Catherine Sophia George
Culver Academies
Culver, IN
Philippines, International Trade

Philippines: Implications of Rice Importation Policy

The Republic of the Philippines, a democratic archipelago nation in Southeast Asia, maintains a predominantly agricultural economy centralized on one product: rice. As the staple crop of the Philippines, rice is a primary component of consumption budgets and source of income for the agricultural sector (Cororaton, 2004). In recent years, rapid population growth and declining agricultural productivity have contributed to a food entitlement deficit, which occurs when individuals are unable to access the food they need (World Food Programme, 2017). Of the 92.3 million inhabitants of the Philippines in 2010, 50.5 million lived in rural areas, accounting for 54.7 percent of the total population (psa.gov, 2013). However, with national attempts to industrialize and the constant threat posed by typhoons, farming has become an increasingly unappealing occupation. This issue is further exacerbated by the fact that the average age of Filipino rice farmers is fifty-seven to fifty-nine years old (*The Philippine Star*, 2018). Poor economic returns and the vicissitudes of the market make rice cultivation an unpalatable prospect to younger generations. The combination of increased domestic demand and diminished domestic supply has resulted in substantial rice imports, generating a trade deficit and prompting excessive protectionism over the rice trade (Jha and Kubo, 2016). Despite the overall availability of rice, Filipino economic trade policies have hindered interregional trade by imposing import restrictions aimed at protecting local rice producers. Increased trade in rice would mitigate consumption barriers by serving as a buffer for domestic instabilities in the food supply and by providing low-cost rice to impoverished households. However, an unrestricted influx of cheap, imported rice could be disastrous for domestic farmers and could potentially destabilize the economy (Balisacan and Ravago, 2003). The Philippines' current rice importation policy is unsustainable as it causes stagnation in the agricultural sector and national food instability. Therefore, reconciling the costs and benefits of the international rice trade needs to be a priority for the Filipino government.

Trade policy reform, aimed at re-establishing liberal market conditions, constitutes an important component of most structural adjustment programs in developing countries. Trade liberalization protects national food markets against domestic supply shocks by facilitating product circulation from areas of surplus to those that are deficient. Additionally, through trade liberalization, relative domestic prices are expected to adjust to world market prices, which are less variable due to a more consistent global output of the given food commodity. Since 1981, the Filipino government has implemented liberalized trade policies to foster a competitive market environment (Habito, Cielito, and Roehlano Briones, 2015). Nonetheless, it refuses to remove applied trade regulations on rice, the country's most essential crop. The government justifies this protectionist policy by citing the vulnerability of domestic farmers to unrestricted rice trade. Imported rice is significantly cheaper than domestically produced rice in part due to the Philippines' climate and geography. The Philippines has a tropical marine climate prone to El

Nino dry spells and typhoons (USDA, 2017). Also, as a country composed of islands, it has a limited land base and is only able to allot four million hectares for rice cultivation. According to the International Rice Research Institute, "The Philippines is fighting a battle against nature that its (rice) exporting neighbors are spared." Compared to the Philippines, Thailand and Vietnam have considerably more arable land and their weather patterns are less volatile. Therefore, in order to regulate the economy and provide a competitive advantage, the Philippines imposes a two-tiered tariff policy for imported rice, which is comprised of tariff-rate quotas (TRQs) and and quantitative restrictions (QRs). A tariff refers to a tax levied on a commodity imported from another country. It earns revenues for the government and is a method to promote local industries by taxing foreign competitors. Tariff-rate quotas on imported rice stipulate that imports within a quota, or minimum access volume, may enter at a lower (in-quota) tariff rate while imports above the set access level are taxed at a higher (out-of-quota) tariff rate (Skully, 2001). For rice specifically, imports within the minimum access volume have a 35 percent tariff while those exceeding have a 40 to 50 percent tariff (The International Trade Administration, 2016). However, the most controversial aspect of the Philippines' trade policy is its quantitative restriction on imported rice. Quantitative restrictions function by limiting the volume or value of certain goods traded during a specific time period (Habito, Cielito, and Roehlano Briones, 2015). This policy hinders competitive imports from overwhelming domestically produced products but generates a plethora of fiscally detrimental consequences.

The supplanting of quantitative restrictions with tariffs is a commitment that all World Trade Organization (WTO) member countries have made in order to secure a freer global trading regime. While the Philippines is a signatory of the World Trade Organization, which generally requires the elimination of these restrictions, the country maintains its tariff-rate quotas and quantitative restriction on rice (WTO, 2017). In 2016, Republic Act No. 10848 replaced quantitative import restrictions on agricultural products like onions, potatoes, coffee, and beef with tariffs. It also repealed previous acts that allowed government agencies to impose QRs on agricultural products, with the exception of rice (The Senate and House of Representatives of the Philippines, 2016). The QR regime of the Philippines was mandated for conversion into tariff protection in 1995, but since rice is considered the country's most sensitive agricultural product, the government has negotiated with other WTO members for extensions of its quantitative restrictions on rice for over a decade (Balisacan and Ravago, 2003). In July of 2014, the WTO approved the Philippines' request to extend QRs on rice imports until June 30, 2017 (WTO, 2017). In exchange, the in-quota limit, or minimum access volume, increased from 350,000 MT to 805,200 MT and the in-quota tariff reduced from 40 percent to 35 percent. Despite the impending deadline set by the WTO for the Philippines to lift its quantitative restriction on rice, the country decided to extend its current policy for three more years. The announcement, titled Executive Order No. 23, was signed by President Rodrigo Duterte and released in May, 2017. According to the executive order, the maximum volume of rice that private traders can import annually will remain at 805,200 metric tons until 2020, with the in-quota tariff also kept at 35 percent (Placido, 2017).

The QR extension is intended to protect the livelihoods of Filipino farmers, but Socioeconomic Planning Secretary Ernesto M. Pernia argues that introducing competition in the domestic market would encourage local farmers to become more efficient and reduce their prices (NEDA, 2016). The extension also means that poor households will continue to bear the financial strain of

overpriced rice. The typical household size in the Philippines is approximately 4.4 persons while the average annual income of Filipino families is only two hundred and sixty-seven thousand pisos (5,115.72 US dollars). Extreme poverty, defined as living on less than $1.25 per day, was determined to affect 19.2 percent of the Filipino population in 2012 (USAID, 2014). The majority of poor households reside in rural areas and work in the agriculture sector, but chronic food deficiency effects both rural and urban populations. People in the poorest income groups tend to allocate a significant portion of their budgets for rice, but regardless of socioeconomic status, families in the Philippines value their traditionally rice-based cuisine. Rice persists as a symbol of prosperity in modern Filipino culture. "If we did not have rice, our deepest comfort food, we would probably feel less Filipino," commented Doreen Fernandez, a noted Filipino writer and cultural historian. Such testimonies reveal that rice is integral to the fabric of Filipino society and cannot be easily substituted. As a result, simply abandoning rice cultivation in favor of another cash crop is unlikely to occur or be considered a legitimate reform strategy for the Philippines.

A tariffication compromise would balance the benefits and losses of both consumers and producers. A tariff on rice imports would enable the Philippines to eliminate the tariff rate quota and quantitative restriction systems while avoiding sanctions from the World Trade Organization (WTO, 2017). Growing pains for domestic rice farmers would be ameliorated following the repeal of trade restrictions. In 2017, the Philippine Institute for Development Studies proposed the conversion of importation barriers on rice to the standard 35 percent tariff rate of the Association of Southeast Asian Nations (Briones, Roehlano, et al, 2017). However, according to the Philippine Statistics Authority's March 2018 report, the average farmgate cost of rice has increased by 9.36 percent since 2017, and the wholesale price of milled rice has also increased to around 43.38 pisos per kilogram (Recide, 2018). Comparatively, rice from Thailand only costs about twenty-three pisos per kilogram (FAS, 2018). Since imported rice prices average to around half of current domestic prices, temporarily implementing a 50 percent tariff rate after the removal of the rice QR and TRQ addresses concerns over cheap, imported rice entering the country duty-free. Replacing the current trade restrictions on imported rice with a tariff could double annual imports from 2.2 million metric tons to around 4.4 million metric tons from 2017 to 2022 (PIDS, 2017). Additionally, the corresponding increase in supply will bring down wholesale prices to an average of 17.66 pisos per kilogram (Trading Economics, 2017). By converting the quantitative restriction imposed on imported rice into an equivalent tariff, this policy will ensure that domestic rice prices remain stable.

When government price support is absent, producers are confronted with true market prices. Therefore, safety net measures are necessary to mitigate the adverse impacts of intensified importation (Briones, Roehlano, et al, 2017). The National Food Authority (NFA), the Filipino government's price and supply stabilization branch in the rice sector, currently employs a traditional price support program prone to excessive fiscal burden and market distortion (Briones and Domingo, 2015). A better approach would be for the Philippines to utilize subsides. Despite the panoply of potential subsidy variations, the nation's economy would benefit the most from a direct payment subsidy to farmers that is decoupled from production. The WTO's Agreement on Agriculture enumerates this type of subsidy as a 'Green Box' measure. This is considered the ideal in terms of offering domestic support while still promulgating free trade. It would primarily contribute to income guarantees and security programs aimed at providing crop insurance (WTO,

2018). The revenue collected from the tariff on rice imports could be directed towards financing this subsidy so that potential incommodities like budget strain or increased public tax burden become obsolete. Subsidies drive a wedge between the market price and the effective price. This is temporarily advantageous but not a long-term solution. In response, the Filipino economy must work to reduce and eventually eliminate the price gap between imported and domestic rice. As tariffication and subsidies stabilize prices, agricultural sector reforms would increase profit margins and allow prices to be reduced steadily. The Philippines has not yet established an appropriate incentive structure for the development of agricultural self-sufficiency. If domestic agricultural policy provides adequate support and incentives for farmers, trade barriers become unnecessarily.

A major obstacle to agricultural progress has been bureaucratic intransigence. The Filipino government has no shortage of potential initiatives to address concerns over food insecurity, yet fragmentation, unstable budgets, and corruption have led to a systematically unproductive government (Habito, Cielito, and Roehlano Briones, 2015). A principal source of corruption and ineffective governance is the hegemonic influence of the National Food Authority. Prior to 2002, the NFA had a monopoly on the international trade of rice in the Philippines. Compared to private rice importation, NFA importation costs substantially more and does not produce revenues for government. This margin of inefficiency is transferred to consumers. Reforms, especially within the bureaucracy of the NFA, are needed to improve agricultural performance. Moreover, evasive rhetoric by government officials has resulted in a troubling pattern of misinformation over the removal of the quantitative restriction on imported rice. For example, Caesar B. Cororaton, a Senior Research Fellow with a government owned and controlled corporation, once stated that “the quantitative restriction (QR) on rice will last until the end of 2004” (Cororaton, 2004). Socioeconomic Planning Secretary Ernesto Pernia told reporters in 2016, "I'm sure some people like [the QR] extended, but in the opinion of the economic team, we prefer to just let it go,” and Trade Secretary Ramon M. Lopez claimed in early 2017 that “[the government is] not pursuing QR. It’s over. It’s been decided by NEDA (National Economic and Development Authority) in January, or even earlier” (The Business Times, 2016) (BusinessWorld, 2017). Each of these statements were proven false since the quantitative restriction on rice is still in effect. By constantly making false assurances, the government is hindering the momentum for actual reform. Therefore, transparency must be made a priority within the Filipino government.

With poverty currently running rampant in the Philippines, trade liberalization policies on rice are needed to insure more affordable food for consumers. Nevertheless, if the applied trade restrictions on rice are abruptly removed, it would damage the national economy and farmers would face increased foreign competition. Thus, the best path forward for the Filipino government is to convert the quantitative restriction on imported rice to a 50 percent tariff and set aside the revenue as a safety net for domestic farmers. These measures would be gradually phased out as agricultural productivity and self-sufficiency improved.

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