Regional-Bilateral Free Trade Agreements (FTAs)

Issues, Problems, Opportunities

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Goal

The continuing failures of the WTO rounds have led to the proliferation of both bilateral and regional free trade agreements (FTAs). As of this writing (June 2006), the Philippines has forged two regional FTAs under the aegis of the ASEAN - with China and Korea. Two more are on the pipeline - with India and Australia-New Zealand. A bilateral FTA with Japan is also on the pipeline. Regional and multilateral FTAs are preferred because negotiations on bilateral FTAs are often in favor of rich countries.

The goal of this paper is to identify and discuss problems, issues and opportunities in FTAs specifically for the agricultural sector and make recommendations to the Department of Agriculture. It is broken down into three sections – A) review of FTAs, B) problems and opportunities arising, and C) findings and recommendations.

Section A. Review of FTAs

Framework Agreement. In the ASEAN-China FTA, the four goals agreed upon as framework in November 2002 were strengthening trade ties, liberalization of trade in goods, fostering of economic cooperation, and achievement of economic integration for new ASEAN members. The means to these goals include gradual elimination of tariffs and non-tariff trade barriers, liberalization of trade in services, promotion of open and competitive investments, and special and differential treatment for new ASEAN members. Priority cooperation areas included agriculture, information and communications technology, human resource development, investments, and development of the Mekong River basin.

The Early Harvest Program (EHP). This trade liberalization program covers animals, animal products, trees, flowers, vegetables, fruits and nuts, starting 01 January 2004, and covering chapters 1-8 of the Harmonised System (HS) Code, except those in the Exclusion Lists of the Parties. The EHP demands a common tariff concession. Products beyond chapters 1-8 may be included but apply only to those who have extended the tariff concessions.

The EHP tariff reduction-elimination modalities is as follows 1) reduce MFN rates over 15% to 10% by 2004, to 5% by 2005, and to 0% by 2006, all on 01 January of each year, 2) reduce MFN rates between 5% and 15% to 5% by 2004, and to 0% by 2005 and 2006, all on 012 January of each year, 3) reduce MFN rates below 5% to 0% beginning 01 January 2004, 4) MFN rates at 0% shall remain 0%.

Exclusions and Tariffs Beyond Chapters 1-8. Brunei, Indonesia, Myanmar, Singapore, and Thailand did not exclude any item in the coverage of chapters 1-8. Cambodia excluded 30 8-digit HS Codes; Vietnam 15 9-digit HS Codes. Laos, Malaysia and the Philippines were to complete negotiations by 01 March 2003.

For items beyond chapter 8, Brunei and Singapore had no exclusions. Cambodia, Laos, Myanmar, and Vietnam excluded all tariff lines. Indonesia excluded but liberalised 14 8/9 digit HS Codes including coffee, vegetable fats and oils, soap, vulcanized rubber, anti-dazzle glass for cathode-ray tubes, seats/furniture of

Inside:

Issues Specific To the Philippines	2
AKFTA & ATIG	3
JPEPA	4
AIFTA & AAN-ZFTA	5
ASEAN-CER & ASEAN-CHINA FTA	6
Positions of Agricultural Producers	7
Analysis of Trade Data with 6 Countries	9
Findings and Recommendations	10
Conclusion	13

cane, bamboo and similar materials. Thailand liberalised anthracite coal and coke/ semi-coke. Malaysia and the Philippines were to conclude negotiations by 01 March 2003.

The Philippines concluded EHP negotiations on 27 April 2005, with an inclusion of a total of 214 8-digit HS Codes, with 209 items falling in chapters 1-8 and five in the other chapters. Tariffs on these would be reduced to 0% by 01 January 2006.

Agreement on Trade in Goods (ATIG)

Normal Track. Effective 01 July 2005, tariffs are to be eliminated by 01 January 2010 between China and the ASEAN 6 (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) and by 2015 between China and the CLMV (Cambodia, Laos, Myanmar and Vietnam). Flexibilities are allowed for ASEAN members to eliminate tariffs on not more than 150 lines by 2012 for the ASEAN 5 and 2018 for CLMV. The Philippines is allowed flexibility for more than 150 lines.

Thresholds on tariff reductions make the timetable more demanding. For the ASEAN 6, 40% of the lines under the Normal Track should be at 0% - 5% not later than 01 July 2005, 60% should be at the same level by 2007 and all tariff lines, except for 150, shall also be 0% - 5% by 2010. Modalities for reduction of applied MFN rates for the ASEAN 6 are as follows: 1) reduce rates 20% or greater to 20% by 01 July 2005, to 12% by 2007, to 5% by 2009, and 0% by 2010; 2) reduce rates between 15% to below 20% to 15% by 2005, to 8% by 2007, to 5% by 2009, and 0% by 2010; 3) reduce rates between 10% to below 15% to 10% by 2005, to 8% by 2007, to 5% by 2009, and to 0% by 2010; 4) reduce rates between 5% to below 10% to 5% by 2005, maintained at 5% by 2007, and to 0% beginning 2009; and 5) reduce rates 5% or below to 0% starting 2009.

Sensitive Track. *Sensitive List.* Tariffs are to be reduced to 20% by 2012 for the ASEAN 6 and China, and 0% - 5% by 2018; for CLMV and China, the agreement is 20% by 2015 and 0% - 5% by 2020. The sensitive list is limited to 400 lines at the 6-digit HS Code level, covering 10% of import values in 2001 for the ASEAN 6, and 500 lines for the CLMV, with Vietnam to determine the ceiling on import values that these would represent by 31 December 2004.

Highly Sensitive List. Tariffs are to be brought down to 50% by 2015 for ASEAN 6 and China, and 2018 for CLMV and China. In the highly sensitive list, 40% of the Sensitive Track or 100 lines, whichever is lower, are to be included in the case of the ASEAN 6, 40% or 150 lines for CLM, while the allotment for Vietnam is to be determined by 31 December 2004.

Article 7 adopts the WTO disciplines on non-tariff measures, technical barriers to trade, sanitary and phytosanitary measures, subsidies and countervailing measures, anti-dumping measures and intellectual property rights.

Of interest to Philippine agriculture is the Agreement on Agriculture (AOA) in which Members commit to domestic and export support reductions in accordance with the policies and criteria laid out in the Agreement.

In Article 8, each party must maintain quantitative restrictions unless otherwise permitted under the WTO disciplines. Non-WTO members shall phase out their QRs three years from the effectivity of the ATIG, except for Vietnam, which has four years. NTBs other than QRs shall be identified soonest with a deadline agreed upon set for the elimination of these NTBs. All parties shall provide QR data to each other.

Article 9 gives safeguard measures. Article 11 allows restrictive import measures if there is a serious balance of payments problem and external financial are difficult. Article 14 recognizes China as a full market economy. Article 17 of the ATIG provides for a review of the Sensitive Track in 2008 to improving market access of sensitive products, including the further reduction of the number of products.

> "THE PRESIDENT STILL HAS TO SIGN THE EXECUTIVE ORDER AS OF THIS WRITING. THE NORMAL TRACK TARIFF REDUCTIONS ARE THUS HELD IN ABEYANCE."

Issues Specific to the Philippines

An Executive Order (EO) is needed for Normal Track implementation, supposed to have started on 01 July 2005, but delays were due to the question of whether executive approval suffices, which the DOJ confirmed, or senate approval of the ACFTA is needed. But the President still has to sign the EO as of this writing. The Normal Track tariff reductions are thus held in abeyance.

Under the EHP, the Philippines and China agreed that the Philippines should complete the Pest Risk Analyses (PRA) for the importation of carrots, cabbages, gingers and potatoes from China, using standards of the WTO SPS on 01 January 2006, even if the PRA has not been completed.

Two other agreements were inked. The first is the promotion of trade and investment cooperation, focusing on agriculture, mining, infrastructure, ICT, science and technology, energy, services, tourism, customs, quarantine and sanitary and phytosanitary procedures, standards and conformity assessment, and intellectual property rights protection. It also creates a joint working group on mineral resources cooperation under the Philippines-China Joint Trade Committee (JTC) to implement the Mining Cooperation signed on 18 January 2005.

The second is preferential treatment for rice. China agrees to a seven-year extension to 2012 of the special treatment of its rice for the Philippines under Annex 5 of the Agreement on Agriculture of the WTO. Upon securing extension, the Philippines shall give China a 25,000-metric-tons (MT) yearly quota, increase minimum market access to 350,000 MT yearly, and reduce the in-quota tariff from 50% to 40%.

Unresolved issues include negotiations between Vietnam and China on modalities for tariff reduction and elimination; the first package of product specific rules of origin, and the treatment of tariff rate quotas (TRQs).

The ASEAN-Korea Free Trade Area (AKFTA)

The AKFTA agreement between ASEAN and Korea includes 1) political and security cooperation, closer economic relations, 2) narrowing development gaps, 3) enhancing competitiveness, 4) promoting knowledge-based economy, cooperation in education, science and technology, 5) enhancing mutual understanding, 6) coping with global challenges such as food security and safety, climate change, communicable diseases, etc., 7) cooperation in regional/ international arenas, and 8) deepening East Asia cooperation.

The goal of economic integration is achieved through elimination of barriers to trade in goods, services and investment. AKFTA achieves flexibility through special and differential treatment, such as technical assistance and capacity building programmes, especially for new members.

Framework Agreement on Comprehensive Economic Cooperation

The ASEAN summit in December 2005 reiterated the 2004 Joint Declaration, covering trade in services, investment, and dispute settlement. Trade in services included 1) rules on progressive tariff reduction and elimination, 2) rules of origin, 3) modification of commitments, 4) non-tariff measures, sanitary and phytosanitary measures, and technical barriers to trade, 5) safeguard measures, and 6) WTO disciplines, and non-tariff barriers.

Agreement on Trade in Goods (ATIG)

The ATIG was signed but not made public until Thailand and Korea settle differences in rice trade liberalization. It has normal and sensitive tracks like ACFTA. Normal track modalities are the same except that Korea shall eliminate tariffs on 70% of its lines on 01 July 2006, the same for ASEAN members, with elimination by 2010. Exception is for the Philippines and Indonesia to maintain 10% of their tariff lines included in the normal track at non-zero levels until 2012.

All members shall submit normal track tariff reduction schedules on 25 January 2006. By April 2006, agreement is to be reached with Korea, with the normal track effective on 01 July 2006.

The sensitive track covers 10% of all tariff lines at the six-digit level which account for 10% of latest year for which import values are available. It has sensitive and highly-sensitive lists. The sensitive list covers 70% of tariff lines in the sensitive track, with reduction to commence in 2012, to reach 0% to 5% by 2016.

The highly sensitive list covers the remaining 30% of sensitive track tariff lines under five categories. Submission deadlines for the lists to ASEAN is 25 January 2006, and for the agreement with Korea 24 to 28 April 2006. Those under Category A will be reduced to 50% in 2016, B to 20% in 2016, C tariff cut in half in the same year; D tariff rate quotas negotiated by each ASEAN member with Korea, and E exclusion list of 40 tariff lines whose tariffs will not be reduced.

> "THE GOAL OF ECONOMIC INTEGRATION IS ACHIEVED THROUGH ELIMINATION OF BARRIERS TO TRADE IN GOODS, SERVICES AND INVESTMENT."

The Philippine strategy was the elimination of tariffs on the 28% of total export value to Korea, 18% agri-linked and 10% industry-linked. Tariff export rates to Korea include bananas 30%, and frozen and non-frozen shrimps-prawns 20%.

Under the ATIG, exports to ASEAN members from the Gaesong Industrial Complex in North Korea shall be treated as coming from South Korea since it hosts South Korean firms. This will be limited to 100 six-digit tariff lines, subject to special safeguard measures as needed, subject to review every five years, and South Korea shall provide trade statistics annually. Gaesong exports compete with Philippine clothing, footwear, base metals, appliances, cars and auto parts.

The Japan-Philippines Economic Partnership Agreement (JPEPA)

This is still under negotiation as of this writing. Eight trade-in-goods modalities are proposed from April 2006 to 2016, as follows 1) (A) Immediate tariff elimination; base or current rates range from zero to 40%, 2) B4 One single instalment, i.e. 0%, on 01 January 2010; base rate is 1%, 3) B5 Gradual reduction over 4.75 years (April 2006 û 01 January 2010), with 0% in 2011; base rates range from 1% to 15%, 4) B5 Gradual reduction over four years beginning 2007 with 0% in 2011; range is 1% to 5%, 5) B5 Maintain tariff until 2011, when it will be 0%; range is 3% to 5%, 6) B10 Gradual reduction from April 2006 to 2015; 0% in 2016; range is 1% to 65%, 7) B10 Gradual reduction from 2007 to 2015; 0% in 2016; range is 5% to 15%, and 8) B10 Maintain until 2010; gradual reduction 2011 to 2015; 0% in 2016; range is 3% to 15%.

Tariffs of certain goods are proposed to be maintained for several years for future renegotiation, such as petrochemicals, its current 15% tariff to be renegotiated in 2010. Other commodities will be given special tariff treatment, i.e. tariff rate quotas (TRQs) with in-quota rate at 0% and out--quota applied MFN rate at the time of importation or 7%, whichever is less, to be negotiated every three years after JPEPA is effective.

The proposed quota quantities are 175,000 MT for the first year, 187,500 MT for the second, and 200,000 MT for the third, with negotiation every three years. No particular commodity was indicated for special tariff treatment. Rice is the only agricultural commodity excluded from liberalization.

Negotiations in agriculture and fisheries ended in November 2004 but are still subject to amendments with regards compensation for concessions by Japan in response to Philippine sensitivities in the industrial sector. Great access for agriculture and fisheries to the Japanese market include:

Sugar 1) TRQ for Molasses will start in the third year of the treaty, amounting to 2000 MT, increasing to 4000 MT next year, at 50% of the MFN applied rate; 2) TRQ for Muscovado Sugar of 300 MT will start on the third year, increasing to 400 MT the next year, at 50% of the MFN applied rate, retailed in one-kilo packaging.

Chicken Meat 1)Meat and edible offal of chicken. TRQ of 3000 MT in the first year, increasing by 1000 MT yearly to 7000 MT in the fifth year, at in--quota rate of 8.5%, with renegotiation in year five or upon conclusion of current WTO negotiations, whichever comes first; 2) Chicken legs, fresh, chilled or frozen. Renegotiation in the third year or upon conclusion of current WTO negotiations, whichever comes first.

Pineapples 1) Fresh Pineapples - TRQ for pineapples less than 900grams per piece with crown, starting at 1000 MT in year 1, increasing by 200 MT yearly to 1800 MT in year 5, with in-quota tariff rate of 0%, and renegotiation in year 5 or upon conclusion of current WTO negotiations, whichever comes first; 2) Dried Pineapples. Tariff elimination within 10 years: 3) Pineapple Juice. Tariff reduction by 10% annually over five years.

Tuna 1) Yellowfin tuna, skipjack. Tariff elimination in five years; 2) Other tuna. Tariff elimination upon JPEPA enforcement. Renegotiation in year 5 or upon conclusion of current WTO renegotiations, whichever comes first; 3) Prepared/preserved/smoked tuna. Tariff elimination within five years

Other fishery products. Immediate tariff elimination or reduction in 5 to 7 years, or renegotiation in year 5 or upon conclusion of current WTO negotiations, whichever comes first.

Bananas 1)Fresh bananas. Tariff elimination for small bananas from GSP rates in 10 years; tariff reduction over 10 years by 20% of GSP rate for summer regular-sized bananas and by 10% for winter regular--sized bananas, with final rates of 8% and 18% respectively; 2) Processed bananas. Immediate tariff reduction/elimination in 5 to 7 years.

Sausages. TRQ, starting at 100 MT, increasing to 500 MT in year 5, with reduction of MFN rate by 20% over five years, with immediate reduction of 10% upon JPEPA enforcement.

Prepared/Preserved Pork Meat. TRQ, starting at 400 MT increasing to 1200 MT in year 5, with reduction of MFN rate by 20% over five years, with immediate reduction of 10% upon JPEPEA enforcement.

Ice Cream. Creation of a TRQ with starting volume of 150 MT, increasing to 500 MT in the fifth year, with reduction of MFN rate by 30% over five years, including immediate reduction of 10% upon entry into force of JPEPA.

Japan has recent agricultural policy shifts, such as the review of imports to maintain stable domestic food supply (Far East Economic Review, April 2005), due to the need to improve self-sufficiency and the decrease to a third in agricultural labour in the last 40 years.

Review of the JPEPA

A paper by Kenichi Kawasaki (2003) on JPEPA, using CGE data, says Philippine real GDP will increase by about 3% and export volume by 5%. Kawasaki does not present figures for the impact on Japanese GDP and export volume. The paper includes an analysis of the impact of global and regional trade liberalization on Japan and the Philippines.

The paper shows that agriculture and agri-based industries are heavily protected in Japan, unlike the industrial sector, except for apparel, textiles and leather. Trade protection makes up 382.3% of import prices of grain, 44% of meat, 40.8% in other primary industry, and 36.4% of processed food, compared to 50%, 19.4%, 8.2% and 16.8% respectively for the Philippines.

The JPEPA will also lead to slight decline in production in Japan for grains and other primary industry subsectors, with hardly any change in processed food, but a slight increase in the meat subsector. For the Philippines, these same subsectors will experience increases in production ranging from below 1% to above 4%.

The paper cites 1) macroeconomic benefits of significant increase in real GDP for the Philippines with large welfare improvements; 2) significant improvement of Japanese trade balance with capital inflows into the Philippines yielding long-term economic growth; and 3) gains for Japan in transport equipment production and exports, and for the Philippines in various sectors including manufacturing.

The paper gives broad estimates on the real GDP gains for the Philippines as a result of bilateral FTAs with the U.S. (almost 4%), China (1%), Korea (1%), Australia (very little) and New Zealand (0%).

ASEAN-India Free Trade Area (AIFTA)

ASEAN and India signed a framework agreement on economic cooperation in October 2003 with the aim to 1) strengthen and enhance economic, trade and investment cooperation; 2) liberalize and promote trade in goods and services, and investment regime; 3) explore new areas for closer economic cooperation; and 4) facilitate the integration of new ASEAN members and bridge development gaps.

It was agreed to establish an ASEAN-India Regional Trade and Investment Area (RTIA) with a Free Trade Area (FTA) in goods, services and investment. Under the FTA regime, there are Normal and Sensitive Tracks. The time frames for goods under the Normal Track are 1) between ASEAN 5 and India. 01 January 2006 to 31 December 2011; 2) between Philippines and India. 01 January 2006 to 31 December 2016, 3) between CLMV and India. 01 January 2006 to 31 December 2016.

No time frame was set for the Sensitive Track. No Highly Sensitive List was proposed. But there is a ceiling on the number of products in the Sensitive Track, to be agreed upon. A proposed EHP was shelved due to disagreements on the Rules of Origin (ROO), which were under negotiations in the 8th and 9th Trade Negotiating Committee (TNC) in New Delhi ending in November 2005.

JPEPA WILL LEAD TO:
1. SIGNIFICANT INCREASE IN REAL RP GDP WITH LARGE WELFARE IMPROVEMENTS
2. IMPROVEMENT OF JAPANESE TRADE BALANCE WITH CAPITAL INFLOW TO RP
3. JAPANESE GAIN IN EXPORT AND PRODUCTION OF TRANSPORT EQUIPMENT AND RP GAIN IN MANUFACTURING

-KAWASAKI (2003)

ASEAN-Australia/New Zealand Free Trade Area (AANZFTA)

ASEAN and Australia/New Zealand, under the Closer Economic Relations Trade Agreement (CER) issued a Ministerial Declaration on the AFTA-CER Closer Economic Partnership (ASEAN-CER FTA) in September 2002. The goals of the Closer Economic Partnership (CEP) are 1) deepen and broaden economic cooperation; 2) promote regional and global trade and investment flows; facilitating them through minimized impediments, reducing costs, and capacity building;

3) improve business competitiveness; 4) bridge developmental gaps and deliver benefits to participating countries, especially new ASEAN members; and 5) promote transparency of regulations and cooperation among relevant authorities.

No mention was made of establishing an FTA in the Declaration or in its Annexes. The Ministerial Declaration specified the Fields of Cooperation and Initial Work Program. The Fields of Cooperation include promoting trade and investment, capacity building, new economy issues and other areas of cooperation. The development of further cooperative activities could be drawn from the Angkor Agenda and the recommendations of the AFTA-CER Business Council.

Annex 1 in the Declaration cites new economic issues, such as information communications technology, intellectual property rights, and anti--competitive practices.

The Initial CEP Work Program will include technical barriers to trade and non-tariff barriers, customs cooperation, capacity building, trade and investment promotion and facilitation, standards and conformity assessment, electronic commerce, and small and medium enterprises (SMEs).

The fourth Trade Negotiating Committee (TNC) meeting in Canberra in October 2005 set a time frame for the establishment of a Free Trade Area by 2010. Modalities of tariff reduction-elimination were discussed, based on those under the AKFTA, with a longer time frame for the Philippines. The CER countries want a special chapter on sanitary and phytosanitary measures and also added the topics of government procurement, labour, and the environment. Further details were considered confidential.

Review of the ASEAN CER-FTA.

The AFTA-CER report "Angkor Agenda 2000" summarizes perceived FTA costs-benefits. The economic gains include 1) market enlargement; 2) trade creation; 3) efficiency and enhanced competitiveness; 4) industry relocation; 5) increased foreign direct invest (FDI), and 6) improved growth potential.

Market enlargement is achieved by pooling markets of ASEAN members, estimated to double to GNP US$1 trillion (excluding Brunei and Myanmar). The Australian Center for International Economics (CIE) estimates that the ASEAN-CER FTA will generate an additional US$ 48 billion in GDP with more than half reaped by ASEAN countries.

Trade creation is achieved by the reduction of tariffs and non-tariff barriers, resulting in greater variety and bigger volume of imports and their domestic substitutes at lower prices.

Efficiency and enhanced competitiveness is achieved by market enlargement leading to economies of scale, and increased competition due to the opening up of markets, stimulating producers to adopt cost-cutting techniques and best-practice technologies.

Industry relocation is achieved by more open trade and capital flows yielding a more efficient production pattern with both comparative and competitive advantages.

Increased FDI is achieved by investment liberalization measures and increased productivity and income gains due to trade liberalization yielding higher returns on capital. The CIE study estimates that by 2010, the ASEAN-CER would experience extra capital inflows of US$ 37.7 billion mainly from the US, Japan and Europe, with US$ 30 billion flowing into ASEAN and the balance to Australia-New Zealand.

Improved growth potentials is achieved by the development of export industries, creation of employment, and the growth of small and medium enterprises (SMEs).

The economic costs include 1) trade diversion; 2) decline in tariff revenue, and 3) adjustment costs such as short run displacements.

Trade diversion is the diversion of trade potentials from more efficient FTA nonmembers to less efficient ones. If trade diversion is greater than trade creation effect, it can lead to welfare loss. No evidence for trade diversion has been found for ASEAN.

Decline in tariff revenue is due to trade liberalization. The CIE study downplays its importance for ASEAN members with MFN tariff rates greater than CEPT rates, citing the stimulus that this gives to governments to search for alternative, more efficient sources of revenue such as a value added tax.

Adjustment costs refers to displacement of workers due to firms unable to compete due to trade liberalization, not resorting to cost-cutting or best technological practices. The Angkor Agenda report recognizes that adjustment costs, while sort-term, have to be addressed in order to ease the burden on affected sectors and to ensure long-run gains.

Aside from the JPEPA, the paper touches on the ASEAN-China FTA, estimating that China will experience a 0.97% increase in real GDP, Indonesia 1.9%, the Philippines 2.8%, Singapore 5.6%, Malaysia 6.8%, Thailand 10.1%, and Vietnam 11.9%.

Review of the ASEAN-China FTA

A paper on China's economic growth and its implications for ASEAN and the Philippines was written by Ellen Palanca (2001) using trade statistics from 1980 to 1996. Even while there are new developments, Palanca's analysis can help assess the impact of the FTAs on the Philippines, particularly its agricultural sector.

Growth of trade between

"The Economic costs [of AFTA-CER] include 1)trade diversion; 2) decline in tariff revenue, and 3) adjustment costs such as short run displacements."

China and the ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore and Thailand) rose dramatically between 1980 and 1996. ASEAN-5 exports to China increased from $539 million to $9,553 million in 1996, or 1,600%. China's exports to the ASEAN-5 increased 638% from $1,196 million in 1980 to $ 8,829 billion in 1996.

The growth of Philippine exports to China grew at an average of 13.2% over 1980 to 1996, the lowest, while that of Indonesia was the highest at 41.6%. From 1988-1996, the Philippines growth rate of exports to China was the highest among the ASEAN-5 at 22.0%, while Singapore was the lowest at 14.0%.

The growth of Philippine imports from China was the lowest at 8.9%, with Indonesia the highest at 30.2% from 1980 to 1996. But for the second half of this period, 1988-1996, the Philippines imported goods from China at a higher annual growth rate of 18.1%, being the third highest for that period.

Palanca identifies export and import niches, warning that there may be trade data distortions due to policies. The export niches for Philippine agriculture include fresh-, dried-fresh-, and preserved fruits, dried-fresh nuts, shellfish and fresh and tinned fish, sugar and honey' animal feed inputs, unmanufactured tobacco, fuel wood charcoal and vegetable fiber (excluding cotton and jute). China's export niches to the Philippines in agriculture include live animals, tinned meat, eggs, fresh/preserved vegetables, tea, spices, and tobacco manufactures.

Positions of the Agricultural Producers

The CGE models give a valuable overall picture of FTA costs-benefits. But there are constant refinements, such as increase in production sectors within the models, which tend to muddle the picture. Hence, the data from those who know these production sectors intimately are important.

Producers in crops, fresh fruits, vegetable, fisheries, poultry and hogs subsectors were interviewed regarding their evaluation of FTA issues, problems and opportunities. Except for sugar and hog farming, these are small producers. Commercial fishers and large poultry raisers were not available for interview. Their perspective is important to consider, although their inputs have to be further validated.

Crops. Rice. The Philippines imports 10% of its rice since the 1990s due to an annual population growth of 2.3% from 1990 to 2000, outstripping rice production annual growth rate of 1.8% over the same period (Philippine Peasant Institute, 2003). Because rice is grown by a great majority of farmers, rice importation has become a political issue.

Corn is uncompetitive because of high production costs, high post-harvest waste and high shipping costs (basically from Mindanao to Manila). Because it is grown by many farmers, liberalizing trade in corn poses the threat of unemployment.

Sugar. The Sugar Alliance of the Philippines (SAP) has requested Japan for a tariff rate quota (TRQ) or minimum access volume (MAV) for our raw and refined sugar to increase by 10% annually from 2006 to 2016, and for a reduction by 50% of Japan's MFN tariff or its equivalent in non--tariff measures (NTMs) starting 2006, and by 5% annually until it becomes zero by 2016. Japan imports two thirds of its sugar, 90% from Australia, Thailand and South Africa. The JPEPA provides an opportunity for the Philippines to also export sugar to Japan to help balance the Philippines's trade deficit. Our sugar industry can supply the quota it proposes.

With respect to the AKFTA, the Philippine Sugar Millers Association (PSMA) is for the exclusion of raw and refined sugar in the FTA because Korea is not a sugar producer and imports raw sugar at dumped prices in the world market at 2.7% tariff rate, which is handled by its three refineries. Korea imposes a high 50% tariff on refined sugar and has not imported any. The three refineries have exclusive import license. Domestic prices are regulated in consultation with the Korean Sugar Manufacturers Association, and are close to marginal costs. These policies aim to close deter imports and to make Korea a major exporter of refined sugar.

> "Greater government support for R&D, infrastructure, credit and a 'Buy Filipino' campaign will help local growers compete with imports."

Small sugar farmers with 10 hectares or less, are adversely affected by trade liberalization with prices falling from PhP 750 û 800/m.t. in 1995 to PhP 500 in 2003 (PPI, 2003).

Fruits/Vegetables

The PEACE Foundation cites an opportunity to export class B bananas to China on a larger scale than presently. Bananas are now bartered for Chinese motorcycles in Mindanao. The same can be said for pineapples on a smaller scale. Opportunities will be opened by freer trade coupled with agrarian reform for small farmers, and credit and marketing assistance.

For other local fruits, freer trade will affect local growers due to competition and substitution. Greater government support for research and development, infrastructure, credit and a 'buy Filipino' campaign will help local growers compete with imports. Australia's sanitary and phytosanitary

(SPS) measures are seen as a barrier to export of Philippine mangoes.

Benguet is the nation's vegetable bowl - broccoli, cabbage, carrots, celery, cauliflower, lettuce, potatoes, mushroom, bell pepper, etc. The Benguet Vegetable Growers Association says the increase in cheap imports of fresh/chilled vegetables by 152%, especially by potatoes and carrots from 1991 to 2001, mainly from China, led to a drop in demand for local vegetables by 40% to 60%. Sales dropped by an estimated P2 billion in July and August of 2002 alone. Benguet growers feel that ACFTA will make domestic market share even less. A major of the problem is the smuggling of Chinese vegetables.

Benguet vegetable growers succeeded in the exclusion of fresh and chilled vegetables from the EHP with China. A pest risk analysis (PRA) of Chinese carrots shows that they are not disease-free. Benguet carrots are disease-free and are export competitive.

Capture Fishing

Tambuyog, an organization supporting small fishers, is against liberalization of the fisheries sector under the WTO or other FTAs. The top three 3 exports, comprising 80%, are tuna, seaweed and shrimp. The remaining 20% include cuttlefish, octopus, blue crab and roundscad (galunggong). Tambuyog says trade liberalization without resource management measures will lead to over--exploitation of pelagic fish due to the open access situation in the high seas.

Open access also prevails in the coastal zone. Due to greater competition from imports, small fishers will intensify fishing effort, leading to depletion and environmental damage. Also, shrimp farmers with bigger production for export will damage mangroves from chemical and antibiotic discharges, affecting community aquaculture. All this imperil food security. Small fishers are against trade liberalization under the WTO Doha, also because of big fishery subsidies in developed countries.

They want government subsidies to improve technology and facilities. Tuna hand-liners and municipal fishers need financial support to be competitive and avoid economic dislocation. Tambuyog says the Fisheries Code mandates import licensing which makes liberalization of the fishery sector illegal, a policy contradiction. Tuna smuggling by Taiwanese vessels at General Santos has lowered local prices, causing economic dislocation of small fishers.

On the ACFTA EHP, Tambuyog states that sole, yellowfin tuna, skipjack, sardines, mackerel are sensitive items for small fishers and should not have been included in the list of zero tariffs scheduled for 01 January 2006. For the AKFTA, fish should be included in the sensitive list, and there has to be technical assistance for resource management.

Tambuyog is against the inclusion of the Philippine fisheries sector in the JPEPA because of highly subsidized fish from Japan. Tariffs on imports of post-harvest machinery should be zero. In a liberalized fisheries sector, Tambuyog maintains that it cannot compete in the world market because of lack of subsidies, and high post-harvest wastage (40%) due to poor handling, and lack of refrigeration and salt as preservative. However, opportunities exist in the creation of market niches through branding. The environment friendly blue crab is a candidate.

Aquaculture

Data from the National Congress on Aquaculture in October 2005 says aquaculture is an alternative livelihood for small fishers threatened by the liberalization of pelagic species. The capture-fish catch for municipal and commercial, with annual growth of 3.35% in the last 5 years, has been exceeding the minimum sustainable yield (MSY). In 2004, the catch of 2.2 million MT was 16% higher than the MST of 1.9 million MT. Hence, even with export opportunities in capture fisheries, expansion can no longer be sustained.

Export opportunities in capital- and technology-intensive aquaculture products could be more accessible to small fishers if government lends support, according to the Comprehen-

> "Due to greater competition from imports, small fishers will intensify fishing effort, leading to depletion and environmental damage."

sive National Fisheries Industry Development Plan (CNFID). Aquaculture is biased towards large ventures, not small players. In response, CNFIDP programs propose aquaculture livelihood parks for fishers, with financial, technical, marketing and management support.

This will be achieved by setting up the legal framework for private institutions, NGOs and cooperatives to invest in the development and operation of these parks, with soft loans from financial institutions, technical support from BFAR, SEAFDEC and DOST for technical support, market contracts with private seafood firms. Low cost technology of growing fish in tanks is now available.

The CNFIDP says aquaculture development creates environmental degradation, caused partly be jurisdictional conflicts in critical mangrove areas. Thus, it has a program to institutionalize aquaculture best practices, quality standards and farm-based HACCP.

Macaraig (2005) identifies opportunities in aquaculture for domestic and international markets, particularly exports of milkfish, tilapia, groupers (lapulapu), blue crab and shellfish.

Livestock

The National Federation of Hog Farmers, Inc. (NFHFI) sees opportunities in hog meat exports to Japan, Korea and China, whose demand cannot be satisfied by domestic suppliers. The biggest obstacle is our hogs are not cholera-free. Visayas and Mindanao are foot-and-mouth disease (FMD) -free while Luzon is not. There is a demand in Korea for our pork bellies. The Koreans inspect Philippine hog raisers facilities.

Japan has a high demand for pork, importing from Canada and the US, but its high SPS standards are a trade barrier. Mindanao hog exporters need to secure and follow protocols in FMD and cholera for Japan, Korea and China.

The United Broiler Raisers Associations (UBRA) is against the liberalization of the poultry sector for 3 reasons. First, other countries have subsidies for chicken farmers, whether overt (lower feed prices) or covert (US defense budget allocation for chicken for its military bases). Second, there are no reforms to reduce high costs due to high energy rates, higher costs of feed than abroad, and higher local taxes. Third, chicken farmers fear a change to federalism which will give local governments more power over business firms and invite harassment.

Chicken feed cost is higher because other countries have little or no duties on corn and soya imports used in feeds. There also exists a local tariff distortion between chicken meat (HS 0207.1100 - 0207.1490) with MFN/CEPT duty of 40% and corn (HS 1005.9090) with the same duty of 50% on out-quota imports.

The poultry sector recommends liberalization when it is ready to compete. The Philippines should adopt China's strategy of 'sequencing'. Markets are opened one after the other only after trade conditions become fair, which requires domestic reforms for global competitiveness.

The success of our poultry industry is due to efficient harvest rate and feed conversion. But this is undermined by expensive inputs, largely feed ingredients.

Because of retailer cartels and monopolies in wet markets resulting in higher retail prices of chicken, liberalization may not result in lower prices.

Due to a current glut in dressed chicken, production has declined 7% and demand has fallen due to reduced spending due to higher oil prices pushing prices of basic goods up. Import liberalization will only worsen this situation.

An Analysis of Trade Data With the Six Countries

We now take a look at our agricultural trade with six countries, and our top exports and imports. Our biggest exports are to Japan at $424.2 million a year from 1997 to 2004. Our biggest imports are from Australia at $312 million a year in the same period, except in 1998 where imports from China doubled from $145.2 million in 1997 to $444.9. In terms of annual average value in the same period, China was the second biggest source of imports at $183.9 million, followed by New Zealand at $153.4 million. New Zealand displaced China as second rank from 2001 to 2004.

The sudden surge in China imports and its sudden decline after a year is attributed to a drastic reduction and resumption of smuggling. Smuggling of onions and carrots from China was cited by local farmers. Their efforts, with the help of the Anti-Smuggling Task Force, is significant but there is always the danger of resumption.

The balance of agricultural trade with Japan remained consistently positive and large ranging from $388.4 million to $437.4 million. There has also been a consistent trade surplus with Korea on a smaller scale. For the other four countries, agricultural trade balance has been consistently negative and large, especially Australia.

Japan had the largest share of our exports, averaging 20.9% a year, but growth rate is slow at 0.22%, between $400 to $450 million. Japan had the lowest average share of imports at 0.7%, declining by 11.1% a year.

Korea averaged 4.4% share of our exports, growing at 8.8% a year. Its imports averaged 0.9% a year, while value increased by 5.9% a year.

China's share of our exports is 2.9% average a year from 1997 to 2004. For imports it is 6.7% average a year. Exports to China grew 13.7% a year and imports 17.9%. From 1999 to 2004, imports declined by a 9.0% average a year. Due to smuggling, it is widely believed that the imports of goods from China, including farm products, have increased rather than decreased.

The share of Australia, New Zealand and India in our exports was less than 1% average a year from 1997 to 2004, remaining below $30 million. India imports peaked at $3.52 million in 2004. Exports to the 3 countries had positive growth rates, with 1.6%, 7.5% and 13.9% respectively for the period.

In contrast, the share of imports from the 3 countries were larger, Australia 12%, New Zealand 5.8% and India 4.4%%. Imports from Australia declined by 3.2% average a year, from New Zealand 7.9% average a year and India 17.6%.

Type of Agricultural Commodities Traded

Bananas were the top export in 2004, valued at $234.4 million or 34.7% of total exports to the 6 countries, four times that of the second in rank, frozen shrimps and prawns valued at $62.6 million. Crude coconut oil was third rank with $56.7 million in exports.

Three-fourths of export bananas was to by Japan, followed by China, Korea and New Zealand. Japan was also the major export market for shrimps/prawns, crude coconut oil, pineapples, guavas, mangoes and mangosteen, other vegetables, yellowfin tuna, skipjack and bonito. Korea was a major buyer of frozen shrimps and prawns, ranked seventh in terms of value of exports.

Milk was in the top two imports in 2004, mainly from Australia and New Zealand, at $220.1 million, a fourth of the value of total imports from the 6 countries for 2004. Frozen meat of bovine animals ranked third at of $64.4 million, 94.9% from India.

Top ten exports were fresh/dried pineapples, oil cake from coconut, fresh/dried guavas, mangoes and mangosteens, raw can sugar, fresh or chilled other vegetables, and seaweeds and other algae. Frozen yellowfin tuna and prepared/preserved tuna, skipjack and bonito ranked eleventh and twelfth. Top ten agricultural imports from the 6 countries were wheat, tobacco, fresh cheese, malt, buttermilk, wheat used as feed, and live bovine animals.

Findings and Recommendations

FTAs are trade agreements in goods, services or investments. This paper is focuses on goods. As mentioned, small producers are against free trade in fear that threats on their livelihood, on crops and fish catch, will not be addressed. The sugar industry cite the trade protections in Korea and Japan. The PSMA asked for a TRQ for sugar exports to Japan as a condition for free trade with Japan. Farmers want to export hog meat if government helps in disease control.

Even as the ASEAN-China and ASEAN-Korea ATIGs have been signed, and other FTAs are being negotiated, there must be effort not only to avoid being short-changed but also to identify and avail of opportunities. For Japan and Korea, seasonal climate-dependent crops except for sugar beets offer export opportunities to convert trade deficits with the four other ASEAN countries into surpluses.

Also, it is better not to sign agreements with India, Australia and New Zealand due to our huge trade deficits with them, especially since the latter two (CER countries) uses overly strict SPS measures to inhibit our exports despite our protests, which the Anchor Agenda has criticized. Also, the JPEPA study says our GDP gains from FTAs with CER countries are negligible or nil. ASEAN agreements with India will take time due to their request to exclude 40% of their tariff lines, and disagreement on rules of origin.

Thailand is the only ASEAN member which has not signed its FTA with Korea, which refused to liberalize rice. So, we can also refuse to sign any pact with CER countries if they will not relax their SPS measures and implementation time frame.

"… WE CAN ALSO REFUSE TO SIGN ANY PACT WITH CER COUNTRIES IF THEY WILL NOT RELAX THEIR SPS MEASURES AND IMPLEMENTATION TIME FRAME."

We are still negotiating 3 FTAs (excluding that with the US), including the normal and sensitive tracks in the ASEAN-Korea FTA, which was signed in December 2005.

Trade Recommendations

The longer the FTA negotiations are, the better for our beleaguered small producers. This was true for the ACFTA when we were allowed to eliminate tariffs on more than 150 lines by 2012 rather than 2010, while other ASEAN members were allowed flexibility up to 150 tariff lines only. We are also doing this in the AIFTA negotiations, which targets 2016 for tariff elimination, except for AKFTA, which is 2010 like ACFTA.

We also have to look at the proportion of tariff lines which fall under the sensitive list. Under ACFTA, this is 10% of 2001 import values, using 6-digit HS codes to specify the tariff lines, about the same under the AKFTA, but where 6- or 8-digit level has to be clarified. For ACFTA, the sensitive list will be reviewed in 2008.

We should try to increase the tariff lines proportion in the sensitive list for other FTAs under negotiation, such as with India, which wants 40% of its tariffs lines excluded from negotiations.

Agricultural producers who cannot see export opportunities can place their products in the sensitive list while they visit target countries, and study the market and competition with government help. Once they feel they can compete, they can then go from sensitive list to normal track, which ACFTA allows.

Our negotiators can also maintain tariff rates and reduce them only on the target year, not discounting the benefits of gradual tariff reduction as protection from import competition. There is a consequent 'breathing space' to gear up for competition and for government to have policy reforms to reduce production costs and improve the business environment.

On the Offensive Side

Eliminate soonest tariffs and non-tariff barriers, especially SPS, for existing export products. For example, Korea's tariff on our bananas is 30%, and on shrimps and prawns 20%. These are in our top ten exports. Even those not in the top ten should be targeted.

It is not always true that free trade does not benefit low income groups. Increased export earnings translates into higher wages and benefits for workers and market access and earnings for small producers.

Freer trade yields bigger market for big producers which will require greater supply, which small producers can fill, if big producers reach full capacity. The government should encourage tie up of big and small producers to meet expected demand increase.

Banana is our biggest export to the six countries, supplied mainly by big Mindanao producers. The DA is promoting exports of native non-cavendish varieties, such as the high-value senorita, grown by small-producer cooperatives of small producers.

We should identify other export crops to be opened to freer trade, which requires more market data and visits to target countries, which government can fund for small producers. Internet research can be facilitated by NGOs and POs.

The enforcement of AKFTA on 01 July 2006 exemplifies this strategy. A sensitive list is to be formed with Korea by 24-28 July 2006 after discussion with ASEAN on 25 January 2006. Our market data gathered from the Internet, visits to Korea, and the Korean commercial attaché can influence the sensitive list. The DA said it will support visits to Korea of small producer representatives in the six subsectors - crops, fresh fruits, vegetables, fish, poultry, and livestock.

Once export products are identified, local production can commence, and they can be removed from the sensitive list and subjected to tariff reduction.

The Palanca study identified export niches for China. The DA can do the same for large to small producers for the six countries. Even those with small volumes may have potential for higher growth.

We must look out for sunrise export crops of other countries, their markets, and where we can compete. They may in fact fail to meet rising demand. Labour-intensive and high--valued commodities should have priority.

Cashew nuts have great potentials but we have not developed it. The same is true for vegetables such as zucchini (summer squash) and eggplants in demand in Japan, and supplied by New Zealand and Thailand. These are grown here but we have no compliance system. Government support is crucial but SMEs report harassment rather than support.

Overall Recommendations

Will freer trade reduce or reverse our trade deficits with China, India, Australia and New Zealand and translate them into surpluses with Japan and Korea? This can be done if 1) our agriculture becomes more competitive, 2) target countries eliminate subsidies and remove NTBs, 3) we learn aggressive marketing, and 4) we develop export niches fast.

We must also reduce production cost for vegetable, fresh fruits, fish and poultry, and related power and transport costs; improve infrastructure; hasten agrarian reform; reduce post-harvest wastage; improve credit and marketing assistance; and focus more on research and development on why our products are uncompetitive. There are producers who are efficient and competitive despite the above handicaps.

The study by Dy (2000) shows benchmark farms had greater productivity than typical ones on 16 products due to greater input usage and better management. The products included rice, corn, rubber, banana (lakatan and saba), durian, mango, calamansi, onion, cut dendobrium, hogs, chicken broiler, chicken eggs, tilapia, seaweeds, carageenan, and banana chips.

The study identifies four key strategies - an agricultural body to address united action, strategic production centers, competitive intelligence for global and domestic information, and DA skills in competitiveness and benchmarking.

Subsidy for sugar in Japan involves obliging importers to sell at import value to the Agriculture and Livestock Industries Corporation (ALIC) and re-purchase at higher price, if the average import price is below domestic raw price. Importers can sell raw sugar to refiners at a higher plus only after a compulsory deal with ALIC. ALIC profits then funds programs for sugar and cane producers, provided they buy from sugar growers at a minimum price set by government.

PSMA says it can export sugar to Japan equal to its proposed TRQs comprising 6 8-digit tariff lines, if the SPAM is dismantled. In 2006, the proposed TRQs were 275,000 metric tons, of which 200,000 is raw cane sugar. In 2004, the Philippines did not export any raw cane sugar to Japan, although it exported $8.8 million worth to Korea and $2.9 million to China. The current price of refined sugar in Japan is PhP 50/kg compared to PhP 28-30/kg for our domestic market, the difference due to subsidy. The practice in sugar in Japan is possible done also for other products.

Such subsidies also exist in other countries. We must know what are the reduction commitments for domestic and export support of these countries, under the WTO AOA. The ASEAN-China and the ASEAN-Korea ATIGs adopt the WTO disciplines regarding subsidies, NTMs, etc.

We must fight for subsidy reduction and adherence to its schedule under the AOA, even while AOA Article 6.2 exempts developing countries from reduction commitments on those with government assistance in order to encourage subsidies for low-income and small producers.

We must aggressively sell more of existing exports, and with government assistance. The DA can have its own Bureau of Export Trade Promotions (BETP) of the DTI or work with it and the BOI as is presently done.

The DA must have funds for market intelligence abroad by hiring more agricultural attaches or improving their logistic capabilities, and subsidizing visits of small producers for research or agricultural fairs.

> "GOVERNMENT SUPPORT IS CRUCIAL BUT SMES REPORT HARASSMENT RATHER THAN SUPPORT."

The attaches could be prestigious businessmen with access to government officials in target countries, which has been done in China. The Foreign Service Law has to be applied with flexibility, not rigidity. Agricultural, tourism and commercial attaches with overlapping interests can form teams.

NGOs/POs representing small producers can help identify export opportunities opened up by evolving FTAs. In 2005, the DA setup an international trade negotiations committee, which can help its member NGOs/POs. NGOs/POs with better track record can share experiences. They can set up barangay kiosks accessible to small producers in terms of market intelligence and technical updates. As FTAs evolve, NGOs/POs can hopefully develop faster.

The empowerment program for aquaculture fishers should be realised sooner to realize export opportunities in milkfish, tilapia, lapulapu, blue crab and other shellfish.

We did not export hog meat to the 6 countries in 2004. We only imported in quota $372,367 worth of frozen ham, shoulders and cuts, and only from Korea. Control of swine diseases, which could have hampered exports, should be addressed soonest. The NFHFI, with government help, should help get more hog raisers to fill in the expected local shortage due to exports.

Conclusion

Based on the positive results of the CGE models, partner countries should encourage more competition wherein the many buyers/sellers dictate price, not a few. Government must insure a healthy production and trade environment, insure a tariff system making imports more expensive than domestic products, and influence prices through domestic and export programs and non-tariff barriers.

Free trade partners must be transparent on subsidies and non-tariff measures (NTMs), minimizing subsidies faster than the schedule under the WTO AOA. Government must ensure competition and neutralize monopolies and cartels.

As mentioned, poultry must be more competitive in the domestic retail market. The same for onions in Central Luzon, where farm gate prices are PhP 45/kg while retail prices are PhP 72/kg. The same for cement where the surge in imports in 2001-2 led to a fall in landed cost with minimal reduction of retail price.

Government must insure that, when a sector is liberalized, the ensuing adjustments due to closures, lay offs, and sale of assets can be done soonest to minimize pain and hunger. We agreed to WTO provisions in 1955 provided there were safety nets, such as Php500 million for training of workers displaced by liberalization. We have to verify if this was ever implemented. Government also failed to help manufacturers affected by liberalization and the Asian crisis in selling their assets.

Transparency in subsidies and NTMs should yield key market data for buyers and sellers. Producers must acquire skills in information access in export opportunities. Smuggling (vegetables from China and Taiwan, tuna from Taiwanese vessels, and rice), resource depletion and environmental damage must addressed, which the CGE models did not. Although freer trade can neutralize smuggling, the lax enforcement of VAT and SPS measures encourages smuggling, realizing greater trade but with a fall in income and employment.

Open access in capture fishery leads to resource depletion and environmental damage. Fishers want resource management to be mandated by law and enforced.

Small fishers must be aided to move into aquaculture, given that catch have exceeded sustainable yield in the last 5 years. Yet, CNFIDP have given environmental warnings. These contradict theoretical economic models saying enlightened individual interests within the legal framework lead to benefits to all.

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