

Study on New Generation Trade Agreements and Philippine Agriculture



HIGHLIGHTS

- It is crucial for the Philippines to have a critical assessment of the readiness of its agricultural sector to meet the obligations and commitments in the new bilateral and plurilateral agreements the country is currently pursuing, as well as identify the strategic opportunities and challenges these new trade agreements may present.
- The study has identified the likely gainers and losers from joining new generation free trade agreements (FTAs). If the Philippines enters these respective agreements, milk and cream, soya bean residues, cacao, coffee and rice seem to suffer the worst. The commodity groups from which corresponding local players will likely benefit the most are banana, dates, figs, pineapples, avocados, and guavas, and other plant parts, as they are the likely gainers in four of the five FTAs featured in this study.
- The preferential trade agreements the country is involved with are creating larger and more diverse market opportunities. To translate these opportunities into sources of income for agricultural and fisheries producers, the country must improve its transportation and logistics system, enhance productivity and competitiveness, establish reliable market information/data bank, and clarify country objectives for collective action.



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I. BACKGROUND AND OBJECTIVES

As the Philippines pursues new bilateral (e.g., Philippines-European Union or PH-EU, Philippines-European Free Trade Association or PH-EFTA) and plurilateral trade agreements (e.g., Regional Comprehensive Economic Partnership or RCEP), it is crucial for it to have a critical assessment of its readiness to meet the obligations and commitments set out in such new agreements, along with the strategic opportunities and challenges these may present. It is noteworthy that these pursuits should be looked at vis-à-vis the structure of its existing trade relations. First, the country is a member of Association of Southeast Asian Nations (ASEAN), and hence is committed to the ASEAN Economic Community (AEC). The Philippines also concluded bilateral Free Trade Agreements (FTAs) with some members of the trade groupings being eyed for plurilateral trade agreements. Therefore, there is a need to investigate on how these new bilateral and plurilateral agreements might affect the existing trade ties of the Philippines. A related issue is whether these new agreements will indeed be a considerable boost in the country's trade links, given that the Philippines already has existing FTAs, either on a bilateral basis or as a member of ASEAN with some of the member countries of these trade groupings.

This paper aims to assess the policy requirements of new generation free trade agreements and how the Philippines' current policy environment stands relative to such requirements, with particular focus on the agricultural sector. It aims to help identify appropriate courses of action that will properly situate the agricultural sector within the more open trading environment that has become inevitable with closer economic integration and interdependence. The study is expected to help provide government with stronger basis with which to (i) make an informed decision on joining emerging new trade agreements, (ii) develop strategies to address specific challenges or issues attendant to such membership, and (iii) advance the Philippines' trade and economic interests in such new agreements.

In order to address these objectives, the study aims to deal with the following questions:

A. PRELIMINARY INFORMATION

- What are the new generation trade agreements' (i.e. TPP, PH-EU, PH-EFTA, RCEP) provisions/chapters/annexes/side instruments that have a bearing on Philippine agriculture? What are their implications to the sector?

- What non-tariff measures on agricultural products do we currently face in our major agricultural export markets? What agricultural Non-Tariff Measures (NTMs) do we have in place on our agricultural imports?
- What are the key agricultural products that potential trading partners export and import? What are the key agricultural exports and imports of the Philippines? In view of the above, what are the potential market opportunities and threats to the Philippine agricultural sector?
- How much have we liberalized beyond Most Favored Nation (MFN) treatment on agricultural and agro-based products under existing bilateral and plurilateral trade agreements (Philippine-Japan Economic Partnership Agreement (PJEPA), ASEAN Free Trade Area (AFTA))? That is, what concessions in agricultural trade has Philippines (PH) granted in its existing free trade agreements?

B. POLICY IMPLICATIONS

- Who are the likely winners and losers in our agriculture and agribusiness sector from freer access to the markets of the current members? How would it impact agri-based micro, small, and medium enterprises (MSMEs)?
- What mitigating measures can be put in place to cushion adverse effects for PH farmers and sub-sectors from more open trade in agriculture and agribusiness products?
- What directions and measures should government take to strengthen Philippine agriculture in the face of more open agricultural trade?

II. FRAMEWORK AND METHODOLOGY

A. NETWORK ANALYSIS

The study uses agricultural trade flows to analyze the relative importance of members of new generation FTAs to agricultural trade in order to provide an intuitive assessment of whether the opportunity cost of not being a member of these FTAs is substantial. In order to do this, the study employs network¹ analysis where trade links are presented as a network and economies are depicted as nodes in the network. Trade relations and the intensity of the trade relations, between any two economies are represented as edges based on some parameter related to trade (Fagioli, Reyes, and Schiavo 2010).

¹ A network is defined to be a mathematical description of the state of a system at a given point in time in terms of nodes and links (Schiavo, Reyes, and Fagiolo 2010)

Generally, this approach allows for the analysis of the properties of the network that describe the prevailing trade relations among economies included in the group (Tzekina, Danthi, and Rockmore, 2008) and the specification of the features of the network itself. Network analysis is used so that the relation between two economies is examined taking into consideration the effect of other economies. This uses a ‘multilateral resistance’ factor (Anderson and van Wincoop, 2003) to reduce biased estimates due to omitted variables, and prevent the performance of comparative statics exercises. With this, the study is able to provide a corresponding image or visualization of the relationship between two economies given the interdependence in trade relations (de Benedictis et al 2014). Moreover, network analysis, by dealing with the entire set of relations within a network, addresses the issue of heterogeneity, where for each economy, the profile of trade fluxes is unevenly distributed across partners (Fagiolo, Reyes, and Schiavo 2010).

B. INDICATORS

The two indicators used for trade flows in this study are the volume and the intensity of agricultural trade relations between two economies. These were applied to each key agricultural trade commodity in the analysis. Total trade, the sum of imports and exports, characterizes the volume of trade relations while intensity of trade is measured by *trade intensity index* (*TII*). The *TII* is the ratio of the share of a partner to an economy’s total agricultural trade and the share of global trade with this partner.

Specifically,

$$TII_{ij} = \frac{t_{ij}/T_{iW}}{t_{Wj}/T_{WW}} \quad (1)$$

where t_{ij} is the value of economy i ’s total agricultural trade with economy j , T_{iW} is the value of economy i ’s global total trade, t_{Wj} is the value and of global total trade with country j , and T_{WW} is total global agricultural trade. Values greater (less) than one indicate a trade flow being larger (smaller) than expected given the partner economy’s importance in world trade. The *TII* compares the value of trade between two economies to what is expected based on their relative importance in world trade. The calculated values of both total trade and *TII* are then normalized, where the normalized total trade value is the ratio of the difference of the total trade value between any i and j and the smallest total trade value in the data set. The difference between the largest and smallest total trade values in the data set is given by

$$\frac{t_{ij}^{actual} - t_{ij}^{min}}{t_{ij}^{max} - t_{ij}^{min}} \quad (2)$$

where superscript *actual* denotes the actual total trade value between economies i and j , superscript *min* pertains to the smallest total trade value in the data set, and the superscript *max* indicates the largest total trade value in the data set.

Similarly, the normalized values for *TII* is given by the expression:

$$\frac{TII_{ij}^{actual} - TII_{ij}^{min}}{TII_{ij}^{max} - TII_{ij}^{min}} \quad (3)$$

where the superscripts stand for the same values as in expression (2).

The study adopts a *weighted network approach* for the network analysis where an edge is assigned a value weight based on the geometric mean of the two indicators earlier described. This provides a weight for an edge based on both trade volume and intensity. As a final note, since obtaining the value for total trade implies $t_{ij}=t_{ji}$, it means that $TII_{ij}=TII_{ji}$.

The weighted-network measures are then calculated to characterize the network configuration of world trade. As was done in Ferrarini and Brooks (2014), the mapping of the network of world trade is provided via Cytoscape, a software environment developed by Shannon et al (2003) for illustrating molecular interaction networks. This study particularly observes interaction between and among nodes as they attract or repel each other (See Kamada and Kawai 1989; Fruchterman and Reinhold 1991). Consequently, it determines the most efficient and relevant trade network where the nodes are positioned such that the sum of forces in the network is minimized.

The study utilizes disaggregated agricultural trade data from the United Nations Commodity Trade (ComTrade) Database. ComTrade reports two values that measure the same trade flow from a country of origin to a country of destination and vice-versa. Import reports (See Head et al., 2008) are used in the study since they tend to be more closely monitored by governments as they are subject to customs duties. Export reports are used when imports are reported as zero or when data is missing.

Two issues are considered to address the objectives of the study. First is the manner by which the network is characterized, that is, choosing the economies included in the analysis. Second is the manner by which the potential benefits of FTA

membership is measured. In characterizing the network that represents the FTA-related agricultural trade structure, the study chooses to include in the analysis, along of course with the Philippines, all the members of all the new generation FTAs that the Philippines is planning to be party to. The study also included those economies that are in the top ten trade partners of the Philippines for a particular commodity group, whilst not being members of the aforementioned new generation FTAs. The European Union (EU) is to be represented as a single node in the corresponding networks. If an EU member is a top trade partner of the Philippines for a particular commodity group, that economy is included as a separate node.

The study uses the concept of centrality, which determines the likelihood of a given node to appear along a randomly selected chain of edges within a network (Fagiolo, Reyes, and Schiavo 2010), to gauge the importance of the Philippines and the FTA members in the agricultural trade flows. Economies included as nodes being proven to have a relatively high level of centrality in a particular agricultural commodity are interpreted as these economies being important in the trade structure of that commodity group. If the Philippines turns out to be relatively important in the trade structure of an agricultural commodity group, then the FTA can have potentially insignificant impact on the Philippines. In other words, if the Philippines is already central to the network, it means that for such a commodity group, the corresponding FTA has little impact on the country because the Philippines is already deemed in the network as a major player in that particular commodity. The study uses three centrality measures: degree centrality, closeness centrality, and eigenvector centrality, to evaluate the importance of the Philippines in agriculture-related and new generation FTA-related trade flows.

C. THE GRAVITY MODEL OF TRADE

A gravity model is used to estimate the potential effects of FTA membership to agricultural bilateral trade flows using cross-section data. The study utilizes disaggregated agricultural trade data from the United Nations ComTrade Database. As with the calculation of the total trade indicator, import reports are primarily used following the approach described in Head et al. (2008). Nominal Gross Domestic Product (GDP) and population data from the World Development Indicators (WDI) published by the World Bank, bilateral distance and other country-specific data are from the GeoDist dataset, available from the *Centre d'Études Prospectives et d'Informations Internationales* (CEPII) database were also included in the model. The gravity model is

initially estimated with the following stochastic multiplicative form:

$$f_{ij} = GY_i^{\beta_1}Y_j^{\beta_2}P_i^{\beta_3}P_j^{\beta_4}D_{ij}^{\beta_5}e^{\beta_6L_{ij}+\beta_7B_{ij}+\beta_8I_i+\beta_9L_i+\beta_{10}I_j+\beta_{11}I_j+\beta_{12}M_{ij}+\beta_{13}M_i+\beta_{14}M_j} \quad (4)$$

The model is usually run as an Ordinary Least Squares (OLS) regression, with the natural logarithm of (4) taken, and the equation transformed as,

$$\ln f_{ij} = \beta_0 + \beta_1 \ln Y_i + \beta_2 \ln Y_j + \beta_3 \ln P_i + \beta_4 \ln P_j + \beta_5 \ln D_{ij} + \beta_6 \ln L_{ij} + \beta_7 \ln B_{ij} + \beta_8 \ln I_i + \beta_9 \ln L_i + \beta_{10} \ln I_j + \beta_{11} \ln I_j + \beta_{12} \ln M_{ij} + \beta_{13} \ln M_i + \beta_{14} \ln M_j + u_t \quad (5)$$

where the intercept, β_0 , is the natural logarithm of G , and u_t is the error term. The dependent variable is the natural logarithm of trade flow f_{ij} from country i and country j . Subscripts i and j then denote origin and destination countries, respectively. The model is controlled for, in the order specified in (5), undeflated GDPs and populations of origin and destination countries, their respective bilateral distances, being landlocked, being an island, sharing a common border, sharing a common language, and FTA membership.

There are many observations in the dataset used that reports zero trade flow values. Since the dependent variable is in natural logarithm, an OLS regression excludes observations that have zero values causing loss of information. This will also lead to sample selection bias. Silva and Tenreyro (2006) has shown a log-linearized model also renders OLS estimates inconsistent.

To address these issues, a Poisson regression is run instead. Poisson estimation is equivalent to running a type of nonlinear least squares on the actual multiplicative form of the gravity model. The Poisson regressions involve the level values of trade and flows as dependent variables. The interpretation of Poisson coefficient estimates follows the same pattern as that in OLS. The coefficients of any independent variables entered in logarithms can still be interpreted as simple elasticities, and the coefficients of independent variables entered in levels are interpreted as semi-elasticities (Shepherd, 2013).

Three membership dummies are included for the regressions on trade flows; a dummy with a value of one if both origin and destination countries are FTA members and zero otherwise; a dummy with a value of one if the origin is a FTA member, zero otherwise; and, a dummy with a value of one if the

destination is a FTA member, zero otherwise. These dummies are defined as such to measure the trade creation and diversion associated with FTA. The first dummy is included to measure if there is trade creation, or if there is an increase in trade flows between FTA members. The last two dummies are to measure trade diversion, or the decrease of trade flows to and from non- FTA trade partners of FTA members. If the coefficient of the first dummy is positive and statistically significant, then there is trade creation. If the coefficients of the last two dummies are negative and statistically significant, then there is trade diversion. The ideal outcome is that there is trade creation and no trade diversion. As in network analysis, the regressions is done for each agricultural commodity group of interest. The coefficients obtained from the regression is used to determine the actual magnitude of trade creation and trade diversion.

Since the new generation FTAs included in this study are either still being negotiated or being targeted to be joined by the Philippines, what is measured are the *potential* effects of these new generation FTAs to bilateral trade flows. Each gravity model estimates the potential opportunity cost of not being a member of these new generation FTAs. What is measured are the trade flow differential that is due to *just being included* in the group of the respective members of the new generation FTAs. This means, for example, that in the case of RCEP, when a trade flow involves two RCEP member countries, meaning both origin and destination are RCEP members, the corresponding dummy will take the value of one. Furthermore, the membership dummies are defined as such to measure the associated potential benefits of joining these new generation FTAs. The reasoning behind this is as follows. If, for instance, trade within a group comprised of RCEP members is higher on average, this means that there are indeed incentives of entering the corresponding FTA in which that group of economies are included. This is because if trade within the group is higher on average, an economy outside the group will miss that higher-on-average trade within the group. There are therefore opportunity costs of not being a member of such a group. Furthermore, if the trade within such a group of economies is higher on average, there are incentives to harness this higher-on-average trade into a full-blown trade creation through an FTA. There are therefore potential gains from forming an FTA among these group of economies. While this seems to be a procedure for doing an ex ante analysis on trade impact of FTAs, in actuality, this procedure is just really for measuring

the opportunity costs associated with the new generation FTAs featured in the study².

D. DOMESTIC RESOURCE COST

One way of measuring the general productivity and competitiveness of Philippine agricultural commodities is through the calculation of a commodity's domestic resource cost (DRC). The DRC compares the domestic costs of export production to the corresponding value-added generated (Yercan and Isikli, 2009; Gorton and Davidova, 2001). The DRC then is divided by the official exchange rate to obtain the Resource Cost Ratio (RCR). Specifically, the RCR for commodity i is given by

$$RCR_i = \frac{\sum_{j=k+1}^n a_{ij}V_j}{P_i - \sum_{j=1}^k a_{ij}P_j} \quad (11)$$

Here, $a_{ij}, j=k+1, k+2, \dots, n$ is the technical coefficient for domestic resources and non-tradeable inputs. V_j is the shadow price of domestic resources and non-tradeable inputs, which is for estimating the opportunity costs of domestic production. Finally, P_i is the border/reference price of the traded commodity, $a_{ij}, j=1, 2, \dots, k$ is the technical coefficient for tradeable inputs, and P_j is the border/reference price of the traded inputs (Gorton and Davidova, 2001).

The intuition here is that the numerator is the cost of domestic non-tradeable inputs used directly and indirectly in the production of the respective commodities. The denominator meanwhile is the cost of tradeable or foreign-sourced inputs adjusted to border prices (Yercan and Isikli, 2009). If the RCR is less than one, it means that the cost of domestic resources is smaller compared to either (1) the value-added in terms of gains from foreign exchange if the commodity is exported, or (2) the savings if the commodity is substituted for imports. Hence, the commodity is deemed internationally competitive.

Given the nature of the RCR just described, the analysis is done in two scenarios. The first scenario is when the commodity is intended to be produced to be traded for export, and the second scenario is when the commodity is intended to be produced for import substitution. The difference is that in the export trade scenario, the border price used is the Free on Board (FOB) price, while in the import substitution scenario, the Cost, Insurance and Freight

² While primarily used in ex post assessment of an impact of a trade agreement, gravity models were also used in the literature to do ex ante analysis (see Felbermayr et al., 2013; Péridy, 2005).

(CIF) import price is used. The respective RCRs are calculated first for the export trade scenario. If the resulting RCR is greater than one, the commodity is deemed uncompetitive. The RCR is then calculated again for the import substitution scenario.

E. KEY INFORMANT INTERVIEWS/DESCRIPTIVE ANALYSES

The study also employs qualitative analysis tools such as key informant interviews in order to identify the effects of more open trade to traditionally sensitive agri-based commodities like cereals, livestock, and meat, as well as pinpoint factors/policies that would provide an enabling environment that would mitigate negative consequences that trade openness might bring about.

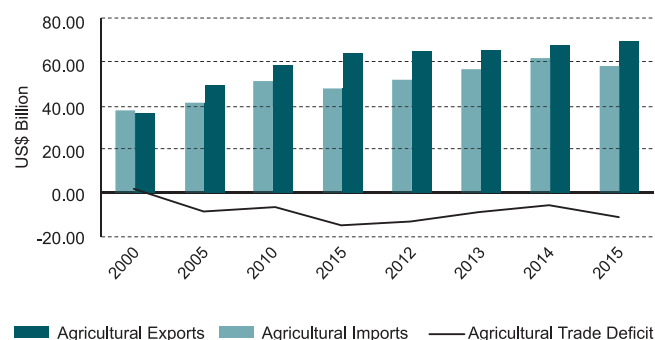
III. THE PHILIPPINE AGRICULTURE SECTOR

A. AGRICULTURE AND THE PHILIPPINE ECONOMY

With its population of 100 million in 2015, the Philippines is the second largest country in Southeast Asia, next to Indonesia, and the 12th largest in the world. However, its GDP is only the fifth largest in the region and 41st in the world while it ranks 128th worldwide in terms of GDP per capita.

Philippines exports fell sharply in 2008 and 2009, from a record high of US\$ 50.5 billion in 2007. This was due to sudden reduced demand from all top ten export markets led by the United States

FIGURE 2. TOTAL PHILIPPINE AGRICULTURAL EXPORTS IN US\$ BILLIONS FROM 2000 TO 2015

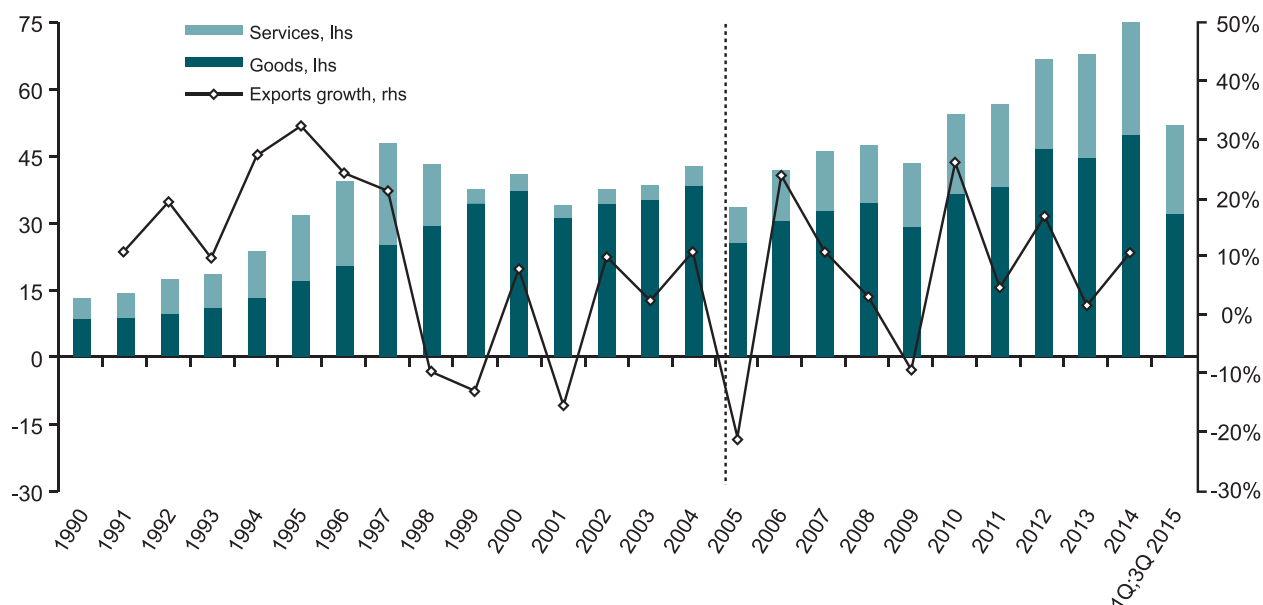


Source: CountryStat, 2017

(US), Japan, China, and Europe. The top exports – electronics, garments, auto parts, and furniture/home furnishings – are produced for these markets, and the majority of employee layoffs and workweek reductions in manufacturing occurred in these industries in the late 2008 and early 2009 (Invest-Philippines, 2017).

The country has also been experiencing agricultural trade deficits every year after 2000 (Figure 2) and is also one of the world's biggest rice importers. The Gross Value Added (GVA) in agriculture and fishing which accounted for 9.4% of GDP recorded a 0.34% increment. The total country labor force

FIGURE 1. TOTAL PHILIPPINE EXPORTS IN US\$ BILLIONS FROM 1990 TO 2014

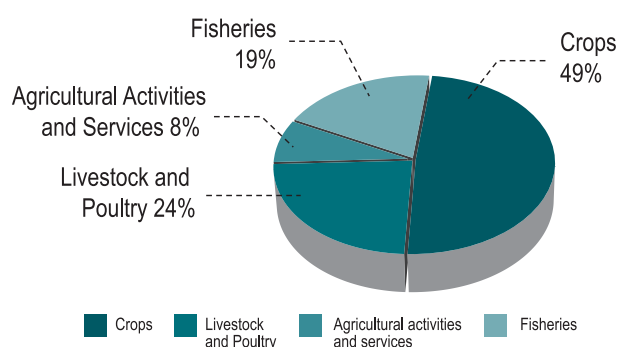


Source: Invest Philippines, 2017

in 2015 was 41.34 million people. The agriculture sector employed 11.29 million people and this comprised 29% of the labor force. Meanwhile, the poverty incidence among agricultural households is 40.7% while the national average is 26.1%.

Gross output in agriculture increased by 0.19% in 2015. Production in the crops subsector declined by 1.98%. Palay and corn registered output losses of 4.31% and 3.24%, respectively. Downtrends were also noted for sugarcane, coffee, tobacco, onion, cabbage and rubber. Coconut production inched up by 0.26% while garlic posted higher production growth at 15.86%.

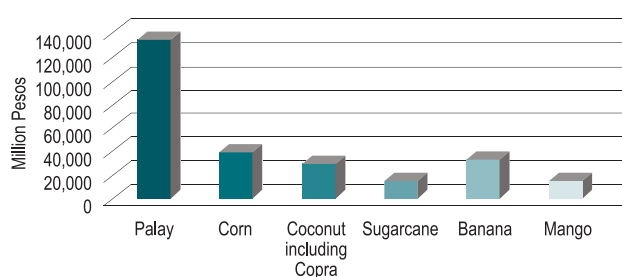
FIGURE 3. AVERAGE SHARES IN GROSS VALUE ADDED IN AGRICULTURE, FISHERIES, AND FORESTRY, CONSTANT PRICES, 2008-2015



Source: CountryStat, 2017

Over the past eight years, crops contributed almost half of the total agricultural output (Figure 3). Fisheries, agricultural activities and services and livestock and poultry have 19%, 24% and 8% shares respectively. The top six crops, namely palay (paddy rice), corn, coconut (including copra), sugarcane, mango and banana comprised about 79% of the total crop production in 2008-2015 (Figure 4).

FIGURE 4. TOP AGRICULTURAL COMMODITIES IN TERMS OF SHARE IN TOTAL CROPS GVA



Source: CountryStat, 2017

Among these major crops, share increase occurred for all except for mango and coconut. The share of palay rose to 42% in 2015 from 39% in 2008. The share of corn in the total crop production increased by 1% from 2008 to 2015 while sugarcane and banana retained their shares in total crop production. On the other hand, the shares of mango and coconut decreased by 1%. Other minor crops had a combined share of 12% in 2015, higher than its share in 2008 by 1%.

The livestock subsector produced 3.83% more output in 2015. All the livestock components recorded production gains except for carabao. In particular, hog production went up by 4.33%. The poultry subsector expanded by 5.74% in output. Increases were reported for chicken meat at 5.67% and chicken eggs at 6.95%. While production of duck meat dropped by 1.94% that of duck eggs rose by 2.15%. The fisheries subsector recorded a 1.38% reduction in output. Production declines were noted among the major species such as milkfish, tilapia, roundsad and skipjack.

B. TRADE OPENNESS

The agricultural and fisheries trade openness index (AF-TOI) as defined by Clarete and Villamil (2015) is the ratio of the sum of agriculture and fisheries imports and exports to the GDP. It says that the higher the index, the more open the country to trade. Using the data from the ComTrade database of the United Nations Statistics Division (UNSD) for the merchandise exports and imports of Harmonized System (HS) 1-24 and World Bank data on GDP (current US\$), the AF-TOI of the Philippines and other selected countries were calculated. As shown in Table 1 (see next page), the AF-TOI of the Philippines is low compared to other ASEAN countries and has been consistent since 2010. On the other hand, Vietnam has consistently maintained a high level of trade openness since 2000. It was noted by Clarete and Villamil (2015) that Vietnam has made significant progress towards a market-oriented economy by implementing land market reform in 1998 resulting to a significant increase in production and trade in agricultural products. The fisheries sector in Vietnam is also expanding and the country imports products for processing and re-export.

Malaysia is another country with relatively high AF-TOI. Based on the Trade Policy Review released in 2014 by the World Trade Organization (WTO), the country envisions a transformation of its agriculture sector from fragmented and small scale farms to more large-scale commercial farming. The government support measures include fertilizer

subsidy, research and development, infrastructure support, marketing services, and other extension services.

The value and share of agriculture and fisheries exports is shown Table 2. The value of agriculture and fisheries export of the Philippines has been increasing since 2000 to 2012 but recorded a decline in 2015. The value of agricultural and fisheries export in 2015 was only US\$4.8 billion, compared to roughly US\$30 billion each in Indonesia, and Thailand. Moreover, the country's share of agricultural and fisheries products to total exports is still low compared to other neighboring countries, i.e., Indonesia, Malaysia, Thailand, Vietnam.

Indonesia had the largest growth in the values of agriculture and fisheries exports from 2000 to 2015. Economic reforms in 1997-1998 removed import monopolies, licensing requirements, and export restrictions in the country (Clarete and Villamil, 2015). New laws relating, inter alia, to investment, its sanitary and phytosanitary (SPS) regime, export financing, special economic

TABLE 1. AGRICULTURE AND FISHERIES TRADE OPENNESS INDEX

Country	2000	2005	2010	2011	2012	2013	2014	2015
Cambodia	4%	3%	4%	5%	5%	6%	7%	7%
Brunei	0%	0%	0%	0%	3%	3%	4%	4%
China	2%	2%	2%	2%	2%	2%	2%	2%
Indonesia	5%	5%	5%	6%	5%	5%	6%	5%
Japan	1%	1%	1%	1%	1%	2%	2%	2%
Malaysia	9%	11%	14%	16%	14%	12%	12%	12%
Philippines	6%	6%	5%	5%	5%	5%	5%	5%
Singapore	8%	8%	7%	8%	8%	8%	8%	8%
Thailand	10%	10%	10%	12%	11%	10%	11%	11%
USA	1%	1%	1%	2%	2%	2%	2%	2%
Vietnam	14%	16%	19%	21%	19%	18%	20%	19%
EU	1%	1%	1%	2%	2%	2%	2%	2%

Source: Author's calculation from ComTrade and World Bank data

compared to other neighboring countries, i.e., Indonesia, Malaysia, Thailand, Vietnam.

As can be observed from the AF-TOI, small economies tend to be more open to trade as compared to larger economies such as China, Japan and EU. The higher value of import and export compared with GDP results in the higher the AF-TOI.

TABLE 2. AGRICULTURE AND FISHERIES SECTOR EXPORT VALUE AND SHARE

Country	Value of Agricultural Exports (\$ million)					Share of Agriculture in Total Exports (%)				
	2000	2005	2010	2012	2015	2000	2005	2010	2012	2015
Cambodia	13	29	92	223	424	1%	1%	2%	4%	5%
Brunei	0	0	0	6	7				0	0
China	14,849	26,463	47,626	61,093	68,232	6%	3%	3%	3%	3%
Indonesia	5,495	9,938	25,311	32,555	31,251	9%	12%	16%	17%	21%
Japan	2,334	3,141	5,077	4,936	5,396	0%	1%	1%	1%	1%
Malaysia	5,167	9,293	22,656	27,348	20,782	5%	7%	11%	12%	10%
Philippines	1,896	2,555	3,921	4,820	4,777	5%	6%	8%	9%	8%
Singapore	3,202	3,936	7,051	9,025	10,301	2%	2%	2%	2%	3%
Thailand	10,202	13,238	26,023	32,179	30,070	15%	12%	13%	14%	14%
USA	56,106	63,949	116,204	143,595	138,301	7%	7%	9%	9%	9%
Vietnam	3,748	6,695	14,345	20,486	22,062	26%	21%	20%	18%	14%
EU	48,257	75,011	113,563	144,742	142,114	6%	6%	6%	6%	7%

Source: Author's calculation from ComTrade and World Bank data

zones as well as in agriculture, fisheries and shipping have been enacted to improve trade and investment policies in Indonesia (WTO, 2013).

In terms of imports, as shown in Table 3 (see next page), the share of agriculture and fisheries imports to total imports of the Philippines is the highest

settling disputes arising from the applications of these agreements. The WTO was established on 1 January 1995, but its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system (WTO, 2015).

3 Summary of provisions pertaining to agriculture can be found in Tables 4 and 5.

IV. REVIEW AND ANALYSIS OF AGRICULTURE PROVISIONS IN THE PRESENT FTAS³

A. THE WORLD TRADE ORGANIZATION (WTO)

The World Trade Organization (WTO) is an international organization that provides a venue for negotiating agreements to reduce obstacles to international trade. The WTO also provides a legal framework for the implementation, monitoring and

WTO currently has 164 members, of which 117 are developing countries (WTO, 2017). The Philippines is one of the original members of the WTO and its notifications to the WTO are outstanding in a number of areas. It is signatory to the General Agreement on Trade in Services (GATS) protocols on telecommunications (Fourth Protocol) and Financial Services (Fifth Protocol), which entered into force in 2006 and 2011, respectively. However, the Philippines' notifications are lagging with respect to agriculture (special safeguards, domestic support, export subsidies and tariff quotas, subsidies and countervailing measures, and state-trading activities). As of 2012, the Philippines' most recent notification on export subsidies covers the period 2005-2007 with which in this notification it reported that no export subsidies were provided.⁴

Agriculture was first included in GATT during the Uruguay Round negotiations. The Agreement on Agriculture (AoA) is one of the most contentious issues in the Uruguay Round as GATT covered only trade in the industrial sector⁵. The AoA was successfully forced onto the agenda of the Uruguay Round through the Cairns Group.⁶ The objective of the agriculture agreement is to establish "a fair and market-oriented trading system" in agriculture by eliminating so-called "trade barriers and trade-distorting support in agriculture."

In the case of the Philippines, engagement with the WTO had shown both positive and negative impacts on its international trade performance. Economists highlighted that the AoA's mandated cutback in trade-distorting subsidies would help create a level playing field in the world market for agricultural commodities and will give Philippine agricultural products a better chance of competing with those of other countries (Bernabe and Quinsaat, 2009). Exportable commodities that showed remarkable growth were banana, shrimps and prawns, seaweeds and carrageenan, unman-

TABLE 3. AGRICULTURE AND FISHERIES SECTOR EXPORT VALUE AND SHARE

Country	Value of Agricultural Exports (\$ million)					Share of Agriculture in Total Exports (%)				
	2000	2005	2010	2012	2015	2000	2005	2010	2012	2015
Cambodia	137	191	349	528	835	10%	7%	7%	7%	8%
Brunei	0	0	0	505	511				14%	16%
China	9,431	22,188	61,015	92,155	105,410	4%	3%	4%	5%	6%
Indonesia	3,420	4,734	11,833	16,398	14,749	10%	8%	9%	9%	10%
Japan	50,429	55,675	66,419	82,070	65,265	13%	11%	10%	9%	10%
Malaysia	3,616	5,996	13,086	16,675	15,454	4%	5%	8%	8%	9%
Philippines	2,669	3,521	6,757	7,157	8,574	7%	7%	12%	11%	12%
Singapore	4,473	5,842	10,091	12,801	122,68	3%	3%	3%	3%	4%
Thailand	2,794	4,844	8,826	12,956	12,994	5%	4%	5%	5%	6%
USA	54,542	77,006	102,448	127,743	141,817	4%	4%	5%	5%	6%
Vietnam	854	2,385	7,488	9,764	14,390	5%	6%	9%	9%	9%
EU	58,828	93,031	130,598	150,611	146,654	6%	6%	6%	6%	8%

Source: Author's calculation from ComTrade and World Bank data

ufactured tobacco, and milk and cream products. Bananas, shrimps and prawns, and carrageenan enjoyed tariff cuts and, in some cases, zero tariff bindings in the Japanese, US, and EU markets.

The study of Bello (2003) however believed that the Philippines is deriving no benefits from WTO membership but incurred tremendous costs during the period of 1995 to 2003. The author also noted the country's engagement to the WTO to be a "multilateral punishment" instead of multilateral trading system. Bello further added that Philippines' engagement to WTO brought the most damaging impact on agriculture. The entry of foreign commodities facilitated by the WTO for instance, brought about displacement of significant local production and large numbers of producers particularly in the rice, corn, poultry and vegetables subsectors. Moreover, membership in WTO was unable to protect the Philippines from WTO-illegal restrictions on its exportable commodities, like tuna and bananas, imposed by trading powers such as the United States, European Union and Australia.

Seven years into the WTO-AoA, Pascual and Glipo (2002) assessed that the Philippine agriculture fared no better. On the contrary, it had seriously undermined the local economy and the country's food sovereignty, destroyed livelihoods of poor peasants and subsistence producers and retarded agricultural and economic development. The implementation of AoA in the country had succeeded in opening agriculture to cheap imports and subjecting farmers' products to unfair competition

4 WTO document G/AG/N/PHL/38, 14 November 2008.

5 WTO Primer. Retrieved from http://www.asiadhr.org/downloads/april_2005/wtoprimer.pdf. Accessed 25 January 2017.

6 The Cairns Group is a coalition of 19 developed and developing agricultural exporting countries with which Philippines is a member.

from highly subsidized products, with benefits only accruing to the big companies and traders who profited from the lower prices under Minimum Access Volume (MAV).

Export subsidies in the country may come in the form of direct payments, loans, tax breaks and other financial arrangements used by countries to support exporters. Countries are required to notify to the Committee on Agriculture the use of export subsidies as part of the agreement in AoA. Brink (2014) analyzed the variations of notifications regarding the export subsidy among countries from 2008 onwards. Some have notified up through 2013, while others lag behind by many years. Most of the countries without export subsidy commitments including the Philippines have reported that they did not provide any export subsidies either in 2008 or later years. The continued use of export subsidies remains a crucial element of some countries' support policies for certain products. In the case of the Philippines, removal of export subsidies which is considered as a trade-distorting measure will make it difficult for local producers to compete.

B. PHILIPPINES-JAPAN ECONOMIC PARTNERSHIP AGREEMENT (PJEPA)

Japan has been a major trading partner of Philippines in recent years. As of October 2016, Japan is the largest trading partner of the Philippines accounting for 20.3% of the total exports and 11.76% of total imports. PJEPA was initiated in 2002. Further negotiations for the establishments of PJEPA were launched in 2004. Thereafter, Japan and the Philippines agreed to launch an FTA to be known as the Philippines-Japan Economic Partnership Agreement (PJEPA) in Helsinki, Finland on 9 September 2006⁷.

PJEPA is a comprehensive bilateral trade and investment agreement that seeks to improve two-way market access by comprehensively eliminating or reducing barriers to trade. Agriculture is one of the major areas of cooperation specified in the Framework Agreement (FA).

PJEPA also involves effort beyond the traditional FTAs on trade in goods and services. It also includes cooperation initiatives on investment and trade facilitation as well as cooperation in small and medium enterprises (SMEs). With the aim of strengthening their economic partnership, Japan also helps the Philippines in the strengthening of management

and competitiveness of SMEs and human resource development. PJEPA has provisions for mutual recognition and conformity assessment procedures which aim to help the Filipino exporters meet the standards and requirements in Japan most specially in the sanitary and phytosanitary measures. With this, the Philippines can gain significantly from Japan's capital, technology and expertise to strengthen its capacity to meet the challenges posed by the "new age" (Yap, et.al. 2006).

However, there are still several factors that keep Philippine agricultural food and consumer export products from fully penetrating and successfully competing in the import markets of Japan. These include Japan's high tariff rates on agricultural and food products; quantitative restrictions on marine products, and complex SPS measures (Palanca-Tan, 2004). Japan puts high emphasis on food quality and safety. It remains to be highly protective of its agriculture and fishery sectors with which majority of these products are excluded from tariff elimination under PJEPA (Medalla et.al, 2010). Moreover, the complex system of SPS measures employed by Japan remains as nontariff barriers to exports from the Philippines⁸. Meanwhile, the growing presence of Japanese investments in the small-scale food and agriculture processing firms poses a great threat to domestic SMEs that accounts for 70% of the country's labor force (Glipo, 2007).

On the other hand, several studies have shown that PJEPA is mutually beneficial for both the Philippines and Japanese in terms of its effect on GDP. Using computable general equilibrium (CGE) analysis, the marginal impact on the Philippine economy was expected to range between 0.09% (Cororaton 2004)⁹ and 3.03% (Kawasaki 2003)¹⁰ in real GDP change. The small but positive impact on GDP as investigated by Cororaton (2004) was a result of better resource allocation and positive poverty alleviation effects. The elimination of tariffs on manufacturing imports from Japan together with an assumed 5% increase in prices of exports to Japan was expected to expand the manufacturing sector while the agriculture sector contracts. Total output of agriculture was expected to decline by 0.9%. Kawasaki (2003) attributes the positive projections to an increase in export and import volume in view

7 Japan-Philippines Economic Partnership Agreement (JPEPA): An Assessment. Retrieved from [https://www.senate.gov.ph/publications/PB%202007-01%20-%20Japan-Philippines%20Economic%20Partnership%20Agreement%20\(JPEPA\),%20An%20Assessment.pdf](https://www.senate.gov.ph/publications/PB%202007-01%20-%20Japan-Philippines%20Economic%20Partnership%20Agreement%20(JPEPA),%20An%20Assessment.pdf). Accessed 29 Jan 2017.

8 The Japan-Philippines Economic Partnership Agreement (JPEPA): At What Cost?. Retrieved from https://www.academia.edu/6978386/The_Japan-Philippines_Economic_Partnership_Agreement_JPEPA_At_What_Cost. Accessed 20 Jan 2017.

9 Cororaton, C. (2003). "Phil -Japan Bilateral Agreement: Analysis of Possible Effects on Unemployment, Distribution, and Poverty in the Philippines Using CGE Microsimulation Approach."

10 Kawasaki, K. (2003). "Impact of FTAs in Asia", REITI Discussion Paper Series 03-E-018, Research Institute of Economy, Trade and Industry.

of price and income effects. Yap, et.al (2006) also measured the economic gains that can be obtained from increased trade with Japan. With increased exports, inward investments and remittances, overall output (GDP) was calculated to grow from a range of 1.7-3.3%. With PJEP, Yap et.al. expected that Philippine exports to Japan will increase due to the immediate removal of tariffs on certain agricultural products consisting of shrimps and prawns, asparagus, leguminous vegetables, dried bananas, and mangoes.

Glipo (2007), on the contrary, saw that the so-called enhanced market access of Philippine products through PJEP was deceptive and was damaging to Philippine agriculture in the long-run. Glipo claimed that Philippine exports consist of only a small number of agricultural products, which Japanese corporations control the trading of. Moreover, the Japanese food market is highly protected and objections to the track of granting market access to Philippine agricultural and food products are significant. Glipo also argued that the elimination of agricultural and fishery tariffs is bound to destroy the livelihoods of small scale municipal fishers as Japan has the capacity to flood the country with their exports in some agriculture sectors.

Yap et.al. (2006) suggested that to be able to take advantage of the opportunities under PJEP, Filipino exporters put serious attention on the very sensitive considerations of the Japanese market on food quality and SPS measures, to address the weaknesses in the agriculture sector. Improving capacities on SPS measures and exchange of information and training could be actively negotiated.

C. ASEAN-KOREA COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT

In 2005, ASEAN and Korea signed the FA on comprehensive economic cooperation, and then signed four more agreements to legally set up the ASEAN-Korea Free Trade Area (AKFTA). This made Korea the second dialogue partner with which ASEAN has signed an FTA with¹¹ ASEAN and Korea have become increasingly complementary in line with their expanding areas of cooperation. However, trade barriers are still relatively high enough to protect inefficient domestic producers from effective competition in selected high-priority sectors such as Korea's agriculture and certain manufacturing sectors in ASEAN (Park et al, 2008).

The Joint Declaration on ASEAN-Republic of Korea Strategic Partnership for Peace and Prosperity recognizes the potential of cooperation in agriculture and forestry, and as such, encourages closer economic relations based on the recommendations of the ASEAN-Korea Experts Group Joint Study on the expansion of the two-way trade and investment and the enhancement of economic cooperation, especially capacity building in agriculture, fisheries and forestry. According to the respective Plan of Action (PoA) for its implementation, the areas of economic cooperation in the respective FA will be expanded, including cooperation projects in agriculture, fisheries, livestock, plantation commodities and forestry, specifically on opportunities for collaboration and technical cooperation, specifying the areas and corresponding forms of cooperation. Furthermore, in the FA, the role of technical regulations, standards and conformity assessment procedures on industry, agriculture and plantation commodities in facilitating trade, along with the importance of SPS measures in minimizing their negative effects on trade in agricultural, fishery, animal and food products, and plantation commodities, were identified along with the recognition of certain areas of cooperation.

Park et al (2012) investigated the merit of AKFTA from an economic perspective, particularly whether it will be mutually beneficial for ASEAN and Korea. The paper used the theory of economic integration and employed a CGE model to quantitatively assess the issue. The paper found that there were both costs and benefits associated with AKFTA. The CGE model revealed that trade balance will shift in favour of ASEAN, with ASEAN exports to Korea rising by 20%, and ASEAN imports from Korea dropping by 3%. Overall, ASEAN countries' bilateral trade balance with Korea will improve. AKFTA will have ASEAN's total trade balance with Korea shift from negative to positive before its formation. The CGE model showed that the Philippines, along with Singapore and Vietnam, will decrease its trade deficit. Moreover, the results from the CGE model indicated that the implementation of AKFTA will increase aggregate welfare by 0.4%, and increase real GDP by 0.9%. ASEAN as a group will experience positive welfare and output gains. For the Philippines, along with Indonesia, Thailand, and Vietnam, there will be a gain by less than 2%.

Kim (2005) meanwhile constructed the Grubel-Lloyd intra-industry trade (IIT) index¹² for Korea and selected ASEAN member countries in IT-related sectors. The numbers showed that overall, the Ko-

11 IASEAN Fact Sheet. 2011. Retrieved from <http://akfta.asean.org/uploads/docs/AKF-TA-factsheet-2011.pdf>. Accessed 16 Jan 2017.

12 Grubel, H. G. and Lloyd, P. 1975. Intra-Industry Trade: The Theory and Measurement of International Trade in Differentiated Products. London: MacMillan.

rea-Philippines bilateral trade flows ranked consistently low in terms of intra-industry trade. Using a gravity model, the paper further argued that assuming that the then-proposed AKFTA will work as with previous FTAs, trade creation in electronics will be the most significant.

D. ASEAN-PEOPLE'S REPUBLIC OF CHINA COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT

The FA on the comprehensive economic cooperation between ASEAN and China, signed in 2002, had the goal of not just eliminating tariffs, but also addressing other trade barriers that slows down the flow of goods and services, and boosting investment. This provided the legal basis for ASEAN and China to negotiate further agreements which led to the signing of the ASEAN-China Free Trade Area (ACFTA) in January 2010. Agriculture is one of those areas of cooperation specified in the FA. It must be noted however, that though ACFTA has a great potential, the implementation is still infantile relative to other well-developed FTAs. Reduction and elimination of tariffs for sensitive goods, such as agricultural products, is still restricted in ACFTA, and the progress in areas like reduction of non-tariff barriers, free trade in services, foreign direct investment, labor mobility and environmental standards, has been sluggish (Yang and Martinez-Zarzoso, 2014).

Yang and Martinez-Zarzoso (2014) used a gravity model to assess the impact of ACFTA on exports. The paper found that ACFTA leads to significant trade creation. The paper also did an analysis on disaggregated data, and found that there is a significant and positive relationship between exports and ACFTA for agricultural and manufactured goods. Furthermore, Qui et al (2007), using the Global Trade Analysis Project (GTAP) model found that ACFTA improves resource allocation efficiencies for both parties and promotes bilateral agricultural trade. Schaak (2015) used a gravity model to analyze the impact of the ACFTA on the international trade of dairy products, and concluded that the introduction of ACFTA led to both trade creation and diversion for three dairy product groups, in which trade creation dominates with respect to imports, but is overwhelmed by the trade diversion in exports. The estimated overall net trade effect is negative. Nguyen (2016) found that the ACFTA has a positive impact on the Philippines' imports. Using an extended gravity model, Sheng et al (2014) showed that the ACFTA leads to significantly larger bilateral trade flows between ASEAN and China, and these increases are mainly in ASEAN countries that have stronger industrial linkages with China. The study found that the Philippines is one of

those ASEAN member countries in which ACFTA's positive impact was more pronounced, along with Singapore, Thailand, Indonesia, and Malaysia.

E. ASEAN-JAPAN COMPREHENSIVE ECONOMIC PARTNERSHIP (AJCEP)

The framework for Comprehensive Economic Partnership between ASEAN and Japan was signed in 2005 to eliminate trade barriers and increase trade and investment flows. ASEAN and Japan negotiated further agreements that led to the signing of the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) on April 2008. The AJCEP covers trade in goods, rules of origin, SPS measures, trade in services, investment and economic cooperation¹³.

Agriculture remains one of the major areas of cooperation specified in the agreement. The PoA on AJCEP for the Joint Declaration for Enhancing ASEAN-Japan Strategic Partnership for Prospering Together further promote cooperation in the fields of agriculture, forestry and fishery in order to enhance food security, particularly through the use of new and suitable technologies and promotion of sustainable growth in these areas, capacity building for ASEAN Member States, harmonizing standards and certification on food hygiene and safety of agriculture, forestry and fishery products, as well as cooperation on Sustainable Forest Management (SFM).

Furthermore, the PoAs for the implementation of AJCEP includes providing opportunities for ASEAN young farmers to learn techniques, management and farm working ethics to develop human resources in the area of agriculture. Networking and cooperation among authorities concerned with agriculture and food experts, laboratories, agriculture and food-related academic institutions and farmer institutions as well as responsible investment in agriculture, agribusiness, agro-based industries and infrastructure development in agriculture are also some of the major provision of AJCEP. The role of technical regulations, standards and conformity assessment procedures on industry, and the importance of SPS are also some of the areas of cooperation in AJCEP to minimize their negative effects on trade in agricultural and fisheries products.

In signing the AJCEP which covers trade in goods, services and investment, the Philippines enjoys the ASEAN-wide benefit of enhanced value

¹³ Taking Advantage of ASEAN's Free Trade Agreements A GUIDE FOR SMALL AND MEDIUM-SIZED ENTERPRISES. Retrieved from https://www.iisd.org/sites/default/files/publications/ASEAN_guidebook.pdf. Accessed 16 Jan 2017.

as a regional market, attracting investments as a result and providing an important mechanism for strengthening co-operation and supporting economic stability in East Asia.¹⁴ Okabe (2015) used the gravity model to estimate the impact of ASEAN-Japan on trade in goods by sector. It was found out that despite the intra-regional production and sales networks among ASEAN countries and Japan, the impact of AJCEP appears to be limited compared to other ASEAN+1 FTAs, as there are only few positive and significant impacts of AJCEP in different sectors of ASEAN countries. For Cambodia and Philippines, AJCEP has a positive effect on capital goods while having a positive effect on consumption goods in Japan and Singapore. One possible explanation for the insignificant coefficients is the concurrent bilateral FTAs between ASEAN countries and Japan which have already formed before or at the same time as ACJEP.

The positive impact of the FTA on the Philippine agriculture seems to be limited as agricultural items constitute only a small part of total trade between the two countries. Japan also remains tight about the politics of protecting its agriculture sector making it look uncertain and unable to make a full commitment to trading relations with ASEAN. Nonetheless, with almost 95% of Philippine industrial and agricultural exports to face zero duties immediately from the implementation date, there are still some agricultural products that will benefit from either immediate or gradual elimination of tariffs; or the implementation of tariff rate quota (TRQ). These include bananas, pineapples, and shrimps and crabs, as well as cane molasses, chicken, and tuna.

F. ASEAN-INDIA COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT

India apparently realized the importance of the Southeast Asian region in its economic development, and accordingly shifted more attention to the region through what is referred to in the literature as its “Look East” policy. India signed the FA on the comprehensive economic cooperation with ASEAN in 2003 (Chandran, 2012). One of the goals of the FA was for the involved parties to enter into negotiations in order to establish an ASEAN-India Regional Trade and Investment Area (RTIA), which includes an FTA in goods, services and investment. The FA likewise specifies that agriculture, fisheries and forestry are among the sectors where cooperation is to be strengthened. This FA eventually led to ASEAN and India signing the ASEAN-India Free Trade Agreement (AIFTA).

The PoA for the implementation of the ASEAN-India Partnership for Peace, Progress and Shared Prosperity also has provisions on the enhancement of economic cooperation between the involved parties. The PoA wants to expedite the enforcement of the ASEAN-India Trade in Services and Investments Agreements, and review the ASEAN-India Trade in Goods Agreement and look closely on related obstacles, with the goal of increasing its utilization. Like its counterparts with Korea and China, this Trade in Goods Agreement affirms commitments to WTO disciplines, but deviates from them in that it specifically mentioned its retention of rights and obligations to the WTO Agreement on Agriculture in its Safeguard Measures.

The literature points to need for complementarities in trade relations for both parties to reap the benefits of the FTA. Particularly for agriculture, similar agro-climatic conditions make ASEAN and India produce similar products, and compete with each other after the FTA. There is strong apprehension in India that there will be major large scale imports of agricultural products, plantation crops and fisheries products from ASEAN countries (Chandran, 2012). Rana and Wai-Mun (2013) on the other hand stated that it is necessary for economies in South Asia to commence to a second round of “Look East” policy, namely to connect to East Asian production networks and themselves develop manufacturing and services production networks within their region. Such policies would allow both regions to benefit mutually and in a shared manner.

Banik (2014) found that complementarities exist in terms of trade in energy, consumer durables and food items, and for India to considerably benefit, there is a need to become part of East Asian production network. This study likewise remarks that the mutual recognition of standards in the India-ASEAN bilateral services agreements is crucial, particularly mentioning that India and the Philippines’ advantages in providing nursing services. Chandran (2012) made an extensive analysis on the trade complementarity between ASEAN and India, particularly in fisheries. The study established that export intensity index (EII) and import intensity index (III) showed there is incentive for India to improve trade with some ASEAN countries particularly the less developed member economies. India’s EII for the Philippines was revealed to be fluctuating over the years 1990 to 2007, while the III has been consistently below unity over the same years. The revealed comparative advantage for food products showed that the Philippines is among the countries where

¹⁴ Q&A Primer: Understanding JPEPA. Retrieved from http://www.philexport.ph/c/document_library. Accessed 16 Jan 2017.

there is comparative disadvantage, along with Brunei Darussalam, Cambodia, and Singapore. The study nonetheless found that the Philippines has comparative advantage in live fish, frozen fish, crustaceans, and mollusks.

Another extensive study was undertaken by Sikdar and Nag (2011). The paper employed a general equilibrium model using the GTAP database, and several simulations were made of India's trade liberalization with ASEAN. The simulation results suggest that post-FTA, India's exports to ASEAN increase substantially, with the largest going to the Philippines, Thailand, Cambodia, Vietnam, Malaysia, and Lao People's Democratic Republic (PDR). India, on the other hand, suffers welfare loss due to both allocative inefficiency and negative terms of trade effect. The Philippines is among the countries that do not enjoy welfare gains, along with Cambodia and Lao PDR.

G. ASEAN-AUSTRALIA-NEW ZEALAND FREE TRADE AGREEMENT

In November 2004, ASEAN, Australia, and New Zealand agreed to launch negotiations for an FTA to be known as the ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) (New Zealand Ministry of Foreign Affairs and Trade, 2009). This is the first plurilateral agreement for ASEAN and Australia, and also the first region-to-region engagement of ASEAN¹⁵. AANZFTA seeks to eliminate tariffs on 99% of exports to key ASEAN markets by 2020, which represent about US\$50 million of annual duty savings based on levels of trade when it was signed. Furthermore, AANZFTA allow for “cumulation,” which means that commodities from a party used in products made in another party are considered as local content.¹⁶ The AANZFTA also explicitly mentions the elimination of all forms of export subsidies for agricultural goods destined for the parties, and as with India, retains rights and obligations under WTO Agreement on Agriculture.

The PoAs for both the implementation of the ASEAN-Australia Comprehensive Partnership and the ASEAN-New Zealand Strategic Partnership both specify guidelines for upholding the AANZFTA. Both PoAs point to the AANZFTA Economic Cooperation Support Programme (AECSP), which is intended to assist ASEAN execute the AANZFTA. This is in connection to the management and pursuit of work components of AANZFTA's Economic

Cooperation Work Program (ECWP), which includes Rules of Origin (RoO) and tariff commitments; SPS measures; standards, technical regulations and conformity assessment procedures; services; investment; Intellectual Property Rights (IPRs); sectoral integration; customs; and competition policy. The PoAs promote strengthening agricultural markets and improving linkages and cooperation between related agriculture authorities for further agricultural innovation and accessibility, sustainable agricultural productivity, food security, and promotion of responsible fishing practices.

According to the Department of Trade and Industry- Bureau of International Trade Relations (DTI-BITR), the AANZFTA's importance as far as the Philippines is concerned lies in its tendency to put the country on equal footing with major export competitors, most notably Thailand, in terms of the tariff rates that both Australia and New Zealand impose. AANZFTA also will promote product complementation, as tariff reduction encourages lower-priced manufacturing inputs (Universal Access to Competitiveness and Trade, 2009). Furthermore, the Philippine Exporters Confederation¹⁷ notes that the provisions of AANZFTA on Non-Tariff Barriers (NTBs) would ease the entry of food exports to Australia, as the latter's strict quarantine procedures has been holding back the Philippines' food exports to Australia. The Philippines has been raising concerns over the delays in Australia's risk analysis on fruit exports.¹⁸ In line with the AANZFTA, New Zealand's Ministry of Foreign Affairs and Trade also see benefits from cooperating more closely with the Philippines on labor and environment (New Zealand Ministry of Foreign Affairs and Trade, 2009).

In a study done by the Centre for International Economics, it was estimated that the gains from forming the ASEAN Free Trade Area-Australia New Zealand Closer Economic Relations Trade Agreement (AFTA-CER) are estimated to be US\$48.1 billion in net present value terms over the period 2000 to 2020 (Davis et al, 2000). The Philippines, Indonesia, and Thailand, are set to gain more than the other ASEAN countries. The reason for this is that these countries are making more extensive liberalization efforts relative to other ASEAN members, e.g. Singapore, due to the initial magnitude of barriers and direction of trade. Scollay and Trewin (2006)

15 ASEAN Fact Sheet. 2012. Retrieved from http://aanzfta.asean.org/uploads/publications/Asean-Fact_Sheet%2027_Feb_09_FINAL.pdf. Accessed 19 Jan 2017.

16 New Zealand Ministry of Foreign Affairs and Trade. 2009. Retrieved from <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/aanzfta-asean-australia-new-zealand-fta/>. Accessed 19 Jan 2017.

17 Philippine Exporters Confederation. 2010. “A Brief on the Philippines' and ASEAN Free Trade Agreements.” Retrieved from http://philippinesintheworld.org/sites/default/files/A%20Brief%20on%20the%20Philippines%20and%20ASEAN%20Free%20Trade%20Agreements_Feb%202010.pdf. Accessed 23 Jan 2017.

18 New Zealand Ministry of Foreign Affairs and Trade. 2009. Retrieved from <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/aanzfta-asean-australia-new-zealand-fta/>. Accessed 19 Jan 2017.

did a comparative analysis of FTAs completed or currently negotiated by Australia and New Zealand with ASEAN countries, with the goal of drawing implications for AANZFTA. The paper noted that AANZFTA could either dilute or magnify the spaghetti bowl effects¹⁹. The paper suggested that a more consistent approach to rules of origin is likely to be important in minimizing spaghetti bowl effects, and further noted that this is complicated because of the differences in the rules of origin in existing FTAs, and because the parties involved have divergent preferences.

H. ASEAN FREE TRADE AREA (AFTA)

The ASEAN Free Trade Area was signed at the 4th ASEAN Summit in Singapore in 1992²⁰. AFTA aims to increase the competitive advantage of ASEAN as a vital step in the liberalization of trade through the elimination of tariffs and non-tariff barriers among the ASEAN members (ASEAN, 2012). The Common Effective Preferential Tariff (CEPT) Scheme was initiated in 1992 as the primary mechanism for achieving the goals of AFTA. The reduction and elimination of tariff is done gradually over a 15-year period depending on the level of sensitivity of the products. The goal of the Scheme is to reduce tariffs on all manufactured goods to 0-5% by the year 2008.²¹ The CEPT was replaced by ASEAN Trade in Goods Agreement (ATIGA) in 2010, whose main objective was to establish an integrated market and production base with a free flow of goods by 2015. ATIGA comprises several new elements to ensure the realization of a free flow of goods within ASEAN, including tariff reductions, removal of nontariff barriers, rules of origin, trade facilitation, customs, standards and conformance, and sanitary and phytosanitary measures.²²

For the Philippines, several studies point to substantial negative effects on agriculture due to AFTA. The business sector reported closing down or cutting of outputs due cheaper or better imports from ASEAN and other markets while for the

agriculture sector, the most affected industries include garlic, onion, sugar, fruit, corn, potato, coffee, vegetable, and wood industry (Formanes, 2006). By the mid-1990's the country had turned from a net agricultural exporter to a net importer. Rice despite being included in the Highly Sensitive Listing enjoying high tariff rates continues to lag behind in terms of competitiveness (Formanes, 2006). The Philippines posted the highest expenses at US\$170/ton compared to Thailand (US\$70-103) and Vietnam (US\$79). Japan and South Korea had the highest production costs at US\$2,290 and US\$868 respectively in a per ton basis (Alarde-Regalado, 2005). Clarete and Villamil (2015) also reports a possible trade deflection on corn of Vietnamese exporters as the Philippines do not meet the rules of origin under ATIGA.

On the other hand, ASEAN as a bloc has made steady progress on its internal economic integration through the launch of the AFTA (Mashihiro and Kanda, 2015). Recent data from ASEAN show that ASEAN exports and imports of agricultural products increased steadily by around 9% per annum on average during 1993-2013, with exports amounting to US\$122 billion, while import stood at US\$79 billion or around 60% of export, in 2013. Moreover, trade balance of agricultural products showed an increasing trend in all ASEAN major trade partners.

The Philippines lags behind its neighboring ASEAN countries in agricultural performance, and simulations by Clarete and Villamil (2015) point toward an increase in both imports and exports as an impact of increased regional integration. brought about by tariff reforms. They recommend diversification and product quality upgrading; public provision of adequate infrastructure, general services, Research and Development (R&D) and extension programs; and modernization of the country's value chains in the agriculture sector in order to reap the potential benefits and minimize the adverse effects of a more integrated ASEAN community.

19 A phenomenon of international economic policy that refers to the complication which arises from the application of domestic rules of origin in the signing of free trade agreements across nations.

20 ASEAN Fact Sheet. 2012. Retrieved from http://asean.org/uploads/publications/Asean-Fact_Sheet. Accessed 19 Jan 2017.

21 Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area. Retrieved from http://www.asean.org/Economic/AFTA/Common_Effective_Preferential_Tariff/Agreement.pdf. Accessed 19 Jan 2017.

22 ASEAN Trade in goods agreement Retrieved from <http://www.asean.org/wpcontent/uploads/images/2013/economic/afta/atiga%20interactive%20rev4.pdf>. Accessed 19 Jan 2017.

TABLE 4. AGRICULTURE PROVISIONS IN THE PRESENT FTAS**A. WTO²³**

- Agreement on Agriculture
 - ◆ Reduction of tariff to a minimum of 15% for each tariff line and by a simple average of 36% for all tariff lines for developed countries and a minimum of 10% for each tariff line and by a simple average of 24% for all tariff lines for developing countries
 - ◆ Reduction of domestic subsidies by 20% of aggregate measure of support (AMS) on developing countries and 14% on developed countries except when AMS falls below 10% of the total value of production of the commodity provided the support
 - ◆ Reduction of export subsidies reduce number of agriculture products receiving export subsidies by 21% and reducing the total amount spent on export subsidies by 36% for developed countries; reduce number of agriculture products receiving export subsidies by 14% and reducing the total amount spent on export subsidies by 24% for developing countries
- Agreement on Technical Barriers to Trade (TBT)- encourage the development of international standards and conformity assessment systems to ensure that technical regulations and standards, including packaging, marking and labelling requirements, and procedures for assessment of conformity with technical regulations and standards do not create unnecessary obstacles to international trade.
- Sanitary and Phytosanitary (SPS) Agreement and Food Safety- aims at reducing different levels of protection adopting scientifically based international standards to protect human, animal or plant life or health. These standards aim to promote trade in a non-discriminatory way by setting detailed rules on where trade restrictions may be justified.
- Countervailing duties- Measures to offset the effect of subsidization by the government of the exporting country that causes or threatens material injury to a domestic industry
- Emergency protection- Temporary protection in cases where imports of a product cause or threaten serious injury to domestic producers of directly competitive products. A safeguard measure may not be applied to exports originating in any individual developing country whose share of the relevant imports of the country imposing the measure is less than 3%. But this exemption does not apply if the collective import share of the developing countries with individual import shares below 3% is more than 9%.
- Infant industries- Measure that allows government assistance for economic development, allowing import restrictions to protect infant industries in order to implement programs and policies of economic development designed to take protective or other measures affecting imports
- Dumping and Anti-dumping Measures in Agriculture- If products are exported at a price lower than the price normally charged on the home market of the exporter, the exporter is considered to be "dumping". Extra import duty on the specific product from the particular exporting country is imposed in order to bring its price closer to the "normal value" and to remove the injury to domestic industry in the importing country
- Special Safeguard Measures- allows the imposition of an additional customs duty, over and above the bound customs duty on agricultural products if there is surges in the volume of imports and falling import prices

B. JAPAN-PHILIPPINES ECONOMIC PARTNERSHIP AGREEMENT (JPEPA)²⁴

- The agreement in Trade in Goods is to eliminate or reduce tariffs on 95% of industrial and agricultural products.
- The products are placed under several staging categories with category A subjected to immediate tariff elimination while categories B3, B5, B7, B10, B11, and B15 shall be phased out in four, six, eight, eleven, and sixteen equal annual instalments, respectively, from the date the Agreement came into effect. Product category X are excluded from any tariff concession while product category R will be subject to renegotiation.
- Rules of Origin (RoO)- Determine originating goods for which preferential tariff treatment will be accorded.
 - ◆ wholly obtained rules- wholly obtained or produced entirely in the party
 - ◆ change in tariff classification (CTC) rules- a certain product falls under HS classification different from the HS classification applicable to any of the materials used is considered to be an originating good because the change in tariff classification represents that the used materials have undergone sufficient manufacturing or processing.
 - ◆ value-added rule -requires that the qualifying value content (QVC) of a good should not be less than the percentage specified by the rule for that good.
- Emergency Measures - This measure suspends or increase the rate of customs duty on the originating good if there is an increase in the quantity imported relative to domestic production that may pose a substantial injury, or threat to domestic industry
- Customs Procedures will provide information exchange and cooperation to facilitate trade through simplified and harmonized customs procedures, including maximizing the use of Information Communication Technology (ICT).

23 United Nations Conference on Trade and Development. Retrieved from http://unctad.org/en/docs/edmmisc232add32_en.pdf. Accessed 20 Jan 2017

24 Doing Business in Free Trade Areas. Retrieved from <http://www.pttc.gov.ph/attachments/article/190/mac-pjepa-ajcep.pdf>. Accessed 20 Jan 2017.

- Paperless Trading will exchange information on best practices and encourage cooperation between private entities. Competition will promote increased vigilance and increased attention to the protection of fair competition; measures to promote competition by addressing anti-competitive activities and cooperation in the field of competition.
- Improvement of the Business Environment will encourage cooperation to improve the business environment of both countries. A framework of consultations will be set up to ensure more efficient and timely resolution of issues affecting Japanese and Filipino enterprises in both countries.
- Follows Subsidies and Countervailing Measures, Dumping and Antidumping Measures, TBT and SPS measures of WTO

C. ASEAN-KOREA FREE TRADE AREA (AKFTA)²⁵

- The Trade in Goods allows 90% of the products being traded between ASEAN and Korea to enjoy duty-free treatment.
- The agreement in Trade in Goods is grouped into three cases; the normal track, sensitive track, and highly sensitive list.
 - ◆ Normal track: covers 90% of all the goods under agreement; will have its tariff be eliminated by 2012 for ASEAN6 and the People's Republic of China (PRC). Cambodia, Myanmar, Vietnam, and Lao PDR (CMVL) is given 8 more years after ASEAN6 to follow a similar tariff reduction scheme. (Viet Nam is given 6 more years).
 - ◆ Sensitive track: have a ceiling for the number of tariff lines or volume of imports that each party place in sensitive list; tariff reduction will start in 2012, to reach 0–5% tariff levels by 2016 for ASEAN6 and the Republic of Korea, by 2021 for Viet Nam, and by 2024 for Cambodia, Lao PDR, and Myanmar (CLM).
 - ◆ Highly sensitive list: there is also a ceiling for the number of tariff lines or volume of imports based on the group of tariff line schedules (Group A and group C: 50% tariff rate capping, Group B: tariff reduction by 20%, Group D: subject to tariff rate quotas (TRQ) and; Group E: exempted from tariff concession). Tariff reduction will start in 2012, to reach 3% tariff levels by 2016 for ASEAN6 and the Republic of Korea, by 2021 for Viet Nam, and by 2024 for CLM.
- Rules of Origin (RoO)- a product is "originating" and qualified for preferential tariff treatment if: (1) the product is wholly produced within ASEAN-Korea area or (2) at least 40% of the value of the original materials used to make the good originated within the ASEAN-Korea free trade area.
- Follows technical barriers to trade (TBT), special safeguard measures, sanitary and phytosanitary (SPS) measures, and anti-dumping measures of WTO

D. ASEAN-CHINA FREE TRADE AREA (ACFTA)²⁶

- The agreement in Trade in Goods in ACFTA agreement covers 90% of the value all goods traded between China and the ASEAN nations reduced or eliminated tariffs
- Allows countries to categorize a certain number of products as normal track or sensitive track.
 - ◆ Normal track: tariff will be eliminated by 2012 for ASEAN6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) and the PRC.
 - ◆ Sensitive track, tariff reduction will start in 2012, to reach 0–5% tariff levels by 2018. ASEAN4 is given 5 more years after ASEAN6 to follow a similar tariff reduction scheme.
- Rules of Origin (RoO)- a product is described as "originating" and eligible for preferential treatment if at least 40% of its contents or value of its contents originated from the country in question. A product is also "originating" from the country in which it was assembled so long as at least 40% of the product's content originated from within the ASEAN-China free trade area.
- Follows technical barriers to trade (TBT), dumping and anti-dumping measures, special safeguard measures, sanitary and phytosanitary (SPS) measures of WTO

E. ASEAN-JAPAN COMPREHENSIVE ECONOMIC PARTNERSHIP (AJCEP)²⁷

- Japan formulated different agreements with ASEAN members. Most of tariff will reduced or eliminate immediately to 0–5% in 11 years for ASEAN6. ASEAN4 is subject to 18 years to follow a similar scheme by 2026. Japan has a 16-year scheme to eliminate tariff to 0 or reduce to a low line less than 20%. There are also some specific items in the list which are excluded from any tariff commitment.
- Rules of Origin (RoO) - to qualify for preferential tariff treatment product must be produced within the country and components originate from within the ASEAN-Japan free trade area; product was assembled within the trade area and at least 40% of the value of its materials originated in the ASEAN-Japan trade area.
- Follows technical barriers to trade (TBT), subsidies and countervailing measures, sanitary and phytosanitary (SPS) measures, and anti-dumping measures of WTO

²⁵ AKFTA Seminar Kit. 2013. Retrieved from [http://akfta.asean.org/uploads/docs/FINAL%20-%20ASEAN-Korea_FTA\(Size-A5-Final\)-03JANC2013.pdf](http://akfta.asean.org/uploads/docs/FINAL%20-%20ASEAN-Korea_FTA(Size-A5-Final)-03JANC2013.pdf) Accessed 16 Jan 2017.

²⁶ Building the ASEAN Community ASEAN-China Free Trade Area: Building Strong Economic Partnerships. Retrieved from <http://www.asean.org/storage/images/2015/October/out-reach-document/Edited%20ACFTA.pdf>. Accessed 19 Jan 2017.

²⁷ Agreement on Comprehensive Economic Partnership Among Japan And Member States Of The Association Of Southeast Asian Nations. Retrieved from <http://www.mofa.go.jp/policy/economy/fta/asean/agreement.pdf>. Accessed 27 Jan 2017.

F. ASEAN AND INDIA SIGNING THE ASEAN-INDIA FREE TRADE AGREEMENT (AIFTA)²⁸

- Under the Trade in Goods Agreement, the Schedules of Tariff Commitments has been drawn up by all the member countries, indicating product-wise tariff concessions or no concessions.
- The tariff commitments of India are divided in the three categories; tariff elimination, tariff reduction and negative/exclusion list.
 - ◆ Tariff elimination, Normal track 1 and 2 will eliminate tariff through annual tariff cuts 1 January 2010 and 31 December 2016.
 - ◆ Tariff reduction, the sensitive track will have tariff reduction to 5% through annual cuts between 1 January 2010 and 31 December 2016. Highly Sensitive Track will have tariff reduction on selected agricultural products through annual cuts between 1 January 2010 and 31 December 2019.
- Negative list/exclusion list, no tariff concession is offered for 1,297 products.
- Rules of Origin (RoO)- to qualify for preferential tariff treatment product must be: (1) the product is wholly produced within ASEAN-Indian area or (2) at least 35% of the value of the original materials used to make the good originated within the ASEAN-Indian free trade area.
- Follows technical barriers to trade (TBT), subsidies and countervailing measures, anti-dumping measures, sanitary and phytosanitary (SPS) measures of WTO

G. ASEAN-AUSTRALIA-NEW ZEALAND FREE TRADE AREA (AANZFTA)²⁹

- The trade in goods provision includes eliminating tariffs between 90-100% of ASEAN member countries (Singapore, Malaysia, Thailand, Indonesia, Brunei, Philippines) total tariff lines by 2025. On the other hand, Vietnam, Cambodia, Lao PDR, and Myanmar will eliminate tariffs on at least 80-90% of their total tariff lines by 2024 (the latest) and Australia and New Zealand will eliminate tariffs on 100% of their product lines by 2020.
- Australia secured a number of tariff reduction and elimination commitments that are of direct benefit for the Australian agriculture sector. These include but are not limited to:
 - ◆ Meat and livestock: most meat and live bovine animals phased to zero.
 - ◆ Dairy products: all lines phased to zero except some in Indonesia, Malaysia and the Philippines
 - ◆ Fish: majority phased to zero and remaining lines 5% or less.
 - ◆ Wine and spirits: Phased to zero in the Philippines by 2015 and in Vietnam by 2022, excluded from tariff commitments by Indonesia and Malaysia.
 - ◆ Wool and cotton: all lines bound or phased to zero
- Rules of Origin (RoO)- similar with AJCEP and AKFTA
- Follows technical barriers to trade (TBT), sanitary and phytosanitary (SPS) measures, and anti-dumping measures of WTO

H. ASEAN FREE TRADE AREA (AFTA)³⁰

- The CEPT scheme covers all manufactured and agricultural products but it allows its ASEAN members to group its products from the CEPT in three cases: temporary exclusions list (TEL), sensitive agricultural (SL) products list, and general inclusion (GI) list.
 - ◆ Temporary exclusions list (TEL)- represent about 15.04% of all tariff lines in ASEAN; Protected temporarily by a delay in tariff reductions to 0%-5% that has started in 1996.
 - ◆ Sensitive agricultural (SL)- makes up 0.58% of all tariff lines in ASEAN; required to reach tariffs of 0%-5% by 2010.
 - ◆ General inclusion (GI) list- representing 82.78% of all tariff lines in ASEAN; zero tariff rates on all imports by 2010 for the original six ASEAN member states and by 2015 for the CMLV countries; reduces or eliminate tariff gradually, and there is a longer time frame for ASEAN4 countries. ASEAN6 reached 0-5% tariff in 2003, Viet Nam in 2006, Lao PDR and Myanmar in 2008, and Cambodia in 2010.
 - ◆ General exemption (GE) list - permanently excluded from tariff reduction protection of national security, public morals, human, animal or plant life and health and articles of artistic, historic and archaeological value.
- For the Philippines, many of its agricultural products have maintained a 5% tariff. However, rice and sugar have consistently applied high ASEAN tariffs, 40% and 38%, respectively.
- Rules of Origin (RoO): to qualify for preferential tariff treatment, product must be wholly produced or obtained in the exporting country; or at least 40% single country or ASEAN cumulative content.
- Trade Remedy Measures- Follows safeguard measures, dumping and anti-dumping measures and countervailing duties of WTO.
- Follows technical barriers to trade (TBT), sanitary and phytosanitary (SPS) measures of WTO

28 Agreement On Trade In Goods Under The Framework Agreement On Comprehensive Economic Cooperation Between The Republic Of India And The Association Of Southeast Asian Nations. Retrieved from <http://commerce.gov.in/trade/ASEAN-India%20Trade%20in%20Goods%20Agreement.pdf>. Accessed 29 Jan 2017.

29 ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) Primer. Retrieved from http://www.philexport.ph/barterfil-philexport-file-portlet/download/policy_marketdev/FTA_region-al_free_trade/asean_australianewzealand.pdf. Accessed 29 Jan 2017.

30 Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area. Retrieved from http://www.asean.org/Economic/AFTA/Common_Effective_Preferential_Tariff/Agreement.pdf. Accessed 19 Jan 2017.

TABLE 5. SUMMARY OF PROVISIONS FOR AGRICULTURE IN THE PRESENT FTAs

Specific Provisions/ Measures	WTO	JPEPA	AKFTA	ACFTA	AJCEP	AIFTA	AANZFTA	AFTA
Tariff (Market Access)	eliminated or reduced duties	eliminated or reduced duties	eliminated or reduced duties	eliminated or reduced duties	eliminated or reduced duties	eliminated or reduced duties	eliminated or reduced duties	eliminated or reduced duties
Non-Tariff Measures								
Special Safeguard Measures/Trade Remedies	☒	☒	☒	☒	☒	☒	☒	☒
Countervailing Duties	☒	☒	☒	☒	☒	☒	☒	☒
Dumping and Anti-dumping measures	☒	☒	☒	☒	☒	☒	☒	☒
Emergency Measures	☒	☒	☒	☒	☒	☒	☒	☒
Sanitary and Phytosanitary Measures	☒	☒	☒	☒	☒	☒	☒	☒
Technical Barriers to trade	☒	☒	☒	☒	☒	☒	☒	☒
Tariff Rate Quotas (TRQs)	☒	WTO bound TRQs	WTO bound TRQs	WTO bound TRQs	WTO bound TRQs	WTO bound TRQs	WTO bound TRQs	WTO bound TRQs
Quotas	☒	quantities under TRQ applied	quantities under TRQ applied	quantities under TRQ applied	quantities under TRQ applied	quantities under TRQ applied	quantities under TRQ applied	quantities under TRQ applied
Export subsidies	☒	☒	☒	☒	☒	☒	☒	☒
Trade Facilitation	☒	☒	☒	☒	☒	☒	☒	☒
Intellectual Property Rights	☒	☒	☒	☒	☒	☒	☒	☒
Rules of Origin	no specific provisions on rules of origin	Wholly obtained, Qualifying value content, varies under which HS classification	Wholly obtained or 40% Regional Value Content (RVC)	Wholly obtained or 40% RVC	Wholly obtained or 40% RVC	Wholly obtained or 35% RVC	Wholly obtained or 40% RVC	Wholly obtained or 40% RVC

I. TRADE BARRIERS ON PHILIPPINE FARM EXPORTS

While tariffs are generally low or down to zero, Philippine merchandise exports continue to face various non-tariff barriers that restrict access to a number of markets. The Philippines faces several non-tariff barriers on its exports, many of them pertaining to sanitary and phytosanitary measures (SPS) imposed on its agriculture and food exports.

NTBs in Japan include tariff quotas, variable charges, and health measures. Certain items may

require a Japanese import license. Japan has a Food Sanitation Law that governs standards and SPS measures. This law covers requirements including correct packing, marking, labeling, maximum residue limit (MRL) on certain pesticides, health certification, material and manufacturing process certification, and other pertinent documentations necessary for smooth customs clearance in Japan (Pasadilla, 2007). Japan also has an import quota on fish and a restrictive food additive. Import quota items also require an import

TABLE 6. SUMMARY OF NTBs FACED BY PHILIPPINE AGRICULTURE

Country	Non-Tariff Barriers (NTBs)
Japan	tariff quotas; strict health measures; import licenses; the Food Sanitation Law that covers requirements including MRL on certain pesticides, Japanese labeling, health certification, material and manufacturing process certification, and other pertinent documentations necessary prior to importation
China	sanitary and phytosanitary barriers; intellectual property rights and fear of disclosure of information on trade secrets; “non-transparent” measures and discriminatory treatment; strict technical measures such as testing, inspection, and quarantine requirements; and provision of injurious subsidies to its domestic industries
Korea	tariff quotas; sanitary and phytosanitary barriers, strict quarantine requirements and procedures on agriculture and fishery products
India	aggressively imposes anti-dumping and countervailing measures; procurement measures that allows a price preference for local suppliers in government contracts and discriminates against foreign suppliers
Australia and New Zealand	strict biosecurity; strict labeling requirements for processed food; rigorous import licensing requirements; presence of commodity boards that opposes importation of agricultural products in their country

license and additional documents necessary as proof of compliance with relevant Japanese laws, standards, and regulations.

Agricultural and processed food exporters also have similar experience on strict biosecurity in Australia and New Zealand (Avila, 2005). The Australian Quarantine and Inspection Service (AQIS) has “strict and protracted” quarantine procedures that require an approved risk assessment before any importation can take place. New Zealand also imposes a strict biosecurity regime. In terms of seafood and processed seafood products, Philippine exporters also face technical barriers from New Zealand and Australia. The labeling requirements for processed seafood exports of New Zealand are too cumbersome to follow, while Australia also continues to implement rigorous import licensing requirements. The presence of commodity boards also pose significant barriers to entry. For example, the Australian Banana Growers Council (ABGC)

has long been opposing the entry of Philippine bananas in its domestic market.

India imposes anti-dumping and countervailing measures to protect domestic manufacturers from dumping which, in some cases, have raised concerns regarding transparency and due process. GlobalTrade (2010) reported that India seems to have aggressively increased its application of the antidumping law. It was also reported that the Indian government allows a price preference for local suppliers in government contracts that discriminates against foreign suppliers. In terms of standards and labelling certifications, the Indian government has its National Standards body which is the Bureau of Indian Standards (BIS) and the Food Safety and Standards Authority of India that lay down standards for articles of food and regulating manufacturing, processing, distribution, sale and import of food.

Korea imposes several technical barriers to trade (TBT) that include the following: transparency, due process, public comment/appeals procedures, new standards and labeling requirements, and timely and written administrative procedures. Korea has a strict regulatory system for agricultural biotechnology and is in the process of shifting to a new “positive list” system for agrochemical residues. Korea will no longer allow imports of food with agrochemical residues unless listed, or approved, for the commodity in question and a MRL has been established (US 2015 National Trade Estimate Report). Korea also imposes import policies such as origin verifications to determine whether products meet rules of origin.

For Philippine exports to China, exporters lament “non-transparent” measures and discriminatory treatment. Moreover, the certification process also takes a long time while many other foreign exporters into China fear intellectual property and other information disclosures to the public, wherein government officials illegally disclose companies’ trade secrets. China has also continued to provide a range of injurious subsidies to its domestic industries, some of which appear to be prohibited under WTO rules. These can be addressed through countervailing duties.

These NTBs imposed by different countries impede or delay doing business most especially when the product being traded is perishable agricultural commodities.

V. REVIEW AND ANALYSIS OF AGRICULTURE PROVISIONS IN THE NEW GENERATION FTAS ³¹

A. ASEAN-HONG KONG FTA (AHKFTA)

Hong Kong and ASEAN are major trading partners. In 2015, Hong Kong was the 7th largest trading partner of ASEAN while ASEAN was the second largest trading partner of Hong Kong. The total bilateral merchandise trade between Hong Kong and ASEAN amounted to more than US\$ 100 billion, representing 10.8% of Hong Kong's global merchandise trade in 2015. The average annual growth rate in bilateral trade between Hong Kong and the ASEAN nations was 3.2% from 2011 to 2015.

In 2015, the major domestic export items of Hong Kong to the ASEAN nations were tobacco and tobacco manufactures; metalliferous ores and metal scrap; and inorganic chemicals. Singapore, Viet Nam and Thailand, the top three markets for Hong Kong products among ASEAN Member States, in 2015 accounted for 28.5%, 24.5% and 16.0% respectively of Hong Kong's total domestic exports to ASEAN (Hong Kong Trade and Industry Department, 2017). The major import items of Hong Kong from the ASEAN nations included electrical machinery, apparatus and appliances, and electrical parts, office machines and automatic data processing machines, and telecommunications and sound recording and reproducing apparatus and equipment. Singapore, Malaysia and Thailand were the top three suppliers of Hong Kong among all ASEAN Member States comprising 44.5%, 17.0% and 15.4% share of Hong Kong's total imports from ASEAN respectively.

Hong Kong and the Member States of the ASEAN (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) marked the formal commencement of the Free Trade Agreement on July 11, 2014 in Hong Kong. The Agreement covers elimination or reduction of tariffs; rules of origin; liberalization of trade in services; liberalization, promotion and protection of investment; and intellectual property co-operation. It is expected to enhance trade and investment flows between the two economies, generate new opportunities for businesses and boost the economic growth in the long term.

The final text on the provisions and specific measures for the ASEAN-Hong Kong FTA has not been finalized yet. But Hong Kong is a member of the WTO and the cornerstone of Hong Kong's economic policy in free enterprise and free trade is the WTO. With the open nature of Hong Kong's economy, the

development of international trade policy in line with the WTO is of vital importance to Hong Kong due to the possible impact on external trade, and its knock-on effect on its industry and employment.

Hong Kong has existing FTAs with China (Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA)), New Zealand (Hong Kong-New Zealand CEPA), Chile (Hong Kong-Chile FTA) and European Free Trade Association (EFTA) (Hong Kong-EFTA FTA). It also has FTAs under negotiations with Macao (HK-Macao CEPA), Georgia (Hong Kong-Georgia FTA), and Maldives (Hong Kong-Maldives FTA) ³². Trade in basic agricultural products is governed by separate bilateral agricultural agreements between Hong Kong and the individual countries. In general, all industrial goods as well as fish and certain marine products of Hong Kong origin enjoys a duty-free entry into the partner countries. While on processed agricultural products, Hong Kong origin will also enjoy tariff concessions when imported into the partner countries. In return, Hong Kong is also committed to granting tariff free access to all products originating in partner countries. There are no import tariffs, but excise duties are levied on four types of commodities, namely liquors, tobacco, hydrocarbon oil and methyl alcohol, for domestic consumption, irrespective of whether they are imported or locally manufactured.

Hong Kong also commits to bind the provision on preferential tariff treatment if partner countries comply with the relevant origin rules and fulfill the requirements. The good is "originating" and can enjoy zero tariff if the goods are wholly obtained or the goods have undergone substantial transformation in partner countries. In addition to the rights and obligations of the parties, Hong Kong also follows SPS and TBT measures under WTO. The trade remedy measures on anti-dumping, countervailing and safeguard measures are also followed to identify whether additional duties on top of tariffs and other charges or other import restrictions on certain imports must be imposed.

This paper has so far not been able to find literature on the potential effects of AHKFA on the Philippines. However, Hong Kong is an important entry point to mainland China. Given that a significant part of Philippine-China trade goes through Hong Kong, and with its free port that does not levy any customs tariff, as well as limited excise duties, Hong Kong remains a potentially huge market for food and other consumer items from the Philippines.

31 Summary of provisions pertaining to agriculture can be found in Tables 7 and 8

32 Hong Kong Trade and Industry Department (2017). Hong Kong's Free Trade Agreements (FTAs). Retrieved from <https://www.tid.gov.hk/eindex.html> Accessed 19 Mar 2017.

B. PHILIPPINES-EUROPEAN UNION (EU) FREE TRADE AGREEMENTS (PHILIPPINES-EU FTA)

The European Union (EU) had begun to pursue bilateral free trade agreements with individual ASEAN members after a slow progress in EU-ASEAN negotiations (Briones and Galang, 2014). The EU had negotiations with Singapore and Malaysia and recently with Vietnam. In December 2015, the negotiations for the Philippine-EU Free Trade Agreement was launched. The FTA will be based on the Partnership and Cooperation Agreement that was signed in 2012. The agreement covers a broad range of issues, including tariffs, non-tariff barriers to trade, trade in services and investment, as well as trade aspects of public procurement, intellectual property, competition and sustainable development.

The EU is currently the Philippines' fourth largest trading partner, third largest import source, and fourth largest export market. It is also an important source and destination for Philippine trade. The trade between the Philippines and EU represents more than 12% of overall Philippines goods trade in 2015. These economies represent nearly 12% of overall Philippine exports and 11% of Philippine imports.

Presently, there is no final text yet on the provisions of Philippine-EU FTA but the framework for the partnership has been established based on the Partnership and Cooperation Agreement between EU and Philippines. The Philippines has been a beneficiary of the EU's "Generalized Scheme of Preferences" (GSP)+ that enables developing countries to have full or less duties on their exports to the EU. The Philippines was able to export, tariff-free, over 6,400 products (66% of all product tariff lines) to the EU duty-free entry. In 2015, with the EU-GSP+ in force, Philippine exports to the EU market grew by 27% as compared with total figures recorded in 2014 (Magkilat, 2016). Under the EU-GSP scheme, the major exports of the Philippines to EU include crude coconut oil, canned tuna, pneumatic tires, spectacle lenses, relays, preserved fruits, board and similar cabinets for electric control or the distribution of electricity, and ballast for discharge lamps (Remo, 2016).

A CGE analysis of Briones and Galang (2014) confirms that the overall impact of Philippines-EU FTA in the agricultural sector is positive but limited. A Philippines-EU FTA will lead to an overall increase in agricultural output and an increase in consumption of agricultural products due to a decline in price benefiting the poor. By subsector, the largest output gains are projected for seaweeds and sugarcane, with 0.80% and 0.50%, respectively. Increased access

on EU markets are favorable for Filipino exporters of seaweeds, other fiber crops, tobacco leaf, forestry, ornamental plants, raw coffee, abaca, and cocoa. The top five agricultural exports of Philippines to EU in 2015 which are coconuts, fisheries products and fruits are also expected to gain positively from trade with EU based from the CGE analysis. Therefore, it is expected that there will be a positive impact for Philippine exporters of these products.

Meanwhile the subsectors that are on the losing side are cattle, raw rubber, chicken, and hogs. In terms of imports, the agricultural products of the Philippines in EU are fresh or frozen meat, food industries residues and waste, alcoholic beverages, edible meat, and dairy products. If the Philippines were to reduce its tariff, there may be little positive effect on EU's exports to the Philippines, as well as on Filipino consumers.

C. THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

The Regional Comprehensive Economic Partnership (RCEP) was formally launched among the ASEAN member states (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam) and the "+6" ASEAN FTA partners namely Australia, China, India, Japan, South Korea and New Zealand at the ASEAN Summit held in Cambodia in November 2012. The RCEP is envisioned to be a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement³³. In 2014, the group of 16 RCEP countries account for more than 3.5 billion of the world's population, nearly US\$ 23 trillion of global GDP and over a quarter of world trade³⁴. Cheong and Tongzon (2013) estimated that if RCEP negotiations will be successful, the total trade volume and GDP of the trading bloc is expected to reach US\$10.13 trillion and US\$19.76 trillion respectively.

As of May 2016, after twelve rounds of negotiations, the RCEP Agreement will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, legal and institutional matters, e-commerce, SMEs and other issues. RCEP may also include negotiations on the rules for customs, new provisions on SPS, and probably some additional non-tariff barriers³⁵. RCEP is expected to deliver tangible benefits through improvements in market access and coherent trade facilitation and regulatory rules and cooperation.

33 Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership. Retrieved from <http://asean.org/storage/2012/05/RCEP-Guiding-Principles-public-copy.pdf>

34 Regional Comprehensive Economic Partnership: A Coherent Approach towards Economic Integration

35 The Asian Trade Center (ATC). What is RCEP?

The RCEP framework intends to progressively eliminate tariff and non-tariff barriers on substantially all trade in goods to establish a free trade area among the RCEP participating countries providing early tariff elimination priority on products of interest to the least developed ASEAN Member States³⁶.

Results from various studies reveal that economic welfare is expected to improve for most of the RCEP countries as exports within the region will increase. Cororaton (2016), using a CGE model, showed that RCEP effects vary among member countries with Indonesia, Vietnam and Philippines expected to benefit the most in terms of higher exports within RCEP. On the other hand, Cambodia's benefits from higher exports within RCEP is offset by the reduction in its exports to the rest of the world. Smaller net export is expected for Malaysia and Thailand because of negative export changes to the rest of the world. The net export effects across "+6" countries are also positive. The dynamic GTAP model results of Itakuta (2015) reported that RCEP could bring economic benefits to all participating countries.

As for Philippines, with low entry barrier for goods, it is expected that there will be an upsurge of cheaper rice in the market. Low income households will benefit from this while posing a big threat for the domestic rice producers. Itakuta (2015) revealed that the Philippines will experience negative welfare results attributed to changes in the regional households' holdings of foreign wealth. On the contrary, the CGE result of Cororaton (2016) showed that the Philippines is expected to benefit from RCEP with an improvement in GDP by 3% and welfare by US\$2 billion. Poverty level is also expected to decline from 24.9% to 23.3%.

D. PHILIPPINES-EUROPEAN FREE TRADE ASSOCIATION FREE TRADE AGREEMENT (PH-EFTA FTA)

The European Free Trade Association (EFTA) was originally founded in 1960 by seven countries namely Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. Finland joined in 1961, while Iceland and Liechtenstein joined in 1990 and 1991 respectively. United Kingdom and Denmark left EFTA in 1973 followed by Portugal in 1986 and by Austria, Finland and Sweden in 1995. Today, the EFTA Member States are Iceland, Liechtenstein, Norway and Switzerland. In March 2015, the negotiations for the Philippines-EFTA Free Trade Agreement was launched. The negotiations were concluded in February the following year. The FTA was based on the Joint Declaration

on Cooperation Agreement that was signed by the EFTA States and the Philippines in 2014. The agreement covers trade in goods (industrial and agricultural goods, fish and other marine products), rules of origin, trade facilitation, SPS, TBT, trade in services, investment, competition, protection of intellectual property rights, government procurement and sustainable development (<http://www.efta.int>)

The merchandise trade between the Philippines and EFTA states has expanded at an annual rate of 11% from 2005 to 2015. The goods traded between the Philippines and EFTA reached US \$863 million in 2015. EFTA exports to the country were valued at \$407 million while the Philippines' shipments amounted to \$456 million (EFTA, 2016). During the period, EFTA's exports to the Philippines were pharmaceuticals, clocks and watches, and machinery while EFTA's imports were precious metals, electrical machinery, and medical instruments.

DTI³⁷ believes that the importance of EFTA-Philippines as far as the Philippines is concerned is the economic cooperation and "a stronger stimulus for the further development of trade and investment." The PH-EFTA trade will also solidify the partnerships between the Philippines and the four European countries under a trade regime of freer and more efficient flow of goods and services and addressing all barriers.

E. THE TRANS-PACIFIC PARTNERSHIP (TPP)

The Trans-Pacific Partnership (TPP) was originally negotiated and signed among 12 parties: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States and Vietnam. TPP countries collectively home to almost 11% of the world's population, produces nearly 40% of global GDP.

However, in January 2017, the United States pulled out of the TPP practically killing what was once touted as the the most ambitious free-trade agreement in history. It is a commonly held belief that without the United States, the TPP is no longer worth pursuing. The United States, after all, is more than twice as large as the total of other TPP country in terms of its economy. In terms of population, United States accounts for the 40% of the total TPP region.

The TPP has comprehensive coverage, including trade in goods and continuing through customs and trade facilitation, rules of origin, trade facilitation, SPS, TBT, trade in services, trade remedies investment, services, electronic commerce, competition, protection of in-

36 Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership. Retrieved from <http://asean.org/storage/2012/05/RCEP-Guiding-Principles-public-copy.pdf>

37 The Manila Times. "PH, EFTA expected to sign free trade deal before June". Retrieved from <http://www.manilatimes.net/ph-efta-expected-to-sign-free-trade-deal-before-june/247458/>. Accessed 23 Jan 2017.

tellectual property rights, government procurement and sustainable development³⁸.

The Global Economic Prospects (2016) investigated the merit of TPP from an economic perspective. Model simulations suggest that the TPP will raise member country GDP by an average of 1.1% by 2030. This is also consistent with the CGE studies of Petri, Plummer, and Zhai (2012) and Itakura and Lee (2012). Among the TPP members, Viet Nam and Malaysia are expected to benefit the most in percentage terms with 8 and 10% increase in GDP by 2010, respectively.

Cororaton and Orden (2015) investigated the effect of TPP in the Philippines using a CGE model. Results revealed that if Philippines will not participate in the trading block, it will generate small negative effects on the economy. Moreover, the economic opportunity cost of non-participation is larger. Simulation results also show that TPP participation will lead to an overall welfare gain for the Philippines. In terms of output effect, the trade creation effect is higher having the service and the electronic equipment sectors to benefit the most. However, the output of food manufacturing and the crops sectors are expected to decline under TPP participation.

Deardorff (2013) on the other hand, showed that the Philippines would not benefit much from TPP and will instead cause some trade diversion away from it as other Asian countries that are included in the TPP substitute cheaper imports from TPP partners in place of imports from the Philippines. Cororaton and Orden (2015) projected that the Philippine exports will decline annually starting by US\$0.01 billion in 2015 and decline by US\$0.4 billion in 2024. Philippine exports within the non-TPP is expected to increase, but not enough to offset the decline in exports to the TPP.

F. POTENTIAL ISSUES AND CONCERNS

Non-Tariff Measures (NTMs) appear to create greater uncertainty as these tend to be less transparent than tariffs, and are more variable and unpredictable in implementation (Pasadilla, 2007). In some cases, this can lead to the rejection of exports because of differences in the exporting and importing countries' capability.

Hong Kong is a duty-free port, with few barriers to trade in goods and services. But technical barriers to trade present potential issues and concerns in trade with Hong Kong includes. For instance, Hong Kong has implemented a positive pesticide maximum residue limit, whereby food that contains

a pesticide not on the list will be barred from import or sale unless proven that consumption of the food will not be dangerous to health. Moreover, there are also issues on IPR wherein infringing products continue to enter Hong Kong, destined for both the local market and places outside of Hong Kong.

In trading with EU, the major concern is the health and sanitation standards. According to Pasadilla (2007), the EU imposes highly stringent rules regarding "health and sanitation standards, veterinary checks, and plant regulations for disease and pesticide control, among others". There is a very high concern for the EU's high regulations on food safety and protecting animal health that may not be based on scientific principles or maintained with sufficient scientific evidence. EU members are particularly strict when it comes to food production chain, ranging from animal and plant health to the labeling of food products, as well as animal welfare. For fishery products sent to the EU, microbiological, chemical and sensory exams must be conducted. The European Union submitted a notification that they would be reducing the MRL of lead in tuna from the 0.5 ppm limit outlined by the internationally accepted Codex Alimentarius to 0.2 ppm (Pasadilla and Liao, 2007).

EFTA and individual EFTA countries also have NTMs that may pose a potential concern for the Philippines. EFTA has effectively banned the importation of agricultural biotechnology products, and member countries have extremely restrictive policies on crops derived from agricultural biotech and imports of meat from animals treated with hormones. EFTA is also strict in its technical regulations and standards. The technical regulations and standards deal with packaging, marking or labelling requirements.

In Switzerland, imports of agricultural products, most especially those that would compete with Swiss products, will be subjected to seasonal import duties, quotas, and import licensing. On the other hand, agricultural products that are not produced in Switzerland, such as tropical fruit and nuts, tend to have lower tariffs. In Norway, for a number of processed food products, tariffs are applied based on a product formula, requiring a detailed disclosure of product contents. Many exporters to the Norway refuse to provide all requested details resulting to products subjected to maximum tariffs.

While the text of agreement is not yet finalized, there are already a number of non-tariff barriers (NTBs) imposed by RCEP member countries. These NTBs cover customs practices, subsidies, and foreign currency controls. Major concerns for the Philippines with the RCEP include low entry barrier for goods that could lead to an upsurge of cheaper products

38 United States Trade Representative. Trans Pacific Partnership Trade Agreements. Retrieved from <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text> Accessed 23 Jan 2017.

in the market. In the case of the rice industry, low income households will benefit from this while posing a big threat for the domestic rice producers.

Certain aspects of the TPP Agreement that could be of concern for the Philippines include market access issues as well as intellectual property protection.

The US negotiated market access in TPP on a bilateral basis making tariff elimination schedules vary by country while tariffs and quotas on some of the most sensitive products would remain in

place. TPP parties also agreed to eliminate agricultural export subsidies. TPP's Intellectual Property chapter threatens the control of small-scale farmers over their seeds as the agreement provides for allowing companies to take out patents on plants and adopt the rules of the International Union for the Protection of New Plant Varieties (UPOV). The TPP also imposes burdensome labeling requirements including detailed information regarding the ingredients, composition and origin of the product. SPS measures may also affect the tropical fruits sector of Philippine exports.

TABLE 7. PROVISIONS OF THE NEW GENERATION TRADE AGREEMENTS IN AGRICULTURE AND AGRIBUSINESS SECTOR

A. ASEAN-HONG KONG, CHINA FREE TRADE AGREEMENT³⁹

- No framework and specific provisions established yet for ASEAN-Hong Kong but some of the general trade agreements practiced by Hong Kong are as follows:
 - ◆ Hong Kong is a free port and practices a free trade policy maintaining zero barriers on trade. No tariff is charged on import or export of goods but licensing is required for the import and export of some goods.
 - ◆ Rules of Origin- Requires certification in Hong Kong to facilitate local products for export outside Hong Kong by certifying their origins while no certification is required for imports. Hong Kong origin rules conforms with internationally accepted practice and standards. Goods are regarded as of Hong Kong origin if natural products of Hong Kong or have undergone manufacturing processes in Hong Kong.
 - ◆ Follows Anti-dumping measures of WTO
 - ◆ Follows Sanitary and Phytosanitary measures of WTO
 - ◆ Reaffirms obligations in WTO for Technical Barriers to Trade (TBT)
 - ◆ Follows countervailing measures of WTO

B. PHILIPPINES-EUROPEAN UNION FREE TRADE AGREEMENTS⁴⁰

- No final provisions yet for the Philippine European Union Free Trade Agreements but framework for the partnership has been established
- **Trade in Goods-** As of May 2016, no final key concepts and provisions for TIG. But the Philippines have already been a beneficiary of the EU's "Generalized Scheme of Preferences" (GSP)+ that enables developing countries to have full or less duties on their exports to the EU. The Philippines will soon be able to export, tariff-free, over 6,400 products (66 percent of all product tariff lines) to the EU. Duty-free entry (where duty is composed of both ad valorem and specific duties, the total tariff paid amounts to the specific duty) for sensitive products
- **Rules of Origin-** a product is considered as originating in a beneficiary country if it has been wholly obtained, or sufficiently worked or processed from imported materials. Products are included in this category of "wholly obtained" if there is absence of imported inputs in the final composition of the products. Products which are not wholly obtained in the beneficiary country will be considered to originate if the tolerance or non-originating materials level was up to 10 per cent of the ex-works price of the product.
- **General Safeguard Measures-** allows the imposition of Common Custom Tariff if volumes and/or at prices of imported products may cause or threaten producers of like or directly competing products. For textile, agriculture and fisheries products, common custom tariff is increased by at least 13.5 % in quantity (by volume), as compared with the previous calendar year
- **Technical Barriers to Trade (TBT)-** based within the framework of the WTO Agreement on Technical Barriers to Trade
- **Sanitary and Phytosanitary Measures (SPS)-** follows measures as defined in the WTO Agreement on the Application of Sanitary and Phytosanitary Measures
- **Customs and Trade Facilitation-** simplifying import, export and other customs procedures, ensure transparency of customs and trade regulations. It will also include effective and efficient customs enforcement of intellectual property rights, and to ensuring a balanced approach between trade facilitation, and the fight against fraud and irregularities.

39 Hong Kong Trade and Industry Department. Retrieved from <https://www.tid.gov.hk/eindex.html>

40 Framework on Agreement on Partnership and Cooperation between The European Union and its Member States, and the republic of the Philippines. Retrieved from http://www.eeas.europa.eu/archives/delegations/philippines/documents/eu_philippines/eu_philippines_pca_20120712.pdf

C. REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)⁴¹

- Negotiations for RCEP is still on-going. There is no final specific trade agreement but the guiding principles and objectives for negotiating include the following:
 - ◆ Trade in Goods
 - ◆ Trade in Services
 - ◆ Investment
 - ◆ Economic and Technical Cooperation
 - ◆ Intellectual Property
 - ◆ Competition
 - ◆ Dispute Settlement

D. PHILIPPINES-EUROPEAN FREE TRADE ASSOCIATION (EFTA) FREE TRADE AGREEMENT⁴²

- **Trade in Goods**
 - ◆ Elimination of all customs duties on imports and exports of industrial, fish and marine products, and agricultural products
 - ◆ The rules of origin were based on the European model. The Agreement contains detailed provisions on trade facilitation including some "WTO +" provisions. The provisions inter alia open for advance rulings and limit the possibility of new fees and charges.
 - ◆ No agricultural subsidies as defined in WTO Agreement on Agriculture
 - ◆ Follows anti-dumping measures of WTO that imposes extra import duty on products from the exporting country exported at a price lower than the price normally charged on the home market
- **Sanitary and Phytosanitary Measures (SPS)**- Contains provisions pertaining to inspections, certification systems, system audits, certificates and import checks. It ensures that goods traded fully comply with the relevant sanitary and phytosanitary requirements of an importing Party to freely move within respective territories, once placed on the market.
- **Rules of Origin**- Rules of Origin is based on European model, a good is "originating" and therefore eligible to receive preferential tariff benefits if wholly obtained or produced entirely in the territory of another party within Philippine-EFTA nations. If processed, under the EU regulations, a product processed in two or more countries is "originating" if the country in which the last substantial process or operation was performed resulting in the manufacture of a new product or representing an important stage of manufacture.
- **Technical Barriers to Trade (TBT)**- prevent, eliminate or reduce unnecessary obstacles related to trade such as provisions on procedures for movement of products, border control, market surveillance and conformity assessment procedures.
- **Intellectual Property Rights (IPR)**- The provisions on protection of intellectual property rights cover, inter alia, trademarks, copyrights, patents and geographical indications, and include provisions for the enforcement of intellectual property rights and cooperation among the Parties. The provisions are based on the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and provide for a high level of protection, considering the principles of most-favored-nation treatment and of national treatment.
- **Trade Facilitation**- ensures transparency, efficiency, simplification, harmonization and consistency of trade procedures to administer traders in smooth processing of trading procedures

E. TRANS-PACIFIC PARTNERSHIP (TPP)⁴³

- **Trade in Goods**
 - ◆ TPP eliminates or reduces tariff and non-tariff barriers across substantially all trade in goods and services on industrial goods, and to eliminate or reduce tariffs and other restrictive policies on agricultural goods.
 - ◆ On agricultural products, even if sensitive for some countries, every single tariff line is included for tariff cuts as nearly all become duty free over time. Approximately 99% of TPP nations tariff lines will be duty-free eventually. The average most-favored-nation (MFN) tariff levels for TPP countries range from 0% to nearly 10%.
 - ◆ For the agriculture export subsidy, the goods chapter contains a commitment by all TPP Parties to eliminate agricultural export subsidies which are considered among the most trade-distorting agricultural trade measures on goods sold in TPP markets.
 - ◆ For the export credit in agriculture, TPP develop multilateral disciplines on export credits, export credit guarantees and insurance programs.
 - ◆ For special safeguard measures, originating agricultural goods from any party must also be subject to any duties applied pursuant to any special safeguard taken under the WTO Agreement on Agriculture.
- **Customs Administration and Trade Facilitation**- enhance the facilitation of trade, improve transparency in customs procedures, and ensure integrity in customs administration which will help small- and medium-sized businesses in smooth processing in customs and border procedures, and promote regional supply chains.

41 Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership (RCEP). Retrieved from <https://dfat.gov.au/trade/agreements/rcep/Documents/guiding-principles-rcep.pdf>

42 EFTA-Philippines Free Trade Agreement. Retrieved from <http://www.efta.int/free-trade/free-trade-agreements/philippine>

43 The Trans Pacific Partnership Agreement. Retrieved from <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text>

- **Rules of Origin**- Follows a single set of rules of origin that define whether a good is “originating” and therefore eligible to receive TPP preferential tariff benefits. A good is “originating” if wholly obtained or produced entirely in the territory of one or more of the TPP nations. Once a product has met the RoO for the TPP, it can be shipped without change into every other TPP member country. No country may increase any existing customs duty, or adopt any new customs duty if product is “originating”.
- **Sanitary and Phytosanitary (SPS) Measures**- built on WTO SPS rules for identifying and managing risks in a manner that is no more trade restrictive than necessary.
- **Technical Barriers to Trade (TBT)**- ensures that international standards and recommendations as basis for technical regulations do not create unnecessary barriers to trade for industrial and agricultural products. Product standards facilitate commerce by providing assurances to consumers and businesses that the products they are considering purchasing are safe and effective.
- **Small- and Medium-Sized Enterprises** - Promotes participation of small- and medium-sized enterprises in trade and ensure that small- and medium-sized enterprises share in the benefits of the TPP through paperwork reduction, internet access, trade facilitation, express delivery and others.
- **Intellectual Property** - TPP's Intellectual Property chapter will help take advantage of innovative strengths and help promote trade and innovation, as well as to advance scientific, technological and creative exchange. The deals in the IPR for seeds threatens the control of small-scale farmers over their seeds as the agreement requires to allow companies to take out patents on plants and adopt the rules of the International Union for the Protection of New Plant Varieties (UPOV)
- **State-Owned Enterprise (SOE)** - This section ensures that businesses compete fairly through enforceable rules to ensure competition is based on quality and price and not based on discriminatory regulation, subsidies, or favoritism.
- **Competition Policy**- this provision ensures fair competition, consumer protection, and transparency. It also helps guarantee that markets in TPP members are genuinely open to made-in-America manufactured goods, farm products, and services.
- **Trade Remedies** - ensures that domestic industries will not be injured or threatened from a sudden surge in imports using three trade remedies
 - ♦ antidumping (AD) remedies- provide relief from the adverse price effects of imports sold at less than fair-market value
 - ♦ countervailing duty (CVD) remedies- used to counter the adverse effects of foreign government subsidies to imports
 - ♦ safeguard actions- employed to permit temporary relief for domestic industries to adjust to the adverse effects of surges in fairly-traded imports.

TABLE 8. SUMMARY OF PROVISIONS FOR AGRICULTURE IN THE NEW GENERATION FTAs

Specific Provisions /Measures	AHKFTA	Philippines-EU FTA ⁴⁴	Philippines-EFTA FTA	RCEP	TPP
Tariff (Market Access)		No final provisions	eliminated or reduced duties		eliminated or reduced duties
Non-Tariff Measures					
Special Safeguard Measures/ Trade Remedies		☒	☒		☒
Countervailing Duties		☒	☒		☒
Dumping and Anti-dumping measures		☒	☒		☒
Emergency Measures		☒	☒		☒
Sanitary and Phytosanitary Measures		☒	☒		☒
Technical Barriers to trade	No Final Text	☒	☒	No Final Text	☒
Tariff Rate Quotas (TRQs)		No final provisions			WTO bound TRQs
Quotas		No final provisions			quantities under TRQ applied
Export subsidies		☒	☒		☒
Trade Facilitation		☒	☒		☒
Intellectual Property Rights		☒	☒		☒
Rules of Origin		Wholly obtained, non-originating materials is up to 10% of ex-works price	Wholly obtained, non-originating materials is up to 10% of ex-works price		Wholly obtained or produced exclusively from other TPP members, RVC
ranging from 30% to 55%					

44 Based on Framework for the Partnership

TABLE 9. POTENTIAL NON-TARIFF BARRIERS (NTBS) TO BE FACED BY PHILIPPINE AGRICULTURE UPON ENTERING A NEW GENERATION FTA

Country	NTBs
Hong Kong	positive pesticide maximum residue limit for crops and issues on the IPR
EU	strict health and sanitation standards; plant regulations for disease and pesticide control; high regulations on food safety and protecting animal health
EFTA	banned the importation of agricultural biotech products; restrictive policies to crops derived from agricultural biotech and imports of meat from animals treated with hormones; strict in its technical regulations and standards; in Switzerland, seasonal import duties, quotas, and import licensing is imposed on agri products that compete with Swiss products; product formula-based tariff in Norway that requires detailed disclosure of product contents
RCEP	No final text but a number of non-tariff barriers (NTBs) are already being enacted by RCEP countries
TPP	market access in TPP on a bilateral basis making tariff elimination schedules vary by country; IPR chapter that threatens the control of small-scale farmers over their seeds; burdensome labeling requirements and SPS measures

VI. POTENTIAL IMPACTS OF NEW GENERATION TRADE AGREEMENTS ON PHILIPPINE AGRICULTURE

A. TRADE IMPACTS OF ENTERING AN FTA ON AGRICULTURE

The gravity model regressions and network analysis provide a basis for assessing the impact of the Philippines' entry into an FTA on a particular agricultural commodity group. The criteria used are the presence of trade creation and the centrality measures used in the study. The impact is considered "Very High" if there is potential trade creation, and if the Philippines is relatively not well-connected, i.e., has relatively low centrality measures with the corresponding network generated for the particular commodity. Potential trade creation means potential markets being opened, and if the country is still not an important player in that particular commodity group, then it will be able to gain much from further opening of markets. Impact is deemed "High" if there is trade creation and the corresponding centrality measures are relatively high. Markets can potentially open in a particular commodity group, but if the Philippines is already an important player in that market, the gains from opening up these markets is intuitively smaller compared to a scenario where it is not a significant player. Impact is categorized as "Low" if there is no trade creation, and the corresponding centrality measures are low. Finally, the

impact is categorized as "Very Low" when there is no trade creation, and the country is already an important player in the market. If the latter is the case, there is virtually little gain if markets will further open up, and the potential gain will even be smaller if no significant opening up of markets will take place. If the country is not a major player, the potential gain will intuitively be larger. This is summarized in Table 10.

TABLE 10. SUMMARY OF THE CRITERIA USED IN CATEGORIZATIONS OF POTENTIAL GAIN FROM JOINING AN FTA

Impact in Entering an FTA	Potential Trade Creation	Centrality Measures
Very High	Yes	Low
High	Yes	High
Low	No	Low
Very Low	No	High

Table 11 (see next page) summarizes the assessment of each new generation FTA based on the criteria used. This table shows, first, which of these potential trade deals the Philippines can gain from, and second, from which commodity groups the country will benefit or lose the most, given the potential impact that will be provided by these FTAs. This table also gives the current trade situation of a commodity group with respect to the members of a particular FTA. For instance, for cereals, the trade impact to join RCEP and ASEAN-Hong Kong FTA are both counted as "Very Low". This is reflective of the notion that these trade deals are mainly driven by ASEAN trade, and as such, trade in cereals, particularly rice, is already very pronounced within its member economies.

It appears that the Philippines-EU FTA would offer the largest trade impact for the Philippines. This FTA also has trade impacts deemed to be "Very High" in seven out of the twelve commodity groups featured. This means that this FTA can potentially open up markets for those commodity groups the Philippines is not doing well on, which translates to strong impacts on the Philippines for these commodities. It helped that this FTA is consistently trade creating. It also appears that the ASEAN-Hong Kong FTA would provide the smallest trade impact, as it registered either a "Very High" or a "High" impact for joining only five out of the twelve commodity group featured. This may be because ASEAN member economies really do trade essentially the same agricultural commodities, hence prospects for agricultural commodity groups are really not that big, inasmuch as the ASEAN-Hong Kong FTA is very seldom trade creating. TPP and

TABLE 11. SUMMARY OF POTENTIAL IMPACTS OF JOINING AN FTA

	TPP with US	RCEP	Philippines- EU FTA with UK	Philippines- EFTA FTA	ASEAN- Hong Kong FTA
Fish and Crustaceans	Very High	Low	Very High	Very High	Low
Dairy Products	Very High	Very High	Very High	Low	Very High
Edible Fruit and Nuts	High	High	High	Low	High
Coffee, Tea, Malt, and Spices	Low	Low	Very High	Very High	Very High
Animal/Vegetable Oil and Fats	High	Very Low	High	High	Very Low
Cereals	High	Very Low	High	High	Very Low
Food Preparations	Very High	Very High	Very High	Low	Low
Miscellaneous Edible Preparations	High	High	High	Very Low	High
Food Residues	Very High	Very High	Very High	Very High	Low
Cocoa and Cocoa Products	Very High	Very High	Very High	Very High	Low
Natural Rubber	Low	Very High	Very High	Very High	Low
Textile Fibres	Very Low	High	High	Very Low	Very Low

RCEP meanwhile provide the same impact profile for the Philippines, as these two trade deals both apparently have trade impacts that are seen to be “Very High” five times, “High” four times, “Low” two times, and “Very Low” one time, albeit with different commodity groups.

Lastly, the Philippines-EFTA FTA also had five “Very High” categorizations, but has two “Very Low” and “Low” categorizations, making TPP and RCEP slightly superior to it. Also, among the commodity groups, it seems that dairy products, cocoa, and food residues are those from which the Philippines can receive the strongest impacts if it is to join an FTA, as these commodity groups all had four “Very High” categorizations out of the five FTAs. Textile fibers now appear to be the commodity group with the least likely trade impact on the Philippines, as it notched “Very Low” in three out of the five FTAs featured here.

Table 12 compares scenarios on the TPP with or without the US, and for the case of Philippines-EU FTA, with and without the United Kingdom (UK). There is little change when TPP does not include the United States. The only changes are with those commodity groups where trade creation was lost. Specifically, these commodities are cereals, food preparations, and food residues. But overall, TPP does become less attractive when the United States is not involved. Similarly, in the case when the UK is not included in the EU, the only changes for the Philippines-EU FTA were in those commodities where trade creation dissipated, which are cocoa and textile fibres. There are therefore also relatively smaller trade impacts in joining this FTA. Of course, while there are still “Very

High” and “High” impacts for both FTAs, as was discussed earlier, the actual extent of trade creation for most of the commodity groups actually shrank, so while trade impacts are categorized as either

TABLE 12. SUMMARY POTENTIAL IMPACTS OF JOINING AN FTA: COMPARISON FOR TPP AND THE PHILIPPINES-EU FTA

	TPP with US	TPP without US	Philippines-EU FTA with UK	Philippines-EU FTA without UK
Fish and Crustaceans	Very High	Very High	Very High	Very High
Dairy Products	Very High	Very High	Very High	Very High
Edible Fruit and Nuts	High	High	High	High
Coffee, Tea, Malt, and Spices	Low	Low	Very High	Very High
Animal/Vegetable Oil and Fats	High	High	High	High
Cereals	High	Very Low	High	High
Food Preparations	Very High	Low	Very High	Very High
Miscellaneous Edible Preparations	High	High	High	High
Food Residues	Very High	Low	Very High	Very High
Cocoa and Cocoa Products	Very High	Very High	Very High	Low
Natural Rubber	Low	Low	Very High	Low
Textile Fibres	Very Low	Very Low	High	High

TABLE 13. SUMMARY OF POTENTIAL GAINERS AND LOSERS IN JOINING AN FTA

	TPP with US	RCEP	Philippines- EU FTA with UK	Philippines- EFTA FTA	ASEAN- Hong Kong FTA
Fish and Crustaceans					
a. Frozen fish	Likely Loser	RU	Likely Loser	Likely Loser	RU
b. Live fish	Likely Gainer	RU	Likely Gainer	Likely Gainer	RU
c. Fresh/Chilled fish	Likely Gainer	RU	Likely Gainer	Likely Gainer	RU
Dairy Products –Milk and cream	Likely Loser	Likely Loser	Likely Loser	RU	Likely Loser
Edible Fruit and Nuts					
a. Banana	Likely Gainer	Likely Gainer	Likely Gainer	RU	Likely Gainer
b. Dates, figs, pineapples, avocados, and guavas	Likely Gainer	Likely Gainer	Likely Gainer	RU	Likely Gainer
Coffee, Tea, Malt, and Spices	RU	RU	Likely Loser	Likely Loser	Likely Loser
Animal/Vegetable Oil and Fats – Coconut and palm kernel	Likely Gainer	RU	Likely Gainer	Likely Gainer	RU
Cereals, rice	Likely Loser	RU	Likely Loser	Likely Loser	RU
Food Preparations – Other food preparations	Likely Loser	Likely Loser	Likely Loser	RU	RU
Miscellaneous Edible Preparations – Other plant parts	Likely Gainer	Likely Gainer	Likely Gainer	RU	Likely Gainer
Food Residues – Solid residues from soya bean	Likely Loser	Likely Loser	Likely Loser	Likely Loser	RU
Cocoa and Cocoa Products	Likely Loser	Likely Loser	Likely Loser	Likely Loser	RU
Natural Rubber	RU	Likely Gainer	Likely Gainer	Likely Gainer	RU
Textile Fibres	RU	Likely Gainer	Likely Gainer	RU	RU

“Very High” or “High,” the quantitative measures of these incentives reveal that these are actually less impressive.

To identify the likely gainers and losers from joining these new generation FTAs, the study looks at whether a commodity group is import-heavy or export-heavy. Given the strong/high trade impacts of an FTA to the Philippines (high-impact FTAs are those that have trade impact categorized as “Very High” or “High”) in particular commodity groups, local players in the import-heavy commodity groups are the likely losers, as the substantial opening up of markets caused by high-level trade impacts of FTAs will be forced to compete, and

if not resilient enough, will be driven out by the competition of the market. Players in the export-heavy commodities meanwhile are the likely gainers, as opening up of markets made happen by high-level trade impacts will allow them to take advantage of other markets abroad. This is summarized in Tables 13 and 14, with the latter again comparing scenarios in which TPP does not include US and Philippines-EU FTA does not include UK to those in which the two respective FTAs still include the US and UK. Low-impact FTAs (those that have trade impact categorized as “Low” or “Very Low”) effects on commodity groups are labeled “Relatively Unaffected” (or simply “RU”).

Table 13 reveals the likely gainers and losers if the Philippines enters the respective new generation FTAs. Milk and cream, soya bean residues, and cacao appear to suffer the worst from entering these new generation FTAs, as these three commodity groups are deemed likely losers in four of the five FTAs. From Table 14 (see next page) it is seen that nothing changes

for milk and cream in the scenario wherein the US and the UK are out of TPP and EU respectively. This apparently becomes better for the other two commodity groups, as soya bean residues become relatively unaffected by TPP without the US, and Brexit dilutes the impact of the Philippines-EU FTA on cacao. The commodity groups from which corresponding local players will likely benefit the most are banana, the commodity group including dates, figs, pineapples, avocados, and guavas, and other plant parts, being likely gainers in four of the five FTAs featured in this study. These three commodity groups are still likely gainers in the same four FTAs out of five in the scenario where TPP does not have the US, and in

the Brexit scenario. Further insights can be obtained by reviewing the RCRs of some of these commodity groups. Rice, coffee, and cacao may generally be likely losers in entering these FTAs, but their RCRs suggest that they are competitive in an import-substituting scenario, so these commodity groups may be proven resilient given that Philippine markets open up for trade.

B. NEW GENERATION TRADE AGREEMENTS AND PHILIPPINE AGRICULTURE: VIEWS FROM STAKEHOLDERS

The study conducted key informant interviews of various stakeholders to solicit their views on the impacts free trade agreements on the agricultural sector, as well as to identify issues and challenges. This was augmented by the transcripts of roundtable discussions organized by a parallel study⁴⁵ on the opportunities and challenges of the AEC for the agriculture, fishery and forestry sector led by one of the authors of this paper.

a. On Trade Agreements

There is a perception that one reason why the Philippines is among the few countries with only a small number of bilateral agreements is because it is not yet ready for liberalization especially in agriculture and that the only way to protect the sector is through tariffs on agricultural imports. The industry sector on the other hand believes that agricultural growth depends on the demands in industry, and FTAs are important to promote the industry sector.

The Philippines has existing Joint Economic Cooperation (JEC) mechanisms with several countries in Europe and Asia. This measure is used by the DTI as a first step in pursuing trade negotiations with potential partners. The Philippines had the PH-EFTA JEC and the Japan-Philippines JEC that aimed to promote, strengthen and expand trade, and business endeavors in both countries. Both PH-EFTA JEC and Japan-Philippines JEC ended up as FTAs. JEC trade in investment

TABLE 14. SUMMARY OF POTENTIAL GAINERS AND LOSERS IN JOINING AN FTA: COMPARISON FOR TPP AND THE PHILIPPINES-EU FTA.

	TPP with US	TPP without US	Philippines- EU FTA with UK	Philippines- EU FTA without UK
Fish and Crustaceans				
a. Frozen fish	Likely Loser	Likely Loser	Likely Loser	Likely Loser
b. Live fish	Likely Gainer	Likely Gainer	Likely Gainer	Likely Gainer
c. Fresh/Chilled fish	Likely Gainer	Likely Gainer	Likely Gainer	Likely Gainer
Dairy Products –Milk and cream	Likely Loser	Likely Loser	Likely Loser	Likely Loser
Edible Fruit and Nuts				
a. Banana	Likely Gainer	Likely Gainer	Likely Gainer	Likely Gainer
b. Dates, figs, pineapples, avocados, and guavas	Likely Gainer	Likely Gainer	Likely Gainer	Likely Gainer
Coffee, Tea, Malt, and Spices	RU	RU	Likely Loser	Likely Loser
Animal/Vegetable Oil and Fats – Coconut and palm kernel	Likely Gainer	Likely Gainer	Likely Gainer	Likely Gainer
Cereals, rice	Likely Loser	RU	Likely Loser	Likely Loser
Food Preparations – Other food preparations	Likely Loser	RU	Likely Loser	Likely Loser
Miscellaneous Edible Preparations – Other plant parts	Likely Gainer	Likely Gainer	Likely Gainer	Likely Gainer
Food Residues – Solid residues from soya bean	Likely Loser	RU	Likely Loser	Likely Loser
Cocoa and Cocoa Products	Likely Loser	Likely Loser	Likely Loser	RU
Natural Rubber	RU	RU	Likely Gainer	RU
Textile Fibres	RU	RU	Likely Gainer	Likely Gainer

cooperation with trading partners is composed of exchange of business delegations, exchange of scientific information such as technical assistance between the countries.

Trade agreements vary depending on the trading partners. The most important part of negotiating is to obtain market access particularly for agriculture, inasmuch as industrial goods already are applied low or zero tariff. In negotiating trade in goods for agriculture, the DTI and Department of Agriculture (DA) work together, with the DTI as lead negotiating agency while DA is extensive involved in the ne-

⁴⁵ Funded by the Philippine Council for Agriculture, Aquatic and Natural Resources Research and Development (PCAARRD)

negotiations on trade in goods provisions, specifically in the market access of agricultural commodities (tariffs), IPR, RoO, and SPS. Consultations with stakeholders are very important in negotiating specific measures in trade agreements. A series of consultations are conducted by these agencies before finalizing the free trade agreements to obtain the position of stakeholders.

The DTI negotiates the FTAs and ensures that policies of the different bureaus are consistent with the international trade agreements. As markets open up, however, it must be emphasized that the local government units, especially the local extension offices, are very important in ensuring that technologies and government assistance reach the beneficiaries so that the concessions obtained during the negotiations of the FTAs are maximized.

b. Issues/Challenges

b.1. Farmer's resistance in adopting new technologies

There is a need for the farmers to adopt new technologies in order to improve operational efficiency and thus profitability. Government has long been trying to improve agricultural productivity. But not all targeted communities participate in these agricultural development projects. The Harmonize Good Agricultural Practice (GAP) for instance, when cascaded to farmers, are reportedly met with resistance. Farmers prefer the traditional practice rather than new technology that may increase competitiveness. The Philippine Center for Postharvest Development and Mechanization (PhilMech) reported that the Philippines has one of the lowest rates of mechanical equipment use in Southeast Asia. The farmers are reluctant to mechanize because they fear losing work and the prospect of displacing farm workers.

Agricultural development is about income generation and increased production that does not compromise future productivity. Farmers must understand that new technologies are a way to reduce costs and increase efficiency. It is important to educate farmers about the importance of adopting new technologies. There is a need to focus on developing small-scale farm machinery that will help farmers add value to their produce and avoid waste at the same time.

b.2. Limited access to credit

Access to credit is a persistent concern of farmers and SMEs. Access to credit is one of the reasons why farmers are reluctant to mechanize and adopt new technologies. When the new technology is

introduced and recommended over the old one, farmers are hesitant due to incremental costs in production they must initially shoulder. Farmers are not capable of purchasing more inputs, hand tractors and other small farm equipment.

SMEs, for their part, cannot expand production due to lack of capital. Farmers and SMEs are unable to secure loans from a commercial bank due to their tedious processing and document requirements including collateral, which in agriculture would be the land. If the investment turns out bad, then the bank seizes the pawned land.

b.3. Outdated laboratories and facilities for quality control

With the eventual elimination of tariffs, the main trade measure that agricultural exporters/traders face are technical barriers such as standards and conformity assessment. SPS measures as a provision in FTAs can be negotiated. Before the country enters negotiations, several studies are conducted on which commodities are in a position to comply, and to what country it can easily enter given their quality.

However, the country's laboratories and common service facilities are either incomplete and outdated or inadequate. The Philippines has had experiences of failing quality control for fruits and other vegetables in the international market. For example, while the Maximum Residue Limit (MRL) required for Philippines fruits exports is 0.01 PPB (parts per billion), Philippine facilities only have the capacity to detect up to 0.04 PPM (parts per million).

Government procurement procedures are pointed out to be the major contributing factor to the outdated and inadequate facilities problem. Modern and sophisticated laboratories are quite expensive and billions of pesos are needed to upgrade facilities. The government procurement procedures also take too long, making the facilities outdated before they could be operational. The "lowest bidder-winner" policy is also perceived to contribute to the laboratory technology's functional obsolescence.

Stakeholders are in agreement that to be more competitive, the quality of the country's agricultural products should be improved. This can be done by the application of good production practices, like GAP, Good Manufacturing Practice (GMP) or the Good Aquacultural Practices (GAqP), harmonization of quality and safety requirements, and improved quality control. Institutional strengthening is also needed to effectively implement the equivalency in harmonization of food safety standards. Modern and sophisticated laboratories

and infrastructure would not only help the country overcome trading barriers, it would also protect the buying consumers.

Several government programs have sought to resolve the problems in laboratories and facilities for quality control. The Bureau of Animal Industry (BAI) has a “facilities and laboratory equipment improvement program.” This program aims to address the need for the Bureau to modernize its facilities and equipment to ensure that these are at par with international standards and capable of meeting the requirements of clients and stakeholders. The fish quality control laboratory under the Export Promotion Fund (EPF) administered by the Export Development Council (EDC) became operational in February 2009. It is now conducting histamine and complete microbial tests for food and water. It also conducts histamine and mercury levels and other chemical concentration tests in fish, thereby ensuring high standards for tuna products.

b.4. Double standards in quality control

Double standards are also an emerging issue in trade. The country seems to have a problem in applying international standards on imports, with the main issue being inconsistent implementation of standards on its trading partners. While the country tries to satisfy the high food quality standards of trading partner countries, it is perceived to be quite lenient in applying the standards to agricultural and fisheries imports from other countries.

It is suggested that a focused regulatory agency serve as the sole national controlling authority on all matters pertaining to product inspection and hygiene, and ensure the adoption of internationally recognized standards, recommendations, set of procedures or guidelines for the quality and safety of food products.

Food exporters to the Philippines must comply with all other Philippine import requirements prior to shipment of food products into the country.

b.5. Inability to satisfy export volume requirements

Exporters and farmers usually face problems of inability to meet export volume requirements. The sugar industry, for example, has faced a problem in meeting the US sugar export quota in 2016. The local sugar traders had to negotiate with their counterparts in Thailand to meet the additional sugar export requirement to the US. Some SMEs are facing the same struggle. In some cases, if there is higher volume order but capacity is low, the exporter/

business will no longer pursue the transaction, leading to significant missed opportunities.

The reasons believed to be the major factor for such problem is the high cost of production inputs, inefficient supply chains and logistic systems, and possibly the Comprehensive Agrarian Reform Program (CARP). Being an archipelagic country, obtaining raw agricultural products from other provinces can be costlier than importing from abroad. Agricultural product exporters sometimes opt to obtain raw materials from another country than obtain supplies domestically. Some respondents also saw CARP as a constraint to competitiveness, citing the country’s inability to attain economies of scale in production. It is also perceived to have contributed to policy instability and weak private property protection, leading to increased risk in investing in the Philippines. Some stakeholders believe that this has hindered private capital investment, which killed several industries. Left to their own resources, farmers have no access to processing technology, capital, fertilizer, or improved varieties of planting materials. Furthermore, they are disorganized, making it difficult to assemble volumes to meet industry requirements.

b.6. Complicated Rules of Origin (RoO)

Stakeholders view the FTAs’ product-specific rules of origin as very restrictive and complex. RoO creates fragmentation, exclusion and discrimination on trade. The easiest origin scenario is when a good is wholly produced or obtained within the FTA territories. It gets more complicated when inputs used in production come from outside the FTA territories.

Some exporters find it difficult to comply with the rules of origin since most of them have an optimal input mix that involves the use of imported inputs from countries that are not part of the FTA territories. Most of the time, imported raw materials are cheaper than locally produced materials. And to be eligible for preferential tariff benefits, the firm will have to shift from a lower to a higher cost source. However, most exporters believe that the cost of satisfying nontariff preferences is higher than the benefits. The firms thus opt to either source raw materials from outside the FTA region and pay the MFN tariff or not avail of the FTA at all.

The tedious process of RoO certification also affects exporters’ decisions. Some firms complained of highly detailed requirements for RoO certification for export products to access FTA preferential tariffs. Exporters also complain of mistakes oc-

asionally made by customs officers in validating export documents, particularly certificates of origin when presented abroad.

b.7. Low FTA utilization rate

It is a known fact that there is low FTA utilization on the part of private sector. Non-utilization of FTAs is generally attributed to the tedious and complex process involved in applying for the certificates of origin, lack of awareness or inability to satisfy volume requirements, and high administrative costs. The total utilization rate is less than 50%, with large enterprises having a higher utilization at 39%, against only 16% for SMEs.

Philippines-based SMEs exporters reportedly feel intimidated by the complicated rules and procedures associated with the use of FTAs. In addition, exporters have misconceptions about FTAs having complicated procedures in the partner countries and the difficulty of accessing information on relevant trade regulations. Lack of information, especially concerning foreign markets and the technical knowledge on how to use these commercial agreements were considered as the major stumbling block for local SMEs from using these FTAs.

The DTI plays a more active leadership role in providing support for firms adjusting to FTAs and encouraging FTA use. “Doing Business in Free Trade Agreements” (DBFTA) is a major DTI program created to increase nationwide awareness of the benefits of trade agreements. DTI conducts regular DBFTA information sessions in key cities around the country to encourage and train people to utilize free trade agreements and inform the public how business can avail government services in exportation.

b.8. Transportation and logistics problems

Domestic resource cost (DRC) computations show that the country’s fruit products are competitive in the world market. However, farmers and processors are faced with high transportation cost. The scenario facing fruit farmers in Mindanao is that it is cheaper for the produce to be sent to China than to send it to Manila. In the case of the feed producers, it is cheaper to produce feeds with imported corn, as it is cheaper than to source the corn from Mindanao.

VII. CONCLUSION AND RECOMMENDATIONS

A. SUMMARY OF FINDINGS

The Philippines faces several non-tariff barriers (NTBs) in its current FTAs. Many of them pertain to SPS imposed on agriculture and food exports. These NTBs imposed by different countries impede or delay doing business most especially on agricultural products. These trade barriers should be major talking points in the negotiations of new generation FTAs, as they create greater uncertainty in the achievement of potential benefits of freer trade inasmuch as these NTBs tend to be less transparent than tariffs, and are more variable and unpredictable in implementation. Based on the network and gravity model analysis, the Philippines is set to benefit from these new generation trade agreements in several export heavy commodity groups namely: live/fresh/chilled fish, edible nuts and fruits like banana and pineapple, coconut and palm kernel, miscellaneous edible preparations and to some extent, natural rubber and textile fibers. As the analysis only takes account of the gains in just being part of the trading group, the expected benefits can be much larger if tariff reductions are taken into account as more markets open up. However, this is contingent on Philippine exports being able to meet quality standards and other non-tariff requirements that would be negotiated in the FTAs.

Local producers of milk and cream, soya bean residues, cacao, coffee, and rice on the other hand are seen to be the likely losers in these new generation FTAs. However, local soybean production is very small, with most production areas found only in Surigao del Sur. With all available soybeans mostly imported, the overall negative impact on the industry may not be significant. In fact, the expected drop in prices as a result of lower tariffs may offset the negative effects as the local feed industry is highly dependent on imports. The influx of imported soybean meal may just be accommodated by the growing livestock industry and not crowd out local producers who have not expanded the soybean extraction industry in the country to take advantage of this growth.

The Philippines produces less than one per cent of its annual dairy requirement and imports the balance. However, the increasing demand for fresh milk of the population and growing dairying capabilities are expected to lead to expansion of the industry. Most of the dairy imports of the country are in the form of powdered milk, a commodity group in which government has accepted that local producers cannot compete. Most local production

are geared towards augmenting the supply of fresh milk. Hence while more imports are expected with the advent of the new FTAs, the effect on the local producers may be minimal.

While rice, coffee, and cacao may generally be likely losers in entering these new generation FTAs, their RCRs suggest that they are competitive in an import-substituting scenario, so these commodity groups may be proven resilient as Philippine markets open up for trade.

Stakeholders' interviews provided insights on issues that the Philippine agriculture sector must address to be able to take advantage of market opportunities that the new generation FTAs bring. Problems highlighted concern productivity, and attendant to this, technology adoption, credit constraints, transportation and logistics, non-tariff measure compliance, and information. These issues need to be resolved so that the benefits of freer trade can be maximized and the adverse effects of opening domestic agriculture to more competition can be mitigated.

B. RECOMMENDATIONS

The preferential trade agreements the country is involved with are creating larger and more diverse market opportunities. This would require better systems of organizing local producers and processors in the country to reach the production scale and product standards required by the international markets. The country must be able to translate these opportunities into new sources of incomes for the country's agricultural and fisheries producers. This would require a high degree of preparedness of agro-based value chains.

a. *Productivity and competitiveness*

It is worth noting that for most exportable crops, area harvested has either remained the same or has declined in the last few years, even as production has been increasing. This implies that increases in production have been driven by yield increases, and this is where technology generation and adoption plays a prominent role. Sustained funding for research and innovation is needed to ensure that long-term productivity growth. An enhanced research and development effort and efficient technology transfer mechanism is a must to ensure that new agricultural technologies are readily made available to farmers. There is a need for coordination among the academe and research institutions, the government, and the private sector to increase the rate of technology diffusion. As time is of the essence in taking advantage of increased market

opportunities, and since it is a given fact that the development of technologies takes time, a rapid technology dissemination/transfer rate must make up for the longer technology gestation period.

Attendant to this is the need to strengthen the present agricultural extension system, a function that has been devolved to the local government units. Strong coordination thus needs to be achieved between the DA's Regional Field Units and Local Government Units (LGUs) in the implementation of various technology interventions and projects. Convergence and harmonization in all the programs and initiatives from the national to the local levels must be strengthened. Results speak for themselves. LGUs that have aligned their programs with and in many cases augmented the national program are the ones that have experienced significant productivity increases.

The role of agricultural extension workers is very crucial not only in terms of technical capacity building and assistance but in terms of providing linkages to other institutions. Many of these agricultural extension workers are approaching retirement age, causing great concern regarding the slow filling-up of vacated positions. There might be a need to adopt a standardized procedure and criteria for the recruitment and promotion of agricultural extension personnel.

The cost of technology adoption must also be minimized. While financial cost may not be a constraint for some farmers, high transaction costs have prevented them from adopting otherwise affordable technological practices. There is evidence in the literature that transaction costs involved in learning and acquiring new technology are important determinants of the rate of technology adoption. It has also been shown that increased rural poverty incidence is associated with falling utilization of agricultural production inputs as the distance to market increases. Travel costs in input and output markets also have distinct effects on input usage and variety choice. Mitigating these costs through the provision of better roads and easier access to agricultural input and output markets will increase the rate of agricultural technology adoption.

The entire supply chain must be improved to reduce production and distribution cost of basic and prime commodities. This requires infrastructure support and logistics mechanisms that will result in lowering of price with the elimination of barriers of bringing the goods to the market. Producers, manufacturers, traders, retailers, and consumer organizations should be consulted, and coordination among them

facilitated, so that the supply chains of basic goods and services may be improved, reducing costs in production and distribution, and thereby checking rise in prices. This is where industry roadmaps would be very helpful.

Assistance is needed toward organization of viable cooperatives, industry associations and institutional clustering mechanisms. This will enable SMEs to realize economies of scale in raw materials sourcing, production, storage and transportation; to gain access to long-term sources of capital; and to seek technical assistance from academic and research laboratories. Collective action for the marketing and processing of farm products, and or for the purchase and production of farm inputs, will help increase the country's production and output markets. Business competitiveness will also be enhanced by improving governance, strengthening economic zones, and strengthening national brand identity/awareness.

Product diversification in agriculture and fisheries (based on comparative advantage) should be encouraged to maximize the benefit the country achieves from integration. For instance, cacao can be processed into cocoa beans, chocolate powder, cocoa nibs and other cocoa-based products. A longer value chain is needed to realize diversification in cacao, but it delivers more benefits. A longer value chain will likely deliver a larger value-added from agriculture and fisheries, more jobs and income opportunities in on- and off-farm activities.

b. Credit

Access to credit is needed to overcome the financial obstacles to technology adoption and business expansion. Agricultural credit is an important driver in achieving the country's developmental and social goals, and a key to agricultural modernization. Credit can also improve production of farmers with scarce resources by providing the needed capital to procure inputs and use modern technologies.

There is wide scope for increasing the amount of financing available to the rural sector as well as further improve access of small farmers to these funds. Streamlining the application process and lessening documentary requirements will increase the uptake of farmers of formal credit. Businesses/exporters should be given more access to finance for market prospection, product development and market diversification. The full implementation of the Magna Carta for MSMEs with specific provision on the mandatory allocation of credit resources to the target beneficiaries could be a good start. Government institutions tasked to assist exporters

in their financing requirements should step up in extending credit guarantees.

c. Information

As many SMEs still lack basic information on FTAs, activities such as information campaigns need to be organized and be made available beyond capitals and/or major cities in the region. Consultations must also be conducted to help firms assess the potential gains from FTAs and to adjust marketing plans if needed. Trainings and seminars tailored to each type of industry or sector would also be very helpful.

The government must also provide reliable market information as there is still difficulty finding reasonably accurate market data. Assistance to the producers is needed in locating prospective buyers so that this will encourage the farmers to produce more. Market intelligence is important to provide basis for marketing decisions. Information on producers, consumers and prices of specific commodities must be readily available and accessible. To cite an example, lack of information on the price of seaweed per kilo has led to farmers being tricked by unreliable middlemen. Bureau of Fisheries and Aquatic Resources (BFAR) now updates and reports the price rates to inform seaweed farmers of the parameters for bargaining for the right price. Improved market intelligence is an imperative to enhance competitiveness.

d. Product standards and rules of origin

Laboratories and equipment must be modernized to ensure that standards are up to par with trading partners. Furthermore, testing laboratories must be made widely accessible to producers all across the country. Efforts must be intensified to further simplify Certificate of Origin (CoO) requirements, including establishing a Self Certification mechanism, and spread the technical knowledge needed to comply with CoO/RoO requirements among SMEs. A simpler RoO regime with harmonized tariff classification, use of co-equal or option rules, and/or a one stop-shop to streamline the processing of imports and exports must be prioritized.

e. Transportation and logistics

An efficient transport and logistics system is needed to improve the country's domestic and international trade. An efficient transport and logistics system can better serve the international market, raise the country's competitiveness, and enable local industries to take full advantage of a healthy

economy. The planned Logistics Industry Roadmap, which proposes the creation of a government body on supply chain and logistics establish strategies and programs to further develop the country's transport infrastructure, particularly roads and ports outside Manila must be given priority.

f. Collective action

In terms of trade value, it is a known fact that agriculture's share is low compared to that of the industry sector. But agriculture is still the country's largest single employer and continues to play a pivotal role in the economy, even as the government looks to develop other modern industries. Inter-agency negotiation positions must be harmonized and country objectives must be clear, inasmuch as the interest of the agriculture sector often does not coincide with the interest of the industry sector in free trade agreement negotiations.

Collective and coordinated action across government agencies is crucial to help the farmers and private sector take proactive steps to take advantage of free trade agreements. Tackling systemic integrity challenges requires collective action, with government agencies joining forces and sharing information and approaches to develop solutions that are both beneficial to all and realistic to implement. ■

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GLOSSARY OF ACRONYMS

AANZFTA	ASEAN-Australia-New Zealand Free Trade Area
ABGC	Australian Banana Growers Council
ACFTA	ASEAN-China Free Trade Area
AD	Antidumping
ADB	Asian Development Bank Institute
AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Area
AFTA-CER	ASEAN Free Trade Area-Australia-New Zealand Closer Economic Relations Trade Agreement
AF-TOI	Agricultural and Fisheries Trade Openness Index
AHKFTA	ASEAN-Hong Kong Free Trade Agreement
AIFTA	ASEAN-India Free Trade Agreement
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
AKFTA	ASEAN-Korea Free Trade Area
AMS	Aggregate Measure of Support
AoA	Agreement on Agriculture
APFNS	Asia Pacific Network for Food Sovereignty
AQIS	Australian Quarantine and Inspection Service
ASEAN	Association of Southeast Asian Nations
ATC	Asian Trade Center
ATIGA	ASEAN Trade in Goods Agreement
BAI	Bureau of Animal Industry
BASESS	British Association of Slavonic and East European Studies
BFAR	Bureau of Fisheries and Aquatic Resources
BIS	Bureau of Indian Standards
CARP	Comprehensive Agrarian Reform Program
CEEC	Central and East European Countries
CEPA	Closer Economic Partnership Arrangement
CEPII	Centre d'Études Prospectives et d'Informations Internationales
CEPT	Common Effective Preferential Tariff
CGE	Computable General Equilibrium
CIF	Cost, Insurance and Freight
CLM	Cambodia, Lao PDR, and Myanmar
CMVL	Cambodia, Myanmar, Vietnam, and Lao PDR
ComTrade	Commodity Trade
CoO	Certificate of Origin
CTC	Change in Tariff Classification
CVD	Countervailing Duty
DA	Department of Agriculture
DBFTA	Doing Business in Free Trade Agreements
DRC	Domestic Resource Cost
DTI	Department of Trade and Industry
DTI-BITR	Department of Trade and Industry- Bureau of International Trade Relations
ECWP	Economic Cooperation Work Program
EDC	Export Development Council
EFTA	European Free Trade Association
EII	Export Intensity Index
EPA	Economic Partnership Agreement
EPF	Export Promotion Fund
ERD	Economics and Research Department
ERIA	Economic Research Institute for ASEAN and East Asia
EU	European Union
FA	Framework Agreement
FAO	Food and Agriculture Organization
FOB	Free on Board
FTA	Free Trade Agreement
GAP	Good Agricultural Practice

GAqP	Good Aquacultural Practices	PJEPA	Philippine-Japan Economic Partnership Agreement
GATS	General Agreement on Trade in Services	PNAD	Philippine Native Animal Development
GATT	General Agreement on Tariffs and Trade	PO	People's Organization
GDP	Gross Domestic Product	PoA	Plan of Action
GE	General Exemption	PPB	parts per billion
GI	General Inclusion	PPM	parts per million
GMP	Good Manufacturing Practice	PRC	People's Republic of China
GSP	Generalized Scheme of Preferences	QVC	Qualifying Value Content
GTAP	Global Trade Analysis Project	R&D	Research and Development
HK	Hongkong	RCEP	Regional Comprehensive Economic Partnership
ICT	Information Communication Technology	RCR	Resource Cost Ratio
III	Import Intensity Index	RFU	Regional Field Unit
IIT	Intra-Industry Trade	RIETI	Research Institute of Economy, Trade and Industry
IPR	Intellectual Property Rights	RoO	Rules of Origin
JEC	Joint Economic Cooperation	RTIA	Regional Trade and Investment Area
JPEPA	Japan-Philippines Economic Partnership Agreement	RU	Relatively Unaffected
LGUs	Local Government Units	RVC	Regional Value Content
MAV	Minimum Access Volume	SEACON	South East Asian Council for Food Security and Fair Trade
MFAT	Ministry of Foreign Affairs and Trade	SFM	Sustainable Forest Management
MFN	Most Favored Nation	SL	Sensitive Agricultural
MPRA	Munich Personal RePEc Archive	SMEs	Small and Medium Enterprises
MRL	Maximum Residue Limit	SOE	State-Owned Enterprise
MSMEs	Micro, Small, and Medium Enterprises	SPS	Sanitary and Phytosanitary
NGO	Non-Governmental Organization	SSA	Selected Statistics on Agriculture
NTBs	Non-Tariff Barriers	TBT	Technical Barriers to Trade
NTMs	Non-Tariff Measures	TEL	Temporary Exclusions List
OECD	Organization for Economic Cooperation and Development	TII	Trade Intensity Index
OLS	Ordinary Least Squares	TPP	Trans-Pacific Partnership
PASCN	Philippine APEC Study Center Network	TRIPS	Trade Related Aspects of Intellectual Property Rights
PCAARRD	Philippine Council for Agriculture, Aquatic and Natural Resources Research and Development	TRQ	Tariff Rate Quota
PDR	People's Democratic Republic	UACT	Universal Access to Competitiveness and Trade
PH	Philippines	UK	United Kingdom
PH-EFTA FTA	Philippines-European Free Trade Association Free Trade Agreement	UNDP	United Nations Development Program
PH-EFTA	Philippines-European Free Trade Association	UNSD	United Nations Statistics Division
PH-EU FTA	Philippines-European Union Free Trade Agreements	UPOV	Union for the Protection of New Plant Varieties
PH-EU	Philippines-European Union	US	United States
PhilMech	Philippine Center for Postharvest Development and Mechanization	USDA	United States Department of Agriculture
PIDS	Philippine Institute for Development Studies	WITS	World Integrated Trade Solution
		WTO	World Trade Organization

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