



AFA Research Report

Farmers Trade Agenda in ASEAN

Ma. Dolores Bernabe
for the Asian Farmers' Association (AFA)

February 2009





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Introduction

The Association of South East Asian Nations has been very aggressive in forging free trade agreements with its major trade partners. The decision to enter into trade pacts aimed at further facilitating trade liberalization forms part of its initiative to broaden markets for its members, and to establish itself as a significant production centre in the global supply chain.

After implementing the ASEAN Free Trade Area - Common Effective Preferential Scheme in 1992 – the regional coalition's first major initiative to create a single market among its members - ASEAN actively sought to solidify trade relations with significant trade partners. It launched the ASEAN + 3 initiative with China, South Korea and Japan in 1992 in line with its plan to increase its presence in East Asia. As part of this initiative, it committed to a free trade agreement with China in 2002 and signed a framework agreement on trade with South Korea in 2005, even as individual ASEAN members forged economic partnership agreements with Japan. The regional coalition has also already committed in principle to create free trade areas with India, Australia and New Zealand, and is in the process of intensive negotiations with the European Union on the ASEAN-EU free trade.

ASEAN's decision to enter into these trade pacts is expected to introduce policies that will have tremendous impact on the economic viability of agriculture and of small farmers. The liberalization of trade in goods, including agricultural products, at a rate much faster than what is required in multilateral agreements particularly in the World Trade Organization, is a central component of free trade agreements. Concerns regarding the capability of small farmers to survive, and gainfully compete in a liberalized trade regime remains an important concern in the aftermath of members' commitment in these trade arrangements.

Additionally, FTAs are envisioned to bring about increased trade, which will also have implications on the way resources are allocated and utilized within the economy and within the agricultural sector. To wit, responding to the demand of the international market will impact on crucial decisions such as what commodities to produce and how these will be produced.

Finally, most FTA's negotiated by ASEAN are encompassing in nature and as such is bound to exert pressure on other aspects of agriculture beyond production and trade.

For instance, provisions aimed at encouraging investments and increasing intellectual property protection are bound to influence policies that affect farmers' access and control to land and seeds.

It is in this context that small farmers need to have a clear articulation of their trade interests and agenda that are firmly rooted to the realities of their sector, and congruent to their aspirations for sustainable development – amidst the various trade policies adopted by their governments, either unilaterally or as part of their commitments to bilateral, regional or multilateral trade agreements.

This research is intended to help contribute to this articulation process by identifying and consolidating small farmers' trade agenda in five countries, namely Cambodia, Indonesia, the Philippines, Thailand and Vietnam. These countries represent a good mix of both net agricultural exporters and importers, providing the paper with a balanced perspective of looking at trade and its impact on small farmers. The agenda of small farmers in these countries formed the bases for the formulation of their trade agenda in ASEAN.

The research is divided into three parts. The first part describes agriculture in ASEAN, locating the sector's significance in the region, particularly in meeting fundamental socio-economic objectives such as food security and poverty alleviation among others. It also discusses ASEAN's view of and plans for the sector, as indicated in its economic blueprint.

The second part looks at the agricultural sector of the five countries covered by the study. It provides a profile of each country's agriculture and agriculture trade performance, and discusses the policies that shaped these. It also presents the national trade agenda of farmers for each country, as validated and elaborated by farmer stakeholders through national consultations. The third and final part consolidates and articulates the regional trade agenda, and defines areas where farmers groups need to engage ASEAN.

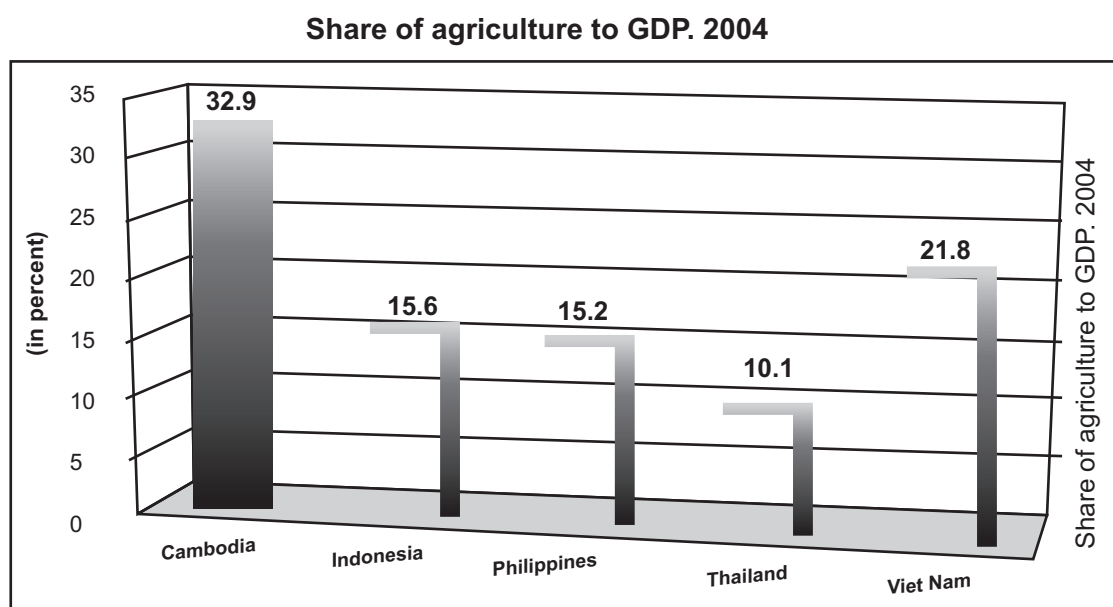
Agriculture in ASEAN

Contribution to the economy

Agriculture remains a significant segment in the economies of many ASEAN countries. Although its share to the total economic output of many countries in the region has generally been declining, it nevertheless continues to have a vital role in meeting these countries' fundamental socio-economic objectives such as food security, livelihood security and poverty alleviation, among others.

In the five countries covered by the study, the contribution of agriculture to Gross Domestic Product ranges from 10.1 for Thailand to 32.9 per cent for Cambodia. The agriculture sectors of Indonesia and the Philippines, like most of the original ASEAN members, exhibit a relatively smaller share to total economic output at 15.6 and 15.2 per cent respectively. On the other hand, agriculture in Vietnam accounts for a bigger segment of GDP at 21.8 per cent. In the main, the contribution of the sector to the economy is bigger among the new ASEAN members, or the CLMV countries (Cambodia, Lao PDR, Vietnam and Myanmar). Figure 1 shows more.

Figure 1: Share of Agriculture to GDP in Selected ASEAN Countries

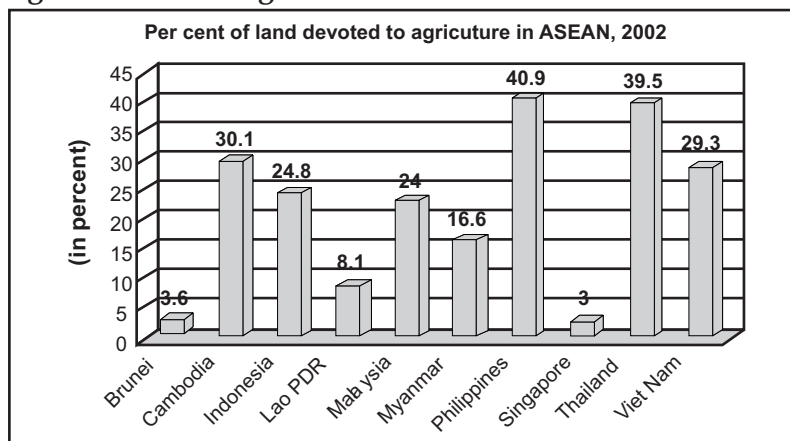


Source: ASEAN Database

Agriculture's importance in many ASEAN members is also reflected in the way resources, especially human and land, are distributed within the economy of these countries.

A large segment of the land resources in many ASEAN members are devoted to agricultural production. Among the five countries covered by the study, the Philippines has the highest percentage of total lands used for agricultural purposes at 40.9 per cent. This is followed by Thailand, Cambodia and Vietnam at 39.5, 30.1 and 29.3 per cent respectively. Indonesia has the smallest percentage of lands devoted to agricultural production at 24.8 per cent of total lands. Figure 2 shows more.

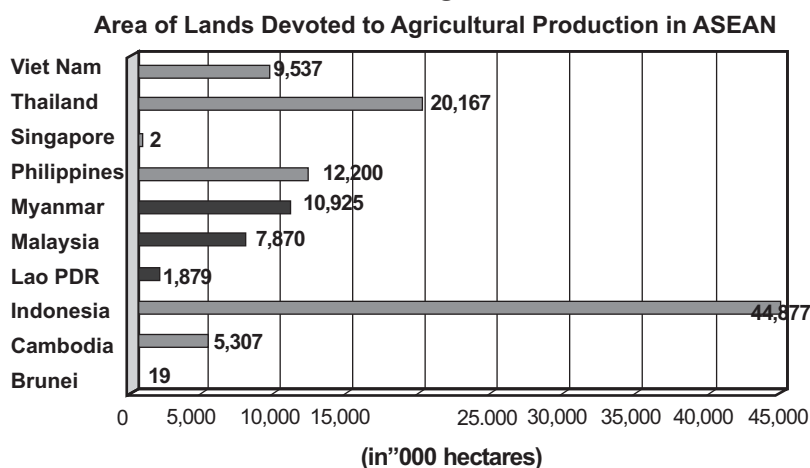
Figure 2: Share of agricultural lands to total lands in ASEAN



Source: ASEAN Statistical Database

However, this ranking changes when it comes to the actual size of area devoted to agricultural production. Indonesia, which has 44.8 million hectares of agricultural lands, has the biggest agricultural area among the five countries covered by the research and among all ASEAN members. Thailand is a far second at 20.1 million hectares. The Philippines and Vietnam have 12.2 and 9.5 million hectares, respectively. Among the five countries covered by this study, Cambodia has the smallest agricultural area at 5.3 million hectares. Within ASEAN, however, Brunei and Singapore have the most marginal allocation for agriculture at 19,000 and 2,000 hectares. Figure 3 shows details.

Figure 3: Area of Lands Devoted to Agricultural Production in ASEAN



The fact that the percentage of lands devoted to agricultural production is consistently lower than the sector's share to total economic output is indicative of the low level of land productivity in the sector in many ASEAN countries. It is also symptomatic of the general need for public investment in agriculture in the region to improve agricultural productivity and yield in a sustainable manner.¹

Food security, livelihood security and poverty alleviation: the role of agriculture

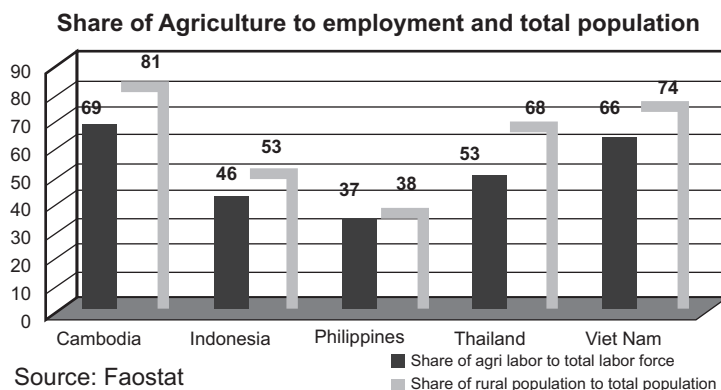
Agriculture continues to be an important source of jobs and livelihood among majority of ASEAN members, especially among CLMV countries. Of the five countries covered by this study, Cambodia and Vietnam have the highest number of people employed in the sector at 69 per cent and 66 per cent, respectively, indicating that a substantial segment of these countries workforce derive their income and livelihood from agriculture. The Philippines has the least percentage of workforce engaged in agriculture at 37 per cent. Again, data shows that the percentage of people employed in the sector is considerably lower than its share to total economic output, signifying the low level of labor productivity in this segment of the economy

Additionally, bulk of the population of the countries covered in the study is in the rural areas where agriculture is the main source of sustenance and livelihood. In fact, except for the Philippines, the rural population accounts for more than half of the total population of the countries covered by this study. In Cambodia and Vietnam for instance, the rural population represents as much as 81 per cent and 74 per cent, respectively of total population. The fact that poverty is still largely a rural phenomenon in many ASEAN countries serves to underscore the importance of agriculture in the region's poverty alleviation efforts. In the main, the data above emphasize the fact that agricultural production is still the most important economic activity sustaining the rural economy in many ASEAN countries.

Figure 4 shows the share of agriculture to total employment, and to the entire population.

¹ The need for public investment in agriculture to improve productivity and yield has been consistently raised by farmers in all the five consultations conducted by AFA regarding the formulation of a national and regional trade agenda. The results of the national consultations will be included in the final paper.

Figure 4: Share of agriculture to total employment, and rural population to total population, 2004

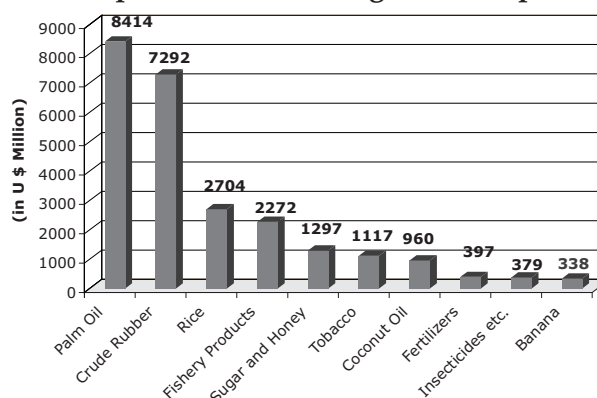


Finally, the agriculture sector continues to play a pivotal role in meeting the food security objectives of majority of ASEAN countries. It remains the single most important source of food for the region's population. In particular, rice – the region's staple food – is still the most dominant agricultural product in many countries in ASEAN. The region's five major agricultural crops namely paddy rice, maize, cassava, soybean and sugarcane are all also vital components of the population's diet.

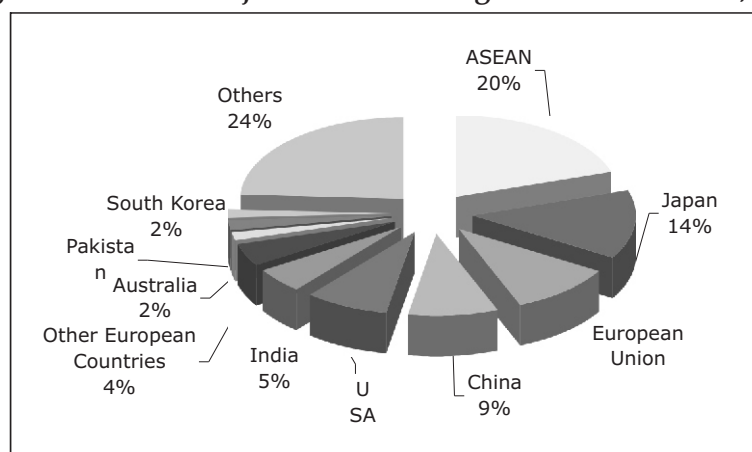
ASEAN Trade

As mentioned earlier, the desire to establish itself as a significant production centre in the global supply chain is one of the reasons behind the regional coalition's decision to enter into free trade arrangements with its major trade partners. ASEAN's top agricultural exports are palm oil, crude rubber, rice, shrimps and other seafood, sugar and honey, tobacco and coconut oil among others. Twenty per cent of member's total agricultural exports are sold within ASEAN, while the rest are exported to other markets namely Japan, the European Union, China, the United States of America, India, Australia among others. Figures 5 and 6 shows ASEAN's top agricultural exports and top export markets for agricultural products.

Figure 5: ASEAN Exports of Selected Agricultural products in 2004

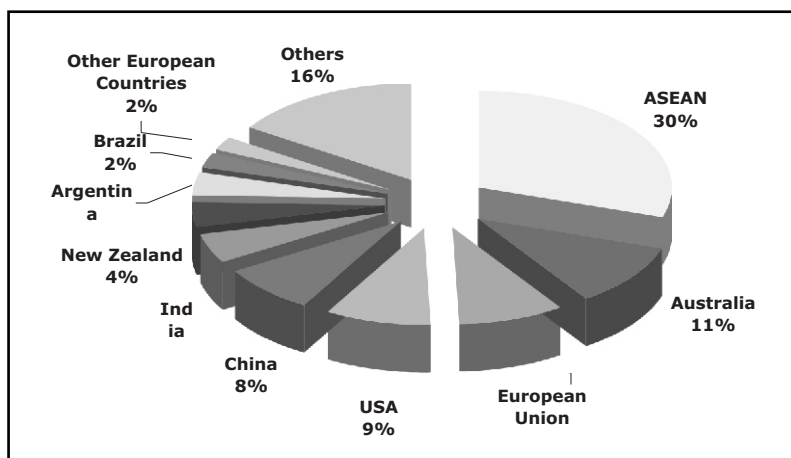


Source: ASEAN Statistical Pocketbook 2006

Figure 6: ASEAN Major Markets for Agricultural Products, 2004

Source: ASEAN Statistical Pocketbook 2006

On the other hand, ASEAN imports fertilizers, tobacco, soybean, insecticides and fungicide, among other agricultural products. Outside its members, ASEAN's main import sources are Australia, the European Union, the United States of America, China, India, New Zealand, Argentina, Brazil and other European countries. Figure 7 shows details.

Figure 8: ASEAN Major Sources of Agricultural Imports, 2004

Sources: Agricultural Statistical Pocketbook 2006

With the exception of a few countries, the region's main export markets are also its major import sources. This provides the rationale behind ASEAN's choice of partner countries for free trade agreements and arrangements. For instance, China, Japan, European Union and South Korea – countries with which ASEAN has free trade arrangements – are important markets for the region's agricultural and other exports. On the other hand, Australia and New Zealand – which are ASEAN's partners in the ASEAN-Close Economic Relations free trade agreement – are significant sources of agricultural imports.

At the same time, ASEAN is emerging as an important market and investment destination for many economies around the world that are interested in further expanding their global reach. ASEAN is one of the world's fastest growing regions, with a growth rate 6.5 per cent in 2007. Its combined population and GDP of 540 million and of over US \$1 trillion, respectively makes a worthwhile partner in free trade agreements.²

ASEAN Trade Policy

In the main, one can identify two distinct stages in ASEAN's over-all trade policy. The first stage, which began in the 1990s focused on promoting greater intra-regional trade among ASEAN members, and in developing a common and single ASEAN market. This stage, mainly characterized by the implementation of the ASEAN Free Trade Area- - Common Effective Preferential Treatment (AFTA-CEPT) in 1992, forms part of the coalition's vision of pursuing economic integration in the region. Under AFTA CEPT, ASEAN members agreed to reduce tariffs (or the taxes applied on imported commodities) on goods coming from other member countries to 0 to 5%, as a way of encouraging trade within the region.

The second stage is geared towards expanding members' share in the extra-ASEAN market, and is apparent in the coalition's decision to enter into many free trade agreements with major trade partners. As indicated in its economic blueprint, ASEAN wants to establish itself as a significant link in the global supply chain, and the forging of free trade agreements with major markets has been identified as one important strategy to achieve this goal.

The regional coalition has already signed framework agreements for greater trade cooperation with China, South Korea, Australia and New Zealand, India and most recently the European Union. The specifics of the trade arrangements with these partners are still being finalized, though it is clear that all of these will generally usher in greater trade liberalization and easier movement of investment and capital across all parties.

² ASEAN as one market by the Philip Kotler Center, available at

Possibilities for a common regional trade agenda

At first blush, the relative diversity in the economic structure of ASEAN members, and the fact that the regional coalition is composed of both net agricultural exporters and net agricultural importers indicates potential challenges in developing an over-all trade agenda that adequately captures the concerns of all small farmers in the region. For instance, the need to provide flexibilities to protect the sector from trade liberalization is expected to be more pronounced in countries where agriculture is a significant contributor to employment and economic output, such as the CLMV, compared to others where the sector accounts for a very small segment of the economy. Similarly, small farmers in net exporting countries such as Thailand and Malaysia are expected to be more open if not aggressive in pushing for trade liberalization than small agricultural stakeholders in net agriculture exporting economies like the Philippines.

However, the results of consultations with small farmers across five countries as part of this study indicates that despite these differences, the agenda, interest and concerns of small stakeholders with respect to trade and trade liberalization are generally similar across countries. There is no distinct divergence in the position of farmers regardless of whether they are from agricultural exporting and importing countries, largely because small agricultural stakeholders across ASEAN members generally cater to the domestic market, and are mostly de-linked from the formal international market.³ In the main, problems of limited public investment in the sector, and resulting concerns over their current level of competitiveness in the face of trade liberalization were issues commonly raised by small farmers throughout all consultations.

Agriculture in free trade agreements

The similarity of conditions of small farmers, and their relative vulnerability to possible displacement due to liberalization is a fact initially recognized by ASEAN member governments. The AFTA-CEPT allows members to delay the opening up of markets for sensitive and highly sensitive products, most of which are agricultural commodities. However, these flexibilities for sensitive sectors, including for agriculture, are, at best, transitional in nature. The AFTA-CEPT is structured in such a way that all products, including those in the sensitive lists would eventually be folded into the agreement's trade liberalization program.⁴

³ I use the term formal international market to distinguish it from the undocumented cross border market (i.e. smuggling). For instance farmers in Cambodia report that they are selling rice to Thailand and other foreign traders for export, through these sales are not reflected in the country's official trade data.

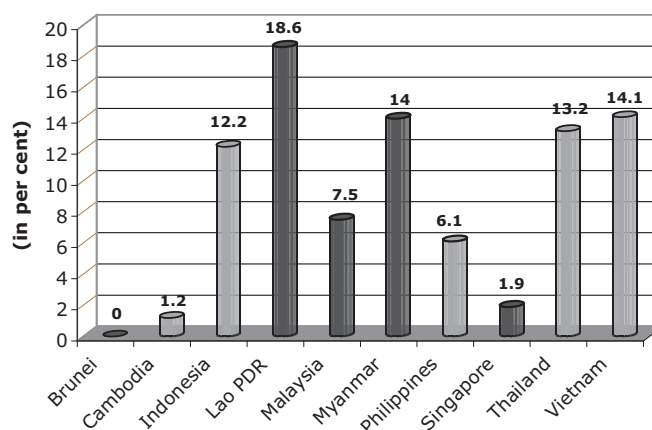
⁴ The target date for the phasing in of items in the sensitive list, which covers many agricultural products, will be presented in a matrix in the latter part of this section.

This option to slow down or minimize trade liberalization for sensitive products, especially from agriculture, is also available in most of the trade arrangements entered into or being negotiated by ASEAN. However, as with AFTA-CEPT, and FTAs in general, this flexibility is not permanent. Eventually, all markets – including for sensitive products will have to be fully opened to trade.

The opening up of export markets for agricultural goods has been cited as one of the rationales for entering into free trade agreements. The lowering of agricultural tariffs in target markets, as a result of free trade agreements is expected to promote trade and encourage agricultural exports from ASEAN countries. This in turn is forecasted to help stimulate economic activity in the sector, and in the process, spur rural development. Agricultural stakeholders, including small farmers, are said to be the expected beneficiaries of increased trade.

However, data shows that, for most ASEAN members, agricultural exports account for only a small segment of total exports. The share of agriculture to total trade receipts never exceed 20 per cent for all coalition members, and is highest for Lao PDR at 18.6 per cent. Figure 9 shows the export share of agriculture to total exports for ASEAN countries in 2004.

Figure 9: Share of Agricultural Exports to Total Exports, 2004



Source: ASEAN Pocketbook Statistics, 2006

The data above indicates that given the members current trade profile, other sectors are in greater position to take advantage of market access opportunities that are expected to materialize from FTAs. In the main, it indicates that industry, more than agriculture is the main beneficiary of FTAs.

Of course, one can argue that facilitating agriculture's greater integration into the world market is precisely one of the main reasons why ASEAN wants to enter into

free trade arrangements with their trade partners, as FTAs are expected to lead to lower agricultural tariffs in target export markets. However, experience with various developing countries' trade liberalization programs shows that there are conditions that must be met before farmers gain from market opportunities resulting from the opening up of markets and from trade in general. These conditions relate to (1) farmers' level of competitiveness in the international market and (2) their control of productive resources and important segments of the domestic and international value chain.

The first condition deals with small agricultural producers' capability to offer products that are competitive in terms quantity, quality and price. This is in turn is a function of a various factors, which includes (1) a country's natural resource endowments (e.g. fertility of the soil, expanse of agriculture lands, etc) (2) efficiency of current agricultural production technology and, most important of all (3) the level of support extended by the state to the agricultural sector to improve productivity and competitiveness. The latter becomes a crucial consideration especially when viewed in the context of developed countries' massive support and subsidy structure for their agricultural producers. In the main, farmers who are not able to offer agricultural products at competitive prices, in sufficient quantity and in acceptable quality will have great difficulty succeeding in the international markets, no matter how low tariffs are in these markets. Indeed, as we will see in the next section, many ASEAN members already face very low import duties in their target export destinations, yet are not able to maximize these openings, mainly due to the factors cited above.

The second condition focuses more on power relations in the value chain. This is largely determined by farmers' access to and control of productive resources. For instance, many small farmers in ASEAN markets have limited capital to participate in the marketing and processing of their produce, and as such are not able to benefit fully from the trade of their products. Additionally, with the exception of rice, many of the products exported by ASEAN countries are produced in large plantations and not in the many small farms that dominate the agriculture sector of many countries in the region.

Agriculture in the ASEAN Blue Print

The ASEAN Economic blueprint describes the plan for the coalition's overarching goal and vision of creating an ASEAN Economic Community. The establishment of the community has been moved up from its original target date of 2020 to 2015, as ASEAN accelerates initiatives to facilitate the free movement of

The creation of a single market and production base is a crucial component of ASEAN's economic blueprint. Its core elements include the liberalization of trade in goods and services, including agricultural commodities and services. Towards this end, ASEAN programmed the elimination/reduction of tariffs for all products, including for agricultural products in the sensitive list, to 0 to 5% by January 1 2010 for ASEAN 6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), January 1, 2013 for Vietnam, January 1 2015 for Lao PDR and Myanmar and January 1, 2017 for Cambodia. Table 1 below provides a matrix of the tariff elimination schedule of products in the sensitive list for ASEAN members.

Table 1: Schedule of Phasing in of Products in the Sensitive list for ASEAN members under the AFTA-CEPT

Company	Complication of phasing in of products in the sensitive list
ASEAN 6 (Brunei, Indonesia Malaysia, the Philippines, Singapore and Thailand)	January 1, 2010
Vietnam	January 1, 2013
Lao PDR and Myanmar	January 1, 2015
Cambodia	January 1, 2017

Source: ASEAN Economic Blueprint

Apart from tariff elimination, the economic blueprint also prescribes concrete action aimed at the following: (1) elimination of non-tariff barriers, (2) enhancement and simplification of ASEAN's rules of origin, (3) trade facilitation, (4) customs integration, (5) creation of an ASEAN Single Window on trade matters and (6) harmonization of standards and technical barriers to trade. All these are intended to facilitate the free flow of goods within ASEAN, and supports the regional coalition's goal of greater integration into the global economy.

The need to ensure the free flow of investments and capital are also seen as core elements of ASEAN's objective of creating a single market, as well as of enhancing its standing as an attractive investment destination. In the main, the regional coalition forwarded policy prescriptions aimed at liberalizing investment and increasing protection for investors. This includes reducing or eliminating investment restrictions; safeguarding investors' right to transfer profits, dividends and capital; implementing investor friendly policies on expropriation and compensation; providing for compensation for losses due to strife, among many others.

The investment-related action points detailed in the ASEAN economic blueprint are consistent with the framework of the ASEAN Investment Agreement (AIA). The said agreement is essentially premised on a principle of national treatment, whereby foreign investors are treated as nationals and as such, are given the same privileges and rights as nationals. The range of investments included by the AIA and the blueprint is comprehensive, covering all industries, including agriculture, fishery, forestry, manufacturing, quarrying, mining and services.

Priority Integration Sectors

The blueprint also emphasized the importance of achieving early gains in the so-called priority integration sectors. These include agro-based products, air travel and air transport, automotive products, E-ASEAN, electronics, fisheries, healthcare, rubber, textiles, tourism and wood based products. These sectors are envisioned to serve as catalysts and models for the coalition's goal of creating a common market among its members. Hence, they are scheduled for early liberalization in terms of trade in goods, capital and investments.

The Road Map for Agro-Based Products, which covers agricultural products, has a positive and negative list. The positive list covers commodities that will be subject to liberalization and facilitation measures such as tariff elimination, improvement of rules of origin, customs cooperation, among others. The negative list, which varies from one member to another, identifies commodities that would not be fully subjected to the aforementioned measures. Table 2 shows the positive list, while Table 3 presents the negative list of selected ASEAN country.

The economic blueprint provides for a regular review of the road maps formulated for these sectors, as well as for a mechanism for private sector and stakeholder consultation on the same.

Food and Agriculture

Food and agriculture has been identified as important component of ASEAN's initiative to create a single market and production base. The economic blueprint's enumerates three key thrusts and strategies for the sector, namely:

1. *Enhancement of intra and extra ASEAN trade and long-term competitiveness of ASEAN's food and agriculture commodities and products.*

This focuses largely on the development and harmonization of systems, practices and standards within the region for fisheries, horticulture, animal husbandry, aquaculture, use of biotechnology, among others, to make these at par with international standards. Also included as part of this strategy is a recommendation to monitor the implementation of AFTA-CEPT for agricultural products.

2. *Promotion of cooperation, joint approaches and technology transfer among ASEAN members, international and regional organization and private sector.*

This will include initiatives to develop common strategies and positions in important international fora such as the World Trade Organization, the Food and Agriculture Organization (FAO) of the United Nations, among others. It will also cover recommendations aimed at promoting collaborative research and technology transfer within the coalition. It likewise encourages private sector participation and cooperation among ASEAN members especially in the area of food safety, investment and joint venture opportunities. Improving common initiatives to address illegal fishing and illegal logging also form part of this strategy.

3. *Promotion of agricultural cooperatives and the creation of a mechanism linking agricultural cooperatives in the region*

This covers the strengthening of strategic alliances and business linkages between and among cooperatives within ASEAN through bilateral, regional and multilateral cooperation. It also involves initiatives to encourage investments and partnerships of cooperatives of producers, consumers and traders, among others.

Among the three, the first strategy is the most well-defined in the sense that it puts forward concrete programs and specific action points. ASEAN is still in the process of translating the blueprint into actual programs with resources and definite timeframes.

Global integration

The economic blueprint emphasized the importance of developing a coherent approach in external trade relations as well as the need to enhance its role and participation in global supply networks as essential requisites to global integration.

At the moment, the regional coalition has yet to adopt a coherent approach in trade negotiations. The wide disparity in the level of development as well as competitiveness in trade of its members provides the biggest challenge in developing a coherent and commonly acceptable approach in its external trade relations. This represents a weakness in trade negotiations, especially with partners who have very clear and firm negotiating objectives and mandates. For instance, in the ASEAN-EU FTA negotiations, the EU negotiating mandate was used as the base document in the trade talks, in part because ASEAN has yet to come up with its own negotiating platform even though it is already well into the talks.

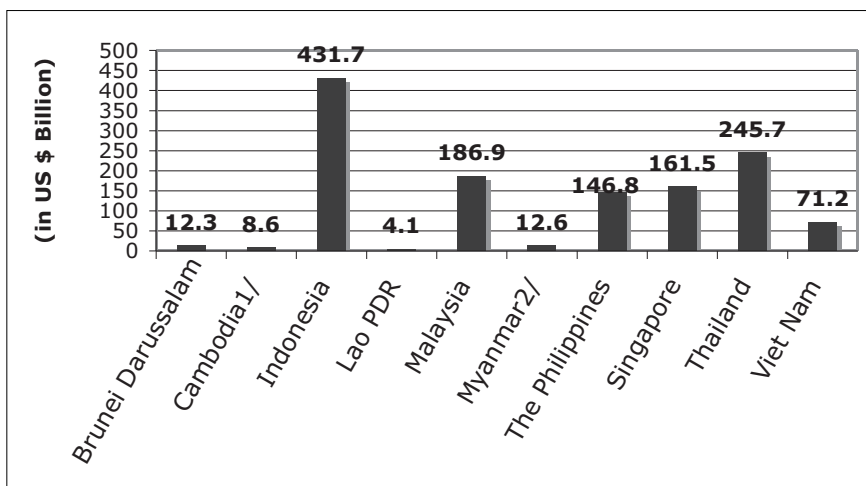
The foregoing provisions of the economic blueprint, especially the liberalization of trade and investments within ASEAN via the AFTA-CEPT, and with other trade partners via FTAs is bound to introduce major changes in the agricultural sector of many of its members, and in the lives of their small agricultural producers. Hence, it is imperative that small farmers across the region have a clear sense of their agenda and interests with respect to ASEAN and regional integration.

Thailand

Overview of agriculture and the economy

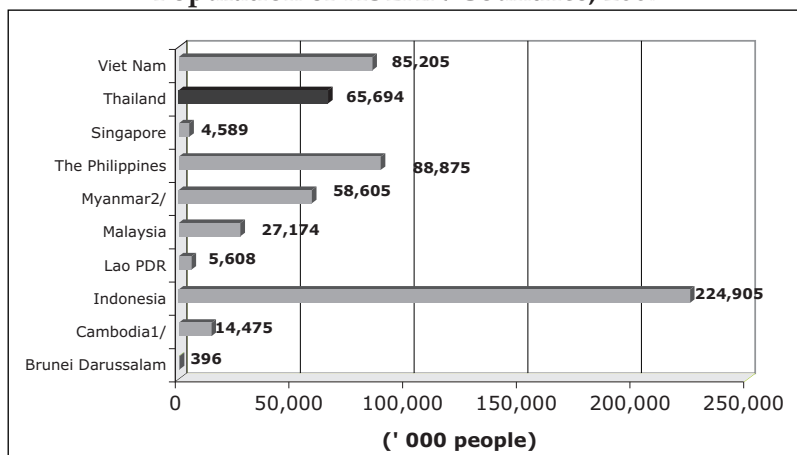
Thailand has the second highest domestic economic output among ASEAN countries, with an average GDP of US 245.7 B from 2002-2007. However, in terms of per capita GDP, the country ranks fourth after Brunei, Singapore and Malaysia. This is because Thailand has a huge population base of 65 million people, and also has the fourth biggest population among ASEAN members in 2007. Figures 1 to 3 shows Thailand's ranking in terms of GDP, GDP per capital and population among ASEAN countries.

Figure 1
GDP at Current Prices of ASEAN Countries, 2007



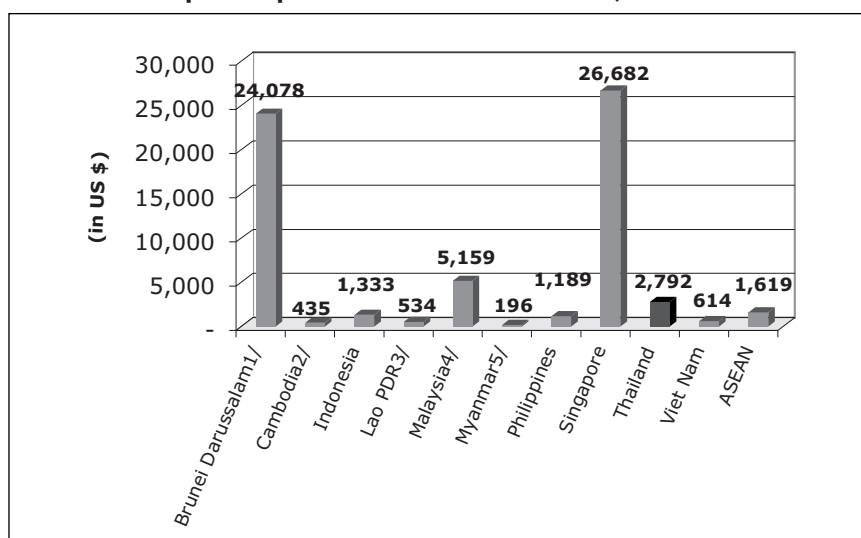
Source: ASEAN Statistical Yearbook

Figure 2
Population of ASEAN Countries, 2007



Source: ASEAN Statistical Yearbook

Figure 3
GDP per Capita of ASEAN countries, 2002-2007



Source: ASEAN Statistical Yearbook

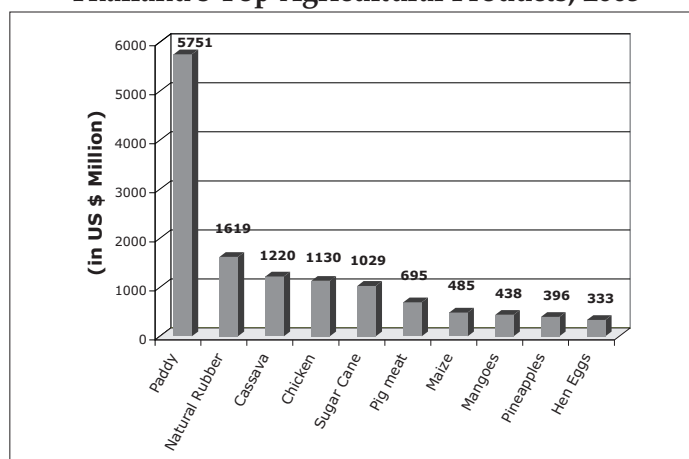
The agricultural sector accounts for only 9.2 per cent of the country's GDP. The seemingly small share of the sector to total economic output does not reflect its actual importance to the whole economy, especially in terms of employment and land allocation. Agriculture is the source of income and livelihood to 46.6 per cent or nearly half of the country's total workforce. At the same time it utilizes 39.9 per cent or more than one third of Thailand's vast land resource. Indeed, the country has the second biggest agricultural area in ASEAN, with 20.1 million hectares devoted to agricultural production.⁵

Thailand's top agricultural products in terms of value of production are rice, rubber, cassava, chicken, sugar, pig meat corn, mangoes and pineapples. Rice is by far the most important commodity, not only in terms of its share to total agricultural output, but also on account of its importance to the country's food security objectives. Like most Asian countries, Thailand considers rice as its most staple food. Additionally, the country is one of the world's top producers and exporters of the staple grain, accounting for 34.4 of the global rice trade in 2004.⁶ This highlights Thailand's significant role in helping other countries meet their food requirements, especially in the South East Asian region where the grain is an essential part of people's diet. Figure 4 below shows Thailand's top agricultural products.

⁵ Data sourced from

⁶ Data sourced from the World Trade Organization's Trade Policy Review for Thailand, WT/TPRS/191

Figure 4
Thailand's Top Agricultural Products, 2005



The past two decades have seen Thailand improve its position as a producer of selected agricultural commodities. It is presently the number one producer of rubber and pineapples, and is also one of the world's top ten producers of cereals, hen eggs, mangoes, cassava, duck meat, jute like fibers, sugar cane, castor beans, coconuts, cocoons, tropical fruits and rice. In particular, the country has exhibited remarkable improvement in ranking in terms of production of sugarcane and cocoon. It has moved from being the 28th and 14th producer of said commodities in 1980 to one of the world's top producers of the same in 2005. Table 1 below shows details.

Table 1:
Thailand's Ranking as a Producers of Selected Agricultural Commodities

Products	Ranking as World Producer, 2005	Ranking as World Producer, 1980
Rubber	1	3
Pineapples	1	1
Eggs (excluding hens)	2	2
Cereals	3	9
Mangoes	3	2
Cassava	4	2
Duck meat	4	1
Jute Like Fibers	4	3
Sugar Cane	4	14
Castor Beans	6	4
Coconuts	6	8
Cocoons	6	26
Tropical Fruits	6	5
Rice	6	5

Source: FAOSTAT

Agricultural Policies

Thailand's agricultural policies reflect its over-all orientation of promoting agricultural exports as a key development strategy for the sector. Its policy objectives of raising productivity and improving agricultural output support the goal of expanding export markets for its agricultural products.

Apart from general support services for the sector, government intervention in agriculture takes the form of price support and control for selected agricultural inputs, soft loans, mainly for rice and onion producers, and targeted assistance for specific sectors. In 2002-2004 the key recipients of government allocation for agriculture are: rice, lychee, longan, maize, manioc, coffee, onions, rambutan and mangosteen. The budget for the sector is equivalent to 1% of the country's GDP and 6% of total government expenditures in the same year. Table 2 below shows details of government's support to the sectors.

Table 2
Thailand: Support for Agriculture

I. Aggregate Measurement of Support (AMS)	2002	2003	2004
Current total AMS ^a	18,709.16	14,150.30	14,818.67
Product-specific AMS			
Rice	16,878.56	11,476.33	14,112.67
Longan	1,630.60	1,001.47	485.05 ^b (8.80)
Lychee	200.00	0.00 ^b (0.00)	220.00
Maize	209.49	225.41	959.85
Manioc	965.49	116.11	1,615.05
Coffee	18.55	21.31	83.50
Onions	0.00	0.00	486.00
Rambutan	250.00	672.50	0.00
Mangosteen	100.00	0.00	320.00
II. Measures exempt from the reduction commitment (Green Box)			
General Services	42,043.02	45,346.30	45,188.85
Agricultural research and development plan	8,863.84	8,721.70	2,678.88
Pest and disease control project	239.47	547.55	1,257.33
National extension and advisory services	5,580.90	4,786.63	4,830.23
Agricultural training services	934.20	864.82	397.89
Environmental promotion programmers	24,968.33	29,478.52	33,727.84
Inspection services
Marketing and promotion of farmers' organization programme	9.72	547.55	1,718.55
	1,446.48	399.53	578.13
III. Measures exempt from the reduction commitment - Special and Differential Treatment - (Development Programmes)			
Soft loan for agricultural investment			
Farming input assistance programme	66.00	3,053.93	594.50
Total Domestic support (I+II+III)	60,818.18	62,550.53	60,602.02

Source: Thailand Trade Policy Review, WTO

Other programs include a paddy support scheme for rice producers, assistance for the cultivation of bio-fuel crops and support to help garlic farmers move to other crops. The latter is intended to help stakeholders in the garlic industry who were marginalized as a result of the country's bilateral free trade agreement with China.

Thailand constantly restructures its agricultural sector by adopting new products and discarding old ones.⁸ This enables the country to maintain and strengthen its position as an agricultural exporter by ensuring that the sector keeps up with changes in the world market. In fact, some of the country's key agricultural exports such as maize, sugar cane, cassava, pineapple and oil palm were only adopted and produced in large quantities beginning the 1960s. These commodities replaced kenaf, jute, tobacco, garlic and onion in the country's list of top agricultural products a few decades ago.⁹ Presently, government is encouraging the production of high value crops to meet the expected high demand for these products in the international market.

Alongside its strong export orientation in the past two decades, Thailand also sought to attain self-sufficiency in agricultural production, especially in essential food products. This thrust is consistent with the Sufficiency Economic Policy espoused by King Bhumibol, which emphasized the importance of attaining self-reliance, particularly in the production of goods and services vital to the country and the economy. This economic policy framework, also referred to as localism, is consistent with Thailand's position of preserving its capability to provide trade protection to key sectors, such as by having high bound tariffs on selected commodities. Hence, even though Thailand has been very aggressive in pursuing market access opening for its export products, it continues to maintain the option to impose high tariffs on agricultural products that are important to its economy, such as rice.

In 2006, government highlighted the importance of adopting the sufficiency economic theory and policy in agriculture. Its main expression is the promotion of sustainable agriculture farming practices such as crop diversification and sustainable land use management, among others. In particular, the theory suggest that farmers divide their farms into four parts: "approximately 30% for rice production, 30% for pond, 30% for farm plants and crops and 10% for housing and other construction."¹⁰ It underscored the importance of reducing farmers' risks associated with limiting production to only one commercial crop. This thinking is clearly antithetical to the sector's current export orientation, which is mainly based on monocropping. However, the current global recession, which threatens to dampen demand in export

⁸ See see Chapter 4 of Thailand, which is one of the Southeast Asian Agriculture and Development Primer Series by the Southeast Asian Regional Center for Graduate Study and Research in Agriculture (SEARCA)

⁹ Ibid

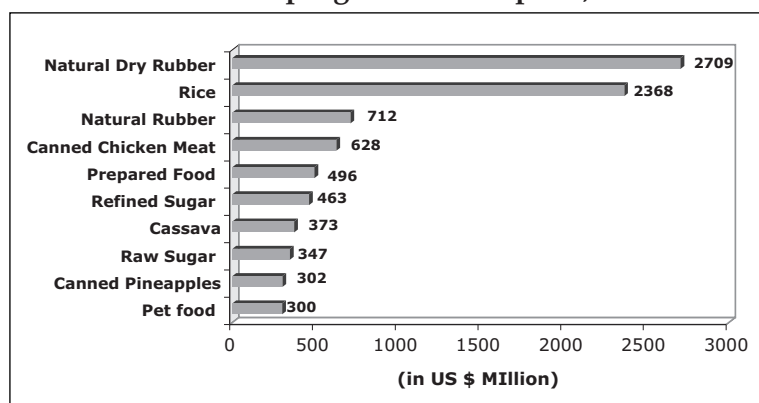
markets, affirms the logic behind this philosophy, and provides the rationale for its full implementation.

Agricultural Trade

The fact that agriculture's share to total export receipts is greater than its share to total economic output is indicative of the importance of agricultural trade to the economy. The sector accounts for 16.2 % of the country's total merchandise exports in 2005, even though its share to GDP is only 10.2 % during the same year. Eighty per cent of the country's food products are exported to various markets around the world.¹¹

The country's main agricultural exports are rubber, rice, sugar, canned chicken meat, preserved food, canned pineapples and pet food. It is one of the world's most important sources of rubber and rice. Figure 5 below ranks the country top ten exports in 2004, based on value.

Figure 5
Thailand's Top Agricultural Exports, 2004



Source: FAOSTAT

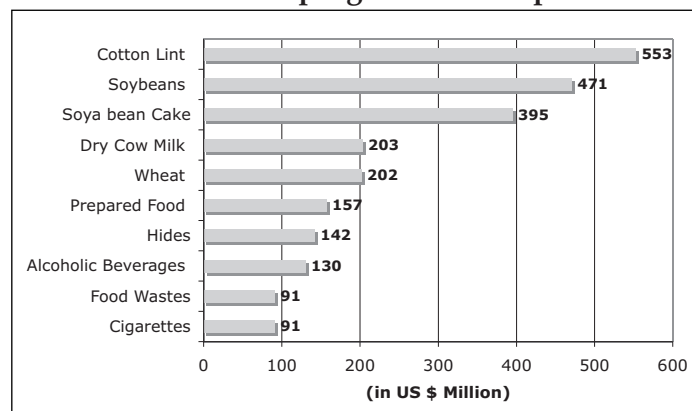
Thailand's main export destinations are the United States, the European Communities, Japan, China, Singapore and Hong Kong. ASEAN is also a major market, accounting for 22.2 per cent of the country's total export revenues in 2004. Thailand's success in agricultural trade is reflected in the fact that it is the 15th largest exporter of agriculture and food products in the world, accounting for more than 2% of global agricultural exports in 2005.¹²

¹¹ Regional Center for Graduate Study and Research in Agriculture (SEARCA)

¹² Ibid

Thailand's agricultural imports represent only 4% of total import payments in 2004. The country top ten imports include cotton, soybeans, soya bean cake, dry cow milk, wheat, prepared food, hides, alcoholic beverages and cigarettes. Figure 6 below shows details.

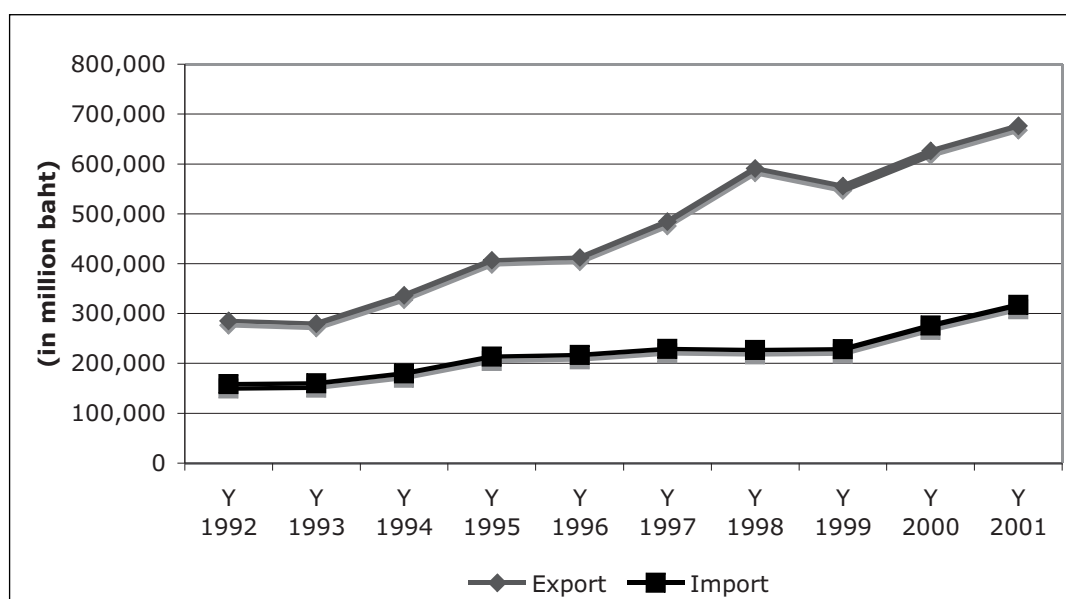
Figure 6
Thailand's Top Agricultural Imports



Source: FAOSTAT

The country is a consistent net agricultural exporter, as growth in the sector's exports rapidly outpaces imports. This is particularly notable during the last decade, when exports of agricultural products more than doubled from Thai Baht 284 billion in 1992 to Thai Baht 676 billion in 2000. Agricultural imports also increased, though at a rate less than those of exports. Figure 7 below shows Thailand's trade performance from 1992 to 2000.

Figure 7
Thailand: Trade Performance from 1992 to 2000



In 2004, Thailand's agricultural exports valued at US \$ 11.9 billion exceed agricultural imports at US \$ 3.8 billion.¹³ Agricultural imports represent only 4% of total import payments during the same year.

Agricultural Trade Policy

In the mid 1980's Thailand removed export taxes and restrictions to encourage agricultural exports. Since then, the country has been very aggressive in pursuing and expanding markets for its agricultural products, mainly through multilateral, regional and bilateral trade agreements.

The country is one of the founding member of the Association of Southeast Asian Nations (ASEAN), and as such is a signatory to the ASEAN Free Trade Agreement Common Effective Preferential Treatment (AFTA-CEPT), which seeks to foster greater intra-ASEAN trade. The coalition has, since then, entered into a free trade arrangement with China, which is major trade partner, and is presently negotiating the terms of free trade arrangements with other partners namely Korea, Australia and New Zealand, and most recently the European Union.

At the multilateral level, Thailand is part of the World Trade Organization (WTO) since its creation in 1995. Its alliances within the international organization reflect its over-all agenda and interests in trade. It is a member of G20, a developing country formation advocating for the removal of trade distorting domestic support and subsidies for agriculture, which remains one of the most significant barriers to trade. It is also a member of the Cairns, an alliance headed by Australia and predominantly composed of agriculture exporting countries. Apart from pushing for the removal of unfair subsidies in agriculture, Cairns is also strongly pushing for increased markets access for agricultural products, especially in developed countries, through further trade liberalization.

Many products of export interest to Thailand are also recipients of huge subsidies in developed countries. In 2001, US and EU subsidy for the rice sector is valued at US \$ 762 million and US \$ 393 million, respectively. Support to the sugar sector is much higher at US \$ 1 B for the US and US \$ 5.8 billion for the EU.¹⁴ Eliminating or greatly reducing these trade-distorting subsidies will help level the playing field for developing country exports in the international market.

¹³ Food and Agriculture Indicators, FAO

¹⁴ Based on the US and the EU 2001 notification to the WTO

Outside the WTO and ASEAN, the country is also party to several bilateral trade agreements. These include the Japanese Thailand Economic Partnership Agreement (JTEPA), the Thailand Australia Free Trade Agreement and the Thailand and New Zealand Close Economic Partnership Agreement. It is also presently negotiating the terms of a trade pact with Peru and India. Trade talks with EU and the US on a possible FTA have been suspended due to political considerations.

However, as mentioned earlier, despite its strong export orientation, Thailand has been very careful in preserving its capability to provide trade protection for selected agricultural products. For instance, Thailand maintains specific taxes as well as tariff rate quotas for rice imports, even though it is one of the world's biggest exporters of the commodity.

Thailand's average bound tariffs, or the maximum import duties it can apply on imported agricultural products according to WTO rules is 40.2 per cent. The average applied or actual tariffs is much smaller at 22.1 per cent. The highest bound duties are for fruits, vegetables and plants, and coffee and tea. However, in terms of actual import duties, the highest rates can be found in the sugars and confectionary, and beverages and tobacco. Table 3 below shows details.

Table 3
Thailand: Bound and Applied Tariffs of Agricultural Products

Product	Average Bound Rate	Average Applied Rate
Animal	30.7	28.1
Dairy Products	33	16.8
Fruit, vegetables, plants	55.8	27.6
Coffee, tea	55.5	23.1
Cereals and preparations	32.6	19.4
Oilseeds, fats and oil	38.1	19.1
Sugars and confenctionary	47.8	32.3
Beverages and tobacco	57	34.2
Cotton	4.5	0
Other Agricultural products	28.1	10.3
All Agricultural Products	40.2	22.1

Source: WTO

Challenges for Thailand

Thailand faces three key challenges when it comes to trade and agriculture.

The first challenge focuses on the need to ensure that small agricultural producers are able to sufficiently gain from both international and domestic trade. Several studies indicate that despite agriculture's strong export performance, small farmers received relatively few benefits from trade and trade liberalization, and that poverty remains a major problem in the sector.¹⁵ AFA partners cite the lack of access to and control of resources along the production and marketing chain as the main reasons behind this observation. In particular, the lack of access to affordable credit has led to the problem of indebtedness, especially to traders. This in turn severely compromised farmers' ability to exercise control over the marketing and disposition of their produce. Indeed, many small agricultural producers are merely price takers, thereby limiting their gains from the trade of their produce.

The second challenge grapples with need to balance the demand for agricultural export with the task of ensuring the sustainability of the country's resource base. The volume and quality requirements of the international market tend to favor production technologies and methods that may not be environmentally and economically sustainable. This includes the adoption of monocropping as well as the use of pesticides and other chemical inputs, among others. There is already a huge body of literature documenting the negative impact of these production technologies on land and water resources, as well as on the health and economic position of farming households. As mentioned earlier, the Thai government has already emphasized the importance of veering away from monocropping by encouraging crop diversification in line with its Sufficiency Economic Policy. Implementing this policy, amidst the pressure to meet the demand of the export market will be an important and interesting challenge for the country.

The third challenge situates the country's trade prospects in the context of the current global crisis. In particular, it highlights the urgency of reducing the agricultural sector's vulnerability to changes in world demand and prices as a result of its dependence on the export market. The anticipated global recession, which has led to shutting down of many companies and massive lay-offs in developed countries, is expected to lead to the declining demand for and prices of export goods in these markets. At present, 80 per cent of the Thailand's food products are exported, which makes it particularly sensitive to the anticipated drop in the demand for and prices

¹⁵ See, for instance, "Thailand's Agricultural Sector and Free Trade Agreements" by Zamroni for Asia Pacific Trade and Investment Review, December 2006.

of agricultural commodities in the international market. For Thailand, this may be reminiscent of the mid 1980s when poverty incidence increased due to the slump in the world prices of its major agricultural exports. In the main, the country's vulnerability to the current crisis underscores one of the inherent weaknesses and dangers of a policy of over-reliance on the export market.

Alongside these three key challenges is the need to convince government to ensure as well as strengthen farmers' participation in agriculture and trade policy formulation and implementation, including in the development of the country's negotiating agenda and position in trade agreements, be it at the bilateral, regional or multilateral level. Indeed, it is only right that farmers have a voice in the creation of policies that will impact on their lives.

Addressing these challenges: the basis of a national trade agenda for small farmers

Addressing the challenges above provides the basis for the formulation of national trade agenda that reflects that development aspirations of small farmers in Thailand. In the main, the core goal is to adopt and implement trade policies that enables farmers to gain from trade in a sustainable manner. Towards this end, AFA, in consultation with its members and partners in Thailand, puts forward the following recommendations:

1. Information and consultation on free trade agreements and their possible impact on agriculture and men and women farmers

Government has been very active in pursuing free trade arrangements with its major trade partners bilaterally, as well as on a regional basis as a member of ASEAN. It must ensure that men and women farmers are informed of and consulted on decisions relating to these trade pacts. Many of these trade agreements are comprehensive in nature, touching on a broad range of trade and economic policies that have tremendous bearing on farmers' economic survival and well-being. Hence, it is only proper that government ensure their active participation in the country's trade policy formulation process.

At the same time, government must conduct a comprehensive evaluation of the direct as well as indirect impacts of these agreements on small farmers and on agriculture, also as a basis for developing its positions and agenda in trade negotiations. For instance, many garlic farmers were negatively affected by the country's bilateral trade arrangement with China, and government is presently encouraging garlic producers to shift to other crops to help them survive. In

particular, the assessment must also look into how trade as well as other provisions of trade agreements, such as on investments, affect land use patterns as well as production choices.

- 2. In committing to trade arrangements, government must always maintain a comfortable degree of policy space that would allow it to provide trade protection to sectors that are negatively affected by or in danger of displacement due trade liberalization.**

In general, free trade agreements are designed to bind participating countries to a definite program of trade liberalization. This severely limits countries' right as well as flexibility to protect sectors that may be vulnerable to displacement due to trade. It is essential that developing countries continue to maintain their capability to safeguard sectors from the possible effects of the opening up of markets. Indeed, the global crisis serves to underscore the inherent volatility of global markets, and emphasizes the need for governments to continue having the capability to intervene in trade. This can be done by ensuring that trade arrangements allow governments to exempt some sectors from trade liberalization, and provide sufficient recourse to addresses imports surges and price declines.

Additionally, developing countries must start to develop their capability to put forward alternative Sanitary and Phytosanitary measures than those currently espoused and implemented by developed countries. At the moment, SPS standards are created by developed countries, and are used by the latter as alternative and more effective barriers to trade.

Lastly, most of the bilateral and regional trade agreements entered into by ASEAN and Thailand does not address the issue of unfair agricultural subsidies. The proliferation of these subsidies lead to unfair competition in Thailand's export as well as domestic markets.

- 3. Creation of a comprehensive public investment program for agriculture to help address farmers' indebtedness and to enable them to gain from trade, whether in domestic or international markets.**

Farmers identify indebtedness as one of the main reasons behind their inability to gain from trade. Addressing this problem requires a comprehensive public investment program aimed at (1) increasing farmers' access to credit and (2) improving their income by helping lower their cost of production.

The former entails the provision of accessible and affordable sources of production capital either through direct lending programs or through credit tie-ups with cooperatives and farmers' organizations. It also necessitates an immediate and proactive approach to relieve farmers of standing loans, such as through selective or targeted loan amnesties, and loan restructuring programs. Additionally government can explore other innovative approaches to promote credit reduction. For instance, some AFA members recommend the implementation of a tree for debt swap where government can agree to retire or settle farmers' debts if the latter commits to plant trees as part of government's reforestation or environmental programs.

Finally, it is essential that government adopt a public investment program for agriculture in order to help farmers resolve the problem of high cost of production, which is one of the root causes of indebtedness in the sector. This will involve allocating resources for irrigation services, affordable and accessible credit for production capital, crop production insurance, price support and technology extension. All these services will go a long way in lowering production costs and risks. At the same time, government must also appropriate resources for farm to market roads, efficient transportation systems for farmers and their produce, as well as for the setting up of processing and other value adding enterprises. Taken together, these can lay down the groundwork for rural industrialization.

Apart from addressing indebtedness the proposals above will help improve farmers productivity, competitiveness and income while enabling them to exercise greater control over production and marketing chains. It is by empowering small producers to get fair returns from their participation in these chains that they are also able to get fair returns from trade.

4. Limiting farmers' vulnerability to the global crisis by implementing the Sufficiency Economic Policy in agriculture and by strengthening domestic markets.

Government's espousal of the Sufficiency Economic Policy in agriculture is the first step in promoting sustainable farming technologies, and in decreasing small farmers' vulnerability to the global crisis. This policy, which, in part, emphasizes the value of diversified farming over monocropping, can help ensure household and community level food security, while safeguarding rural communities from the effects of the global crisis on export markets.

Concretely, government can help fastrack the implementation of this policy by providing incentives and subsidies for farmers adopting the diversified farming system model espoused by government, as well other sustainable farming practices.

Some AFA members also emphasized the benefits of catering to the domestic market as a strategy to protect their economic viability during the global crisis.

5. Empowering men and women farmers

AFA members underscore the need to help strengthen farmers' institutions and organizations, and increase their participation in agriculture and trade policy formulation. This involves the creation of a Farmers' National Council to engage government on agriculture and trade policy matters. At present there is already a legislative proposal for the creation of this council, which is envisioned to serve as advisory body to government.

Government and farmers organizations must coordinate with each other to develop farmers' skills to enable them to sufficiently gain from trade. This entails capability building in the marketing of produce, in the management of cooperatives and similar organizations as well as in the development and management of enterprises, including those engaged in processing and value adding.

AFA member also emphasized the need to conduct researches aimed at understanding and addressing women's issues. The results of the research can serve as inputs in the development of government and civil society programs targeting rural women.

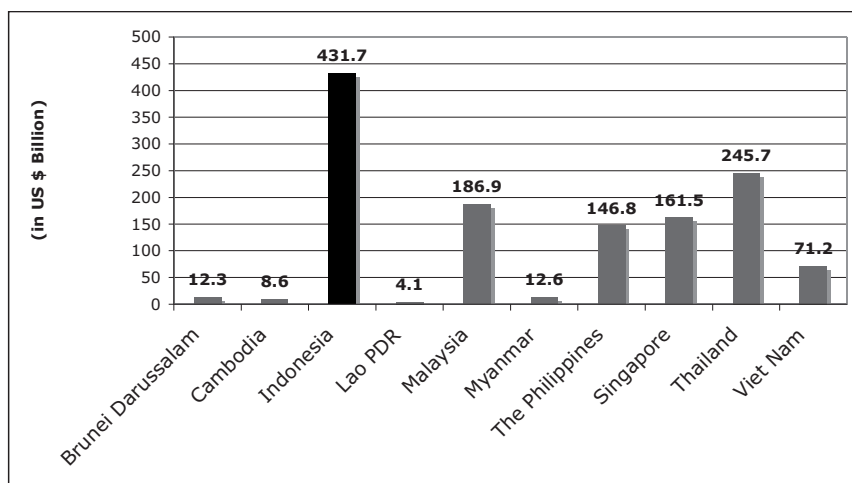
Indonesia

Overview of the economy

Indonesia has the highest Gross Domestic Product among the five countries covered by the study, with total economic output valued at US \$ 431 billion in 2007.

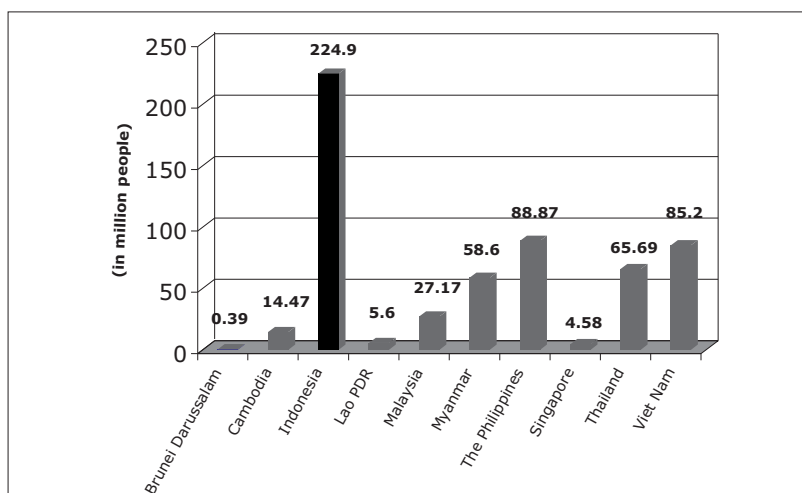
However, Indonesia also has a huge population. In 2007, the country's population was at 224.9 million, the highest in ASEAN, Hence, the country has a lower ranking in terms of per capita income. In fact, its average GDP per capita of US \$ 1,333 from 2002-2007 is lower than the ASEAN average of US \$ 1,619. Figures 1 to 3 show details.

Figure 1
GDP of ASEAN Countries at Current Prices, 2007



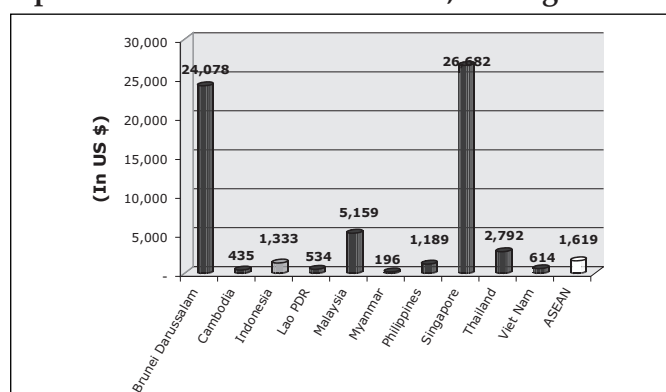
Source: ASEAN database

Figure 2
Population of ASEAN Countries as of 2007



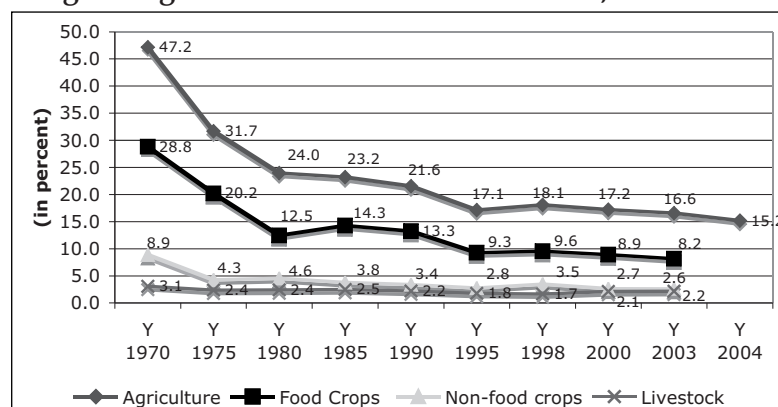
Source: ASEAN database

Figure 3
Per Capita GDP of ASEAN Countries, Average of 2002-2007



The share of agriculture to economic output has been declining over the last few decades. In 1970, the sector accounts for 47.2 per cent or close to half of the country's GDP. In 2004, it accounts for only 15.2 per cent of the same. While this declining share in output is evident in all agricultural subs-sector, it is particularly notable in food crops. In the 1970s, food crop production used to contribute close to one third of total economic output. Beginning the 1990s, its share has gone down to less than 10 per cent of GDP, as the country's industry and services sectors expand their contribution to total economic output Figure 4 charts the sector's contribution to the economy over the last four decades.

Figure 4
Change in Agriculture's Contribution to GDP, 1970-2004

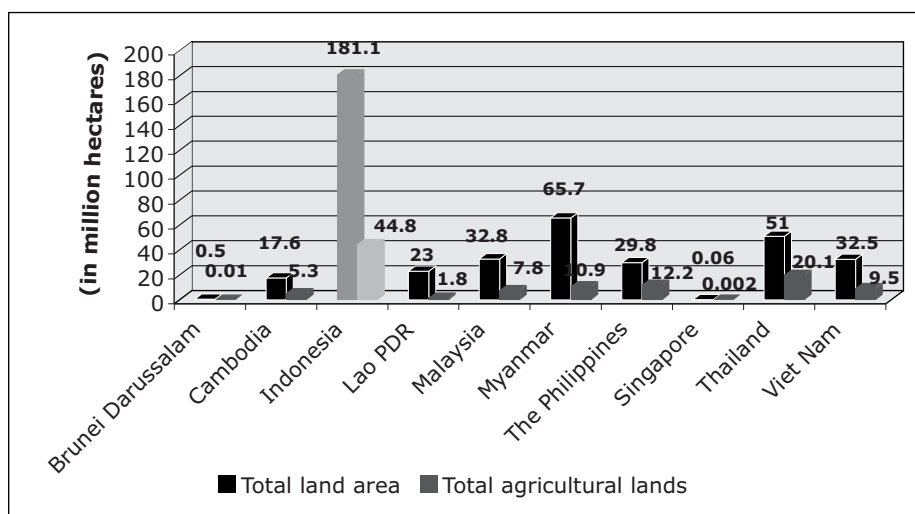


However, the sector remains a vital segment of the economy on account of the fact that 48 million people, or 46 per cent of the country's labor force is employed in agriculture.¹⁶ Additionally, 53 per cent or more than half of Indonesia's total population are in the rural areas, where agricultural production is the most important source of income and livelihood. Agriculture's share to total economic output is less than its share to total employment indicating that labor productivity in the sector is very low.

¹⁵ Data sourced from the WTO Trade Policy of Indonesia, WT/TPR/G/184

Indonesia has the biggest agricultural area in ASEAN. Indeed, the country's total agricultural land is even greater than the land resource of most ASEAN members, with the exception of Myanmar and Thailand. In 2007, 44.8 million hectares, or close to one fourth of the country's total land area are devoted to agricultural production. Again, the sector's share to total economic output is greater than its share to total land use, indicating that land productivity, like that of labor, is relatively low compared to other sectors. Figure 4 compares the area of Indonesia's agricultural lands with those of other ASEAN countries.

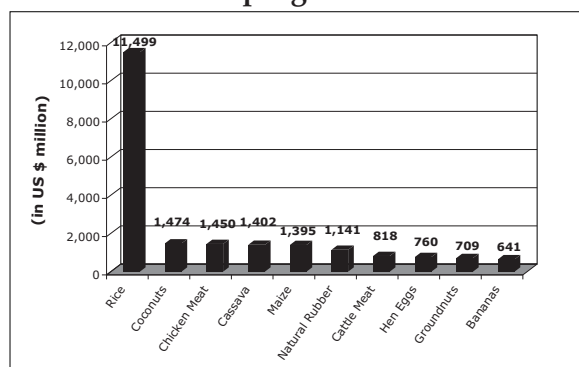
Figure 4
Total and Agricultural Lands of Indonesia and ASEAN Members, 2007



Source: ASEAN Statistical database

The country's main products are rice, coconuts, chicken meat, cassava, maize, natural rubber, cattle meat, hen eggs groundnuts and bananas. As with many ASEAN countries, rice is the most important agricultural commodity, accounting for __ per cent of total agricultural output in 200_. The commodity is Indonesia's staple food, and is also an important source of livelihood to millions of small farmers across the country. Figure __ shows Indonesia's top agricultural commodities in 2005.

Figure 5
Indonesia's Top Agricultural Products



Source: FAOSTAT

Indonesia is presently the world's number one producer of coconut and important spices like cinnamon and cloves. It is the second biggest producer of rubber, vanilla, avocados and green beans. The country exhibited improvement in the production of selected agricultural products. It has overtaken the Philippines as the world's top producer of coconut and has emerged to become one of the world's top producers of cocoa beans, ginger and green beans. Table 1 shows the change in Indonesia's ranking as producer of selected commodities.

Table 1
Comparison of Indonesia's Ranking
as a Producer of Selected Agricultural Commodities, 1980 and 2005

Product	Ranking as World Producers in 2005	Ranking as World Producer in 1980
Cinnamon	1	1
Cloves	1	1
Coconut	1	2
Nutmeg, Mace,	1	1
Cardamons		
Avocados	2	7
Green Beans	2	19
Fresh tropical fruit	2	3
Natural rubber	2	2
Pepper	2	2
Vanilla	2	2
Cassava	3	2
Cocoa beans	3	14
Coffee	3	3
Eggs (excluding hen eggs)	3	4
Ginger	3	23
Rice	3	3

Source: FAOSTAT

Indonesia's Agricultural Policy

Indonesia focused on increasing rice production in the 1970s as part of its bid to achieve food self-sufficiency. Government's emphasis shifted to estate production after the country attained sufficiency in rice output beginning 1984.¹⁷ The country's rice self-sufficiency is a rather tenuous one, as it relies on importation to meet intermittent production shortages. Indonesia has once again achieved sufficiency and rice production, and has even announced its intention to export premium quality rice within Asia in February 2009.

¹⁷Importation is done by the country's state trading enterprise, the Bulog, in order to help regulate rice supply and prices in the market.

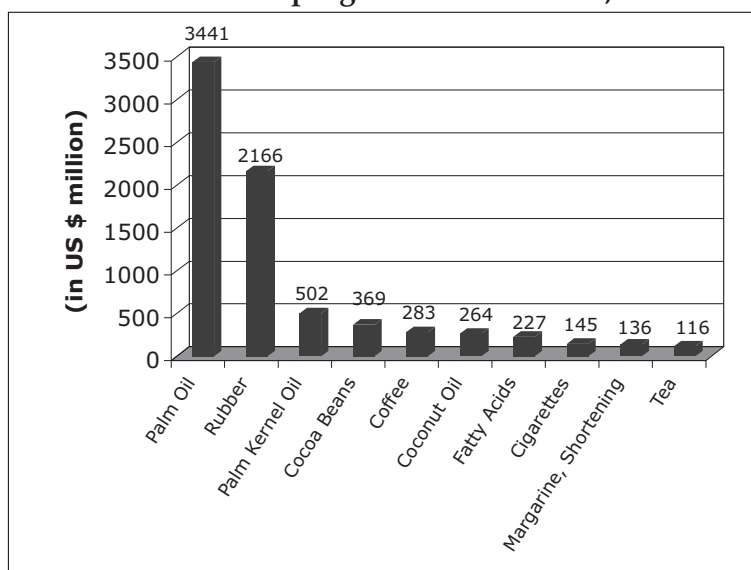
The shift of focus from food to estate production supports Indonesia's growing export orientation, and has led to a growing dualism in the country's agricultural sector. This is characterized mainly by the existence of many small farms, which dominate the agricultural sector, on one hand, and the presence of large estate farms, which is at the center of government's export oriented policy in the sector, on the other. Small farmers are mostly engaged in food crop and livestock production.

Despite government's focus on estate crops, it cannot be denied that rice remains the most significant segment of Indonesia's agricultural sector. Apart from being the biggest contributor to total economic output, the commodity is the single most essential component in the diet of Indonesia's huge population. It is also the source of livelihood to millions of small farmers. Government's support to the rice sector, as well as to other food crops are embodied in its agricultural revitalization program, which was launched in 2005. In particular, the program provides subsidies for fertilizer and hybrid seeds to encourage rice production.

Agricultural Trade

Indonesia's top agricultural exports are produced in estate farms. These are palm oil, rubber, palm kernel oil, cocoa beans, coffee, coconut oil, cigarettes and tea. Palm oil and rubber are the biggest export products. Export revenues from these two commodities alone account for 59.6 per cent of the country's total agricultural export revenues in 2004¹⁸. Figure 6 shows Indonesia's top agricultural products.

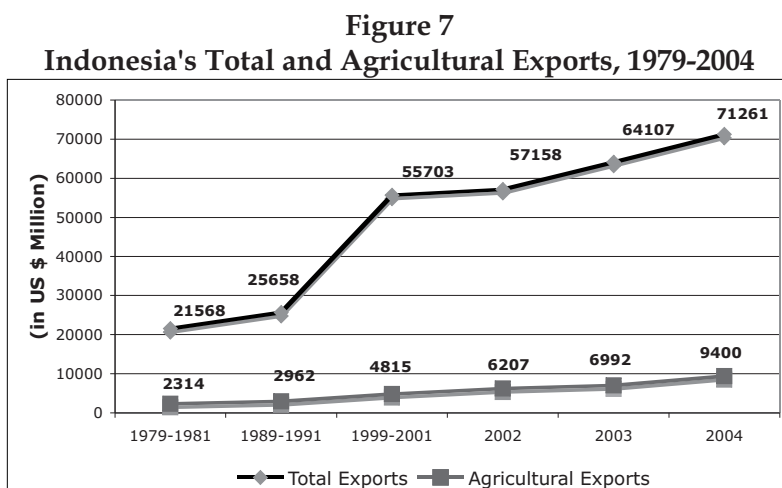
Figure 6
Indonesia's Top Agricultural Products, 2004



Source: FAOSTAT

¹⁸ Computed using data from FAO's Food and Agriculture Indicators for Indonesia

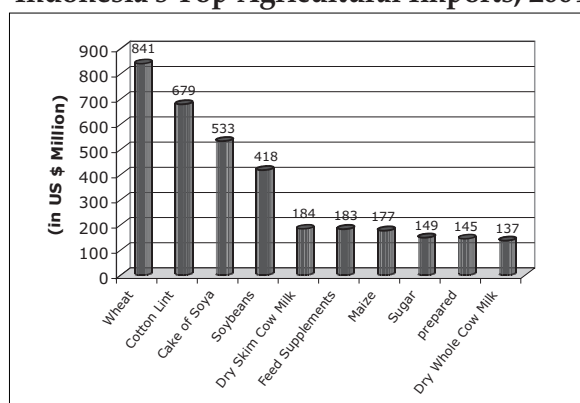
Indonesia's focus on estate crops helped improved Indonesia's agricultural export performance. Revenues from the export of agricultural commodities increased dramatically over the last two decades, from only US \$ 2.3 billion in 1979 to US \$ 9.4 million in 2004. In the main, the growth in agricultural exports mirror the expansion in the country's total exports, which also grew several fold, from US 21.5 billion to US \$ 71.2 billion, over the same period. Figure 7 shows details.



However, as can be gleaned from Figure 7, the share of agricultural exports to total exports remains minimal, as most of the country's exports come from industry. In 2004, agricultural exports account for only 13 per cent of the country's total exports.

On the other hand, agricultural imports represent only 12 per cent of the country's total import payments in the same year. Indonesia's top agricultural imports are wheat, cotton lint, soya cake, soya beans, dry skim milk, feed supplement, maize, sugar, prepared food and cry whole cow milk. The country uses wheat mainly as feeds for the country's livestock and poultry sector, while cotton lint serves as an input to the country's manufacturing sector. Figure 8 shows the country's top imports for 2004.

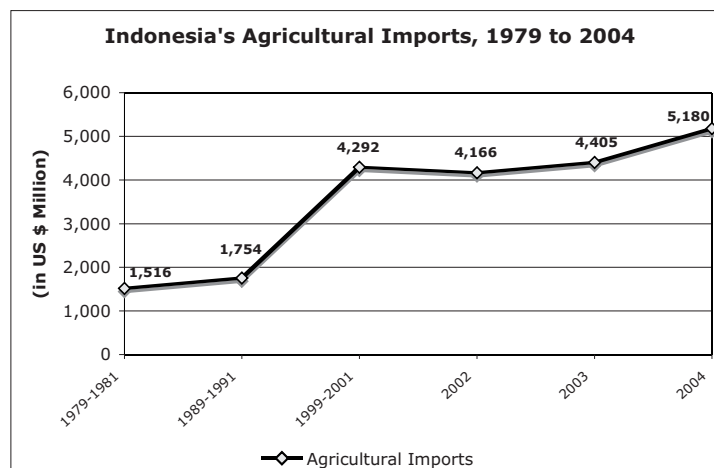
Figure 8
Indonesia's Top Agricultural Imports, 2004



Source; FAOSTAT

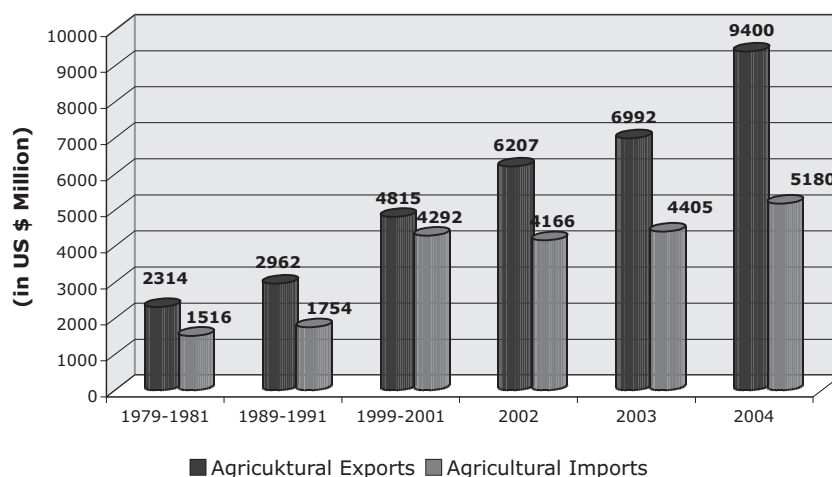
Agricultural imports have been growing from US \$ 1.5 billion in 1979 to US \$ 5.1 billion in 2004. However, its pace of growth is slower than that of agricultural exports over the same period. This has served to strengthen Indonesia's position as a net agricultural exporter. In 2004, revenues from the country's agricultural exports, which had grown by 34.4 per cent from the previous year, is nearly double its total agricultural import payments. Figures 8 and 9 show details.

Figure 8
Indonesia's Agricultural Imports, 1979 to 2004



Source: FAOSTAT

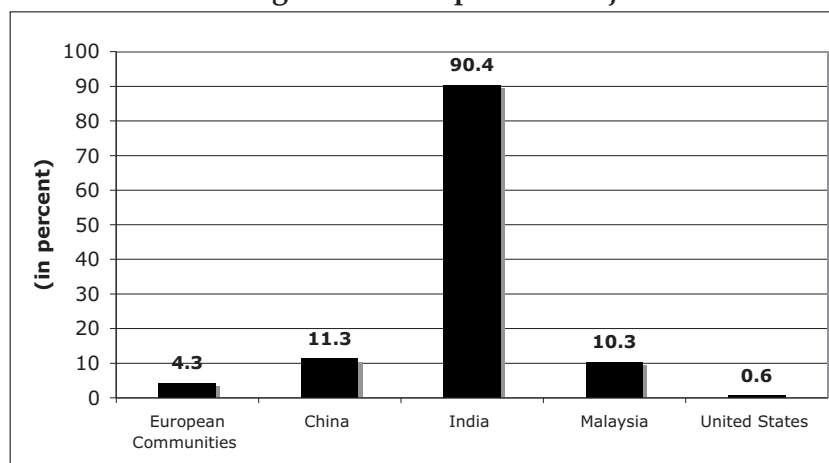
Figure 9
Indonesia's Agricultural Trade, 2004



Indonesia's main trade partners are the European Communities, China, India, Malaysia and the United States. The country already faces very low tariffs in most of these markets. For instance, import duties on agricultural exports to the United States and the European Communities are at only 0.6 per cent and 4.3 per cent, respectively. Agricultural exports to China and Malaysia face tariffs of 11.3 and 10.3 per cent, correspondingly. It is only in India where Indonesia's agricultural exports are still confronted with high tariff barriers. In particular, the weighted average tariff

for Indonesia's agricultural exports to India is 90.4 per cent. A comparison of the weighted average import duties for agricultural commodities in Indonesia's target markets can be seen in Figure 10 below.

Figure 10
Weighted Average Tariffs faced by
Indonesian Agricultural Exports in Major Markets



Source: WTO database

Agricultural Trade Policy

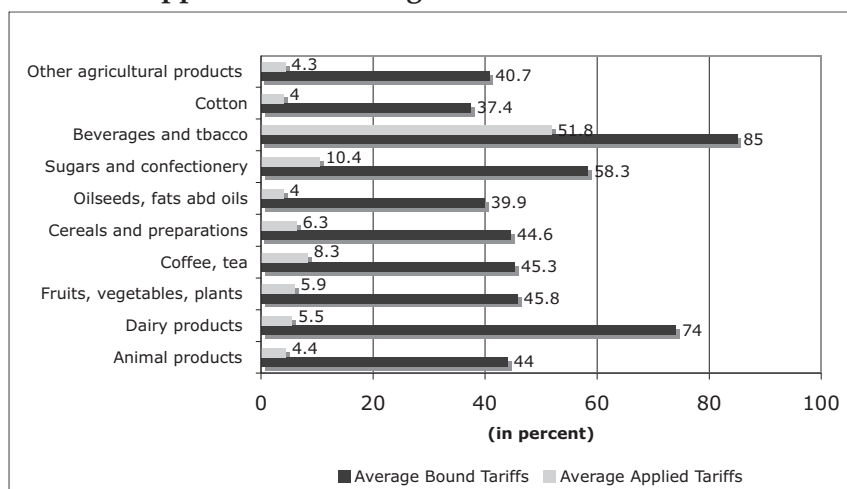
Market access, manifested mainly by the lowering of tariffs in target markets, is one of the main reasons why ASEAN members, including Indonesia, is keen to be part of free trade agreements. However, the data above shows that, except for India, the country's main agricultural markets are already open, thereby limiting the expected gains from FTAs in terms of opening up of markets.

On the other hand, it is inevitable that Indonesia will have to reduce tariffs as part of its commitment in these free trade arrangements. Presently, the country's average final bound, or maximum allowable tariff, for agricultural products is 47 per cent. Close to ninety per cent (89.4 per cent) of its agricultural products have import duties within the 25 per cent to 50 per cent range. Agricultural commodities with tariffs greater than 100 per cent accounts for 3.3 per cent of total agricultural tariff lines.

However, Indonesia's applied or actual tariff for agricultural products is much smaller at 8.6 per cent. In fact 85 per cent of the country's agricultural commodities have tariffs within the 0 to 5 per cent range, which is indicative of the degree of the country's unilateral decision to open its markets. This means that Indonesia is applying lower tariffs on imports even if it has the capability to apply higher import duties on agricultural commodities entering its market.

Among the various agricultural commodities, bound tariffs are highest for beverages and tobacco (85 per cent), dairy products (74 per cent) as well as for sugar and confectionary (58.3 per cent). Figure 11 below shows the average bound and applied tariffs for different agricultural commodities.

Figure 11
Bound and applied tariffs for agricultural commodities in Indonesia



Source: WTO

In the WTO, Indonesia heads the G33, a coalition of developing countries pushing for their right to safeguard the economic viability of sectors that are important to their food security, livelihood security and rural development objectives. In particular the coalition is advocating for the inclusion of Special Products and Special Safeguards Mechanism in the agreement on agriculture currently being negotiated in the WTO as part of the Doha round of trade talks. Indonesia's leadership in the WTO is indicative of its recognition of developing countries need to preserve the maximum possible policy space for sectors that are relevant to the fulfillment of crucial socio-economic goals. Even though it presently applies minimal tariff protection for most agricultural products, it is, nevertheless, pushing for developing countries' right to maintain the option to use higher tariffs, mainly by ensuring that there is no or little reduction in the bound rates of specific products. Indonesia is also a keen advocate of the need to provide special and differential treatment for developing countries in the WTO.

Indonesia is an active member of ASEAN, and as such is also a party to various regional trade agreements pursued by the coalition with its major trade partners, including China, South Korea, Australia, New Zealand, India and the European Union. Indonesia is also presently negotiating an economic partnership agreement with Japan, in line with the latter's agenda of forging bilateral agreements with members of ASEAN.

Outside the WTO and ASEAN, the country is engaged in initiatives to build greater south-south cooperation. It has already signed a preferential trading agreement to expand trade among the D8 countries, which covers . It has likewise signed the protocol for preferential trading scheme among members of the Organization of Islamic Conference. Finally, the country is actively involved in negotiations to broaden the Global System of Trade Preferences under the UNCTAD.

In the main, Indonesia's participation and position in these various trade fora and formations is reflective of the dilemma attendant to the growing dualism in its agricultural sector. On one hand, the country seeks to maintain its flexibility to support small farmers who are economically vulnerable as a result of trade liberalization by seeking to maintain higher tariffs. This is evident in the country's negotiating stance in the WTO. On the other, it is participating in various FTAs to broaden export markets for its estate products even though some of the provisions in these trade agreements undermine its negotiating gains in the WTO.

Challenges for Indonesia

The most important challenge for Indonesia is how to balance its offensive and defensive interest in trade. As mentioned earlier FTAs are expected to help open up markets for the country's agricultural commodities, and strengthen the country's position as a net agricultural exporter. However, by their very nature, FTAs are designed to open up the markets for all participating countries. Hence, in exchange for broader opportunities for agricultural exports, Indonesia also has to commit to liberalize its own markets. This presents a challenge to many small Indonesian farmers, who are concerned over their capability to compete in a liberalized trade regime.

The country's export oriented focus also raises a host of issues. The first relates to understanding and addressing the pressure of producing for the export market and its impact on the environment, as well as on Indonesia's resource base. As with most countries, the quantity and quality requirements posed on agricultural export commodities typically warrant the use of production technologies requiring intensive chemical inputs. This not only threatens the long-term fertility of the soil but also poses hazards to other resources such as on community water systems and on the health of farmers and estate workers.

The second relates to the vulnerabilities and risks inherently associated with producing mainly for the export market. This is a major concern, especially in light of the current global crisis and its dampening effect on demand in developed countries,

which are also some of Indonesia's main markets for its agricultural exports. The crisis underscored the need for the country to focus as well as strengthen domestic demand for agricultural commodities. The fact that Indonesia has a huge population indicate that there is always a ready market for the output of the agricultural sector. Although, the country is presently self-sufficient in terms of grains production, historical data shows that this sufficiency is rather fragile, as the sector is prone to intermittent rice production shortages, and has to depend on the international rice market to bridge the gap between local rice supply and demand. Thus, sustaining the capability to produce enough food to meet the consumption requirements of its huge population is an important concern as well as objective for the country.

Another significant challenge, perhaps the most crucial one for small farmers in Indonesia, deals with how small agricultural producers can benefit from trade, either in the international or domestic market. In general, farmers' limited capability to gain from trade is a function of two factors. The first is the level of competitiveness of small farmers. Small agricultural producers will only be able to take advantage of market opportunities if their products are competitively priced, and are produced in the right quality and quantity, at the right time. The second relates to their ability to get good and fair prices for their products.

Both these factors are largely determined by farmers' access to and control of resources along the production and marketing chain. In particular, AFA partners in Indonesia emphasized the problem of landlessness as a major concern for small farmers across the country. At the same time, they cite the absence of adequate support services such as credit, irrigation, farm to market road, among others as some of the reasons why they are not able to

Articulating small farmers' national trade agenda for Indonesia

1. Ensure that Indonesia's position in the WTO with respect to maintaining government's capability to safeguard sectors that are important to food security, livelihood security and rural development is maintained in its negotiating mandate and position in bilateral and regional trade agreements.

The dualistic nature of Indonesian agriculture requires a nuanced approach to trade – one that does not dismiss the concern of small farmers in favor of opening up of markets for other segments of the agricultural sector. This nuanced approach is evident in Indonesia's position in the WTO, where the country seeks to balance its market access objectives with the need to support sectors crucial to meeting certain socio-economic objectives. Unfortunately, Indonesia's involvement in other trade agreements, especially those forged within the ambit of ASEAN, adheres to a

program of blanket liberalization. While ASEAN FTAs generally provide flexibility to participating countries to delay liberalization for sensitive products, these are structured in such a way that all products will eventually have to be substantially or fully liberalized by the end of the implementation period.

In this regard, it is important that Indonesia maintain a consistent position in all trade agreements. In particular, it must push that all agreements in which it is a signatory contain provisions that would allow parties to exempt certain sectors from trade liberalization on account of their importance to countries' food security, livelihood security, rural development and poverty alleviation objectives. Similarly, it must advocate for the inclusion of provisions aimed at providing small agricultural producers sufficient recourse in cases of imports surges or price declines due to importation. These provisions can form part of Indonesia's nuanced approach to trade.

2. Adoption of strategies to help insulate the sector against the effect of the global crisis.

The unfolding global crisis emphasized the importance of adopting strategies to help insulate small agricultural stakeholders from the effect of falling demand for export goods. An immediate and vital component of this strategy must focus on ensuring food security at the household, community and national level. This entails the promotion of sustainable and diversified farming systems aimed at helping farms produce sufficient food for the family, as well as the community and the domestic market. This will involve a marked deviation from the sector's current thrust of producing largely for the export market.

Encouraging agricultural production for the local market requires intensive government intervention, including the provision of production incentives as well as input subsidies, among others, for producers who want to cater to local consumers. At the same time, government must help strengthen and sustain local demand for agricultural products. This can be done through price support, and the adoption of trade policies aimed at encouraging local demand for domestically produced agricultural commodities over imported agricultural products. These interventions will require massive investment in agriculture. However, all over the world, countries are developing stimulus packages to support their economy. Allocating resources to achieve the objectives above should be an important segment of Indonesia's stimulus package for agriculture.

3. Help improve farmers' capability to gain from trade by broadening their access to and control of resources along the production and marketing chain

Landlessness remains an important concern for many small farmers in Indonesia. The fact that farmers do not own the land they till limit their capability to fairly gain from the production, as well as trade of their products. Therefore, addressing the problem of landlessness is an important requisite to ensuring that Indonesian farmers benefit from the production as well as the marketing of their produce.

In the same vein, improving farmers' access to essential support services, such as credit, irrigation, farm to market roads, and the creation of backward and forward to the sector, among others will enable them to generate better income from agricultural production, and empower them by giving them better control over the pricing of their produce.

Addressing the issue of landlessness and providing essential support services and infrastructure for small farmers require a massive public investment program targeting small agricultural producers.

4. Promoting the over-all competitiveness of Indonesian agriculture by addressing governance issues in the sector

Improving competitiveness is not only a function of having sufficient government budget allocation for agriculture. It also requires an effective and participative governance structure to address existing institutional as well as policy weaknesses in the sector. These include poor coordination among the various executive agencies involved in agriculture and agrarian related service delivery, low level of prioritization for the sector and limited transparency and accountability in government functions, among others. One major policy weakness, namely the lack of consistency in the country's negotiating agenda and position in bilateral, regional and multilateral trade agreements can be rooted to government's disjointed effort to address the trade agenda and interest of its highly dualistic agricultural sector.

However, it can be argued that the lack of small farmers' participation in governance, particularly in agriculture and trade policy formulation, implementation as well as monitoring and evaluation is the governance issue underpinning all other governance issues. For instance, the problem of poor coordination among government agencies is partly rooted to the fact that farmers are not able to input on how agriculture and agrarian related government agencies should be structured so that these remain relevant and responsive to the needs of the sector and its various stakeholders.

In this context, improving farmers' participation in governance, especially in agriculture and trade policy formulation is a significant first step in resolving many of the governance issues affecting the agricultural sector. Concretely, this can be achieved by (1) providing farmers and other agricultural stakeholders with official venues through which they can relate their agenda, concerns, positions as well as recommendations to government on all matters, decisions and policies affecting the sector (2) providing farmers access to information to help them effectively participate and contribute to the country's agriculture and trade policy formulation process, including on decisions related to bilateral, regional and multilateral trade arrangements and agreements

5. Continue exercising leadership in the G33 in favor of small farmers

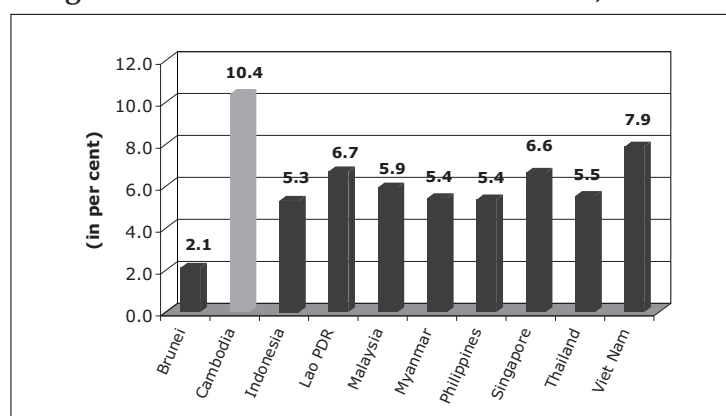
Although negotiations in the WTO are presently at a standstill, and regional trade agreements are now at the forefront of initiatives to promote trade liberalization, it is still worthwhile for Indonesia to continue exercising a leadership role in the coalition. The G33 remains a crucial and strategic formation through which Indonesia, and many other developing countries, lobby in the WTO to preserve their right to support their agricultural sector through SP and SSM. The MFN commitments and provisions in the WTO, particularly on tariff bindings and remedies, serve as the ceiling or maximum level for similar provisions in the WTO. For instance, in most FTAs, as an emergency measures, a signatory country can suspend the granting of tariff concessions granted under the FTA, and use the prevailing MFN rates in the WTO. Hence, ensuring that developing countries are able to retain the highest possible tariff bindings in as well as the best possible safeguard remedies in the WTO translates to generally broader policy flexibility in most free trade agreements.

Cambodia

Overview of agriculture and the economy

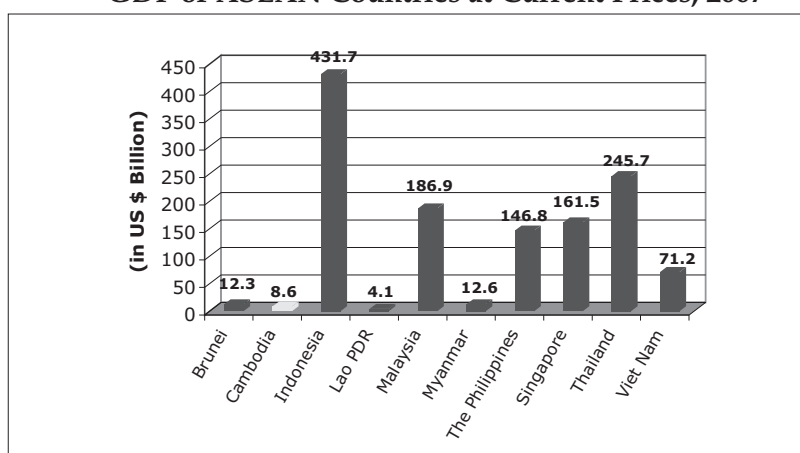
Cambodia has the highest economic growth rate within ASEAN. The country's Gross Domestic Product (GDP) has been expanding by an average of 10.4 per cent from 2002-2007, a pace much faster than the average ASEAN growth rate of 6.1 per cent over the same period. However, despite this impressive increase in output, the country continues to have one of the lowest GDP in the region. Cambodia's domestic economic output in 2007, valued at US \$ 8.6 billion dollars is the second lowest within ASEAN. Its average per capita GDP of US 435 from 2002-2007 is also lower than the average ASEAN per capita GDP of US 1,619 over the same period. Figures 1 to 3 show details.

Figure 1
Average GDP Growth Rate at Constant Prices, 2002-2007



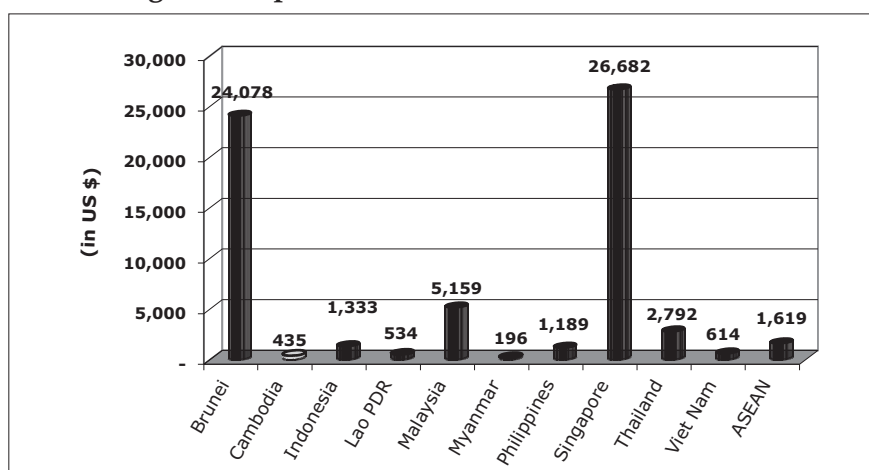
Source: ASEAN

Figure 2
GDP of ASEAN Countries at Current Prices, 2007



Source: ASEAN

Figure 3
Average Per Capita GDP of ASEAN Countries, 2002-2007

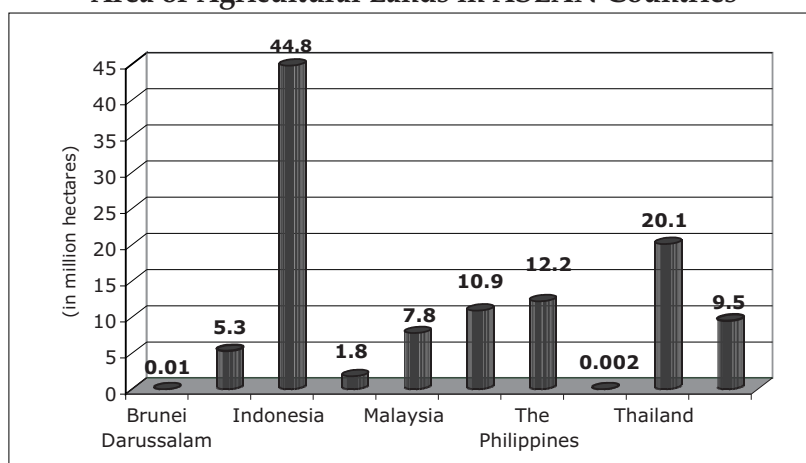


Source: ASEAN Statistical Yearbook

Agriculture is the single most important segment of the economy. It is the source of income and livelihood to as much as 69 per cent of the country's labor force in 2004. However, its share to total economic output is much smaller. The sector accounts for only 32.9 per cent of GDP during the same year, indicating that as with most countries covered by the study, Cambodia's agricultural labor productivity is generally low.

Thirty per cent of Cambodia's land resource is used for agricultural production. The country has a small area of agricultural lands, mainly because its total lands is also small compared to other ASEAN countries. Cambodia's total agricultural lands is only 5.1 million hectares, which is considerably less than those of other ASEAN members, with the exception of Laos PDR, and Singapore and Brunei which have practically no agricultural sector. Figure 4 below compares the area of agriculture lands among ASEAN members.

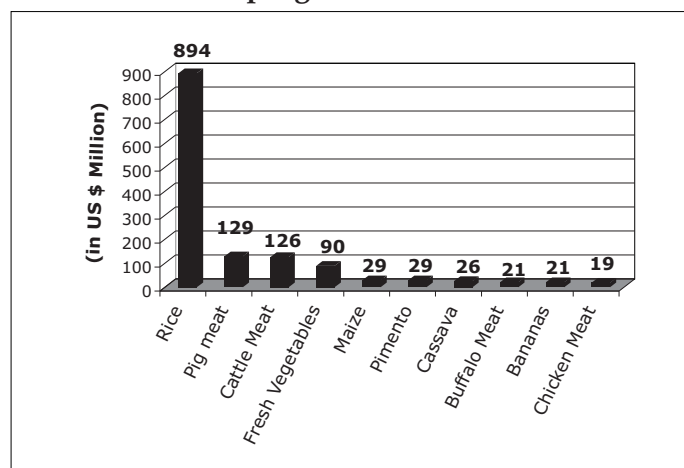
Figure 4
Area of Agricultural Lands in ASEAN Countries



Source: ASEAN Statistical Yearbook

The country's top agricultural products, in terms of value of production, are rice, pig meat, cattle meat, fresh vegetables, maize, pimento, cassava, buffalo meat, bananas and chicken meat. Production is primarily for the domestic market, although many rice farmers reported that they sell their output to other countries, near Cambodia's borders. Figure 5 below presents Cambodia's top agricultural exports based on value of production.

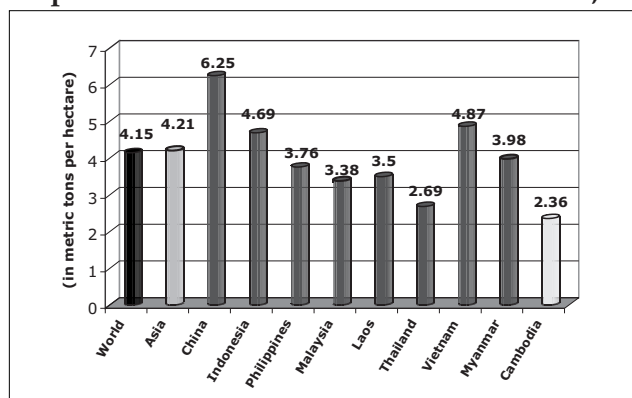
Figure 5
Cambodia's Top Agricultural Products in 2005



Source: FAOSTAT

As with many ASEAN countries, rice is the single most important commodity in Cambodian agriculture, not only because it is a staple in the population's diet, but also on account of its contribution to total economic output. However, despite the clear significance of rice in the country's agricultural sector and economy, the country has yet to maximize its full potential in terms of rice output. Cambodia has one of the lowest rice productivity in ASEAN. Its rice yield of 2.36 metric tons per hectare is the lowest in the region, and is considerably lower than the world and Asian average of 4.15 and 4.26 metric tons per hectare, respectively. Figure 6 compares rice yields among ASEAN countries.

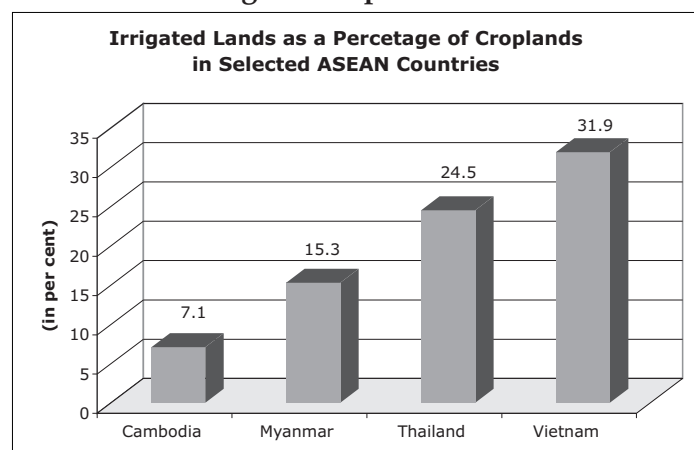
Figure 6
Comparative Rice Yield of ASEAN Countries, 2007



Source: World Rice Statistics

The absence of essential support services is one of the major reasons behind the country's low rice productivity. For instance, irrigation, which can considerably improve rice output, is very limited, as only 7 per cent of the country's total croplands are irrigated. This figure is very small compared to other countries such as Thailand and Vietnam, where the percentage of irrigated lands to total croplands is also inadequate, but considerably higher than Cambodia's at 24.5 per cent and 31.9 per cent, respectively. Figure 7 shows details.

Figure 7
Irrigated Lands as a Percentage of Croplands in Selected ASEAN Countries

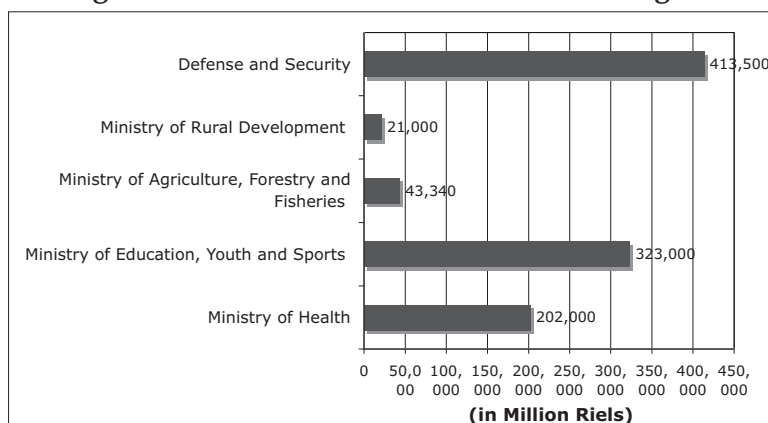


Agricultural Policy

Cambodia's agricultural policy forms part of the series of Socio- Economic Development Plans. It focuses on three major objectives, namely (1) improving production (2) reducing rural poverty and (3) conserving natural resources. In particular, government plans to achieve first objective by increasing the area of agricultural lands, expanding irrigation, promoting the use of hybrid seeds, improving support services including extension work, among others. It hopes to reduce rural poverty through the promotion of agribusiness, and by improving the quality of agricultural products. These interventions are expected to help promote food security, which is also one of the country major policy goals.

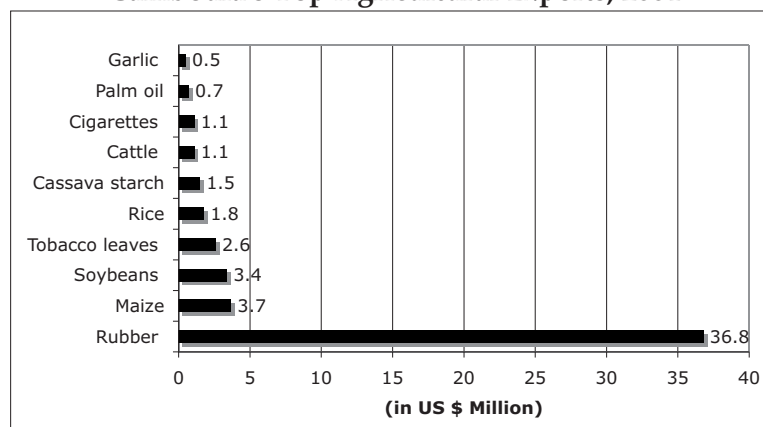
Achieving these goals require substantial public investment in the sector. Government resource allocation for agriculture and agrarian related agencies is small compared to other government executive agencies. Indeed, Cambodia's budget for the Ministry of Rural Development and the Ministry of Agriculture, Forestry and Fishery is considerably lower than its allocation for the ministries of defense and security, education and health. Figure 8 shows details.

Figure 8
Budget Allocation for Selected Government Agencies



Government's limited public investment in agriculture, even though the sector provides employment to 69 per cent of Cambodia's workforce in 2004, is one of the major reasons behind low agricultural productivity. It can also be considered as a major contributor to rural poverty, as eighty (80) per cent of the country's population in 2004 is in the rural areas, where agriculture is the most important source of income and livelihood. Other issues that need to be addressed to improve the sector is the weak institutional framework among agriculture related agencies, and farmers limited capability to find fair markets for their products.

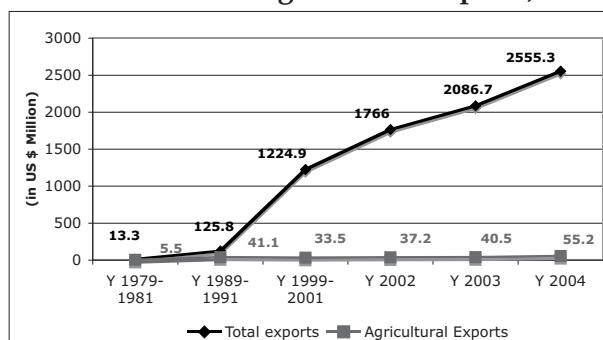
Figure 9
Cambodia's Top Agricultural Exports, 2004



Source: FAOSTAT

Compared to other segments of the economy, Cambodia's agricultural sector is not well integrated in the international market. Agricultural exports represent only 1.24 per cent of Cambodia's total export receipts. This has generally been growing over the last few decades, from only US \$ 5.5 million in the late 1970s to US \$ 55.2 million in 2004. However, its pace of growth is more flat compared to total exports, which rose phenomenally from US \$ 13.3 million to US \$ 2.5 billion over the same period. Figure 10 below plots Cambodia's agriculture and over-all exports from 1979 to 2004.

Figure 10
Cambodia's Total and Agricultural Exports, 1979-2004



The country's main markets for its agricultural exports are Singapore, Vietnam, Malaysia, Thailand and the United States.

Cambodia's main agricultural imports include cigarettes, rice, palm oil, cotton lint, food waste, sugar, tobacco leaves, malt of barley, infant food and prepared food. It is interesting to note that many of Cambodia's top export items like rice, cigarettes, tobacco leaves, palm oil, cassava starch are also its top agricultural imports. This may indicate that Cambodia imports these goods for re-export, or there are asymmetries in the market, either in terms of price or information. For instance, price differences in the market can make it more profitable for traders to export than to cater to domestic buyers, and the local market has to augment this supply gap through imports. Agricultural imports account for 7.7 per cent of total imports in 2004.

Cambodia is a net agricultural exporter, with an agricultural trade deficit of US \$ 107.1 million in 2004. However, these are official trade figures and do not factor in undocumented trade, especially along Cambodia's border. Many farmers during the AFA consultation indicated that they have always sold rice to traders from other countries, though whether or not these are factored in official trade figures is not clear.

Agricultural Trade Policy

The country's desire to expand markets for exports is apparent in its decision to be part of various trade agreements at the bilateral, regional and multilateral level.

Cambodia became part of ASEAN in 1997, the tenth and the latest country to become a member of the regional formation. As such, it is part the so-called CLMV, along with Laos PDR, Myanmar and Vietnam, which, as a form of special and differential treatment, are given greater flexibility in terms of trade liberalization. In particular, CLMV countries are allowed longer timeframes to reduce their tariffs, and undertake

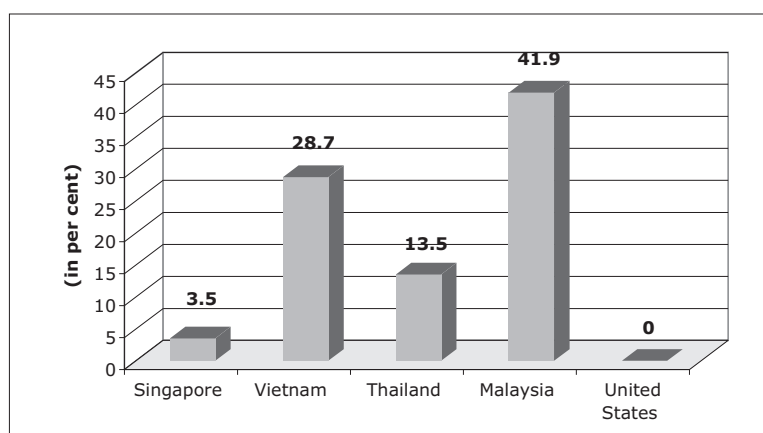
other market access commitments. Like the other countries comprising ASEAN, Cambodia is a signatory to the ASEAN China FTA, and has agreed, in principle, to free trade arrangements with Australia and New Zealand, South Korea, India and the EU.

At the multilateral level, the country became a member of the WTO in 2003, thereby committing to the rules and regulations prescribed in the Agreement on Agriculture, along with the other pacts comprising the General Agreement on Tariffs and Trade. This includes the removal of quantitative restrictions and the reduction of tariffs based on its schedule of commitments.

Bilaterally, Cambodia has a Trade and Investment Framework Agreement (TIFA) with the US and an Everything But Arms (EBA) agreement with the EU. The TIFA with the US is aimed at increasing trade and investment between the two countries. It is also expected to help ensure that Cambodia is implementing its commitment to the WTO, particularly in terms of tariff reduction and protection of intellectual property rights. Meanwhile, as its name suggest, the EBA agreement with the EU provides Cambodia duty free and quota free access to the EU market for all products except arms.

These trade agreements are envisioned to help lower trade barriers faced by Cambodian exports, especially in its major markets. At present, the weighted average tariffs applied on Cambodian agricultural exports vary widely depending on the market. Malaysia and Vietnam puts up the highest tariff barriers against the country's agricultural exports at 41.9 and 28.8, respectively, while Thailand and Singapore offers minimal tariff barriers at 13.5 and 3.5, respectively. Cambodian agricultural exports can enter the US market at zero tariffs. Figure 11 below shows details.

Figure 11
Weighted Average Tariffs on Cambodian Exports in Major Markets.

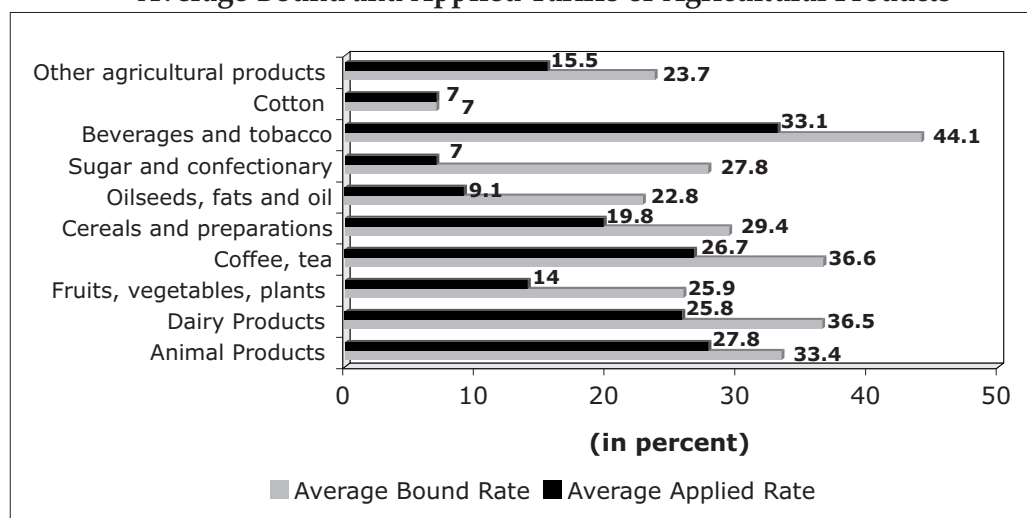


Source: WTO Database

However, the data above indicates that tariff levels are not the key determinant to accessing and maximizing export opportunities. For instance, although the EU offers duty free access to Cambodia's agricultural exports, it still is not a major export destination for the latter, compared to Malaysia and Vietnam, which have higher tariffs. It is clear that there are other factors that determine a country's capability as well as decision to maximize trade opportunities apart from tariffs. As such, being part of free trade agreements, in order to lower tariffs in target markets, is not a foolproof strategy to expand exports. Other factors, such as proximity to the market, product profile, capability to meet standards, and most crucial of all, the level of competitiveness in terms of price, quality, quantity and timeliness, determine whether or not a country can take advantage of export opportunities opened up by free trade agreements.

On the other hand, FTAs bind countries to a schedule of trade liberalization. As part of its commitment in the WTO, the country's average bound tariff was set at 28.1 per cent. Actual or applied tariff rate was much lower at 18.1 per cent. Trade protection, in terms of maximum allowable tariffs, is highest for beverages and tobacco, coffee and tea and dairy products at 44.1, 36.6 and 36.5 per cent respectively. Please see Figure 12 for details.

Figure 12
Average Bound and Applied Tariffs of Agricultural Products



Source: WTO database

Under the AFTA-CEPT, Cambodia committed to reduce tariffs on all products, including those in the sensitive list, which includes many agricultural commodities, to 0-5% per cent by the year 2017. This liberalization schedule is the most flexible among all ASEAN members. Nevertheless, it underscores the need for Cambodia to prepare its small farmers to increased competition within the region.

Challenges for Cambodia

There are two main challenges for Cambodia with respect to agriculture and trade.

The first challenge focuses on the need to improve farmers' competitiveness. As discussed earlier, one of the country's main reasons for being part of FTAs is the hope that these trading arrangements will redound to concrete export opportunities for the country. However, as can be gleaned from the information above, there are many markets that are already open to Cambodian exports. However, the country has yet to maximize these openings on account of internal production and supply constraints. These include low productivity, inconsistent supply due to seasonality of production and inconsistent product quality.¹⁹

Cambodia's internal supply limitations are largely a result of the poor level of public investment in the sector. Provision for basic support services, particularly irrigation, which is fundamental requirement in improving crop production, is very limited. Government allocation for agriculture is very small compared to other government functions. Additionally, the country has yet to resolve the issue of landlessness, which continues to undermine productivity in some parts of Cambodia. Finally, the absence of forward and backward linkages in the sector contributes to high production costs, and the limited availability of value adding opportunities in the rural areas.

Apart from these supply side limitations, the sector also has a host of institutional constraints that limit its ability to take advantage of existing export opportunities. For instance, while government is keen to promote exports, it has little institutional support for agricultural exporters. This is evident in the absence of clear export procedures and the need for high informal export payment, which also serve to encourage informal and undocumented trade. Additionally, government does not provide institutional assistance to help exporters address the problem of non-tariff barriers that remains one of the most effective obstacles to developing country exports to their target markets.

The second challenge relates to the imminent opening up of Cambodian agricultural markets to exports, as a result of its commitment to various free trade arrangements, bilaterally and as a member of ASEAN. Among ASEAN members, Cambodia has the advantage of having the longest implementation period for tariff reduction. For instance, in AFTA CEPT, it is allowed to delay reducing its tariffs to 0 – 5% on sensitive products until 2017. However, this delay must be seen as transitional in nature, because AFTA-CEPT is aimed at eventually establishing a free trade area within the region by removing trade barriers among ASEAN members. A fully opened regional market can be particularly problematic for Cambodia if it is not able to use the transitional period to improve its capability to compete with imports. For instance, in a survey conducted by the Economic Institute of Cambodia, local hotels reported that they prefer imported fruits and vegetables due to the latter's appearance and supply availability (i.e. not subject to seasonality).

¹⁹ Based on the presentation "Cambodia' Agriculture Development" by Visal Lim of the Economic Institute of Cambodia during the CCLSP Roundtable on Agriculture in February 15, 2006.

The third challenge focuses on farmers' capability to gain from trade, and their role in agriculture and trade policy formulation. During the AFA consultations, farmer leaders identified two key issues, which prevent them from getting fair benefits from the sale of the produce. These are: (1) the lack of market information, especially on prices and on accepted quality standard and (2) the lack of alternative markets for their produce. As a result of these limitations, many farmers are merely price takers, and with very little power to influence the prices of their products, and consequently their level of income. Hence, while many farmers reported that they sell their products to foreign traders and buyers, and are in a sense "exporting" their products, albeit through informal channels, their gains from such sales are limited, as prices are often dictated by traders.

Many farmers also pointed out that there are little venues for them to participate in trade policy formulation, and that they have very little knowledge of the WTO, ASEAN and other trade arrangements and agreements. These limitations inhibit them from engaging government to ensure that agricultural trade policies, including commitments in trade agreements, will support and not undermine their economic viability.

Cambodia's National Trade Agenda

1. Maximize Cambodia's longer implementation period for trade liberalization to improve productivity and competitiveness.

Cambodia must maximize the flexibility of having a longer period to implement trade liberalization under AFTA-CEPT and other ASEAN FTAs. Under, AFTA-CEPT, the country has until 2017, or eight (8) years to improve and develop its competitiveness, particularly for products in the country's sensitive list, including selected agricultural commodities. The country must use this time to intensify investments in the sector, especially in essential support services. For instance, at the very minimum, Cambodia should expand the coverage of irrigated areas so that it goes beyond the current limited coverage of 7 per cent of total croplands. Indeed, the experiences of other countries show that irrigation, by itself, can already considerably improve productivity and output, especially in the rice sector.

The country must allocate sufficient resources to expand farmers' access to credit, sustainable farming technologies and marketing support, while building backward and forward linkages in the sector. It is also important that government address the issue of landlessness, which remains an important problem in the sector.

All these interventions are aimed at helping farmers improve productivity, lower their cost of production and marketing, and improve the quality and add value to their output. Achieving these goals are essential to attaining market competitiveness, particularly in terms of price, volume and quality. More importantly, these are expected to help farmer increase their income, and in the process, help them gain fair benefits from the production as well as marketing of their produce.

2. Increase government intervention in the market to ensure that farmers get better and more equitable prices for their produce, and higher incomes from agricultural production

In the absence of alternative viable markets for their produce, many farmers have very little option but to sell their products to traders, at a price largely determined by the latter. During the AFA consultation, farmer leaders underscored the importance of government intervention in the market. In particular, they recommend that government provide price support by buying their products at fair prices, and then selling the consolidated supply to the market.

In the long run however, government needs to enhance farmers' capability to engage the market by themselves. It can begin by directly linking agricultural producers to domestic buyers and providing them the necessary technical support to meet the local market's price, volume as well as quality requirements. Additionally, farmers will also be in a better position to negotiate better prices with their current buyers, if they have the necessary market information, particularly in term of prices as well as supply availability.

3. Advocate for right to protect key sectors from trade liberalization in AFTA-CEPT and other trade agreements and arrangements

As mentioned earlier, even though Cambodia presently has the flexibility to delay trade liberalization vis-a-vis other ASEAN members, it is important to note that this flexibility is temporary in nature. The end goal of most of the FTAs entered into by the country is full market liberalization. The assumption is that the country will be able to use this transition period to develop its competitiveness before it full open up its markets.

However, the experiences of other countries indicate that it is impossible to forecast the potential effect of trade on various sectors, especially since the international market is very dynamic. Hence, what may appear to be a strong sector now may be rendered sensitive a few years later by changes in world demand and supply. Hence, it is important that Cambodia, as well as other members of ASEAN, maintain their capability to adopt trade policies that can support sectors that are vital to meeting important socio-economic goals such as food security, livelihood security, rural development and poverty alleviation, among others. This is especially important for Cambodia, which need to ensure the continued economic viability of the agriculture sector, on account of the fact that a substantial segment of its workforce, and its overall population depends on agricultural production for their livelihood.

4. Democratize government's trade policy formulation process

Government must create official venues through which they can consult farmers on matters and decisions related to trade, including the formulation of negotiating positions in trade agreements. However, it is important to emphasize that effective consultation can only be possible if farmers are knowledgeable about trade policy matters, including the terms and provisions that are being negotiated in trade

agreements, since these are usually highly technical and may alienate many small farmers and agricultural producers.

In this regard, government must invest in building farmers' capability to understand these agreements. This will help government ensure that farmers are in a position to effectively and intelligently contribute to trade policy formulation, and in the process provide negotiators a well grounded assessment of the possible implications of trade agreements on small agricultural stakeholders.

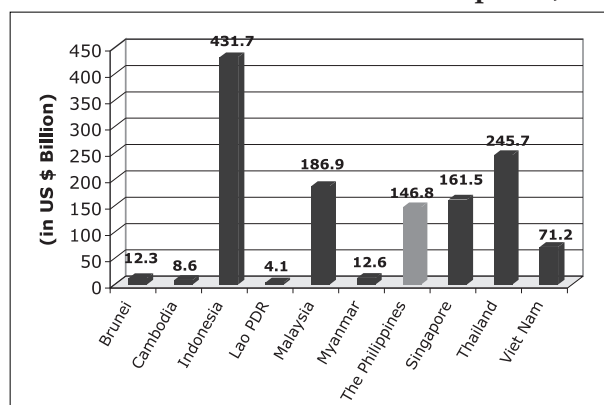
Government can tap the cooperation of non-government organizations and civil society groups in helping democratize information on trade, as well as on trade negotiations and agreements. This will require a deep commitment on the part of government to be consistently transparent and highly participative in its trade policy deliberations.

Philippines

Overview of the economy and agriculture

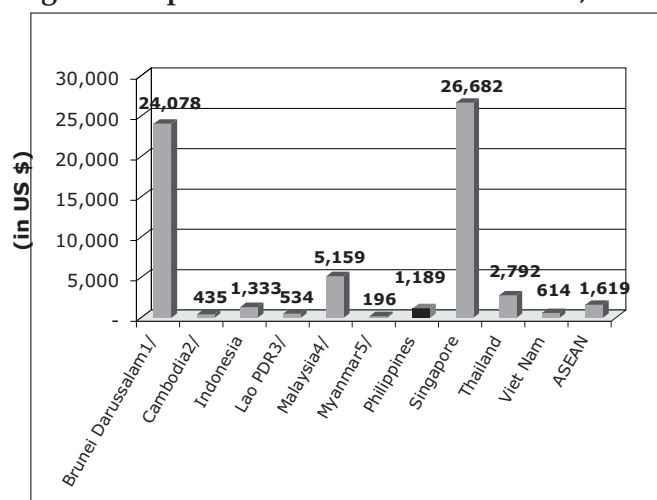
The Philippines is one of the original members of ASEAN. Its Gross Domestic Product of US 146.8 billion in 2007 was one of the lowest among the ASEAN 6 countries.²⁰ On the other hand, the country has the second highest population in the region at 88 million people. The fact that the country has one of the lowest incomes while having one of the biggest populations in ASEAN 6 is reflected in the country's low per capita GDP. Indeed, the Philippines' average per capita from 2002-2007 GDP of US \$1,189 is lower than the ASEAN average per capita GDP of US \$ 1,619. Figures 1 to 3 compares the Philippines' GDP, GDP per capita and population with other ASEAN members.

Figure 1
GDP of ASEAN countries at current prices, 2007



Source: ASEAN

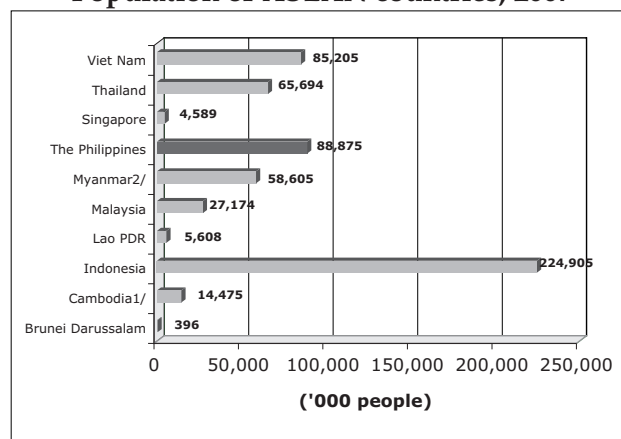
Figure 2
Average Per Capita GDP of ASEAN Countries, 2002-2007



Source: ASEAN

²⁰ The ASEAN 6 countries include Brunei Darussalam, Indonesia, Malaysia, Thailand, Singapore and the Philippines

Figure 3
Population of ASEAN countries, 2007



Source: ASEAN

Like most ASEAN countries, the share of agriculture to total economic output has generally been declining. In 2007, agriculture accounted for only 19 per cent of GDP, though its share to total employment is bigger at 36 per cent. Nevertheless, the sector remains a significant and sensitive segment in Philippine economy, mainly on account of the fact that a large segment of the country's poor are in the rural areas, and are dependent on farming and other agricultural production for their livelihood and income. Indeed, 61.6 per cent of poor people are employed in agriculture, while 48.5 per cent of nearly 1 out of 2 people in the sector are living below the poverty line.

The high level of poverty in Philippine agriculture can partly be attributed to the low level of labor productivity in the sector. The average annual agricultural labor productivity per person in 2005 was at Php 68,674. This is considerably lower than the average labor productivity per person in industry and services at Php 348,633.00 and Php 191,075.00 per person, respectively, for the same year.

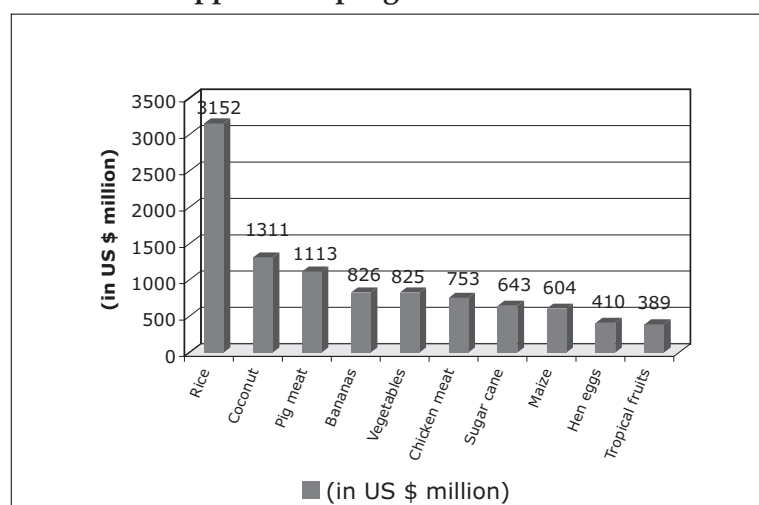
Among ASEAN countries, the Philippines has the highest percentage of lands devoted to agriculture. Forty (40%) percent of the country's land resource are used for farming and other agricultural production. However, land productivity is generally low, especially for the country's traditional agricultural crops. For instance, rice yield in 2005 at 3.65 metric tons per hectare is lower than Asia's average rice yield of 4.11 metric tons per hectare during the same year.

The low and labor productivity is a function of many factors, foremost of which is the low level of public investments in the sector. This is manifested in the absence of essential productivity enhancing support services such as irrigation, research and technology, extension work, credit for production capital, among others.

Additionally, the continued non-implementation of agrarian reform and the problem of landlessness served as disincentives to investments and undermined productivity in the sector.

The country's top agricultural products are rice, coconut, pig meat, bananas, vegetables, chicken meat, sugar cane, maize, hen eggs and tropical fruits. Rice is the single most politically and economically important commodity in the country. It is an essential part of the population's food diet, and a significant source of income to millions of small farmers all over the Philippines. Rice production accounts for 17 per cent of total agricultural output in 2005.

Figure 4
The Philippines' Top Agricultural Products 2005



Source: FAOSTAT

The Philippines is a major producer of tropical fruits, and is the world's second biggest source of pineapples from the 1980s to the present. However, the country's ranking as a producer of coconut, bananas, ginger, rice and sugarcane has declined due to many factors, many of which are interrelated. These include lagging productivity, poor investments in agriculture and increased production of competitor countries, among others. Table 1 tracks changes in the Philippines' world ranking as a producer of selected commodities from the 1980s to 2005.

Table 1
Philippines World Ranking as a Producer of Selected Commodities, 1980s to 2005

Product	Ranking in the World as Producer, 2005	Ranking in the World as Producer, 1980
Tropical fruits	1	2
Coconuts	2	1
Pineapples	2	2
Eggs, excluding hens	4	5
Fresh Vegetables	4	8
Bananas	5	3
Buffalo meat	6	8
Mangoes	7	7
Ginger	8	3
Rice	8	10
Sugarcane	9	6

Source: FAOSTAT

Agricultural Policy

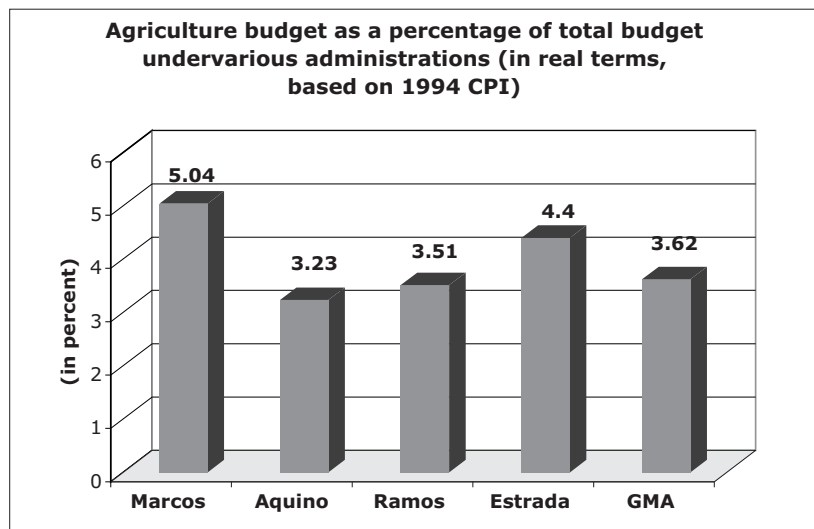
The country's agricultural trade policy is embodied in the Agricultural Fisheries Modernization Act, which was enacted in 1997 to help modernize the sector and make it competitive in the global market. In particular, AFMA provides for the allocation of Php 120 billion for competitiveness enhancing support services over a period of seven years. However, the implementation of the law was marked by a host of problems. Foremost among these is government's different interpretation of the provision regarding the allocation of the AFMA fund. In particular, government viewed the regular fund for agricultural programs as part of the resources allocated under AFMA, thereby infusing very little new money to finance the agricultural support services mandated under the said law. Additionally, frequent changes in the Department of Agriculture's leadership structure also resulted to changes in program implementation, as different administrations have different priority programs and policy focus.

Presently, AFMA implementation is subsumed in the Department of Agriculture's Ginintuang Masaganang Ani (translated as Golden and Bountiful Harvest) Program, which covers seven major agricultural subs-sectors. These are rice, corn, fisheries, livestock, high value commercial crops, coconut and sugar. The GMA program is packaged as a blueprint for food security, and is geared towards improving productivity in the sector.

However, GMA as well as other programs before it is undermined by government's limited investment in the sector. Indeed, the highest government resource allocation

for agriculture was in the 1970s to the 1980s, during the Marcos administration at 5.02 per cent of total government budget. Under the current administration of Gloria Macapagal Arroyo, the average annual allocation for the sector is only 3.2 per cent of the national budget, even though agriculture provides jobs to one third of the country's population. Figure 5 shows the Philippines' agriculture budget as a percentage of the national budget.

Figure 5
Philippines: Agriculture Budget as a Percentage of Total Budget
Under Different Administrations



Source: Computed from data from BAS and NSCB

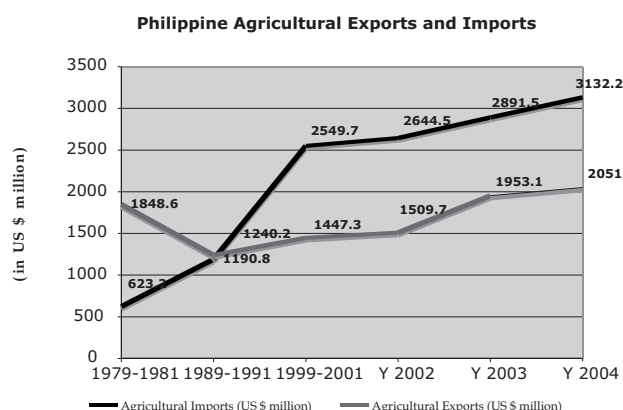
In the main, government's allocation pattern above is a clear reflection of the level of priority it attaches to the agricultural sector. It poses a challenge to the country's poverty alleviation efforts since close 2/3 of the country's poor depends on agricultural production for their livelihood.

Additionally, a substantial part of the government programs, particularly in rice and corn, is anchored on the use of hybrid seeds, and on the adoption of chemical intensive production technologies. This has grave repercussions on farmers' income, their control over seeds, on agricultural biodiversity and on the long-term fertility of the soil.

Agricultural Trade

The mid 1990s saw the Philippines transform from being a net agricultural exporter to a consistent net agricultural importer. Although agricultural exports have generally been increasing from US \$ 1.8 billion in the late 1970s to US 2 billion in 2005, its pace of growth is considerably slower than that of imports, which rose dramatically from US 623 million to US \$ 3.2 billion over the same period. Figure 6 below tracks the country's agricultural imports and exports from 1979 to 2005.

Figure 5
Philippine Agricultural Exports and Imports, 1979 to 2005

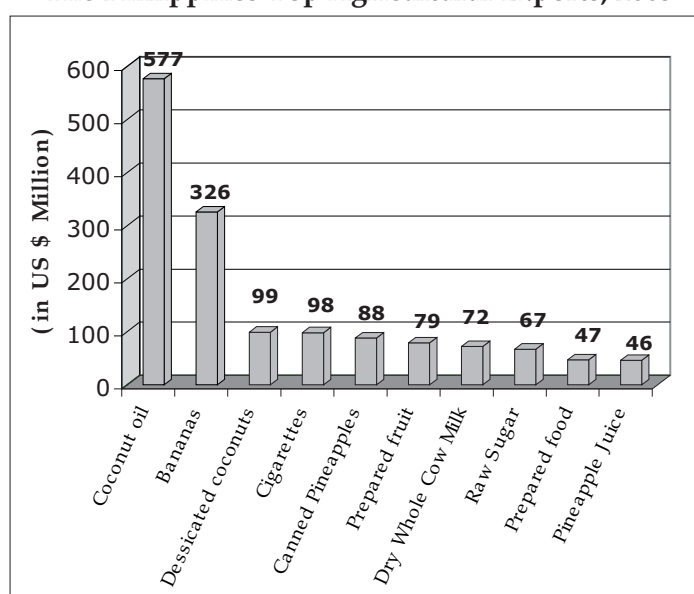


Source: FAOSTAT

The change in the Philippines' trade balance can be attributed to many factors, such as the declining global market for coconut and sugar, the country's decision to open up markets and the country's poor level of competitiveness vis-à-vis imports.

Despite increased competition from other coconut oil exporters like Indonesia and Malaysia and other oil products such as palm oil and palm kernel oil, coconut oil is still the Philippines' number one export winner, with coconut exports in 2005 valued at US \$ 577 million. Other products comprising the country's list of top agricultural exports are bananas, dessicated coconut, cigarettes, canned pineapples, prepared fruit, dry whole cow milk, raw sugar, prepared food and pineapple juice. Please see Figure 6 for details.

Figure 6
The Philippines Top Agricultural Exports, 2005

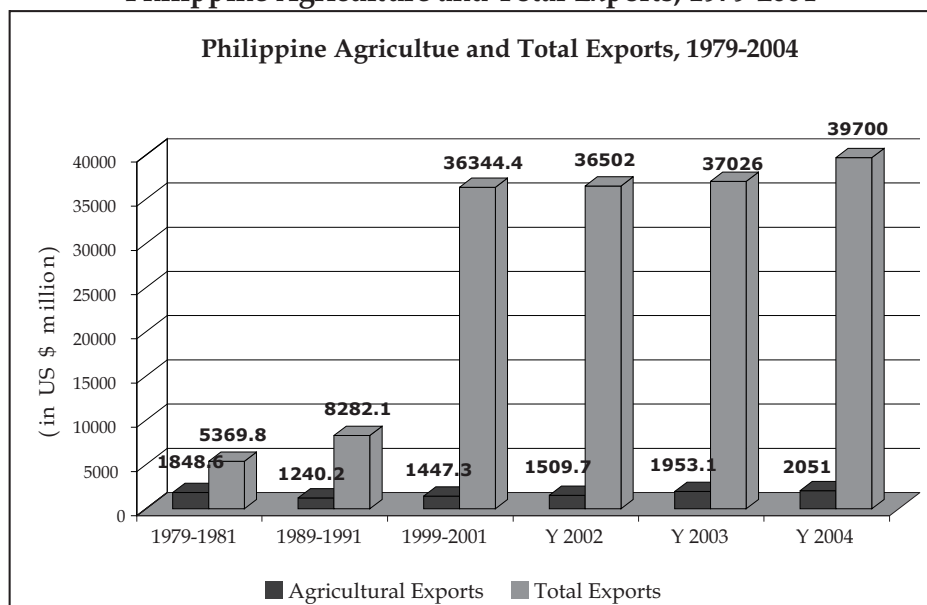


Source: FAOSTAT

The country's most important market for its agricultural products are Japan, the US, the European Communities, Korea and China. Among these, Korea and Japan have the highest level of tariff protection against Philippine agricultural exports at 25.9 and 19.4, respectively. On the other hand, the US and EC countries offer minimal tariff restrictions at 1.9 and 5.5 per cent, correspondingly.

Agricultural exports have expanded at a slower rate compared to industrial exports, which had risen from US \$5.3 billion in the late 1970s to US \$39.7 billion in 2004. As a result, agricultural exports share to total exports have steadily dropped, from 34 per cent to 5 per cent over the same period. Figure 7 compares agricultural exports to total exports for the last few decades.

Figure 7
Philippine Agriculture and Total Exports, 1979-2004



Source: FAOSTAT

The country's top agricultural imports in 2005 are wheat, cake of soya beans, rice, prepared food, dry skim cow milk, tobacco leaves, beef and veal, soybeans, dry whole cow milk, compound feed, infant food and palm oil. Wheat, which is not domestically produced, is used by bread manufacturers and by livestock and poultry raisers as feeds. The Philippines regularly imports rice mainly to augment production shortfalls.

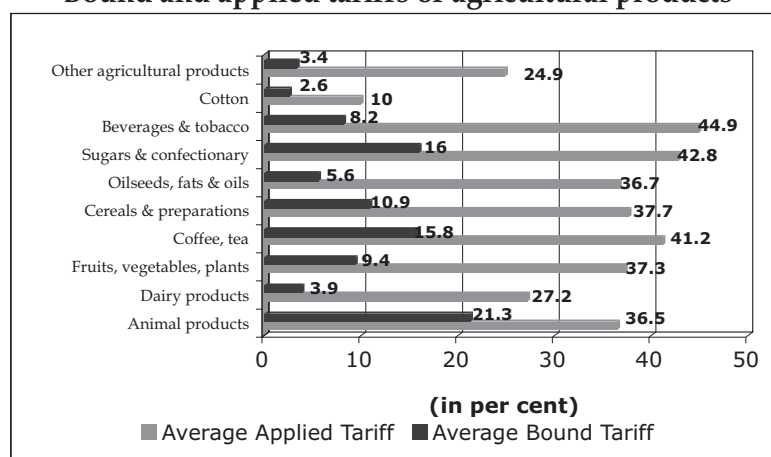
Agricultural Trade Policy

The Philippines embarked on a unilateral trade liberalization program as early as the 1980s as part of its structural adjustment program. It undertook a series of tariff reforms, which reduced the average nominal tariffs in agriculture to as low as 4.7 per cent in 2004. The country cemented its commitment to free trade when it ratified the

General Agreement on Tariffs and Trade (GATT) in 1994 and became one of the original members of the WTO a year later. As part of its commitment to the Agreement on Agriculture, the country removed import restrictions on all agricultural products except rice, on account of the latter being an economically and politically sensitive commodity. Additionally, the Philippines also committed to bind tariffs at maximum level of 100 per cent, with a commitment to gradually reduce these over a period of ten years.

Presently, the country's average bound or maximum allowable tariff on all agricultural products is 34.6 per cent. Actual or applied tariffs are lower at 12.9 per cent. Among the different agricultural product groups, bound tariff protection is highest for beverages and tobacco (44.9 per cent), sugars and confectionary (42.8 per cent) and coffee and tea (41.2 per cent). In terms of actual tariffs, these are highest for animal products such as livestock and poultry (21.3 per cent), sugars and confectionary (16 per cent) and coffee and tea (15.8 per cent).

Figure 7
Bound and applied tariffs of agricultural products



Source: WTO database

Tariffs on import from ASEAN are lower. As part of the regional coalition, the Philippines is a signatory to the AFTA-CEPT which aims to create a single market within the region by reducing tariffs to 0 to 5 per cent on products traded among members. Also as a member of ASEAN, the Philippines is set to reduce tariffs on trade with other countries, as the regional coalition enters into free trade arrangements with its major trade partners.

At the bilateral level, the Philippines ratified the Japan Philippines Economic Partnership Agreement (JPEPA) amidst strong opposition from various sectors of the economy. Many were concerned about the possible negative impact of opening the economy to Japanese imports, including the importation of toxic waste.

Like other ASEAN countries, the Philippines is facing the dilemma of balancing the need to protect its small farmers, which dominate its agricultural sector, and opening

up markets for its agricultural exporters. At the multilateral level, the country is a very active member of the G33. This can be viewed as part of its strategy of preserving its capability to provide tariff support to sectors that are important to food security, livelihood security and rural development. At the bilateral and regional level, the Philippine seeks to broaden markets for its agricultural exports by entering into free trade arrangements with major trade partners, mainly via ASEAN.

However, balancing the country's offensive as well as defensive interest in trade is not without conflict. In fact, it is becoming clear that there is a need to harmonize the country's negotiating position and agenda at bilateral, regional and multilateral level. For instance, FTAs, which generally prescribe a program of blanket liberalization severely undermines G33'S negotiating gains on SP and SSM. The Philippines define and adopt a coherent and consistent strategy in all trade negotiations.

Challenges facing the Philippines

The Philippines need to address three key interrelated challenges in terms of agriculture and trade

As a net agricultural importer, the first challenge is how to help small agricultural producers effectively compete in the market, especially in view of governments' commitment to a program of further trade liberalization. Presently, imported products “outprice” many Philippine agricultural products from the market. For instance, based on 2002-2004 data, the price of imported rice, corn, potato, onion, garlic, carrots, chicken, swine and beef are lower than the price of their domestically produced counterpart.

The difference in prices can be attributed to several factors. These are : (1) the Philippines' high cost of producing, transporting and marketing of produce, which translate to higher priced agricultural products in the market, (2) the poor level of investments in the sector which lowers productivity and also serves to increase the cost of production for each unit of output (3) the high level of support given to producers of commodities in competitor countries, enabling them to export agricultural products at lower prices.

The second challenge relates to government's poor level of prioritization of agriculture. Although, government, in all its pronouncements, always underscore the need to develop the sector, the real indicator of its commitment to this avowed objective lies in the way it allocates its resources. As mentioned earlier, since the last decade, government allocation for agriculture programs and services never exceeded

5 per cent of national budget. This limited allocation for agriculture translates to limited support services to small agricultural producers. In 2006, only 45 per cent of total agricultural lands have irrigation facilities. At the same time, the phasing out government's direct credit lending programs for small farmers further narrowed down the latter's access to more equitable alternative sources of loans for production capital, as banks also minimized their exposure to agriculture. For instance, the share of agricultural production loans to total loans went down from 9.2 per cent in 1990 to only 3.3 per cent in 2006. This limitation in essential support services is a major contributor to the sector's high cost of production, and consequently, a significant factor behind its inability to offer competitive prices in the market. For many small farmers, this is one of the main reasons behind their low incomes, and their inability to have fair gains from the production and trade of their products.

The third challenge focuses on the need to balance the country's desire to expand exports with the need to safeguard the economic viability of small agricultural producers. One of the Philippines major reasons for being part of FTAs is the promise of broadening markets for agricultural exporters. However, this also entails the opening up of its own domestic market to imports. This poses a serious challenge to livelihood of small agricultural producers in many sectors given their present level of competitiveness. It is important that the Philippines adopt a more nuanced approach and position in trade negotiations so that it can meet its trade export agenda, without sacrificing the interest of millions of small agricultural producers, which comprise majority of stakeholders in the sector.

Moreover, the Philippines need to assess the costs and benefits of producing for the export market, which normally entails the use of intensive chemical-based technologies. Government must consider the environmental and long-term impact of these technologies on land and soil fertility, the health of farm and plantation workers and their families, and the safety of water systems, among others. The results of this assessment can help government in deciding what segment of the agricultural sector it should prioritize as part of its trade policy. Additionally, government must begin to rethink its focus on exports in the light of the unfolding global crisis, which resulted to shrinking export markets.

A national trade agenda

This study affirms the results of earlier initiatives by civil society groups to craft an alternative national trade agenda that reflects the interest of the majority, especially the marginalized segments of Philippine agriculture and economy.

1. Invest in a comprehensive competitiveness program as a prerequisite to implementing and making new tariff reduction commitments in trade agreements

It is clear from the foregoing discussion that in order to be competitive, government must focus on helping small agricultural producers increase productivity and lower their cost of production. This can only be achieved if farmers have access to essential competitiveness enhancing support services. Unfortunately, government is already opening up its market even before providing agricultural producers with the necessary support to help them survive in a liberalized market.

Hence, it is important that there should be a proper sequencing of government policies. In particular, government must adopt and invest in a comprehensive competitiveness program as a prerequisite to implementing and making new tariff reduction commitments in trade agreements. Requiring the delivery of support services prior to reducing tariffs will help give small agricultural producers greater capability to effectively compete in the market. At the same time, it will make trade officials and negotiators more cautious in terms of committing to greater tariff reduction because they will have to calibrate it with government's capability to allocate resources for the implementation of the comprehensive competitiveness program.

Like AFMA, the program should be legislated to make it more binding. However, unlike AFMA, the proposed new legislation should clearly specify that the resources for its implementation must be viewed as over and above the regular budget allocated to executive agencies for regular programs.

2. Conduct a tariff recalibration program to determine the appropriate tariff setting for agricultural commodities

Current tariff rates are largely determined by government's commitments to structural adjustment programs and trade agreements rather than on a clear evaluation of the level of necessary tariff cover sectors require to be at par with competitors in other countries. Additionally, most tariffs are set without an assessment of the sensitivities of sectors and their significance in meeting socio-economic goals that are strategic to Philippine economy and society.

The Philippines must undertake a tariff review and recalibration process, in order to determine the appropriate tariff setting for each commodity. Government must ensure that all stakeholders are able to participate in this process.

3. Adopt a nuanced approach to trade negotiations: preserve government's capability to provide tariff support to small agricultural producers, while addressing obstacles to Philippine agricultural exports such as trade distorting agricultural subsidies and the unfair use of SPS and NTBs

ASEAN FTAs generally adopt a program of blanket liberalization. Sensitive products are given longer implementation periods for tariff reduction, but are eventually programmed to be fully or substantially liberalized. However, these trade arrangement hardly address the issue of trade distorting domestic support and subsidies, which remain one of the most significant obstacles against imports to developed countries.

In this regard, it is important that the Philippines negotiating position should reflect its twin objectives of providing tariff support to small agricultural producers, while addressing obstacles to Philippine agricultural exports. In particular, the country negotiating position maintain that trade agreements:

- (a) allow countries the right to exempt a few products from trade liberalization as a way of recognizing their right to safeguard the economy viability of small farmers and strategic agricultural sub-sectors
- (b) include more effective and easily accessible special safeguard measures to address imports surges as well or price declines
- (c) help level the playing field by providing for a substantial reduction in the extension of trade distorting domestic support of developed country FTA partners
- (d) push for ASEAN based SPS, while building developing countries capacity to engage developed countries on the same

4. Ensure stakeholders participation in trade policy formulation and negotiations

Government must ensure that stakeholders groups are able to participate in the formulation of trade policies, including negotiating positions in trade agreements. In particular, it must create official venues or structures through which it can consult stakeholders on matters related to trade policy. Government must also regularly update stakeholders of the status of negotiations and provide them with the necessary information to enable them to effectively and intelligently contribute in the formulation of negotiating positions and commitments in trade pacts.

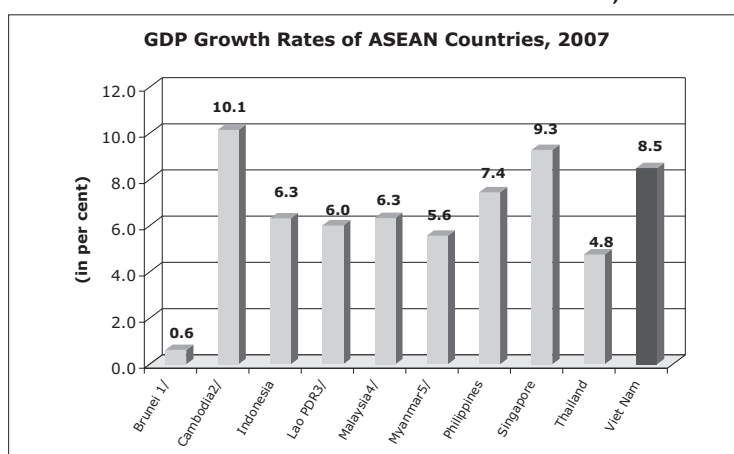
In particular, civil society groups are proposing the creation of a Philippine Trade Representative Office, which among others things, can help ensure stakeholder participation in trade policy formulation. At a much smaller scale, government can also adopt the consultative mechanism used by the Department of Agriculture for negotiations on the Agreement on Agriculture in the World Trade Organization. The Department of Agriculture created the Task Force on WTO Agreement on Agriculture Renegotiations (TFWAAR), composed of a broad range of stakeholders groups from the agricultural sector, to help define the country's negotiating position in the WTO. In fact, the Philippine government's membership in the G33, and its active advocacy for SP and SSM form part of its efforts to address the concerns raised by many small agricultural producers within the task force with respect to further trade liberalization.

Viet Nam

Overview of the economy and agriculture

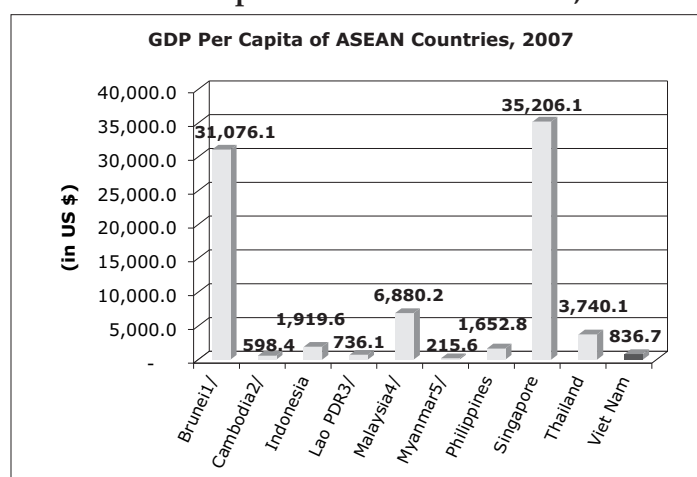
Vietnam is one of the fastest growing economies in the region. Its economic output has been expanding at an average rate of 7.9 per cent from 2002 to 2007. Its GDP growth rate in 2007 was at 8.5 per cent, the third highest in ASEAN. However, this rapid growth has yet to be translated to substantial improvements in the income of its huge population. Vietnam's GDP per capita in 2007 of US 836.7 is substantially lower than the per capita GDP of ASEAN 6, although it is the highest among the CLMV countries. The low per capita is, in part due to the fact that Vietnam has the third largest population in ASEAN, next only to Indonesia and the Philippines. Figures 1 to 3 compares Vietnam's GDP growth rate, per capita GDP and population with those of other ASEAN members.

Figure 1
GDP Growth Rates of ASEAN Countries, 2007



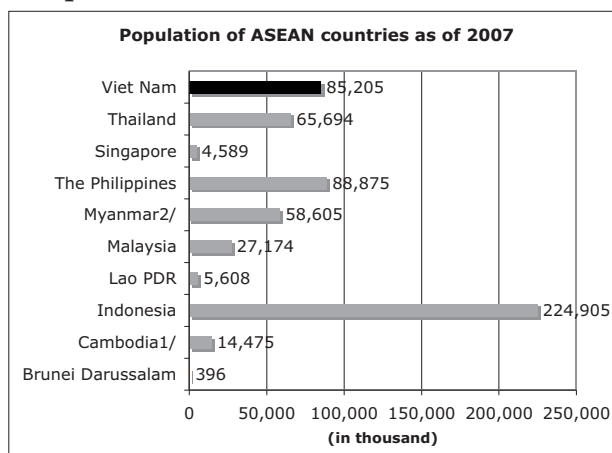
Source: ASEAN Statistical Database

Figure 2
GDP Per Capita of ASEAN Countries, 2007



Source: ASEAN Statistical Database

Figure 3
Population of ASEAN Countries as of 2007

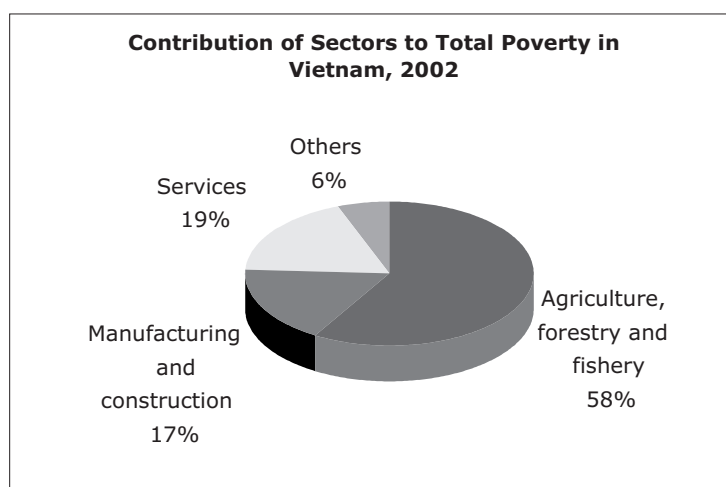


Source: ASEAN Statistical Database

Agriculture accounts for 21.8 per cent of total economic output in 2004.²¹ However, this figure does not capture the sector's continuing importance to Vietnamese economy. Agriculture employs 66 per cent of the country's total workforce. It is the most important source of livelihood and sustenance of people in the rural areas, who account for 74 per cent of the country's total population.

A large segment of Vietnam's poor are also in the agricultural sector. Compared to manufacturing, construction and services, the sector is the biggest contributor to poverty as more than half (58 per cent) of the country's poor are engaged agriculture, forestry and fisheries. Hence, improvements in agricultural productivity and incomes pose great potential in terms of helping alleviate overall poverty. Figure 4 maps the contribution of sectors to total poverty in Vietnam.

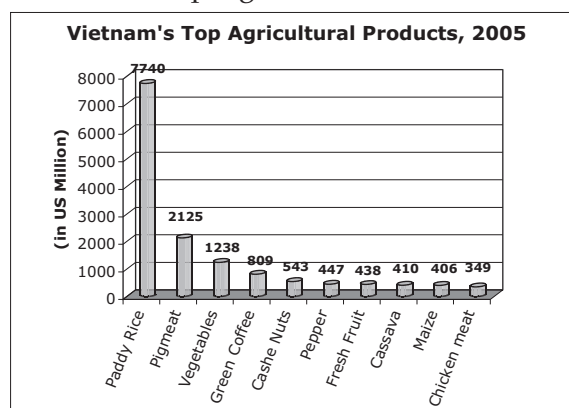
Figure 4
Contribution of Sectors to Total Poverty in Vietnam, 2002



²¹ Based on FAO's Food and Agriculture Indicators for Vietnam

The country's top agricultural products are rice, pigmeat, vegetables, green coffee, cashew nuts, pepper, fresh fruit, cassava, maize and chicken meat. As can be gleaned from Figure 5, rice is the most important agricultural commodity in the country, with rice production accounting for 64 per cent of total agricultural output in 2004. Vietnam is the fifth largest producer of the staple grain, producing 36.6 million metric tons of paddy rice in 2005. The country has also emerged as one of the most important exporters of the commodity in the region, and in the world.

Figure 5
Vietnam's Top Agricultural Products, 2005



Many of the country's top agricultural products, such as coffee cashew nuts, pepper, cassava and pig meat are also its major agricultural exports. This is indicative of the fact that Vietnam's agriculture sector, which over the last few decades has been structured to be more open and outward looking, focused on producing commodities primarily for the export market. For instance, from being the 40th largest producer of coffee in the 1980s, Vietnam is now the world's second biggest coffee producer, and is one of the most important exporters of the commodity in 2005. This remarkable improvement in world ranking as a producer of selected commodities is also evident in the case of pepper and cashew nuts, which the country produces for export. Table 1 below tracks Vietnam's ranking as a producer of selected agricultural commodities from the 1980s to 2005.

Table 1
Vietnam's World Ranking
as a Producer of Selected Agricultural Commodities, 1980-2005

Product	Viet Nam's Ranking as Producer in the World, 2005	Viet Nam's Ranking as Producer in the World 1980
Cashew Nuts	1	10
Pepper	1	12
Berries	2	3
Coffee	2	40
Fresh Fruit	2	2
Indigenous Duck Meat	3	6
Fresh Vegetables	3	10
Cinnamon	4	4
Indigenous Buffalo Meat	5	5
Rice	5	8

Source: FAOSTAT

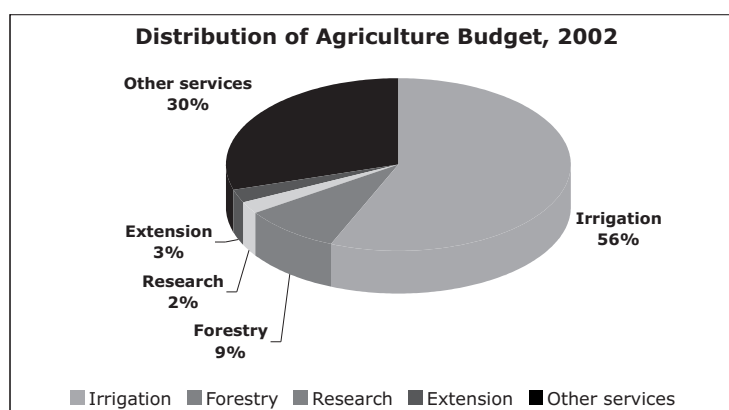
Agriculture Policy

Vietnam's rapid growth is attributed to its movement from being a centrally planned economy to one that is more market-oriented. In the 1970s, production and trading were undertaken and controlled by government. Farms were collectivized, thereby creating little incentives for farmers to increase production. However, the introduction of policy changes through Doi Moi in 1986 sought to make the Vietnamese economy more market oriented. This paved the way for the adoption of changes in the contract quota system, as farmers were given the freedom to retain and trade surplus harvest after meeting government's production quota. This encouraged production and trading, and consequently, helped increase the role of private sector in agriculture.

Government adopted a ten-year program aimed at helping increase competitiveness in the global market. Government allocation for agriculture is used primarily to finance productivity enhancing support services. More than half of the agriculture budget is typically allocated for irrigation facilities, while the rest goes to research, extension work and other agricultural services. In the main, these interventions are designed to support commercial agricultural production, especially for exports.

Figure 6 shows details of the country's agriculture budget in 2002.

Figure 6
Distribution of Vietnam's Agriculture Budget in 2002



Source: Tri Khiem, 2007 ,

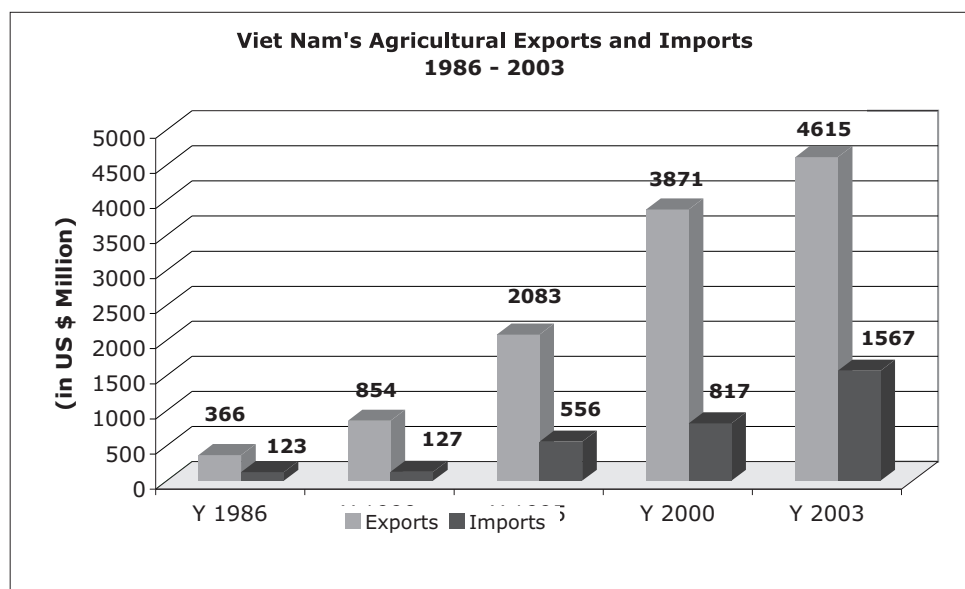
Government appropriation for agriculture typically accounts for 5 to 7 per cent of total government budget. This allocation is clearly very minimal and disproportionate to the sector's actual importance to the economy. As mentioned earlier, agriculture accounts for 20 per cent of total economic output, provides jobs to 66 percent of the labor force, and is the main source of sustenance and livelihood for people in the rural population, which represents 74 per cent of the country's

population. Public investment in the sector is used to develop large-scale commercial agricultural production for both domestic and international markets.

Agriculture Trade

Vietnam is a consistent net agricultural exporter since the last few decades. The degree to which it was able to effectively implement its market-oriented policy is clearly reflected in its rapidly expanding agricultural trade balance. In the mid 1980s, agricultural exports exceed agricultural imports by only US \$ 243 million. In 2003, the country's agricultural trade balance has increased by more than 12 times, at US \$ 3 billion, as growth in the country's agricultural exports rapidly outpace expansion of agricultural imports. Figure 7 shows details.

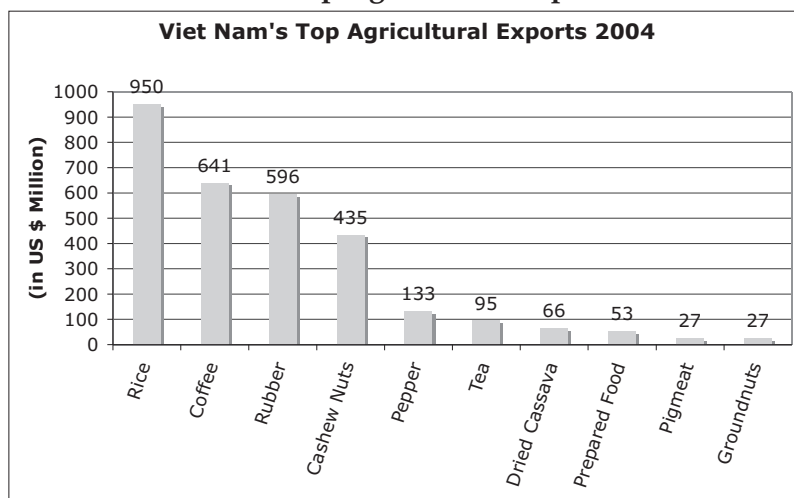
Figure 7
Viet Nam's Agricultural Exports and Imports, 1986 to 2003



Source: FAOSTAT

The country's top agricultural exports in 2004 are rice coffee, rubber, cashew nuts, tea, dried cassava, prepared food, dog meat and ground nuts. In 2004, total agricultural exports were valued at US \$ 3.3 billion dollars. Three export commodities account for 66 per cent or more than 2/3 of the country's total exports. These are rice (28.7 per cent), coffee (19.4 per cent) and rubber (18 per cent). The country's dependence on these three major products for export revenues underscore its vulnerability to sudden changes in the international demand and supply patterns of these commodities in the international market. Figure 8 below shows the export value of each commodity during the same year.

Figure 8
Viet Nam's Top Agricultural Exports 2004



In 2008, Vietnam exported 5.2 million metric tons of the staple grain. This accounts for 23.8 per cent and 18.4 per cent of total rice exports in Asia and the world, respectively, during the same year.²² The fact that Vietnam, which had not been exporting rice in the 1990s and was even a marginal importer of the staple grain, is now one of the world's major rice suppliers is a testament to the country's remarkable ability to meet its trade goals. Vietnam's standing as one of the world's most important rice producers gives it a very important role in meeting the food security requirements in the region.

The country's main markets for its agricultural exports are the US, Japan, EU, ASEAN. China, Korea, Taiwan, Hong Kong and Australia. Its main markets within ASEAN are Indonesia, the Philippines and Singapore. In general, Vietnam already faces minimal tariffs in its major export destinations. The average weighted tariffs applied on agricultural commodities from Vietnam ranges from zero, in the case of Singapore, to 9.6 per cent in the case of United States. Additionally, a large segment of Vietnamese agricultural exports are already able to enter many of these markets duty free or at zero tariffs. Table 2 and Figure 9 below show details.

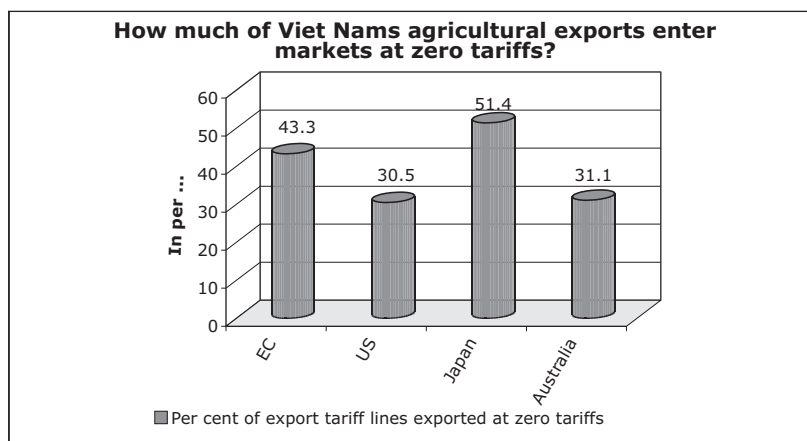
Table 2
Tariffs faced by Vietnam Agricultural Exports in Major Markets

Trading Partner	Average weighted tariffs faced by Viet Nam exports	Per cent of Tariff lines exported at zero tariffs
European Communities	7.7	43.3
United States	9.6	30.5
Japan	7.1	51.4
Australia	.7	31.1

Source: WTO Database

²² Data downloaded from the World Rice Statistics at http://beta.irri.org/solutions/index.php?option=com_content&task=view&id=250

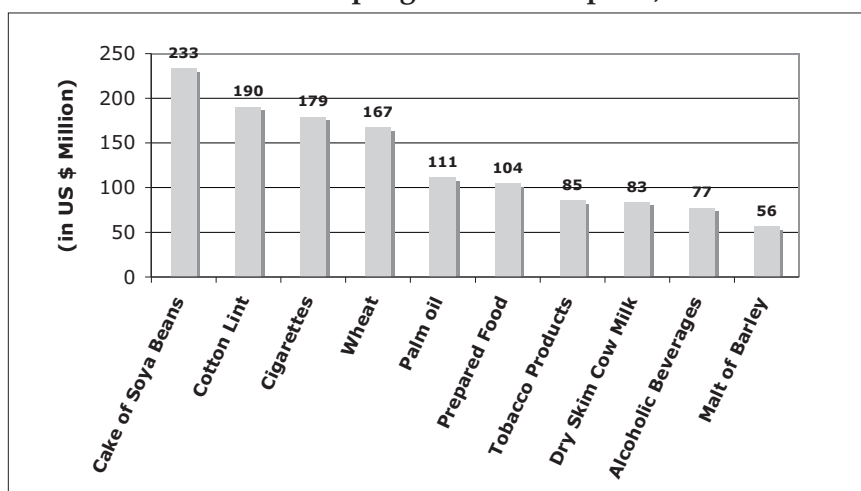
Figure 9
Per cent of Viet Nam's agricultural export tariff lines
traded at zero tariffs in major markets



Source: WRP database

Vietnam's main agricultural imports are cake of soya beans, cotton lint, cigarettes, wheat, palm oil, prepared food, tobacco products, dry skim cow milk, alcoholic beverages and malt of barley. Agricultural imports are also generally increasing from only US \$ 123 million in 1986 to US \$ 1.5 billion in 2004. The country's main import sources are: China, Russia, Japan and ASEAN, particularly Singapore, Malaysia and the Philippines. Figure 10 shows the country's top agricultural export commodities in 2004.

Figure 10
Viet Nam's Top Agricultural Imports, 2004



Source: FAOSTAT

The country has a positive trade balance with all its major partners. Its biggest trade balance, valued at US \$ 968 million, is with the United States, which is also its largest market for exports. Other countries with which the country has fairly huge trade balances are Japan, EU and ASEAN. Among its trade partners, Vietnam imports the most from China and ASEAN. Figure 10 shows details.

Figure 11
Viet Nam's Trade with Major Partners



Agricultural Trade Policy

The introduction of Doi Moi also encompassed a range of policy changes aimed at liberalizing trade. This included the removal of export and import quota restrictions and the gradual reduction of import and export taxes. Government also eliminated export taxes on key agricultural export commodities such as rice, coffee, cashew nuts as a way of encouraging exports. It also allowed private firms to export, a function previously undertaken mainly by the state.

As part of its policy of being more market oriented, government actively joined regional and multilateral organizations, particularly ASEAN and the WTO. A crucial component of the country's membership in these organizations is their commitment to trade agreements prescribing the removal of quantitative restrictions on importation, and the gradual reduction of tariffs.

Vietnam joined ASEAN in 1995, and became a signatory to the ASEAN Free Trade Area – Common Effective Preferential Tariff (AFTA-CEPT) in the same year. As part of its commitment to the regional agreement, the country promised to open its market to goods coming from other ASEAN members by reducing tariffs on intra-ASEAN trade by 0 to 5 per cent.

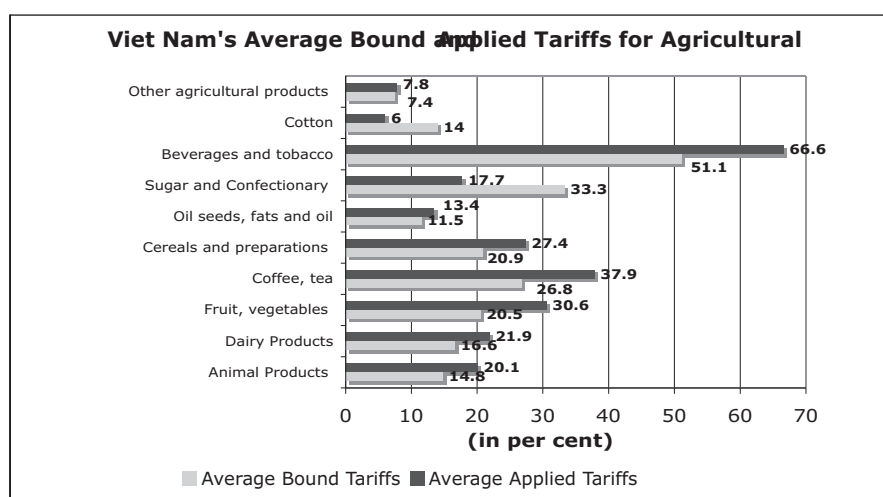
Vietnam, like other countries comprising the CLMV, are allowed to reduce tariffs, especially on sensitive agricultural products, over a longer period of time compared to other ASEAN members. In particular, Viet Nam has until January 1, 2013 to open

its market for sensitive products to imports from ASEAN. Included in the country's list of sensitive commodities are live poultry, meat, bird's eggs, citrus, rice, sausages and similar food preparations, other prepared or preserved meat, cane and beet sugar.

The country became the 150th member of the WTO in 2007, after a long application process spanning more than a decade. Vietnam agreed to bind tariffs at a rate much lower than those of other developing countries. In particular, the average bound tariff for agricultural products is at 18.5 per cent. However, unlike most members of the WTO, Viet Nam's average applied or actual tariff is higher at 24.2 per cent. In fact, applied tariffs are generally higher for all agricultural products, except for cotton, and sugar and confectionary. Eventually, Vietnam will have to reduce its tariffs to conform to its binding commitment in the multilateral trade organization.

Among its agricultural products, bound tariffs are highest for beverages and tobacco (51.1 per cent), sugar and confectionary (33.3 per cent) and coffee and tea (26.8 per cent). Actual or applied tariffs are highest also for beverages and tobacco (66.6 per cent), coffee and tea (37.9 per cent) and fruits and vegetables (30.6 per cent). Figure 12 shows details.

Figure 12
Average Bound and Applied Tariffs for Agricultural Products



Source: WTO Database

At the bilateral level, Vietnam signed a bilateral trade agreement with the United States in July 2001. The trade pact is said to be the most comprehensive the US has ever signed with any developing country partner. It provides the US unprecedented access to Vietnam's rapidly expanding market. Under the agreement, almost three fourth of US agricultural commodities are able to enter the Vietnamese market at

bound duties not exceeding 15 per cent. These products include cotton, selected beef, pork and a variety of meats. Additionally, Vietnam agreed to recognize the US system of pork, beef and poultry.

Challenges

Although Vietnam has a positive trade balance with many of its major trade partners, the country is not untouched by many of the challenges faced by other ASEAN members that are in a more defensive position in terms of trade. Foremost among these challenges is the need to ensure that small farmers are able to have fair gains from trade. Data shown earlier indicate that poverty in agriculture remains pervasive despite the sector's impressive export performance, underscoring the fact that increased agricultural trade, by itself, does not automatically translate to better incomes and livelihood for small agricultural stakeholders. Factors such as access to market information, availability of alternative markets, and farmers' participation and relative control in the marketing of their produce, among others, determine whether or not farmers are in a position to gain from trade.

The country has been pursuing its trade agenda through FTAs, which also entails the opening up of domestic markets, including those for agricultural commodities. Although, Vietnam has proven itself to be highly competitive in exporting a few commodities in which it has a comparative advantage in the market, there are concerns over the possible effect of reducing tariffs on a wide range of agricultural products on small producers. This is valid concern especially since the country has committed to very low tariff bindings in the WTO, and hence, has little flexibility in providing tariff support to small agricultural producers. In this regard, one of the main challenges faced by Viet Nam is preparing its small farmers for the eventual opening up of markets as a result of its commitment to various free trade arrangements.

Additionally, participants in the consultation conducted by AFA in Vietnam emphasized the need to look at both direct and indirect impacts of FTAs in agriculture. In particular, they emphasized the need to look at the impact of increased investments and the resulting surge in the demand for land for industrial uses on the availability of land for agricultural production. Participants noted that more and more agricultural lands are being converted for industrial and residential purposes, a trend that has been observed in many developing countries. Having a comprehensive and in depth evaluation of the impact of FTAs on the sector, and on the economy, in general, is essential in helping the country define or, if necessary, recast future trade policy, including negotiating agenda and positions in trade agreements so that these become consistent with sustainable development goals.

Quite paradoxically, one of Vietnam's most significant challenges with respect to agriculture and trade relates to its success as an agricultural exporter. The unfolding global crisis highlighted the risks involved in depending on exports as the primary development strategy, as this renders the country highly vulnerable to movements in the international market. The decline in demand for goods as a result of the crisis, especially in some of Viet Nam's most important markets, such as the US and EC is bound to have grave repercussions on the country's agricultural sector. In fact, during the AFA consultation in Vietnam, representatives from government agencies reported that the initial data they are generating for this year indicates that exports have substantially gone down because of the crisis.

The tightening of demand for goods from exporting developing countries like Vietnam is exacerbated by the continued use of non-tariff barriers by developed countries to block exports. Vietnam, like most countries in ASEAN, needs to seriously start looking at the role non-tariff barriers, and how these are, and can be, used for both offensive as well as defensive trade interests.

Viet Nam's National Trade Agenda

Vietnam is in the threshold of increased trade liberalization, having just attained WTO membership two years ago, while presently preparing for the phasing in of its sensitive products into the AFTA-CEPT by 2013. Additionally, like most ASEAN members, the country is committing to various free trade agreements, which entails the opening up of its domestic market to imports. These initiatives to liberalize trade are occurring at time when markets are shrinking because of the unfolding global crisis. It is in this context that AFA is proposing the small farmers' trade policy agenda for the country, below:

1. Implement a transitional development plan for agriculture to help small farmers prepare for the opening up of markets, and to enable them to benefit from trade

The transitional plan's core goal is how to maximize, or, at the very minimum, sustain farmers' incomes and livelihood as the country opens up its markets to agricultural imports. This involves the allocation of sufficient government resources for the delivery of essential agricultural support services aimed at helping farmers improve production and lower costs. As mentioned earlier, government's allocation for agriculture normally ranges anywhere between 5 to 7 per cent of total national budget even though the sector is the main source of income and livelihood to close to two thirds of Viet Nam's total population.

Providing sufficient resources for basic services such as irrigation, rural infrastructure, credit, research and technology extension, marketing support among others, will go a long way in helping farmers derive better incomes from the production and trade of their products, while preparing them for the opening up of markets.

Another core feature of the transitional development focuses on preserving Viet Nam's power and the right to safeguarded commodity sectors that are important to its food security, livelihood security, rural development and poverty alleviation objectives from liberalization. The fact that agriculture is the single most important segment of the economy in terms of food and employment provides valid arguments for the need to ensure the survival of important commodity sectors.

However, this aspect of the transitional development plan will have to be accompanied by government's commitment to protect and advocate for this right in ASEAN, in the WTO and in other trading arrangements. ASEAN is structured in such a way that all products will have to be eventually folded in into the AFTA CEPT, although CLMV countries are given longer time frames to do the same. In the WTO, where the country has committed to very low tariff bindings, members are still busy negotiating the provisions on special products and special safeguards measures. Viet Nam, as a negotiating party in these trade organizations must push for its right to provide tariff support to its small farmers in bilateral, regional and multilateral trading arrangements.

2. Conduct an assessment of the indirect and direct impact of FTAs as a guide to future trade policy engagements

During the AFA consultation many participants emphasized the importance of having a comprehensive evaluation of the direct and indirect impacts of Viet Nam's commitment to free trade agreements. This assessment is important in view of the country's participation in various FTA negotiations as a member of ASEAN. Participants pointed out that the evaluation must not be limited to a mere trade impact assessment, but must look at how other non-trade provisions of FTAs affect the sector. For instance, they noted how provisions on investments influence land use allocation patterns, in many cases, encouraging the conversion of agricultural lands to lands for industrial and other purposes.

Government must ensure that this assessment process is transparent and inclusive. In particular, it must ensure that farmers are able to participate in this

process by providing concrete venues and mechanisms through which the latter can relate their situation and experiences to government with respect to trade. These information, combined with macro economic data, can help provide a more in-depth and grounded assessment of the impact of FTAs on the agricultural sector, and its small stakeholders.

The results of the assessment can help guide the country in formulating its negotiating agenda and position in bilateral, regional as well as multilateral trade negotiations.

3. Help farmers prepare for the global crisis

Compared to other ASEAN countries Viet Nam has the highest agricultural exports as a percentage of total exports, at 16.4 per cent.²³ The country is particularly vulnerable to the current global crisis on account of agriculture's strong export orientation, and the declining demand in its major markets. The crisis highlights the risks associated with development strategies that are primarily anchored on exports.

Helping farmers prepare for the global crisis require both short term as well strategic solutions. The transitional development plan discussed earlier can help increase, or, at the very least, sustain farmers' income in this time of crisis by lowering cost of production and improving output, in terms of quality and quantity.

In the long run, however, governments need to focus its efforts in developing its domestic market. Viet Nam, after all, has the third largest population in the region. This requires investment in value adding enterprises to transform the sector's raw material output into processed goods, which can easily be absorbed by consumers. This entails a major shift in agricultural policy, from one that is focused on the export of cheap raw materials to one that promotes the establishment of rural industries and value adding enterprises to process the sector's agricultural produce. This requires substantial public as well as private sector investments in rural industrialization, as well as in the creation of backward and forward linkages to the sector.

²³ Based on author's computation using data from FAOSTAT

The Regional Trade Agenda

Themes from the national consultations

The national and regional trade agenda are envisioned to help guide small farmers' engagement with their national governments and with ASEAN on matters related to trade. It is intended to help farmers evaluate if trade policies - be they unilateral in nature or forged via bilateral or multilateral agreements - can support their livelihood and development objectives. On a more proactive note, it is envisioned to help small agricultural producers push for trade policies that strengthen their share in and contribution to sustainable development.

There are several common themes that surfaced in the five national trade consultations with small farmers and agricultural producers. These themes provide the framework in understanding the regional trade agenda that emerged from the said consultations. These themes are:

Good domestic policy as a foundation for good trade policy

Competitiveness, which is mainly a function of domestic policy, particularly policies on public investment and agricultural production, is a key concern in trade policy setting. Many of the farmers who have expressed apprehension over agricultural trade liberalization do so due to concerns over their capability to successfully compete in a liberalized market.

As such, most of the recommendations that emerged in the national consultations focus on the important role that government must play not only in enhancing improving farmers' productivity, but also in ensuring that they are able to gain from trade. In the main, these recommendations include: (1) increased public investment in agriculture, particularly for productivity and competitiveness enhancement programs, such as irrigation, extension and research, among others and in the marketing and distribution of key agricultural commodities, through credit and price support, etc. (2) improved coordination among the different government agencies engaged in agriculture support and services and (3) greater farmer participation in the formulation of agricultural and trade policies.

Farmers also see the importance of logically sequencing policies such that those that are aimed at improving competitiveness must precede those that are aimed at

opening up markets. Following this logic, achieving competitiveness becomes a prerequisite or required condition to trade liberalization, and good domestic policies become the necessary groundwork for trade policies that are consistent with developing countries' development objectives.

Recognizing the existing dualities in the agriculture sector of many developing countries

There is a general tendency among ASEAN states to simplistically package free trade agreements as instruments through which members can open up market opportunities for local producers. This thinking gives little consideration to the existing duality in the agriculture sector of many developing countries in the region. This duality is characterized by the presence of a few large commercial export oriented firms on one hand, and the multitude of small family farms that forms bulk of the sector, on the other. It is the former, which are mostly owned and managed by big commercial corporations, including multinational agriculture firms, which are in the position to maximize export opportunities from FTAs. On the other hand, the larger segment of the agriculture sector, which is composed of small family farms is presently more concerned about surviving. Small farmers are more concerned about being able to continue to sell their produce at a fair price as government opens their market to less priced agricultural imports.

Hence, recognizing this duality in formulating trade policies, including in commitments in international trade agreements calls for a careful balancing of the country's and the region's offensive and defensive interest in trade.

Recognizing agriculture's role in meeting important socio-economic objectives

Farmers recognize the important role played by the sector in meeting important socio-economic objectives. These include food security, livelihood security, rural development, poverty alleviation and environmental sustainability. They do not view agriculture merely as a business or a purely economic activity, even though the economic aspect of agricultural production is, in itself, a crucial component of many of these objectives.

Given this framework, many farmers are of the view that trade policies and trade, in general, should support, and not undermine, food production systems. It should lead to job creation and not to the erosion of their existing means of livelihood. It must help improve their income from farming and agricultural production, rather than result to their displacement. Finally, they believe that pursuing trade objectives must

never be at the expense of long-term sustainability of the agricultural sector. Hence, it should not lead to the adoption of production and processing technologies that result to soil degradation, water pollution or pose health hazards to both the producers and consumers of agricultural produce.

Maintaining the state's capability to support small farmers and agricultural producers and develop the agricultural sector

Bilateral, regional and multilateral free trade agreements are designed to lock in countries to a definite liberalization schedule. Indeed, one can argue that this is the very essence and rationale of entering into these types of trade pacts – to ensure that trade policies of partners are predictable and transparent. Exporters prefer trading arrangements where they know that tariff levels will not drastically increase. However, the objective of predictability and transparency in trade policies, particularly in tariff setting, must be balanced with the need for governments or states to maintain enough flexibility to ensure the survival of their small farmers as well as the development of their agricultural sector. This is an important consideration, in view of the fact that, as pointed out earlier, agriculture plays an important role in meeting important socio-economic objectives, which goes well beyond its contribution to a country's economic output.

In this context, farmers recognize government's important role in agricultural development, and argue that this should never be compromised even as the country commits to free trade agreements. As such, the preservation of government's capability to support its small farmers and protect it from factors that will undermine its viability must be an integral component of any trade agreement entered into by ASEAN. This capability includes the power to impose high tariffs for sensitive sectors or to apply of safeguard measures in case of import surges or price declines

The Regional Trade Agenda

The regional agenda was formulated in the context where (1) ASEAN is in a process of accelerating economic integration among its members (2) the regional coalition has already entered into several trading arrangements with major partners and is presently negotiating the terms of free trade pacts with other countries. Hence, the agenda is designed to help farmers engage their national government and ASEAN within the current milieu, which is characterized mainly by the tremendous pressure to open up markets and ensure the free flow of goods, services, investments and capital.

In particular, farmers agree on five major advocacy agenda. These are:

1. ASEAN must ensure that trade agreements it enters into must preserve Member States' capability to:

exempt sectors important to food security, livelihood security, rural development and poverty alleviation objectives from trade liberalization.

This exemption can be in the form of (1) reinstating quantitative restrictions on importation (2) fully excluding these sectors from tariff reduction (3) subjecting these sectors to lesser tariff cuts compared to non-sensitive sectors. Essentially, this means that trade agreements must not deprive countries of the right to adopt and implement trade policies aimed at safeguarding the livelihood of small producers in sectors that play a crucial role in meeting the aforementioned objectives.

Under the AFTA-CEPT, Members are allowed to maintain a sensitive and highly sensitive list, covering products that would not be immediately folded into the agreement's liberalization schedule. However, as mentioned in the first section of this paper, this exemption is temporary in nature, as these products would eventually have to be folded into the agreement's tariff reduction program following a schedule agreed upon by Members.

There have been numerous studies indicating the necessity of exempting certain sectors from trade liberalization.²⁴ In the WTO, the G33, a coalition of developing countries, including some ASEAN members, has successfully advocated for the need to exempt from normal tariff reduction agricultural products that are important to a developing country's food security, livelihood security and rural development objectives. Indeed, the WTO has officially recognized and accepted the concept of special products as a given in the new agreement, though it has yet to finalize the extent to which these products would be given special treatment by way of exclusion from normal trade liberalization.²⁵

A study of the impact of the AFTA-CEPT on small farmers will help provide valuable information on the sectors that most need protection on account of their importance to a country's food security, livelihood security, rural development and poverty alleviation objectives.

²⁴ See for instance "The treatment of special products: An analysis of the empirical bases for exempting special products from tariff cuts" by Riza Bernabe, International Center for Trade and Sustainable Development (ICTSD), 2008 and "Why developing countries need special products and special safeguards mechanism?" by Parthapratim Pal for the Center for Trade and Development (CENTAD), 2006;

²⁵ Paragraph 7 of the Hong Kong Ministerial Declaration allows developing countries to self-designate special products.

provide sufficient safeguard measures and remedies

Safeguard measures should be automatic and must be triggered by import surges and price declines, without requirement of proof of injury. Safeguard remedies must, depending on the level of volume surge or price decline, include (1) imposition of quantitative restrictions (2) increase of tariff rates to levels enough to effectively address the import surge or price decline.

The concept of employing automatic triggers in safeguard measures for developing countries had long been accepted in the WTO. However, under the AFTA-CEPT, a country can only apply the safeguard measure if it is able to prove that the implementation of AFTA-CEPT has led to an increase in imports that, in turn caused or threaten to cause serious injury to sectors that are producing the product or like products.²⁶ For many developing countries, it is difficult to establish serious injury owing to constraints related to data gathering and attribution. This limitation undermines countries' capability to access safeguard measures in FTAs as a facility to effectively help small farmers in case of import surges or price declines.

The provision of the AFTA-CEPT also indicates that the use of WTO tariff level is the maximum remedy available to ASEAN members. This can be especially disadvantageous for countries that have especially low tariff settings, such as the Philippines. This also becomes problematic in view of the fact that based on current negotiations in the WTO, importation under regional trade agreements are not included in evaluating import surges. The special safeguard measures currently negotiated in the WTO considers the application of tariffs that go beyond the WTO levels.²⁷ Hence, AFTA-CEPT members in effect lose their chance to impose higher tariffs in case of imports surges or price declines.

move towards the creation of a real level playing field with major economic powers through the removal of trade distorting domestic subsidies

Trade agreements with major trade partner should include concrete provisions to effectively address the problem of trade distorting domestic support and subsidies. The trade agreements entered into by ASEAN focuses solely on the singular goal of ensuring the free flow of goods, services, investment and capital, and do not touch on the reduction of unfair agricultural subsidies. For instance, the framework agreement for the ASEAN-EU FTA does not cover disciplines to eliminate or even

²⁶ Article 6 of the Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area

²⁷ Revised Draft Modalities for Agriculture, TN/AG/W/4/Rev. 4, December 2008 the Center for Trade and Development (CENTAD), 2006;

reduce trade distorting agricultural subsidies, which remains one of the real and most effective barriers to free and fair trade.

2. Adoption of a Regional Agricultural Policy and the creation of a Common Agricultural Development Fund

ASEAN must work towards the creation and implementation of a Regional Agricultural Policy with the objective of ensuring broad based agricultural growth within the region. The Regional Agricultural Policy will:

- define a comprehensive support and competitiveness enhancement program for agriculture in the region;
- provide for the creation of a Common Agricultural Development Fund to finance programs targeting small stakeholders in the sector;
- create venues for greater cooperation among agricultural producers groups, including small farmers organizations across the region especially in the area of sustainable farming practices, agricultural processing, marketing and distribution, cooperative formation, development and management, among others ;

As indicated in the first section of this paper, the ASEAN economic blueprint indicates concrete actions to promote trade competitiveness for agriculture and food. However, much of these actions focused on harmonizing systems and standards. Additionally, the blueprint does not provide for the creation of a comprehensive and tangible support program for small farmers and agricultural producers.

The capability of small farmers to benefit from trade depends largely on their level of competitiveness and on their control of resources along the commodity value chain. These factors are largely influenced not by trade policies but by the effective and timely delivery of competitiveness enhancement programs. In this context, the creation and implementation of a regional agricultural policy, aimed at improving producers' productivity and income, is an important requisite as well as component of small farmers' regional policy advocacy on trade.

3. Development of ASEAN Standards for Sanitary and Phytosanitary Measures

ASEAN must develop and push for alternative standards for Sanitary and Phytosanitary Measures.

Most of ASEAN's initiatives in standards harmonization are designed to help align regional and international standards in order to facilitate and improve trade performance in global markets. Its focus on harmonizing standards is based on the fact that, apart from agricultural subsidies, standards have become one of the most effective barriers to trade.

ASEAN must go beyond adopting international standards and must begin to develop its own SPS measures. This move must not only be seen as a trade concern, but as a valid initiative to safeguard the health and safety of the region's rapidly growing market. ASEAN is home to 540 million people, most of which are resource poor and have very limited access to health services. Hence, it is only important that ASEAN develop SPS that are specifically tailored to address the health and safety concerns of its huge population base.

4. Establishment of an ASEAN Rice Reserve

ASEAN must create a Rice Reserve to help stabilize rice supply and prices in the region. It must pass and adopt an agreement giving members priority in accessing rice produced within the region, at fair prices.

The true spirit of economic cooperation and integration should be clearly reflected in the way ASEAN addresses the issue of food security in the region. The recent rice crises emphasized the coalition's failure to provide a strategic framework and mechanism through which members can help each other access food, particularly rice, in times of shortage. The fact that ASEAN members include some of the world's biggest exporters and importers of the staple grain emphasizes the coalition's role in helping achieve regional food security and self-sufficiency.

5. Creation of a Small Agricultural Producers' Advisory Council to the ASEAN

ASEAN must create and regularly consult an advisory council composed of representatives of small agricultural producers across the region on policies, programs and initiatives affecting, or has the potential to impact on agriculture.

As mentioned earlier, a large segment of the population of ASEAN members source their income and livelihood from the agricultural sector. The sector is also the main source of sustenance of these countries' poor, making it an important focus of poverty alleviation interventions in the region.

In this context, ASEAN must ensure that its policies and programs are consistently evaluated based on their possible impact on small agricultural stakeholders. This is important in view of the fact that this segment of agriculture and the economy is also the most vulnerable to displacement and marginalization due to liberalization. Apart from the having limited support from government, they have very limited resources to cope with increased competition brought about by the opening up of agricultural markets as a result of trade policies and agreements.

Consulting stakeholders on policies that will affect specific sectors is not a new idea in ASEAN. The regional coalition presently consults the ASEAN Business Advisory Council (ABAC), which is composed of key leaders in the business community, on matters affecting business in the region. Hence, it is only proper that the coalition also create a mechanism to get the input of small agricultural stakeholders in formulating regional policies, especially on trade.



Asian Farmers' Association for Sustainable Rural Development

Address:

Rm 206 Partnership Center, 59 C. Salvador St.,
Loyola Heights, 1108 Quezon City, Philippines

Telefax:

(632) 436-4640

Email:

afa@asianfarmers.org

Website:

www.asianfarmers.org