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GATT-UR AND PHILIPPINE AGRICULTURE: FACTS AND FALLACIES

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INTRODUCTION

No agricultural policy issue in recent decades has generated as much controversy as the provisions on agriculture in the General Agreement on Tariffs and Trade-Uruguay Round (GATT-UR) intended to "level the playing field" in world trade. As expected, approval of those provisions would be most difficult in developed countries that do not have a comparative advantage in agriculture and whose heavy subsidies promote agricultural production and even agricultural exports. GATT-UR's agricultural provisions should be welcomed in agricultural exporting countries, particularly developing countries that will benefit through greater trade opportunities and higher agricultural incentives. Judging from newspaper accounts, however, this does not appear to be the case in the Philippines, an agricultural exporter. Those who are most vocal in opposing GATT-UR, i.e., leaders of some farmers' groups and some members of the academic community, are ideologically against international trade. Interestingly, those who will be potentially hurt in the short run, i.e., the sugar and poultry sectors dominated by large producers, are not vehemently articulating their objections. And because GATT-UR and its impact are not so easily understood and its benefits are widely

This paper contains three sections. The first section presents the provisions of GATT-UR with respect to agriculture; in the second section, the impact of GATT-UR on Philippine agriculture; and in the last section, several issues with government's intended actions in connection with the Senate ratification of GATT-UR.

It should be pointed out at the outset that the GATT-UR provisions on agricultural trade policies are consistent with the policy reforms espoused by local agricultural economists (Bautista 1987; Clarete 1992; David 1983, 1988, 1993; Intal and Power 1991) since the 1980s. These are —

1. overall trade liberalization to correct the overvaluation of the peso;

2. abolition of nontariff barriers (NTBs) and substitution of reasonable rates of tariff protection;

3. lowering of excessive trade protection that applies to a few agricultural commodities (sugar, corn, garlic, poultry etc.);

4. elimination of direct government marketing operations; and

5. strengthening of government support services for agriculture through organizational restructuring among agencies concerned with agriculture, reallocating budget resources within agriculture away from administering market interventions in favor of increasing productivity-enhancing investments, and rationalization of the agricultural research and development system.

GATT-UR PROVISIONS ON AGRICULTURE

Under GATT-UR, the four major areas of commitment for agriculture are aimed at the following:

1. Expanding market access by —

- Replacing nontariff barriers with their tariff equivalents
- Imposing ceilings (or binding) on all existing tariffs on agricultural products at rates not more than 10 percent of the current tariff rates
- Reducing tariffs by 36 percent over six years among developed countries and 24 percent over 10 years among developing countries
- Allowing a minimum level (access) of imports at a tariff lower than the initial binding tariff rate. This minimum level of imports should be at least 1 percent of production in 1995, rising to 4 percent of production over 10 years.

2. Reducing distortions in agricultural production, imports, and exports caused by production and trade-distorting domestic support for agriculture to at most 10 percent of the gross value of agricultural production. For developed countries, such domestic support should decrease by 20 percent over six years, and for developing countries by 13 percent over 10 years. Public expenditures for agricultural research, extension, irrigation, market infrastructure, and other productivity-enhancing investments do not belong to this category; neither do income support programs to farmers that do not affect the levels of production and trade.

3. Minimizing the international dumping of agricultural exports by reducing the average quantity of subsidized exports and the value of export subsidies. Developed countries must reduce quan-

tities of subsidized exports by 21 percent and the value of export subsidies by 36 percent over six years. Developing countries must lower quantities of subsidized exports by 14 percent and the value of export subsidies by 24 percent over 10 years.

4. Removing the antitrade bias of sanitary and phytosanitary measures by harmonizing those measures according to international standards, guidelines, or recommendations. Stricter regulations may be allowed based only on scientific justifications.

For the Philippine case, only the provisions on market access expansion and harmonization of sanitary and phytosanitary measures apply. There are no subsidies on agricultural exports. And the country's agricultural public expenditures that may be distorting production and trade levels such as fertilizer subsidies, credit programs, and the like are much lower than the allowable rate of 10 percent of the value of agricultural production.

With the harmonization of sanitary and phytosanitary regulations, the Philippines will, as a small country exporter of agricultural products, undoubtedly be protected from overly strict regulations intended to restrict trade in importing countries. For example, implementation of GATT-UR will lead to the favorable resolution of our protest against the unnecessarily low maximum acid insoluble matter content imposed on carageenan imports by European countries that limits the growth of our exports.

There have also been widespread objections to GATT-UR's market access provisions in the belief that the agricultural sector, especially the small farmers, will be adversely affected. In the next section, I argue that the GATT-UR provisions on agriculture will ultimately benefit the Philippines in general, and the agricultural sector in particular.

IMPACT OF GATT-UR ON AGRICULTURE

The Philippine agricultural sector will potentially benefit from GATT-UR through the policy changes that will be adopted by our trading partners, and the changes in our own trade policies.

Changes in DC Policies

Because of the political economy of agricultural protection, developed countries (DCs) generally provide heavy protection or subsidies to their agricultural sector, while developing countries (LDCs) generally tax, or at least do not protect, their agricultural sector (Anderson and Hayami 1986; Krueger et al. 1991; Lindert 1991). The high agricultural protection in DCs hurts agricultural exporters by limiting access to their agricultural markets and by lowering world prices. GATT-UR's objective of global trade liberalization is aimed at increasing market access worldwide and reducing distortions in world commodity prices.

To illustrate why market access of our agricultural exports will expand under GATT-UR, Table 1 lists the reductions in tariff rates on our major agricultural exports in Japan, the United States, and the European Union (EU) which together absorb nearly three-fourths of our agricultural exports. Tariffs in these countries for the listed commodities are in general much lower than the book tariffs of our agricultural products. Although there may be nontariff trade barriers (NTBs), these are to be abolished and replaced by tariffs. The reductions in tariffs in the US and EU are relatively small but significant nonetheless; and for mangoes, for instance, these reductions are substantial. Moreover, tariffs are bound at low rates, often at zero percent. Greater reductions in tariffs (in the order of 50 percent or more) can be observed for Japan which is the most important destination for our agricultural exports. Indeed, under the Generalized System of Preferences, banana exports to Japan can come in only at 10 percent tariff while mangoes are duty free.

TABLE 1
Changes in Tariff Rates of Japan, US, and European Union (EU) Philippine Major Agricultural Exports by Year 2005 under the GATT

	Japan	US	EU
Coco oil	From 10 to 4.5%	Bind at 0%	From 3 to 20% to 2.5 to 9.6%
Sugar	From 35 to 25%	Tarrify and reduce by 15 % over 6 years	Reduce export subsidy
Bananas	From 40 to 20%[1] From 50 to 25%[2] GSP[3] at 10%	Bind at 0% From 3.5 to 0% for dried bananas	From 20 to 16% for dried bananas
Mangoes	From 6 to 3% GSP[3] at 0%	From 8.27 cents/kg to 6.6 cents/kg From 3.3 cents/kg to 1.5 cents/kg for dried mangoes	From 6 to 0%
Prawns	From 15 to 4.8%	Bind at 0%	Bind at 12%
Tuna[4]	From 5 to 3.5%	Bind at 0%	Bind at 22%
Carageenan[5]	Bind at 0%	From 5 to 3.2%	Bind at 0%

[1]August to September season.
[2]October to March season.
[3]Generalized System of Preferences.
[4]In Thailand, tariff is reduced from 60 to 5%.
[5]In Brazil, tariff is reduced from 85 to 35% and in Mexico from 50 to 25%.
Source: "Uruguay Round Agricultural Trade Agreement: Implications for Philippine Agriculture." Department of Agriculture, 1994.

By liberalizing agricultural imports, reducing production and trade-distorting agricultural support programs, and reducing export subsidies in developed countries, GATT-UR will not only increase demand for agricultural exports but also increase world commodity prices. Thus, export earnings from agricultural exports will further increase and the price competitiveness of importable commodities in the domestic market will improve. The estimated increases in the world prices of a number of our major agricultural products are shown in Table 2.

TABLE 2
Projected Increases in World Prices of Selected Commodities by Year 2005 under the GATT Uruguay Round

Commodity	% increase
Rice	8
Corn	6
Coconut oil	6
Sugar	1
Pork	7
Beef	6
Chicken	2

Extracted from N. Andrew, I. Roberts, and S. Hester, "The Uruguay Round Outcome: Implications for Agricultural and Resource Commodities," Outlook 94, 1993.

Changes in Philippine Policies

There is a common belief that the structure of book tariffs and nontariff trade barriers confers relatively high protection on agriculture. Book tariff rates are still as high as 50 percent for rice, vegetable oils, chicken, and many kinds of fruits and fruit juices. Most tariffs on agricultural products are in the order of 30 to 40 percent. Those subject to the minimum tariff of three percent are seeds, breeding animals, selected feedstuffs, and other agricultural inputs. Wheat, milk, and other major food products that are not produced locally in significant quantities are levied relatively low tariffs of from 10 to 20 percent. Commodities subject to nontariff trade barriers are rice, corn, sugar, onion, cabbage, potatoes, garlic, seeds, livestock, and poultry.

With a few exceptions, however, the potential protective effects of those trade barriers have not or have only been partially realized because agricultural commodities are largely exportable or effectively nontraded. In other words, those highly restrictive trade barriers were in many cases not needed to promote agricultural growth. Ironically, by overvaluing the domestic currency, the overall trade protection system had been and continues to be the main policy instrument that artificially lowers agricultural incentives.

Fears have been widely expressed that the dismantling of nontariff trade barriers will adversely affect the agricultural sector, particularly the small rice and corn farmers. To show that these fears are not justified, Table 3 presents the actual average nominal protection rate (NPR) in 1990 to 1992, the 1995 tariff set by EO 470, the binding tariffs provided under GATT-UR for 1995 and 2004, and the tariffs and quantity levels under the minimum access requirement. The NPR, which is the percentage difference between domestic and world prices at our border, is a measure of the impact of government price intervention policies on domestic prices. It is the equivalent tariff of nontariff trade barriers; thus, the impact of GATT-UR on agricultural prices may be gleaned from the comparison of the NPRs (based on current policies) with the tariffs under GATT-UR.

As requested by the Philippine government, rice has been exempted from the GATT-UR regulations over the next 10 years, although a minimum access requirement was imposed on the staple. It should be emphasized, however, that government rice price policy under the National Food Authority (NFA, previously known as the Rice and Corn Administration and later as the National Grains Authority) has been historically pro-urban consumer and antifarmer (Mangahas 1972; David 1983; Unnevehr 1983; Intal and

TABLE 3
The Nominal Protection Rates, Current Tariff, and GATT Binding Tariff and Minimum Access Requirement for 1995 and 2005

	NPR 1990/92 (%)	Tariff (%) 1995 EO 470	1995 Binding	2005	Minimum access Tariff (%)	Quantity (mt) 1995	Quantity (mt) 2004
Rice	16	50	nc	nc	50	59,730	238,940
Corn	62	20	100	50	35	130,160	216,940
Sugar	89	50	100	50	50	38,000	64,000
Chicken	94	30	100	40	35	2,218	3,396
	(50)						
Pork	31	30	100	40	35	826	1,376
Beef	nav	30	60	35	30	15,000	32,000
Garlic	500	30	100	40	nap	nap	nap
Onions	0[1]	30	100	40	30	1,610	2,683
Potatoes	nav	30	100	40	50	1,457	2,429
Cabbage	nav	30	100	40	30	2,105	3,509

[1] Exportable
nc - no commitment
nap - not applicable
nav - not available

Power 1991). Table 3 indicates that for 1990 to 1992, NFA monopoly on trade caused the domestic price of rice to be higher than the world price by only 16 percent whereas the book tariff rate stood at 50 percent. In fact, from 1960 to 1990, the domestic price of rice was just more or less equal to the border price, i.e., the equivalent tariff under NFA monopoly was zero percent. Evidently, the domestic price of rice would have been higher if NFA did not exist and that the private sector was allowed simply to export at 50 percent tariff. Because of the 50 percent tariff, the private sector would have imported less (if at all) than NFA in the 1980s. Indeed, NFA has a greater incentive than the private sector to import rice because the former has always been exempt from tariff duties, enabling it to realize larger profits (often to pay for higher cost of operations) than the private sector which has to pay tariffs and thus earn only normal profit margins. Contrary to popular belief, there is absolutely no reason to think that rice farmers will be adversely affected by GATT-UR. To repeat, the rice sector has been exempted from GATT-UR and the minimum access tariff has been set at 50 percent which is much higher than the historical equivalent tariff resulting from NFA trade monopoly.

GATT-UR will remove NTBs for corn, sugar, livestock and poultry, garlic, onions, potatoes, and cabbage. But with the exception of garlic, the initial binding tariff to replace the NTBs for 1995 would be even higher (often at 100 percent) than the actual protection (NPR) conferred by the NTBs in 1990-1992 and the tariff rate under EO 470. And even after 10 years, the tariffs under GATT-UR would remain high (ranging from 35 to 50 percent) as compared with the average book tariff rate under EO 470 which is currently about 30 percent. Tariffs on imports under the minimum access would be lower than the binding tariffs, in the order of 30 to 50 percent. But the minimum access levels would be generally low, at most three percent of production. Import demand for these affected commodities at the minimum access tariffs will likely be greater than at the minimum access level, thus, the operable protective tariff will likely be the binding tariff.

Why Dismantle NTBs?

The excessive protection on a few commodities such as sugar, corn, garlic, and poultry draws incentives in favor of commodities in which the country apparently does not possess any comparative advantage in producing, lowers the profitability of food processing and livestock enterprises due to higher sugar and corn prices, and increases food prices to final consumers.

The large owners of land and capital, particularly those in sugar and medium- and large-scale poultry and livestock industries, stand to gain from such protective policies. Their workers will not benefit as much because wages are determined by demand and supply conditions in the labor market. The majority of poor corn farmers grow corn mainly for subsistence and are thus not significantly affected by price changes. In turn, poor urban consumers and the vast majority of rural consumers are penalized by higher food prices because they are net buyers of these products. Thus, the impact of excessive trade protection on income distribution will likely be adverse.

Aside from the inefficiencies caused by distorted relative prices, the use of NTBs instead of tariffs (1) introduces unnecessary and costly uncertainties about import policy, particularly on corn; (2) provides economic rents (i.e., unearned profits) to those that have been granted and those granting import allocations rather than tariff revenues for the government; and (3) increases the transaction costs of implementing policy objectives.

Benefits from GATT-UR

GATT-UR will therefore benefit the country in general and the agricultural sector in particular for the following reasons:

1. Global trade liberalization will generally increase the world prices of agricultural commodities; consequently, the domestic prices of exportable and importable agricultural commodities, as well as net foreign exchange earnings/savings, will increase.

2. Reductions in the import barriers of our trading partners will substantially expand the markets for traditional and nontraditional agricultural exports.

3. Overall trade liberalization in the country will reduce the degree of overvaluation of the domestic currency, thus raising the relative prices of agriculture vis-à-vis other goods and services because most agricultural commodities are tradeable.

4. With the lowering of the excessive protection conferred on a number of agricultural commodities, a more efficient allocation of resources within agriculture and across sectors will be promoted. This will also improve the consumers' welfare through lower prices of these commodities and processed food products that use sugar and corn as major inputs.

5. It will focus government attention on addressing the problem of declining competitiveness of Philippine agriculture away from counterproductive and administratively costly trade regulations toward a more efficient provision of support services to the sector.

Common objections to the GATT-UR provisions on agriculture are therefore misguided. Why should we continue to confer excessively high protection on a few agricultural commodities paid for by the general public to the ultimate detriment of the majority of agricultural producers, particularly poor farmers and landless laborers? To be sure, the rates of protection are not trivial as shown earlier. For 1990 to 1992, the domestic price of sugar was about 90 percent above border prices, while that of corn was more than 60 percent, garlic more than 500 percent, and chicken more than 90 percent. Indeed, the highly restrictive import policy on corn is the main reason why prices of pork and chicken have risen significantly in recent years. Sugar has historically been highly protected because of the US quota policy, but why should the domestic consumers be penalized, further increasing the bonanza enjoyed by sugar producers, specifically large landowners? The ban on imports of garlic, onions, potatoes and cabbage was imposed because of the political clout of the Northern provinces. Chicken has historically been highly protected because of the relatively strong lobbying of the preponderantly large producers in this subsector. The desire for self-sufficiency in these commodities does not warrant the efficiency and equity cost of such policies.

Indeed, the government has been overly conservative in reforming the agriculture-specific trade regulations under GATT-UR. For example-

1. The National Food Authority's international trade monopoly on rice will effectively continue because the minimum access requirement is at a tariff rate (50 percent), far higher than the historically observed difference between domestic and border prices. The government will likely decide to import enough rice (without tariffs) to maintain a politically acceptable consumer price before the private sector deems it profitable to import rice at a 50 percent tariff. As pointed out, GATT-UR will not affect the rice market policy. In other words, the very costly subsidies to NFA market operations which have not benefited farmers will continue, diverting scarce government resources that could have been better spent on productivity-enhancing public support services.

2. In most cases, the tariff to be imposed in place of quantitative trade barriers will be higher than the equivalent tariffs in the presence of NTBs. Although the tariffs will decline over 10 years, they will still be much higher than projected average tariffs by the year 2000. The relatively low minimum access requirement, i.e., the level of imports to be allowed at lower tariffs, will make the higher equivalent book tariff level operational, providing significant economic rents to those allowed to import within the minimum access level.

I believe that the rationalization of agricultural trade policies should be accelerated even beyond the GATT-UR agreement. This means adjusting tariffs for agricultural products to equal the overall average tariff over time which at present stands at only about 30 percent.

GOVERNMENT RESPONSE AND GATT-UR

In the process of trade liberalization there will obviously be adjustment costs in the short run. Whether the government should assist or not in this adjustment process and to what extent depends on who bears the cost, how much is borne, and the cost-effectiveness of alternative assistance programs. Sugar, poultry, and garlic have already been very highly subsidized by the general public for many decades. Why, then, should they not bear the burden of adjustment now, particularly since the cost will be borne mainly by the relatively high income group of landowners and capital owners?

The livestock and poultry sectors will not be severely affected because of the trade liberalization in corn. As mentioned earlier, the poor farmers growing corn for subsistence will not be significantly affected. In any case, the more cost-effective approach of assisting the widely dispersed landless workers and small farmers is to proceed swiftly with the policy and institutional reforms that will improve the country's competitiveness and increase employment and economic growth in general.

To counter the imagined negative effects of GATT-UR on agriculture, the government plans to provide "safety nets" in the process of GATT-UR implementation by erecting further protectionist measures and earmarking tariff proceeds from imports of agricultural products under the minimum access requirements to substantially raise public expenditures for support services to agriculture. From current discussions on "safety nets," it is possible that many of these will likely reduce, if not negate, the potentially positive impact of GATT-UR on the total economy.

The strengthening of agricultural support services must be viewed in the context of improving the competitiveness of Philippine agriculture and not as "safety nets" in response to GATT-UR. The main problem of Philippine agriculture is its declining competitive advantage. Table 4 shows that from 1980 to 1992, the Philippines had the lowest growth rate of agricultural gross value added, agricultural exports, and gross domestic product among developing Asian countries. Declining competitive advan-

TABLE 4

Average Growth Rates of Gross Domestic Product, Agricultural Value Added, Food Production per Capita, Agricultural Exports in Selected South and Southeast Asian countries, 1970-1992

(In percent)

	1970-1980				1980-1992			
	Gross domestic product	Agriculture gross value added	Food per capita	Agriculture export	Gross domestic product	Agriculture gross value added	Food per capita	Agriculture export
China[a]	5.7	2.7	1.5	13.1	8.5	5.6	2.7	9.1
Indonesia	8.4	4.4	1.4	17.5	5.6	2.9	2.1	2.6
Malaysia	9.1	6.5	5.1	17.5	6.2	3.4	3.9	1.8
Thailand	6.7	4.2[b]	2.1	20.7	9.9	5.8	0.5	5.2
Philippines	6.1	4.9	1.6	14.3	1.5	1.1	-1.4	-3.2
India	3.9	1.8	0.2	14.3	5.6[c]	3.8[d]	1.6	5.1
Pakistan	5.3	3.0	0.5	15.5	6.0[d]	4.2[d]	0.9	1.6
Nepal	2.0	0.8	-0.9	-1.8	4.5	4.6	1.1	-1.0
Bangladesh	4.7	1.4	-1.2	0.1	4.0	2.9	-0.3	-1.5
Sri Lanka	3.7	1.9	1.2	7.8	4.1	1.8	-1.6	-0.4

[a]Refers to China and Taiwan.

[b]Average of 1972-1980.

[c]Data up to 1990 only.

[d]Data up to 1991

tage is also evidenced by the declining share in world markets of practically all our major agricultural exports since the 1960s in the case of sugar, the mid-1970s for coconut products, and the 1980s for bananas and pineapples (Table 5). With or without GATT-UR, that problem must be vigorously addressed. The GATT-UR provision on agricultural trade policy itself is instrumental in improving agriculture's competitiveness as discussed earlier. But unless the other equally important causes of the sector's declining competitive advantage (i.e., high cost of transport and limited productivity growth) are addressed decisively, the Philippine agricultural sector will continue to lag behind.

The issue therefore is not how to provide safety nets because of GATT-UR, but rather how to take advantage of the GATT-UR trade policy framework to improve the agricultural sector's competitive advantage. Specifically, the challenge is how to strengthen agricultural support services to take full advantage of the trading opportunities opened up by the GATT-UR agreement.

That distinction is critical in designing the appropriate program of action in the sector. As a "safety net," there is a sense of panic, a tendency to choose short-term rather than more cost-effective, long-term policy and institutional instruments, and a tendency to focus on the affected industries rather than on those with the greatest technological and market potentials. The following paragraphs provide some examples.

More Distortions

To allay fears that, with the 100 percent tariff on corn, the livestock and poultry producers will substitute wheat for corn (something they are already doing), a complex set of import controls is being proposed to increase the price of wheat when used as feed. The secretary of the Department of Agriculture (DA) himself said that wheat is too valuable to be fed to animals. Why, then, is corn being made artificially expensive? How can the competitive advantage of livestock and poultry increase when the government slaps a much higher tariff on the most important feed ingredient (corn/wheat feed) compared to output? Indeed, rice itself may become a major feed

TABLE 5

Trends in the Share of World Trade of Selected Philippine Agricultural Exports, 1960-1992

	Coconut products							
	Total	Copra	Coco oil	D'cated coconut	Copra meal	Sugar[b]	Bananas	Pineapple
1960-1964	48	54	31	56	34	9	0	-
1965-1969	55	62	47	52	47	7	0	-
1970-1974	56	61	53	53	46	7	3	-
1975-1979	63	60	65	61	54	4	8	18[c]
1980-1984	65	38[a]	68	62	59	4	9	20
1985-1989	57	34[a]	59	51	51	1	7	15
1990-1992	52	26	59	43	45	1	5	14

[a]Four-year average only because of copra export ban in 1984 and 1985.

[b]Includes centrifugal and refined sugar.

[c]Average of 1978 and 1979 since world export data on pineapple were gathered beginning in 1978 only.

Source: Cristina C. David, "Economic Policies and Agricultural Incentives: The Philippine Case," paper presented at the Conference on Agricultural Reforms in Asia in the 1980s, Bangkok, FAO, January 1995.

ingredient if the 100 percent tariff on corn and the high tariff on feed wheat ever become operational. Perhaps at that point, our policymakers will begin to understand the high cost of such a wrong policy.

Import Allocations and Earmarking of Funds

The DA proposes a major buildup of government expenditures on agricultural support services to be funded by tax proceeds under the minimum access requirement. A committee is now being established composed of government (including DA as the lead agency) and private sector representatives mainly from the "affected" sectors. The committee is supposed "to develop schemes for managing minimum access importations with the end [in] view of ensuring the stability of supplies and prices; and study and plan out the possible use of the revenues derived from minimum access importations to fund the development of competitive enhancement measures embodied in the Medium-Term Agricultural Development Plan, such as, but not limited to, the establishment of infrastructure (e.g., irrigation, postharvest facilities, farm-to-market roads, ports) and the provision of support services (e.g., research and development, credit, resources development)."

The allocation of import privileges and tariff proceeds using that approach not only violates principles of good public finance management, but promotes corruption as well. Further, it is a highly unstable source of funding for agricultural support services. One of the main reasons for replacing NTBs with tariffs is to let the market determine import allocation, remove any excess profit invariably accompanying NTBs, and generate government revenues. Import demand will likely be greater than the minimum access level for corn, sugar, garlic, etc. Unless the import privileges are auctioned fairly, substantial excess profits will accrue to those given import privileges, and more opportunities for corruption will be created. Not surprisingly, vested interests such as the affected sectors, leaders of cooperatives, etc., are lobbying for representation in that committee. The market will simply be more efficient than any administratively determined level, timing and quality of imports, both in terms of transaction costs and quality of decisions. It will also be a more equitable procedure.

Earmarking of tax proceeds for the development of an industry may be justified if the tax is ultimately borne by, and benefits accrue to, the industry. This is the case, for example, with a commodity-specific export tax or access earmarked for research and development of an export industry, where the benefits of technological change typically accrue to producers. It should be stressed that tariff proceeds from imports under the minimum access requirements are paid for by the general public, and it is incumbent upon the government to allocate these resources to public sector activities that have the highest social rates of return. After all, expenditures for well-designed education and health programs may provide greater benefits to poor farmers than poorly-designed support services such as government marketing operations or subsidies to unviable *postharvest facilities*. Farmers and especially landless households in rural areas are mobile and not tied to land. They would benefit most from public expenditures that would raise their human capacity, increase employment, and accelerate overall economic growth in the most economical manner. A committee composed mainly of representatives from the "affected" sectors cannot be expected to allocate resources in favor of those commodities with the highest technological and market potentials or the highest pay-off for society. Inevitably, they will be looking out for their own vested interests.

Administratively determined import allocations and earmarking of tax proceeds are dangerous precedents that will fragment the budget process, weaken government accountability, and lead to a misallocation of resources. These approaches not only violate principles of good public finance management and promote corruption but are a highly unstable source of funding for agricultural support services. The world prices and domestic production of agricultural commodities which largely determine import values are often unstable as a consequence of which tariff proceeds are also unstable. Ideally, a greater and more stable source of funding is necessary for the efficient planning and implementation of agricultural support services.

Agricultural Support Services

Because of certain unique characteristics of agriculture that cause market failures, the government has a more pervasive role in providing support services to the sector to increase productivity, improve market efficiency, and protect the environment compared to the nonagricultural sectors. Nonetheless, public expenditures for those services will still have to be evaluated on the basis of their social rates of return relative to other types of public expenditure.

The discussion has so far focused on the level and allocation of additional budgets in broad terms. There has been no effort to address the inefficiencies in the design, priorities, and delivery of agricultural support programs now being undertaken by DA, the Department of Agrarian Reform (DAR), and the Department of Science and Technology (DOST). Weaknesses in the institutional structure limiting the effective design and delivery of programs of these agencies have been documented (David et al. 1993); and countless examples of costly programs that did not have any measurable impact on producers' welfare abound. If those issues are not addressed, additional resources for agriculture may go to waste again. There has been no indication that the government will adopt institutional reforms to streamline the bureaucracy, abolish ineffective programs, and reallocate budgets away from government marketing and trade regulations toward productivity-enhancing investments.

Although no concrete new programs have been proposed, except to intensify current programs and thrusts, a number of observations could nonetheless be made.

1. The importance of improving market infrastructure and rationalizing transport policy is now well-recognized due partly to DA's initiatives. The DA should continue to allocate some resources while conducting studies related to this issue, disseminating the findings of those studies and to try to influence the regional allocation of the market infrastructure budget. It should be stressed, however, that other agencies in the central government and the local

government units are directly responsible for the efficient delivery of market infrastructure services because a whole range of factors and sector interests must be taken into account in allocating public investments for market infrastructure. DA's preoccupation with market infrastructure issues may have deflected its attention from addressing the weaknesses of agriculture-specific support services.

2. Too often, proposals to increase expenditures for irrigation, postharvest facilities, and the like are justified on the basis of some perception of a technical need rather than on social rates of returns. The National Irrigation Administration's estimate of the irrigable area does not consider the economics of irrigation investments. It is very doubtful that irrigation investments for corn often mentioned by the DA will be socially profitable. Studies have already shown that even in rice where only 50 percent of the area is irrigated, there are limited socially profitable opportunities in greatly expanding gravity irrigation. Some rehabilitation projects, small communal systems, and institutional reforms to improve system management may be economically justified. The potentials for expanding the use of shallow tubewells suitable for a wide range of high valued crops have not been sufficiently explored. Very little effort has been devoted for developing property rights and incentive structures to ensure the sustainable use of groundwater sources and complementary support services such as aquifer characterizations, improvement of drilling techniques, etc., which are activities that should be the focus of public sector efforts in this area.

3. The plans to heavily support the expansion of postharvest facilities are also based on the technical observation that postharvest losses are high. It seems that not much thought is being given to the economics of alternative ways of reducing postharvest losses and to the proper roles of the public and private sectors in resolving that problem. Past government programs to improve facilities for grain storage, drying, and milling for rice funded by the World Bank

and other foreign donors have basically failed. It is also ironic that the DA is calling for more public money for postharvest facilities when NFA has substantial excess storage facilities nationwide that are rapidly deteriorating. The government can undoubtedly contribute to the minimization of postharvest losses such as in understanding their causes, developing and disseminating new technologies, and analyzing constraints to private sector adoption of these new technologies and investments in postharvest facilities. Thus far, there are no indications that the government will not make the same costly mistakes committed in the past in this area.

4. The misallocation of public resources in what may be considered "soft" as opposed to "hard" or physical infrastructure is perhaps even worse. The government still plans to allocate substantial funds for organizing cooperatives to turn farmers into traders because agricultural trading is "cartelized." That, I think, stems from a lack of basic understanding of the economic value of specialization, economies of scale, etc., which leads to an economy where producers are not necessarily traders. It also stems from a lack of understanding of the fact that cartels or monopolies are typically created by government policy. A case that is not well-recognized is the banana plantation cartel created by the banana hectarage limitations law which disallows new entrants from establishing new banana plantations. Increasing budgets for education is definitely better than expenditures on cooperative movements in upgrading farmers' capabilities to farm better or engage in trade, or any nonfarm employment to increase their income. This is not to say that farmers' cooperatives are not worthwhile, but to emphasize that government-supported ones tend to fail, as numerous studies have shown.

5. Emphasis has been too little on technology generation, too much on technology transfer, and too much on community/cooperative organizing. This is in part due to the misconception that

there are many economically viable new technologies on the shelf and that technology transfer is the constraint. That is simply not the case. The Seed Law, for example, was passed restricting imports of seeds which embody new technologies developed abroad despite the objections of small vegetables growers. Now that the large growers of cutflowers and nontraditional exports are articulating the importance of having access to improved seeds and planting materials wherever they come from, the government's folly in passing that law in the first place has become obvious.

6. Although increasing public expenditures for agricultural research and development is being mentioned as a "safety net," there is concern that only lipservice is being paid to this effort. The Philippine budget for agricultural research has declined in real and in relative terms since the mid-1970s (Figures 1 and 2). In 1981-1985, public expenditure for agricultural research as a ratio to gross value added in agriculture was only 0.16 percent in the Philippines compared to 0.46 percent in Thailand, 0.34 percent in Indonesia, 0.41 percent in developing countries, and 2 percent in developed countries. The country has fallen behind even more in the 1990s. We now have one of the lowest budgets for agricultural research in Asia next to Nepal. Table 6 shows that estimated social rates of return for agricultural research are extremely much higher than estimates for infrastructure investments which typically range from 15 to 25 percent.

7. While a much higher budget for agricultural research is necessary, it is not a sufficient condition for strengthening the agricultural research and development system. Unless institutional reforms that will reorganize the research and development structure are adopted and priority is given to institution building and long-term research programs, efficiency and effectiveness will be severely constrained. The higher budget will be quickly dissipated by short-term research projects with questionable pay-off. The prob-

FIGURE 1
Trends in Agricultural Research Expenditures in Real Terms
3-year Moving Average

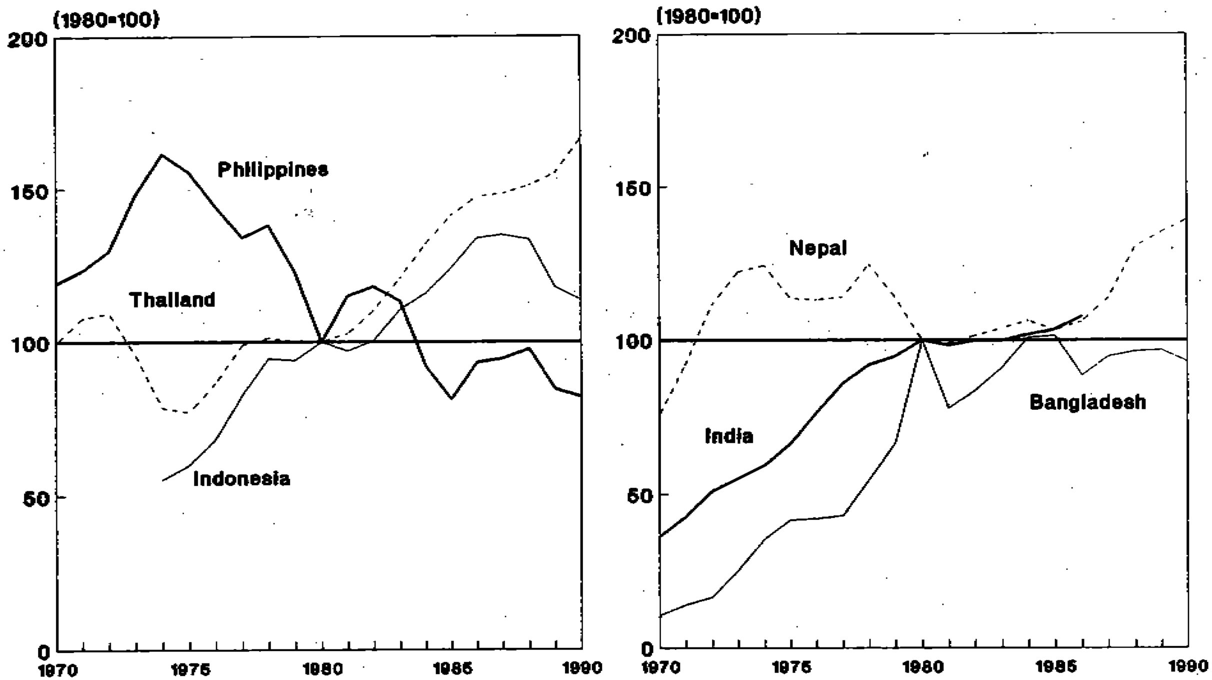

FIGURE 2
Trends in Agricultural Research Intensity Ratios
(Percent of Agricultural Research Expenditures to Gross Value Added in Agriculture)
3-year Moving Average

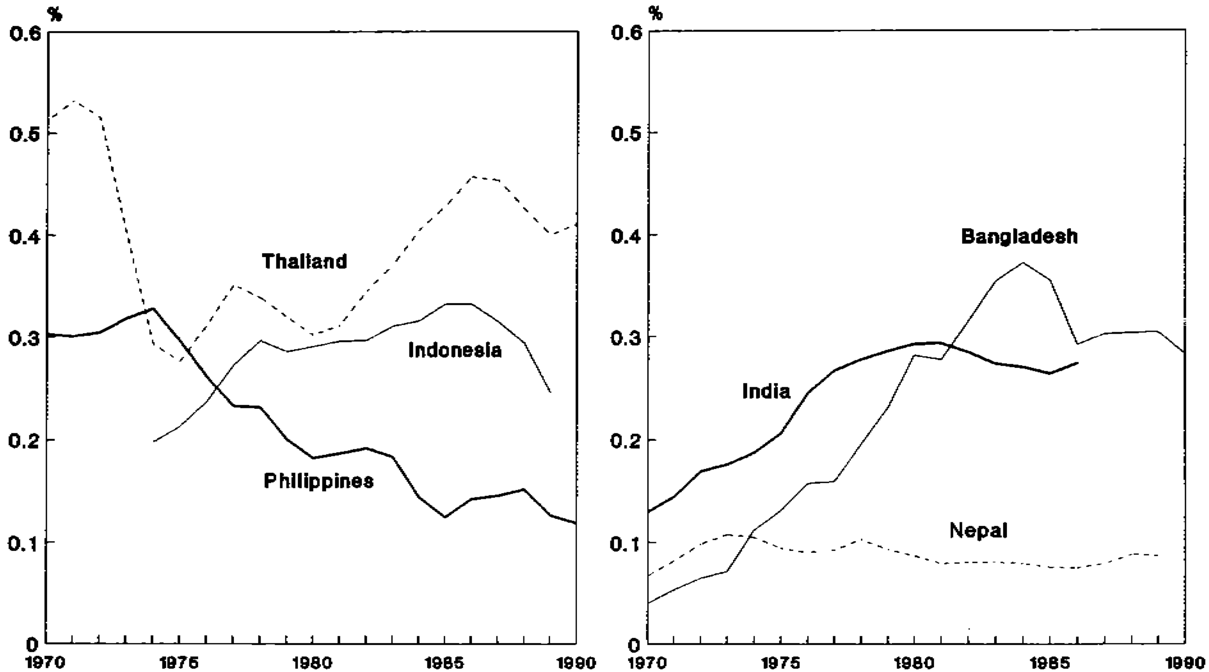

TABLE 6
Summary of Rates of Return Estimates of Public Agricultural Research

	Percent
Developing Countries (Evenson and David 1992)	
5 studies	0
8 studies	0 - 20
28 studies	30 - 50
37 studies	50 +
Philippines	
Rice (Flores, Evenson and Hayami 1978)	75
Corn (Librero and Perez 1987)	29 - 48
Sugar (Librero, Perez and Emlano 1987)	51 - 71
Poultry (Librero and Emlano 1990)	100 +

Sources:

R. E. Evenson and C. C. David. "Rice Production and Structural Change." Organization for Economic Cooperation and Development, Paris, 1992.

P. Flores, R.E. Evenson, and Y. Hayami. "Social Returns to Rice Research in the Philippines: Domestic Benefits & Foreign Spill Over." *Economic Development and Cultural Change* 26, 3 (April 1978).

A. Librero and M. Perez. "Estimating Returns to Research Investment in Corn in the Philippines." Philippine Council for Agricultural Resources, Research and Development (PCARRD), Laguna, 1987.

A. Librero and M. Perez. "Estimating Returns to Research Investment in Sugarcane in the Philippines," PCARRD, Laguna, 1987.

A. Librero and M. Emlano. "Estimating Returns to Research Investment in Poultry and Livestock in the Philippines, " PCARRD, Laguna, 1988.

lems with the institutional structure of the agricultural research system and the directions for organizational reforms are discussed elsewhere (David et al. 1993).

CONCLUDING REMARKS

Agriculture is just one aspect of the GATT-UR. Yet its provisions appear to be the most controversial. And judging from media accounts, ratification of GATT-UR hinges on the establishment of adequate "safety nets" to protect farmers (and other "affected" groups) from the expected adverse impact on their welfare of GATT-UR provisions.

This paper argues that the global and Philippine trade liberalization in the spirit of GATT-UR will benefit the vast majority of farmers and the poor. A few, made up mostly of large landowners and capital owners, may need to increase efficiency or reallocate resources that can afford to shoulder the short-term cost of adjustment arising from trade liberalization.

The Senate must therefore speedily ratify GATT-UR to enable the government to get on with the business of carrying out economic and institutional reforms necessary to achieve sustainable economic growth. There is no need to make ratification conditional to the establishment of "safety nets" nor to postpone this after GATT-UR has been approved by the US, Japan, and EU. Why waste more time on debates based on wrong premises?

Of course, unless we strengthen the very weak agricultural support services that largely caused the sector's declining competitive advantage, the Philippines will not reap the full potential benefits from trade liberalization and will continue to lag behind other Asian countries. With or without GATT-UR, that should be done to reverse agriculture's declining competitive advantage. The opportunity cost of not doing so is all the more with trade liberalization under GATT-UR. While ratification need not be conditional to having a detailed program of strengthening support services, the agricultural sector must seize the opportunity to obtain Congress' commitment in principle to do so.

We propose that a comprehensive assessment of the government's agriculture-specific support services be made soon. And a detailed program of action that includes institutional reforms, program formulation, and budget rationalization should be made before any substantial increases in the budget for agriculture are approved. That program must be subject not only to a budget review but to a technical review as well. Highest priority must be given to the rationalization of the research and development system. Technological change is the key instrument for increasing agricultural productivity, thereby enhancing agriculture's competitive advantage.

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Fermin D. Adriano

COMMENTS*

Thank you for inviting me to comment on the paper of Dr. Cristina David, a respected economist in the country and our mentor in a major agricultural policy effort in the 1980s, right after the successful EDSA revolution. Considering that in this series of talks, we are honoring Dr. Gelia Castillo for her intellectual legacy that has undoubtedly enriched the field of sociology in the Philippines, I supposed that the best approach in examining the work of Dr. David is to look at it through the prism of sociology, more particularly political sociology. It is a truism by now to state that policy-making or policy-decision is not merely an economic activity. It is usually a product of intense lobbying and political interaction. It involves not merely factoring the economic costs and returns to the society but oftentimes its political and sociological fallouts.

Hilarion "Larry" Henares once disdainfully described economists as sort of "eunuchs." They know all the theoretical stuff on how to do it, but cannot consummate it. Larry detects that the problem is the inability of most economists to be immersed in the arena of the real world. Call it snobbery or sheer conservatism, but often, economists, once confronted with the swelling protests over a recommendation they made, cannot hold their ground. They would rather prefer playing the role of a policy kibitzer and let somebody take all the flak for the recommendations they made.

It was sheer exasperation that jolted Dr. Castillo herself to propose in the past that economists should be held criminally liable for failed recom-

*Delivered before the Senate voted on GATT.

mendations. There is just too much power conferred to them but no accountability. But to be fair, those who have joined the fray in the real world situation have become more level-headed, or call it realistic, than those who opted to be ensconced in the security of their academic research room.

The reason for this digression is the dilemma which I sense in the paper of Dr. David. Her simple conclusion is that if we cannot ensure the institutional reforms in agriculture and agriculture-related agencies of the government, particularly prioritizing the research and development system, then no substantial increases in the budget of agriculture should be approved. For her, it is more efficient to place the extra money in education than in cooperative development and agriculture per se if these institutional reforms are not pursued.

The recommendation comes at the backdrop of the Senate's deliberation on whether or not to ratify the General Agreement on Tariffs and Trade (GATT). Given talks about putting in place the "safety nets" to agriculture and increasing the allocation to the Department of Agriculture (DA) to enable it to build these "safety nets", Dr. David's policy prescription has the effect of saying that our legislators should not accord additional budget to DA if it is not able to undertake the institutional reforms in the agency and related agencies that deliver support services to the rural sector.

Realistically, at present, Dr. David's recommendation cannot be implemented and, thus, if we follow her thinking, there should be no budgetary increases for the DA. Her solution is to put it in education and probably to SCUs conducting agricultural R&D. Meanwhile, she wants GATT to be ratified by the Senate who wants for practical and political reasons that "safety nets" are put in place. Who is going to do this? Certainly, not the DA because it does not have the money; it might as well be the Department of Education, Culture and Sports!

Economists are fond of formulating models based on an ideal situation. Once proven to be functioning, then they begin to factor in the imperfections of the real world noting that because the model is found in its barest essence, then even the imperfections will most likely not distort the fundamental tenets of the model.

Yet, when confronted with the real life situation, there seems to be a tendency to forget this approach. First thing first. Let us get this treaty ratified first and move towards the things we want later on. We are not saying that we forget the long-term goal that we have set our eyes on, but the expediency of the time dictates to us that we need to handle the short-term obstacle first. The fact of the matter is that we are still not sure whether GATT will be ratified by the Senate and we are already imposing many conditionalities beyond what we can tackle.

Sure, one can argue, GATT or no GATT, these things should have been done a long time ago. In fact, many more should have been done. The fact however is that they were not done and we are confronted with the dilemma of whether we can pass this single policy instrument that most economists have been longing for. Should we pass on this opportunity because our research agenda was not served beforehand?

Having said this, let us now go to some minor details.

On the first and second pages of the paper, the phrase "the government monopoly on international trade has caused domestic price to be much lower than what this would have been if the private sector were allowed to import at the existing tariff levels," may be true in the 1970s but no longer holds valid today as the world price of rice is much lower than its domestic price.

The use of the concept border price to measure the rates of protection for agricultural products as stated on the fourth page is sometimes fraught with danger because it is not necessarily a reflection of production efficiency. For instance, border price for corn may reflect the price of American corn, but may not necessarily mirror the efficiency of American farmers because this represents a highly subsidized price or dumped price.

Regarding the "safety nets" provided to what is already perceived as a highly protected sugar sector, this is but a product of the highly organized and effective lobbying of the sugar bloc. Thus, the claim that "the government has been overly conservative in reforming the agriculture-specific trade regulations" is not so much of the government's desire but a product of intense backroom negotiation pursued by lobby groups.

On the NFA (National Food Authority) issue, schemes intended for the farmers to take over some of its operations like the Project Self-Reliance have failed. Short of starving it with cash and facing the consequent mass protest of laid off NFA employees and possibly another set of protest actions from the farmer groups, I really don't know what other measures to undertake to handle the NFA issue properly. There must be a range of alternatives offered. The ones recommending them should be responsible for the outcomes so that future views will be tempered by the imperatives of the real world.

The discussion on tariffs should be made in conjunction with the exchange rate issue. We can certainly re-examine our position on the tariff levels every three years. Let them stand as they are now and let us focus our attention on the ratification of this treaty for the moment.

Dr. David is worried that the "safety nets" will have the effect of increasing rather than reducing protection. Indeed, the provision of the "safety nets" must be subordinated to the economic direction or policy this country desires to undertake.

There is no quarrel regarding the auctioning of the "minimum access" products. DA Secretary Roberto Sebastian endorses the idea.

The institutional reforms for the agricultural agencies outlined in the paper starting from the eleventh page and the subsequent pages are so radical that we probably need to have another dictatorial regime in order to carry them out. Moreover, more studies on infrastructure will help but the more important concern is how we can persuade the LGUs to use their internal revenue allotments (IRAs) for more infrastructure facilities.

There seems to be an assumption that cooperatives get a lot of support from the government. That is simply not true because the Cooperative Development Authority only obtained a budget of P90 million this year. Besides, if we are concerned about the poor, investment in education will not be sufficient to meet their needs in the meantime that they are starving to death. In lieu of cooperatives, what is the alternative of Dr. David except investing in education?

The paper also referred to the restrictiveness of the Seed Law. To put it in its proper perspective, the audience should be reminded that it was passed during the incumbency of Mrs. Corazon Aquino. To remedy its faults, its implementing rules and regulations (IRR) formulated under the term of Secretary Sebastian were interpreted in a more liberal fashion.

Dr. David bats for the re-organization of R&D institutions engaged in agricultural research. Too many battles at the same time. I am afraid we are going to lose the war. As Secretary Sebastian noted, even if you have the technology, but you do not have irrigation, post harvest facilities and farm to market roads, a farmer cannot really attain much.

GATT AND THE PHILIPPINE ECONOMY

The General Agreement on Tariffs and Trade (GATT) is a complicated issue. Essentially, its main thrust is to replace quantity restrictions with tariffs. Some tariffs that are being described in GATT are higher than the existing tariffs. So if one explains GATT to others in a manner that points out who are being benefitted, people may then come to understand GATT in due time.

There seems to be a tendency to stereotype the positions taken by the contending parties on the GATT. GATT has many dimensions aside from agriculture like the intellectual property rights and trade-related investment measures. Of course, these dimensions cannot be separated since GATT is a single document, and one must either agree or disagree with all of its provisions. However, even if one has made a stand, it does not mean that he/she cannot free himself/herself from such stand when a debate is going on. The test of a true scholar, after all, is when one can suspend his own judgment to hear others. What seems to be happening is that neither side really wants to explain to the people who are going to be affected by the GATT provisions.

It is really difficult to sell the idea of liberalizing a lot of agricultural commodities, especially to small farmers. However, it was pointed out that most exports are produced by big farmers and, thus, agriculture should not only be equated with small farmers. In the case of the sugar industry which is one of the most pollutive industries because of its by-products, it can intensely lobby for its protection since the industry can muster a lot of resources.

There are conflicting ideas, and it really depends on what one believes in. The contending parties to the GATT have the same background, but sometimes they differ in opinion. Therefore, one must not take the views personally. Discussion such as this should be seen as a way of getting the message across so that in the process, the public will better understand and be benefitted by the discussions.

In effect, the controversy lies in the communication between two parties — the pro-GATT and the anti-GATT. Public support and awareness of GATT is essentially a function of communication. And since GATT is one of the most important issues in the country today, scholars must take this opportunity to objectively communicate the pros and cons of GATT.

The identification and determination of the pool of resources to provide some "safety nets" for certain sectors dislocated or adversely affected by the GATT as well as the introduction of technologies are critical in the implementation of GATT. One has to look at this issue, though, in terms of cost to the country. The paper's commentator believes that the cost for a country is greater if it does not ratify the GATT. Once a country accedes to GATT, then it would be in a better position to negotiate since it can have an alliance with those countries who have also acceded to GATT.

So, what's next? If a country liberalizes unilaterally, does this mean that it is repudiating the GATT? The Philippines is certainly not the most liberal in terms of its agricultural policies, but other developing countries may be in a worse position. In agreeing to the GATT and instituting adjustment measures, their agricultural sector might ironically become more overprotected.

A comment was made that one can always lower excessive trade protection on the agricultural sector if the country feels that this sector is becoming more protected. But then again, it may be more difficult to institute the country's own reforms if it has ratified the GATT for it is a binding document.