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EFFECTS OF THE CEPT-AFTA POLICY OF TARIFF REDUCTION ON UNPROCESSED AGRICULTURAL PRODUCTS

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APPROVAL SHEET

This thesis of **JOYCE MIA BRIONES**, "**EFFECTS OF THE CEPT-AFTA POLICY OF TARIFF REDUCTION ON UNPROCESSED AGRICULTURAL PRODUCTS**" is submitted in partial fulfillment of the requirements for the degree of Bachelor of Arts major in Political Science is hereby accepted.

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CHAPTER 1

INTRODUCTION

Background of the Study

Cristina C. David and Arsenio Balisacan in a panel discussion on Agriculture and Food Security: Protection versus Liberalization, notes how the domestic price of rice has risen over the years due to government policy failures.[1] She notes how the government imported rice too late due to the passage of the Magna Carta for Small Farmers wherein the government maintains trading monopoly on the imports and exports of rice and there quantitative trade restrictions on corn, sugar and others. The Philippine government had been highly protective of agricultural commodities, particularly, food. However, the Philippine Institute for Development Studies reported on the trends of imports and exports of agricultural products such as rice and corn yield how overprotection can be detrimental to the country. With the free trade policy being advocated and implemented by international organizations such as the World Trade Organization and by regional trading blocs such as the ASEAN Free Trade Area, both of which the Philippines is part, many hope that the Philippines will derive much gain from engaging in liberalized trade of agricultural products among its co-members in the ASEAN.

The prospect of forming an ASEAN economic community dates back to 1992, prior to the Fourth Summit of the ASEAN. The Advisory Committee, which consisted of representatives from Thailand, Brunei Darussalam, Indonesia, Malaysia, Philippines and Singapore headed by the Chairman, Dr. Amnuay Viravan of Thailand, recommended to

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[1] Cristina C. David and Arsenio M. Balisacan, "Agriculture and Food Security: Protection versus Liberalization (A Panel Discussion)," in *The Philippines in the Emerging World Economic Environment: Globalization at a Glance,*" ed. Cayetano W. Paderanga, Jr. (Quezon City: UP-CIDS, 1996), 15-164.

the Fourth Summit to give an endorsement in principle to an ASEAN Free Trade Area (AFTA).[2] It likewise recommended schemes and processes related to the formation of the AFTA. This free trade area will include strengthening of existing ASEAN trade liberalization programs such as the ASEAN Preferential Trading Arrangement (PTA) and the newly developed Common Effective Preferential Tariff (CEPT) Scheme. On January 1, 1993, the ASEAN began the preparations for the AFTA. The AFTA aimed to reduce all tariffs to 0-5% and to dismantle all non-tariff barriers (NTBs) within 15 years.[3] In the Fourth ASEAN Summit of 1992, unprocessed agricultural products are excluded from the CEPT scheme. In the 26th ASEAN Economic Ministers (AEM) Meeting in September 1994, economic ministers decided to phase in unprocessed agricultural products into the CEPT Scheme.[4]

Clearly, the implementation of trade liberalization by AFTA will affect the Philippine society. To date, agriculture accounts for 20% of the Philippines' GDP.[5] The local demand for agricultural products had continually risen from the increase of the Filipino population throughout the years. Health and nutrition still remain as concerns in the country as questions arise as to whether good food would be more accessible or not in the years to come, within the policies set by the government in power. There is no doubt that the impact of the free trade policy to be employed by AFTA will be significant to Philippine society and to the Filipino agriculture sector. More than ever, the need to be aware of the provisions and effects of the CEPT-AFTA policy of tariff reduction on

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[2] Amnuay Viravan, preface to Advisory Committee Study Team Members, *ASEAN Economic Cooperation for the 1990s*, (Makati: Philippine Institute for Development Studies, 1992), 2.
[3] Customs, duties, toll or tribute payable upon merchandise to the general government is called tariff; the rate of customs, etc. also bears this name and the list of articles liable to duties is also called the tariff in www.lectlaw.com
[4] "Inclusion of Unprocessed Agricultural Products," *AFTA Reader* vol. IV: *The Fifth ASEAN Summit* (Indonesia: ASEAN Secretariat, 1996), 27.
[5] "Industry Scope," *The AFTA Monitor* 7 no. 12 (1999): 16.

unprocessed agricultural products as well as the need to be prepared for adhering to such policy are paramount.

Statement of the Problem

This research focused on the questions: (1) What is the CEPT-AFTA Scheme policy of tariff reduction on unprocessed agricultural products? (2) What policies were formulated by the Philippines related to the implementation of the AFTA policy on unprocessed agricultural products? (3) What are the AFTA policy's effects on the Philippine agricultural sector?[6]

Objectives

This research aimed to achieve the following objectives:

1.) to examine the nature of the AFTA policy on unprocessed agricultural products

2.) to determine the nature of Philippine policy on the AFTA policy on unprocessed agricultural products

3.) to examine the effects of the AFTA policy on Philippine agriculture in terms of its effects on volume and values of trade in export and imports, balance of trade, share of intra-AFTA trade in GDP, domestic prices and world prices of coconut, sugar and corn

Significance

This research will help bring about awareness and preparation for adherence to the AFTA policy. The provisions of a public policy by themselves are not the sole determinants of a successful policy implementation. For a public policy to truly achieve effectivity in terms of the attainment of its goals, certain conditions must be established.

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[6] CEPT-AFTA policy of tariff reduction is hereinafter referred to as "AFTA policy."

One such condition is society's awareness of the provisions of the public policy and the implications of these to the society in which the public policy will be implemented. Awareness is important in a liberal-democratic society such as the Philippines because it is through knowledge of the nature of a public policy that people can adequately evaluate if a public policy is inherently for the welfare of the majority. At a time when information technology is a powerful political and economic tool to mobilize pressure groups, whether to support or oppose an action of the government, business sector or other sectors, people need to be more critical of the kind of information they get regarding important issues. Thus, information is a key not only to successful policy implementation but also to political and economic stability. One such issue is free trade, a concept being promoted by organizations such as the World Trade Organization or WTO and the Association for Southeast Asian Nations or ASEAN. Awareness of the provisions and implications of the free trade policy can help the Filipino citizenry, to evaluate if this policy would be truly for public welfare, as a government policy should be. Related to this is the need to address certain misconceptions or distortions regarding the public policy that may skew society's awareness of the ASEAN free trade policy. In effect, this research will attempt to validate existing nuances on the free trade policy.

A second condition for a successful policy implementation is a society that is prepared to adhere to the public policy. Aside from knowing the provisions and implications of a public policy, society can prepare for the implementation of a public policy in terms of concrete action. In the issue of free trade being promoted by the ASEAN through the ASEAN Free Trade Area, sectors that can be affected by the policy such as the Filipino agricultural sector can prepare for the implementation of the policy by employing means of production that are applicable and feasible in a free trade agreement. On the other hand, the government can also prepare by drafting supporting projects to aid the implementation of this policy. Having this preparation is an important factor in making free trade policy a successful policy. The goals of a public policy cannot be attained by virtue of the provisions of a public policy in itself. They are achieved by a strong and consistent teamwork between the government and society. The issue of free trade is no exception. The European Union or EU had proven to be an active area for trade and commerce among its member countries, and had continually grown throughout the years. To this date, the EU is known as one of the great economic giants of the world. Its member countries such as the United Kingdom, France and Germany have shown how free trade could foster with the proper adherence of both the government and the economic sectors to the policy. This research, in effect, will attempt to see if the Philippine government and the Filipino agricultural sector can achieve the same feat.

Scope and Limitation

This research focused on the AFTA policy on tariff reduction only in unprocessed agricultural products during the period 1996-2001.[7] In order to have a basis of comparison, information pertaining to trade during year 1995 when agricultural products where not yet under the CEPT-AFTA Scheme, was gathered. In particular, the researcher examined the effects of the AFTA policy in 3 unprocessed agricultural products: coconut, sugar substitutes and corn. The researcher included the derivatives of each product, depending on their nature and the availability of numerical data pertaining

[7] The CEPT-AFTA also provides, aside from tariff reduction, removal of non-tariff barriers or NTB's and quota restrictions or QR's.

to them. Thus, some derivatives of coconut such as coconut oil and desiccated coconut were not included since these two derivatives are processed and thus do not fall in the domain of the study. Due to inaccessibility of needed data, the researcher derived some figures based on simple arithmetic formula. As such, the precision and accuracy of these statistics are not assured. The researcher also had to use the latest monthly data for the year 2001, since government institutions such as the National Statistics Office are still not done with the computations for that year.

Survey of Related Literature

The researcher had looked into theses, researches, books and periodicals regarding any prior study made on the implications of the AFTA free trade policy and on agriculture. She had also consulted materials on trade liberalization. The following references are sequenced according to their relevance to the proposed thesis problem.

In his "The Economic Effects of Trade Liberalization on Philippine Agriculture," Ramon L. Clarete focuses on the economic effects of trade liberalization program on the agricultural sector of the Philippines.[8] The trade liberalization program of the government, through the Department of Agriculture, was composed of the Tariff Program Program (TRP) which was implemented from 1981 to 1985 and the Import Liberalization Program (ILP) which was implemented in 1981 (first phase) and in 1989 (second phase). These policies were implemented with the objective of increasing economic efficiency and enhance competitiveness of domestic producers. Thus, tariff reforms were implemented and non-tariff import restrictions were eliminated.

[8] Ramon L. Clarete, *The Economic Effects of Trade Liberalization in Philippine Agriculture* (Quezon City: Research and Training Program for Agricultural Policy, Department of Agriculture, 1989).

Tariff reforms consisted of lowering tariff barriers to trade and variance. The average tariff rate was reduced from 43% to 28%. The maximum tariff rate was decreased from 100% to 50%. Under the Executive Order Number 49 of October 1, 1986 and Republic Act Number 6647 of February 1988, tariff rates were modified to help local producers adjust to effect of import liberalization program. The agricultural sector, for one, had deeper tariff cuts than non-agricultural manufacturing goods: 22%. Under this framework, it is expected that the government imposes tariffs and non-tariff trade barriers to derive income. The limitation on the volume of imports makes the imported product become scarce and thus its price increases. The government, then, makes possible the existence of such scarcity. In terms of consumption, trade liberalization has made possible benefits for consumers belonging to all, except for 2 consumer groups. Society appeared to have gained 7.8 billion pesos as a result of the program. This amount constitutes 5% of the GNP of the Philippines in 1979. Furthermore, a 20% uniform tariff rate (that is, a uniform tariff for all products whether manufactured or unprocessed agricultural) is expected to yield 8 billion pesos of gain for Philippine society. A 30% uniform tariff rate is expected to yield only 4.9 billion pesos. All other effects include (1) the majority of income classes achieve positive real income gains due to the tariff reform program and the alternative tariff rate regimes (2) the highest real income gain to society is obtained when agricultural tariffs are maintained while industrial tariff rates are lowered (3) average prices decrease due to tariff reforms and the alternative tariff rate policies (4) outputs of agricultural export-oriented sectors increase while those of agricultural importables decline in all tariff policy regimes, implying that resources are allocated in favor of exportables (5) aggregate agricultural output declines except in the case when agricultural tariffs are raised (6) both farm and agricultural incomes decline in all but the higher agricultural tariff rate regime (7) relative to their current levels, farm and agricultural incomes will increase if industrial tariffs are lowered and post tariff reform agricultural tariffs are maintained.

In Clarete's work, tariff rates have been reduced at different rates, depending on the different kinds of products such as agricultural, manufactured, etc. Such reduction of tariffs had produced gains for the Filipino consumer and industry in the 1980's. Trade had expanded to a certain degree. Still, a question remains: do we get same gains out of a more liberalized tariff scheme of 0-5% reduction as is proposed by the CEPT-AFTA Scheme? Now that there tariff rates are lower and will be applicable to more products in trading with more countries in the 10-member ASEAN, will this same conclusion be found? The proposed research will attempt to extend Clarete's study by looking into the relationship of having such low tariff rate and gains that the Philippines could derive from intra-AFTA trading of agricultural products.

On the contrary, the article, GATT & Vegetable Farming: Counting the Costs... (15-31 September 1999), by the Ibon Foundation Inc. depicts the different side of the story of trade liberalization.[9] Vegetable farming contributes to the Philippine economy. With the Philippines' participation in the General Agreement on Tariffs and Trade the vegetable industry experiences: (1) higher costs of farm production (2) adverse effect on the vegetable farmers. The article states how the local corn, in particular, suffers from the World Trade Organization's trade liberalization policy due to its uncompetitive nature

[9] Danilo A. Arao, ed., "GATT & Vegetable Farming: Counting the Costs ...," *Ibon Facts & Figures* 22 no. 17-18 (1999).

as compared to its foreign contemporaries. Aside from this, local corn is not competitive even in the world market.

GATT, the predecessor of the World Trade Organization, like the ASEAN, promotes free trade and trade liberalization. In particular, the AFTA promotes the aims of GATT through its policies. However, some agricultural products were exempted by the GATT in its policy before. Furthermore, the GATT trading structure is very much different from the AFTA trade structure of which the Philippines is part at present. The question thus remains: under the AFTA policy, will the same detriments to the Philippine agricultural sector be produced by the AFTA policy? Is the local corn still uncompetitive in the world market as it was back then in the GATT regime? The proposed research will attempt to resolve these issues by focusing on the AFTA policy provisions as is already being implemented and its direct effects on the unprocessed agricultural sector, particularly, the food sector.

Florian A. Alburo talks about intra-industry trade of the Philippines with ASEAN among 15 product groups.[10] In his research, "Intra-Industry: the Philippines in AFTA" of 1994, the researcher argues for specific ways and broad policy directions to capture more gains from AFTA. The CEPT-AFTA Scheme of 1992 involves a tariff rate applicable to goods exchanged among or originating from the ASEAN member countries. The AFTA aims to achieve a tariff rate of 0-5% in 15 years, starting 1993. If AFTA reaches this rate, it would then become a real free trade area. Implementation of such policy would involve 2 stages. The first stage consists of products whose tariff rates are above 20%. The tariff rates of these products will be brought down from 20% to 0-5% within 7 years

[10] Florian A. Alburo, *Intra-Industry: the Philippines in AFTA* (Quezon City: UP School of Economics, 1994), 1.

and a minimum rate of reduction of 5%. The second phase will consist of products whose tariff rates are 20% or below. Tariff rates for these products will be brought to 0-5%. The CEPT scheme will include all manufactured products, processed agricultural products and capital goods at the Harmonized System (HS) 6-digit level while unprocessed agricultural products are excluded.

In particular, he cites that specialization is the underlying framework of AFTA. However, specialization, the protective structure of ASEAN economies and limited means for intra-ASEAN trade provide few opportunities for interaction within ASEAN, probably with the exception of the Philippines. Implicitly, Alburo argues that a free trade policy would be for the best interest of ASEAN countries. Thus, the same question remains: if intra-industry had expanded Philippine trading relations, will the same be true for the agricultural sector under CEPT-AFTA Scheme?

Armando Jr. Armas in his Philippine Intra-ASEAN Trade Liberalization, 1978, deals primarily with the pattern of Philippine imports in the late 1970's. The researcher noted how a 10% across-the-board tariff cut could have negligible expansion effects on Philippine imports from all other ASEAN countries or even from each ASEAN partner. In this tariff rate scheme, the Philippine import industry faced the following issues: (1) expansion of Philippine imports due to tariff cuts (2) trade creation or diversion effects (3) effects of (1) and (2) on 150 Philippine items offered for Preferential Trading Agreement. All in all, high uneven Philippine tariff walls is the single and biggest obstacle to expansion of Philippine intra-ASEAN industrial trade.[11]

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[11] Armando Armas, *Philippine Intra-ASEAN Trade Liberalization* (Quezon City: UP School of Economics, 1978), 51.

The researcher recommended that the Philippines be part of a free trade area in order to escape the dilemma of a limited market. Thus, there is still an unresolved issue at this point: is a free trade area truly a solution to address the issues of trade expansion and trade creation? Will the conclusions of Armas hold true in intra-AFTA trading of agricultural products? The proposed research will attempt to resolve these issues by dealing with intra-AFTA trading of agricultural products.

Pearl Imada in her "A Free Trade Area: Implications for ASEAN" under the Institute of Southeast Asian Studies in 1991 discusses the indicators of effects of economic integration, namely: (1) size of the union and the initial share of trade coordinated with the union (2) level and dispersion of tariff levels (3) initial level of development (4) commodity structure of trade in the region (5) potential for intra-industry trade (6) transport costs and other natural barriers.[12] The author cites in this work, as well as in "Production and Trade Effects of an ASEAN Free Trade Area" in 1993, that results of a 50% preferential tariff reduction on GDPs of ASEAN member countries have a positive but small effect on overall output of countries. In the Philippines, it has an effect amounting to 31 hundredths of a percentage point in 1989, increasing to more than ½ a percentage point on GDP by 1992. The proposed research will attempt to validate if such small effect on the Philippines will hold true as far as unprocessed agricultural products trading is concerned in the CEPT-AFTA Scheme.

Mohammed Ariff echoes Imada in his work, "AFTA: An Outward-Looking Free Trade Agreement" under the East-West Center Program on International Economics & Politics in 1993.[13] He sheds light on the impacts of AFTA, namely: (1) small impact

[12] Pearl Imada, et al., *A Free Trade Area: Implications for ASEAN* (Singapore: ISEAS, 1991).
[13] Mohammed Ariff, *AFTA: An Outward-Looking Free Trade Agreement* (Hawaii:East-West Center, 1993).

consisting of substantial increases mostly in illegal or informal trade (2) major changes in outflow of trade (3) trade diversion to goods with preferential cuts (4) increase of demand for goods (5) there may be imbalances in trade in the short run. By looking into some of these indicators, the proposed research will deal with the concrete and immediate effects of the AFTA policy on unprocessed agricultural products to Philippine society.

Though these works have already laid down effects of trade liberalization to the Philippines, several issues have not been resolved. All in all, these issues include the following: (1) effects of a 0-5% tariff rate for unprocessed agricultural products to the Philippines (2) gains the Filipino agricultural producer and consumer sector will derive from such a policy (3) detriments of such a policy to the Filipino agricultural producer and consumer. These 3 issues have not been fully explored by previous researches, and will be the contribution of the proposed research.

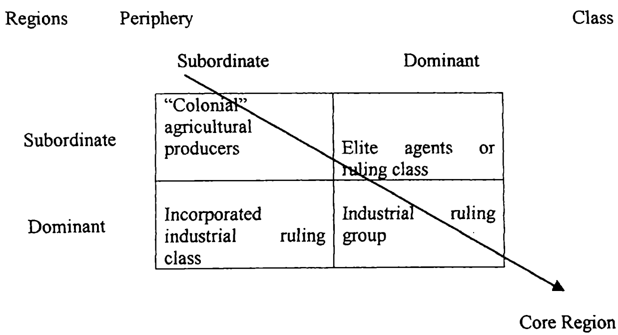
Research Design

Theoretical Framework

The research topic at hand involves an interplay of the two dimensions of the state as a body that participates in international relations as well as a body that helps realize the goal of a nation. As such, the frameworks used involved theories that tackle these dimensions. Such theories include the nature of interdependence, modern world system, trade bloc, globalization and the bureaucracy in political economy.

Immanuel Wallerstein constructed the "modern world system" theory. This theory states that societies exist in a system wherein each nation has its share of the labor (division of labor) and is differentiated in terms of production relations and patterns of distribution. The world is composed of the "core areas" and the "periphery areas." The "core (or center) areas" which consists of nations that produce capital-intensive goods and services that are technologically sophisticated. These areas are nations that have advanced industrialized economies. On the other hand, "periphery areas" are nations that produce labor-intensive goods and services with lower-level technology compared to technology of the "core areas." These nations have underdeveloped economies. In Figure 1 (see below), Michael Barrat Brown in his "Models in Political Economics: A Guide to the Arguments," presents a development model of the periphery and core areas as differentiated according to ethnic status and industrial differentiation in relation to economic development in one region.[14]

Figure 1. Development Model of Economic Development of Periphery and Core



Following a structuralist framework, Raul Prebisch, Executive Secretary for Economic Commission for Latin America, and Hans Singer stated that world economics was structured or tilted against those countries that depended upon production of primary

[14] Michael Barrat Brown, *Models in Political Economics: A Guide to the Arguments* (New York: Penguin Books, 1995), 28.

commodities for their economic survival.[15] There is asymmetrical system of trade wherein the demand for manufactured and industrial goods produced by the center or core areas are much greater than the demand for the agricultural and basic mineral commodities that the periphery areas specialize in. A disequilibrium in trade balance of countries depending on the primary commodities or trade gap ensues. Thus, trade imbalance ensues and the periphery countries could not earn enough through exports to cover the cost of imports they badly need for development. Hence, the way out of the dilemma is industrialization a way to achieve development among the periphery countries.

The structuralist framework traces how this kind of asymmetrical trading prompts the periphery or developing countries to trade amongst themselves. Prebisch notes that periphery countries create their own trading system or bloc until a certain point of modernization is reached, probably as a result in a regional or sub-regional common market made up of preferential agreements for dependent countries.[16] The GATT is a multilateral agreement having this type of framework. Robert Isaak in "International Political Economics: Managing World Change" defines trade bloc as an "organized group of nations of limited membership that attempts to create a buffer zone of import, export and protectionist strategies to maximize the collective economic benefits of its members at the expense of those outside the bloc."[17] He states that trade blocs "try to structure scarcity to mutual advantage and to protect one's own group from competitive

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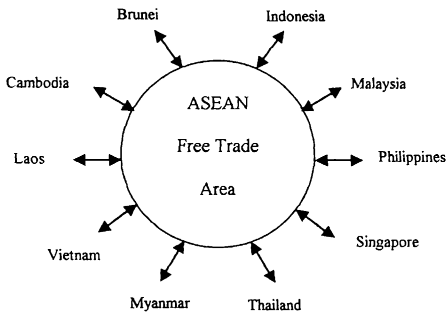
[15] Robert A. Isaak, *International Political Economy: Managing World Change* (New Jersey: Prentice Hall, 1991), 88.
[16] Ibid., 89.
[17] Ibid., 94.

abundance of the production of others outside the group."[18] The European Economic Community which is now the European Union and the OPEC and the AFTA are examples of trade blocs. The Philippines which depends primarily on the agricultural sector and has low-level technology is classified in the periphery region. It is also a member of the ASEAN Free Trade Area of AFTA, a sub-regional trade bloc in Asia.

Figure 2. The Philippines in the AFTA



Asia is one of the periphery regions of the world. Southeast Asia, in particular, is a sub-region of Asia that consists of countries that rely mostly on agriculture as a main source of livelihood. The Association of Southeast Asia was founded in August 1967 to promote political, social, economic and cultural development. The ASEAN Free Trade Area is its trade bloc that functions to boost economic development among its member states. The Philippine state, being a member of the ASEAN, participates in trade through the AFTA, as seen in Figure 2 (see above). The AFTA could be said to exhibit an interdependent relationship. What is meant by interdependence? Richard N. Cooper in Economic Interdependence and Coordination in Economic Policies" cites the nature of

[18] Ibid., 95.

interdependence in light of its types.[19] The first type is called structural interdependence wherein 2 or more economies are highly open with respect to each other that economic events in one strongly influence the other. The second type if interdependence among objectives wherein 1 country is significantly affected by the attainment of targets in another country. The third type of interdependence is that among exogenous disturbances wherein disturbances may intensify externalities among countries in a group. The fourth and last type is policy interdependence wherein countries may start manifesting strategic game behavior when deciding on macroeconomic policy. Cayetano Paderanga in "Economic Interdependence and Macroeconomic Coordination" cites how all of these could be found in some multilateral agreements involving trade such as the GATT and WTO. Since the framework of these two are similar to the AFTA framework, these concepts on interdependence are highly applicable.

Globalization is loosely means, "borderless world," wherein countries engage in enhanced economic integration in order to promote growth. Globalization of production has been pursued taking into consideration more openness, liberal trade regimes, greater mobility of factors and encompassing infrastructure of telecommunications, transportation and information technology.[20] Economic integration, through trade blocs, involve among others, reduction of trade barriers, elimination of trade barriers, removal of all restrictions on goods and services, free movement of labor services, etc.[21]

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[19] Cited in Cayetano Paderanga, W., Jr., *Economic Interdependence and Macroeconomic Coordination* (Quezon City: UP School of Economics, 1996), 8.
[20] Florian Alburo, "An Overview of the Emerging World Economic Environment," in *The Philippines in the Emerging World Environment: Globalization at a Glance* ed. Cayetano W. Paderanga, Jr. (Quezon City: UP-CIDS, 1996), 9-10.
[21] Danilo A. Arao, ed., "AFTA: Trading the ASEAN Way" *Ibon Facts & Figures* 18 no. 8 (1995): 7.

Figure 3 (see page 18) shows the Theoretical Framework of the proposed research. This framework puts together the theory of economic development of periphery areas, and theories on the government by David Easton's Systems Analysis and Florian Alburo's analysis of the role of a bureaucracy in political economy. AFTA is the source of input that is accepted by the Philippine government. The Philippine government comes up with an output out of this input. Such output yields effects. The Philippine government then gives feedback about these effects to the AFTA.

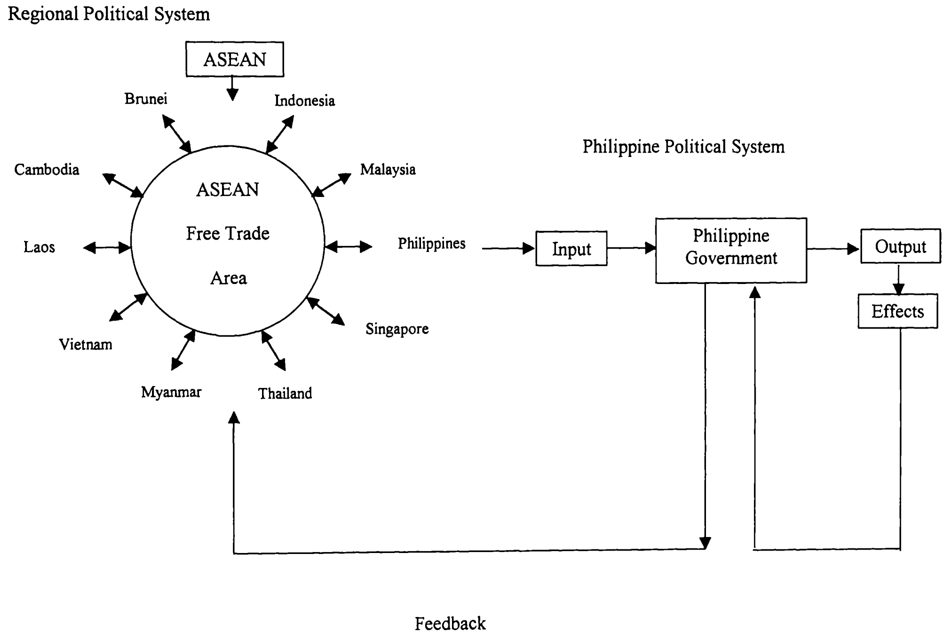
While David Easton views the government as a body responsible for the conversion of certain inputs into particular outputs with effects, Alburo amplifies the role of the bureaucracy in trade liberalization. In his work, "Political Economy of Liberalizing Foreign Trade," Florian Alburo argues that the bureaucracy is one of the factors that facilitated or hindered the liberalization of foreign trade in the Philippines.[22] He states that the bureaucracy has natural advantages in foreign trade transactions. First, it is easily identifiable. Second, it can give either a more flexible or rigid interpretation of the policy. Thus, the proposed research examined the role of government agencies such as the DTI and DA in this perspective.

Conceptual Framework

The AFTA is the ASEAN Free Trade Area. It is the sub-regional trade bloc of 10 countries in the Southeast Asian region of which the Philippines is part. It is composed of Indonesia, Thailand, Malaysia, Brunei, Singapore, Vietnam, Kampuchea, Laos, and Myanmar. The AFTA aims to increase ASEAN's competitive edge as a production base

[22] Florian A. Alburo, *Political Economy of Liberalizing Foreign Trade: Philippine Experiences* (Quezon City: School of Economics, UP, 1993), 14-15.

Figure 3. Theoretical Framework



geared for the world market. It also hopes to attract more foreign direct investments into the region so as to stimulate the growth of support industries in the region. It is the implementing body of the CEPT-AFTA Scheme.

The CEPT-AFTA Scheme on unprocessed agricultural products involves the reduction of intra-regional tariffs and removal of non-tariff barriers over a particular period for trade of unprocessed agricultural products of the AFTA member countries.[23] Unprocessed agricultural products will be phased in according to their respective categories. Products under the Immediate Inclusion List were included in the CEPT Scheme on January 1, 1996. Products under the Inclusion List will undergo tariff reduction to reach 0-5% rate by January 1, 2003.[24] Unprocessed agricultural products under the Temporary Exclusion List must be phased in beginning January 1, 1997. By 1998, their tariff rates must be 20% or below so that by January 1, 2003, rates must be 0-5%. Lastly, products in the Sensitive List would undergo a special arrangement.[25]

Unprocessed agricultural products, as defined by the AFTA, are products that may be: (a) agricultural raw materials and unprocessed products under Chapters 1-24 of the Harmonized System Code (HS), and similar agricultural raw materials and unprocessed products in other related HS headings; and (b) products which have undergone simple processing with minimal change in form from the original products.[26] These products were not scheduled to meet the required 0-5% tariff rate as of the 1992

[23] As mentioned in the Scope and Limitation, this research focused only on the tariff reduction policy of the CEPT-AFTA Scheme.
[24] *A Primer: Philippine Tariff Commission* (Quezon City: Philippine Commission, 1999), 89-90.
[25] i.e. longer timeframe for implementation, final CEPT rate higher than 0-5% in Ibid., 89.
[26] *Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area* (Singapore, 29 January 1992).

CEPT Agreement. They can be phased into the AFTA scheme through the Sensitive List (SL), Temporary Exclusion List (TEL) and Inclusion List (IL).[27]

The Philippine President implements policies that increases, reduces or removes existing protective rates of import duty, as well as to modify form of duty.[28]

The Department of Agriculture is the government agency under the Executive Department, which monitors the progress in agriculture. It provides the inputs to be taken into account in negotiations to be conducted by the DTI.

The Department of Trade and Industry Bureau of International Trade Relations is the AFTA National Unit of the country and is the body that negotiates for the Philippines in the AFTA. DTI is headed by the Secretary of Trade and Industry.

The agricultural sector is a component of the business sector in the national economy that engages in farming, pig raising, poultry, etc. Unprocessed agricultural products pertain to primary goods or goods that have not undergone processing when sold in the market. These include coconut, sugar substitutes and corn which are the focus of this research.

Figure 4 shows the Conceptual Framework (see page 22). This framework shows the different variables that will be dealt with in the research. Policy implementation was examined by looking into implementing policies and progress reports of the DTI, AFTA Council and Tariff Commission. Trade participation was examined by looking at trade

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[27] Products are classified according to sensitivity or vulnerability to foreign competition (i.e. the more vulnerable, the more sensitive, a higher tariff needed to protect it). SL products such as sugar are products that are vulnerable because they are main products of the country and thus need protection through high tariff. TEL products such as sugar substitutes (before 1996) are products that are less vulnerable and thus can afford lower tariff. IL products such as coconut, sugar substitutes and corn are products that are least vulnerable and thus can afford the lowest tariff possible.

[28] The Tariff Commission reviews all possible adjustments to tariffs. It is also part of the inter-agency committee composed of DTI, DA and NEDA, among others, that reviews the implementation of AFTA yearly in interview with Ms. Lourdes Vivo conducted at the Office of the Assistant Secretary for Policy and Planning at the Office of the Secretary, Department of Agriculture on February, 2002.

output of unprocessed agricultural products. Policy articulation was examined by looking into press statements by the DTI regarding the implementation of the AFTA policy on unprocessed agricultural products.

Operational Framework

Figure 5 shows the Operational Framework (see page 23). The words in italics are the operational indicators of policy implementation, trade participation and policy articulation. In terms of executive orders, the researcher examined if such policies contained provisions that adhere to the AFTA policy and if such foreign policies help implement the said policy on unprocessed agricultural products. In terms of production and trade of unprocessed agricultural products, the researcher examined the positive and negative effects of the AFTA policy by considering the following indicators: (1) volume of trade in exports (2) volume of trade in imports (3) value of trade in exports (4) value of trade in imports (5) balance of trade (4) share of intra-AFTA agricultural sector trade in the GDP (5) domestic prices of coconut, sugar and corn under the AFTA policy (6) world prices of coconut, sugar and corn. Exports refer to all goods leaving the country that are properly cleared through the Bureau of Customs.[29] Imports, on the other hand, refer to all goods entering any of the seaports and air ports of entry of the Philippines that are properly cleared through the BOC or remaining under BOC Control. Balance of trade is the difference between the country's exports and imports. GDP or Gross Domestic Product measures the total output within the geographic boundaries of the country, regardless of the nationality of the entities producing the output. The researcher likewise examined press releases of the DTI regarding the AFTA policy.

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[29] *Selected Philippine Economic Indicators* (Manila: Bangko Sentral ng Pilipinas, 2001).

Figure 4. Conceptual Framework

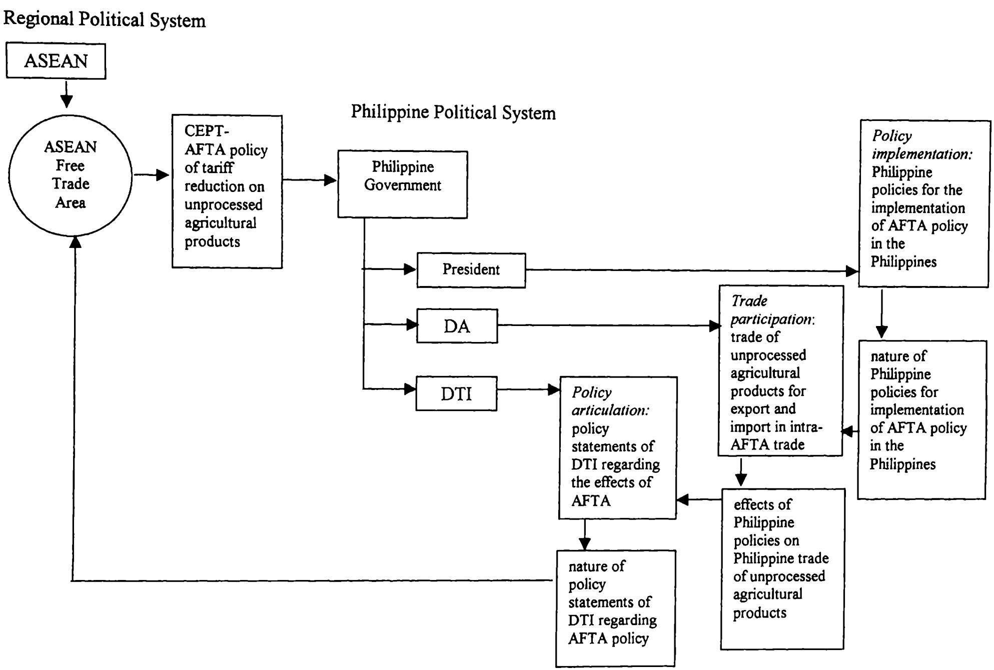
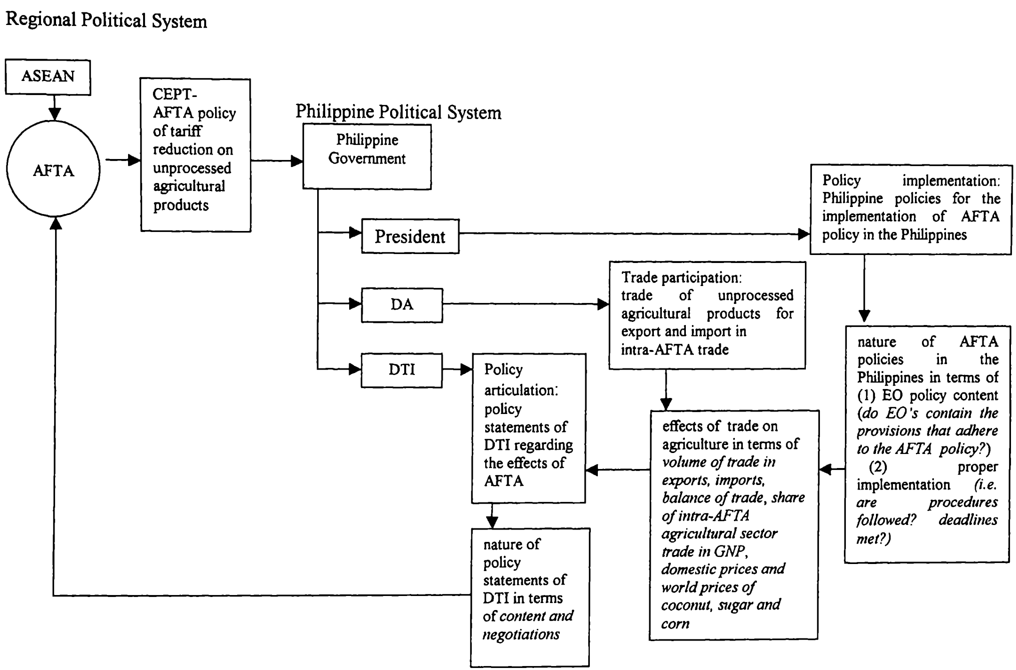


Figure 5. Operational Framework



Method of Data Collection

Since the research problem aims to arrive at a descriptive analysis, the most appropriate methods of data collection were library and documentary research and content analysis. The researcher looked into statistical data and reports of the AFTA Council, DTI, Bureau of Agricultural Statistics, BSP, NSO and other related agencies regarding the implementation of the AFTA policy on unprocessed agricultural products. She examined the content of the executive orders implementing the AFTA. Techniques for data gathering included the conduct of interview with a correspondent from the Department of Agriculture.

Method of Data Analysis

Analysis of the data was inevitably quantitative and qualitative. In the quantitative analysis, the trends in imports, exports and prices were examined and evaluated according to correlation of the AFTA policy with the results that ensued. In the qualitative analysis, the researcher analyzed the content of executive orders and press statements. Both quantitative and qualitative data were then analyzed in terms of whether they show positive results showing growth in the economy, as is the goal of the AFTA.[30]

Organization of the Study

This research was organized as follows:

Chapter 1, entitled, Introduction, pertains to a backgrounder on how the research came about.

Chapter 2, entitled, Historical Background, shows a concise presentation of the nature of the AFTA, the AFTA policy in unprocessed agricultural products and its implementing bodies.

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[30] see page 27 below

Chapter 3 presents the data gathered during the course of the research. This chapter was subdivided according to the variables given in the Operational Framework. The first subdivision entitled Policy Implementation, contains the executive orders issued to implement the AFTA policy in unprocessed agricultural products. The second subdivision, Trade Participation, contains statistical data pertaining to trade output. The third subdivision, Policy Articulation, contains the press releases regarding AFTA implementation.

Chapter 4, with the title, Analysis, Conclusion and Recommendations shows an interpretation of all the data gathered as well as suggestions to anyone who may wish to pursue the given research.

Appendix includes supplementary data that was used to further the research. On the other hand, the section entitled, Bibliography, presents all sources used by the researcher in her research, categorized according to genre.

CHAPTER 2

HISTORICAL BACKGROUND

Launching of the AFTA

In 1992, the Study Team Members headed by Coordinator Professor Seiji Naya and the Advisory Committee composed of representatives from Thailand, Brunei Darussalam, Indonesia, Malaysia, Philippines and Singapore led by Chairman Dr. Amnuay Viravan prepared the ASEAN Economic Cooperation for the 1990s, a report for the ASEAN Standing Committee. Among their recommendations is the creation of an ASEAN economic community to be endorsed in the Fourth ASEAN Summit.[31] The researchers recommended that such program should use a "basic materials list" and "a well-defined and transparent transition process" so as to allow the private sector to plan precisely for free trade.

On January 28, 1992, the 6 original member countries of ASEAN drafted the Framework Agreement on Enhancing Economic Cooperation. Among others, this framework was drafted out of ASEAN's commitment to the General Agreement on Tariff and Trade or GATT, recognizing the importance of enhancing economic cooperation in science and technology, agriculture, financial services and tourism and realizing the need for a more cohesive and effective performance of intra-ASEAN economic cooperation. This framework of economic cooperation upholds certain fundamental principles: (a) to strengthen their economic cooperation through an outward-looking attitude so that their

[31] "Such a free trade area could be realized through the strengthening of existing ASEAN trade liberalization programs such as the ASEAN Preferential Trading Arrangement (PTA) and the newly developed Common Effective Preferential Tariff (CEPT) Scheme" in Advisory Committee Study Team Members, *ASEAN Economic Cooperation in the 1990s*, 2.

cooperation contributes to the promotion of global trade liberalization (b) principles of mutual benefit in the implementation of measures or initiatives aimed at enhancing ASEAN economic cooperation (c) shall participate in intra-ASEAN economic arrangements. AFTA aims (a) to increase ASEAN's competitive edge as a production base geared for the world market by making manufacturing sectors more efficient and competitive in the global market and (b) to attract more foreign direct investments into the region by stimulating growth of support industries in the region for many direct investments.[32] Simply put, the ASEAN Free Trade Area entails the removal of obstacles to freer trade among member countries of ASEAN. It included the abolition of high tariffs or taxes on traded goods and the scrapping of high tariffs or taxes on traded goods and the scrapping of quantitative restrictions and other non-tariff barriers (NTBs) that limit the entry of imports.

AFTA Policy on Unprocessed Agricultural Products

Back then, the tariff reduction program involved tariffs of manufactured goods, capital goods and processed agricultural products that have originated from the member countries, or at least 40% of its content comes from the member countries. Unprocessed agricultural products were excluded. In the 26th ASEAN Economic Ministers (AEM) Meeting in September 1994, member countries decided to phase in unprocessed agricultural products into the CEPT Scheme. Following this meeting, a total of 2,025 tariff lines were classified as unprocessed agricultural products.[33] Of these, 1,387 tariff lines (68.5% of total) are in the Immediate Inclusion List; 377 tariff lines under the

[32] *The Philippines in the WTO, the APEC and the AFTA* (Pasay City: Philippine Exporters Confederation, 1997), 28.
[33] *AFTA Reader* vol. IV: *The Fifth ASEAN Summit*, 28.

Temporary Exclusion List (18.6% of total); 261 tariff lines (12.9% of total) are in the Sensitive List.

Structure of AFTA

The Common Effective Preferential Tariff Scheme or CEPT is a "cooperative arrangement among ASEAN Member States that will reduce intra-regional tariffs and remove non-tariff barriers over a 10-year period commencing 1 January 1993."[34] In this arrangement, member countries agree on a particular range of tariff to be implemented on particular goods over a period of time. The goal of this scheme is to reduce tariffs on all manufactured goods to 0-5% by year 2003.

The ASEAN Secretariat is the body responsible for monitoring the progress of any arrangements arising from the Framework Agreement on Enhancing Economic Cooperation, as provided for by the said agreement. This body is also the entity that member states cooperate with as far as performance of their duties are concerned. The AFTA Unit in the ASEAN Secretariat, on the other hand, was established in the 26th ASEAN Economic Ministers Meeting on September 1995 in order: (a) to facilitate efficient implementation and monitoring of the CEPT Scheme (b) to provide a quick-response mechanism to solve problems that may happen (c) to serve as a channel of information on AFTA and a forum for complaints or queries of the private sector.

Implementation of AFTA in the Philippines

The AFTA National Unit of the Philippine government can be found in the Bureau of International Trade Relations (BITR), a primary agency of the Department of Trade and Industry that is responsible for matters pertaining to foreign trade relations,

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[34] *A Primer on New Developments in Trade and Tariff Policy* (Quezon City: Philippine Tariff Commission, 1999), 86.

especially market access related matters in particular level of arrangements (bilateral, regional, multilateral). This unit is under the Multilateral and Regional Arrangements Division of the BITR. The AFTA National Unit (a) provides information on tariff and non-tariff barriers affecting Philippine exports in its trade with other countries or regional arrangements or trading block, trade policies and utilization and availing of trade opportunities (b) negotiates preferential or equal access of Philippine products, with respect to other countries' access to markets in regional arrangements, block, etc. (c) assists in the resolution of problems encountered by exporters (d) facilitates resolution of problems arising from implementation of policies in arrangements.[35]

Trading in AFTA under the CEPT Scheme requires certain conditions. For a product to be eligible for concessions under the CEPT, it (a) must be included in the Inclusions Lists of both the exporting and the importing countries and must belong to the same tariff band, i., e., above 20% or 20% and below; (b) must have a program of tariff reduction approved by the AFTA Council; (c) must be an ASEAN product, i.e., has to satisfy the local content requirement of at least 40%.[36]

Apart from these conditions, AFTA provides for measures by which unprocessed agricultural products can be phased into the CEPT Scheme, depending on which category the product belongs. Unprocessed agricultural products in the Sensitive List have a special arrangement wherein there may be a longer timeframe for implementation or a higher CEPT rate than the 0-5% range. Products in this category have been sub-divided into sensitive and highly sensitive categories. Products, such as rice in Indonesia, Malaysia and the Philippines, may be phased in starting January 1, 2001 but not later than

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[35] www.bitr.gov.ph

[36] *A Primer on New Developments in Trade and Tariff Policy* (Quezon City: Philippine Tariff Commission, 1999), 87.

special arrangement wherein there may be a longer timeframe for implementation or a higher CEPT rate than the 0-5% range. Products in this category have been sub-divided into sensitive and highly sensitive categories. Products, such as rice in Indonesia, Malaysia and the Philippines, may be phased in starting January 1, 2001 but not later than January 1, 2003 but its ending year will be January 1, 2010 wherein the tariff should be within 0-5% range and non-tariff barriers are removed. Products under the Temporary Exclusion List are phased into the Inclusion List beginning January 1, 1997 in equal installments. These must have tariffs reduced to 20% or below by or after 1998. By 2003, their tariffs must be within 0-5% range. Products under the Inclusion List are the ones for immediate transfer to the CEPT. By January 2003, these must have a tariff rate within 0-5% range.

The AFTA allows for suspension of preferences as emergency measure and allows general exceptions.[37] These exceptions pertain to preventing a member state from acting and adopting a measure that is necessary for the protection of its national security, protection of public morals, human, animal or plant life and health, and protection of articles of artistic, historic and archaeological value. The CEPT Agreement provides that a member country may suspend preferences as an emergency measure (as consistent with Article XIX of GATT 1994) in the event that the import of a particular product results to an injury to sectors or industries producing like or competitive products. Under Section 402 of the Tariff and Customs Code of the Philippines, Section 402 of the Tariff and Customs Code of the Philippines provides for petitions for modification, suspension or withdrawal of CEPT concessions that may be filed by interested parties. Investigations are then conducted by the Tariff Commission that also submits its findings and

[37] *Agreement on the Common Effective Preferential Tariff for AFTA*

recommendations to the National Economic and Development Authority (NEDA). NEDA schedules those for deliberation to be conducted by the Tariff and Related Matters (TRM) Technical and Cabinet Committees. The NEDA Board gives the final approval, precluding the preparation by the Commission of the implementing Executive Order. Lastly, AFTA also provides for an exclusion clause, wherein the new members of AFTA may be excluded from the AFTA CEPT Scheme for a particular period of time or as far as some goods are concerned. This clause mainly applies to Vietnam, Laos and Cambodia which have joined the ASEAN after the AFTA has been founded.

CHAPTER 3

POLICY IMPLEMENTATION

Policy Implementation

In AFTA Council meetings, representatives of different member countries of AFTA give a list of products they are willing to phase into the CEPT-AFTA Scheme, given a particular time frame and rate of reduction. As of September 2000, the Philippines is 70% compliant with the AFTA. It is recognized that in any international agreement such as the AFTA, no true compliance would take place unless the government of a country formulates policies or municipal law that would carry out the provisions of the international agreement in that given country. This is where executive orders come in. In the aftermath of negotiations among the representatives of the ASEAN member countries regarding articles or commodities that would be gradually phased into the CEPT-AFTA Scheme and after determining their applicable tariff rates, the policy is then implemented by the Philippine government through executive orders issued by the President. Presidential Decree 1464 (Section 402 of Tariff and Customs Code of 1978) empowers the President, with recommendations of NEDA, to increase, reduce or remove existing protective rates of import duty, as well as to modify form of duty.

The following executive orders are the policies implementing ASEAN-CEPT rates applicable to products for export and import under the CEPT-AFTA Scheme.[38] The succeeding executive orders contain provisions pertaining to CEPT-AFTA tariff rates applicable to coconut, sugar substitutes and corn from 1996-2001.

[38] Courtesy of records at the DTI, DA and Tariff Commission

1. Executive Order Number 287

MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED UNDER THE TARIFFS AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE 1996 PHILIPPINE SCHEDULE OF TARIFF REDUCTION UNDER THE NEW TIME FRAME OF THE ACCELERATED COMMON EFFECTIVE PREFERENTIAL TARIFF (CEPT) SCHEME FOR THE ASEAN FREE TRADE AREA (AFTA).

On December 12, 1995, President Fidel V. Ramos signed Executive Order Number 287. Section 1 of this policy subjects the commodities in Annex "A" to the CEPT-AFTA Scheme tariff rates, in accordance with the 1996 schedule. Annex "A" shows the Articles Granted Concessions Under the CEPT-AFTA, also under Section 104 of the Tariff and Customs Code of 1978. While there are provisions for sugar substitutes and coconut, there is none for corn. The law took into effect on January 1, 1996. Tables 1 and 2 (see below and next page) show the provisions for coconut and sugar substitutes, as stipulated in EO 287.

Table 1. Coconut as an Article Granted Concessions Under the CEPT-AFTA in the 1996 Philippine Schedule of Tariff Reduction

			Applicable ASEAN-CEPT Rate (%)							
HDG No.	HS Code	Description	Jan. 1 1996	Jan. 1 1997	Jan. 1 1998	Jan. 1 1999	Jan. 1 2000	Jan. 1 2001	Jan. 1 2002	Jan. 1 2003
	0802.90 00	other coconuts, Brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled	10	10	10	10	5	5	5	5

Source: Annex "A" of Executive Order Number 287

Table 2. Sugar Substitutes as Articles Granted Concessions Under the CEPT-AFTA in the 1996 Philippine Schedule of Tariff Reduction

HDG No.	HS Code	Description	Applicable ASEAN-CEPT Rate (%) Jan. 1 1996	Jan. 1 1997	Jan. 1 1998	Jan. 1 1999	Jan.1 2000	Jan.1 2001	Jan.1 2002	Jan.1 2003
	1702.10 00	Lactose & lactose syrup	3	3	3	3	3	3	3	3
	1702.30 00	Glucose glucose syrup, not containing in the dry state < 20% by weight of fructose	3	3	3	3	3	3	3	3
	1702.40 00	Glucose not containing >20% but <50% by weight of fructose	3	3	3	3	3	3	3	3
	1702.50 00	Chemically pure fructose	3	3	3	3	3	3	3	3
	1702.90 00	Other individual invert sugar	3	3	3	3	3	3	3	3
17.03		Molasses resulting from the extraction or refining of sugar								
	1703.10 00	Cane molasses	20	20	10	10	10	3	3	3
	1703.90 00	Other	20	20	10	10	10	3	3	3

Source: Annex "A" of Executive Order Number 287

2. Executive Order Number 453

MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED FOR UNDER TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE 1997-2003 PHILIPPINE SCHEDULE OF TARIFF REDUCTION UNDER THE NEW TIME FRAME OF THE ACCELERATED CEPT SCHEME FOR AFTA.

On October 31, 1997, President Fidel V. Ramos signed Executive Order Number 453. Section 1 of this EO subjects the commodities in Annex "A" to the CEPT-AFTA

Scheme tariff rates, in accordance with the 1997-2003 schedule. Annex "A" shows the Articles Granted Concessions Under the CEPT-AFTA, also under Section 104 of the Tariff and Customs Code of 1978. In EO 453, there are no provisions for coconut. Table 3 (see below) shows the provisions for corn while Table 4 (see next page) shows the provision for sugar substitutes, pursuant to EO 453.

Table 3. Corn as an Article Granted Concessions Under the CEPT-AFTA in the 1997-2003 Philippine Schedule of Tariff Reduction

			Applicable ASEAN-CEPT Rate (%)						
HDG No.	HS Code	Description	Jan. 1 1997	Jan. 1 1998	Jan. 1 1999	Jan. 1 2000	Jan. 1 2001	Jan. 1 `2002	Jan. 1 2003
	0709.90	--- other							
	0709.90 10	Maize (sweet corn)	25	20	15	15	10	10	5
	0709.90 90	other	20	20	15	15	10	10	5

Source: Annex "A" of Executive Order Number 453

3. Executive Order Number 71

MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED FOR UNDER TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE 1999-2003 PHILIPPINE SCHEDULE OF TARIFF REDUCTION OF PRODUCTS TRANSFERRED FROM THE TEMPORARY EXCLUSION LIST (TEL) TO THE INCLUSION LIST UNDER THE NEW TIME FRAME OF THE ACCELERATED CEPT-AFTA.

On January 15, 1999, President Joseph Estrada signed Executive Order Number 71. Section 1 of EO 71 subjects the commodities in Annex "A" to the CEPT-AFTA Scheme tariff rates, in accordance with the 1999-2003 schedule. Annex "A" shows the Articles Granted Concessions Under the CEPT-AFTA, also under Section 104 of the Tariff and Customs Code of 1978. Here, corn, coconut and sugar substitutes are in the TEL and are to be phased into the IL which is why the tariff rate on January 1, 2003 is at the target 5%. Tables 5 (see page 37) shows provisions for corn while Tables 6 and 7 (see page 38) show provisions for coconut and sugar substitutes, as stated in EO 71.

Table 4. Sugar Substitutes as Articles Granted Concessions Under the CEPT-AFTA in the 1997-2003 Philippine Schedule of Tariff Reduction

HDG No.	HS Code	Description	Applicable ASEAN-CEPT Rate (%) Jan. 1 1997	Jan. 1 1998	Jan. 1 1999	Jan. 1 2000	Jan. 1 2001	Jan. 1 2002	Jan. 1 2003
	1702.11 00	Lactose and other lactose syrup: containing by weight 99% or more lactose, expressed as anhydrous lactose, calculated on the dry matter	3	3	3	3	3	3	3
	1702.19 00	— other	3	3	3	3	3	3	3
	1702.20 00	Maple sugar & maple syrup	20	20	15	10	10	10	5
	1702.30 00	Glucose & glucose syrup, not containing fructose or containing in the dry state < 20% by weight of fructose	3	3	3	3	3	3	3
	1702.40 00	Glucose & glucose syrup, containing in the dry state at least 20% but <50% by weight of fructose	3	3	3	3	3	3	3
	1702.50 00	Chemically pure fructose	3	3	3	3	3	3	3
	1702.60 00	Other fructose and fructose syrup, containing in the dry state >50% by weight of fructose	20	20	10	10	3	3	3
	1702.90 00	Other individual invert sugar	3	3	3	3	3	3	3
	1703.10 00	Cane molasses	20	10	10	10	3	3	3
	1703.90 00	Other	20	10	10	10	3	3	3

Source: Annex "A" of Executive Order Number 453

Table 5. Corn as an Article Granted Concessions Under the CEPT-AFTA in the 1999-2003 Philippine Schedule of Tariff Reduction

HDG No.	HS Code	Description	Applicable ASEAN-CEPT Rate (%) Jan. 1 1999	Jan. 1 2000	Jan. 1 2001	Jan. 1 2002	Jan. 1 2003
	0710.40 00	sweet corn	15	10	10	10	5

Source: Annex "A" of Executive Order Number 71

4. Executive Order Number 234

MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED FOR UNDER TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE 2000-2003 PHILIPPINE SCHEDULE OF TARIFF REDUCTION OF PRODUCTS TRANSFERRED FROM THE TEMPORARY EXCLUSION LIST (TEL) AND SENSITIVE LIST (SL) TO THE INCLUSION LIST OF ACCELERATED CEPT SCHEME FOR AFTA AND UNIFICATION OF CEPT RATES ON EXTRACTED TARIFF LINES.

On April 27, 2000, President Joseph Estrada signed Executive Order Number 234. Section 1 of EO 234 subjects the commodities in Annex "A" to the CEPT-AFTA Scheme tariff rates, in accordance with the 2000-2003 schedule. Annex "A" shows the Articles Granted Concessions Under the CEPT-AFTA, also under Section 104 of the Tariff and Customs Code of 1978. While there is a provision for corn, EO 234 did not provide a change of ASEAN-CEPT tariff rates for sugar substitutes and coconut. This law took into effect on January 1, 2000. Table 8 (see page 39) shows the EO 234 provision for corn.

5. Executive Order Number 254

MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED FOR UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE 2000-2003 PHILIPPINE SCHEDULE OF TARIFF REDUCTION UNDER THE BOLD ECONOMIC MEASURE INITIATIVES OF THE ACCELERATED CEPT SCHEME FOR THE AFTA.

Table 6. Coconut as an Article Granted Concessions Under the CEPT-AFTA in the 1999-2003 Philippine Schedule of Tariff Reduction

HDG No.	HS Code	Description	Applicable ASEAN-CEPT Rate (%) Jan. 1 1999	Jan. 1 2000	Jan. 1 2001	Jan. 1 2002	Jan. 1 2003
08.01		Coconuts, brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled (other than desiccated coconut)	20	15	10	10	5

Source: Annex "A" of Executive Order Number 71

Table 7. Sugar Substitutes as Articles Granted Concessions Under the CEPT-AFTA in the 1999-2003 Philippine Schedule of Tariff Reduction

HDG No.	HS Code	Description	Applicable ASEAN-CEPT Rate (%) Jan. 1 1999	Jan. 1 2000	Jan. 1 2001	Jan. 1 2002	Jan. 1 2003
	1701.91	containing added flavoring or coloring matter:					
	1701.91.10	--- in-quota	20	15	10	10	5
	1701.91.20	--- out-quota	20	15	10	10	5

Source: Annex "A" of Executive Order Number 71

President Joseph Estrada signed Executive Order Number 254 on June 12, 2000. Section 1 of this EO subjects the commodities in Annex "A" to the CEPT-AFTA Scheme tariff rates, in accordance with the 2000-2003 schedule. Annex "A" shows the Articles Granted Concessions Under the CEPT-AFTA, also under Section 104 of the Tariff and Customs Code of 1978. Whereas there are provisions for tariff rates of sugar substitutes and corn, there is none for coconut. Being "bold measures," these provisions mean that the tariff rates are to be reduced at a faster rate to reach the 0% rate quickly. Tables 9 and 10 (see page 40) shows the provision for sugar substitutes as stated in EO 254.

Table 8. Corn as an Article Granted Concessions Under the CEPT-AFTA in the 2000-2003 Philippine Schedule of Tariff Reduction

			Applicable ASEAN-CEPT Rate (%)			
HDG No.	HS Code	Description	Jan. 1 2000	Jan. 1 2001	Jan. 1 2002	Jan. 1 2003
11.04		Cereal grains				
	1104.23 00	-- of maize (corn)	20	10	10	5

Source: Annex "A" of Executive Order Number 234

6. Executive Order Number 49

MODIFYING THE RATES OF DUTY ON CERTAIN IMPORTED ARTICLES AS PROVIDED FOR UNDER THE TARIFF AND CUSTOMS CODE OF 1978, AS AMENDED, IN ORDER TO IMPLEMENT THE 2001-2003 PHILIPPINE SCHEDULE OF TARIFF REDUCTION UNDER THE BOLD ECONOMIC MEASURE INITIATIVES OF THE ACCELERATED COMMON EFFECTIVE PREFERENTIAL TARIFF (CEPT) SCHEME FOR THE ASEAN FREE TRADE AREA (AFTA) AND THE TRANSFER OF PRODUCTS FROM THE UNPROCESSED AGRICULTURAL PRODUCTS TEMPORARY EXCLUSION LIST (UAP-TEL) AND GENERAL EXEMPTION (GE) LIST TO THE CEPT INCLUSION LIST (CEPT-IL).

President Gloria Macapagal-Arroyo signed Executive Order Number 49 on November 3, 2001. Section 1 of this EO subjects the commodities in Annex "A" to the CEPT-AFTA Scheme tariff rates, in accordance with the 2001-2003 schedule. Annex "A" shows the Articles Granted Concessions Under the CEPT-AFTA, also under Section 104 of the Tariff and Customs Code of 1978. EO 49 does not provide for applicable tariff rates for sugar substitutes and coconut. Table 11 (see page 40) shows the EO provision for corn.

Table 9. Sugar Substitutes as Articles Granted Concessions Under the CEPT-AFTA in the 2000-2003 Philippine Schedule of Tariff Reduction

HDG No.	HS Code	Description	Applicable AFTA-CEPT Rate (%) Jan. 1 2000	Jan. 1 2001	Jan. 1 2002	Jan. 1 2003
	1702. 20 00	Maple sugar & maple syrup	5	5	5	5
	1702.60 00	Other fructose & fructose syrup containing in the dry state >50% by weight of fructose	3	3	3	3
17.03		Molasses resulting from the extraction or refining of sugar				
	1703.10 00	Cane molasses	3	3	3	3
	1703.90 00	Other	3	3	3	3

Source: Annex "A" of Executive Order Number 254

Table 10. Corn as an Article Granted Concessions Under the CEPT-AFTA in the 2000-2003 Philippine Schedule of Tariff Reduction

HDG No.	HS Code	Description	Applicable ASEAN-CEPT Rate (%) Jan. 1 2000	Jan. 1 2001	Jan. 1 2002	Jan. 1 2003
	2005.80 00	Sweet corn (zea mays var. saccharata)	5	5	5	5

Source: Annex "A" of Executive Order Number 254

Table 11. Corn as an Article Granted Concessions Under the CEPT-AFTA in the 2001-2003 Philippine Schedule of Tariff Reduction

HDG No.	HS Code	Description	Applicable ASEAN-CEPT Rate (%) Jan. 1 2001	Jan. 1 2002	Jan. 1 2003
	0710.40 00	Sweet corn (uncooked or cooked by steaming or boiling in water), frozen	5	5	5

Source: Annex "A" of Executive Order Number 49

CHAPTER 3

TRADE PARTICIPATION

Trade Participation

The Philippines' participation in intra-AFTA trade can be examined in a variety of ways, using different indicators. The researcher in particular used volume and value of trade, balance of trade, share of intra-AFTA trade in GNP, domestic prices and world prices of agricultural products in order to examine the effects of the AFTA policy to the Philippines. Each set of data gathered pertains to the products being considered in the scope of this research. Coconut, sugar substitutes and corn are further classified using the Philippine Standard Customs Code (PSCC) that corresponds to the Harmonized System Code used in the CEPT-AFTA Scheme, and consequently, serves as a reference point in the implementing executive orders.[39] Table 12 (see next page) shows the HS Code, PSCC, description, implementing executive order number and date of effectivity of reduced tariff rate for each of the products in this research.

Volume of Exports

As far as coconut exports of the Philippines to AFTA member countries from 1995-2001 are concerned, the reduced CEPT-AFTA tariff rates did not encourage increase in trade. During this period, the Philippines only exported coconut to AFTA member countries during 1995, when the tariff rate has not yet been reduced under the CEPT-AFTA Scheme. For sugar substitutes exports, the Philippines had seen a decrease in its sugar substitutes exports to AFTA member countries during given period. In 1995 the Philippines exported 20,000 kg of sugar to the region but only 18,000 kg the

[39] The PSCC serves as code of classification in documents from the National Statistics Office regarding imports and exports while the HS Code is the code of classification in the AFTA.

Table 12. Coconut, Sugar Substitutes and Corn Code Matrix

HDG No./ HS Code	PSCC	Description	Implementing EO	Date of Effectivity
0802.90 00		other coconuts, Brazil nuts and cashew nuts, fresh or dried, whether or not shelled or peeled	EO No. 287	Since Jan. 1996
	0577102	coconuts, fresh, matured	EO No. 287	Since Jan. 1996
	0577101	coconuts, fresh, young	EO No. 287	Since Jan. 1996
17.02		Other Sugars including pure lactose, maltose, glucose and fructose, in solid form; sugar syrups not containing added flavoring or coloring matter; artificial honey, whether or not mixed with natural honey; caramel		
1702.10 00	0619109	Lactose & lactose syrup	EO No. 287	Since Jan. 1996
1702.30 00	0619302	Glucose & glucose syrup, not containing in the dry state < 20% by weight of fructose	EO No. 287	Since Jan. 1996
1702.40 00	0619401	Glucose not containing >20% but <50% by weight of fructose	EO No. 287	Since Jan. 1996
1702.50 00	0619500	Chemically pure fructose	EO No. 287	Since Jan. 1996
17.03	0659103	Molasses resulting from the extraction or refining of sugar		Since Jan. 1996
1703.10 00	0615100	Cane molasses	EO No. 287	Since Jan. 1996
1702.11 00	0619101	Lactose and other lactose syrup: containing by weight 99% or more lactose, expressed as anhydrous lactose, calculated on the dry matter	EO No. 453	Since Jan. 1997

1702.20 00	0619200	Maple sugar & maple syrup	EO No. 453	Since Jan. 1997
1702.60 00	0619600	Other fructose and fructose syrup, containing in the dry state >50% by weight of fructose	EO No. 453	Since Jan. 1997
1703.90 00	0612101	Cane or beet sugar and chemically pure sucrose in solid form	EO No. 254	Since Jan. 2000
2005.80 00	0561901	Sweet corn (zea mays var. saccharata	EO No. 254	Since Jan. 2000
0710.40 00	0545907	Sweet corn (uncooked or cooked by steaming or boiling in water), frozen; fresh/chilled	EO No. 49	Since Jan. 2001

Source: Department of Trade and Industry's On-line Database www.dti.gov.ph and corresponding executive orders

following year. In years 1997 and 1998, the Philippines did not export sugar substitutes to AFTA member countries. The following year, it exported 9,000 kg of sugar substitutes, such a small quantity compared to its record way before the phasing in of sugar to the CEPT-AFTA tariff reduction scheme. Corn exports had likewise seen a slump throughout the period 1995-2001. The only time the Philippines exported corn to AFTA member countries is in year 1999, before corn was phased into the reduction scheme under CEPT-AFTA. Table 13 (see next page) shows the total volume of coconut, sugar substitutes and corn exports of the Philippines to AFTA member countries from 1995-2001. Figure 6 (see next page) shows upward and downward trend of coconut, sugar substitutes and corn exports of Philippines to AFTA member countries.

Volume of Imports

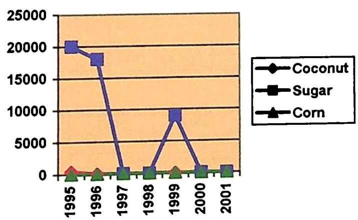
No member country imported coconut to the Philippines during 1995-2001. For sugar substitute imports, the Philippines experienced an unsteady trend of increase

Table 13. Total Volume of Coconut, Sugar Substitutes and Corn Exports of the Philippines to AFTA Member Countries 1995-2001 (in kg)

Coconut							
PSCC no.	1995	1996	1997	1998	1999	2000	2001
0577101	400	0	0	0	0	0	0
Total Coconut Exports (kg)	400	0	0	0	0	0	0
Sugar Substitutes							
PSCC no.	1995	1996	1997	1998	1999	2000	2001
0619401	20,000	0	0	0	0	0	0
0619600	0	18,000	0	0	0	0	0
0612101	0	0	0	0	9,000	0	0
Total Sugar Exports (kg)	20,000	18,000	0	0	9000	0	0
Corn							
PSCC no.	1995	1996	1997	1998	1999	2000	2001
0561901	0	0	0	0	16	0	0
Total Corn Exports (kg)	0	0	0	0	16	0	0

Source: Department of Trade and Industry's On-line Database www.dti.gov.ph

Figure 6. Trend of Coconut, Sugar Substitutes and Corn Exports of the Philippines to AFTA Member Countries 1995-2001 (in kg)



and decrease of volume of sugar substitute imports from AFTA member countries. From 0 zero sugar import in 1995, there was a sugar substitute import worth 151,188,642 kg in 1996. The succeeding year this amount was reduced to 5,776,949 kg. After that the figure went up again and then higher still in 1999. In year 2000, the figure increased but in year 2001, there was a decline of roughly 17% from year 2000 sugar import. As for corn import, the country's corn imports increased in 1996 up to 1997. It was only after 2 years that the country again imported corn from AFTA member countries. In year 2000, the Philippines imported 21,878 kg of corn. However, the following year, this amount drastically declined to just 46 kg. Table 14 (see below) shows the total volume of sugar substitutes and corn imports by AFTA member countries to the Philippines during 1995-2001. Figure 7 (see next page) shows the trend of the volume of sugar substitutes and corn imports from AFTA member countries to the Philippines.

Table 14. Total Volume of Sugar Substitutes and Corn Imports of AFTA Member Countries to the Philippines 1995-2001 (in kg)

Sugar Substitutes							
PSCC no.	1995	1996	1997	1998	1999	2000	2001
0619109	0	0	0	0	0	46,378	412,400
0619302	0	2,501,872	5,198,179	8,505,925	4,149,031	4,806,696	397,578
0619401	0	8,972	207,863	0	0	105,000	0
0615100	0	148,184,461	0	0	24,025,551	51,344,168	22,990,320
0619101	0	493,337	370,907	467,150	1,757,740	47,062	56,000
0619200	0	0	0	3,190	183	0	14,688
Total Sugar Imports (kg)	0	151,188,642	5,776,949	8,976,265	29,932,505	56,349,304	3,170,986

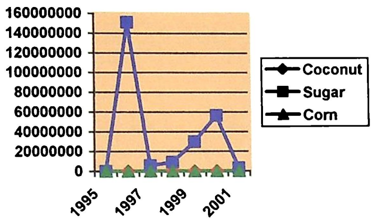
Corn							
PSCC no.	1995	1996	1997	1998	1999	2000	2001
0561901	0	0	41,143	0	0	0	46
0545907	0	1,500	0	0	0	21,878	0
Total Corn Imports (kg)	0	1,500	41,143	0	0	21,878	46

Source: Department of Trade and Industry's On-line Database www.dti.gov.ph

Value of Exports

Since there were no coconut exports other than during 1995, there can be no observation regarding the increase or decrease of value of coconut exports. For sugar exports, however, there was an increase of value of sugar substitutes exports from year

Figure 7. Trend of Coconut, Sugar Substitutes and Corn Imports of AFTA Member Countries to the Philippines 1995-2001 (in kg)



1995 to year 1996, when the reduced CEPT-AFTA rate was first applied. After 2 years of no sugar export in the AFTA, the Philippines exported a rather low value of sugar substitutes compared to past figures in 1995 and 1996. As for corn exports, just like in the case of coconut, there was only 1 instance wherein the country exported corn to AFTA. Even so, the value of export in 1999 was low. Table 15 (see next page) shows the total value of coconut, sugar substitutes and corn exports of the Philippines to AFTA member countries while Figure 8 (see next page) shows the trend of coconut, sugar substitutes and corn exports of the Philippines to AFTA member countries in US $.

Value of Imports

As it is, there is no coconut importation during 1995-2001 and thus, there are no values to be considered. For sugar imports, there has been a drastic decrease of value of sugar imports from 1996 to 1997. This was followed by a slight decrease of sugar substitutes imports from 1996 to 1997, and was sustained until 1998. However, beginning 1998 the value of sugar substitutes imports decreased during the accelerated reduction of tariff rates. As for corn, there was an increase of corn imports from 1,494 in

Table 15. Total Value of Coconut, Sugar Substitutes and Corn Exports of the Philippines to AFTA Member Countries 1995-2001 (in US $)

Coconut

PSCC no.	1995	1996	1997	1998	1999	2000	2001
0577101	114	0	0	0	0	0	0
Total Coconut Exports (US$)	114	0	0	0	0	0	0

Sugar Substitutes

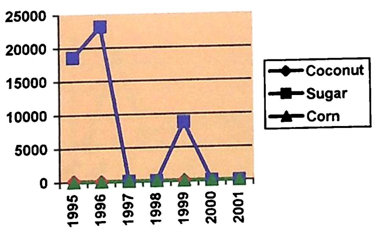
PSCC no.	1995	1996	1997	1998	1999	2000	2001
0619401	18,563	0	0	0	0	0	0
0619600	0	23,194	0	0	0	0	0
0612101	0	0	0	0	8,739	0	0
Total Sugar Exports (US$)	18,563	23,194	0	0	8,739	0	0

Corn

PSCC no.	1995	1996	1997	1998	1999	2000	2001
0561901	0	0	0	0	36	0	0
Total Corn Exports (US $)	0	0	0	0	36	0	0

Source: Department of Trade and Industry's On-line Database www.dti.gov.ph

Figure 8. Trend of Coconut, Sugar Substitutes and Corn Exports of the Philippines to AFTA Member Countries 1995-2001 (in US $)



1996 to 38,880 in 1997. Two years later, the country imported corn once more, but at a value considerably less than that in 1997. In year 2001, the value diminished even more. Table 16 (see next page) shows the total value of sugar substitutes and corn imports of

AFTA member countries to Philippines while Figure 9 (see below) shows the trend of sugar substitutes and corn imports from 1995 to 2001.

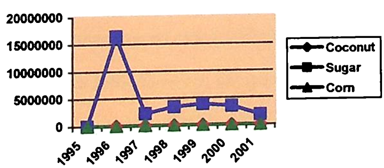
Table 16. Total Value of Sugar Substitutes and Corn Imports of the Philippines to AFTA Member Countries 1995-2001 (in US $)

Sugar Substitutes							
PSCC no.	1995	1996	1997	1998	1999	2000	2001
0619109	0	0	0	0	0	27,244	255,704
0619302	0	1,160,360	1,965,388	3,190,967	1,493,716	1,226,179	763,786
0619401	0	5,535	63,918	0	0	27,475	0
0615100	0	15,040,185	0	0	1,722,100	1,904,193	707,921
0619101	0	242,240	189,082	162,075	637,227	20,148	44,059
0619200	0	0	0	2,920	630	0	19,584
Total Sugar Imports (US $)	0	16,448,320	2,218,388	3,355,962	3,853,673	3,450,239	1,791,054

Corn							
PSCC no.	1995	1996	1997	1998	1999	2000	2001
0561901	0	0	38,880	0	0	0	349
0545907	0	1,494	0	0	0	7,626	0
Total Corn Imports (US $)	0	1,494	38,880	0	0	7,626	349

Source: Department of Trade and Industry's On-line Database www.dti.gov.ph

Figure 9. Value of Coconut, Sugar Substitutes and Corn Imports of AFTA Member Countries to Philippines 1995-2001 (in US$)



Balance of Trade

Balance of trade of coconut amounts to US $114, a modest export earning. For sugar, balance of trade went unfavorable as import payments exceeded export earnings in 1996 and 1997. However, balance of trade became favorable as there was no sugar substitutes importation in 1998. The following years, however, saw unfavorable balance of trade for the country. It would be interesting to note, however, that such changes occurred at a decreasing rate, thus implying that the country's import payments are not as draining as compared to its export earnings. For corn, however, there was initially an increase of imbalance between imports and exports, showing how the country paid more for imports rather than earned out of corn exports. There was a degree of positive development in 1999. However, there came a slump in the following year. In year 2001, although the balance of trade was still unfavorable, it was at a minimum rate. Table 17 (see next page) shows the balance of trade of the Philippines in each commodity traded. Figure 10 (see next page) shows the trend of the balance of trade of the Philippines per commodity in the years 1995-2001.

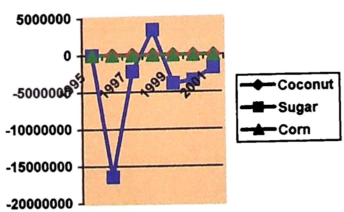
Share of Intra-AFTA trade in GDP

Since the values of the Philippines' coconut, sugar substitutes and corn exports to the AFTA are modest, one would expect its percentage share in the GDP would be small. Coconut exports contributed .00001524 % to the country's GDP in 1995, the only year in this research wherein the Philippines exported coconut to AFTA member countries. Sugar substitutes exports saw a 0.031% growth rate from its .00248 % in 1995 to .00279 % in 1996. In 1999, however, there was a decrease of the share of coconut exports in the GDP. Corn exports to AFTA contributed the least percentage to GDP, at .00000472 % during the only year in this research that the Philippines exported corn to AFTA in year 1999. Of the three products, sugar substitutes is the biggest contributor while coconut is the next biggest contributor while corn is the smallest contributor to the country's GDP as far as intra-AFTA exports are concerned. Table 18 (see page 51) shows the percentage

Table 17. Balance of Trade of the Philippines in Coconut, Sugar Substitutes and Corn Exports/Imports to/from AFTA Member Countries 1995-2001 (in US$)

Coconut			
Year	Total Exports	Total Imports	Balance of Trade
1995	114	0	114
1996	0	0	0
1997	0	0	0
1998	0	0	0
1999	0	0	0
2000	0	0	0
2001	0	0	0
Sugar Substitutes			
Year	Total Exports	Total Imports	Balance of Trade
1995	18,563	0	18,563
1996	23,194	16,448,320	-16,425,162
1997	0	2,218,388	-2,218,388
1998	0	3,355,962	3,355,962
1999	8,739	3,853,673	-3,844,934
2000	0	3,450,239	-3,450,239
2001	0	1,791,054	-1,791,054
Corn			
Year	Total Exports	Total Imports	Balance of Trade
1995	0	0	0
1996	0	1,494	-1,494
1997	0	38,880	-38,880
1998	0	0	0
1999	36	0	36
2000	0	7,626	-7,626
2001	0	349	-349

Figure 10. Trend of Balance of Trade of the Philippines in Coconut, Sugar Substitutes and Corn Exports/Imports to/from AFTA Member Countries 1995-2001 (US $)



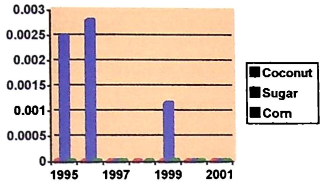
share of the country's coconut, sugar substitutes and corn exports to AFTA member countries in the GDP from 1995 to 2001.[40] Figure 11 (see page 52) shows the trend of the increase, stagnation or decrease of the country's coconut, sugar substitutes and corn exports share in the GDP.

Table 18. Share of Intra-AFTA Coconut, Sugar Substitutes and Corn Exports in GDP 1995-2001 (in US $)

Coconut			
Year	Total Export (in US $)	GDP (in US $ B)	Share %
1995	114	74.80	.00001524
1996	0	83.00	0
1997	0	83.21	0
1998	0	65.00	0
1999	0	76.20	0
2000	0	74.70	0
2001	0	88.40	0
Sugar Substitutes			
Year	Total Export (in US $)	GDP (in US $ B)	Share %
1995	18,563	74.80	.00248
1996	23,194	83.00	.00279
1997	0	83.21	0
1998	0	65.00	0
1999	8,739	76.20	.00115
2000	0	74.70	0
2001	0	88.40	0
Corn			
Year	Total Export (in US $)	GDP (in US $ B)	Share %
1995	0	74.8	0
1996	0	83	0
1997	0	83.21	0
1998	0	65	0
1999	36	76.2	.00000472
2000	0	74.7	0
2001	0	88.4	0

[40] GDP figures from www.worldbank.org, www.imf.org, www.adb.org

Figure 11. Trend in Share of Intra-AFTA Coconut, Sugar Substitutes and Coconut Exports in GDP 1995-2001 (in US $)



Domestic Prices and World Prices

One of the goals of the AFTA is to make industries in member countries as competitive in the global market as possible. A measure of competitiveness is a low price, indicating that consumers are more likely to buy a good with a low price than buy that same good with a higher price. On this premise, the researcher outlined the following data regarding the domestic and world prices of coconut, sugar substitutes and corn. Domestic and world prices of coconut and corn are not comparable in this research since the only available data pertains to different preparations of these 2 commodities and as such, differences in prices may be due to differences in type of preparation of the commodities. However, it would still be worth noting that the domestic price of coconut had risen to a few notches from 1995 to 1996 to 1997 but had declined in 1998 but rose to a higher rate in 1999 and then declined at a decreasing rate from 2000 to 2001. Coconut had been most expensive at year 1999. As for other coconut products, world prices of these are higher than coconuts precisely because these are already derived products from coconut. Like coconut, desiccated coconut had experienced a pattern of increase and decrease of its world price. Unlike coconut, however, copra had experienced a decrease of world prices at a .1 difference. Furthermore, its world price is stable, as shown by the fact that the same price was retained in 3 or 4 years in a row. Coconut oil had experienced a pattern or increase and decrease likewise, but towards the last 2 recent years, its world price had decreased to the lowest prices compared to the prices in 1995-1999. The domestic price of whole grain of corn, on the other hand, show a steady increase from 1995 to 1998. The domestic price of corn on the cob had continually increased from 1999 to 2001. The domestic price of whole corn had increase and decreased from 1999 to 2001. In contrast, the world price of corn had been steady over the years covered in this research. If domestic and world prices of corn are to be compared despite differences in preparation, one would notice that world prices are still lower and thus more competitive than domestic prices.

Unlike coconut and corn, the domestic and world prices of sugar are comparable. However, the question arises as to whether these prices also include sugar substitutes such as fructose, etc. that have been subjected to the CEPT-AFTA Scheme. Nonetheless, these prices are still important since by knowing how competitive world price of sugar is when compared to domestic price and by knowing that sugar substitutes enjoy concessions in the AFTA and are thus cheaper, one would be able to analyze how people would rather choose to buy imported sugar or imported sugar substitutes rather than buy locally produced sugar. If one is to compare the domestic and world prices of refined sugar throughout 1995-2001, the domestic price of sugar had decreased from 1995 to 1996, increased from 1996 to 1997 to 1998, decreased from 1998 to 2000 and had risen again in 2001. In contrast, world price of sugar is not only very much lower than domestic price, but it has shown stability. Table 19 to 21 (see below) show the tabulation of domestic and world prices of coconut, sugar and corn.[41]

Table 19. Domestic and World Prices of Coconut 1995-2001 (in US $)

Year	Domestic Price of Coconut per piece	World Price of Coconut Products in kg		
		Desiccated Coconut	Copra Meal/Cake	Coconut Oil
1995	0.13	0.20	0.03	0.14
1996	0.15	0.30	0.03	0.16
1997	0.18	0.25	0.03	0.14
1998	0.16	0.23	0.02	0.14
1999	0.22	0.24	0.02	0.16
2000	0.19	0.17	0.02	0.08
2001	0.18	0.14	0.02	0.07

Source: National Statistics Office and Bangko Sentral ng Pilipinas

Table 20. Domestic and World Prices of Sugar 1995-2001 (in US $)

Year	Domestic Price US $/kg	World Price US $/kg
1995	0.46	0.06
1996	0.40	0.06
1997	0.45	0.06
1998	0.52	0.04
1999	0.50	0.03
2000	0.49	0.04
2001	0.53	0.04

Source: National Statistics Office and Bangko Sentral ng Pilipinas

Table 21. Domestic and World Prices of Corn 1995-2001 (in US $)

Year	Domestic Price of Corn			World Price of Corn in kg
	Whole Grain in kg	On the Cob per piece	Whole Corn in kg	
1995	0.25	0.26	n.d.a	0.02
1996	0.28	n.d.a	n.d.a	0.03
1997	0.29	n.d.a	n.d.a	0.02
1998	0.32	n.d.a	n.d.a	0.02
1999	n.d.a	0.39	0.30	0.02
2000	n.d.a	0.35	0.34	0.02
2001	n.d.a	0.40	0.31	0.02

Source: National Statistics Office and Bangko Sentral ng Pilipinas

[41] Both domestic and world prices in each year are the averages of the domestic and world prices for all months of that year. World Prices were originally stated in terms of US cent per pound and had been converted to US $ per kg. Peso rates have been converted to dollar rates using the current Peso-Dollar Exchange REate: P51.10 = US $1.00. "n.d.a." means no data available.

CHAPTER 3

POLICY ARTICULATION

In negotiations, the Philippines' representatives in the AFTA Council play a crucial role in determining how much and what kind of commitment the Philippines will stake in the AFTA. As of September 2000, the Philippines was 70% compliant with the AFTA, being a year late in its commitment.[42] This is because the Cabinet Committee on Tariffs and Related Matters (CTRM) had to consider the transfer of tariff lines based on the three criteria: (1) product should not be locally available (2) there should be minimal importation of the product from the ASEAN and (3) the prevailing rate in 2000 should already be below 10%. In order to comply with the required number of tariff lines, the government can expand its tariff lines so that it could protect critical products. Expanding the tariff lines means that commodities are further differentiated according to specific characteristics. For instance, shirts may be differentiated according to those with collar, those without collar, those with buttons, those without pockets, etc.[43] Each differentiated good corresponds to a tariff line. Thus, if the required number of tariff lines is 8,000, the Philippines may include 800 different products to comply with this tariff and not necessarily subject its other goods to liberalization.

Articulating and negotiating policies primarily lie within the responsibility of the Department of Trade and Industry (particularly its Bureau of International Relations which is also the AFTA National Unit of the Philippines). However, with the help of inputs from agencies such as NEDA, the Tariff Commission and the Department of Agriculture, the DTI is armed with information regarding policies and concessions that

[42] Des Ferriols, "Cabinet Body Oks Tariff Cuts on 320 Items under As," *Philippine Star*, September 2000.
[43] Des Ferriols, "Government Mulls Expansion of Tariffs," *Philippine Star*, September 2000.

the Philippines may want to pursue in the AFTA. Interestingly, even organizations could be vital in articulating the needs and complaints of the people who are directly affected by economic trade policies ... the local producers. The Philippines Sugar Millers Association is one such organization of local sugar millers that aims "to promote the development of the sugar industry through increased efficiency, productivity, and sustainability in a socially responsible environment."[44]

Sugar Tariff: A Case Study

As reported on June 2001, local sugar millers of the country, through the Philippine Sugar Millers Association, sought an increase in the 5% tariff rate on imported fructose to a protective 50% rate.[45] According to the Philippine Sugar Millers Association (PSMA), imported fructose with low tariffs is a threat to local sugar producers since the former poses unfair competition. As it is, sugar is in the sensitive list in the CEPT-AFTA Scheme and thus has a 65% tariff rate. However, sugar substitutes such as fructose are already enjoying reduced tariffs under the scheme, thus accounting for the already present 5% tariff rate. In the same report, PSMA Executive Director Jose Maria T. Zabaleta stated that fructose should be included in the country's final list of sensitive agricultural commodities for the discussion in the AFTA Ministerial Meeting in Hanoi and should then be exempted from the tariff reduction program.

DTI Secretary Manuel Roxas II presented this issue at the AFTA Council meeting in Hanoi on September 2001. Both the Philippines and Indonesia had a hard time convincing the members of the AFTA Council to give more time for their respective domestic sugar industries to be more competitive by the time the tariff rates reach 0-5%

[44] www.psma.com.ph
[45] Christine A. Gaylican, "50% Duty on Sugar Substitutes Sought," *Philippine Daily Inquirer*, 26 June 2001.

rate, as is the goal of CEPT-AFTA.[46] Thailand, in particular, had opposed this request since it is the major exporter of sugar to the Philippines. Sugar from Thailand, given its low prices, is attractive to soft drink makers and food processors in the Philippines. In fact, of the 10.9 million tons of sugar produced in 1995-1996, Thailand was the largest sugar producer, having produced 6.2 million tons or 57% of the whole production in ASEAN. The issue was resolved when the ASEAN Economic Ministers endorsed the decision to allow the Philippines to maintain high tariffs for sugar until 2010 during which sugar must have tariffs no more than 5 %. The said decision was given so that the Philippines could protect its domestic sugar industry. Thus, instead of implementing a 50% tariff rate beginning year 2003 to a 5% tariff rate in year 2010, the Philippines can maintain high tariffs for its sugar for many years, for as long as no more than 5% is implemented by the year 2010. As for Thailand, Secretary Roxas recognized that certain concessions must be made. In an interview he stated,

> "...at the end of the day, we will need to assure the Thais that if and when the Philippines imports sugar, Thailand will be given first crack as a supplier."

Regarding the issue of fructose, however, there had been no mention of such provisions for the back-tracking of fructose from having a 5% tariff rate to a higher rate. In the AFTA, countries may accelerate CEPT implementation so that results are quickly achieved. However, they may not back-track products that have already been granted concessions. In recent developments, the Protocol Regarding the Implementation of the CEPT Scheme Temporary Exclusion List provides that any ASEAN member country "may temporarily delay the transfer of a product from its Temporary Exclusion List to the Inclusion List or temporarily suspend its concession on a product already transferred into

[46] Gil C. Cabacungan, Jr., "RP Sugar Sector Gets Reprieve," *Philippine Daily Inquirer*, 23 September 2001.

the Inclusion List, is such a transfer or concession would cause or have caused real problems …"[47] As of present, there had been no executive order signed in order to address the issue raised by PSMA regarding fructose. When the researcher asked bureaucrats from the Tariff Commission and the Department of Agriculture regarding any new executive orders, they said that there are due executive orders that have not been prepared yet by the President. The fructose issue, then, is not a question of legality. It is a question of political will.

[47] www.aseansec.org

CHAPTER 4

ANALYSIS, CONCLUSION AND RECOMMENDATIONS

Analysis

Upon examining the data gathered, one would inevitably notice that the policies being implemented by the Philippines contain provisions that provide for the reduction of tariff rates so that the ending rate by year 2003 is anywhere between 0-5% adhere to the AFTA policy, and thus one would say that these policies adhere to the aims of the AFTA. There is proper implementation of the AFTA policy through the related executive orders, as proven by the fact that products like coconut, sugar substitutes and corn maintain the necessary tariff rates needed in order to comply with AFTA. However, recently, the Philippines had not yet been 100% compliant with the AFTA, having a 70% compliance record and a year late in adhering to provisions of the AFTA. This is because the government had sought ways in order to protect certain products like sugar and rice, which are not yet competitive, compared to counterparts from other countries.

A scrutiny of the quantitative data regarding trade participation would reveal that as far as trading coconut, sugar substitutes and corn with AFTA member countries is concerned, the Philippines has minimal participation. The supply of Philippine coconut, sugar substitutes and corn exports to AFTA member countries have been unstable and limited from 1995-2001. This is clearly shown by the fact that in much of this time period, volume of Philippine exports to AFTA member countries had been zero (0). On the contrary, volumes of sugar substitutes and corn imports are way higher than those of exports. In effect then, the Philippines is paying more for imports and earning less from exports. This shows how in the accounting of balance of trade, one would see that there is an existing imbalance between the Philippines' exports of coconut, sugar substitutes and corn to and Philippine imports of corn and sugar from the AFTA member countries under the CEPT-AFTA Scheme. This imbalance is unfavorable for the Philippines since it depicts how the country pays more for other AFTA member countries' products to supply it with sugar substitutes and corn but earns less for whatever amount of coconut, sugar substitutes and corn it is exporting to other AFTA member countries. As a result, export earnings from intra-AFTA trade of coconut, sugar substitutes and corn contribute to the country's GDP at a miniscule rate. Apart from that, domestic prices of these products and their derivatives have been unstable throughout the years and as in the case of sugar and corn, domestic prices are higher than world prices.

In terms of policy articulation, the Department of Agriculture, NEDA, Tariff Commission and even agricultural organizations provide inputs that serve as guidelines when the DTI negotiates with AFTA Council members. The AFTA Council meets more than once a year in order to review the progress of AFTA. So far, there had not been a case wherein the Philippines had to withdraw a coconut, sugar substitutes and corn, which had been granted concessions, from the CEPT-AFTA Scheme due to some unfavorable results that ensued from the policy. There is, however, some advocacy on the part of local sugar millers through the Philippines Sugar Millers Association, for the government to increase tariff rates on the sugar substitute, fructose and for the government to protect domestic sugar by maintaining high tariffs. The DTI negotiated with the AFTA Council regarding maintaining high tariff rates for sugar. However, there was no update regarding the fructose issue.

Globalization is manifested by the fact that the Philippines had become open to other ASEAN economies because of reduced tariff barriers and vice-versa.[48] The term "interdependence" is an empirically validated term if one would consider how the products of the Philippines can enjoy low tariffs and easily enter other AFTA member markets, and thus, following Richard Cooper's logic, is structurally interdependent.[49] However, on a broader analysis, interdependence that is exiting and is being promoted by the ASEAN is also a mechanism to achieve, in this context, economic development. The goals of AFTA have not been realized yet by the Philippines as far as coconut, sugar substitutes and corn trade are concerned.[50] Manufacturing sectors of sugar, primarily, are not efficient and competitive in the world market and growth of support industries does not seem to be present, owing to the fact that the Philippines has to rely on importation to avail of cheaper commodities from Thailand or elsewhere in Southeast Asia in order to sustain its population's demand of such goods. It is quite an irony how a country such as the Philippines which owes 20% of its GDP to agriculture should not seem to be as competitive in intra-AFTA trade of coconut, sugar substitutes and corn. There are benefits from the AFTA, such that the Philippines purchases imported products from AFTA member countries at cheaper prices.[51] But the downside to this is that it does get them for prices cheaper than its own and that in the process it seems to benefit more as a "consumer" and not as a "producer." Trade participation had been minimal as far as coconut, sugar substitutes and corn are concerned. The Philippines, then, still has not maximized collective economic benefits within the trading bloc it is part of, as is depicted

[48] refer to definition of globalization in page 16 above
[49] refer to page 16 above
[50] refer to goals of AFTA in page 24 above
[51] in interview with Ms. Lourdes Vivo conducted at the Office of the Assistant Secretary for Policy and Planning at the Office of the Secretary, Department of Agriculture on February, 2002.

in the very nature of a trade bloc. According to Prebisch, trade blocs are created so that periphery countries, like the Philippines, can even out trade imbalances.[52] In the case of the Philippines, however, there still seems to be an imbalance of trade with respect to coconut, sugar substitutes and corn intra-AFTA trading.

Conclusion

In the grand scheme of things, it has been found that the objectives in the research had been achieved and the stated problems had been answered to a considerable extent. The researcher had explored that nature of the AFTA policy on unprocessed agricultural products by examining the AFTA agreements and their provisions, the structure of the AFTA and the dynamics that exist among the groups of people concerned in policy implementation, trade participation and policy articulation. The researcher had determined the nature of Philippine policy in terms of content and implementation by looking into executive orders issued by Philippine presidents and press statements of DTI Secretary Manuel Roxas II. The researcher had examined the effects of the AFTA policy in terms of volume and values of trade in coconut, sugar substitute and corn exports and imports, balance of trade, share of intra-AFTA agricultural sector trade in the country's GDP, domestic prices and world prices of coconut and coconut products, sugar and corn.

Ultimately one leads to ask one more the question, "Is the AFTA policy on unprocessed agricultural products such as coconut, sugar substitutes and corn good for the Philippines?" Data and analysis in this research point out that it is good for the Philippines as it becomes a consumer of cheap imported products. However, the Philippines is not yet in a position to benefit fully because its exports earn less, hence the imbalance.

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[52] refer to page 14 above

Recommendations

For future researches on this topic, the researcher would advise that there should be a more extensive examination of unprocessed agricultural products. The time frame could be made longer i.e. ten years in order to truly capture evident trends. The researcher also recommends that more indicators of trade participation should be considered, apart from what have been used in this research. For instance, a comparison between the Philippines' intra-AFTA trade and the Philippines' extra-AFTA trade would be worth venturing into, to prove the Philippines' strength in the AFTA as compared with trading agreements outside AFTA. It would also be commendable to examine production output records of the Philippine agricultural sector during a given time frame, in order to see if there is progress in the sector within the country's commitment to the AFTA. Another indicator would be the amount of foreign direct investments that go to the Philippine agricultural sector from investors who are nationals of AFTA member countries. The researcher would also suggest that future researches should conduct scrutiny of more agricultural organizations that are concerned with the CEPT-AFTA Scheme's provisions.

APPENDIX

APPENDIX 1 – Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area

APPENDIX 2 – Corn Production and Consumption in the AFTA

APPENDIX 3 – Sugar Production and Consumption in the AFTA

APPENDIX 4 – Ministries/Departments and Addresses of the National AFTA Units and the AFTA Unit

APPENDIX 1

Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area Singapore, 28 January 1992

The Governments of Brunei Darussalam, the Republic of Indonesia, Malaysia, the Republic of the Philippines, the Republic of Singapore and the Kingdom of Thailand, Member States of the Association of South East Asian Nations (ASEAN):

MINDFUL of the Declaration of ASEAN Concord signed in Bali, Indonesia on 24 February 1976 which provides that Member States shall cooperate in the field of trade in order to promote development and growth of now production and trade;

RECALLING that the ASEAN Heads of Government, at their Third Summit Meeting held in Manila on 13-15 December 1987, declared that Member States shall strengthen intra-ASEAN economic cooperation to maximise the realisation of the region's potential in trade and development;

NOTING that the Agreement on ASEAN Preferential Trading Arrangements (PTA) signed in Manila on 24 February 1977 provides for - the adoption of various instruments on trade liberalisation on a preferential basis;

ADHERING to the principles, concepts and ideals of the Framework Agreement on Enhancing ASEAN Economic Cooperation signed in Singapore on 28 January 1992;

CONVINCED that preferential trading arrangements among ASEAN Member States will act as a stimulus to the strengthening of national and ASEAN Economic resilience, and the development of the national economies of Member States by expanding investment and production opportunities, trade, and foreign exchange earnings;

DETERMINED to further cooperate in the economic growth of the region by accelerating the liberalisation of intra-ASEAN trade and investment with the objective of creating the ASEAN Free Trade Area using the Common Effective Preferential Tariff (CEPT) Scheme;

DESIRING to effect improvements on the ASEAN PTA in consonance with ASEAN's international commitments;

HAVE AGREED AS FOLLOWS:

ARTICLE I
Definitions

For the purposes of this Agreement :

1. "CEPT" means the Common Effective Preferential Tariff, and it is an agreed effective tariff, preferential to ASEAN, to be applied to goods originating from ASEAN Member States, and which have been identified for inclusion in the CEPT Scheme in accordance with Articles 2 (5) and 3.

2. "Non-Tariff Barriers" mean measures other than tariffs which effectively prohibit or restrict import or export of products within Member States.

3. "Quantitative restrictions" mean prohibitions or restrictions on trade with other Member States, whether made effective through quotas, licences or other measures with equivalent effect, including administrative measures and requirements which restrict trade.

4. "Foreign exchange restrictions" mean measures taken by Member States in the form of restrictions and other administrative procedures in foreign exchange which have the effect of restricting trade.

5. "PTA" means ASEAN Preferential Trading Arrangements stipulated in the Agreement on ASEAN Preferential Trading Arrangements , signed in Manila on 24 February 1977, and in the Protocol on Improvements on Extension of Tariff Preferences under the ASEAN Preferential Trading Arrangements (PTA), signed in Manila on 15 December 1987.

6. "Exclusion List" means a list containing products that are excluded from the extension of tariff preferences under the CEPT Scheme.

7. "Agricultural products" mean :

(a) agricultural raw materials/unprocessed products covered under Chapters 1-24 of the Harmonised System (HS), and similar agricultural raw materials/unprocessed products in other related HS Headings; and

(b) products which have undergone simple. processing with minimal change in form from the original products.

ARTICLE 2
General Provisions

1. All Member States shall participate in the CEPT Scheme.

2. Identification of products to be included in the CEPT Scheme shall be on a sectoral basis, i.e., at HS 6-digit level.

3. Exclusions at the HS 8/9 digit level for specific products are permitted for those Member States, which are temporarily not ready to include such products in the CEPT Scheme. For specific products, which are sensitive to a Member State. pursuant to Article 1 (3) of the Framework Agreement on Enhancing ASEAN Economic Cooperation, a Member State may exclude products from the CEPT Scheme, subject to a waiver of any concession herein provided for such products. A review of this Agreement shall be carried out in the eighth year to decide on the final Exclusion List or any amendment to this Agreement.

4. A product shall be deemed to be originating from ASEAN Member States, if at least 40 % of its content originates from any Member State.

5. All manufactured products, including capital goods, processed agricultural products and those products falling outside the definition of agricultural products, as set out in this Agreement, shall be in the CEPT Scheme. These products shall automatically be subject to the schedule of tariff reduction, as set out in Article 4 of this Agreement. In respect of PTA items, the schedule of tariff reduction provided for in Article 4 of this Agreement shall be applied, taking into account the tariff rate after the application of the existing margin of preference (MOP) as at 31 December 1992.

6. All products under the PTA which are not transferred to the CEPT Scheme shall continue to enjoy the MOP existing as at 31 December 1992.

7. Member States, whose tariffs for the agreed products are reduced from 20% and below to 0%-5%, even though granted on an MFN basis, shall still enjoy concessions, Member States with tariff rates at MFN rates of 0%-50/o shall be deemed to have satisfied the obligations under this Agreement and shall also enjoy the concessions.

ARTICLE 3
Product Coverage

This Agreement shall apply to all manufactured products, including capital goods, processed agricultural products, and those products falling outside the definition of agricultural products as set out in this Agreement. Agricultural products shall be excluded from the CEPT Scheme.

ARTICLE 4
Schedule of Tariff Reduction

1. Member States agree to the following schedule of effective preferential tariff reductions:

(a) The reduction from existing tariff rates to 20 % shall be done within a time frame of 5 years to 8 years, from 1 January 1993, subject to a programme of reduction to be decided by each Member State, which shall be announced at the start of the programme. Member States are encouraged to adopt an annual rate of reduction, which shall be (X-20)% / 5 or 8, where X equals the existing tariff rates of individual Member States.

(b) The subsequent reduction of tariff rates from 20% or below shall be done within a time frame of 7 years. The rate of reduction shall be at a minimum of 5% quantum per reduction. A programme of reduction to be decided by each Member State shall be announced at the start of the programme.

(c) For products with existing tariff rates of 200/o or below as at 1 January 1993, Member States shall decide upon a programme of tariff reductions, and announce at the start, the schedule of tariff reductions. Two or more Member States may enter into arrangements for tariff reduction to 0%-5% on specific products at an accelerated pace to be announced at the start of the programme.

2. Subject to Articles 4 (1) (b) and 4 (1) (c) of this Agreement, products which reach, or are at tariff rates of 20% or below, shall automatically enjoy the concessions

3. The above schedules of tariff reduction shall not prevent Member States from immediately reducing their tariffs to 0%-5% or following an accelerated schedule of tariff reduction.

ARTICLE 5
Other Provisions

A. Quantitative Restrictions and Non-Tariff Barriers

1. Member States shall eliminate all quantitative restrictions in respect of products under the CEPT Scheme upon enjoyment of the concessions applicable to those products.

2. Member States shall eliminate other non-tariff barriers on a gradual basis within a period of five years after the enjoyment of concessions applicable to those products.

B. Foreign Exchange Restrictions

Member States shall make exceptions to their foreign exchange restrictions relating to payments for the products under the CEPT Scheme, as well as repatriation of such payments without prejudice to their rights under Article XVIII of the General Agreement on Tariff and Trade (GATT) and relevant provisions of the Articles of Agreement of the International Monetary Fund (IMF).

C. Other Areas of Cooperation

Member States shall explore further measures on border and non-border areas of cooperation to supplement and complement the liberalisation of trade. These may include, among others, the harmonisation of standards, reciprocal recognition of tests and certification of products, removal of barriers to foreign investments, macroeconomic consultations, rules for fair competition, and promotion of venture capital.

D. Maintenance of Concessions

Member States shall not nullify or impair any of the concessions as agreed upon through the application of methods of customs valuation, any new charges or measures restricting trade, except in cases provided for in this Agreement.

ARTICLE 6
Emergency Measures

1. If, as a result of the implementation of this Agreement, import of a particular product eligible under the CEPT Scheme is increasing in such a manner as to cause or threaten to cause serious injury to sectors producing like or directly competitive products in the importing Member States, the importing Member States may, to the extent and for such time as may be necessary to prevent or to remedy such injury, suspend preferences provisionally and without discrimination, subject to Article 6 (3) of this Agreement. Such suspension of preferences shall be consistent with the GATT.

2. Without prejudice to existing international obligations, a Member State, which finds it necessary to create or intensify quantitative restrictions or other measures limiting imports with a view to forestalling the threat of or stopping a serious decline of its monetary reserves, shall endeavour to do so in a manner, which safeguards the value of the concessions agreed upon.

3. Where emergency measures are taken pursuant to this Article, immediate notice of such action shall be given to the Council referred to in Article 7 of this Agreement, and such action may be the subject of consultation as provided for in Article 8 of this Agreement.

ARTICLE 7
Institutional Arrangements

1. The ASEAN Economic Ministers (AEM) shall, for the purposes of this Agreement, establish a ministerial-level Council comprising one nominee from each Member State and the Secretary-General of the ASEAN Secretariat. The ASEAN Secretariat shall provide the support to the ministerial-level Council for supervising, coordinating and reviewing the implementation of this Agreement, and assisting the AEM in all matters relating thereto. In the performance of its functions, the ministerial-level Council shall also be supported by the Senior Economic Officials' Meeting (SEOM).

2. Member States which enter into bilateral arrangements on tariff reductions pursuant to Article 4 of this Agreement shall notify all other Member States and the ASEAN Secretariat of such arrangements.

3. The ASEAN Secretariat shall monitor and report to the SEOM on the implementation of the Agreement pursuant to the Article III (2) (8) of the Agreement on the Establishment of the ASEAN Secretariat. Member States shall cooperate with the ASEAN Secretariat in the performance of its duties.

ARTICLE 8
Consultations

1. Member States shall accord adequate opportunity for consultations regarding any representations made by other Member States with respect to any matter affecting the implementation of this Agreement. The Council referred to in Article 7 of this Agreement, may seek guidance from the AEM in respect of any matter for which it has not been possible to find a satisfactory solution during previous consultations.

2. Member States, which consider that any other Member State has not carried out its obligations under this Agreement, resulting in the nullifications or impairment of any benefit accruing to them, may, with a view to achieving satisfactory adjustment of the matter, make representations or proposal to the other Member States concerned, which shall give due consideration to the representations or proposal made to it.

3. Any differences between the Member States concerning the interpretation or application of this Agreement shall, as far as possible, be settled amicably between the parties. If such differences cannot be settled amicably, it shall be submitted to the Council referred to in Article 7 of this Agreement, and if necessary, to the AEM.

ARTICLE 9
General Exceptions

Nothing in this Agreement shall prevent any Member State from taking action and adopting measures, which it considers necessary for the protection of its national security, the protection of public morals, the protection of human, animal or plant life and health, and the protection of articles of artistic, historic and archaeological value.

ARTICLE 10
Final Provisions

1. The respective Governments of Member States hall undertake the appropriate measures to fulfil the greed obligations arising from this Agreement.

2. Any amendment to this Agreement shall be made by consensus and shall become effective upon acceptance by all Member States.

3. This Agreement shall be effective upon signing

4. This Agreement shall be deposited with the Secretary-General of the ASEAN Secretariat, who shall likewise promptly furnish a certified copy thereof o each Member State.

5. No reservation shall be made with respect to any of the provisions of this Agreement.

In witness whereof, the undersigned, being duly authorised thereto by their respective Governments, have signed this Agreement on Common Effective Preferential Tariff (CEPT) Scheme for the Free Trade Area (AFTA).

Done at Singapore, this 28th day of January, 1992 in a single copy in the English Language.

For the Government of Brunei Darussalam :

(signed)

ABDUL RAHMAN TAIB
Minister of Industry and Primary Resources

For the Government of the Republic of Indonesia :

(signed)

DR ARIFIN M SIREGAR
Minister of Trade

For the Government of Malaysia:

(signed)

RAFIDAH AZIZ
Minister of International Trade and Industry

For the Government of the Republic of the Philippines :

(signed)

PETER D GARRUCHO JR
Secretary of Trade and Industry

For the Government of the Republic of Singapore :

(signed)

LEE HSIEN LOONG
Deputy Prime Minister and Minister for Trade and Industry

For the Government of the Kingdom of Thailand :

(signed)

AMARET SILA-ON
Minister of Commerce

Source: www.aseansec.org

APPENDIX 2

Corn Production and Consumption in the AFTA

2.1 Production In 1994-1996, corn production in ASEAN countries was averaging at 20.6 million tons. The production rosed to 22.9 million tons in 1996/97. Indonesia is the major producer, produced about 7.8 million tons or 34% of the total production in ASEAN whereas Philippines, Malaysia and Thailand produced 24%, 21% and 12% respectively. Vietnam produced only 6.5% while there's no corn production in Brunei and Singapore. The average of corn production has increased 3.7% annually.

2.2 Consumption In 1996/97, the corn consumption in ASEAN countries stood at 22.16 million tons, about 7.8 million tons required by Indonesia whereas Philippines, Thailand, Malaysia and Vietnam needed 5.4, 4.4, 2.9, and 1.4 million tons respectively.

2.3 Import The corn production in each of ASEAN countries is still inadequate for domestic consumption due to the instability of com production caused by unfavourable weather condition resulting ASEAN countries need to import form one another and from other countries as well. In 1996/97, the total corn import from ASEAN was about 3.4 million tons. Malaysia is the largest importer, imported 2.9 million tons whereas Thailand and Philippines imported 450,000 tons and 150,000 tons respectively.

2.4 Export The number of corn export from ASEAN countries is about 100,000-150,000 tons. Mainly exported by Thailand about 75% of the total export, Vietnam can also export corn in certain year, in 1996 Vietnam exported 50,000 tons.

2.5 Stock The stock of corn in ASEAN remains approximately 0.4-0.5 million tons each year. About 71 % of the total stock are from Thailand since the production tended to rise every year while the partial stocks are imported. Besides, Philippines is also one of the major importer of com in ASEAN so she could possess about 28% of the remaining stock.

Source: www.aseansec.org

APPENDIX 3

Sugar Production and Consumption in the AFTA

4.1 Production In 1995/96, sugar production in ASEAN countries accounted for 10.9 million tons each year. Thailand was the largest sugar producer, produced 6.2 million tons or 57% of the whole production in ASEAN. The second largest producer was Indonesia, about 2.4 million tons or 22% whereas Philippines produced 1.79 million tons and Vietnam produced approximately 460,000 tons . The growth of sugar production in ASEAN increased 14% from the previous year.

4.2 Consumption The demand of sugar in ASEAN in 1995/96 accounted for 7.0 million tons. Indonesia required 2.8 million tons, or by 40% of the total while Philippines needed 1.97 million tons or 28%. Thailand needed 1.58 million tons or 22%. Besides, Vietnam, Malaysia, Singapore and Brunei needed 530,000 tons , 100,000 tons, 70,000 tons and 30,000 tons respectively.

4.3 Import In 1995/96, sugar import in ASEAN accounted for 1. 19 million tons. Philippines was the largest importer, imported over 800,000 tons followed by Indonesia 113,000 tons, Malaysia 1,080,000 tons, Singapore 80,000 tons and Vietnam 20,000 tons.

4.4 Export Sugar export in ASEAN countries accounted for 3.7-4.5 million tons each year. Thailand is the main sugar producer and exporter, whereas Singapore imported to re-export about 20,000 tons yearly.

4.5 Stock In 1995/96, stock of sugar in ASEAN remained at 2 million tons about 893,000 tons belongs to Thailand as a significant producer and exporter, Philippines has stock of 655,000 tons while Indonesia has the remaining stock of sugar about 460,.GOO tons due to increased production and a huge quantity import this year.

*** see figure on next page

SUGAR SUPPLY AND UTILIZATION BY COUNTRY (UNITS: TONS)

	BRUNEI DARUSSALAM			INDONESIA			MALAYSIA			PHILIPPINES		
	1994/95	1995/96	1996/97	1994/95	1995/96	1996/97	1994/95	1995/96	1996/97	1994/95	1995/96	1996/97
BEGINNING STOCK				800,000								
PRODUCTION				2,300,000	2,460,000	1,900,000				1,647,000	1,781,000	
IMPORT		38,270		260,000	113,000	1,000,000	1,033,000	1,080,000	1,127,000	99,000	834,000	
TOTAL SUPLY		38,270		3,100,000	2,573,000	3,400,000	1,033,000	1,080,000	1,127,000	1,746,000	2,625,000	
DOMESTIC USE		38,270		2,800,000	2,800,000	3,100,000	1,033,000	1,080,000	1,127,000	1,750,000	1,970,000	
EXPORT												
ENDING STOCK				300,000	460,000	300,000				150,000	655,000	

	SINGAPORE			THAILAND			VIETNAM			TOTAL		
	1994/95	1995/96	1996/97	1994/95	1995/96	1996/97	1994/95	1995/96	1996/97	1994/95	1995/96	1996/97
BEGINNING STOCK				509,000	558,000	893,000	20,000	75,000	20,000	1,129,000	633,000	913,000
PRODUCTION				5,265,000	6,284,000	5,851,000	380,000	460,000	550,000	9,592,000	10,995,000	8,301,000
IMPORT	117,000	80,000			-		175,000	20,000	10,000	1,684,000	2,165,270	2,137,000
TOTAL SUPLY	117,000	80,000		5,774,000	6,842,000	6,744,000	575,000	555,600	585,000	12,405,000	13,793,270	11,351,000
DOMESTIC USE	85,000	60,000		1,523,000	1,580,000	1,700,000	500,000	530,000	580,000	7,701,000	8,058,270	6,507,000
EXPORT	22,000	19,000		3,693,000	4,365,000	4,500,000				3,715,000	4,384,000	4,500,000
ENDING STOCK				558,000	893,000	544,000	75,000	25,000	5,000	1,083,000	2,033,000	849,000

Source: Report of the AFSRB Meeting (1993-1996)

Source: www.aseansec.org

APPENDIX 4

Ministries/Departments and Addresses of the National AFTA Units and the AFTA Unit

- **BRUNEI DARUSSALAM**

  National AFTA Unit
  International Relation and Trade Development Division
  Ministry of Industry and Primary Resources
  Bandar Seri Begawan
  Brunei Darussalam
  Tel: 6732 381601 Fax: 6732 383811, 382846

- **INDONESIA**

  National AFTA Unit
  Directorate of Trade Relations for Multilateral and Regional
  Directorate General for International Trade
  Ministry of Industry and Trade
  Jl Ridwan Rais No. 5
  Jakarta 10110
  Indonesia
  Tel: 6221 3858185 Fax: 6221 3858191

- **MALAYSIA**

  National AFTA Unit
  ASEAN Economic Cooperation
  Ministry of International Trade and Industry
  Blok 10, Jalan Duta
  50622 Kuala Lumpur
  Malaysia
  Tel: 603 651 0033, 651 5680 Fax: 603 651 0827

- **PHILIPPINES**

  National AFTA Unit
  Bureau of International Trade Relations
  Department of Trade and Industry
  357 New Solid Bldg
  Sen. Gil. J. Puyat Ave.
  Makati, Metro Manila
  Philippines
  Tel: 632 890 4669, 890 5148 Fax: 632 890 4812

- **SINGAPORE**

National AFTA Unit
Trade Policy Division
Trade Development Board
230 Victoria Street #09-00
Bugis Junction Office Tower
Singapore 0718
Tel: 65 433 4902 Fax: 65 337 6898

- **THAILAND**

National AFTA Unit
Fiscal Policy Office
Ministry of Finance
Rama VI Road
Bangkok 10400
Thailand
Tel: 662 2739020 Fax: 662 2739168

- **VIETNAM**

National AFTA Unit
General Department of Taxation
Ministry of Finance
8 Phan Huy Chu Street
Hanoi
Vietnam
Tel: 844 8262732 Fax: 844 8262022, 8262266

- **ASEAN SECRETARIAT**

AFTA Unit
70A Jl. Sisingamangaraja
Jakarta 12110
Indonesia
Tel: 6221 7262991 Fax: 6221 7243348
ASEAN HomePage: http:\\www.asean.or.id

Source: www.aseansec.org

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