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For Hog and Poultry Industries, Trade Liberalization may not be that Bad[1]

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The struggle for competitiveness is a continuing concern primarily for Philippine agriculture on which majority of the poor depend.

This has been highlighted very recently by the impending full implementation of the Common Effective Preferential Tariffs under the ASEAN Free Trade Area (AFTA-CEPT), which mandates the reduction of tariff protection on all agricultural products coming from ASEAN countries to a 0-5% range.

For the livestock sector, this concern was raised by a group of industry leaders who sought a definitive answer to the question of whether AFTA-CEPT is a boon or a bane.[3]

Such a question is a reflection of the industry participants' need for an appropriate policy response to a liberalizing environment in order to not unduly jeopardize the welfare of those who depend on livestock industries.

It is likewise a wake-up call for the continued search for productivity-enhancing mechanisms that will help ensure industry competitiveness and growth. This brief addresses the current policy debate on trade liberalization and competitiveness in the hog and poultry industries, based on an analysis of trends and determinants of the industries' productivity growth.

The Record

Over the last two decades (1987–2008), the livestock industry has been an important source of growth for agriculture. Specifically, the hog and poultry sectors have consistently registered positive growth, while the others were contracting (Figure 1).

From the mid-90s, when fears of competition from foreign producers first emerged as a result of the new World Trade Organization (WTO) agreements on agriculture, hog and poultry posted positive growth rates, which slowed down only during unfavorable feed price regimes (i.e., world grain prices surged upward in 2008).

This phenomenon highlights the significant role of feeds, which represent close to 60% of production cost, especially in hogs and poultry. Any change in the price of feeds will have far-reaching effects on the profitability of hog and poultry enterprises.

Thus, while indicators of technical efficiency (e.g., feed conversion ratio) show that the Philippines is at par with other major poultry producers of the world, the country remains relatively non-competitive because of the high feed cost. A kilo of dressed chicken meat is produced at PhP51 in the Philippines compared with PhP33 in Thailand, Brazil, and the USA.

Hence, despite the fact that the Philippines is close to achieving self-sufficiency in both hogs and poultry, the country has never been a key player in the meat export market. Thailand, on the other hand, is one of the world's major chicken meat exporters, underscoring differences in the general policy environment operating in the two countries.

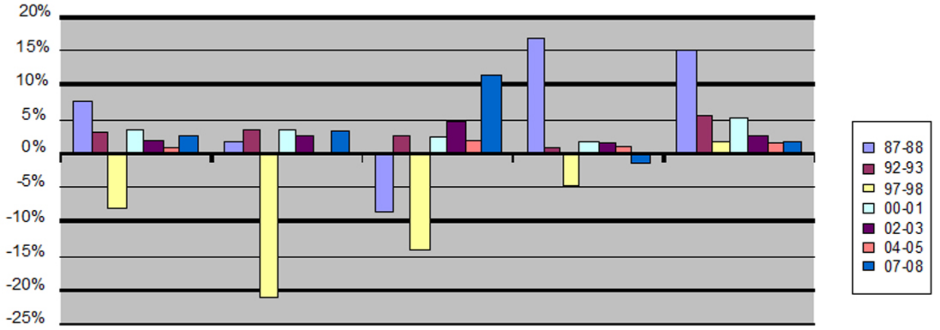

Figure 1. Growth in Philippine agriculture GVA

Photos courtesy of: patervis.com and www.freemanwicklund.org

In Thailand, domestic corn prices were maintained at close to world prices, whereas those in the Philippines were as much as 60% higher than world prices (even at the time when WTO agreements started to be put in place). This was a move intended to support the government's corn self-sufficiency program.

Fortunately, the corn price disadvantage was compensated for by the growth in total factor productivity (TFP) in the hog and poultry industries. Between 1994 and 2000, the poultry industry posted a 15% growth in TFP. As for hogs, TFP grew by 3.5% between 2003 and 2008. These figures are significant enough to sustain the growth in Gross Value Added (GVA) of these sectors, even at times when the other sectors of agriculture were contracting (Figure 1).

Policy Imperative

The fact that the hog and poultry industries managed to grow despite the relatively unfavorable feed price environment is proof that they are competitive. This could be attributed to the private sector's creativity, taking the initiative to introduce both technical (primarily improved breeds, feeds, and feeding techniques) and institutional innovations (e.g., contract growing) in order to facilitate the rapid commercialization of the hog and poultry industries.

However, they could have performed even better in a more liberalized corn market. The AFTA-CEPT implementation may not minimize this disadvantage inasmuch as the bulk of the country's corn imports come from outside the ASEAN region, unless other member-countries re-export corn imported from the Americas to the Philippines, a possibility despite provisions on the Rules of Origin.

In fact, the AFTA-CEPT brings to fore new policy issues. Mixed feeds from ASEAN, which were subject to as high as 35% tariff, will be charged zero tariff in 2010. While this may be advantageous to independent livestock growers, it will jeopardize the operation of vertically integrated firms and may result in a loss of value added from feed manufacturing.

A way out of this dilemma is to adopt uniform tariff on corn, regardless of source. It is important that domestic prices are aligned with world market prices. This will be consistent with the multilateral agreements entered into by the country and will definitely level the playing field against low-cost chicken imports. Tariff liberalization for corn would contribute greatly to sustaining the hog and poultry industries as sources of growth in agriculture.

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[3] Sison (2009). "AFTA: Boon or Bane for the Philippine Animal Industry?" Paper presented at the 22nd Convention of the Philippine Society of Animal Nutritionists, October 7, 2009, Renaissance Hotel, Makati City, Philippines.

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