Trade Policy Options for the Philippines: A Preliminary Assessment

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Introduction

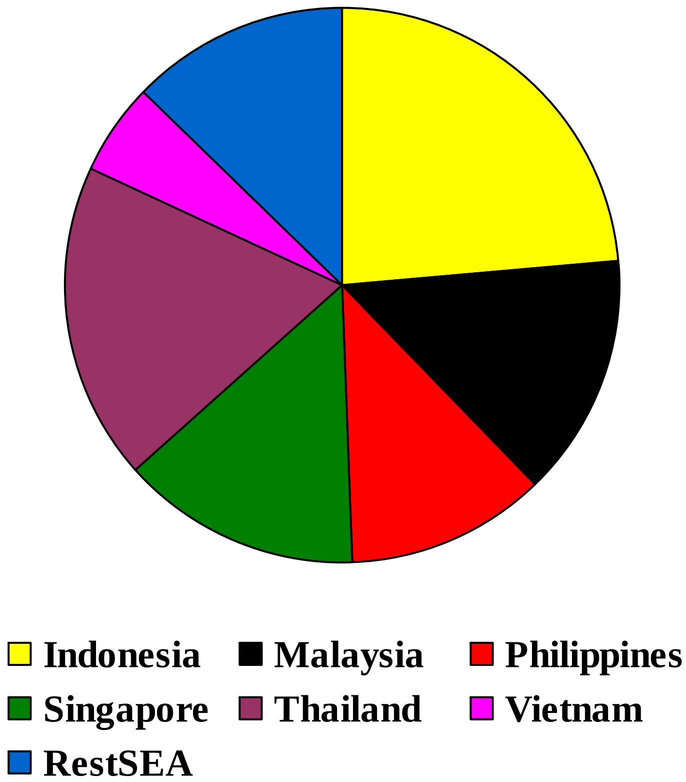
- Rise of new bilateral, regional trading arrangements in the East Asia in past decade
  - after Asian crisis
  - change in Japan's stance towards FTAs
  - growth of China
  - European enlargement and FTAA
  - slow progress of multilateral negotiations
- Paper assesses quantitative impacts of various trade options for the Philippines
- Preliminary assessment covering market access liberalization only

Preferential Arrangements

- Philippines – founding member of ASEAN since 1967
- ASEAN has recently entered into arrangements with other countries singly (China, Japan, Korea) and as ASEAN+3
- Individual countries in the ASEAN has entered bilateral arrangements with other countries (eg. SGP-JPN)
- Multilateral negotiations

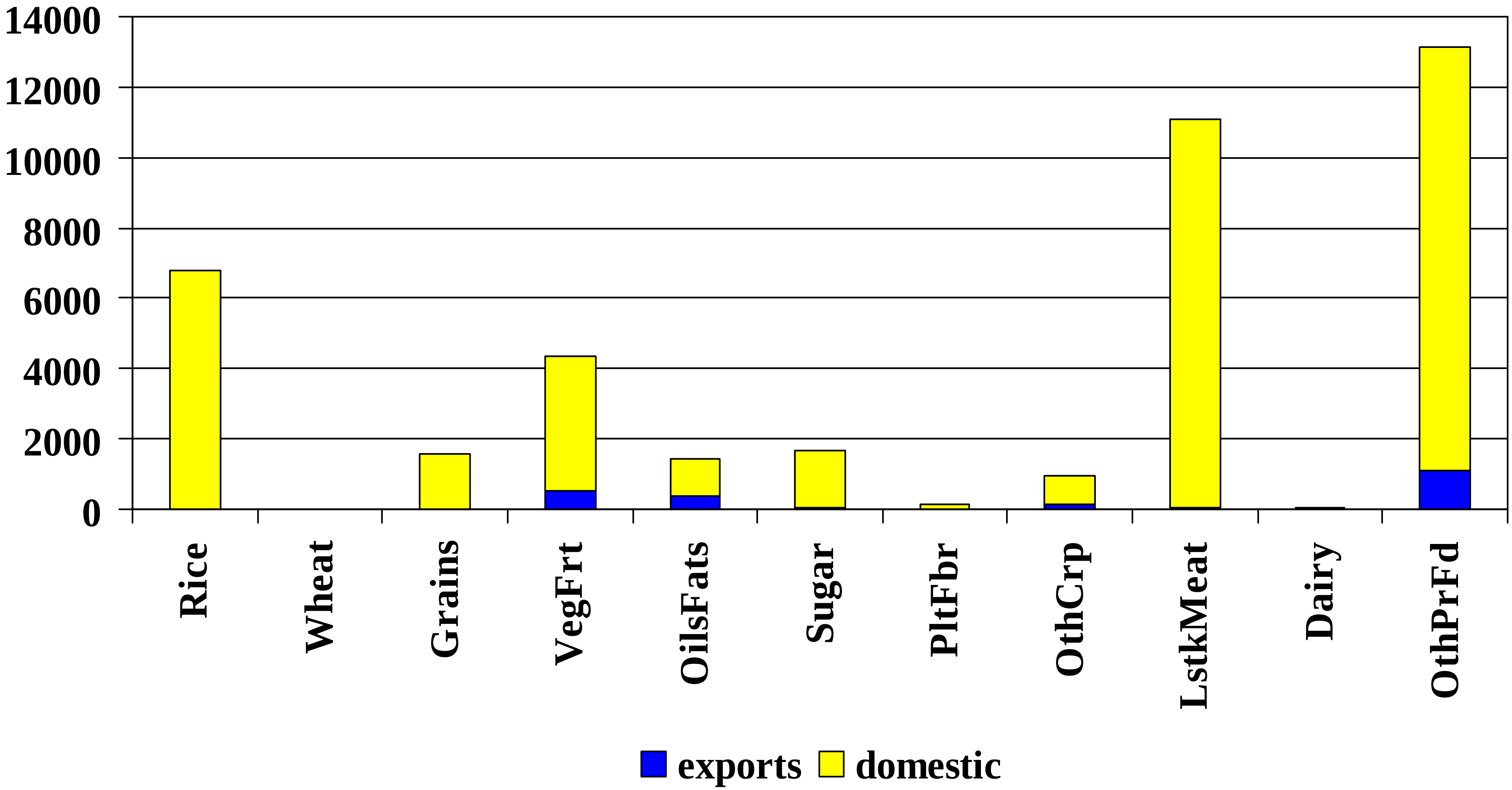
Comparison of Economic Size

2001 GDP ASEAN

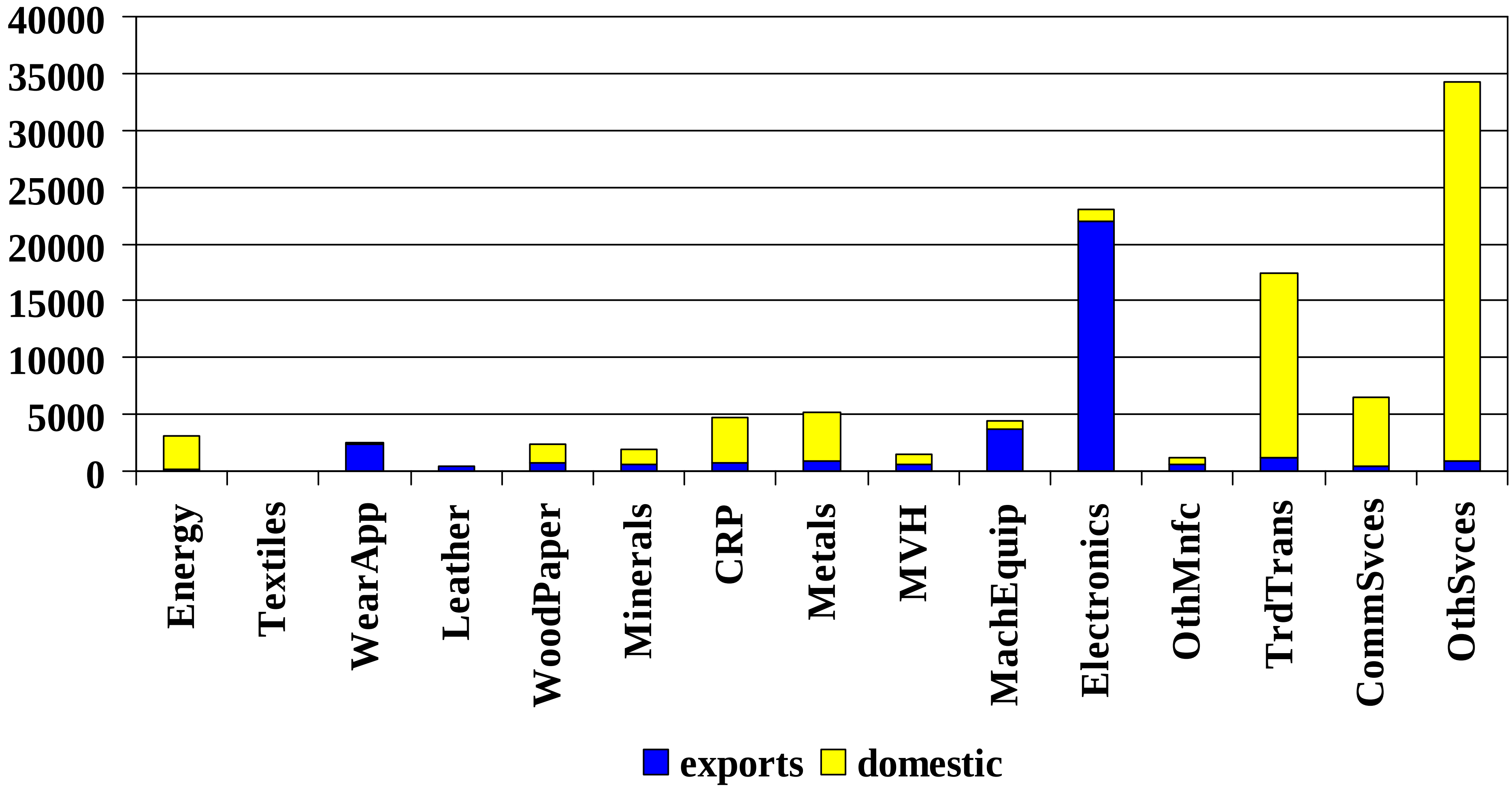


	2001 GDP	GDP per capita
China	1159031	913
Japan	4177570	32946
Korea	427646	8988
Indonesia	145306	681
Malaysia	88041	3719
Philippines	71437	894
Singapore	84855	25482
Thailand	114681	1828
Vietnam	32723	412
RestSEA	79053	1179
USA	10082155	36332

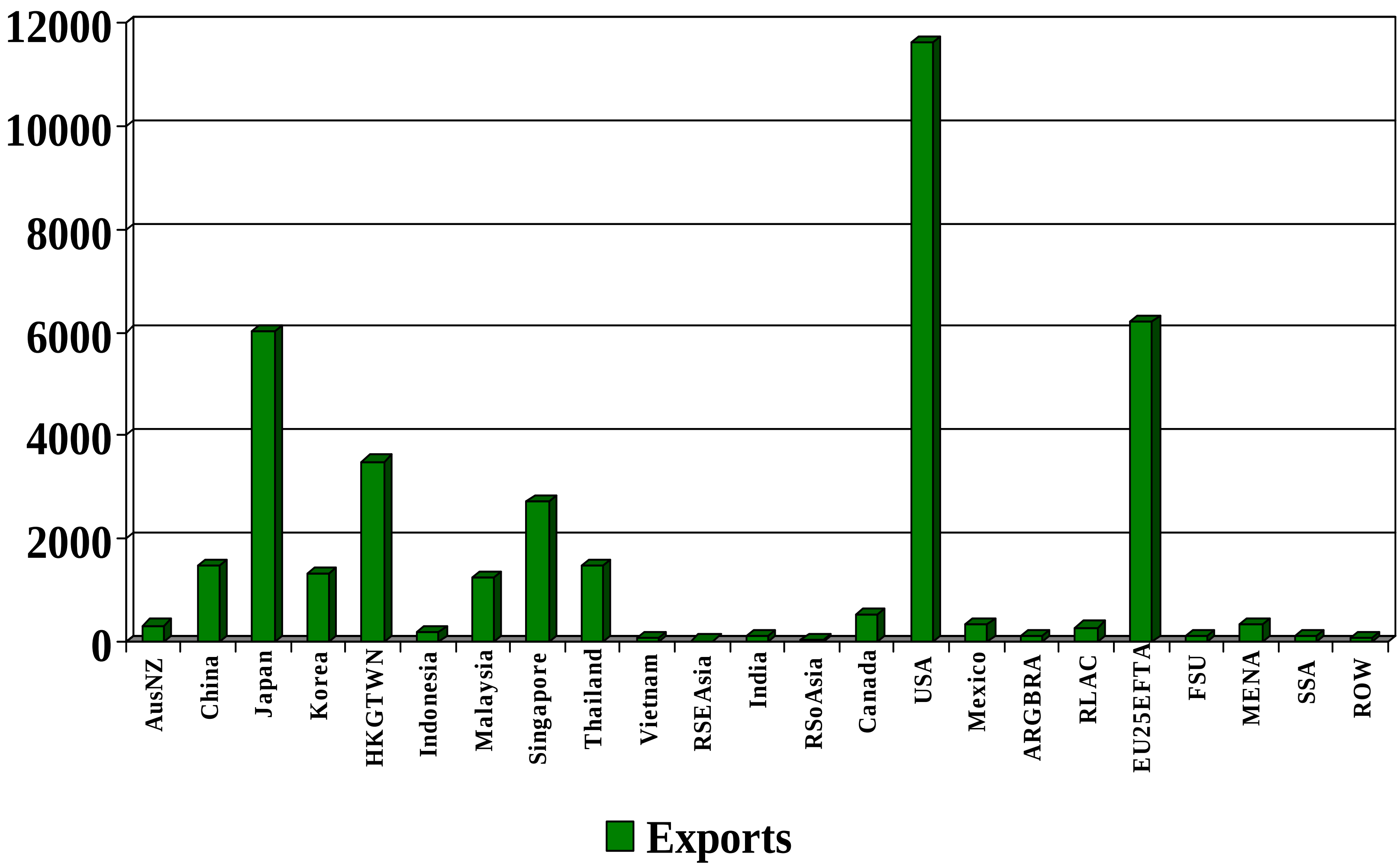
Total Agricultural Output with Proportion Exported



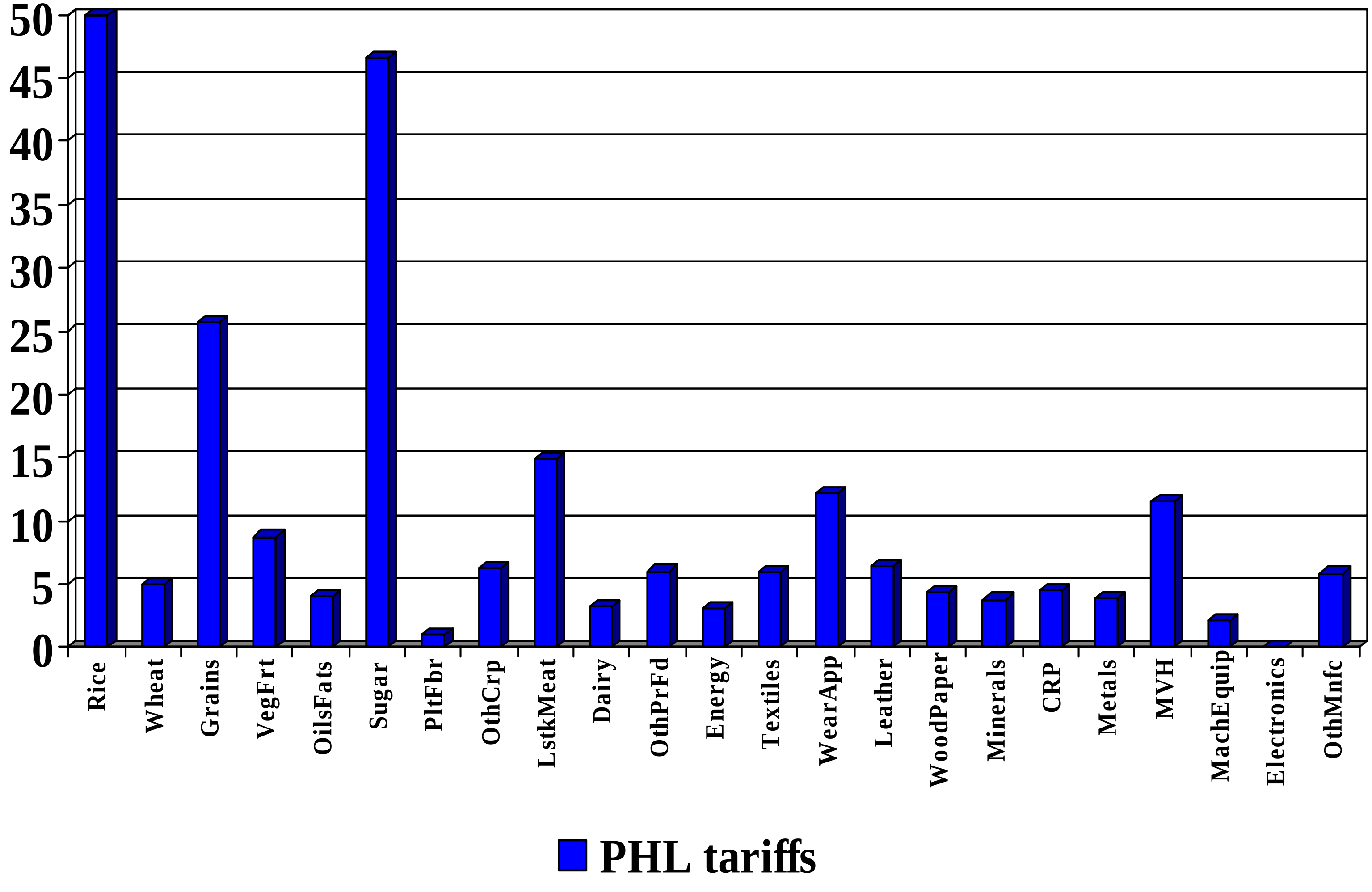
Total Manufacturing and Services Output with Proportion Exported



Philippine Export Destinations



Philippine Average Tariffs



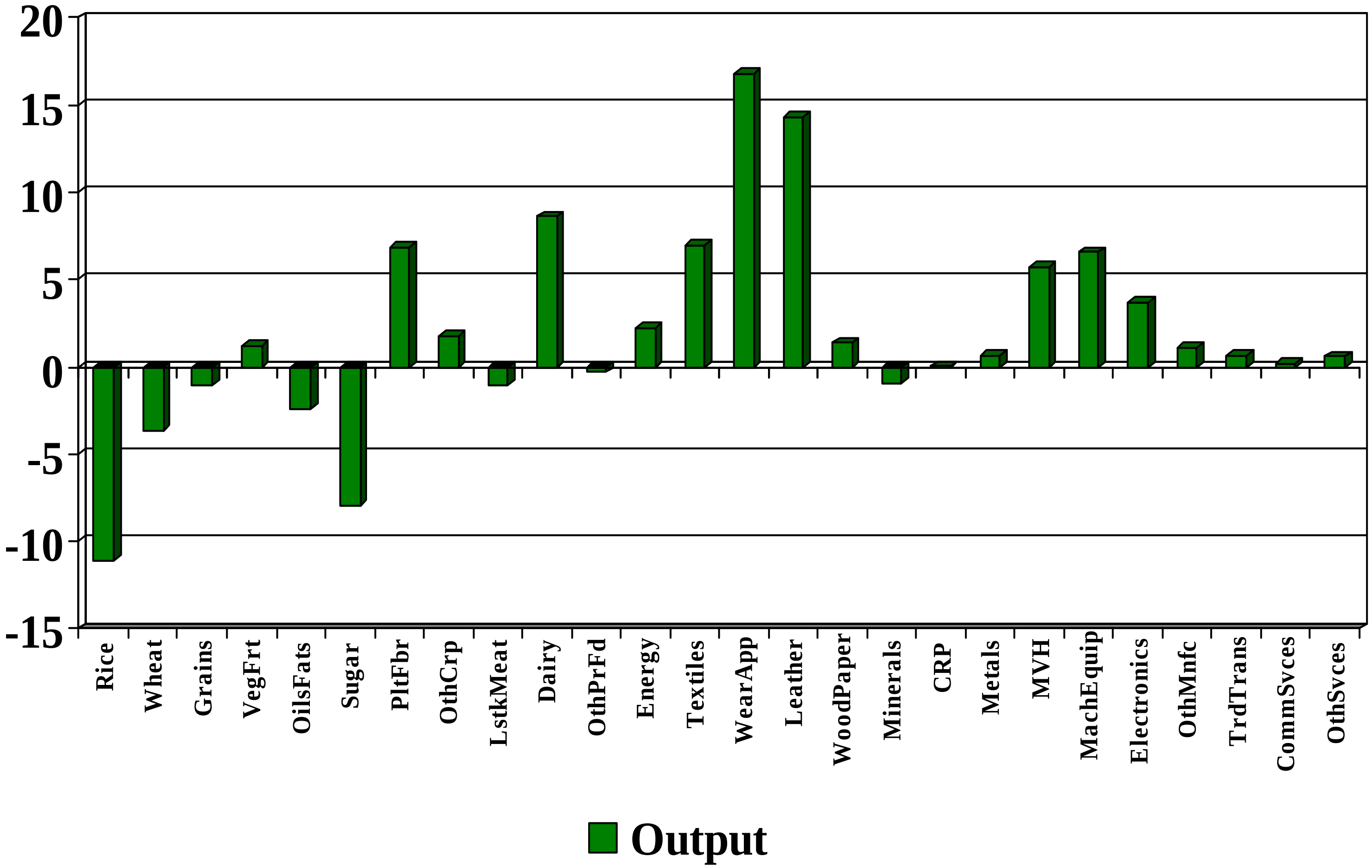
Trade Policy Simulations

Simulation	Description
Unilateral	100% cut on Philippine tariffs
Bilateral JPN-PHL	100% cut on PHL and JPN tariffs on each other
Bilateral USA-PHL	100% cut on PHL and USA tariffs on each other
ASEAN+3 (hub\spoke)	100% cut on intra-ASEAN tariffs and bilateral tariffs between ASEAN and each of China, Japan and Korea; no tariff cuts between 3
ASEAN+3 (full)	100% tariff liberalization between ASEAN and China, Japan, and Korea
Doha scenario	Harmonizing formula for agriculture; for non-agriculture – 50% cut for developed, 33% for developing and 0 for LDCs
Multilateral	100 cuts in import tariffs

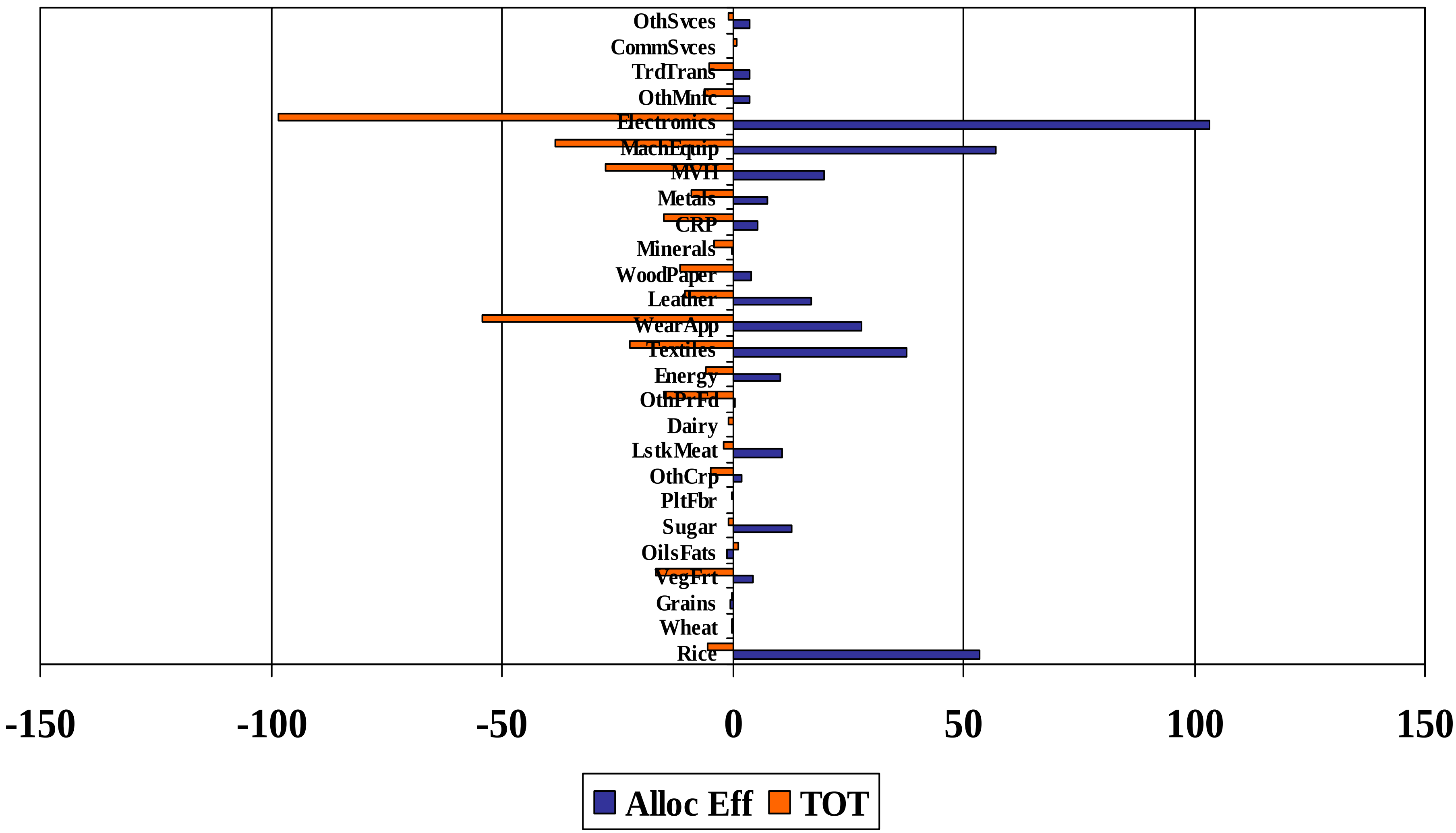
Model and Data

- GTAP GE model
  - multi-region & multi-sector
  - regions link through trade, transport, protection
  - inter-sectoral linkages and factor constraints
- GTAP 6 Data Base (2001 base year)
  - Reconciled bilateral trade data
  - Tariff data from MAcMap data base
  - Adjusted data to post-2005 protection (China accession to WTO, UR commitments of developing countries, ATC quota elimination)
  - aggregated to 24 regions and 26 sectors

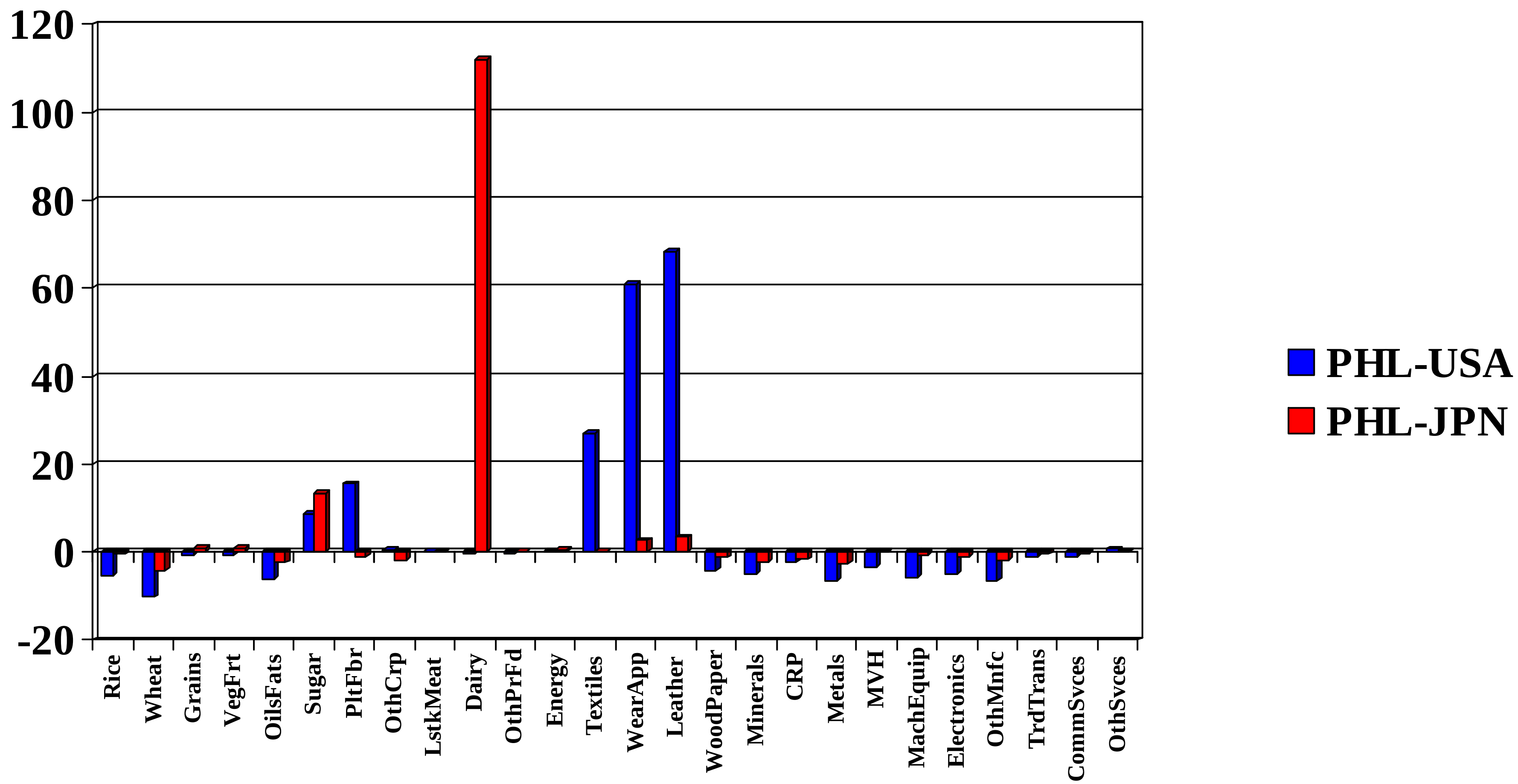
Output % Changes by Sector from PHL Unilateral Liberalization



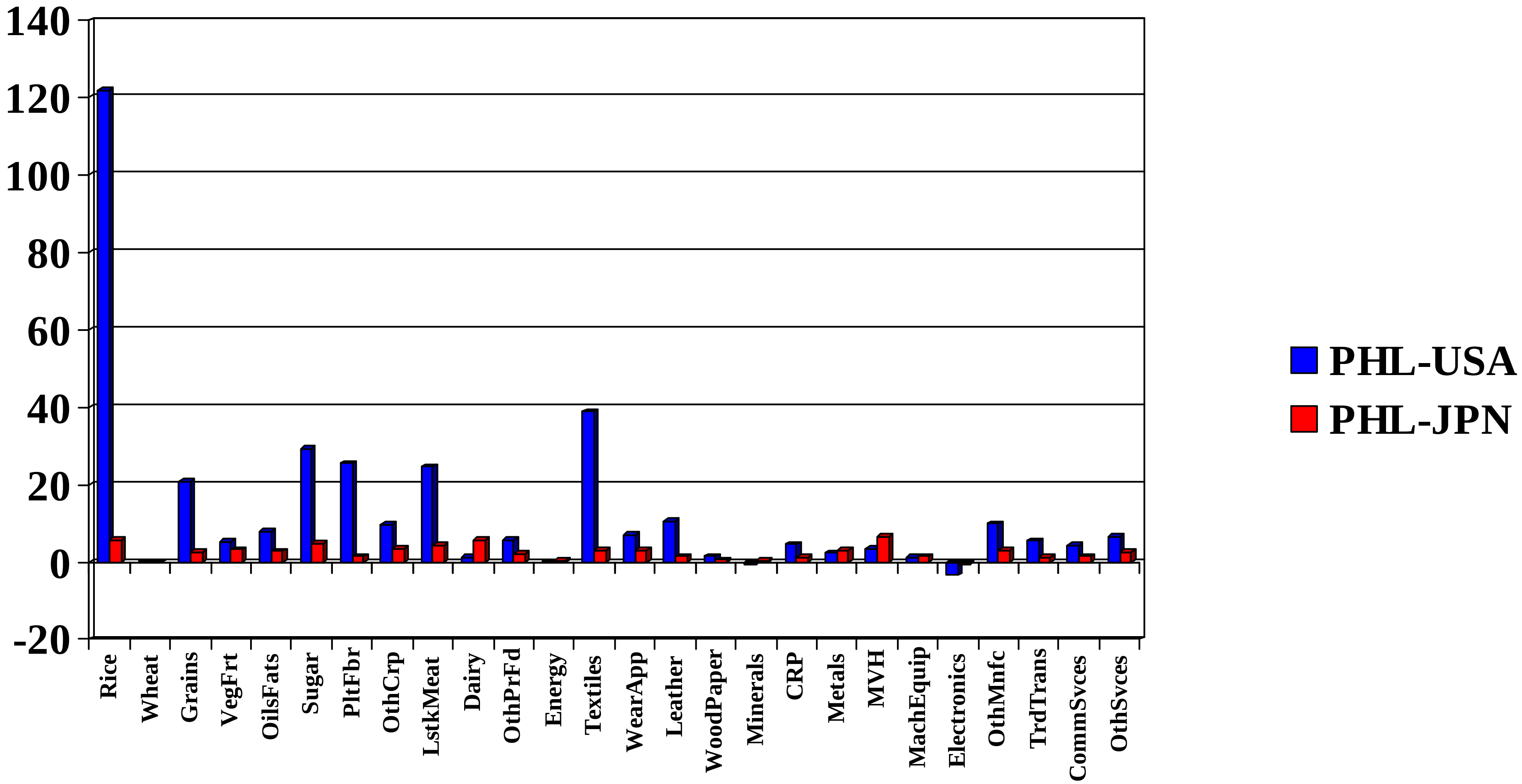
Welfare Impacts (EV) of Bilateral Liberalization (total -34 US$M 2001)



Output % Changes by Sector from PHL-USA and PHL-JPN



Import % Changes by Sector from PHL-USA and PHL-JPN



Welfare Effects: PHL-JPN

EV 2001 $ M	Total	Alloc Eff	TOT
JPN	11	-75	98
PHL	62	104	44
USA	-68	-6	-54

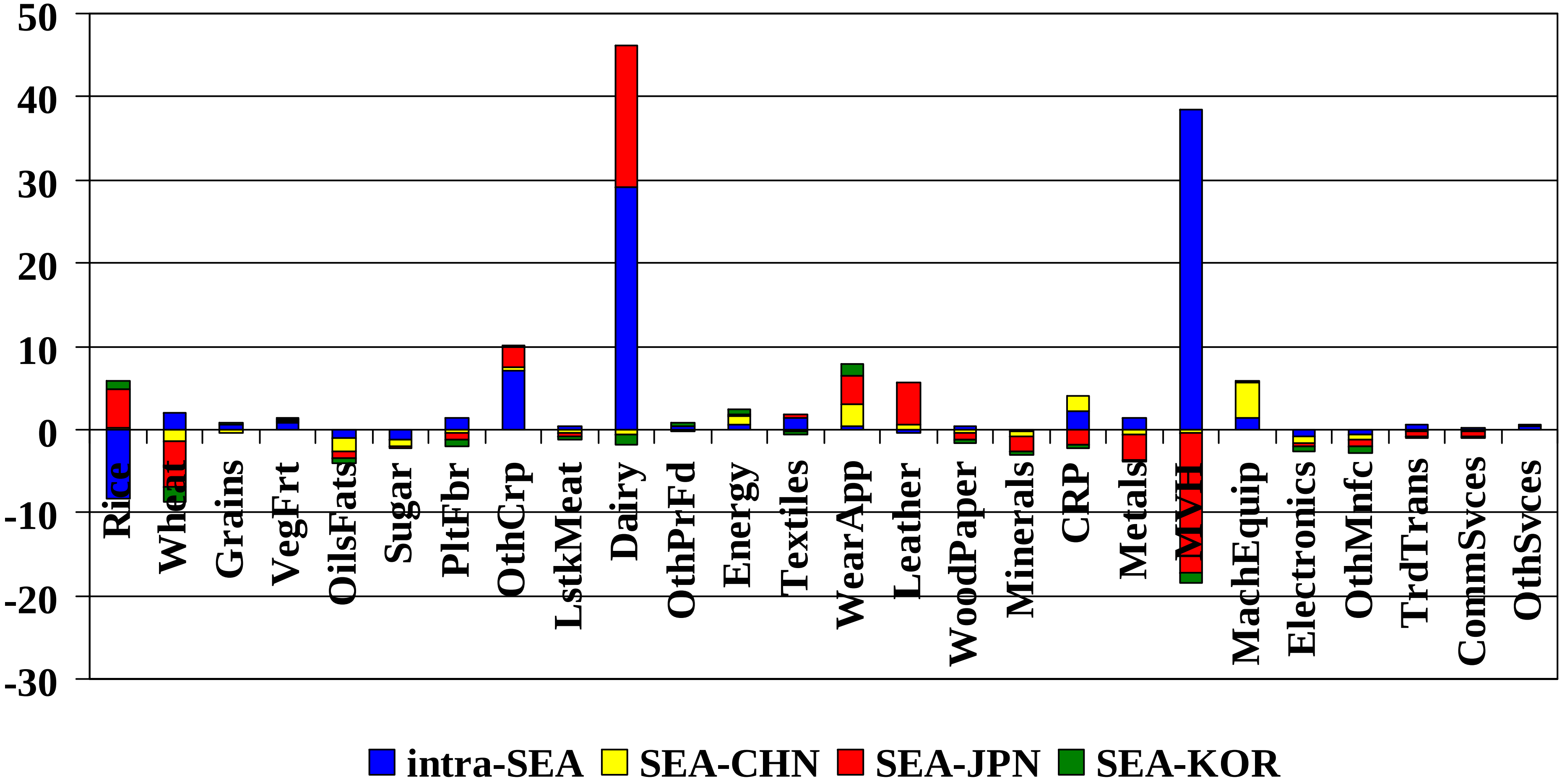
- Negative alloc effect for JPN as shift imports of sugar from AUS and THA to PHL (reduced tariff revenue)
- Positive TOT in JPN due to better export prices for its MVH and MachEquip
- Positive alloc effect for PHL due to increased production of manufactures which are taxed
- Positive TOT in PHL due to improved export prices for its electronics exports
- Negative TOT for USA as prices of its exports fall

Welfare Effects: PHL-USA

EV 2001 $ M	Total	Alloc Eff	TOT
JPN	87	-13	-65
PHL	509	67	384
USA	-90	-89	-13

- Positive alloc effect for PHL as imports of rice from USA increase
- Large positive TOT in PHL due to better export prices for electronics, wearing apparel, processed food
- Negative alloc effect for USA due largely to increased production of rice for which there is an output subsidy
- Negative TOT effect in JPN due to increased price of imports of electronics and machequip

Output % Changes by Sector from ASEAN+3 (ASEAN is hub)



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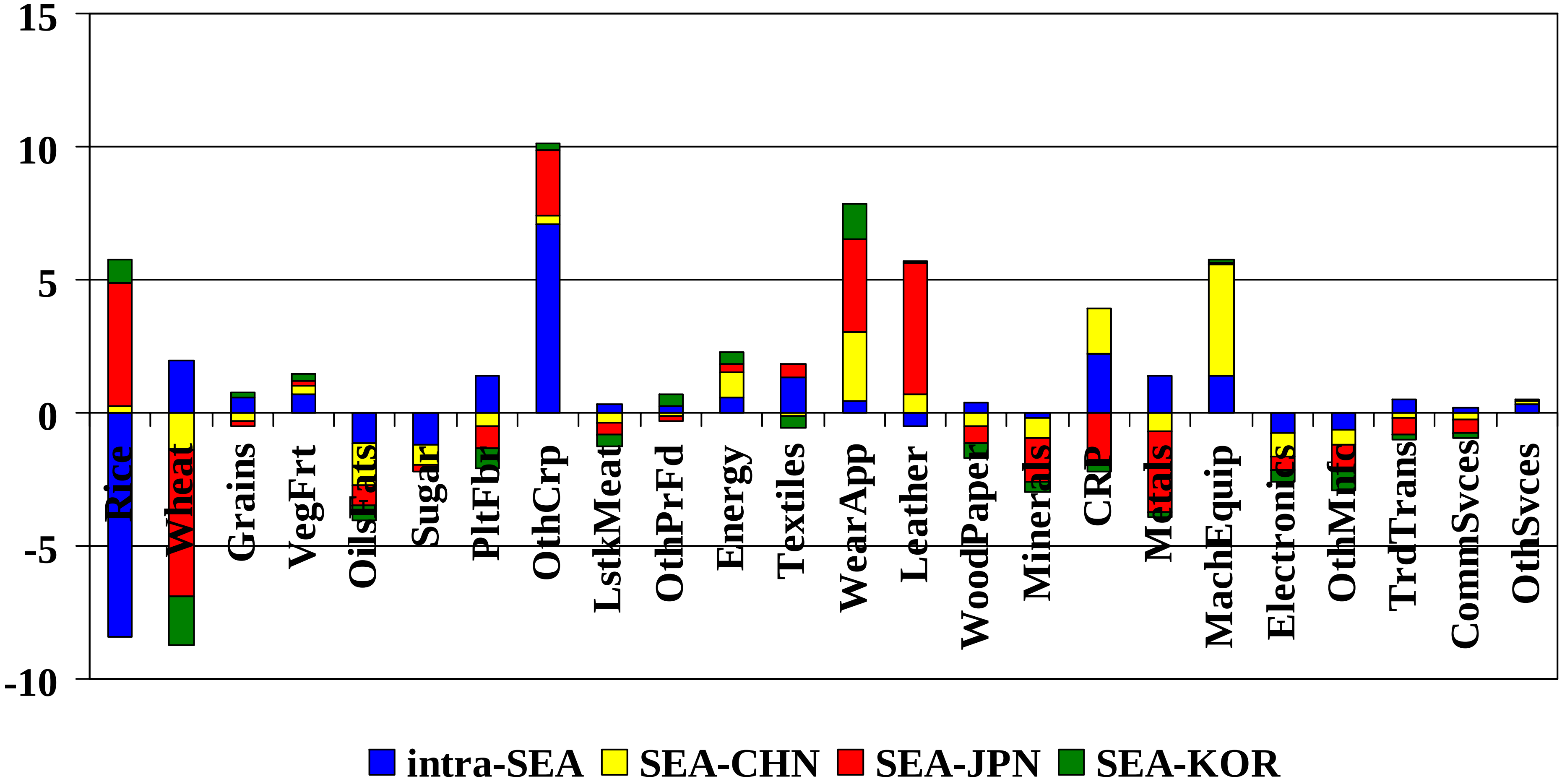


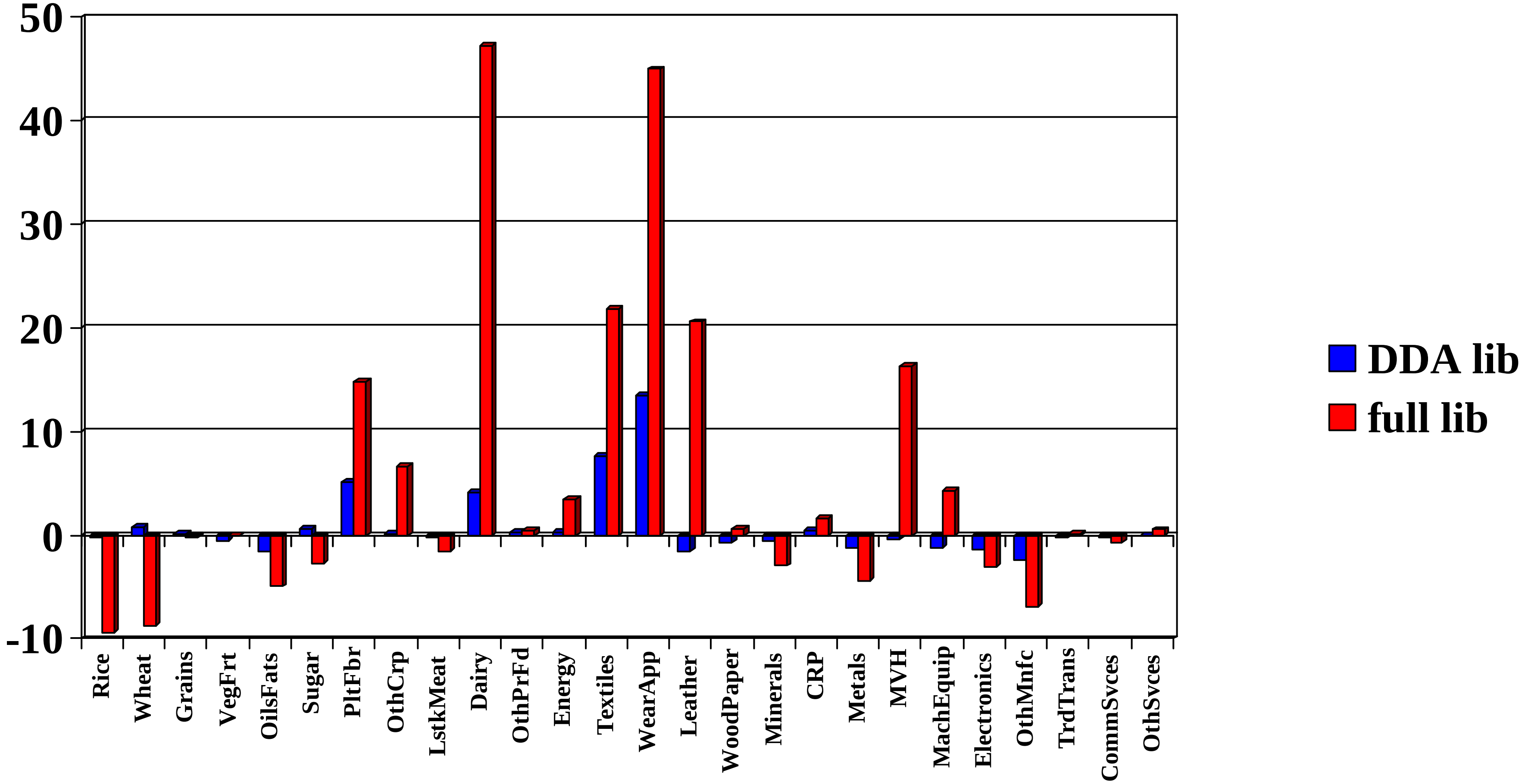
Welfare Changes from ASEAN+3 with ASEAN as hub and other 3 as spokes

Regions	TOTAL EV (u)	intra-SEA	SEA-CHN	SEA-JPN	SEA-KOR
China	-183 (-0.02)	-253	966	-576	-320
Japan	11746 (0.33)	-687	-1000	14601	-1169
Korea	1261 (0.33)	-172	-414	-1017	2864
Indonesia	578 (0.43)	187	229	89	72
Malaysia	1376 (1.77)	494	371	324	188
Philippines	130 (0.20)	165	73	-120	11
Singapore	1831 (2.43)	1104	324	383	20
Thailand	6566 (6.62)	518	891	4453	704
Vietnam	2019 (7.02)	144	575	978	323
RSEAsia	53 (0.08)	-36	35	31	23
USA	-1871 (-0.02)	-282	-551	-858	-180
EU25EFTA	-2126 (-0.03)	-445	-592	-955	-134
Total	21380	738	907	17333	2401

Export Changes and Welfare from ASEAN+3 (ASEAN as hub vs full lib)

	Export Changes (%)		Welfare Changes (2001 US $M)	
Regions	ASEAN+3 hub	ASEAN+3 full	ASEAN+3 hub	ASEAN+3 full
China	1.43	6.04	-183	948
Japan	3.65	5.45	11746	23434
Korea	1.40	5.97	1261	5241
Indonesia	2.77	2.76	578	443
Malaysia	1.70	1.66	1376	1226
Philippines	1.77	2.98	130	87
Singapore	-0.34	-0.44	1831	1710
Thailand	-0.45	3.21	6566	2362
Vietnam	12.17	15.19	2019	1034
RSEAsia	10.66	9.66	53	11
USA	-0.06	-0.09	-1871	-3055
EU25EFTA	-0.05	-0.02	-2126	-2443
World	0.41	1.02	21380	26444

PHL Output % Changes by Sector under Doha vs Full Lib



Welfare Changes from Tariff Cuts under Doha vs Full Liberalization

Regions	Doha AGRI	Doha NAMA	Total DOHA LIB	Total full lib
China	23.9	1728.3	1752.2	3327.8
Japan	13640.0	2421.7	16061.7	28913.5
Korea	1973.3	1209.2	3182.5	7572.6
Indonesia	3.0	162.7	165.7	1001.8
Malaysia	19.2	165.5	184.7	2374.5
Philippines	3.8	50.6	54.5	163.1
Singapore	13.8	377.9	391.6	3606.1
Thailand	211.5	307.3	518.9	2818.3
Vietnam	-56.0	-299.2	-355.2	1852.0
RSEAsia	-0.4	16.0	15.6	77.0
USA	801.4	-380.7	420.7	-1866.0
EU25EFTA	4850.8	842.3	5693.1	10087.6
WORLD	21484.3	6601.6	28086.0	59928.4

Summary

- Unilateral liberalization improved resource allocation but has strong negative TOT effects
- Bilaterals: have different impacts on PHL sectors (JPN – dairy; USA – wearing apparel, textiles, leather); larger welfare gains for PHL from bilateral with USA
- Bilaterals: Existing domestic and trade policies help determine welfare impacts (e.g. revenue loss from taxed commodity; increase subsidy payments)

Summary

- ASEAN+3: increased output of dairy, MVH, othcrops, wearing apparel, machequip
- Philippines benefits most from ASEAN FTA, some gains from ASEAN-CHN and ASEAN-KOR but not from ASEAN-JPN
- Higher welfare gains for PHL if ASEAN is hub others are spokes, compared to full ASEAN+3 liberalization
- Textiles, wearing apparel, plant-based fibers, dairy expand under Doha; small impact on other sectors
- Philippines - negligible agricultural tariff cuts; larger welfare gains from NAMA

Conclusions \ Implications

- Need to carefully access sectoral impacts of different arrangements
- Higher welfare gains from ASEAN FTA; competition with other ASEAN members in 3 liberalized markets
- In ASEAN+3, hub and spokes configuration vs full regional liberalization matters
- Expect larger gains (3x) from full multilateral tariff liberalization
- Need to consider resources needed in negotiating different arrangements

Limitations

- Preliminary analysis
- Stylized scenarios of 100% tariff liberalization
- Does not take into account other specific\ components of arrangements (e.g. services trade liberalization, trade facilitation, excluded products)
- Comparative static analysis – assumes no adjustment cost; does not consider dynamic gains from trade