

# Philippine Agricultural and Food Policies Implications for Poverty and Income Distribution

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Despite progress in recent years, the incidence of poverty in the Philippines remains very high: the national poverty rate was more than 30 percent in 2003, with even higher levels in rural areas. Because poor Filipino households spend more than half their income on food, they have been highly vulnerable to the dramatic increases in food prices that occurred during 2007–2008.

Although the food price crisis is global in scope, the Philippines has been particularly hard hit, for two main reasons. First, poor productivity during the past two or three decades has caused agriculture's contribution to total GDP to decline. Second, even as agricultural productivity declined, the population grew rapidly. This combination of diminished domestic supply and increased domestic demand turned the country into a net food importer, making it far more vulnerable to fluctuations in the world market.

Given these conditions, this research report analyzes how policymakers can reduce poverty through trade policy reform and improved rice productivity. It uses a dynamic-recursive computable general equilibrium (CGE) model calibrated to the year 2000 social accounting matrix (SAM) of the Philippine economy, and a micro-simulation model that utilizes the 2000 Family Income and Expenditure Survey (FIES), in order to analyze possible policy shifts. Three simulations produced by these tools assess the poverty and income distribution implications of reforming trade in agricultural products and major non-agricultural food items (rice, corn, sugar, beef, chicken, pork, processed meat products, fruits and vegetables, and processed fruits). One simulation assesses the impact of increased rice productivity.

## FINDINGS

The trade reform simulations were made in the context of current protection policies. Although the Philippines has, since the mid-1980s, reduced protection on nonagricultural goods, the special product (SP) arguments in the World Trade Organization (WTO) increase the pressures to maintain the existing high food protection in the country. SP provides developing countries with the flexibility to implement tariff-reduction programs for certain self-designated products for an extended period on the basis of food security, livelihood, and rural development issues. In the Philippines, treating key food items as SP will help maintain the present high domestic food prices.

The simulation results indicate that trade reform in agriculture and in major food items will have favorable effects on factor prices and bring about a significant reduction in consumer prices. With this, real household income increases while poverty and income inequality declines. This therefore implies that maintaining existing trade protection on agriculture and major food items—which drives food prices up—will not solve the poverty and income inequality problem in the Philippines.

In addition to eliminating unnecessary agricultural trade protection, policymakers need to invest in improved rice productivity. The report's simulation results indicate that higher rice productivity increases domestic production and reduces imports of rice. Most important, it reduces consumer prices. Further, most of the benefits from improved rice productivity go to the poorest decile, because rice has the largest share in that group's consumption basket relative to other household groups. This can lead to a reduction in poverty incidence and income inequality.

The Philippine government has already adopted a strategy to improve rice productivity. Launched in 2001, the program introduced a new rice technology called hybrid rice and aggressively pursued its adoption through the Hybrid Rice Commercialization Program (HRCP). The government supports the production of hybrid rice seeds through (a) the procurement of seeds at a guaranteed price; (b) the distribution of the procured seeds to participating farmers at half the procured price; and (c) the transfer of extra money to participating farmers for fertilizer.

Thus far, the government has infused huge amounts of resources in support of the HRCP. The results are not encouraging, however. The program has proven to be costly, inefficient, and ineffective. The adoption rate of hybrid rice is very low, and farmers who participated in the HRCP have a very high drop-out rate because hybrid rice seeds are extremely expensive and have to be purchased every planting season, since reused hybrid rice has a drastically lower yield. Therefore, the massive government subsidies generated via the HRCP have only

served to distort the choice of farmers between the hybrid variety and the inbred rice variety they would ordinarily prefer.

## POLICY IMPLICATIONS

The report's simulations suggest two policies that can be adopted in order to reduce food prices and poverty in the Philippines. First, treating key food items as special product will retain the present high domestic food prices. Thus, trade policies should instead focus on reducing trade protection in agricultural commodities, particularly in food-related goods. Second, instead of supporting the HRCP, the government should spend its limited resources on research and development that focuses on improving the yield of inbred rice. Enhancing an inbred-based system adapted to farmers' familiar practice of saving, reusing, and exchanging seeds is a more responsive productivity-improvement approach than promoting costly technologies such as hybrid rice, which has not yet become commercially viable.

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