Trade Reform Found to Reduce Poverty in the Philippines

by Caesar Cororaton and John Cockburn

In a recent study using an integrated CGE-microsimulation approach, MPIA researcher Caesar Cororaton concludes that tariff reductions in the Philippines between 1994 and 2000 were generally poverty-reducing. However, the reduction in poverty is found to be much higher in the National Capital Region (NCR), where the incidence of poverty is already lowest, than in other areas, especially rural areas, where poverty is much more widespread. Poverty gains are achieved primarily through a reduction in consumer prices, although household incomes also increase. Tariff cuts also lower the cost of local production and bring about real exchange rate depreciation. Since the non-food manufacturing sector is the most export-oriented sector in the Philippines, it emerges as the biggest beneficiary of trade liberalization. On the other hand, the agricultural sector contracts. As the poor derive most of their income from the agricultural sector, income inequality increases as a result of trade liberalization.