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Tariff cuts without consumer gains? A competition policy perspective on Philippine price trends

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This article examines why domestic food prices in the Philippines, especially rice, have remained high despite falling global prices and trade liberalization. Although the 2019 removal of quantitative restrictions and the introduction of tariffs initially lowered rice prices, the expected continued decline did not occur. Using a Vector Error Correction Model and Structural Vector Autoregressive framework, we analyze price movements across retail, wholesale, and farmgate levels over the past two decades. Results show limited pass-through from international prices to local markets, indicating downward price rigidity. We pinpoint potential contributing factors, including speculative behavior, weak competition, and structural and regulatory barriers, resulting in shocks to stocks and imports. Historical decomposition reveals the increasing influence of wholesale price shocks and inventory fluctuations on domestic price trends. The findings underscore the importance of integrating trade reforms with robust competition policies and effective market governance to manage inflation and improve food security.

JEL classification: D4, F13, L41, O13, Q17, Q18

Keywords: Rice trade, imperfect competition, Philippines, rice price-rigidity

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1. Introduction

In developing economies such as the Philippines, food is not merely a basic necessity—it is a central determinant of household welfare and macroeconomic stability. Rice, the country's primary staple, occupies a disproportionately large share of the consumption basket, rendering it both economically indispensable and politically sensitive. Demand for rice is highly inelastic, with income elasticities estimated at 0.1 to 0.3 and price elasticities ranging from 0.2 to 0.5 (Balisacan [1995]; Lantican et al. [2013]; Valera et al. [2022]). In the absence of close substitutes, even modest price increases translate into immediate welfare losses, particularly for poorer households that allocate a larger share of their expenditures to food.

Yet a central puzzle remains: Why have domestic food prices in the Philippines remained high despite declining world prices and tariff reductions? Standard economic reasoning suggests that in a small open economy, lower world prices combined with reduced tariffs should translate into lower domestic prices. However, the Philippine experience indicates that this transmission is far from automatic.

Beyond these direct welfare effects, rice price shocks propagate through the broader economy. Food inflation constitutes a major component of headline inflation in developing countries and often triggers monetary tightening, potentially at the cost of slower economic growth. The policy stakes are therefore substantial, spanning both poverty reduction and macroeconomic management. In response, governments frequently rely on trade liberalization—particularly tariff reductions—as a primary instrument to moderate domestic prices. However, the effectiveness of such interventions ultimately depends on how price changes are transmitted through domestic markets.

The Philippine experience highlights the limits of this approach. Historically, domestic rice prices were elevated by quantitative restrictions (QRs) designed to promote national self-sufficiency. In 2019, these QRs were replaced with a 35 percent tariff on imports, with the expectation that increased import supply would reduce retail prices. While prices did decline following liberalization, the magnitude of the reduction fell short of expectations. Subsequent policy responses have continued to emphasize tariff adjustments as the primary instrument for price stabilization. However, observed outcomes reveal incomplete and asymmetric transmission: retail prices remain downwardly rigid even as landed import costs decline.

This disconnect—tariff cuts without commensurate consumer gains—points to the role of competition and market structure in shaping price outcomes. In well-functioning markets, reductions in import costs are expected to pass through quickly and proportionately to consumers. However, when markets are concentrated or characterized by dominant intermediaries, this transmission may be weakened. Firms along the supply chain may adjust margins in response to cost changes, absorbing part of the gains from lower import prices. In vertically

structured markets such as rice—where importers, millers, traders, and retailers mediate transactions—pricing behavior at intermediate stages can significantly influence final retail prices.

Several features of food markets heighten this concern. Low demand elasticity, limited consumer purchasing power, and high product homogeneity reduce competitive pressures and can facilitate coordinated pricing behavior [World Bank and Organisation for Economic Co-operation and Development (OECD) 2017]. At the same time, high concentration among traders or importers, entrenched trading relationships, and information asymmetries may reinforce the position of dominant players. Weak enforcement of competition policy further limits the disciplining effect of entry or oversight. In such an environment, the gains from trade liberalization may be partially captured within the supply chain rather than transmitted to consumers.

This paper examines whether such dynamics are at play in the Philippine rice market. Specifically, we assess the extent to which structural features of the market limit the transmission of tariff reductions and global price changes to domestic retail prices. While conventional explanations emphasize macroeconomic factors—such as exchange rate movements, global price volatility, and inventory adjustments—these factors do not fully account for persistent price rigidity. A competition-policy perspective instead highlights how market structure and firm behavior may dampen or delay price adjustments.

To address this question, we analyze the transmission of shocks across the rice value chain using a Vector Error Correction Model (VECM) and its Structural Vector Autoregressive (SVAR) representation. This framework allows us to quantify and decompose the effects of shocks to landed import costs, wholesale prices, retail prices, farmgate prices, and inventories over the past two decades. Through historical decomposition, we assess the relative importance of these shocks in driving price dynamics.

The empirical strategy enables us to evaluate competing explanations. If markets are functioning competitively, shocks to landed import costs should be the primary driver of price movements across all levels. If, however, structural barriers or pricing power are significant, we expect weaker and asymmetric transmission, with intermediate prices—particularly wholesale prices—playing a more dominant role. Alternatively, if speculative behavior or hoarding is prevalent, inventory shocks should account for a larger share of price variation. By disentangling these channels, the paper provides evidence on whether structural constraints within the market dilute tariff reductions.

This study contributes to policy discussions by highlighting the limits of relying solely on trade liberalization to achieve reductions in consumer prices. It underscores the importance of complementary competition policy measures—such as improving market transparency, reducing barriers to entry, and strengthening enforcement—to ensure that the benefits of lower tariffs are

transmitted to households. The findings have direct implications for inflation management, food security, and regulatory design in the Philippines and other developing economies facing similar challenges.

The remainder of the paper is organized as follows. Section 2 reviews the relevant literature on trade liberalization, price rigidity, and competition in agricultural markets. Section 3 discusses sectoral realities and the policy context in the Philippines. Section 4 outlines the methodology, followed by the results in Section 5. The final section offers concluding remarks and recommendations.

2. Related literature: trade liberalization, price rigidity, and anticompetitive behavior

Standard international trade theory suggests that tariff reductions lead to lower domestic prices, particularly for tradable goods such as staple foods (Goldberg and Pavcnik [2007]; Feenstra [2015]). The mechanism is straightforward: by lowering the cost of imported goods, liberalized trade enhances market competition, displaces high-cost domestic producers, and ultimately benefits consumers through reduced prices. However, empirical studies provide evidence to the contrary. Domestic prices remain stubbornly high despite declining border prices—a phenomenon commonly referred to as price rigidity due to the incomplete pass-through of tariff reductions.

One strand of the literature points to tariff redundancy, in which the trade effects of tariff changes (at least in the short run) may be diluted. For example, the impact of tariff cuts may be watered down by changes in real exchange rates and world prices [Langhammer 1988]. This can occur if increased import demand in the importing country raises export demand, and foreign producers can capture part of the initial gains from tariff cuts by raising export prices. The distribution of welfare gains between foreign producers and domestic consumers hinges on the relative elasticities of import demand and export supply. These elasticities are influenced by various factors, including the nature of the commodity, import penetration, protective trade measures, supply flexibility, availability of substitutes, and market structure [Kreinin 1961].

Incomplete pass-through is also attributed to various structural and behavioral factors. Imperfect competition can also result in a slow tariff pass-through when dominant market players adjust their markups rather than prices. Burstein et al. [2005] argue that distribution costs and retail markups significantly dilute the transmission of trade shocks to final consumer prices. Similarly, Atkin and Donaldson [2015] show that poor infrastructure, intermediary markups, and weak market integration can hinder spatial price transmission, especially in developing economies. As such, the benefits of trade liberalization do not reach consumers, as retail prices may remain unresponsive to changes in landed import costs.

In the context of food markets, Ravallion [1986] and Baulch [1997] both examine the extent of market integration, underscoring that significant transfer costs or structural frictions can lead to incomplete spatial arbitrage, resulting in persistent price differentials and weak market integration. Baulch [1997], using data from the Philippines, demonstrates that high transfer costs and market segmentation hinder spatial price arbitrage, leading to persistent regional price disparities. This reinforces the view that price rigidity in staple food markets, such as rice, often stems from structural barriers and weak spatial market integration rather than border protection alone. Cole and Eckel [2014] discuss a theoretical model regarding the impact of tariffs within the context of imperfectly competitive market intermediaries between producers and consumers. Their theory suggests that the potential impact of tariffs intensifies with the level of market competition. When structural barriers and transaction costs restrict buyers' ability to choose among market intermediaries, this reinforces the local market power of these intermediaries, enabling them to raise their markups and increase profits. Empirically, limited tariff pass-through was observed in retail prices during the initial wave of tariff increases in the first Trump Administration, as US retailers potentially adjusted profit margins on affected goods in response to the tariffs [Cavallo et al. 2021].

In the case of modern agricultural markets, Sexton [2013] argues that they are increasingly characterized by concentrated market power, particularly among processors, traders, and retailers. This leads to distorted farm-to-market price transmission. Contrary to the common assumption that perfectly competitive agricultural markets are efficient, he demonstrates that market power can result in inefficiencies, price manipulation, and reduced welfare for both producers and consumers.

The effectiveness of trade liberalization is also influenced by the strength of domestic institutions, particularly those responsible for enforcing competition policy. OECD [2013] reports highlight that in the absence of empowered and independent competition authorities, price transmission from tariff reductions remains incomplete. In situations where enforcement is weak or politically compromised, dominant firms can collude or maintain monopolistic pricing without consequences.

The literature shows that tariffs alone are insufficient for lowering consumer prices amid supply chain rigidities, poor infrastructure, and concentrated market power. Price rigidity during liberalization is especially apparent in agricultural markets, where politically connected traders and ineffective regulatory oversight persist.

To this end, we contribute to the emerging literature by investigating why domestic retail rice prices in the Philippines remain elevated even after the reduction in import tariffs. By examining these mechanisms, we seek to clarify the processes through which price rigidity emerges in the shadow of liberalization.

3. Sectoral realities and policy context

3.1. *The rice trade liberalization*

In February 2019, through Republic Act 11203 or the Rice Tariffication Law (RTL), the government dismantled the QR regime on rice imports and established a tariff system for rice importation. Proponents and development scholars viewed this change as a significant “game changer” for the country’s food economy. The decades of high domestic rice prices have been associated with the government’s goal of achieving national self-sufficiency. Earlier studies (Roumasset [2000]; Tolentino [2002]; Balisacan and Ravago [2003]; David [2003]; Balisacan and Sebastian [2006]; Clarete [2015]; Briones [2016], among others) show that this policy was costly to society, harming consumer welfare and promoting wasteful rent-seeking activities. Economic growth before 2020 would have been strongly pro-poor had it not been for the misguided set of policy tools chosen to achieve the food self-sufficiency goal [Ravago et al. 2024].

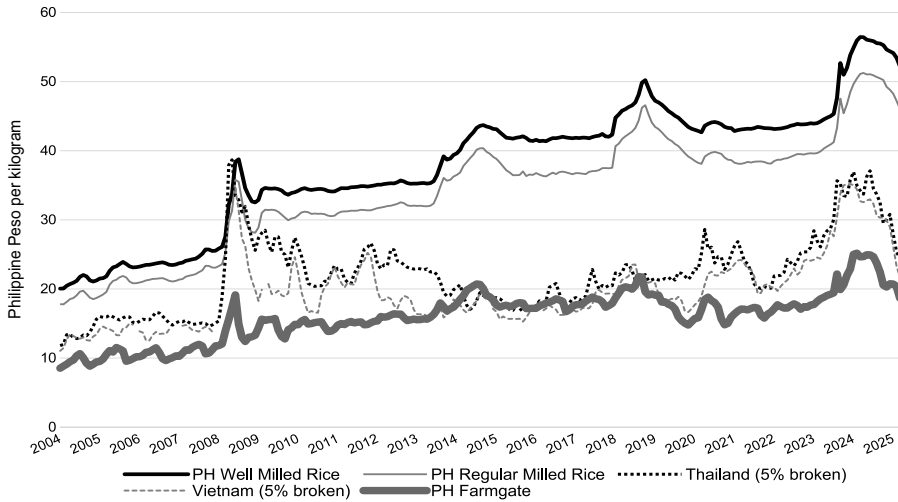
The law sets tariffs at 35 percent for imports from member countries of the Association of Southeast Asian Nations (ASEAN), 40 percent for non-ASEAN countries with imports below 350,000 metric tons, and 180 percent for non-ASEAN countries with imports exceeding 350,000 metric tons. It also significantly reduces National Food Authority’s (NFA) functions, restricting it to the procurement and management of buffer stock for emergency purposes. The agency will no longer be allowed to manage the licensing of importers and traders. Moreover, the law allocates ₱10 billion annually to the Rice Competitiveness Enhancement Fund (RCEF), a facility aimed at enhancing farm productivity and competitiveness by providing seed, mechanization, credit, and extension services.

The reforms succeeded in reducing retail prices to ₱38.1 per kilogram (kg) for regular milled rice and ₱42.7 per kg for well-milled rice until the onset of the COVID-19 pandemic in 2020, where retail prices reached a plateau in the range of ₱39 to 40 per kg for regular milled rice and ₱43 to 44 per kg from month to month, year to year. The decline fell short of expectations, with domestic prices remaining higher than world prices, as shown in Figure 1. As a consequence, inflation, particularly for food, remains stubbornly high, with food accounting for more than half of total inflation for most of late 2023 and early 2024 (Figure 2), with rice in particular accounting for 2.0 percentage points of total inflation in May and June of 2024 when inflation hovered at between 3.7 and 3.8 percent.

In response, the government has relied on trade liberalization, particularly through tariff reductions, as a key strategy to further lower domestic prices. Executive Order (EO) No. 62, which took effect in July 2024, lowered the import tariff on rice to 15 percent from 35 percent until 2028 to help tame inflation and protect the purchasing power of Filipinos. Under the EO, the rice tariff is subject to review by the Department of Economy, Planning, and Development (DepDEV)¹ every four months to strike a balance between the welfare of farmers and consumers.

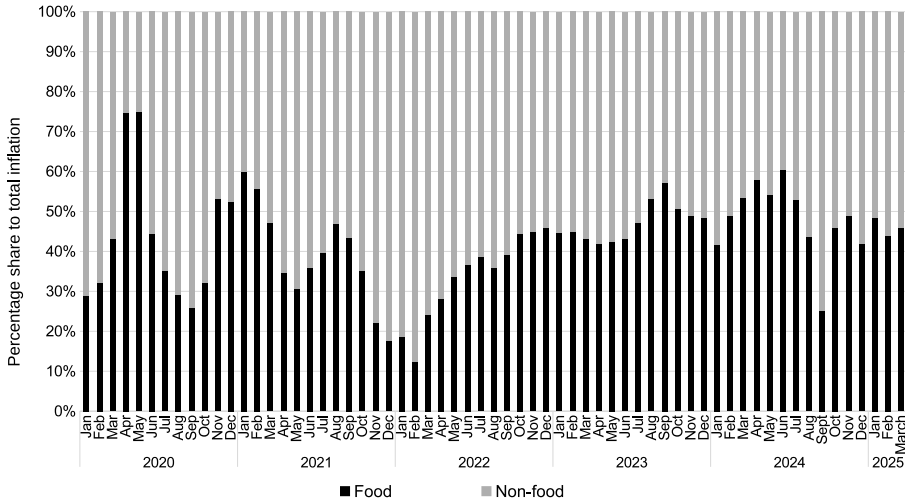
¹ DepDEV is formerly known as the National Economic Development Authority (NEDA).

FIGURE 1. Historical retail prices vs world prices



Source of basic data: Philippine Statistics Authority (PSA) OpenStat Database for domestic prices, World Bank Commodity Price Dataset for International Prices.

FIGURE 2. Food and non-food contribution to inflation



Source of basic data: PSA OpenStat Database.

This action by the government is not without its share of controversy. Farmer and producer groups, as the most adversely affected parties, expressed strong opposition through legal action to stop the law’s implementation [Casilao 2024]. They cited procedural lapses, economic harm, and legal challenges and demanded a reversal of the tariffs. Academics generally support the inflation-control intent behind EO 62 but caution that tariff reform alone is insufficient [Inosante 2024].

They urge complementary actions, including streamlined supply chains to ensure the benefits of tariff reductions reach consumers, targeted support for farmers, and long-term investment in productivity-enhancing public goods.

The implementation of EO 62 aimed to mitigate persistently high retail prices and alleviate food inflation. In the months immediately following the order, retail rice prices remained high due to previous supply shocks, delayed import arrivals, and slow market responses. Before the implementation of EO 62, Figure 1 shows rice prices were ₱51.07 per kg for regular milled rice (RMR) and ₱55.96 per kg for well-milled rice (WMR). After seven months, as of January 2025, prices had dropped by about ₱1 to 3 per kg (RMR had fallen to ₱48.25 per kg, while WMR had decreased to ₱54.14 per kg). This indicates that, despite a 20-percentage-point decrease in tariffs, rice prices had only fallen by around 3.25 to 5.52 percent after eight months. In contrast, farmgate prices experienced a significant decline, falling from ₱24.93 to ₱20.72 per kg, a 16.97 percent decrease from June 2024 to January 2025. By late 2024 and into early 2025, retail prices began to stabilize, reflecting the gradual impact of tariff reductions and supportive government interventions. While the trend indicates that EO 62 helped to moderate rice prices, it did not meet the expected price reduction targets.

3.2. What's keeping prices up?

In response to persistently high rice prices despite trade liberalization, the Philippine House of Representatives launched an investigation into potential anti-competitive practices in the rice sector. Through House Resolution No. 254, an ad hoc “Murang Pagkain Supercommittee”² was formed to examine allegations of cartel behavior, hoarding, and price manipulation [House of Representatives 19th Congress 2024]. Central to the inquiry was the “permit cornering” scheme involving the NFA between 2016 and 2018, which allegedly allowed a few traders to monopolize rice import permits, resulting in an estimated ₱163.6 billion loss to the economy.

The committee also scrutinized post-EO No. 62 developments, noting that retail prices continued to rise despite a significant drop in landed import costs. Reports of mislabeling and price inflation by retailers raised concerns about collusion. Lawmakers urged the Philippine Competition Commission (PCC) to investigate potential abuse of dominance and price-fixing, while acknowledging the commission's limited institutional capacity. Delays in implementing the Anti-Agricultural Economic Sabotage Act further prompted calls for a multi-agency task force to monitor and penalize unfair practices in the rice value chain. However, this raises the question: if government had already eliminated legislative and bureaucratic non-tariff barriers through the Rice Tariffication Law, why have domestic food prices in the Philippines not fallen despite declining world prices and tariff reductions?

² Literally translated, this means “Affordable Food Supercommittee”.

One possible factor can be drawn from lessons learned in past crises and the role of behavioral dynamics in agricultural commodity markets, particularly how speculative hoarding can amplify price volatility. A similar sequence of events unfolded during the 2008 rice crisis, in which export bans by major rice-producing countries triggered speculative behavior and a sharp price surge. Timmer [2024] emphasizes the significance of managing speculative behavior in food markets, drawing on the experience of the 2008 rice crisis. He notes that the Philippines undertook stockpiling measures as a precautionary response to rising global prices, which had been increasing gradually in the early 2000's but began accelerating rapidly in late 2007. Exporting countries, such as India and Vietnam, responded by imposing export restrictions, contributing to tighter global supply. This fostered an environment in which widespread anticipation of further price increases led to hoarding and a sudden spike in demand, turning a gradual price buildup into a crisis.

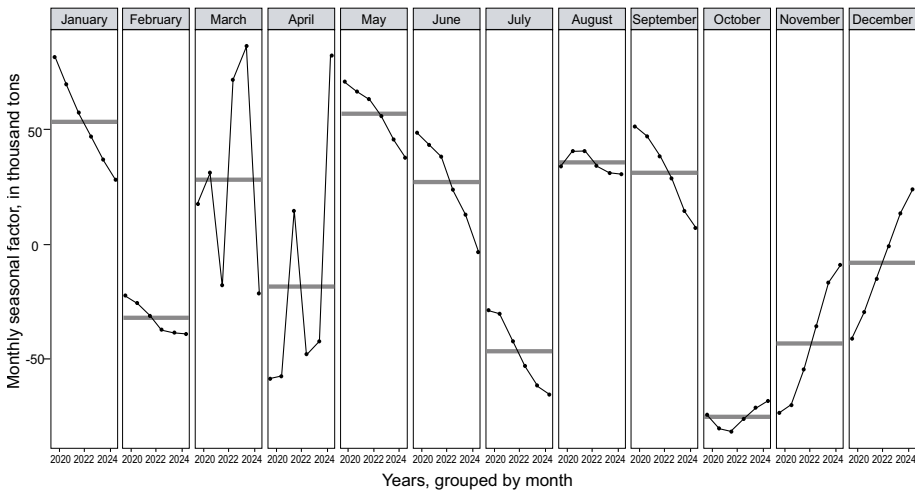
Fast forward to the aftermath of the 2024 experience, evidence from the Philippine Statistics Authority (PSA) import data suggests that speculative dynamics may have changed the timing of annual importation, undermining the intended effects of tariff reforms on import volumes and retail prices. The EO No. 62 provision for tariff reviews every four months—contrasting with the standard one-year duration of executive orders—raises concerns about its effectiveness in shaping long-term market expectations. Though initially intended to give the government the flexibility to adjust the tariff rate during the harvest season, this may have unintentionally encouraged speculative behavior and inventory hoarding. Specifically, the reduced timeline may not align with the contractual and logistical realities of international rice trade, where agreements often extend beyond four months. Consequently, market participants may engage in anticipatory behavior or rent-seeking to obtain privileged information about future tariff adjustments, thereby increasing uncertainty and undermining allocative efficiency.

Figure 3 displays the estimated seasonal components of monthly rice imports after the RTL in 2019, showing how post-RTL import patterns differed from typical seasonal trends. The gray horizontal lines indicate the average seasonal factor for the period, while the black lines are the observed seasonal factors for each year. Based on the data in Figure 3, imports are usually highest in January, May–June, and August–September, and lowest during July and October–November. The peak import season mainly aligns with the harvest season in exporting countries like Vietnam and Thailand, while imports decrease during the last quarter of the year, which overlaps with the main harvest season in the Philippines.

However, this pattern was reversed in 2024 after EO No. 62 was enacted. Instead, imports experienced an early slump from May to September, as seen in the dip in the season factor for 2024 (Figure 3), followed by a late increase from October to December (Figure 4). This shift is probably due to several factors:

speculation about whether tariffs would be imposed given the pending Supreme Court case and traders needing to find storage for imports after commercial stocks peaked before the announcement of EO No. 62 likely caused the initial decline, while importers taking advantage of lower tariffs in case they were reversed during the first scheduled tariff review in November 2024 probably contributed to the later rise. Additionally, in theory, lowering tariffs should lead to a sustained rise in import volumes. However, as shown in Figure 4, the expected drop in imports before the tariff cut nearly offsets the subsequent increase seen in October and November. This results in only a small net change in the overall import trend for the year (indicated by the solid gray line). This pattern suggests that the policy’s short-term nature may have encouraged speculative and hoarding behavior rather than fostering competitive and efficient importation.

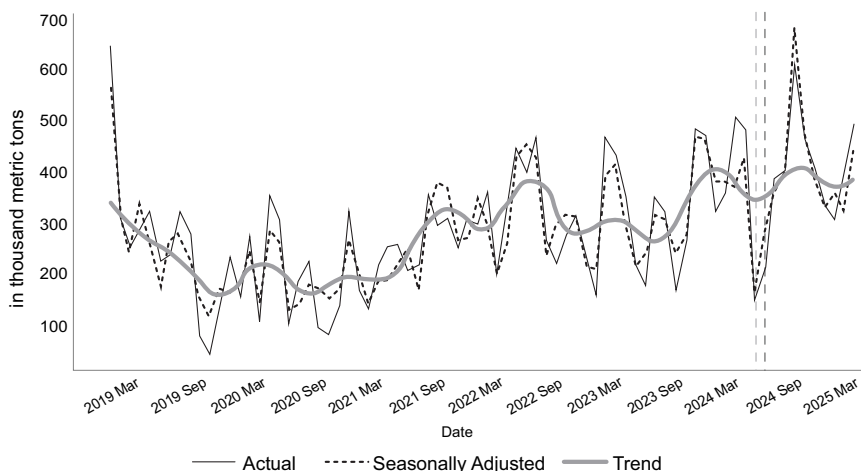
FIGURE 3. Seasonal components of monthly rice imports (2019–2024)



Note: The gray horizontal lines indicate the average seasonal factor for the period. Black lines are the observed seasonal factors for each year.
 Source of basic data: PSA OpenStat Database.

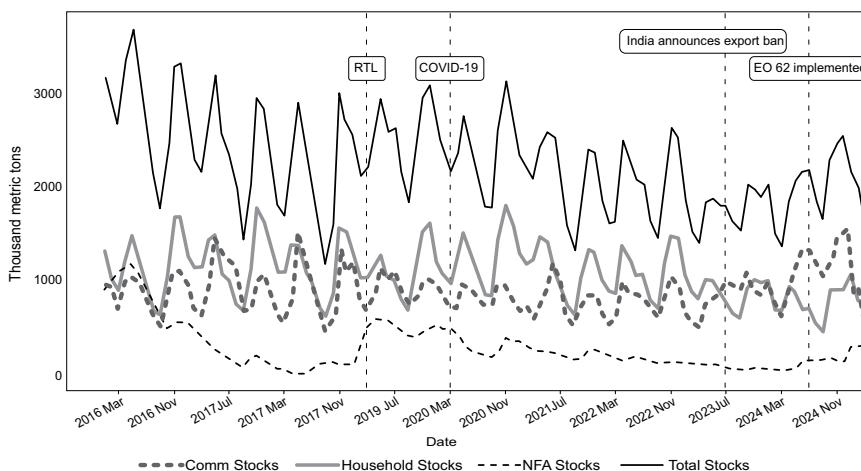
Another key structural constraint could be the logistics and storage sector. Before importers receive a Sanitary and Phytosanitary Import Clearance (SPSIC), they must submit a “Proof of Existence and Authority to Use Storage/Warehouse (if applicable) or a Department of Agriculture (DA) Accredited Cold Storage Warehouse (with DA Certificate of Accreditation).” This requirement is reasonable because it ensures importers have a designated storage for the imported rice and likely prevents frivolous SPSIC filings. However, it also indicates that the country’s overall storage capacity for rice imports may act as a logistical limit on the number of importers and the volume of imports at any given time.

FIGURE 4. Trends in import volumes (January 2019–January 2025)



Source of basic data: PSA OpenStat Database.

FIGURE 5. Historical total rice stocks (2017–2025)



Source of basic data: PSA OpenStat Database.

From the Bureau of Customs’ import transaction data available since 2021, concentration ratios for the top four and top eight firms have stagnated at around 19 percent and 32 percent, respectively, despite enacted reforms to liberalize imports. Similarly, the Herfindahl-Hirschman Index remained around the 223 to 229 range in the past five years.³ Looking at PSA’s List of Establishments for 2023, data from

³ However, it should be noted that the import transactions data do not provide sufficiently detailed information on the potential cross-ownership structures of firms. If the largest firms are ultimately controlled by the same set of owners, the concentration ratios may understate the true degree of market concentration.

2021 and 2018 show a significant decrease in dedicated grain warehouses—from 106 in 2018, to 45 in 2021, and only 19 in 2023. This aligns with the downward trend in total rice stocks since 2016 (Figure 5). Another possible factor could be production shocks caused by El Niño and La Niña, which led to unexpected rice shortages. The Department of Agriculture reported a decline of around one to 1.2 million metric tons in rice production due to climate-related phenomena during this period. Lastly, we cannot rule out the possibility that uncertainty surrounding trade policies—both international (such as the Indian export ban) and domestic (including periodic tariff reviews)—may have discouraged market players from stockpiling additional rice.

4. Methods

To examine the drivers of domestic rice price dynamics, we estimate a Vector Error Correction Model (VECM) and its Structural Vector Autoregressive (SVAR) representation. This framework allows us to capture both long-run equilibrium relationships and short-run adjustments among key variables, including retail, wholesale, and farmgate prices, landed import costs, import volumes, and total rice stocks. We compile monthly data from January 2004 to March 2025 (Table 1).

Given that approximately 80 to 90 percent of imports are from Vietnam and Thailand (Figure 6), landed costs are calculated using international rice prices (Vietnam and Thailand, five percent broken), converted to Philippine pesos, and adjusted for prevailing tariff rates. The tariff adjustments incorporated across various EOs are listed in Annex 1. Additional controls include fuel and fertilizer prices, as well as a precipitation anomaly index to capture climate-related shocks.

Generally, in a VECM framework, the variables are assumed to be integrated of order one and cointegrated, reflecting both short-term dynamics and long-term equilibrium relationships [Pfaff 2008]. A VECM model is proper if the variables of interest, $Y_t = (y_{1,t}, \dots, y_{K,t})$, are generated by a cointegrated process driven by a common stochastic trend, or some long-run relationship $\beta'Y_t = \beta_1 y_{1,t} + \dots + \beta_K y_{K,t} = z_t$, where z_t is a stationary stochastic variable representing deviations from the long-run equilibrium. This means that some linear combination of the variables is stationary, and the variables move together stably over time. If such a vector β_i exists, then the variables Y_t are cointegrated. If r such β_i vectors exist, we say that Y_t is generated by a cointegrated process with cointegrating rank r , and the matrix $\beta = (\beta_1, \dots, \beta_r)$ is called the cointegrating matrix [Lütkepohl 2005]. The importance of this cointegrated process lies in its ability to model and detect long-run relationships between non-stationary variables through a linear combination of the variables of interest. This linear combination is stationary, which enables us to address the non-stationarity of the individual time series and avoid spurious regressions.

TABLE 1. Summary statistics

Variable	Mean	Median	Max	Min	SD
Regular Milled Retail Price (in ₱/kg) ¹	34.34	36.56	51.25	17.77	8.28
Regular Milled Wholesale Price (in ₱/kg) ²	31.27	33.37	47.69	16.31	7.34
Other Palay Farmgate Price (in ₱/kg) ³	16.10	16.71	25.17	8.53	3.57
Volume of Imports (in thousand metric tons) ⁴	172.17	154.00	645.98	0.00	142.86
Landed Costs (in ₱/kg) ⁵	28.77	27.44	54.16	17.14	6.61
Total Rice Stocks (in thousand metric tons) ⁶	2,277.38	2,251.90	3,908.00	1,135.80	546.06
Average Fuel Price (in ₱) ⁷	44.84	43.99	85.97	19.36	11.81
Average Fertilizer Price (in ₱) ⁸	21.06	18.75	43.99	10.94	6.97
Philippine rice-weighted Estimated Precipitation Anomaly (EPA) ⁹	7.49	7.70	15.81	0.96	3.21

Note:

1-4. PSA OpenStat Database for Domestic Rice Prices, Volume of Imports, and Total Rice Stocks

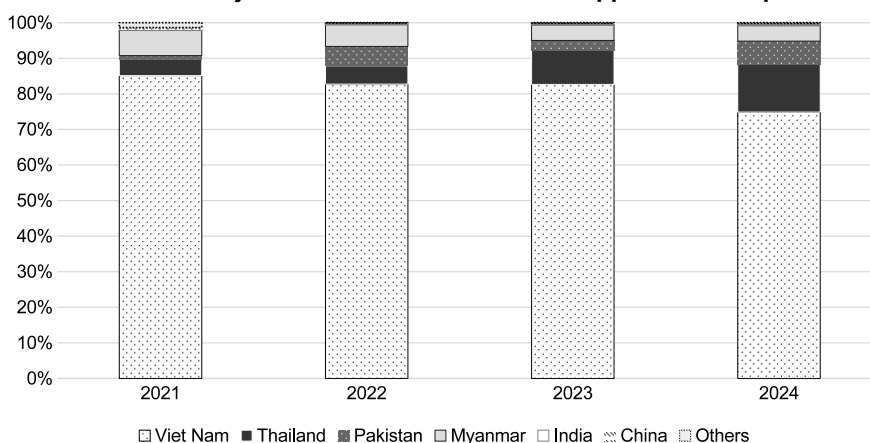
5. Landed Cost was computed from the average of Vietnam and Thailand (five percent broken) international rice prices from the World Bank Commodities Price Dataset converted to Philippine Peso using exchange rate data from the Bangko Sentral ng Pilipinas (BSP).

6. Climate data for the estimated precipitation anomaly was gathered from UN-FAO's Agricultural Stress Index System (ASIS) dataset. To get a national average, each region's EPA was weighted by the contribution of that region to total national palay production.

7. The monthly average fuel price was computed from the average of weekly domestic prices for diesel and unleaded gasoline reported by the Department of Energy

8. The monthly average fertilizer price was computed from the average of domestic prices for urea, ammonium phosphate, complete fertilizer, and ammonium sulfate, using data from the Fertilizer and Pesticide Authority and the PSA's Weekly Cereals and Fertilizer Price Monitoring.

9. Climate data for the estimated precipitation anomaly was gathered from UN-FAO's Agricultural Stress Index System (ASIS) dataset. To get a national average, each region's EPA was weighted by the contribution of that region to total national palay production.

FIGURE 6. Major source countries of the Philippines' rice imports

Source of basic data: Bureau of Customs.

Thus, we first test for stationarity using the Augmented Dickey-Fuller (ADF) test and then test for cointegration using the Johansen trace test to determine the optimal lag length based on the Final Prediction Error (FPE) criterion. If all variables are found to be integrated of order one, $I(1)$, and exhibit cointegration, then the use of a VECM framework is justified.

We model the following VECM to study the relationships between domestic prices at various market levels (wholesale, retail, and farmgate), total rice stocks, import volume, and tariff-adjusted international prices (landed cost) shown in Equation (1):

$$\Delta Y_t = \begin{bmatrix} \Delta \text{Rice Stocks} \\ \Delta \text{Imports} \\ \Delta \text{Wholesale Price} \\ \Delta \text{Retail Price} \\ \Delta \text{Farmgate Price} \\ \Delta \text{Landed Cost} \end{bmatrix} = \mu + \Gamma_1 \Delta Y_{t-1} + \dots + \Gamma_{p-1} \Delta Y_{t-p+1} + \Pi Y_{t-1} + \Psi X_t + \varepsilon_t, \quad (1)$$

where $\Pi = \alpha\beta'$, α is the loading matrix, which determines the speed of adjustment of the variables back to the long run equilibrium, $\Gamma_i = -(\Pi_{i+1} - \dots - \Pi_p)$ are the $(K \times K)$ short-run coefficient matrices. The matrix X_t includes exogenous variables such as fuel and fertilizer prices, as well as seasonal dummies. A weighted average of the country's Estimated Precipitation Anomaly (EPA), which measures how current rainfall conditions deviate from the long-run average with lower values coinciding with drought periods, was included to take into account the potential impact of climate phenomenon. The optimal lag length p was chosen based on the lag order that would minimize the final prediction error (FPE).

A VECM models the variables in differences and has a VAR representation at the levels in the form of Equation (2):

$$Y_t = \mu + A_1 Y_{t-1} + \dots + A_K Y_{t-p} + \Psi X_t + u_t, \quad (2)$$

where $A_1 = \Pi + I_K + \Gamma_1$, $A_i = \Gamma_i - \Gamma_{i-1}$, $A_p = \Gamma_{p-1}$, and $u_t = B\varepsilon_t$. We then use this representation to model a structural VAR to identify shocks through impulse response analysis by using non-sample information to impose restrictions on the B matrix and generate unique impulse response functions. Typically, these restrictions take the form of long-run or short-run restrictions based on economic theory. However, the passage of the RTL provides us with an opportunity to implement a data-driven approach to identifying a unique B matrix and avoid potentially biasing the results of the decomposition depending on the theory adopted. We implement a method proposed by Rigobon [2003] to identify structural shocks through changes in volatility at known points in time. We take advantage of the change in volatility caused by the RTL; in particular imports exhibited much lower volatility post-RTL (Annex 6). Hence, the reduced form covariance matrix takes the form of Equation (3):

$$E(u_t u_t') = \begin{cases} \Sigma_1, & \text{for } t < \text{March 2019} \\ \Sigma_2, & \text{for } t > \text{March 2019} \end{cases} . \quad (3)$$

Following estimation and identification of the SVAR, we conduct post-estimation dynamic analysis. Specifically, we generate impulse response functions (IRFs) to trace the temporal effects of structural shocks and perform historical decomposition to quantify the contribution of each shock to observed price movements over time, following standard approaches in the SVAR literature (see Kilian [2009]; Hausman et al. [2012]; Jin et al. [2012]; Wang et al. [2014]; and Wang et al. [2022]). IRFs trace the effect of a one-time shock to one variable—such as a sudden increase in wholesale prices—on the behavior of other variables over time, showing both the direction and duration of the response. The IRFs are generated from the coefficient matrices of the moving average representation of the SVAR model. Then, we generate a historical decomposition by mapping a sequence of shocks that replicates the movement of the time series. That is, mapping for each of the variables y_j (i.e., imports, stocks, etc.) and y_k (i.e., retail and farmgate prices) in Y_t , the contribution of a shock in variable j at time t , ε_{jts} to variable k is given in Equation (4):

$$Y_t = \Phi^t Y_0 + \sum_{i=0}^{t-1} \Phi_{kj}^i B \varepsilon_{j,t-i} . \quad (4)$$

We use historical decomposition to assess the sources of price rigidities in retail and farmgate rice markets. Under perfectly competitive market conditions, shocks to landed costs should be the primary drivers of price fluctuations at both the retail and farmgate levels, consistent with the law of one price. In the historical decomposition, this would be reflected by landed-cost shocks contributing the largest share of price movements. However, if structural barriers impede price transmission, import shocks may account for a larger share of changes in retail and farmgate prices. If speculative behavior or hoarding is prevalent, shocks to rice stocks may emerge as the dominant drivers of price movements. Conversely, if market intermediaries possess sufficient market power to influence profit margins, shocks originating from wholesale and retail prices should play a larger role in explaining changes in retail and wholesale prices.

For robustness checks, we use a Chow test to identify potential breakpoints in the import time series caused by liberalization reforms. We compute the F-statistics for all possible breakpoints in the series, and the findings are shown in Annex 7. The Chow test results indicate a potential breakpoint in May 2018, where the F-statistic peaks; therefore, we set the structural break in May 2018 and proceed to generate the IRFs and historical decomposition.

5. Results and discussion

5.1. Model diagnostics and specification

The ADF test in Table 2 indicates that all variables have unit roots and are non-stationary in their level form but become stationary upon first differencing. By identifying whether variables require transformation before modeling, the ADF test ensures that the analysis yields meaningful and reliable results, especially when used to inform policy decisions or to understand macroeconomic trends. Since the results show that the variables are integrated of order one, $I(1)$, we proceed with the Johansen test to examine whether the variables are cointegrated.

TABLE 2. Augmented Dickey Fuller unit root tests

Variable	Deterministic Terms	Lags	Test Value	Critical Values		
				1%	5%	10%
Farmgate	Constant, Trend	12	-2.09	-3.98	-3.42	-3.13
Δ Farmgate	Constant	11	-4.40	-3.98	-3.42	-3.13
Wholesale	Constant, Trend	2	-2.76	-3.98	-3.42	-3.13
Δ Wholesale	Constant	5	-8.07	-3.44	-2.87	-2.57
Retail	Constant, Trend	3	-2.58	-3.98	-3.42	-3.13
Δ Retail	Constant	4	-8.28	-3.44	-2.87	-2.57
Imports	Constant, Trend	11	-1.44	-3.98	-3.42	-3.13
Δ Imports	Constant	10	-9.14	-3.44	-2.87	-2.57
Stocks	Constant, Trend	12	-3.49	-3.98	-3.42	-3.13
Δ Stocks	Constant	11	-3.60	-3.44	-2.87	-2.57

Testing for cointegration, we compute the trace statistic for each null hypothesis from $H_0: r = 0$, that there is no cointegrating relation, up to $H_0: r \leq 5$, that there are less than five cointegration relations. We reject the null hypothesis if the trace statistic is greater than the critical value. The trace statistic indicates that the hypothesis of no-cointegration and there being at most one cointegrating relationship can be rejected at the one percent level of significance as shown in Annexes 3 and 4. However, we cannot reject the null hypothesis that there are at most two ranks of cointegration at the one percent level of significance. After comparing the post-diagnostics tests between $r = 1$ and $r = 2$, the model with one cointegrating rank adequately addresses the issue of serial correlation. Hence, we proceed with a VECM model with cointegrating rank $r = 1$. In order to get the optimal lag order p , we compute the FPE of the model across $p = 1, \dots, 12$ lags, and we get the lag order that minimizes the FPE (i.e., $p = 5$, see Annex 5). The results of the VECM regressions are presented in Annex 2.

5.2. Long-run relationships and price transmission

The estimated cointegrating relationships indicate a weak transmission of international price movements to domestic rice markets. Normalizing on landed costs, the results suggest that a one percent increase in landed import costs leads to only a 0.08 to 0.09 percent increase in retail and farmgate prices. This limited pass-through provides initial evidence of price rigidity, indicating that domestic prices do not fully adjust to changes in global market conditions.

This finding is inconsistent with the predictions of standard trade theory in competitive markets, where price changes at the border are expected to be transmitted more strongly along the supply chain. Instead, the results point to frictions or distortions that dampen this transmission.

$$\begin{aligned}
 &Landed\ Cost - 3.22\ Rice\ Stock - 0.83\ Imports + 0.63\ WS \\
 &\qquad\qquad\qquad (0.16) \qquad\qquad\qquad (1.31) \qquad\qquad\qquad (0.03) \\
 &Price + 10.47\ Retail\ Price - 11.11\ Farmgate\ Price = 0 \qquad\qquad\qquad (5) \\
 &\qquad\qquad\qquad (0.45) \qquad\qquad\qquad (0.49)
 \end{aligned}$$

5.3. Impulse response analysis

Figures 7 and 8 present the impulse response functions (IRFs), which trace the dynamic effects of structural shocks across the rice value chain. The first row shows the response of international prices (landed cost), the second row displays the response of total rice stocks, the third row presents the response of imports, and the bottom three rows illustrate the responses in the wholesale, retail, and farmgate markets.

The first column depicts the impulse response to a shock in landed cost (Figure 7). Shocks to landed costs generate positive but relatively modest and short-lived increases in domestic prices at the wholesale, retail, and farmgate levels (Panels j, m, and p). The muted response confirms incomplete pass-through and suggests that international price movements are not the primary driver of domestic price dynamics. In contrast, in the third column, shocks to domestic supply conditions—particularly imports—produce larger and more persistent effects. A positive shock to imports leads to sustained declines in prices across all market levels (Panels l, o, and r). These findings highlight the central role of domestic supply adjustments in shaping price outcomes.

Notably, shocks originating from within the domestic supply chain (Figure 8)—especially wholesale (Panels j, m, p) and farmgate prices (Panels l, o, r)—also have strong and persistent effects on both retail and farmgate prices. This suggests that price formation is influenced more by internal market dynamics than by external cost conditions. Taken together, the IRFs indicate that domestic price movements are more responsive to supply-side constraints and intermediary behavior than to changes in landed import costs.

FIGURE 7. Impulse Response Functions for landed costs, total stocks, and imports

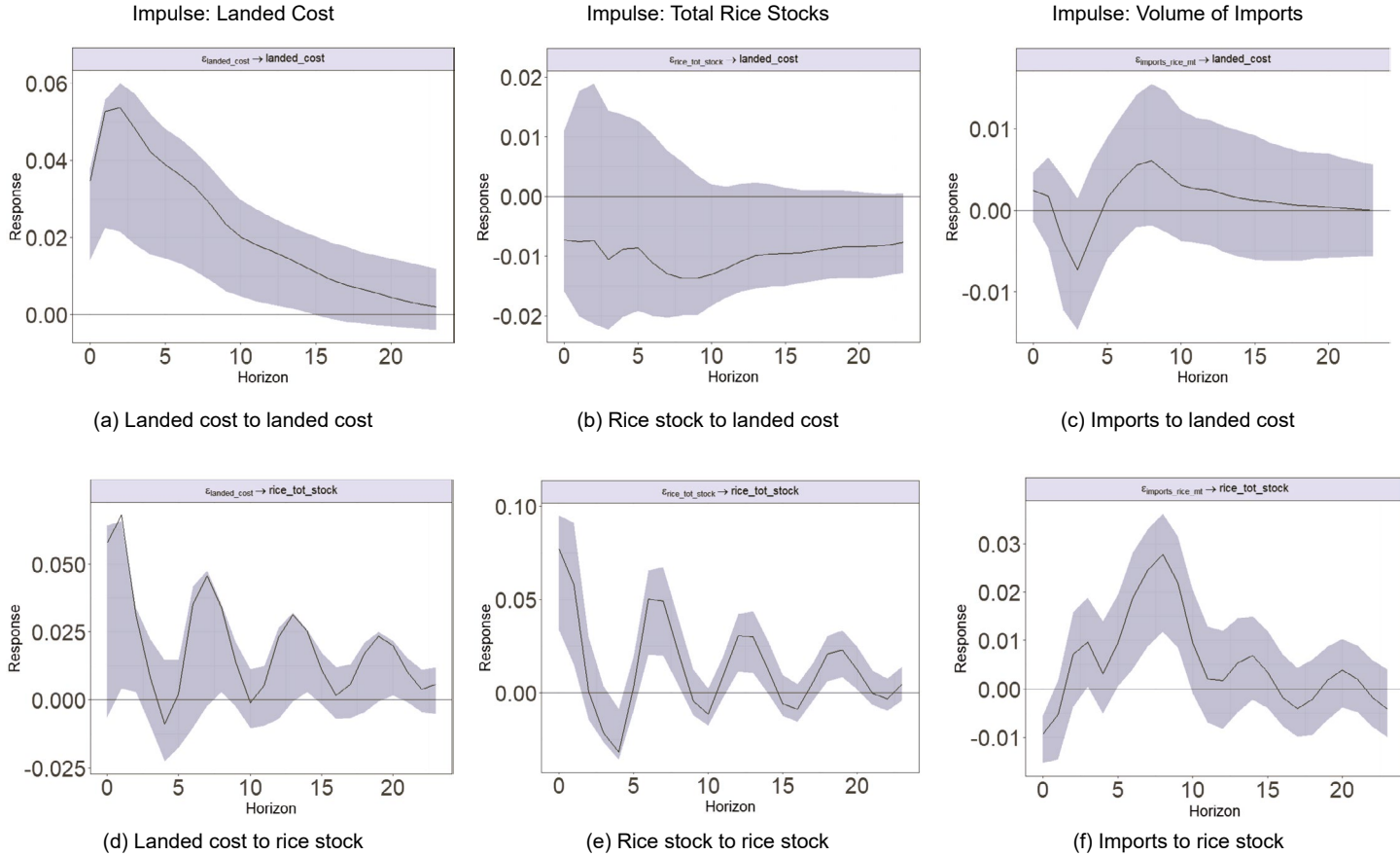
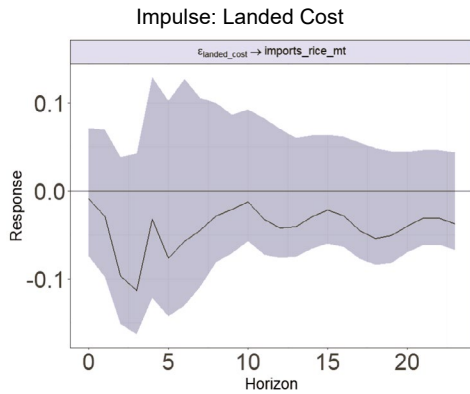
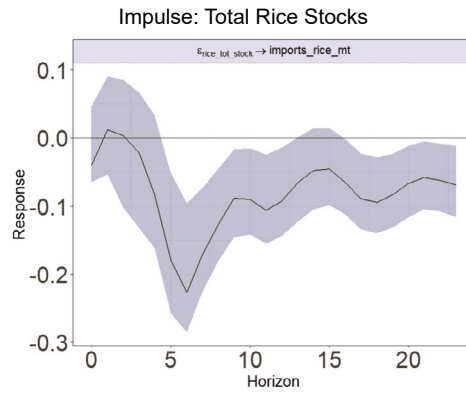


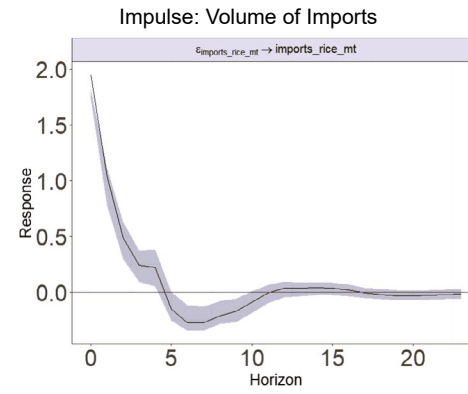
FIGURE 7. Impulse Response Functions for landed costs, total stocks, and imports (continued)



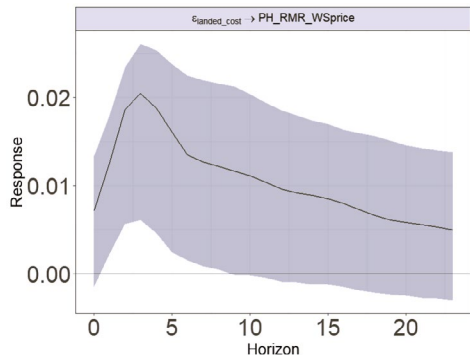
(g) Landed cost to imports



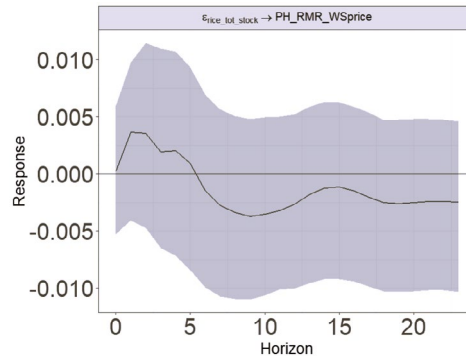
(h) Rice stock to imports



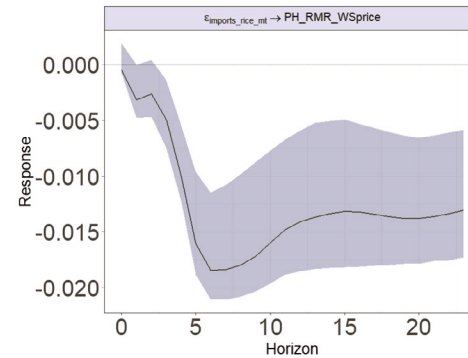
(i) Imports to imports



(j) Landed cost to wholesale price



(k) Rice stock to wholesale price



(l) Imports to wholesale price

FIGURE 7. Impulse Response Functions for landed costs, total stocks, and imports (continued)

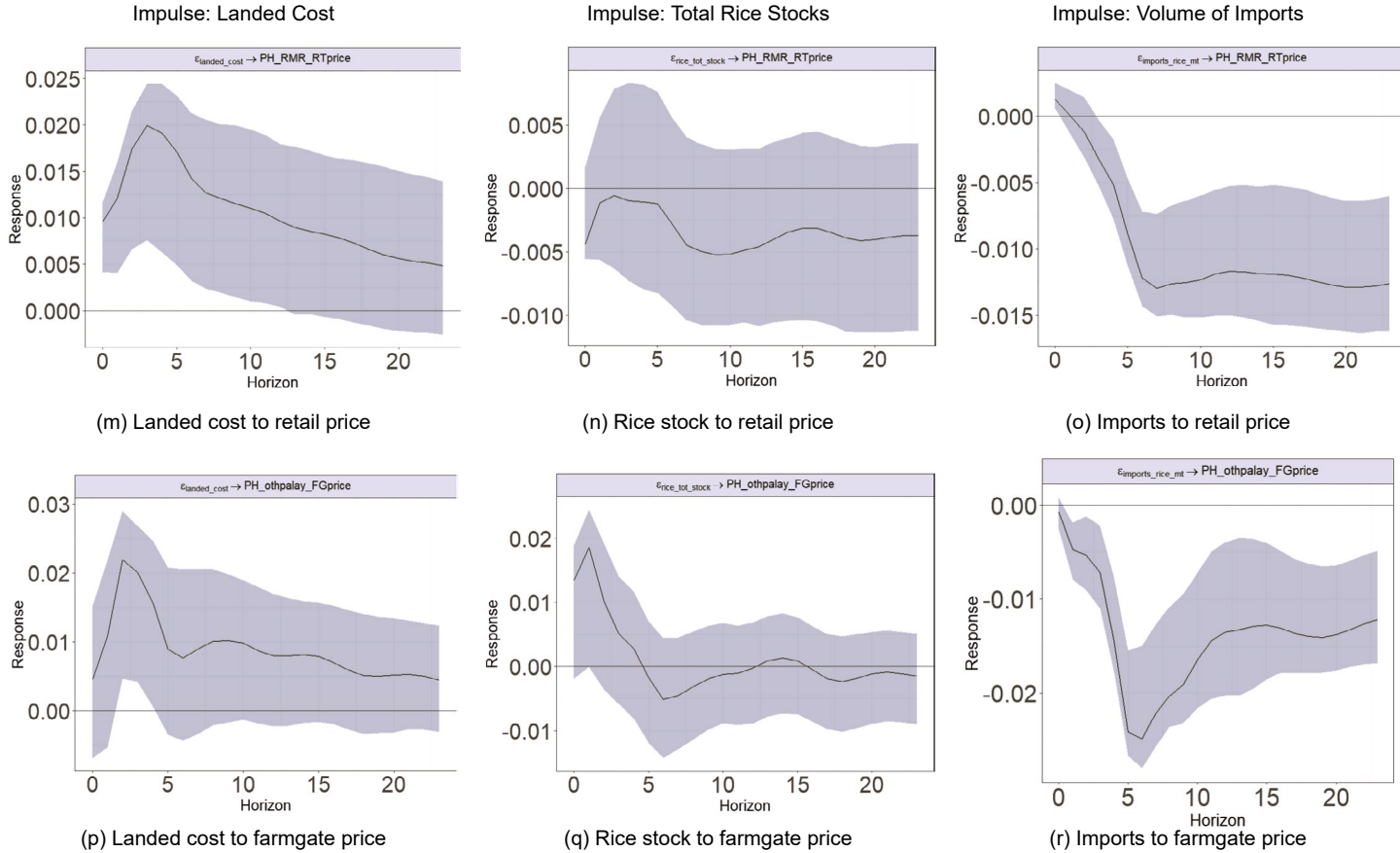


FIGURE 8. Impulse Response Functions for wholesale, retail, and farmgate prices

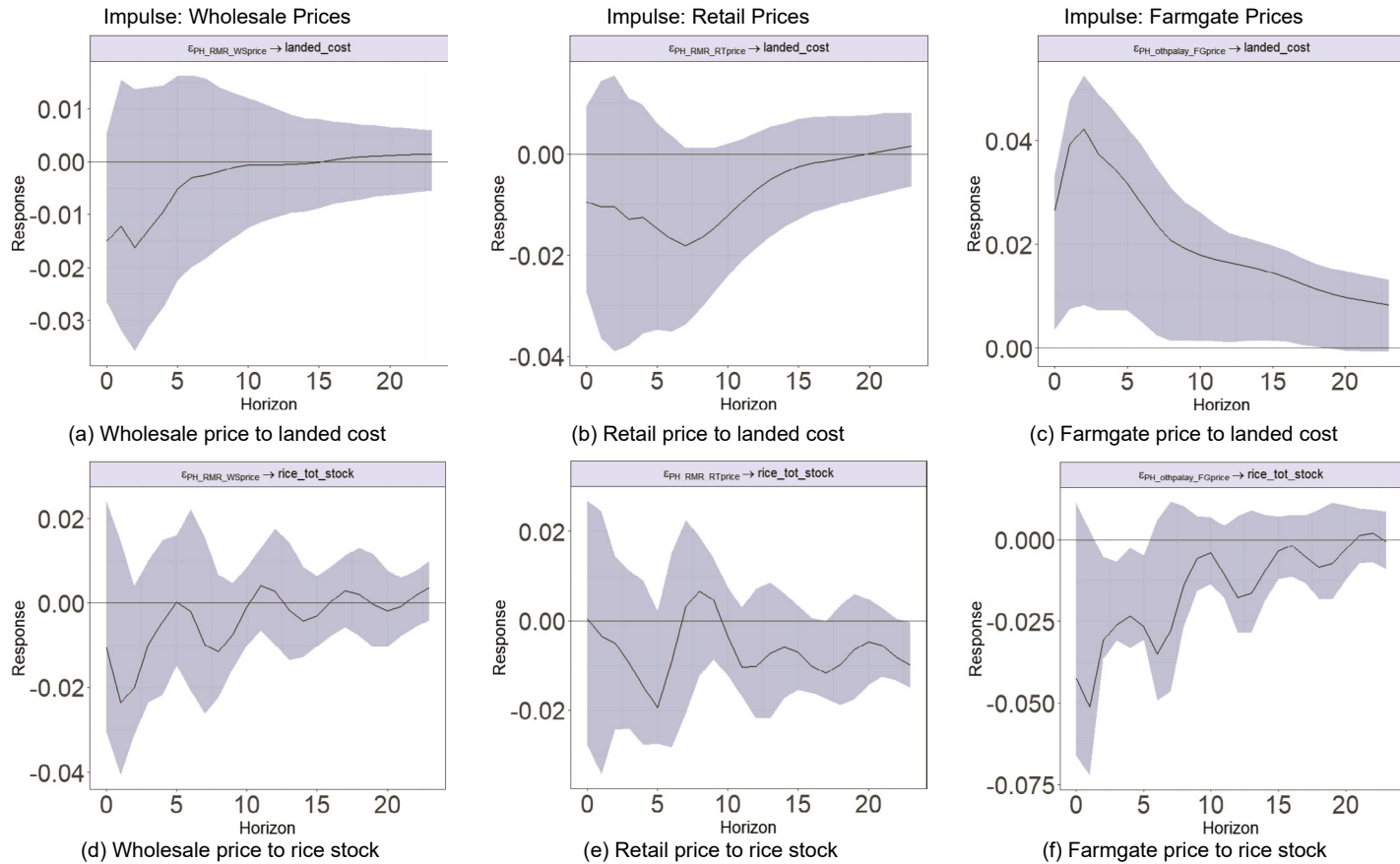
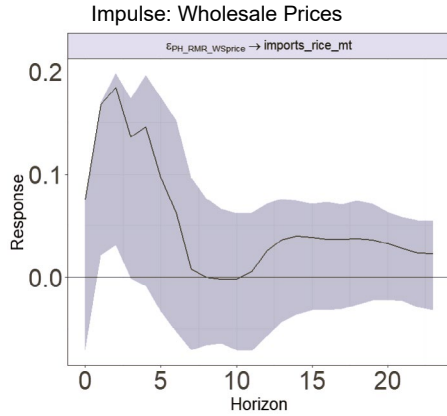
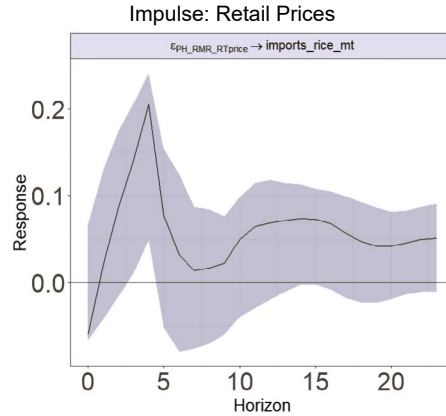


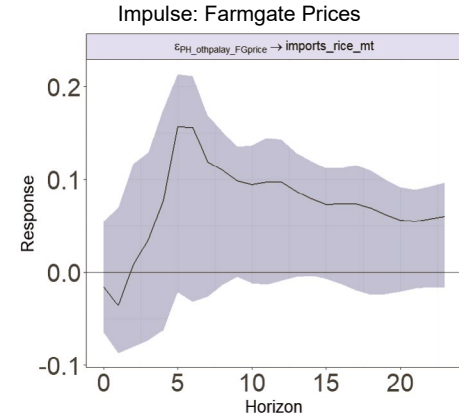
FIGURE 8. Impulse Response Functions for wholesale, retail, and farmgate prices (continued)



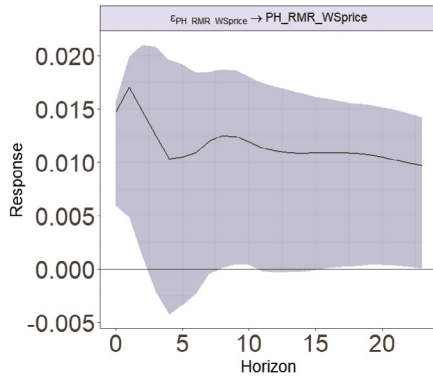
(g) Wholesale price to imports



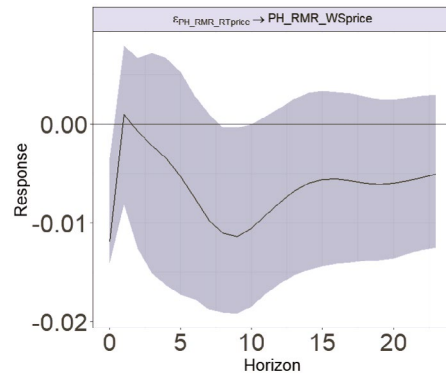
(h) Retail price to imports



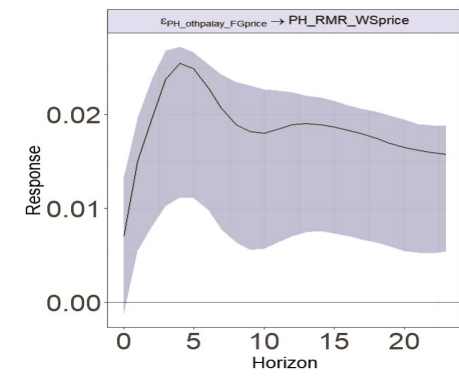
(i) Farmgate price to imports



(j) Wholesale price to wholesale price

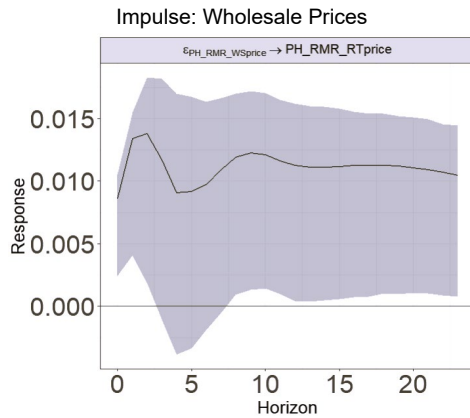


(k) Retail price to wholesale price

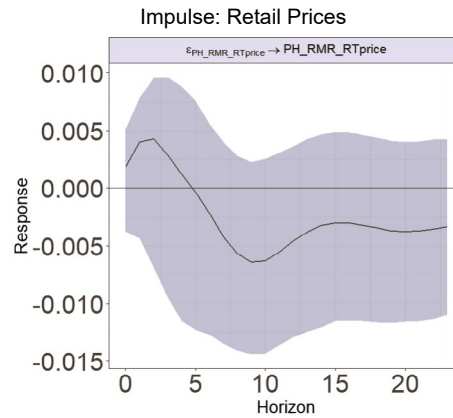


(l) Farmgate price to wholesale price

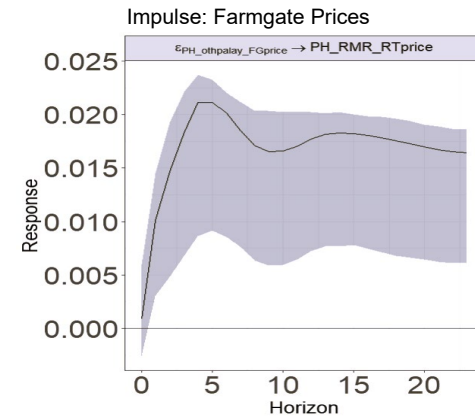
FIGURE 8. Impulse Response Functions for wholesale, retail, and farmgate prices (continued)



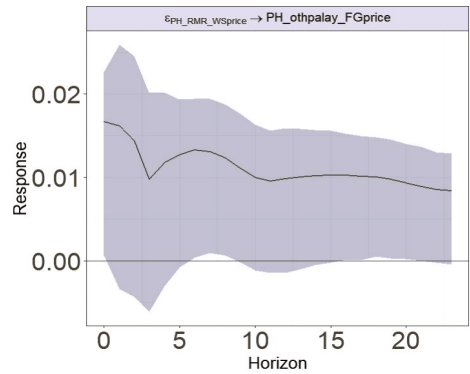
(m) Wholesale price to retail price



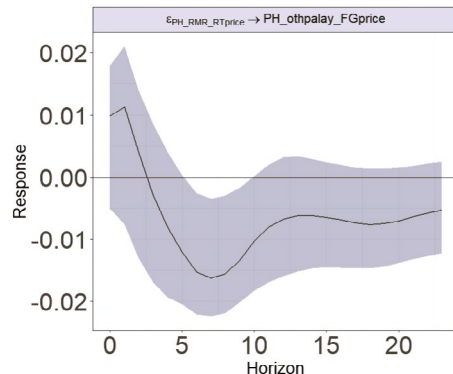
(n) Retail price to retail price



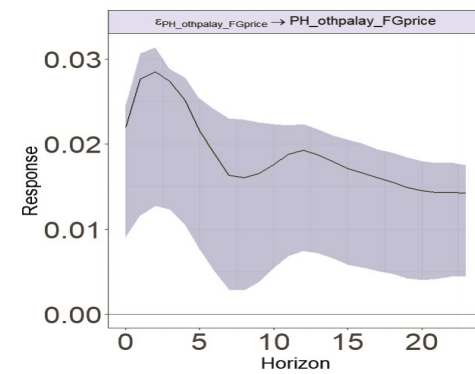
(o) Farmgate price to retail price



(p) Wholesale price to farmgate price



(q) Retail price to farmgate price

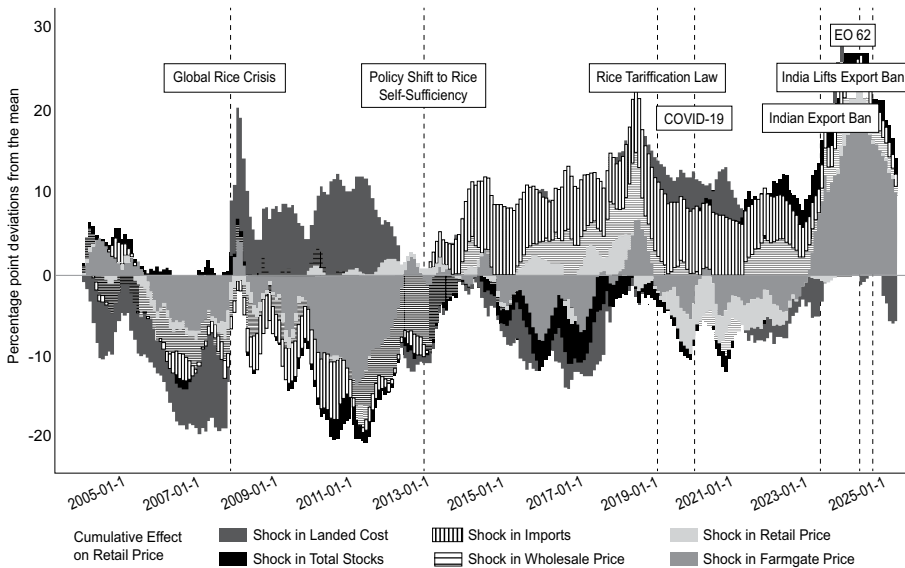


(r) Farmgate price to farmgate price

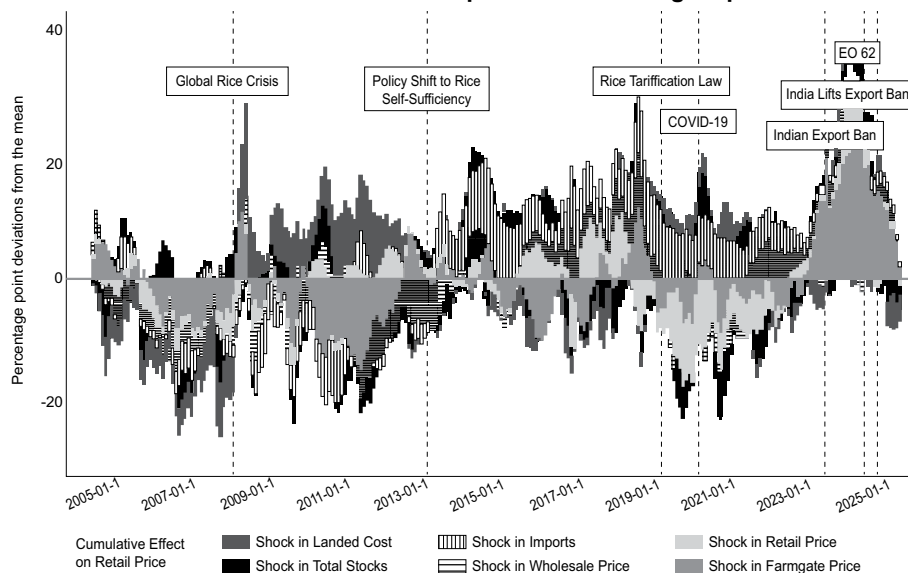
5.4. Historical decomposition

To further examine the sources of price fluctuations, we analyze the historical decomposition of retail and farmgate prices. This approach allows us to quantify the contribution of different structural shocks over time. Figures 9 and 10 present these decompositions for retail and farmgate prices, respectively, providing insight into the key drivers behind price fluctuations over the study period. The vertical axis plots percentage-point deviations from the long-run unconditional mean of the series. Positive vertical bars indicate that a variable contributes to an inflationary pressure on domestic prices, while negative vertical bars indicate that the variable contributes to a deflationary pressure on domestic prices.

FIGURE 9. Historical decompositions for retail prices



The historical decomposition of domestic rice prices closely aligns with the trend in import volumes, driven by trade policy decisions made by various administrations (see Annex 6). For example, during the 2008 Rice Crisis, when rice prices rose more than 20 percent above their long-term average, the Philippines responded by importing over two million metric tons of rice between 2008 and 2013. Recall that the IRFs show that a positive shock in imports tends to lower domestic prices (Figure 7, Panels l, o, and r). As shown in Figure 9, rice importation (represented by the vertical white bars) played a key role in preventing retail prices from rising further. Specifically, imports helped offset upward pressure from rising landed costs (dark gray bars) following the 2008 crisis. This underscores the critical role of timely import policies as a tool for stabilizing domestic food prices during periods of global price volatility.

FIGURE 10. Historical decompositions for farmgate prices

In response to concerns about the negative impact of import dependence on domestic farmgate prices, the Philippine government adjusted its strategy around the beginning of 2013, pursuing rice self-sufficiency by imposing quantitative import restrictions enforced by the NFA. As a result of these protectionist policies, adverse shocks to imports began to put upward pressure on retail and farmgate prices, and the decomposition showed that positive shocks to wholesale (horizontal striped bar in Figures 9 and 10) and farmgate prices (mid gray bars in Figures 9 and 10) also played a major role in raising domestic rice prices leading into 2018. However, favorable dynamics in total rice stocks and landed costs helped ease inflationary pressures stemming from trade restrictions. The historical decomposition indicates that positive shocks in total rice stocks lowered retail prices, peaking around late 2016 to early 2017, when they contributed to a reduction of 5.87 to 6.07 percentage points in retail prices (black bars in Figure 9). At the same time, negative shocks in landed costs from falling world prices (see Figure 1) contributed to a reduction of approximately 3.35 to 4.66 percentage points in retail prices (see the dark gray bars in Figure 9). These favorable dynamics did not last; from around 2018 to early 2019, the deflationary impact of landed costs and total rice stocks began to diminish, falling to 0.13 to 1.14 percentage points (dark gray bars in Figure 9) and 0.05 to 1.55 percentage points (black bars in Figure 9), respectively. Combined with sudden adverse shocks in imports and positive shocks in domestic prices, rice prices began to rise rapidly above the long-term average. This period of rice inflation spurred the passage of the Rice Tariffication Law, an effort to strengthen competition among domestic producers by removing quantitative import restrictions.

Interestingly, based on the results of the historical decomposition, the shortfall in imports continued to drive above-average retail (vertical white bars in Figure 9) and farmgate prices (vertical white bars in Figure 10) despite reforms initiated by the RTL. Several factors could have limited imports during the post-RTL period from 2019 to 2023, including climate phenomena such as El Niño and La Niña, as well as disruptions from the COVID-19 pandemic, which may have restricted access to rice supply from international markets. Similarly, multiple reports indicate that the Sanitary and Phytosanitary Import Clearance (SPSIC) was used to block the entry of rice imports, bypassing the liberalization reforms enacted by the RTL [Office of the United States Foreign Trade Representative 2024].

After 2023, the distortionary effects of import shocks have diminished post-implementation of the RTL, from contributing to a seven to ten percent percentage point increase during past rice crises pre-RTL to only an additional one to three percent percentage point increase in the recent crisis. But alarmingly, shortfalls in total stocks and shocks to farmgate prices played a more significant role in the recent 2023-2024 Rice Crisis. The historical decomposition in Figure 9 shows that negative shocks to imports and total rice stocks, as well as positive shocks in farmgate prices, caused retail prices to rise by an additional 26.82 percentage points (the sum of the black, vertical white, and medium gray bars in Figure 9) around the peak of the crisis, in mid-2024, just before the enactment of EO No. 62.

The robustness check results are displayed in Annex 8 and 9. These findings are consistent with the base model, but shocks to total rice stocks have a more significant impact. The historical decomposition in Annex 9 shows that negative shocks to imports and total rice stocks caused retail prices to rise by an additional 20.55 percentage points (the sum of the black and white bars in Annex 9) around the peak of the crisis, in mid-2024, just before the enactment of EO No. 62. Had these shocks not occurred, the crisis would have been limited to only a 10.70 percentage point deviation from the unconditional mean, rather than the historically high 31.25 percentage point deviation seen in the market.

5.5. Evidence of structural rigidities

Taken together, the results point to a consistent pattern: domestic rice prices in the Philippines are only weakly linked to international prices and are instead driven primarily by internal market conditions.

The limited pass-through of landed costs, combined with the strong influence of wholesale prices, inventory shocks, and import dynamics, suggests structural rigidities in the rice market. These may arise from logistical constraints, such as limited storage capacity, as well as from market structure issues, including concentration among traders and weak competitive pressures.

The prominence of wholesale price shocks is particularly indicative of the role of intermediaries in shaping price dynamics. If market intermediaries can adjust margins or influence supply conditions, they can weaken the transmission of cost reductions to consumers.

Similarly, the significant role of stock-related shocks points to inefficiencies in inventory management and possible speculative behavior, which can amplify price volatility and delay adjustment to favorable supply conditions.

These findings help explain why tariff reductions have not translated into sustained consumer gains. While trade liberalization has reduced border prices, the benefits have not been fully passed through to retail markets. Instead, domestic supply constraints and market structure appear to mediate price transmission. In this context, tariff policy alone is insufficient to ensure lower consumer prices. Without addressing underlying structural and competitive constraints, reductions in import costs may continue to yield only limited and delayed benefits for consumers.

6. Concluding remarks

This paper set out to explain why domestic rice prices in the Philippines have remained high despite declining global prices and the liberalization of rice trade under the Rice Tariffication Law (RTL). Using a Structural Vector Autoregressive (SVAR) framework and historical decomposition, we traced the cumulative effects of shocks to key variables—including imports, total rice stocks, landed costs, and domestic prices—over the past two decades.

Our findings indicate that while the influence of import-related shocks has weakened in the post-RTL period—albeit with some delay—domestic price volatility persists. This persistence is driven largely by shocks to total rice stocks, pointing to continuing weaknesses in domestic supply chains. Constraints such as inadequate storage infrastructure, fragmented logistics, and weak inventory management systems continue to generate supply disruptions that undermine price stability.

More importantly, the results point to a deeper and more persistent constraint: limited market competition. Despite increased importation and declining landed costs, the pass-through to retail prices remains minimal and delayed. This directly addresses the central question of the paper—why tariff reductions have not translated into sustained consumer gains. Historical decomposition shows that shocks to imports, stocks, and farmgate prices continue to dominate price dynamics, suggesting that adjustments along the supply chain are neither smooth nor fully competitive.

These patterns are consistent with a market environment where limited contestability and the presence of dominant intermediaries weaken price transmission. Practices such as hoarding, strategic inventory management, or

coordinated behavior among traders may allow market participants to retain gains from lower import costs rather than pass them on to consumers. In this context, trade liberalization alone is insufficient: when market structure enables the exercise of pricing power, policy-induced cost reductions do not automatically translate into lower retail prices.

Policy uncertainty may further exacerbate these outcomes. Frequent adjustments in tariff rates or discretionary import decisions can create incentives for speculative behavior, reduce transparency, and amplify information asymmetries as well as market distortions. As a result, the benefits of RTL risk unequal distribution, favoring larger, better-positioned market participants while leaving consumers, particularly poorer households, exposed to persistently high food prices.

Addressing these challenges requires a broader policy response that goes beyond trade liberalization. Strengthening competition and market governance is essential. This includes enhancing the Philippine Competition Commission's capacity to detect, investigate, and prosecute anti-competitive practices using evidence that meets judicial standards. Improving transparency in rice markets—particularly through better monitoring and public reporting of inventory levels across both public and private sectors—can reduce information asymmetries, discourage speculative behavior, and support more timely policy interventions. Existing data systems of the NFA and the PSA can be further developed for this purpose.

At the same time, continued investment in storage, logistics, and distribution infrastructure remains critical to addressing supply-side inefficiencies. Allocating RTL funds to modernize storage facilities and improve supply chain connectivity—especially in remote rice-producing areas—can help stabilize inventories and reduce localized supply shocks. Complementing these efforts with clear, rules-based trade policies is equally important. Transparent and predictable tariff and import regimes can reduce uncertainty, limit opportunities for arbitrage, and support more efficient market functioning. Where seasonal tariff adjustments are used, they should follow pre-announced, rule-based frameworks to minimize policy-induced volatility.

Ultimately, the findings point to a broader conclusion: stabilizing food prices requires more than opening markets—it requires making markets work. Consistent with Ravago et al. [2024], effective price stabilization depends on a comprehensive reform agenda that strengthens institutions, improves infrastructure, and, crucially, promotes genuine competition in the rice sector. Without these complementary measures, tariff reductions alone are unlikely to deliver sustained and equitable gains for consumers.

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Annexes

ANNEX 1. Rice tariff adjustments implemented in the study

Executive Order No.	Periods covered in the study	MFN tariff rate for ASEAN and in-quota
264(s. 2003)	January 2004 to December 2005	50
574(s. 2006)	January 2006 to June 2007	50
627(s. 2007)	July 2007 to December 2014	40
894 (s. 2010)	Superseded by EO No. 71(s. 2012)	-
61(s. 2011)	January 2011 to December 2014	40
71(s. 2012)	January 2015 to September 2015	50
190 (s. 2015)	November 2015 to April 2017	35
23(s. 2017)	May 2017 to February 2019	35
	March 2019 to May 2021	35
135(s. 2021)	June 2021 to June 2022	35
171(s. 2022)	July 2022 to December 2023	35
10(s. 2023)	January 2023 to December 2023	35
50(s. 2023)	January 2024 to June 2024	35
62(s. 2024)	July 2024 to March 2025	15

Source: Tariff Commission List of Executive Orders.

ANNEX 2. VECM regressions summary table

Term	$\Delta \ln \ln$ (Landed Cost)	$\Delta \ln \ln$ (Stocks)	$\Delta \ln \ln$ (Imports)	$\Delta \ln \ln$ (Wholesale PHP)	$\Delta \ln \ln$ (Retail PHP)	$\Delta \ln \ln$ (Farmgate PHP)
ect1	-0.003 (0.004)	-0.009 (0.006)	0.774*** (0.107)	0.005*** (0.002)	0.000 (0.001)	0.007*** (0.003)
constant	0.008 (0.01)	-0.017 (0.016)	-0.11 (0.279)	0.002 (0.004)	0.003 (0.003)	0.000 (0.007)
<i>PH rice weighted EPA</i>	0.38*** (0.109)	-0.141 (0.181)	1.77 (3.194)	0.017 (0.048)	0.015 (0.032)	0.028 (0.075)
$\Delta \ln \ln(\text{Fertilizer Prices})_t$	-0.062 (0.074)	-0.011 (0.123)	1.574 (2.178)	0.082** (0.032)	0.046** (0.022)	-0.016 (0.051)
$\Delta \ln \ln(\text{Fuel Prices})_t$	-0.23** (0.105)	0.27 (0.175)	0.259 (3.087)	-0.081* (0.046)	-0.046 (0.031)	-0.08 (0.073)
$\Delta \ln \ln(\text{Fertilizer Prices})_{t-4}$	0.099 (0.075)	-0.267** (0.124)	2.039 (2.186)	0.006 (0.033)	0.035 (0.022)	0.101* (0.051)
$\Delta \ln \ln(\text{Fuel Prices})_{t-4}$	0.009 (0.01)	-0.008 (0.016)	-0.231 (0.285)	-0.002 (0.004)	-0.002 (0.003)	-0.006 (0.007)
<i>PH rice weighted EPA</i> _{t-5}	-0.031 (0.024)	-0.1** (0.04)	-1.626** (0.713)	-0.029*** (0.011)	-0.009 (0.007)	-0.032* (0.017)
sd1	-0.043 (0.034)	-0.106* (0.056)	-0.217 (0.981)	-0.035** (0.015)	-0.011 (0.01)	-0.061*** (0.023)
sd2	-0.005 (0.033)	-0.103* (0.054)	0.04 (0.96)	-0.025* (0.014)	-0.007 (0.01)	-0.06*** (0.023)
sd3	0.021 (0.028)	0.11** (0.047)	0.326 (0.822)	-0.009 (0.012)	0.002 (0.008)	-0.035* (0.019)
sd4	-0.001 (0.022)	0.038 (0.037)	0.458 (0.65)	-0.022** (0.01)	-0.01 (0.007)	-0.024 (0.015)
sd5	-0.004 (0.022)	-0.093** (0.036)	-0.313 (0.642)	-0.019* (0.01)	-0.011* (0.006)	-0.023 (0.015)

ANNEX 2. VECM regressions summary table (continued)

Term	$\Delta \ln \ln$ (Landed Cost)	$\Delta \ln \ln$(Stocks)	$\Delta \ln \ln$(Imports)	$\Delta \ln \ln$ (Wholesale PHP)	$\Delta \ln \ln$ (Retail PHP)	$\Delta \ln \ln$ (Farmgate PHP)
sd6	-0.05 (0.03)	-0.061 (0.05)	-0.75 (0.883)	-0.026* (0.013)	-0.02** (0.009)	-0.072*** (0.021)
sd7	-0.012 (0.033)	-0.191*** (0.055)	0.181 (0.964)	-0.007 (0.014)	-0.004 (0.01)	-0.078*** (0.023)
sd8	0.005 (0.033)	-0.205*** (0.054)	0.298 (0.952)	-0.008 (0.014)	0.002 (0.01)	-0.1*** (0.022)
sd9	0.007 (0.031)	0.097* (0.051)	-0.369 (0.904)	-0.006 (0.013)	-0.002 (0.009)	-0.064*** (0.021)
sd10	0.035 (0.023)	0.206*** (0.037)	-0.174 (0.66)	-0.003 (0.01)	0.007 (0.007)	-0.025 (0.016)
sd11	0.331*** (0.074)	0.153 (0.122)	-3.959* (2.162)	0.04 (0.032)	0.038* (0.022)	0.123** (0.051)
$\Delta \ln \ln$ (Landed Cost) _{t-1}	0.003 (0.043)	-0.118* (0.071)	2.172* (1.26)	0.02 (0.019)	0.000 (0.013)	-0.015 (0.03)
$\Delta \ln \ln$ (Rice Stocks) _{t-1}	-0.004 (0.003)	-0.004 (0.005)	0.161* (0.086)	0.003** (0.001)	0.000 (0.001)	0.003* (0.002)
$\Delta \ln \ln$ (Imports) _{t-1}	-0.057 (0.201)	-0.113 (0.333)	3.138 (5.884)	-0.694*** (0.088)	-0.019 (0.059)	-0.114 (0.138)
$\Delta \ln \ln$ (Wholesale PHP) _{t-1}	0.336 (0.287)	0.947** (0.476)	1.182 (8.403)	0.631*** (0.125)	0.055 (0.084)	-0.129 (0.198)
$\Delta \ln \ln$ (Retail PHP) _{t-1}	0.29** (0.114)	-0.788*** (0.188)	7.613** (3.325)	0.54*** (0.05)	0.351*** (0.033)	0.292*** (0.078)
$\Delta \ln \ln$ (Farmgate PHP) _{t-1}	-0.033 (0.073)	0.014 (0.121)	-0.789 (2.144)	0.088*** (0.032)	0.051** (0.022)	0.147*** (0.05)
$\Delta \ln \ln$ (Landed Cost) _{t-2}	0.027 (0.043)	-0.218*** (0.071)	3.011** (1.255)	0.03 (0.019)	0.01 (0.013)	-0.006 (0.03)

ANNEX 2. VECM regressions summary table (continued)

Term	$\Delta \ln \ln$ (Landed Cost)	$\Delta \ln \ln$ (Stocks)	$\Delta \ln \ln$ (Imports)	$\Delta \ln \ln$ (Wholesale PHP)	$\Delta \ln \ln$ (Retail PHP)	$\Delta \ln \ln$ (Farmgate PHP)
$\Delta \ln \ln$ (Rice Stocks) _{t,2}	-0.004* (0.003)	-0.005 (0.005)	0.187** (0.08)	0.004*** (0.001)	0.001 (0.001)	0.004** (0.002)
$\Delta \ln \ln$ (Imports) _{t,2}	-0.169 (0.228)	-0.453 (0.378)	3.769 (6.683)	-0.387*** (0.1)	-0.012 (0.067)	0.065 (0.157)
$\Delta \ln \ln$ (Wholesale PHP) _{t,2}	-0.469 (0.312)	-0.187 (0.517)	-9.142 (9.128)	0.378*** (0.136)	0.16* (0.092)	0.32 (0.215)
$\Delta \ln \ln$ (Retail PHP) _{t,2}	-0.061 (0.142)	0.018 (0.235)	7.223* (4.153)	0.038 (0.062)	0.007 (0.042)	-0.173* (0.098)
$\Delta \ln \ln$ (Farmgate PHP) _{t,2}	-0.229*** (0.073)	-0.015 (0.12)	-0.658 (2.127)	-0.013 (0.032)	-0.013 (0.021)	-0.013 (0.05)
$\Delta \ln \ln$ (Landed Cost) _{t,3}	0.094** (0.042)	-0.183*** (0.07)	3.719*** (1.241)	0.041** (0.019)	0.026** (0.012)	0.067** (0.029)
$\Delta \ln \ln$ (Rice Stocks) _{t,3}	-0.004 (0.003)	-0.001 (0.004)	0.119 (0.075)	0.003*** (0.001)	0.000 (0.001)	0.005** (0.002)
$\Delta \ln \ln$ (Imports) _{t,3}	0.005 (0.228)	-0.423 (0.378)	9.145 (6.684)	-0.26*** (0.1)	-0.041 (0.067)	0.076 (0.157)
$\Delta \ln \ln$ (Wholesale PHP) _{t,3}	0.061 (0.312)	0.806 (0.517)	-22.388** (9.137)	-0.269** (0.136)	-0.231** (0.092)	-0.629*** (0.215)
$\Delta \ln \ln$ (Retail PHP) _{t,3}	0.268* (0.136)	0.037 (0.226)	7.397* (3.992)	0.213*** (0.06)	0.062 (0.04)	-0.06 (0.094)
$\Delta \ln \ln$ (Farmgate PHP) _{t,3}	0.07 (0.075)	-0.105 (0.124)	-4.974** (2.182)	0.018 (0.033)	0.024 (0.022)	-0.025 (0.051)
$\Delta \ln \ln$ (Landed Cost) _{t,4}	0.019 (0.042)	-0.139** (0.07)	-0.193 (1.236)	0.009 (0.018)	-0.011 (0.012)	0.051* (0.029)
$\Delta \ln \ln$ (Rice Stocks) _{t,4}	0.000 (0.002)	0.000 (0.004)	0.111 (0.068)	0.001 (0.001)	0.000 (0.001)	0.002 (0.002)

ANNEX 2. VECM regressions summary table (continued)

Term	$\Delta \ln \ln$ (Landed Cost)	$\Delta \ln \ln$(Stocks)	$\Delta \ln \ln$(Imports)	$\Delta \ln \ln$ (Wholesale PHP)	$\Delta \ln \ln$ (Retail PHP)	$\Delta \ln \ln$ (Farmgate PHP)
$\Delta \ln \ln(\text{Imports})_{t-4}$	-0.135 (0.195)	-0.673** (0.323)	2.907 (5.704)	-0.136 (0.085)	-0.037 (0.057)	0.107 (0.134)
$\Delta \ln \ln(\text{Wholesale PHP})_{t-4}$	-0.045 (0.259)	1.398*** (0.43)	5.49 (7.588)	0.064 (0.113)	-0.064 (0.076)	-0.221 (0.179)
$\Delta \ln \ln(\text{Retail PHP})_{t-4}$	0.247* (0.13)	-0.475** (0.216)	8.505** (3.809)	0.262*** (0.057)	0.172*** (0.038)	0.246*** (0.09)
$\Delta \ln \ln(\text{Farmgate PHP})_{t-4}$	-0.003 (0.004)	-0.009 (0.006)	0.774*** (0.107)	0.005*** (0.002)	0.000 (0.001)	0.007*** (0.003)
***significant at one percent; **significant at five percent; *significant at ten percent						
Diagnostic Tests				P - value		
Breusch-Godfrey LM Test for Autocorrelation (H_0 : No Autocorrelation)			Lag 1	0.76		
			Lag 2	0.42		
			Lag 3	0.08		
ARCH-LM Test for Heteroskedasticity (H_0 : No Heteroskedasticity)				0.00		

ANNEX 3. Test for cointegration

H_0	Trace Statistic	Critical Values		
		10%	5%	1%
$r \leq 5$	1.81	6.50	8.18	11.65
$r \leq 4$	7.51	15.66	17.95	23.52
$r \leq 3$	19.93	28.71	31.52	37.22
$r \leq 2$	51.69	45.23	48.28	55.43
$r \leq 1$	95.81	66.49	70.60	78.87
$r = 0$	173.43	85.19	90.39	104.20

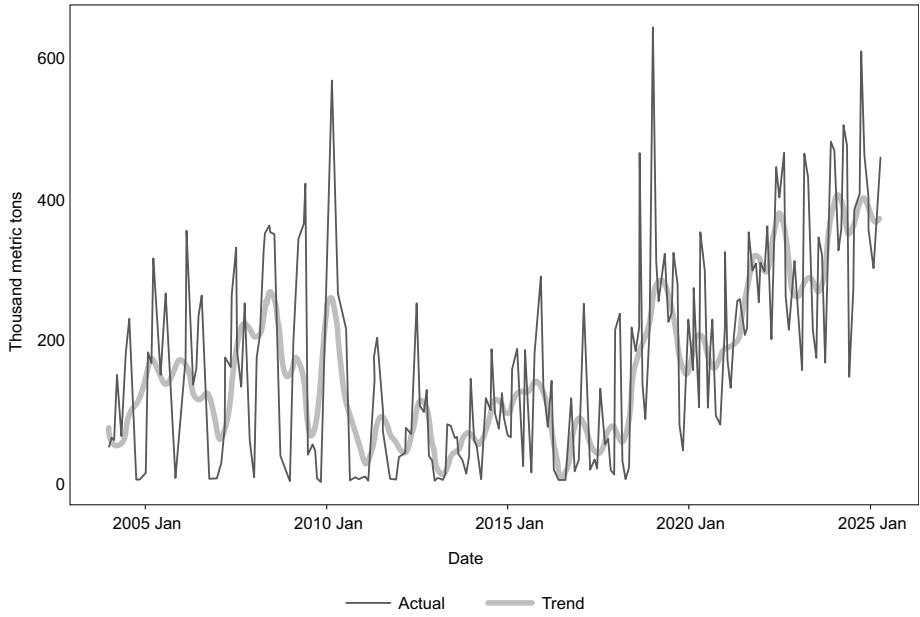
ANNEX 4. Test for cointegration

H_0	Eigenvalue Statistic	Critical Values		
		10%	5%	1%
$r \leq 5$	1.81	6.50	8.18	11.65
$r \leq 4$	5.70	12.91	14.90	19.19
$r \leq 3$	12.42	18.90	21.07	25.75
$r \leq 2$	31.76	24.78	27.14	32.14
$r \leq 1$	43.49	30.84	33.32	38.78
$r = 0$	78.25	36.25	39.43	44.59

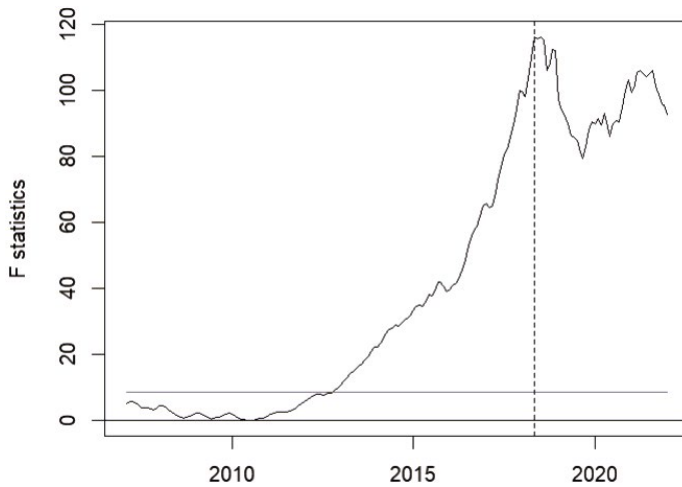
ANNEX 5. Optimal lag selection

Lags	FPE(n)	AIC(n)
1	5.84e-15	3.28e-15
2	4.26e-15	3.31e-15
3	4.07e-15	3.31e-15
4	4.11e-15	3.31e-15
5	3.95e-15	3.19e-15
6	4.44e-15	3.30e-15
7	5.11e-15	3.29e-15
8	5.03e-15	3.30e-15
9	4.96e-15	3.30e-15
10	5.14e-15	3.30e-15
11	6.11e-15	3.29e-15
12	6.84e-15	3.28e-15

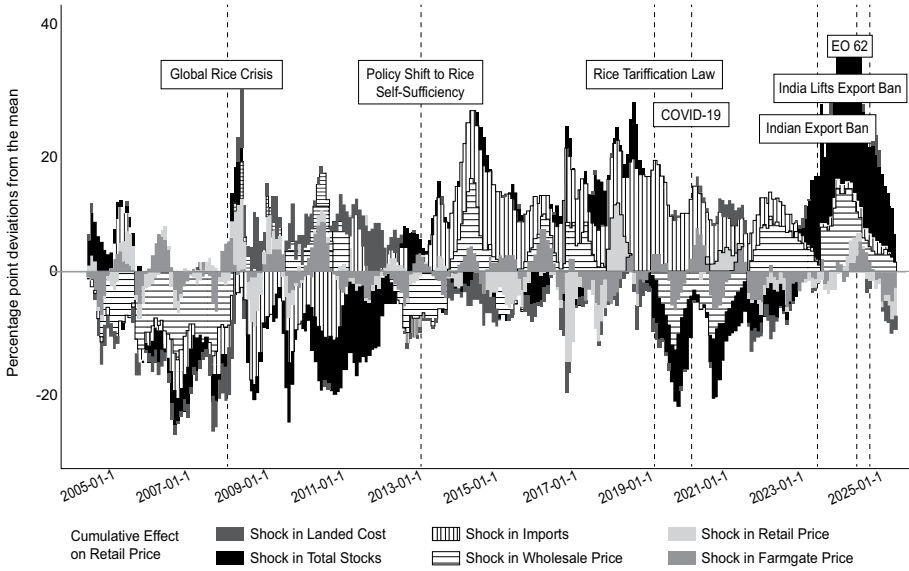
ANNEX 6. Historical volume of imports (January 2004–March 2025)



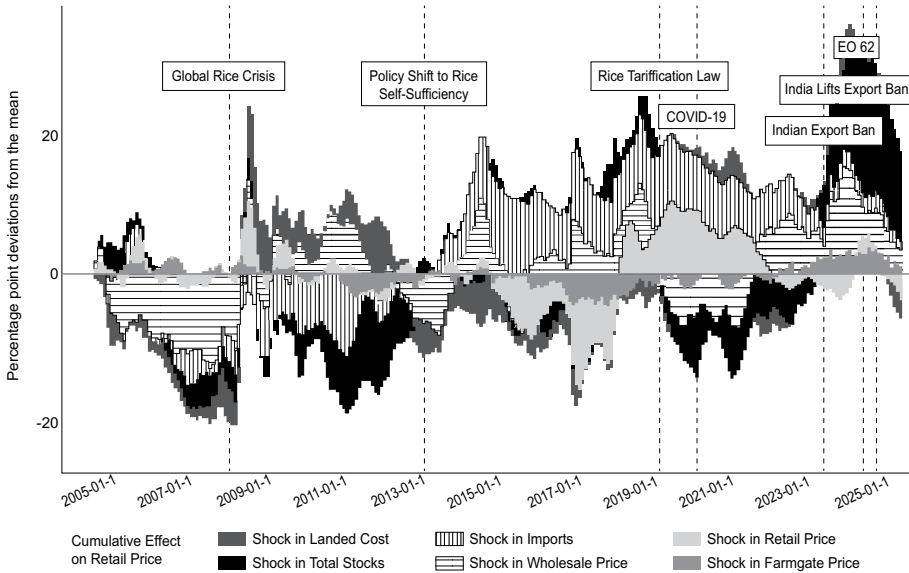
ANNEX 7. F-statistics across the series



**ANNEX 8. Historical decomposition of farmgate prices
(breakpoint set at May 2018)**



**ANNEX 9. Historical decomposition of retail prices
(breakpoint set at May 2018)**





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