i.e. *self-reliance* rather than *self-sufficiency*) – but insisted on “food sufficiency” in rice and corn
- 2008 rice price crisis: reinvigorated self-sufficiency program, under FIELDS (fertilizer, irrigation, extension, loans, dryers and other postharvest, seeds) and FSSP (food staples sufficiency program)
- Political pressure from lobby groups - farmer organizations, large landowners, and agri-business firms, supported by political leaders in legislative and executive branches

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Updated estimates of distortion measures

Measures used: NRA, RRA

- Nominal rate of assistance (NRA) – assuming small open economy, for a given commodity: sum of market price support, payments based on outputs and inputs, and other payments, as a percentage output *valued at undistorted prices* (vs OECD producer support estimate, where denominator is output valued at market prices)
- Relative rate of assistance (RRA):

$$RRA = 100 * \left[\left(100 + NRA_{ag} \right) \Big/ \left(100 + NRA_{nonag} \right) - 1 \right]$$

NRA trends

1st: Import-competing products have been much more highly assisted than exportable commodities.

2nd: Policies penalized agri until mid-80s; since then, sector NRA has increased

3rd: NRA increasing for rice and sugar relative to other importables (animal products)

Decadal and five-year averages of nominal rates of assistance, by commodity, 1962 to 2022 (%)

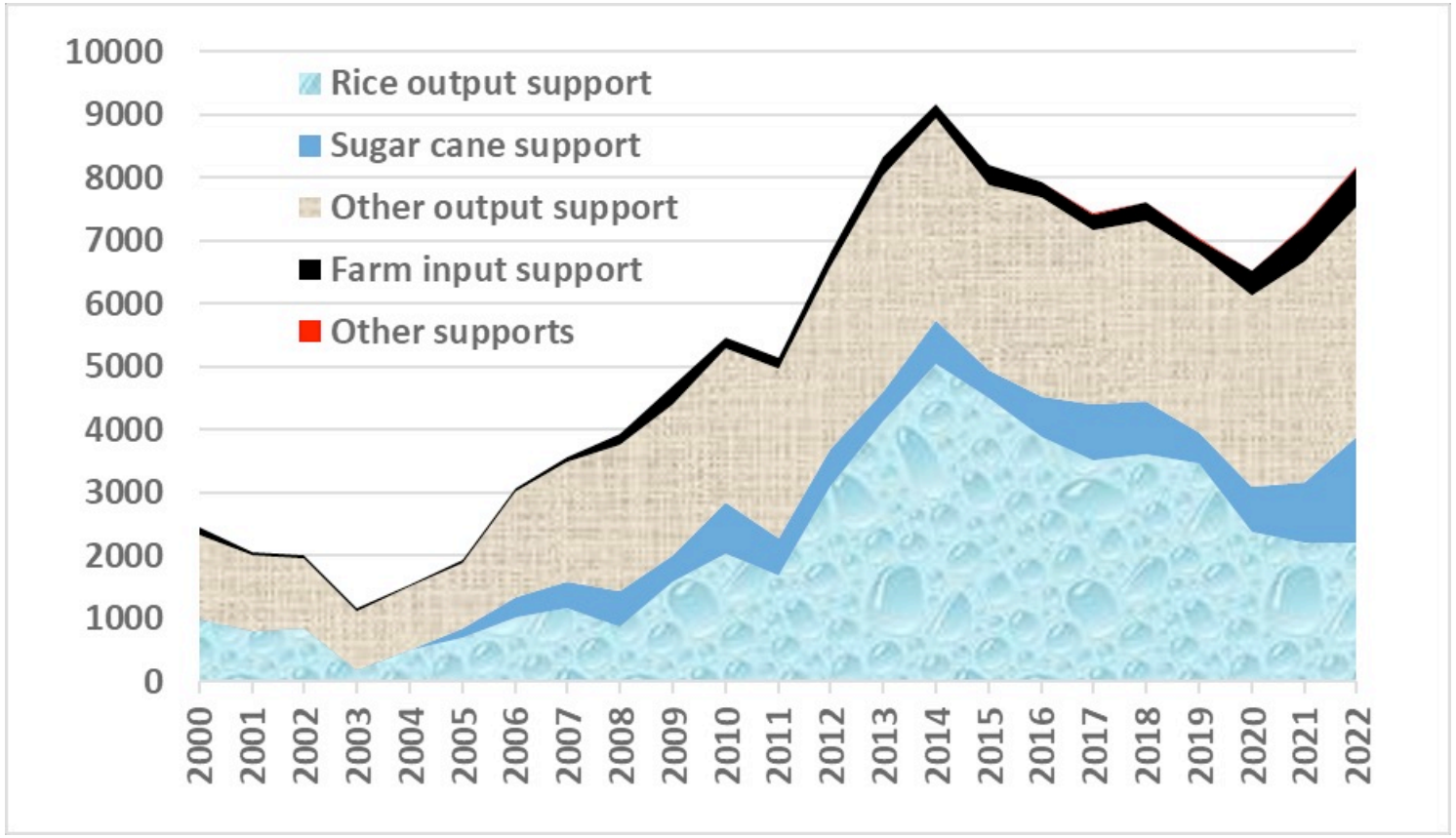
	1962-69	1970-79	1980-89	1990-99	2000-09	2010-14	2015-19	2020-22
Import-competing products[a]								
Rice	-3	-14	-10	-18	44.5	91	131	53
Corn	20	19	14	24	20	4	14	33
Sugar	57	-5	-12	2	60	77	81	168
Beef	15	11	12	10	5	10	10	10
Pork	-8	-2	3	-6	36	40	40	40
Chicken	29	29	29	28	38	32	34	38
Eggs						7	7	9
Exportable products								
Coconut	-4	-9	-14	-4	-16	0	0	0
Bananas	0	-4	-4	-4	-4	0	0	0
Pineapples						0	0	0
Mangoes						0	0	0
Covered products[a]	7	-7	-6	-8	-5	31	35	29
Dispersion, all products[b]	24	24	25	22	29			

NRA trends

4th: rice has received 30 - 55 percent of the value of all direct farmer support since 2000 – mainly by higher domestic price thanks to restrictions on rice imports; previously by NTBs, since 2019 by tariffs

Output, input, other direct producer support estimates (PSE), and general services support to Philippine farmers, 2000 to 2022 (US$ million)

(a) Output, input and other direct support (PSE, US$ million)

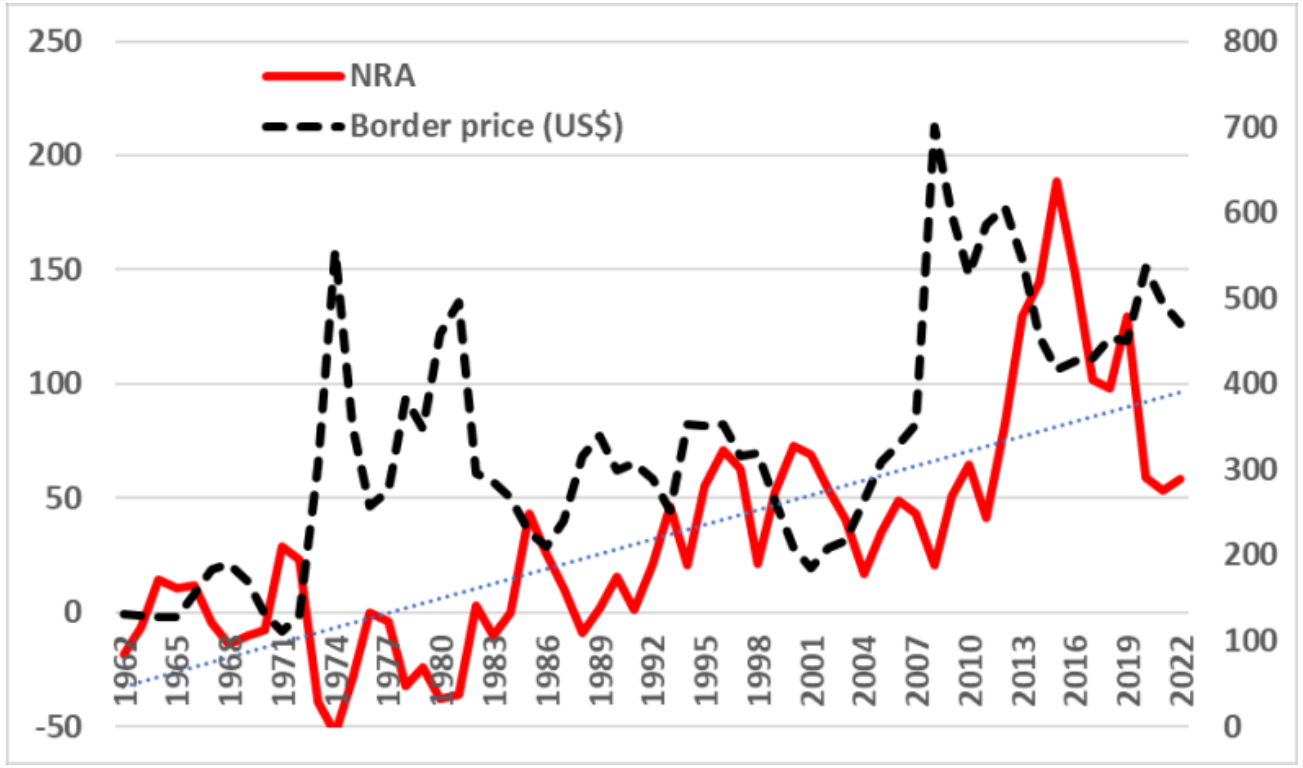


NRA trends

5th: the NRAs have fluctuated from year to year, mostly in response to world price changes and sometimes to exchange rate adjustments.

6th: Government has also assisted the farm sector by the provision of public goods such as agricultural R&D and rural infrastructure

Nominal rate of assistance to rice[a] and the rice border price, 1962 to 2022 (% and US$/tonne)



NRA trends

7th: assistance to non-agricultural sectors has steadily diminished since the 1960s; average agri NRA now much greater than the average non-agri NRA

Nominal rates of assistance to agricultural relative to nonagricultural industries, 1962 to 2022 (%)

	1962-69	1970-79	1980-89	1990-99	2000-09	2010-14	2015-19	2020-22
All agricultural products	5.9	-6.1	5.4	24.2	24.8	31.5	34.5	29.0
Agricultural Tradables	6.0	-6.5	6.0	26.5	26.0	32.0	35.0	29.0
Non-agricultural tradables	19.5	16.5	12.0	9.5	7.0	5[a]	4[a]	4[a]
RRA[a]	-11.0	-20.0	-5.5	15.5	18.5	25.0	29.0	24.0

International comparisons

Stylized facts

- Historically, the higher a country's per capita income, the higher have tended to be its nominal – and especially relative – rates of assistance to agriculture (NRAs and RRAs)
- The Philippines has the highest rate of farmer assistance of all the non-member emerging economies monitored by the OECD, even though its income per capita is still relatively low and its comparative advantage in some farm products is quite high
- Much fluctuation is seen from year to year in individual product NRAs, a trend that has not diminished (and has even increased for high-income countries) → that is, a negative correlation between a commodity's NRA changes and movements in its international price

Stylized facts

- Much of the NRA is accounted for by trade policy instruments; there's now less reliance on export taxes and exchange rate controls
- There is also limited reliance on public goods support such as agri R&D - about 2 percent in developed countries, <1 percent in developing countries
- From the 1990s, numerous OECD countries began to move away from price supports to more-efficient and more-equitable policy instruments

Prospects

Can agricultural policy in the Philippines change?

- Favorable recent developments – tariffication, tariff reduction since 2021 up to 2028 – rice, corn, pork
- However, budgetary distortions have intensified – increasing outlays for rice
- Capturing opportunities to form new coalitions among the interests of farmers, downstream agribusiness, food consumers, and environmental groups will influence sustainable policy reforms – promotion of local public goods, agricultural productivity, and markets for environmental services
- Hopefully, heightened scrutiny of new developments, plus policy persistence, will promote greater transparency and socially beneficial cooperation