Agriculture Trade Reform Leads to Fewer Poor but Poorer Poor in the Philippines

by Erwin Coron

The Philippines has undertaken a substantial trade reform program since the 1980s in order to enhance domestic producer efficiency and encourage exports. However, the impact of these reforms on the poor is not very clear and is the subject of very intense debate. At center stage is the likely poverty impacts of opening up the highly protected agricultural sector.

To shed light on these concerns, a team of Filipino researchers, led by Erwin Corong and Caesar Cororaton employed a computable general equilibrium (CGE) microsimulation model of the Philippines that individually models each of 24,797 Filipino households from a nation-wide household survey. This type of macro-micro model makes it possible to analyze the impacts of recent tariff reforms on all aspects of the Filipino economy, notably household income and poverty.

The national poverty headcount ratio (percentage of poor) decreases owing to the reduction in consumer prices of primary agricultural and processed food items which were imposed heavy tariffs prior to policy reforms. However, both the poverty gap and severity of poverty worsen marginally, implying that, while there are fewer poor, those who remain poor are subjected to more abject poverty. All poverty indices decrease significantly in most urban areas, as they capitalize on the expansion of the manufacturing and service sectors. While, in contrast, rural households suffer overall, due to declining returns to agricultural land and labor.

In conclusion, tariff reductions appear to have marginally reduced the number of poor in the Philippines, while increasing the degree of poverty among those who remain. Simulation results indicate that trade openness has a pro-urban anti-rural bias. Thus, the critical challenge for the country at this point is to capitalize on the gains and to minimize the losses. This suggests that regional compensatory policies should be considered to address the anti-rural bias of trade reform.

Notes: NCR-National Capital Region or Metro Manila; Urban – All urban areas except NCR

This Policy research brief is based on the Working paper MPIA 2006-09