

EXPORT MARKETS FOR PHILIPPINE DIVERSIFIED AGRICULTURE AND LABOR-INTENSIVE INDUSTRIES

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The paper examines the prospects for export expansion of the country's diversified agricultural and labor-extensive industries. Initially it establishes the Philippines' assumed competitiveness in these products by ranking them according to the normalized values of their net exports. An examination of the trend in import demand for such products in the country's major trading partners showed consistently high growth in specific (5-digit SITC) agro-based and labor-intensive commodities. The examination also revealed bright prospects for certain other products belonging to these categories where the country could be competitive but which are not yet being exported by her in any significant amount. Moreover the import demand for the commodities under study appeared to be generally income elastic, especially the labor-intensive ones. Given these income elasticity estimates, per capita import values for these products were projected for the years 1990 and 2000 for each of the trading partners considered, using high and low projected growth rates of per capita income.

The paper then proceeded to discuss a number of very real constraints to export expansion, namely the commercial policy of the importing countries, the supply-side constraints (such as resource constraints at home, quality differentials, inward-looking policies) and the competition offered by other developing countries, such as the Asian NICs and near-NICS, and of course, China.

Finally, relevant policy implications were drawn from the above findings in view of the urgent need to take advantage of the favorable demand prospects in export markets for commodities in which the country has actual and potential comparative advantage.

1. The Problem

The Philippine crisis of the early 1980s served to put the fundamental problems of the economy into sharper focus. Dim prospects for substantial growth in domestic demand, given the current depressed purchasing power of the people, left the economy little alternative but to turn to the export market for products for which the country presumably had comparative advantage in, namely agricultural and resource-based products, as well as those embodying her abundant labor.

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Besides, the current problem of widespread and continuing unemployment and underemployment generated by the crisis called into question the rationale behind an industrial growth strategy that had preferentially channelled incentives to a manufacturing sector that had accounted for only 9.3 per cent of total employment generated over the period 1971-1978 as against the 58 per cent generated by the agricultural sector. Within the manufacturing sector itself, the agro-based (food, beverage and tobacco manufactures) and labor-intensive industries (i.e. footwear, textile, apparel, made-up goods, wood and cork, furniture and fixtures) accounted for over 60 per cent of total employment generated by the sector over the same period. Thus any short or mid-term solutions to ease the unemployment problem and raise the level of domestic demand must look to the agricultural and labor-intensive industries to provide the necessary boost. Official plans for the 1984-87 period had already been revised to adopt a strategy of laying emphasis on the agricultural sector growth along with industrial development (c.f. *Updated Philippine Development Plan, 1984-1987*, 1984, NEDA).

But the question arises: will there be adequate demand for the output of such agricultural and labor-intensive industries that will induce sufficient expansion and create enough jobs to promote full employment by the decade's end? For one thing, the labor force is expected to grow during the decade at rates as high as 2.5 per cent or more and the GNP per capita is not expected to increase by more than 1 or 2 per cent. Given present double-digit inflation rates, it is clear that the growth of real purchasing power per capita cannot be counted upon to ensure the growth needed to absorb the new workers, not to mention the existing pool of unemployed and underemployed workers of large dimensions.

Between 1978 and 1982, at a time when the official data on GNP were showing increases of 1.7 per cent increase in constant prices, nutrition surveys of FNRI (first and second surveys of the Food and Nutrition Research Institute) showed no changes in calorie and protein intake of the Philippines. It remained constant at low levels of 1,800 calories and 53 grams of protein. Where then will the demand for diversified products of high income elasticities come from? Clearly, the country will have to depend on the foreign markets to purchase the increases in agro-based and labor-intensive industrial output. But how much and to what countries will such output of fruits, vegetables, feed crops, animal, forestry and fishery products, as well as the shoes, textiles, garments, furniture, plywood, electronic and other labor-intensive products go? Surprisingly, the government's development plan remains silent on this point.

Objective of the Study

The purpose of the present study is thus to look into the potentials of the foreign demand for Philippine export products in line with the new strategy of agro-based and labor-intensive export-oriented development. Although there are indications that these foreign markets look promising, it is necessary that systematic estimates and projections of foreign demand be made with enough details as to specific markets and products, in order to encourage Philippine producers to shift their production plans into these lines. Moreover, since institutional arrangements must be made for the improvement in quality and efficiency in production of such products destined to export markets, and for which preparations take time, government planners need more detailed information on promising markets and products over the next decade or so.

In section two we shall then work out to some detail the prospects for foreign demand expansion of Philippine exports that can be expected from the examination of past trends and in the light of the long-range projections of GNP and import demand in the US, the European Community (represented here by West Germany, the country's principal trading partner in the EC), the Asian NICs, and the ASEAN. Given GNP per capita projections for these countries, it will be possible to project the magnitudes of potential demand by 1990, and with some reservations, up to the year 2000. Income elasticities of import demand will thus have to be estimated for (three-digit SITC) food products, with special attention to those where the Philippines has actual or potential competitiveness in world markets, namely tropical fruits, vegetables, animal and fishery products, as well as labor-intensive industrial commodities.

However, a study of export demand expansion possibilities will not be complete unless some mention is made of the barriers to such expansion. In particular there is a rising tide of protectionism in industrialized countries, while many developing countries also maintain high protective walls around their fledgling domestic industries. In section 3 we shall explore the structure of protection in the country's trading partner countries and the extent to which these tariff and non-tariff barriers dampen the possibilities for export expansion of Philippine products.

In section 4 we look further into the constraints to expansion of agro-based and labor-intensive exports from the supply side. Without attempt at being exhaustive we shall seek to verify the potential comparative advantage of presently uncompetitive products, then

identify the constraints to production of agricultural crops, animal and fishery products, as well as the problems regarding the quality and suitability of labor-intensive exports to certain developed country markets. In addition, a number of policy-induced constraints to export expansion will be examined. Finally, some discussion will be devoted to another constraint to export expansion coming from competition, both actual and potential, offered by the Philippines' Asian neighbors who are similarly pursuing an export-oriented strategy. These are countries like the ASEAN members and China, in addition to the Asian NICs that are already well-entrenched in export markets.

2. Recent Export Performance in Agro-Based and Labor-Intensive Products

Philippine export performance in the 1970s had been moderately good. True, exports did not grow as fast as did those of the advanced NICs such as South Korea, Hongkong, or Brazil, but with a 7.9 per cent average annual growth for 1970-82 (compared to 2.3 per cent in 1960-70) it did score better than most developed industrial countries (except Japan, Ireland, Spain) and East European non-market economies, and even better than most countries under the lower-middle income category to which the Philippines belongs (*UN World Development Report*, 1984). Accompanying such growth was a marked change in the configuration of its export bundle, i.e. in terms of its composition and destination. Whereas the ten traditional exports comprised three-fourths of the country's total export value in 1970 (the top three having accounted for a little more than half of total), by 1980 they had fallen to less than half of total export value. And the combined share of the Philippines' traditional markets, i.e., the US and Japan, had slid from three-quarters to a little more than half of total export earnings in 1980.

In contrast, nontraditional export¹ growth was remarkable, having captured a third of total exports by 1980, given that its share was less than a tenth just a decade earlier. This shifting pattern of the country's export structure is best exemplified by the export of semiconductor devices which garnered a 19 per cent share of total export earnings in 1981, having supplanted sugar from the top position, although it had represented less than one per cent of total export value in 1973.

¹ Nontraditional manufactured exports refer to manufactured exports whose value was less than ₱5 million in 1968.

Even before the severe foreign exchange crisis of the early 1980s had manifested itself, however, policymakers had already begun to focus attention on a smaller subset of these fast-growing non-traditional exports, under an integrated export development strategy. These were export product categories singled out on the basis of their recent phenomenal growth, increasing demand trends in foreign markets, as well as their potentials in utilizing the country's comparative advantage in resource-based and labor-intensive production. Seven priority exports were thus identified, namely: garments, furniture, electronics, gifts and houseware (handicrafts), footwear and leather goods, fresh or processed food, and construction services. The NEDA *Updated-Development Plan*, in turn, renewed its emphasis on agricultural and agro-based industrial growth, and fleshed out the "agro-based" category by identifying the following priority export products, namely: fish products, banana, pineapple, mango, citrus, papaya, tobacco, abaca, yellow corn, coffee, and cacao.

For purposes of our present examination we focus our attention on the performance and market potentials of this smaller subset of exports, falling generally under the 'agro-based and labor-intensive' category, i.e. all three-digit SITC commodities under SITC 0, relevant three-digit commodities under SITC 6, namely 612 (manufacture of leather, artificial and reconstituted leather), 632 (wood manufactures), 721 (thermionic or electric tubes and valves, etc.), 821 (furniture and fixtures), 831 (travel goods and handbags and similar articles), 841 (clothing, exc. fur), 851 (footwear), 894 (toys, sporting goods, etc.), 899 (other manufactured goods).² Such food and labor-intensive products grew at an annual rate of 8.2 per cent and 40.31 per cent respectively, their share of total value of commodity exports thus rising from 25 per cent in 1973 to 31 per cent in 1983.

2.1 *Structure of Competitiveness of Philippines Exports*

The emergence of agro-based and labor-intensive exports in recent years as the country's most promising exports is what one

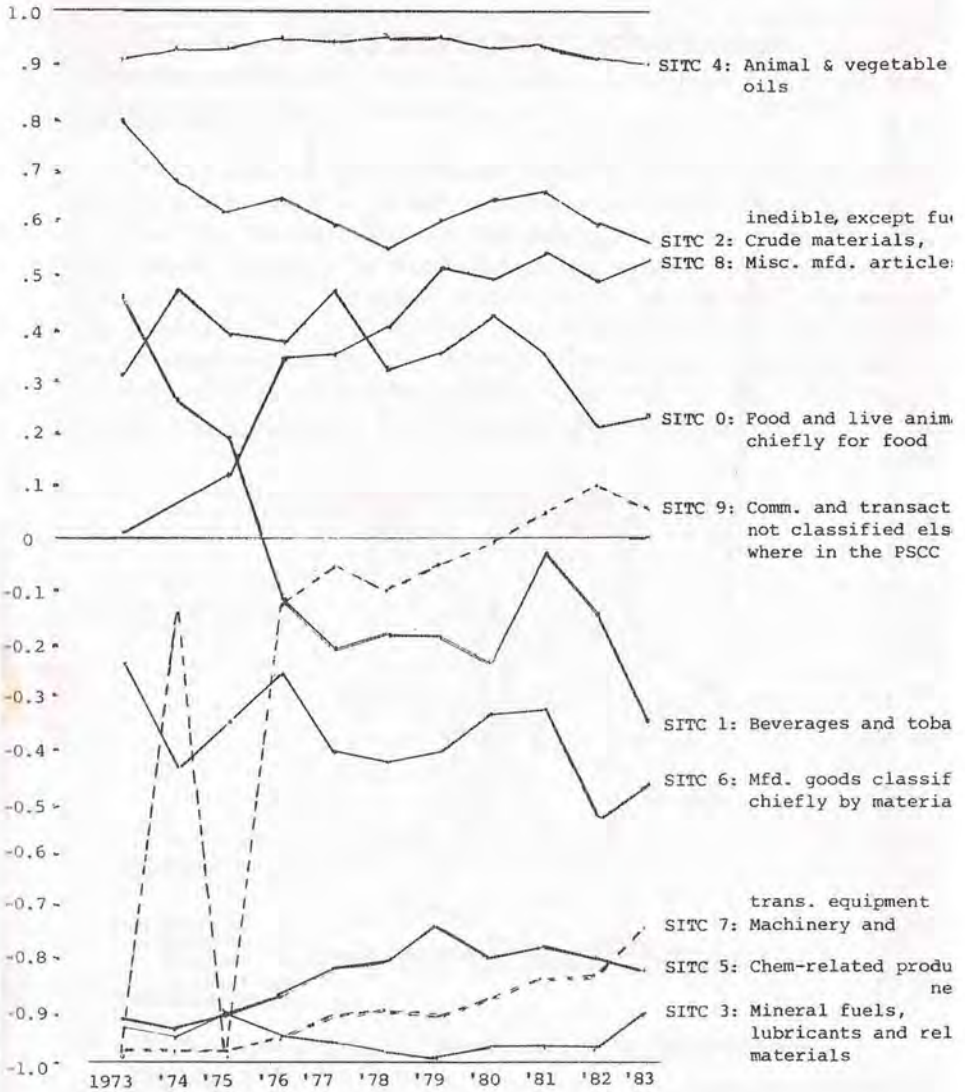
² We had earlier intended to include electronics (i.e., semiconductor) exports in the list, especially as these had emerged as the country's top foreign-exchange earner. However it turned out that "electrical and electronic equipment/components" group showed very large net deficits over time and its RCA (cf. Albuero, p. 37) did not reveal any comparative advantage. Apparently, these exports are lumped together with other exports, such as garments, under a different product category, namely "Special transactions exports." Nevertheless, we included SITC 721 which registered the only net surpluses under SITC 72 since 1980.

would normally expect from even an intuitive feel of the country's area of comparative advantage. A country can be considered competitive in international markets in products where she is able to attain an export surplus. Thus, ranking net surpluses (or deficits) of traded commodities, normalized by the absolute size of the country's trade in those commodities (i.e. the sum of exports and imports), can provide an index of international competitiveness. The country is said to be more (less) competitive in a product the closer to (farther from) 1 is the normalized value of its net exports. It must be noted that such competitiveness is said to be 'realized' or 'actualized', to differentiate it from its 'potential' competitiveness. This is because commodities which may be uncompetitive in terms of the index might actually possess potential competitiveness, while commodities that have realized competitiveness might become uncompetitive. (For further discussion, see section 5.1 below).

Figure 1 presents the ranking of one-digit SITC commodity groups according to this index over a ten-year period (1973-83). It can be readily seen that the country finds itself most competitive in commodities that harness intensively its indigenous raw materials (SITC 0, 2, 4) and labor resources (SITC 8) and least competitive in fuels (SITC 3) and products which are capital-, technology- and/or skill-intensive (SITC 5, 7). Since SITC 6 (manufactured goods classified chiefly by material) is made up of labor-intensive and capital intensive commodities, we cannot make any *a priori* judgment about its rank. Here it turned out to be negative. SITC 9 (commercial transactions not elsewhere classified) is similarly ambiguous in composition, but its shift to a positive position in 1980, corresponding to the emergence of labor-intensive semiconductor exports, indicates that possible variation in its composition will finally determine its rank.

Because of considerable differences in degree of realized competitiveness across products lumped together under the one-digit SITC category, we further examine the performance of agro-based and labor-intensive products at a much finer level of disaggregation (3-digit SITC). From Figure 2 it can be readily seen that aside from sugar, coffee substitutes, fish (fresh, simply preserved) and rice were among the highest in rank in terms of realized competitiveness during the period 1973-1983. Highly competitive also were fruits, fresh and dried, and fruits preserved, prepared. Rice presents a conspicuous case of a shift from an 'uncompetitive' to a highly competitive traded commodity. Another case is that of fish, etc. tinned or prepared which had emerged from a position of net importer to net exporter around 1980. However, reverse movements are also evi-

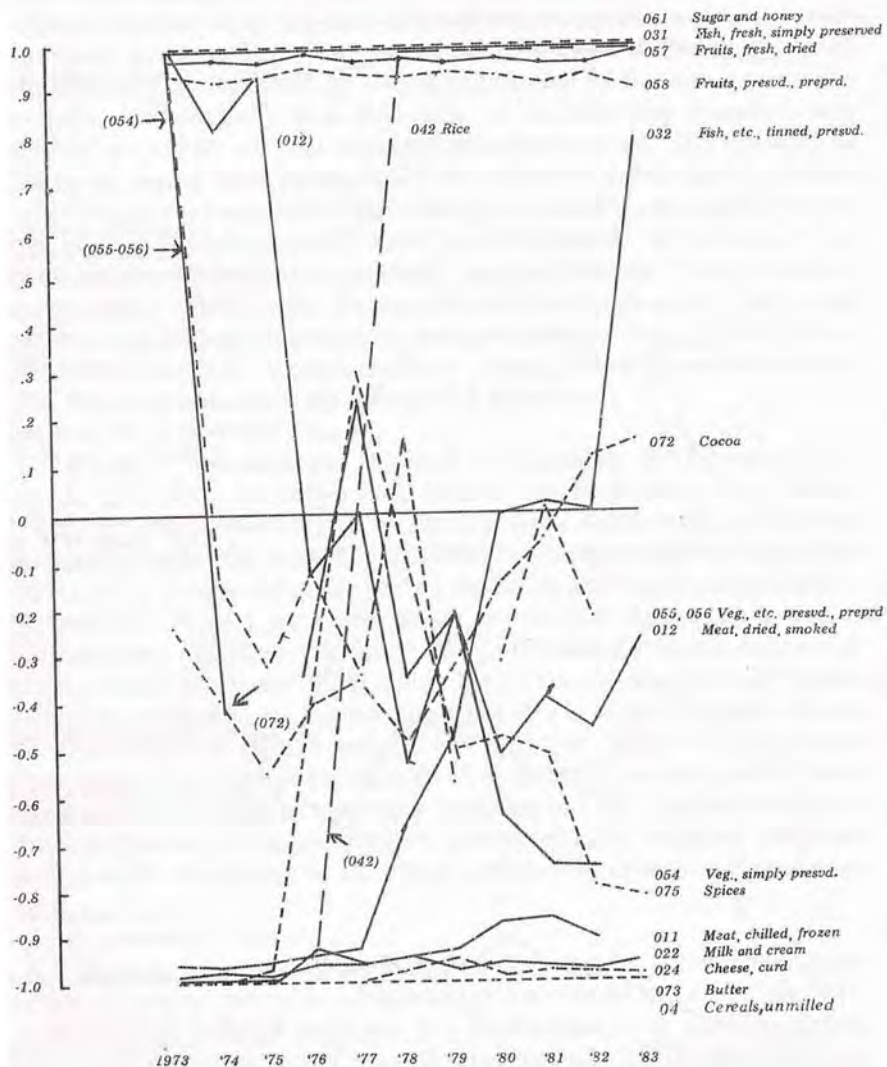
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Source of Basic Data: Philippine Trade Statistics, various issues.

Figure 1 — Index of Realized Competitiveness, By SITC Category, 1973-1983

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Source of basic data: Same as Figure 1.

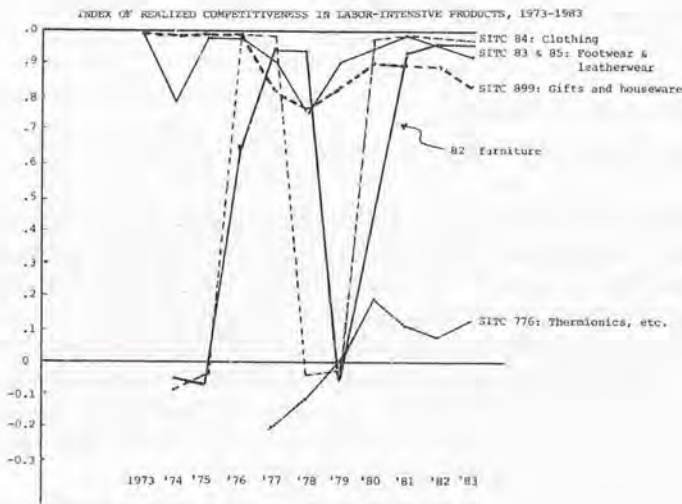
Figure 2 -- Index of Realized Competitiveness in Agro-Based Products, 1973-1983

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dent, where initially competitive products, such as vegetables, simply preserved, and vegetables etc. preserved, prepared, as well as meat, dried, smoked have fallen drastically to a position of net importer. Generally uncompetitive over the entire period were the vegetable group, meat, milk and cream, cheese and butter and unmilled cereals (wheat, corn, etc.)

In the case of labor-intensive products, all commodities under consideration appear to be very competitive in 1983 (Figure 3). Ther-mionics, etc., shows a low but still positive trade balance, although the product category to which it belongs, namely, electrical machinery and electrical parts, still runs a trade deficit. Only footwear and leatherwear as well as gifts and houseware have consistently shown surpluses during the decade. Clothing and furniture had a tendency to run occasional deficits until about 1979 while ther-mionics was consistently in deficit until this year also.

Figure 3



Source: Same as Figure 1.

2.2 Geographic Pattern of Agro-based and Labor-Intensive Exports of the Philippines

The geographic pattern of Philippines food export flows showed remarkable shifts over the decade of 1973-1983. While the US absorbed about 70 per cent of such exports in 1973 (Table 1) its share came down to about 30 per cent only in 1983. This was due to an absolute decline of about 7 per cent of export value to the US, which can be traced primarily to the halving of sugar exports. Largest increases in share were recorded by the rest-of-the-world (ROW) sector, and to a certain extent by the Asian NICs.

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**Table 1 — Geographical Distribution of Philippine
Food Exports (SITC 0)
(Million US Dollars, Per cent)**

	1973		1983	
	Value	Per cent Distribution	Value	Per Cent Distribution
United States	501.62	69.58	281.52	29.53
Japan	65.49	15.11	196.29	20.59
European Economic Community (9)	34.05	7.85	104.93	11.00
Asian NICs* (3)	10.09	0.90	94.44	1.24
SEAN	3.90	2.33	11.81	9.90
Rest of the World	18.36	4.23	264.53	27.74
Total	433.51	100.00	953.52	100.0

South Korea, Hongkong, Singapore.

Source of Basic Data: *UN Yearbook of International Trade Statistics*, various issues.

Labor-intensive exports, on the other hand, grew rather dramatically (that is by almost three-fold in current dollar values (Table 2)). In contrast to food exports, the US and the European Economic Community increased their shares, at the expense of other areas, especially Japan. One obvious source of US and EC share increases are the dramatic increases in thermionics (721) which though non-existent in 1973, accounted for a fourth of 1983 exports of labor intensive products. In addition, fast growers were clothing (SITC 811), furniture (821), and footwear (SITC 851).

Which of these agro-based and labor-intensive exports and what import markets offer the best potentials for further growth? In the following section, we turn to a more detailed analysis of import demand in selected trade partner countries of the Philippines.

3. Import Demand for Agro-based and Labor-Intensive Industrial Goods in Selected Countries

We started out with our basic question as to whether there exists some scope for optimism with regard to the expansion of foreign demand that will be able to absorb the increased production

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Table 2 — Geographic Distribution of Selected Labor-Intensive Exports
(million US Dollars, Per cent)

	1973		1983	
	Value	Per cent Distribution	Value	Per cent Distributio
United States	10.46	48.91	344.71	54.5
Japan	4.15	19.40	27.60	4.3
European Economic Commu- nity (9)	0.96	4.48	113.02	17.8
Asian NICs*	1.46	1.46	31.30	1.4
ASEAN	0.31	6.84	9.39	4.9
Rest of the world	4.04	18.91	106.27	16.8
Total	21.38	100.00	632.29	100.0

*South Korea, Hongkong, Singapore.

Source of basic data: Same as Table 1.

of agro-based and labor-intensive products. One way to identify the commodities with growth potentials is to determine the degree of responsiveness of import demand for them to growth in foreign income. We shall thus examine first the record of import demand for such products in the Philippines' trading partners. Then we estimate the (apparent) income elasticities of import demand for these products in these countries. Given such elasticities and projections of income growth in each country, it will be possible to project future demand for these products.

Appendix Table 1 provides us the track record of import demand growth (i.e., annual growth rates over the 1971-81 period, at current prices) for specific 5-digit SITC agro-based and labor-intensive products in a number of selected developed and developing countries. Among the agro-based products, consistently high growth rates in at least five of the six developed economies and NICs were registered by meat (fresh, chilled, frozen) and by fish (fresh, simply preserved). Other fast growers in the US were vegetables (fresh, simply preserved), and fruits (fresh, simply preserved). In West Germany, rapid growth was posted by meat (dried, salted or smoked), fish (prepared, tinned), coffee, and cocoa, while in Japan the growth products were meat (fresh, chilled, frozen), meat (prepared, preserved), fish (tinned,

prepared), shellfish (frozen), fruits, nuts (fresh, dried), fruits (preserved, prepared), and coffee. In Hongkong and Singapore, high growth rates were more of a rule than an exception. On the other hand, there are isolated cases of negative growth rates in imports, as in South Korea for shellfish (fresh, frozen), vegetables (preserved, prepared) and in Thailand for sugar and honey and for cocoa.

However, in almost all the countries under consideration, the labor-intensive manufactures experienced rapid growth in import demand.

This record of import demand for both agro-based and labor-intensive products explains to a large extent the observed growth performance of the Philippines' exports of such products during the last decade. It must be recognized, however, that some of the above-mentioned high-growth imports — especially meat (whether fresh, frozen, or prepared, preserved) or shellfish (fresh or frozen) — were not yet being exported by the Philippines in any significant amounts during the period under consideration. Moreover although the Philippines appeared to have taken advantage of the strong external demand for labor-intensive manufactures, such as furniture, clothing, and footwear, other products categories such as toys and sporting goods, travel goods and handbags, remain to be tapped.

3.1 *Income Elasticities of Import Demand*

To determine further which of the products have good prospects for growth, we estimated the degree of responsiveness of import demand for specific products to growth of (per capita) income in these countries. Table 3 gives the value of apparent income elasticities of import demand³ in the different country markets. They are

³ Import demand functions generally take the following form:

$$\log M = a + b \log (PM/WPI) + c \log Y + e$$

where M is the import volume index of the commodity group; PM , the import price index of the commodity group; WPI , the domestic wholesale price index of the commodity group; and Y , the real gross national product.

The absence of import volume data as well as the import price data for commodity groups at the three-digit SITC level of aggregation prevented estimation of the price elasticities. We merely estimated here the (apparent) income elasticities of import demand, using the simple form $\log m = a + b \log y$ where m and y are per capita import value and per capita GNP, respectively in current prices. Attempt to use import volume data and real GNP per capita for Japan showed somewhat lower income elasticities. Kreinin's estimates of income elasticities of import demand for 1964-70, however, showed higher elasticities in general for the U.S. (for instance 1.37 for sugar and confectionery; 5.98 for footwear) and roughly comparable values for West Germany (e.g. 1.61 for SITC 6: manufactured goods; 1.49 for SITC 8: other manufactures).

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Table 3 — (Apparent) Income Elasticities of Agro-Based and Labor-Intensive Products in Selected Countries, 1971-1981

SITC Code	Commodity	Asian NICs					A S E A N			
		US	Japan	W. Germany	Hongkong	S. Korea	Singapore	Malaysia	Thailand	Indonesia
011	Meat, fresh, chilled	1.03	1.29	0.90	0.90	1.71	1.21			
014	Meat, prep'd, presv'd	0.42	1.63	0.77	0.07					
031	Fish, fresh, frozen	1.24	1.46	1.22	0.92	*	1.14			
032	Fish, tinned, presv'd	*	1.53				0.76		1.22	
037	Fish, etc. prep'd, presv'd	0.87		1.18						
054	Veg., etc. fresh	1.36	1.25	1.01			0.96		0.87	
056	Veg., etc. presv'd, prep'd	1.11	1.33	0.93	1.04		1.01		0.71	1.79
057	Fruits, nuts, fresh	1.45	0.72	0.85	0.73		1.01			
058	Fruits, presv'd., prep'd	2.00	1.15	0.93	1.21					
061	Sugar and honey	0.61	—	1.11	0.61					
071	Coffee and substitutes	1.39	1.68	1.39	*					
072	Cocoa	1.69	0.87	1.57						
612	Leather manufacture	2.25		1.45	1.84	0.65	2.30			
632	Wood manufactures, n.e.s.	*			1.08		1.05			
821	Furniture	1.80	2.03	1.59	1.31		1.80			
831	Travel goods, handbags	2.12	1.82		1.79		1.30		1.01	
841	Clothing, not of fur	1.04	1.40	0.93						
851	Footwear	1.80	1.94	1.59	1.44		1.87			
894	Toys, sporting goods	1.72	*	1.43	1.40	1.20	1.30	1.38	0.96	1.52

*: $r^2 < 0.5$; no estimates are provided when there are gaps in the data or when the time series data are not available for at least 10 consecutive years.

Sources of basic data: U.N. Yearbook of International Trade Statistics, various issues; IMF Financial Statistics Yearbook, various issues.

generally greater than one and appear to be higher for the labor-intensive products than for the agro-based ones. Although elasticity values vary across countries, there are products that show consistency. Among food imports, fish (fresh, frozen), vegetables (fresh), fruits (preserved, prepared), coffee and substitutes, and cocoa show apparent income elasticities greater than one for the most of the countries, while sugar and honey show the lowest elasticity values. Labor-intensive imports include the commodities with the highest income elasticities among products under consideration, namely leather manufactures and travel goods and handbags. Clothing (not of fur) shows the lowest income elasticity, along with wood manufactures, while footwear, furniture, travel goods and handbags, toys and sporting goods show estimates consistently much greater than one in all the countries considered. One can then say that all in all, import demand (in dollar terms) at least for the agro-based and labor-intensive products considered here, appears income-elastic enough to lend credence to the view that ample room for expansion in exports remains, the extent of which depends on the rates of income growth in trading partner-countries.

Given the elasticity estimates in Table 3 and the projected (high and low) estimates of projected income growth in individual countries, we then projected per capita imports in each country market, for the year 1990 — and with a lot of reservation — for the year 2000, assuming the continuation of policies prevailing in the countries under consideration during the period 1971-81. These are admittedly rough orders of magnitudes, especially as we did not allow for a decline in income elasticities at higher levels of per capita income. Projections of per capita import values of each country for individual 3-digit SITC commodity groups are given in Table 4.

Since West Germany presently imports more (in dollar values) food and labor-intensive goods per capita than the US and Japan, projected import levels of West Germany are highest among these three developed countries. They are lowest for Japan, in spite of a higher projected per capita and income growth, due to present and low levels of per capita imports of these products. Current per capita import levels of Hongkong and Singapore, especially of food products, are high, in some instances, even higher than those of the developed countries. This fact, together with their moderately high projected rates of per capita income growth, leads to the conspicuously high projected import levels for 1990 and 2000. However, this may be somewhat deceiving, especially in the case of labor-intensive products, because of their peculiar character as entrepot traders in the area. In contrast, in spite of rather high income growth

projections for South Korea and the other ASEAN countries, projected import values are low due to currently low levels of import demand. One might however expect elasticities to rise as their incomes rise and as presently high protective walls get dismantled in the future. These will then cause an upward revision in projected import levels.

Among the food imports, per capita import values are expected to be highest for such products as meat (fresh, chilled, frozen), fish (fresh, simply preserved), vegetables (simply preserved), fruits and nuts (fresh, dried) and coffee. Among labor intensive products, per capita import demand is estimated to be highest for furniture, clothing (not of fur), footwear, toys and sporting goods.

As stressed earlier, however, the Philippines appears to be at best a marginal exporter of such products in the specific country markets considered. Except for vegetables (preserved, prepared), and fruits (preserved, prepared) in the US and Hongkong, sugar and honey in the US, cocoa in South Korea, furniture in the US and footwear in the US and Hongkong, the share of the Philippines of the different country markets' total imports of products considered was nowhere seen to exceed one per cent in 1981. This implies that the Philippines is still in a position to penetrate farther into these growing markets for agro-based and labor-intensive industrial products.

3.2 Other Projections of Import Demand

To supplement our estimates above, we cite below import demand and projections based on independent studies (FAO, ADB) of certain agro-based products of which the Philippines is currently a net importer, such as foodgrains and fishery products.

Projections of future deficits, even only considering developing country groups, show substantial shortfalls in grains by the year 2000 (Table 5) in all the Asian NICs and ASEAN countries with the exception of Thailand. In the case of the NICs (South Korea, Republic of China, Hongkong, and Singapore) more than half of such deficits is represented by deficits in maize supply. Maize is used mainly as feeds in these countries' livestock industries where substantial expansion is expected, given their high income growth and the switch of diets to animal protein. For these countries, imports will be expected to meet such shortfall: Singapore and Hongkong are already import dependent, while South Korea and the Republic of China's comparative disadvantage in maize production will necessitate it.⁴

⁴Cf. Shun-yi Shei (1984).

Table 4. Projected Per Capita Imports of Agro-based and Labor-Intensive Commodities by Selected Countries, 1990 and 2000 (1981 US Dollars)

SITC Code	Commodity	United States		Japan		West Germany		Hongkong		South Korea		Singapore		Thailand		Malaysia		Indonesia	
		Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
011	Meat, fresh, chilled, frozen	1990 8.82	10.08	6.22	7.03	33.12	37.23	64.52	75.19	4.90	6.55	67.78	83.26						
		2000 9.67	15.04	7.13	9.31	36.56	47.89	138.66	100.28	11.13	20.60	122.63	187.30						
012	Meat, dried, salted, smoked	1990 3.07	3.24			5.86	6.48	12.22	10.10			1.21	1.39						
		2000 3.19	3.60			6.38	8.03	20.84	17.98			13.25	15.21						
014	Meat prep'd, presv'd, n.e.s.	1990 14.32	16.83	10.41	12.68	8.48	9.94	118.16	101.05			61.20	74.29						
		2000 16.02	22.95	12.98	19.93	9.70	13.99	220.88	158.60			107.00	159.46						
031	Fish, fresh, simply presv'd	1990 1.68	1.88			3.04	3.54					22.48	25.58						
		2000 1.82	2.34			3.46	4.93					32.63	42.57						
036	Shellfish fresh, frozen	1990 2.59	3.21	4.27	4.90														
		2000 3.04	4.50	4.98	6.75														
054	Veg., etc. fresh, simply presv'd	1990 1.97	2.28			28.62	32.63	45.93	54.82			50.85	59.86						
		2000 2.18	3.01			31.98	43.30	76.46	111.19			81.39	113.89						
055	Veg., etc. presv'd, prep'd	1990 7.09	10.79			13.09	14.77	39.47	46.15			43.39	51.52						
		2000 8.42	14.44			14.50	19.17	86.28	61.95			71.18	101.36						
057	Fruits, nuts, fresh, dried	1990 3.42	4.44			34.81	38.88	93.24	82.18			96.04	106.91						
		2000 4.10	7.32			38.23	49.33	152.84	117.52			147.70	210.33						
058	Fruits, presv'd, prep'd	1990 8.90	9.63			11.61	13.10	19.21	23.59										
		2000 9.40	11.22			12.86	17.00	34.75	53.72										
061	Sugar and honey	1990 23.68	28.37			4.20	4.85	16.57	18.38										
		2000 26.83	40.15			4.74	6.61	22.34	27.82										
071	Coffee	1990 1.81	2.08			28.90	34.49	4.12	4.37			7.88	9.08						
		2000 2.11	2.83			33.57	50.48	4.87	5.50			11.84	15.83						
072	Cocoa	1990 11.26	14.62			14.16	22.68					11.23	16.61						
		2000 1.00	1.34			2.20	2.66	3.86	5.28			34.67	77.56						
612	Leather manufactures	1990 1.22	2.35			2.58	3.99					11.23	16.61						
		2000 1.22	2.35			2.58	3.99					34.67	77.56						
632	Wood manufactures	1990 7.77	9.82			23.48	28.87					6.18	7.39						
		2000 9.13	15.39			27.96	45.06					10.34	18.92						
821	Furniture	1990 7.77	9.82			23.48	28.87					38.28	52.25						
		2000 9.13	15.39			27.96	45.06					93.84	178.06						

831 Travel goods, handbags	1990	4.98	6.55	2.31	2.92	6.30	7.91	45.36	61.50	40.00	49.90	0.83	1.05
	2000	6.03	11.15	3.26	5.94	7.63	12.90	109.95	207.72	75.64	119.22	1.27	2.09
841 Clothing, not fur	1990	21.37	24.46	16.02	19.22	74.59	84.18						
	2000	23.47	31.73	20.91	33.18	82.62	109.21						
851 Footwear	1990	7.77	9.82	4.09	5.26	23.48	28.87	39.61	50.60	59.51	81.78		
	2000	9.13	15.39	5.91	11.21	27.96	45.06	80.22	134.72	148.77	286.26		
894 Toys, sporting goods, etc.	1990	11.66	14.58	2.53	2.63	13.09	15.77	52.04	66.02	1.03	83.01	0.51	0.62
	2000	13.61	22.41	2.68	2.96	15.32	23.53	103.34	171.06	2.31	156.96	0.77	1.19
899 Other manufac- tured goods	1990			2.89	3.32			87.25	106.27	3.52	47.35	0.63	0.78
	2000			3.54	5.02			154.04	233.88	6.02	9.61	0.98	1.52
													6.64
													12.87

Source of basic data: Table 3.

Low and high growth rates projected are as follows:

US and West Germany:

Japan:

Hongkong, South Korea, Singapore:

Indonesia, Malaysia, Thailand:

low: 1.0%; high: 2.5%.

low: 2.0%; high: 4.0%.

low: 5.0%; high: 7.0%.

low: 1963-80 ave. growth rate; high: 7.0%.

(Million Metric Tons)

	Total						
	Foodgrains	Paddy Rice	Wheat	Maize	Other Cereals	Pulses	
Asian NIC's Korea, Rep. of	Low*	-1.30	-3.87	-7.03			0.06
	High	-1.40	-4.24	-8.09		-0.08	0.05
Hongkong Singapore	Low	-0.62	-0.78	-0.98		-0.15	
	High	-0.59	-0.83	-1.03		-0.17	-0.03
Taiwan	Low	-1.58	-1.15	-7.55		-2.76	-0.04
	High	-2.14	-1.35	-9.79		-3.52	-0.06
ASEAN	Low	-6.40	-3.53	0.58		-0.04	-0.05
	High	-10.25	-5.30	0.01		-0.05	-0.12
Malaysia	Low	-3.13	-0.97	-1.13		-0.16	-0.05
	High	-3.84	-1.14	-1.45		-0.19	-0.06
Philippines	Low	0.24	1.47	-1.13			
	High	-0.56	-1.67	-1.80		-0.19	-0.01
Thailand	Low	8.28	-0.25	5.65		0.44	0.43
	High	7.23	-0.32	5.57		0.42	0.40
Total for Asia and Pacific IS (18 countries)**	Low	-25.22	-0.34	-12.43		4.07	-3.90
	High	-66.03	-9.12	-18.00		3.46	-15.41

*Low and high refer to estimates based on low and high income growth rates at 75 per cent and 125 per cent respectively, of 1961-80 trend in GNP per capita in each.

**Total estimate includes 10 other countries not listed in the Table above, namely Afghanistan, Bangladesh, Burma, India, Indonesia, Nepal, Pakistan, Sri Lanka, and Pacific Islands Fiji and Papua New Guinea.

Source: Table 13 of IFPRI, "Assessment of Food Demand/Supply Prospects and Related Strategies for Developing Member Countries of the ADB" (An ADB-supported IFPRI-IRRI Study, May 1984).

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In the case of Malaysia, the projected deficit will be in maize, wheat and rice, while for Indonesia it will be in both wheat and rice, as she is expected to net a surplus in maize. One can thus expect large increases in demand for maize especially by the NICs in the region, who by the year 2000 will have come close to joining the ranks of the developed economies (Shinohara, 1985).

Another area that offers substantial room for export expansion and in which the Philippines is only a recent entrant in world markets, is that of fishery products. The ADB-FAO Second Fish Market Study (1983) has identified a number of selected fishery products that offer bright prospects in terms of world demand expansion. These are:

1. *Shrimps*. The three major markets, which together are thought to consume about half of the yearly world catch of tropical shrimps, are the US, Japan, and Western Europe. Although market growth up to 1990 is expected to be slow for both the US and Japan, demand expansion in all three markets will still mean increased imports. Projecting a 1 per cent annual growth rate for Japan and the US and a 5 per cent annual growth rate of demand for Western Europe, one can expect 55,000 tons (product weight; 84,000 tons live weight) of imported shrimps by 1990. Considering a faster growing demand in minor markets (such as in Hongkong, Singapore, Australia) and the additional consumption in producing countries, which together is assumed to be half of production, one can expect an increased world production of shrimps in excess of 200,000 tons to meet total requirements.

2. *Cephalopods*. Export expansion in cephalopods seems favorable in several developed countries, such as cuttlefish in Japan, cuttlefish and squid in European countries, especially Spain, Italy, France. Growth in consumption is also expected in US and West Germany as well as in US and Australia.

3. *Tuna*. Prospects for export expansion appear good in Japan for certain types of fresh tuna (e.g. for sashimi) but not for processed tuna. The prospects are not good in the US which had experienced a decline in tuna consumption since 1978. Furthermore, the recent experience of the Philippines' canned tuna exports being slapped countervailing duties and quotas in the US does not offer much optimism for substantial expansion in this market. In contrast, European countries like France and Italy whose tuna consumption is growing at 4-5 per cent yearly might offer better opportunities.

Other products where export expansion prospects have been identified as favorable are fishmeal, certain types of seaweeds, dried fish, and high-valued finfish (particularly to Hongkong, Singapore, and Japan).

To summarize, the main finding that emerges from our own projections and other independent studies is that there does exist a wide room for possible export expansion in different types of agro-based and labor-intensive products, if only exporters were closely attuned and responsive to world market conditions. The country is still a marginal exporter in all but a few of the products examined and for which market demand was found to be generally income elastic. In other product groups such as meat, foodgrains, and even certain types of fishery products, where future world demand appears promising, the country has barely emerged from a position of net importer.

The next logical question to ask is why this is so. Are there constraints that effectively limit the response of exporters? In the following sections, we identify a number of such constraints and their implications on the country's range of export expansion possibilities.

4. Limits to Export Expansion: Commercial Policy of Importing Countries

Although the prospects for demand expansion in agro-based and labor-intensive products under investigation have been found to augur well for Philippines exports, the commercial policy of her trading partners tends to dampen the possibilities for growth. In the following sections, we shall discuss the general features of the structures of protection in both developed and developing countries and show that these are biased against agro-based and labor-intensive exports of interest to developing countries like the Philippines. With the use of some simple indicators, we examine the possible dampening effect of such protective measures on import demand. We end the section with a short discussion of government sector perception on trading partner protective policy, culled from interviews conducted with government people in charge of monitoring export growth in such products.

4.1 *Tariff Protection*

Empirical evidence suggests that while non-tariff protection is being deployed in the developed countries with increasing frequency

against agricultural products, tariff protection systematically discriminates against manufactured exports particularly those of interest to developing countries (Ray and Marvel, 1984, p. 442, ff.) The escalating nature of the tariff structure, which biases against imports the greater their degree of processing, had been left generally untouched by the rounds of tariff negotiations of the 1960s and 1970s as seen from the sectoral tariff averages before and after the Tokyo Round Agreement in Table 6. From the table it can also be seen that developing country exportables such as textiles and clothing, leather footwear, rubber and travel goods had been accorded shallower tariffs cuts and retain higher nominal rate averages. Thus, even when tariff negotiations under the Tokyo Round will be fully implemented in the second half of the 1980s, tariffs on manufactured products weighted by imports from developing countries will be higher than when weighted by total imports: that is, 8.7 per cent as against 4.9 per cent in the US, 6.7 per cent as against 6 per cent in the EC, and 6.8 per cent as against 5.4 per cent in Japan (Balassa and Balassa, 1984, p. 180).

In the case of the US, Cheh (1974) had found tariff protection negatively and significantly related to skill content, a finding that corroborates the pattern cited above, insofar as developing country comparative advantage lies in low-wage, low-skill exports. In West Germany, effective protective rates for such products as food and food products, paper products, textiles and apparel were found to be much higher (40.5 per cent, 19.9 per cent, 20.8 per cent, and 20.7 per cent, respectively) than the simple average (9.86 per cent) for 31 manufactured commodity groups (Weiss, 1983, Table 3a, p. 25). Moreover, the wide dispersion from the average, especially for products in which the LDCs normally have stakes, tend to lead to higher protective effects (as argued by Nugent), even though the effective protective rates for West Germany were not extraordinarily high (Weiss, 1983).

Among developed countries, Japan was found to be an outlier, in the sense that she relies relatively more heavily on tariff protection against agricultural manufactures (Ray and Marvel, 1984). For instance, in Japan, the (general) rate on food imports goes as high as 20-30 per cent on bananas, 20 per cent on tropical and citrus fruits, 45 per cent on butter, 40 per cent on cheese and curd, etc. (Tariff Schedule, 1984). Domestic fruits in season are given an added protection, such as the higher rates on bananas during the months of April to September and from October to March, respectively.⁵ In

⁵ Under Japan's "Action Program Concerning Tariffs" tariff rates had been cut early this year by some 20 per cent on many items of interest to ASEAN. For instance the tariff rate on bananas, and other tropical fruits had gone down from 28 per cent to 22.4 per cent, on embroidery, from 22.4 to 17.9 per cent.

Table 6 — Sectoral Tariff Averages for Developed Countries:
Before and After Implementation of the Tokyo Round Agreement

	Imported Weighted Averages			Simple Averages		
	Before	After	Per cent Change	Before	After	Per cent Change
<u>Textile and clothing</u>						
Raw materials	1.1	0.8	25	3.7	2.9	21
Semi-manufactures	14.7	11.5	22	13.7	9.6	30
Finished manufactures	20.6	16.7	19	17.6	11.8	33
<u>Leather, footwear, rubber and travel goods</u>						
Raw materials	0.2	0.0	80	2.0	1.0	50
Semi-manufactures	6.8	4.4	35	6.9	4.5	35
Finished manufactures	11.5	10.2	11	14.4	10.2	29
<u>Wood, pulp, paper and furniture</u>						
Raw materials	0.4	0.2	54	1.3	0.7	46
Semi-manufactures	3.1	1.9	38	6.3	3.7	41
Finished manufactures	7.1	4.2	41	8.6	5.1	41

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Table 6 (Continued)

	<u>Imported Weighted Averages</u>			<u>Simple Averages</u>		
	Before	After	Per cent Change	Before	After	Percent Change
<u>Base metals</u>						
Raw materials	0.3	0.0	82	0.5	0.2	61
Semi-manufactures	4.3	3.2	26	7.0	4.6	34
Finished manufactures	9.4	5.9	37	10.2	6.1	40
<u>Chemicals</u>						
Semi-manufactures	7.8	5.0	36	10.2	6.2	39
Finished manufactures	10.5	6.0	43	11.1	6.2	44
<u>Non-electrical machinery</u>						
Finished manufactures	7.7	4.1	47	8.1	4.4	46
<u>Electrical machinery</u>						
Finished manufactures	9.2	6.1	34	13.2	5.0	42
<u>Transport equipment</u>						
Finished manufactures	7.8	5.0	36	10.0	6.5	35

Source: "The Tokyo Round of Multilateral Trade Negotiations," Supplementary Report by the Director-General of the GATT, pp. 337-37, as cited in B. Balassa and C. Balassa, "Industrial Protection in Developed Countries," p. 183.

contrast however to the strong tariff protection accorded by the EC and Canada to textiles, Japan does not give them more than average tariff protection. Nevertheless, since as noted earlier, average tariffs weighted by developing country exports are higher than those weighted by all exports, so that an overall discriminatory bias against exports of interest to developing countries, likewise exists. As shown in Table 7, SITC 6 and 8 carry higher average tariff rates than other commodity groups.

What about the pattern of tariff protection in developing country trade partners? Data in Table 7 for the ASEAN (Indonesia, Malaysia, Singapore, and Thailand) indicate first of all that the most affluent and most open member in the group, namely Singapore, had average ad valorem tariff rates of 0.5 per cent, followed by Malaysia. Indonesia appears to be the most protective, tariff-wise. However, comparison of such tariff rate averages across SITC sections seems to show a similarity in the structure of tariff protection, except for Singapore, and to a certain extent for Malaysia. In Indonesia and Thailand, as in the Philippines, miscellaneous manufactures (presumably of the labor-intensive type) carry the highest tariff averages, followed by beverages and tobacco, food and live animals, animal vegetable oils and basic manufactures. This is roughly what one might expect, given that these three ASEAN countries are generally at similar levels of national income per capita and similar stage of economic development. Industries producing miscellaneous manufactures would roughly correspond to the light industrial goods industries where import substitution is being fostered. High rates of protection for food and live animals are probably maintained for self-sufficiency objectives, while those on beverages and tobacco are kept high in consideration of their character as nonessential consumer goods imports.

In contrast, especially with Singapore, tariff protection in another Asian NIC, in 1975, that is, South Korea (Table 7) is much higher. In general, too, the pattern roughly corresponds to that in the ASEAN countries although average tariff on manufactures is lower at 12 per cent.

It must be mentioned however that preferential trading arrangements (PTA) have been arrived at by the ASEAN members, in a move to encourage regional trade growth. Aside from tariff preferences, preferential treatment of member countries is encouraged through liberalization of non-tariff barriers, long-term quantity contracts, purchase finance support as preferential interest rates, preference in government procurement policy. The remaining high

Table 7 — Nominal Rates of Protection by SITC Section in Selected Countries

SITC Code	United States		Japan (1975)	West Germany (1972)		South Korea (1975)	Singapore	Indonesia	Malaysia	Thailand
	Pre-MIN	Post-MIN								
0	I.D.		6.7	40.5	11.0		0.2	44.0	5.3	26.1
1	I.D.		I.D.	I.D.	150.0		0.0	49.2	33.3	30.0
2	I.D.		I.D.	13.7	—		0.0	18.1	3.2	14.1
3	I.D.		1.1	6.5	15.7		2.1	6.3	1.5	8.5
4	I.D.		I.D.	I.D.	—		0.0	28.1	1.5	37.5
5	4.5	2.7	6.0	14.4	16.0		0.0	18.9	10.1	15.4
6	6.4	4.6	13.2	11.6*	42.5		0.0	36.8	11.2	29.6
7	5.2	3.5	4.5	0.8	22.7		0.4	26.7	12.9	20.4
8	9.6	6.6	11.0	12.0	52.0		1.7	49.8	14.2	50.9

I.D. — Incomplete Data.

* Under SITC 6, protective rates for apparel and accessories are 11.1% and for leather and leather products, 98.6% in Japan; for textiles, 20.8%; for clothing, 20.7%; for pulp, paper and paperboard, 29.6% in W. Germany.

Source: For US and ASEAN (Singapore, Indonesia, Malaysia and Thailand): Table 7 of Derosa, D. A. (1985), "ASEAN-US Trade Relations: An Overview; for Japan, Table 4.1.1 of "Comparative Advantage of Manufacturing Industries in Asian Countries," (IDE, 1982); for West Germany, Table 3 a, p. 25 of Weiss, (1983); for South Korea, Krueger *et al.*, (1981).

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tariff rates on items of interest to member countries, however, point to the need for more substantial cuts and widening the scope to include products of greater potential importance to regional trade.

4.2 *Non-tariff Protection*

In general, non-tariff protection, because less transparent than tariff protection, has become important in the recent past in the wake of tariff-slashing negotiations, particularly among developed countries. It takes many forms, from the traditional quantitative restrictions such as import quotas and foreign exchange controls to VERs, OMA, licensing agreements, advanced deposit requirements and other administered forms of protection.⁶ Empirical studies have shown that NTBs in developed countries have been used to supplement tariff protection, such as those imposed on consumer goods, agricultural manufactures, textiles, as well as to mitigate the effects of tariff reductions resulting from successive rounds of tariff liberalization (Walter and Chung, 1979; Ray and Marvel, 1984). If this is the case, the implication is that non-tariff protection might have reinforced the pattern of discrimination in the DCs against certain developing country exports. Probably the most well-known is the Multi-fiber Agreement in the case of textiles (see Appendix Table 2 for NTBs in the US) although a number of OMAs had been negotiated with Asian NICs South Korea and Taiwan in the US and the European Community against such products as non-rubber footwear, color television sets, radios, steel, and other consumer goods. On the other hand, Japan, whose exports had been the target of numerous non-tariff barriers from the US and the EC, is known to make use of discretionary licensing on leather footwear imports, telecommunication equipment and pharmaceuticals, to use restrictive standards on automobiles (Balassa and Balassa, 1984), and more recently, VERs on textile exports of specific developing countries. In contrast to the pattern of NTB protection in other developed countries, Japan was also found to direct such protection against imports of research-intensive products (Ray and Marvel, 1984).

Moreover, in Japan, although tariff protection is the major line of defense against agricultural imports, NTBs are also used in the form of import quotas on 'sensitive' items such as rice, oranges, and beef, certain fish crustaceans and mollusks, powdered cheese or cream, butter, etc. In addition there are the potentially protective,

⁶ For a concise survey, see Robert Baldwin's *Non-Tariff Distortions of International Trade* (1970); Finger, J. M. *et al.* (1983), "The Political Economy of Administered Protection," *American Economic Review*, Vol. 72, No. 3.

measures regarding standards and inspection procedures (e.g. Food Sanitation Law, Plant Quarantine Law, Domestic Animal Infectious Disease Control Law, etc.). Besides, the Ministry of Agriculture, Fisheries, and Forestry of Japan is apparently espousing a long-term policy of increased self-sufficiency in many foods items,⁷ despite the well-publicized attempts at liberalization.

On the other hand, developing countries too have not failed to employ non-tariff measures in their arsenal of protection. For instance, in the ASEAN countries (except again for Singapore) such NTBs are directed mostly against manufactured imports such as basic manufactures and transport equipment, as Table 8 will indicate, as well as against agro-based exports (SITC 0, 1). As in tariff protection, the least protective are Malaysia and Singapore, while the most protective is Indonesia, followed by the Philippines.

4.3. *Restrictive Effects of Protection*

In spite of the evident discrimination in developed countries against export of interest to developing countries, the rate of developing country penetration and growth into developed country markets in the past decade had been a satisfactory 8 per cent annual growth (Harvylyshyn and Wolf, 1985). In the case of the Philippines, growth rates of agro-based and labor-intensive exports under consideration had been 8 per cent and 40 per cent (current prices), respectively during the 1973-83 period. The latter was higher than the growth rate of total exports during the same time period (10 per cent).

To be sure, such expansion may have been partly due to the application of the Generalized System of Preferences (GSP) wherein developed countries had decided to grant non-reciprocal tariff preferences to developing countries. Molina (1983) estimated the trade creation effect of the GSP scheme on Philippine manufactured exports to the US, Japan, and EEC. His results showed however that the resulting trade expansion was rather disappointing, having 'created' trade in manufactures in the US of about \$4.7M and in Japan of \$1.2M, the resulting increases in trade being lower than the general trends of growth in the world's manufactured exports. Even the removal of ceiling restrictions would have raised growth rates of exports to the US by only 1 percentage point (i.e. 2.7 to 3.7 per cent), and to Japan by 0.1 percentage point (i.e. from 1.5 per cent to

⁷See for instance, *Nosanbutsu no Juyo to Seisan no Choki Mitoshi* (Demand for Agricultural Products and Long-run Prospects of Production, 1980); see also Food Balance Sheets of Japan, 1985 March.

Table 8 — ASEAN Quantitative Import Restrictions and Other Non-Tariff Barriers by SITC Section (Number of Products Affected)

SITC Section Nontariff Barrier	Indonesia (1980)	Malaysia (1981)	Philippines (1983)	Singapore (1983)	Thailand (1983)
Food, Beverages and Tobacco 0, 1	<u>237</u>	<u>62</u>	<u>117</u>	<u>67</u>	<u>28</u>
Restrictive licensing	1	55	9	67 ^a	13
Quotas	0	0	30	0	0
Import prohibitions	213 ^a	7	3	0	15
Restricted foreign exchange	0	0	61	0	0
State import monopoly	23 ^{aa}	0	14 ^a	0	0
Crude Materials 2	<u>78</u>	<u>41</u>	<u>16</u>	<u>3</u>	<u>33</u>
Restrictive licensing	31	41	0	3	24
Quotas	0	0	9	0	0
Import prohibitions	44	0	2	0	9
Restrictive foreign exchange	0	0	5	0	0
State import monopoly	3	0	0	0	0
Fuels and Animals, Veg. Oils 3, 4	<u>4</u>	<u>0</u>	<u>14</u>	<u>0</u>	<u>4</u>
Restrictive licensing	1	0	0	0	3
Quotas	0	0	14 ^b	0	0 ^c
Import prohibitions	2 ^c	0	0	0	1
State import monopoly	1 ^b	0	0	0	0

Table 8 (Continued)

SITC Section Nontariff Barrier	Indonesia (1980)	Malaysia (1981)	Philippines (1983)	Singapore (1983)	Thailand (1983)
<u>Chemicals</u>	5	<u>57</u>	<u>29</u>	<u>25</u>	<u>8</u>
Restrictive licensing					
Quotas	53	3	0	24	8
Import prohibitions	4	0	24	0	0
Restricted foreign exchange	0	0	1	1	0
	0	0	4	0	0
<u>Basic Manufactures</u>	6	<u>11</u>	<u>175</u>	<u>11</u>	<u>54</u>
Restrictive licensing					
Quotas	241	10	0	11	43
Import prohibitions	36	0	132	0	0
Restricted foreign exchange	3	1	0	0	11
	0	0	43	0	0
<u>Machinery, Transport, Equipment</u>	7	<u>122</u>	<u>88</u>	<u>27</u>	<u>30</u>
Restrictive licensing					
Quotas	117	39	0	27	21
Import prohibitions	5	0	81	0	0
Restricted foreign exchange	0	0	1	0	9
	0	0	6	0	0
<u>Miscellaneous Manufactures</u>	8	<u>17</u>	<u>58</u>	<u>28</u>	<u>26</u>
Restrictive licensing					
Quotas	10	9	0	24	0
Import prohibitions	0	0	2	0	0
Restricted foreign exchange	11	8	3	4	26
	0	0	53	0	0

Table 8 (continued)

SITC Section Nontariff Barrier	Indonesia (1980)	Malaysia (1981)	Philippines (1983)	Singapore (1983)	Thailand (1983)
Memorandum Items:					
Primary Commodities	0-4	<u>103</u>	<u>147</u>	<u>70</u>	<u>65</u>
Restrictive licensing		33	9	70	40
Quotas		0	53	0	0
Import prohibitions		259	5	0	25
Restricted foreign exchange		0	66	0	0
State import monopoly		27	14	0	0
Manufactures	5-8	<u>480</u>	<u>350</u>	<u>91</u>	<u>118</u>
Restrictive licensing		421	0	86	72
Quotas		45	239	0	0
Import prohibitions		14	5	5	46
Restricted foreign exchange		0	106	0	0

a, b, c, Import restrictions principally on food products (SITC 0), mineral fuels (SITC 3), and animal and vegetable oils (SITC 4), respectively.

Source: UNCTAD, Division for Economic Cooperation among Developing Countries, Trade Information System Project, cited in DeRosa (1985).

1.6 per cent). The impact of product exclusion however was found to be greater: export growth to US could then be expected to rise from 2.7 per cent to 19.1 per cent; to Japan, from 1.5 per cent to 10 per cent; and to EC, from 2.1 per cent to 8.4 per cent. Thus \$41M worth of exports are apparently foregone as a result of excluding products which are of interest to the Philippines.

It is possible therefore that the trade creating effects of preferential schemes in favor of developing countries might not have been enough to cancel the trade-restricting effects of developed country protective barriers discussed earlier. Examination of import penetration ratios by developing countries (i.e. share of developing country exports in DC apparent consumption) showed that although such penetration rates in total manufactures of food, beverages and tobacco in 11 selected DCs rose by a mere 0.2 percentage point (i.e. from 3.5 per cent to 3.7 per cent) between 1970 and 1980, mutual penetration rates among DCs rose by some 2.0 percentage points (from 5.2 per cent to 7.2 per cent), due mainly to trade creation among EC members. Moreover, while developing country penetration improved only in the US, that for Japan and the EC stagnated (Harvylshyn and Wolf, 1983). A comparison of import penetration ratios by developing countries in textiles, clothing, and other consumer products showed that such import penetration ratios were lower in Japan than in the EC and the US in 1978, except for textiles. But even for textiles, the ratio of imports to GDP between 1978 and 1981 declined to 32 per cent in Japan while it rose in the US and EC (Balassa and Balassa, 1984).

Aside from import penetration ratios, the *level* of per capita imports of a country may be another indicator of its relative degree of 'openness' on the assumption that consumers belonging to roughly similar income levels will tend to consume roughly the same amount of specific products. Of course, taste differences as well as differences in natural resource endowments matter, especially in the case of food and other resource-based products. However, since as noted earlier, developed countries have a presumed comparative disadvantage in labor-intensive products, per capita import levels might be a more valid indicator of 'openness' of a country for such products than for food and other agro-based commodities.

Examination of data in Table 9 indicates that Japan's per capita import levels of most agro-based and labor-intensive products under consideration are lower than those of either the US or West Germany and even lower than those of Hongkong and Singapore. Comparison with these last two may, of course, be only partly justified

Table 9 — Per Capita Imports of Agro-Based and Labor-Intensive Products in Selected Countries, 1981
(In Current US Dollars)

SITC Code	Commodity	West							Indonesia	
		U.S.	Japan	Germany	Hongkong	S. Korea	Singapore	Malaysia		Thailand
011	Meat, fresh, chilled, frozen	6.91	15.75	32.09	41.46	2.30	38.61			
012	Meat, dried, salted, smoked	0.02	0.12	0.56	4.61		0.80			
014	Meat prep'd, presv'd, n.e.s	2.69	0.48	5.38	10.60		10.47		0.32	
031	Fish, fresh, simply preserved	11.77	29.43	7.32	63.20	1.44	46.21			
032	Fish, etc., tinned, prepared	1.65	1.56	2.67	—		13.08			
036	Shellfish, fresh, frozen	5.41		0.74	—		—			
054	Veg., etc. fresh, simply presv'd	2.75	4.64	29.07	30.72		30.73			0.10
055	Veg., etc. presv'd, prep'd	1.69	1.50	11.63	28.61		25.07		0.14	
057	Fruits, nuts, fresh, dried	5.44	6.29	33.72	58.44		67.44			
058	Fruits, presv'd, prep'd	3.08	1.80	12.01	11.01					
061	Sugar and honey	10.83	7.60	4.29	13.95					
071	Coffee	28.37	4.62	23.91	1.93					
072	Cocoa	40.15	1.18	8.50	1.18	0.07	2.27			
612	Leather manufactures	0.84	—	2.20	4.87		5.73			
632	Wood manufactures	—		—	24.15		16.37			
821	Furniture	6.05	2.07	22.71	21.50		22.48		0.69	
831	Travel goods, handbags	3.76	1.48	6.03	—					
841	Clothing, not of fur	21.74	11.31	75.37	—					
851	Footwear	13.09	2.61	26.03	29.16	0.53	25.77		0.37	0.11
894	Toys, sporting goods, etc.	9.97	2.96	22.71	36.15	2.27	46.03		2.53	
899	Other manufactured goods		2.30	—	54.22		26.03		2.23	2.23

Source of basic data: UN Yearbook of International Trade Statistics, 1981.

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due to their entrepot trading activity. On this basis, Japan might be considered less open than the US and West Germany. In turn the restrictive effects of such protective policy are reflected in large differentials between domestic and border prices of restricted food imports, as shown in Table 10.

Table 10 — Ratio of Domestic to C.I.F. Import Price of Protected Food Items in Japan 1965-1977

	1965-67	1968-70	1971-73	1975-77
Rice ^a	2.025	2.365	3.644	2.785
Wheat ^a	1.945	2.314	2.604	2.765
Barley ^b	1.925	2.647	2.593	2.834
Soybean ^a	1.398	1.797	0.372	2.154
Beef ^b	—	2.494	2.314	3.704
Pork ^b	1.628	1.395	1.362	1.276
Butter ^a	1.828	2.834	2.228	2.895

^aRatio of producer's price to c.i.f. import price.

^bRatio of domestic (wholesale) price to c.i.f. import price.

Source: (Japan's) "Agricultural Problem and Adjustment Problems" (1981).

4.4 Philippine Government Sector Perception on Protection

Interviews with officials of the Philippine government (i.e. MTI and the BOI) in charge of monitoring the agro-based and labor-intensive manufactures revealed that policymakers do consider tariffs and non-tariff protection particularly in the DCs as inhibiting the possibilities for growth of Philippine exports. For instance in the case of agro-based exports, the escalating tariff structure is seen to militate against the expansion of processed agricultural products by discriminating in favor of imports in raw material form. This tends to discourage growth into higher-valued exports.

As for labor-intensive exports such as textiles and garments, the quantitative ceilings to exports have been cited as unduly restrictive. In contrast, they cite the generous quotas for low value-

added products (such as bedsheets) from which exporters however would tend to shy away while they scramble to compete away smaller margins from other exporters of higher-valued products, such as fashion items in the apparel product group. They also noted the practice of slapping countervailing duties in the US on Philippine exports (e.g. in canned tuna) on the basis of allegations of unfair levels of export subsidization.

Policymakers are thus looking for ways of circumventing such quantitative restrictions to export expansion by encouraging product diversification into non-quota items (such as furniture) and/or market diversification into non-quota countries (such as the Middle East, Hongkong, Japan). As a matter of fact, such market diversification has already been occurring, as evidenced by the more rapid growth of Philippine exports destined to the Rest-of-the-World Sector, as compared with those going to traditional markets (cf. Section 2.2). Possibly this trend is a natural consequence of the force of such restrictions. Government officials also stress the importance of making greater use of the GSP in markets such as Japan where the country is said to have taken advantage of the scheme mainly in the case of its banana exports.

However, it must be recognized that if only demand-side constraints were in force and if these were being applied more or less uniformly against developing country exports, there should be no substantial difference in the export performance of developing countries. But we know for a fact that such differences exist, and that while the Philippines was not exactly a laggard among developing country exporters, her performance was less satisfactory than those of some of her East and Southeast Asian neighbors. This suggests the need to look into possible constraints to export expansion on the supply side, to which we turn in the following sections.

5. Limits to Export Expansion: Some Supply-side Constraints

We had noted that in spite of the discriminatory measures set up against agro-based and labor-intensive exports in both DC and developing country markets, these had managed to grow at rather healthy rates during the past decade. In fact the much-lauded growth of the NICs and second-generation NICs had been fuelled to a large degree by the largely successful export-oriented strategy they had been pursuing. Moreover the apparent income-elastic import demand for such products in both developed and developing countries (section 3.1) gives some basis for optimism for further growth of such

exports. Indeed, Philippine government officials who monitor such export growth are of the opinion that the real limits to exports expansion in agro-based and labor-intensive commodities can be traced to the *supply* rather than the demand side. In this section, we shall discuss a number of 'supply-side' constraints to export expansion. First we examine the structure of comparative advantage to determine in which commodities the country does have a (potential) comparative advantage even if this had not been translated into a net export surplus. Then we proceed to examine possible resource constraints as well as policy-induced barriers to export expansion.

5.1 *Comparative Advantage in Agro-based and Labor-Intensive Exports*

As noted in Section 2.1 certain agro-based and labor-intensive commodities, such as fish, tinned and prepared, and even clothing and furniture, had undergone a shift from a position of net importer to net exporter. Thus, there seems to be no reason why a product that is uncompetitive today should not become competitive in the future so long as the country possesses a latent or potential comparative advantage in such products. To determine which among the commodities that have not yet realized competitiveness might have this potential, we need a measure of comparative advantage which is somehow not derived from actual trade performance. For this purpose we adopt the domestic resource cost (DRC) analysis.

This analytic concept evaluates, given a situation of foreign exchange constraint, whether or not an economic activity is efficient in earning (export) or saving (import substitute) foreign exchange. More formally, DRC is the ratio of total domestic cost (evaluated at the social opportunity cost not at market prices) to net foreign exchange earned or saved, that is

$$\text{DRC} = \frac{\text{domestic cost per unit of output}}{(\text{border price per unit of output}) - (\text{foreign cost per unit of output at border price})}$$

The numerator and denominator are in domestic and foreign currency, respectively. Since the shadow exchange rate (SER) measures the opportunity cost of domestic resources used in earning or saving a unit of foreign exchange, comparative advantage (disadvantage) exists if DRC is less (more) than the shadow exchange rate or that DRC/SER is less (more) than 1.

In Table 11 we present DRC-SER ratios for certain export commodities in which the Philippines is as yet a net importer. High and low estimates of DRC are provided for different varieties (of crops) and regions. In general the results confirm the 'intuition' that the Philippines has a potential comparative advantage in many agricultural productive activities. The data point to a strong case for pushing for import substitution, and possibly export orientation, in such products.

We note in particular the comparative advantage in livestock production and in corn production. These two are a good example of complementarities in production where the country has a comparative advantage in. Aside from meeting the need for increased calorie source, stepped-up corn production can meet the feed requirement of an expanding livestock industry⁸ not only in the Philippines but also in Asia (see section 3.2). While the Philippines has remained a net importer, Thailand had already emerged as a major exporter to the region, and so has the People's Republic of China.

Another important area in which the Philippines had only recently come to actualize its latent competitiveness is in fish, tinned, prepared (032), even though the Philippines, being an island country, might have some comparative advantage in fish production. The data in Table 11 bear out this intuition. However, judging from the values of DRC/SER, the presence of a comparative advantage is unambiguous only in the unprocessed stage. It can be recalled that throughout the 1970s the Philippines was able to realize competitiveness only in fish (fresh simply preserved).

In the case of manufactured products, DRC estimates for 1969 and 1974 (Bautista and Tecson, 1979) reveal the existence of comparative advantage in commodities where the country has already emerged as a net exporter such as in knitting mill products, footwear, ready-made clothing, leather products, electrical distribution and control apparatus, miscellaneous manufactures (Table 12). However there is still a wide range of labor-intensive products, particularly in the machinery sector (e.g. agricultural machinery and equipment, other special industrial machinery and equipment, general machinery and equipment, battery, electrical lamps and fixtures), where the country may well be an efficient saver or earner of foreign exchange.

⁸Broilers were found not to have comparative advantage, primarily as a result of the high proportion of commercial feeds to total production costs (i.e. 44% - 52%) much of which is presently imported (Gonzales, 1984).

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Table 11 – DRC-SER Ratios of Selected Agricultural Crops and Fishery Products

<u>Commodity</u>	<u>DRC/SER</u>
Soybeans (Southern Mindanao)	
Orba variety, rainfed, upland	0.76
Orba variety, rainfed, lowland	1.28
Orba variety, irrigated	0.59
Manchurian variety, rainfed, upland	0.60
Manchurian variety, rainfed, lowland	0.55
Livestock	
Broiler	1.37-1.85
Hogs	0.66-0.89
Goats	0.70-0.84
Cattle	0.88-1.02
Carabao	0.81-0.83
Layer	0.80-0.81
Corn (Yellow variety)	
YIVI (Yellow Imprvd. Variety, irrigated)	0.47
YTVNI (Yellow Tradl. Variety, non-irr.)	0.28-1.54
YIVNI (Yellow Imprvd. Variety, non-irr.)	0.22-0.93
YHVNI (Yellow hybrid Variety, non-irri.)	0.18-0.73
Tuna, Commercial Fishing (1982)	
Leyte	0.63
Zamboanga del Sur	0.24
Fishpond (1978)	
Fishpond	0.27
Bangus	0.28
Sugpo	0.18

Source: Agricultural crop DRCs from L.A. Gonzales, "Philippine Agricultural Diversification: A Regional Comparative Advantage Analysis," May 31, 1984 (ADB: Final Report as one of subproject components of "Assessment of Food Demand/Supply Prospects and Related Strategies for Developing Member Countries of ADB, May 31, 1984). Fishery product DRCs from Fe Gentiles, (1985), Tables 4.6, 4.7, pp. 65 and 69.

Table 12 — DRC-SER Ratios: Philippine Manufacturing
1969 and 1974

I-O Code		Industry	DRC/SER	
1969	1974		1969	1974
37	39	Slaughtering and poultry dressing	1.27	0.87
38	40	Meat products, canned	1.24	0.90
	41	Meat products, uncanned		1.02
39	42	Evaporated and condensed milk	0.31	0.18
40	43	Ice cream and other flavored ices, dairy drink specialties	0.61	0.88
41	44	Butter, cheese and other dairy products		1.97
42 ^a	45	Canned fruits and vegetable products	0.50	1.12
43 ^a	46	Other fruits and vegetable products	8.16	1.08
44	47	Fish canning	1.94	0.69
	48	Other fish and seafood products		1.02
45	49	Rice milling	0.88	1.07
46	50	Corn milling	0.79	0.81
47	51	Flour milling	1.07	2.83
48	52	Bakery products	0.79	1.70
49	53	Sugar milling and refining	0.76	0.69
50	54	Candy and chewing gum products		1.65
51	55	Cocoa and chocolate products		1.13
52	56	Processed coffee	0.80	1.08
53	57	Desiccated coconut products	0.46	0.51
55	59	Starch and starch products	0.56	1.15
56	60	Macaroni, spaghetti and noodles		1.02
57	61	Vegetable lard and margarine	0.85	
58	62	Prepared feeds for animals and fowls	0.78	0.88
59	64	Miscellaneous food manufactures, n.e.c.	0.88	2.60
60	65	Distilled, rectified and blended liquors	3.92	1.69
	66, 67	Wines, brewery and malt products		
61	68	Soft drinks and carbonated water	0.61	0.98
62	69	Cigarettes	83.5	1.98
	70	Cigars, chewing, and smoking tobacco		0.67
63	71	Leaf tobacco processing	0.54	2.85
64	72	Textile mill products	1.08	1.32
65	73	Knitting mill products	0.90	0.75
66	74	Cordage, twine and net industries		1.11
67	76	Other textile products	0.61	0.89
68	77	Footwear, except rubber and plastic	1.27	0.70
70	79	Ready made clothing	0.42	0.56
71	80	Manufacture of embroidery products	0.55	0.62
72	81	Other made-up textile goods	0.68	0.70
73	82	Lumber	0.57	0.67
74	83	Plywood and veneer plants	0.72	0.70
75	84	Doors, windows		1.25
76	85	Other wood, cane and cork products	0.53	1.11
77	86	Wood and rattan furniture and fixtures	1.08	0.63
78		Metal furniture and fixtures	0.97	

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Table 12 (Continued)

I-O Code 1969	1974	Industry	DRC/SER	
			1969	1974
80	87	Pulp, paper, and paperboard manufacturing	0.93	0.99
81	88	Paper products	0.93	1.21
82		Paper and Paperboard container	0.98	1.25
83	90	Miscellaneous converted paper products, n.e.c.	0.79	1.11
84	91	Newspapers, magazines, and periodicals	0.73	0.63
85	92	Books and pamphlets	0.77	0.89
86	93	Commercial and job printing		0.72
87	94	Bookbinding and other allied activities	0.49	
88	95	Tanning and leather finishing	0.98	1.04
89	96	Leather products, except footwear	1.52	0.68
90	97	Rubber and footwear	1.27	2.21
91	98	Tires and inner tube manufacturing	0.58	1.07
92		Tire vulcanizing, retreading and repair	0.67	
93	99	Other rubber related products	0.67	3.08
	100	Compressed and liquefied gases		0.69
94	101	Basic industrial chemical	0.82	1.09
95	102	Fertilizer and lime	0.62	0.76
96	103	Coconut oil		0.38
	104	Other oils and fats	0.56	0.80
97	105	Paints, varnishes and related compounds	1.17	1.67
98	106	Plastic materials	0.50	0.82
99	107	Medical and pharmaceutical products	0.61	0.69
100	108	Cosmetic and toilet preparations	19.75	15.10
101	109	Soap and other washing and cleansing compounds	0.74	1.13
103	110	Insecticides, germicides	0.48	0.44
104	111	Other chemical products, n.e.c.	0.66	
105	112	Petroleum refineries	0.53	0.97
106	113	Products of petroleum, coal and coke	3.22	0.66
107	114	Structural clay products	1.61	0.86
108	115	Structural concrete products	0.97	1.06
109	116	Glass and glass products	0.79	1.20
110	117	Pottery, china and earthenware	0.85	0.94
111	118	Hydraulic cement	0.74	0.77
112	119	Other nonmetallic mineral products	2.13	
113	120	Iron and steel basic industries	0.77	1.42
114		Iron and steel foundry products	0.92	
115	121	Basic nonferrous metal products	0.64	0.55
116	122	Metal cans, boxes, and containers	0.79	0.52
117	123	Cutlery and general hardware, handtools		1.49
118				
119	124	Structural metal products	0.82	1.07
120	125	Stamped, coated, and engraved products	0.97	0.79
121	126	Fabricated wire products	0.84	0.70
122	127	Heating apparatus, lighting and plumbing	1.31	1.06

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Table 12 (Continued)

I-O Code 1969	1974	Industry	DRC/SER	
			1969	1974
123	128	Other fabricated metal products, n.e.c.	1.04	2.77
124	129	Agricultural machinery and equipment	0.71	0.64
125	130	Other special industrial machinery and equipment	0.74	0.52
126	131	General industry machinery and equipment	0.80	0.65
128	133.	Electrical distribution and control apparatus	0.36	0.59
129	134	Communication equipment		1.58
130	135	Batteries	0.39	0.59
131	136	Electrical lamps and fixtures	0.81	0.91
132	137	Electrical wires and wiring devices	0.73	
133	138	Household electrical appliances and wires	0.97	
134	139	Household radio, television, receiving sets, phonographs and accessories	0.72	
135	140	Refrigeration and airconditioning equipment		1.62
	141	Other household electrical appliances		1.34
136	142	Shipbuilding and repair	1.20	0.70
137	143	Motor vehicles	0.73	
	144	Motor vehicle engines, body and parts		1.07
138	145	Rebuilding, repair of vehicles and engines	0.49	
	146	Manufacture of motorcycles, bicycles and parts		0.79
141	149	Musical instruments	2.08	
142	150	Fabricated plastic products	0.80	2.52
	151	Manufacture of measuring controlling equipment		0.47
	152	Manufacture of medical, orthopedic and surgical supplies		0.48
143	157	Miscellaneous manufactures, n.e.c.	0.60	0.73

^aI-O 42 (1969): Fruit and fruit juices, canned and preserved.
I-O 43 (1969): Vegetables, canned and preserved.

Source: Computed from Bautista and Tecson (1979), Table 1.

The implication from the above examination of the country's comparative advantage structure is that aside from the export expansion possibilities of currently competitive Philippine agro-based and labor-intensive exports, there appears to be a real potential for the country to achieve competitiveness in other product lines where she is presently uncompetitive. These are maize, soybeans, livestock (layers, hogs, goats, etc.), and certain types of labor-intensive commodities, where previous examination of future demand prospects has revealed promising areas for export expansion. The fact that these had not emerged into export markets in spite of the country's comparative advantage and existing external demand for them points to the need to probe into supply-side factors that tend to restrain their growth.

5.2 Resource Constraints

The question remains, however, as to whether the planned increases in production can materialize, given the country's resource endowments. In other words, are there resource constraints that tend to limit the country's ability to realize her comparative advantage in agro-based and labor-intensive industrial production? Although we are in no position to conduct a comprehensive review of the country's resource base we mention below a number of relevant constraints on the supply side as well as the prospects for overcoming them.

Land availability

In the case of diversified agricultural and agro-based products, one naturally considers first the question of land availability. While there is a talk of dwindling possibilities for further expansion of land frontiers the ultimate issue is how intensely and how productively the land presently under cultivation is being used. Data from the 1981 census of agriculture have not yet been released at the time of writing, thus preventing us from giving more recent figures. But as of 1975 the production potential of agricultural land area in the Philippines was estimated to be capable of increasing to 3.5 times its scale at the time, given the improvements in productivity, increases in irrigated, double-cropped areas as well as the opening up of new areas for cultivation. The multiple cropping index for 1971 stood only at 1.38 in contrast to the 2.23 average MCI in 1961 for Taiwan, a country that had definitely used intensely its limited land area to emerge as a major exporter of agricultural products to the world. Although the Philippines has been cited (Bachman and Paulino, 1979) as a 'rapid growth country' in terms of staple food production

(i.e., where staple food production outpaced population growth) still her staple food output per hectare of 203 kilograms is lower than the average for the selected rapid-growth countries of 215 kilograms/hectare. Much of the increases in her rice yields came about as a result of the rapid spread of new varieties, increases in fertilizer use and expansion of irrigation facilities in the 1970s. While the proportion of arable land under irrigation was higher in the Philippines (i.e., 6.8 per cent as against 3.0 per cent average for rapid-growth countries), nevertheless fertilizer use per hectare of total crop area was lower in the Philippines (12.7 kg./ha as against 24.6 kg./ha. for the latter group of countries in 1961-65 to 1974-76) and the degree of mechanization (i.e., measured by the number of tractors per 1,000 hectares of total crop area) was much lower than the average for selected rapid-growth countries in 1975 (0.6 and 4.3, respectively). As it stands, there appears to be much room for greater intensity of land use and higher productivity.

Fishery resources

In the case of fish and related products, marine resources of the country — some 80 per cent of oceanic fish resources — are said to have remained generally untapped (Gentiles, 1985). An important reason cited was the fact that 70 per cent of commercial fishing in the Philippines is of the one-vessel type of fishing operation and hence operates only in 126,000 square kilometers of coastal waters. By year 2000, PREPF had predicted that 1970-75 fish production could double, given improved fishery technology and adequate governmental support.

Aquaculture, on the other hand, is said to offer the greatest potential contribution to the growth of the fishery industry in the country. Although representing only about 13 per cent of total fish production in 1981, it is estimated (SEAFDEC: Southeast Asian Fisheries Development Center) that given increased productivity in aquaculture productivity through systematic and more intensified technological applications, about a fifth to a third of projected domestic demand by 1989 will be met by brackishwater pond production. Moreover other inland water resources (such as dams and reservoirs, rivers, undeveloped swamplands and mangroves, irrigated ricelands, etc.) can be tapped. It is estimated that if about 30 per cent of such brackishwater fishpond resources were ultimately devoted to shrimp production, this could evolve into a major export commodity (*Bulletin Today*, September 21, 1985). All these presuppose however that we have the necessary ancillary equipment (such as cold storage facilities) crucial to the preservation of the quality of the product.

Raw material availability and quality control

After problems of financing, two possible sources of supply bottleneck deserve mention, namely the problems relating to raw material availability and quality control. In the case, for instance, of processed food exports, one can readily cite the example of canned tuna production where capacity utilization remained abnormally low due to the lack of tuna supplies. Recently however, this bottleneck was said to have been overcome by more lenient rules on fishing in international waters as well as relatively freer entry of the catch into the country. On the other hand, a well-known example of a raw material supply bottleneck among labor-intensive exports is the penalty on the export-oriented apparel industry or on the footwear and leather product industry by the high cost and/or low quality of textile or leather supply. Liberalization of import controls on such raw materials will constitute an important step to easing the burden of the exporter.

Problems arising from the inadequacy of quality control mechanisms also present formidable barriers to export expansion even in the presence of potential demand. It was earlier suggested (Section 4.4) that due to the protectionist policies in the EEC and the US, other markets, especially the non-quota countries like Japan, must be tapped. There are, however, certain additional costs to market diversification such as those related to adaptation to a new market — due, among other things, to differences in measurements, standardization, quality, tastes, etc. Japan presents a good example of a country where the hurdles to be surmounted by the potential exporter in terms of standards and quality of products can appear quite menacing. For instance, Japanese housewives are known to be fastidious over the quality and 'visual features' even of fruits and vegetables they buy (e.g., bananas should not be spotted; cucumbers should be straight).

Philippine government officials also admit that many labor-intensive exporters tend to shy away from the Japanese market due to the strictness of its quality requirements even on low-priced products from ASEAN countries. For instance, according to a 1984 feasibility study on the possibilities of expanding exports to Japan from the Philippines (Media Center Ltd.), the label 'Made in the Philippines' connoted 'bad quality' merchandise. The Report was quick to add however that this does not necessarily imply low demand for such products in Japan since more than half of apparel

sales by Japanese supermarkets and mass sales stores come from South East Asian Countries.⁹

Two main areas where the Philippine producers are considered as falling short are in tailoring technology and in regularity and punctuality in delivering the finished goods. In the case of the former, Philippine apparel products are said to fail in complying with the quality standards of sewing set by the Japanese (e.g., outer garments tend to unbind at the seams or to lose their original shapes upon washing). Moreover, product inspection systems are considered inadequate, leading to shipments of substandard merchandise. In the second case, late deliveries and failure to meet specifications on a regular basis are said to cause irritants and stoppages of order from the importing side. It must be added however that Japanese importers who are actually in the business of importing from the Philippines rate Philippine products favorably and claim to have had no problems with regard to product quality. These are generally joint venture firms that transact business with well-known Philippine manufacturers and who undertake technical supervision by sending their own technicians and experts from Japan.

To cite the case of another labor-intensive product export, namely furniture, the results of a monitoring survey conducted under the auspices of the Japan Trade Promotion Association point to the many areas where Philippine-made furniture examined were judged uncompetitive in the Japanese market, particularly in the areas of design, quality, and market suitability. In several instances, Philippine pieces of furniture inspected were considered substandard, quality-wise, and lacking originality in terms of design. Moreover the quoted prices were judged as not reflecting the country's low wage advantage. One suggestion was that the Philippines concentrate in furniture lines which would reflect her comparative advantage in terms of indigenous resource endowments (e.g. furniture made of mahogany or other high quality wood; dividers made of kapiz, etc.), unique Philippine design (e.g. Spanish-style desks), and her cheap labor (e.g. hand-made furniture). The reason is that the market in Japan for low-priced, mass-produced furnitures is apparently declining while that for elegant, hand-made furniture is increasing.

To summarize, further growth into actual and potential export markets of both agro-based and labor-intensive commodities was

⁹In 1982 about 60 per cent of Japanese apparel imports came from the Philippines. The trend has remained generally flat over the last few years, while countries like Thailand have started to make inroads into the Japanese market.

hampered by the failure to harness existing natural endowments and indigenous talents/skills to meet foreign demand for these goods. Thus raw material availability and technical weaknesses checked the potentials for expansion. In the following section, we argue that policy-induced distortions acted as strong disincentives to such growth.

5.3 Policy-Induced Constraints

To what extent is government policy conducive to agricultural exports and to the growth of the agricultural sector in general? Indeed, as demonstrated by the comprehensive analysis conducted by David¹⁰ (1982) on the effects of economic policies on Philippine agriculture, there are real disincentives to agricultural growth and hence to exports, which are explicit and implicit in many of the price intervention policies (including industrial protection and exchange rate policies) adopted by the Philippine government over time. An incentive structure that was significantly biased against agriculture was set into place through the adoption of market intervention policies which often had conflicting goals (such as promoting low food prices side by side with maintaining high farm incomes) whose result was to depress farm prices of crops and thus discourage production. Such interventions took the form of price controls, export taxes, quotas, tariffs, and pricing policies of national marketing agencies.

Tariff policy, prior to the seventies, was systematically biased against agriculture, in preference to industrial growth. After the seventies, the enlarging web of regulations that had caught agriculture in its grip tended to undervalue and hence discourage the growth of major export products such as coconuts. Moreover, the basically unchanged structure of protection continued to penalize the agricultural sector by according relatively greater protection to the industrial sector and through higher prices of manufactured inputs to agricultural production. Protection was thus negative for both traditional and new agricultural exports.

Furthermore, empirical evidence shows that foreign exchange rate significantly determined the domestic terms of trade. This implies that foreign exchange policy was important in encouraging or discouraging the growth of agricultural production. The continued overvaluation of the peso coupled by the reluctance to correct the

¹⁰ The discussion is based mainly on David's "Economic Policies and Philippine Agriculture," PIDS Working Paper 83-02, 1983.

disequilibrium swiftly enough tended to discriminate against the growth of agricultural exports.

On the other hand, in spite of some semblance of granting promotional incentives to the sector, credit policies (e.g., interest rate subsidization) had not effectively compensated for the disincentives to agricultural growth coming from the price-intervention policies. The low interest policy had probably only reinforced the bias against agricultural lending by reducing the price incentives to such lending. Hence the trend in real loanable funds to the agricultural sector in the 1970s continued to decline. Cheap credit could not be expected to compensate for depressed prices and profitability of farmers who were basically responsive to market-determined incentives.

A plus factor, it was found, was public expenditure policy which seemed to have tended to promote agriculture and productivity growth, though extension, research, irrigation and infrastructure development, etc. not only in rice but also in non-rice sectors. However, the distribution of such expenditures is said to have been very uneven. For instance, research activity has been directed generally to commodities of minor economic importance. Moreover, relatively greater investment is undertaken in extension services rather than on research activity.

Thus when the 'hidden' tax implicit in the price intervention policies of government is added to the explicit tax the agricultural sector pays, it turned out that the sector was being taxed 30 per cent of agricultural value added, as compared with the total effective tax rate of only about 8 per cent of the nonagricultural sector. Even when the subsidies implicit in the provision of public expenditures are netted out, David (1983) found a positive net capital outflow from the agricultural sector.

On balance, therefore, government policy had been found to have worked against agricultural growth in the Philippines and was thus partly responsible for the failure of true comparative advantage position of the country emerging into realized competitiveness in international markets (see discussion in Section 5.1).

In the case of labor-intensive industrial exports, the policy-induced distortions that bias against their expansion have been extensively discussed elsewhere (see for instance, Bautista and Power *et al.*). It suffices to enumerate briefly below the major ones.

As in the case of all exports, the often-overvalued peso also tended to dampen potential demand for them. Moreover, manufactured exports were penalized by the country's structure of protection which imposed a tariff on imported raw materials, forcing them to use high-cost, low quality raw material substitutes to imported ones. The capital-intensity bias of the structure of economic incentives (e.g. accelerated depreciation allowances, underpricing of imported capital) had probably worked against the emergence of the country's comparative advantage in other labor-intensive product lines, or at least delayed such emergence in export markets, only to meet headlong with rising protectionism as well as with the intensified competition bred by the bigger number of developing countries having a similar growth and export strategy as the Philippines. Furthermore the many forms of discrimination against the growth of small- and medium-scale industries which employ labor-intensive techniques of production and generate employment also work ultimately against the growth of such exports.

Thus while industry was favored by the incentive system relative to the agricultural sector, these incentives were too small to offset the other biases that militated against greater expansion of industrial exports, such as tariff protection and peso overvaluation.

6. Competition Among East and Southeast Asian Developing Economies

The last, though not necessarily the only remaining factor that could constrain export expansion is the increasing competition among developing countries for greater shares of world markets. Confining our attention to the Philippines' immediate competitors, one can mention, in addition to the Asian NICs, who are already well-entrenched in import markets such as the OECD countries, the ASEAN countries (Indonesia, Malaysia, and Thailand) as well as China.

The possibility for more intense competition is not far-fetched. For one thing, these countries are simultaneously emphasizing export promotion strategies whose main features are strikingly similar, such as the focus on labor-intensive manufactured exports, investment promotion schemes (with fiscal and financial incentives) that give top priority to export-oriented projects, establishment of export processing zones, etc. Since the ASEAN Four are all engaged in primary import substitution, and, with the exception of Malaysia, belong roughly to the same development stage, there is a strong

similarity in their manufacturing sector structures. About 48-56 per cent of total manufacturing value added originate from three industry groups, namely food, beverages, tobacco; textile and textile products; and wood and wood products. Such similarity in industrial structure shows its face in the similarity of export structures. Labor-intensive exports in Thailand and the Philippines comprised 71 per cent and 68 per cent, respectively of their total manufactured exports in 1975 (Table 13), while oil-rich Malaysia had a lower share of 51 per cent. Moreover, a great proportion of manufactured exports are natural-resource based: 90 per cent for Indonesia, 78 per cent for Thailand, 92 per cent for the Philippines, and 80.2 per cent in Malaysia for the second half of the 1970s. Typically, textiles, apparel, and electronics exports have recently become dominant in the Asian country exports. The emergence of electronics exports is generally attributable to subcontracting activity of multinationals seeking the advantages of low-waged labor in these countries.

Table 13 - Income Level and Manufactured Exports of Selected Asian Countries

Country	PC GNP 1983 (US Dollars)	Share in Total LDC Manufactured Exports in OECD Countries, 1975 (Per cent)	Share of Labor- Intensive Sectors to Manufactured Export Sector, 1975 (Per cent)
<u>Asian NICs</u>			
Hongkong	6,000	17.4	84.29
Singapore	6,620	4.3	36.83
South Korea	2,010	13.9	75.15
Taiwan	—	14.4	66.45
<u>ASEAN</u>			
Indonesia	560	—	—
Malaysia	1,870	3.2	51.83
Philippines	760	1.7	68.11
Thailand	820	1.0	71.05
<u>China</u>	—	4.6	74.20

Source: ADB Key Indicators (April, 1985); Table 4, p. 20 of Pitou van Dijk and Harmen Verbrugger (1984).

China is relatively a newcomer to the competitive area but whose presence already promises to complicate the game. In 1975, her exports comprised about 5 per cent of total LDC exports to OECD countries, as compared to the shares of Thailand (1.0 per cent) and of the Philippines (1.7 per cent). Of course this is still far behind the shares of the early birds, that is, South Korea's and Taiwan's 14 per cent and Hongkong's 17 per cent. In 1979, her textile exports had surpassed the combined total of the ASEAN Four in all the major markets (US, Japan, Western Europe). A similar situation could be expected in other resource-based, labor-intensive exports, as her natural resource and labor endowments generally exceed those of the ASEAN Four put together. Moreover, the competition can be expected to be more severe since China had shifted her economic priorities at the end of the seventies to light consumer goods production. Together with agriculture, light industry is being given top priority in terms of allocation of investment funds, and other resources. Like the ASEAN countries and the NICs, China has also adopted an export-promotion policy, giving emphasis to labor-intensive commodity exports (primarily textiles and handicrafts) and agricultural products, in addition to raw material exports (such as coal, mineral, etc) of which China has rich deposits. For this end, these export-promoting measures have been adopted: increase in number and capacity of manufacturing enterprises producing industrial products and agro-based processed goods exclusively for exports; devaluation of the yuan; efforts at concluding trade agreements with foreign countries to break down barriers to China's exports, etc. Depending on the success of this economic experiment, the Philippines, and indeed the rest of the developing world, can expect greater or less competition in world markets for their own exports.

7. Concluding Remarks

In general the prospects for further expansion in demand for the country's diversified agricultural and labor-intensive industrial products appear bright, judging from their growth experience during the preceding decade, marked though it was by external shocks of almost unprecedented proportions. Per capita imports (in current value terms), especially of the labor-intensive products of interest to the Philippines, had responded positively and more than proportionately to changes in income occurring in our trading partners, both developed and developing, and even within the agro-based export group, new export possibilities had emerged in response to growing demand worldwide, such as in fish exports, even as some traditional exports (e.g. sugar) suffered an apparently permanent decline. Moreover, projections of demand-supply gaps have identified large future

deficits (i.e., in the year 2000) in certain agricultural products like livestock (e.g. pork, chicken) and certain types of foodgrains, in particular maize, where the Philippines appears to have a latent comparative advantage. Indeed, the demand pull for some exports was strong enough to withstand the many forms of protective barriers, both overt and covert, which were being raised against them by importing countries. This is not to deny of course the possible dampening effect of such barriers on demand expansion, especially where these take the form of quantitative restrictions. Nevertheless, the one clear finding from observation of past trends and conservative projections of future trends is that market demand exists and warrants serious consideration of production expansion of certain labor-intensive and agro-based exports.

However, in contrast to some of her developing country neighbors, the Philippines has remained a marginal exporter in all but a few of the agro-based and labor-intensive products examined. Failure to have taken advantage of such existing demand, even in the case of commodities where the country has comparative advantage, seems therefore to point to serious bottlenecks on the supply-side. Physical resource constraints did not appear to be the main bottleneck. Rather, certain technical constraints (e.g. lack of irrigation facilities to support agricultural diversification and multiple cropping in the case of agricultural exports, lack of technical expertise leading to substandard quality of merchandise in the case of some labor-intensive exports) appear to be a more serious supply-side barrier to export expansion. In addition, policy-induced constraints, particularly those originating from price-intervention policies, have serious implications on the possibilities for emergence of the country's comparative advantage in certain production lines. At the very least, these supply-side constraints, put together, had caused a delay in the emergence of the country's latent competitiveness into successful export performance, a delay that is not inconsequential. For one thing, the larger niches in export markets have already been occupied by the early comers, the NICs, while the latecomers including the Philippines are left to compete over the remaining slots, and this, in the face of mounting restrictions to trade.

There is of course the hope that the NICs will sooner or later graduate into higher stages in the ladder of comparative advantage and relinquish their hold on their traditional areas of trade dominance. These could then be taken over by countries like the Philippines. However, this cannot occur without considerable friction in external relations, as the experience of Japan, herself an NIC in the 1950s and early 1960s would show. Besides, the serious problems being encountered by countries like South Korea or Singapore

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in the drive to upgrade their industrial structures, are enough to throw cold water on any naive hopes for smooth and automatic transitions in the complex field of international division of labor. Furthermore, the signs of deceleration in the robust export trends of the seventies are appearing and are currently being felt by both NICs and near-NICs alike, and there are reasons to believe that the phenomenon will not be short-lived.¹¹ Compounding these is the renewed protectionist fever in such large markets as the US, as exemplified by the infamous Jenkins Bill. There is thus a great need for developing countries to mount a concerted and persistent drive to prevent such demand-side constraints from cancelling the gains achieved in the past or from limiting the room for future expansion. Among the key areas where effort should be directed at securing concessions from the developed country trading partners are nondiscriminatory and substantial liberalization of imports of commodities of interest to developing country exporters, increase in product coverage of the GSP as well as removal of the global quota under the scheme. Such a drive, however, will have to be accompanied by serious effort among developing countries themselves to liberalize their own imports, and allow the developed countries, including the NICs, to move earlier and farther into the higher stages of comparative advantage. Moreover, more than lip-service should be paid to the promotion of regional trade and greater interpenetration among developing country markets, since this is an essential component of the international division of labor.

On the other hand, the trend in diversification of export markets that is clearly emerging should be encouraged, not only as a reaction to policy-induced demand-constraints in the traditional country markets, but more in recognition of possibly more buoyant demand and higher growth potentials in some nontraditional markets. For instance, the import markets of Western Europe present an absorptive capacity twice the size of the US and Japan combined. It was shown that West Germany generally had a much higher level of per capita import demand for agro-based and labor-intensive products than those of our two traditional trading partners.

Finally, the fact that part, if not much of the drag to export expansion in the Philippine case could be traded to supply-side constraints, including those that are policy-induced, implies that much of our future chances of success in export markets lie squarely in

¹¹ Although the implications on trade expansion had not yet been clearly spelled out, the prognosis of development economists such as Oshima is that economies are now in the downswing of a long wave. Please refer to his article, "On Long Swings and their Implications for Asia and the Latter 1980s."

our hands. The agenda calls for a clearer, more consistent, and more persistent commitment to an outward-looking strategy of agricultural and industrial growth.

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Table 1 - Annual Growth Rates of Import Demand for Agro-Based and Labor-Intensive Products in Selected Countries, 1971-81
(Per cent)

SITC	Commodity	West			South					
		U.S.	Germany	Japan	Hongkong	Korea	Singapore	Thailand	Malaysia	Indonesia
011	Meat, fresh, chilled, frozen	9.16	12.97	25.56	17.66	47.94	22.60	—	—	—
012	Meat, dried, salted, smoked	4.58	15.13	3.79	12.26	—	8.74	—	9.02	—
014	Meat, prepared or preserved	4.83	10.15	34.90	16.86	—	14.81	—	25.91	—
031	Fish, fresh, simply preserved	13.76	14.74	16.00	18.42	71.21	21.78	(15.02)	10.62	—
032	Fish, etc., tinned, prepared	10.97	15.21	27.42	15.20	—	13.55	—	24.12	—
036	Shellfish, fresh, frozen	10.62	15.26	30.12	13.63	(14.02)	22.54	53.96	22.39	—
054	Vegetable, etc., fresh, simply preserved	14.31	13.67	22.93	21.96	7.44	16.89	—	18.18	—
055	Vegetable, etc., preserved, prepared	12.39	12.21	23.15	18.80	(20.63)	17.65	17.79	15.76	33.92
057	Fruits, nuts, fresh, dried	13.75	10.22	12.88	15.75	—	19.28	—	—	—
058	Fruits, preserved, prepared	20.54	12.89	17.51	19.83	—	13.19	—	10.35	8.77
061	Sugar and honey	11.78	12.94	8.82	15.74	28.67	14.18	(58.57)	21.68	41.22
071	Coffee	9.50	15.19	24.75	4.27	33.06	9.45	—	27.24	—
072	Cocoa	13.83	15.36	13.58	—	37.57	39.22	(11.41)	1.76	61.63
612	Leather, etc., manufacture	24.44	18.68	—	28.73	25.90	34.66	—	—	—
632	Wood manufacture	—	—	23.75	22.86	—	21.40	—	18.64	—
821	Furniture	18.21	20.93	41.07	28.50	—	35.28	—	—	—
831	Travel goods, handbags	21.88	23.95	32.96	34.72	—	26.09	—	21.95	—
841	Clothing, not of fur	16.72	16.04	27.14	29.52	—	19.19	—	—	—
851	Footwear	15.54	11.55	36.74	30.84	—	33.56	—	—	—
894	Toys, sporting goods, etc.	17.63	18.13	8.27	28.68	24.03	23.56	18.86	22.22	—
899	Other manufactured goods	—	—	17.49	23.77	26.32	16.60	16.48	25.64	8.19

1980

Product Related SITC Division	Control Measure	Country Coverage	Duration	Imports Affected	
				\$ Mill.	SITC Div.
Certain Meat	VER	Can., Austral., N.Z.	1965-	1,331	51.6
Certain Cheese	Quota	Global	1953-	338	95.8
Other Dairy Products	Quota, Tariff-Quota	Global	1930-	16	4.5
Certain Fish	Tariff-Quota	Global	1936-	257	9.4
Canned Tuna	Tariff-Quota	Global	1956-	97	3.5
Certain Potatoes	Quota	Global	1936-	13	0.5
Peanuts	Quota	Global	1953-	1	0.0
Canned Mushrooms	SG	Global	1980-1983	122	5.2
Sugar	Quota, VL, SG	Global	1948-	1,995	84.3
Certain Chocolate	Quota	Global	1971-	10	0.2
Specialty Steel	OMA, Bilateral Quota	Japan, EC, Can.	1976-1981	283	3.5
High Carbon Steel	SG	Global	1978-1982	8	0.1
Certain Steel Products	US/EC Arrangement	EC	1982-	2,440	30.0
Lagbolts, Screws	SG	Global	1979-1982	330	8.1
Certain Cookware	SG	Global	1979-1984	2	0.0
CB Radio Receivers	SG	ROC	1979-	37	0.5
Color TV Assemblies	OMA	ROC, Japan, Korea	1979-1982	156	2.2
Automobiles	VER	Japan	1981-	8,231	29.9
Motorcycles	SG	Japan, Germany	1983-	393	1.4
Textiles, Apparel	MFA Bilateral Quota	LDCs	1974-	6,800	71.7
65, 84					

Notes: EC = European Community; MFA = Multi-Fibre Arrangement; OMA = orderly marketing agreement; ROC = Republic of China; SG = GATT Article (US Section 201) safeguard tariff, quota or other measure; VER = voluntary export restraint; and VL = variable levy.

Sources: Office of the US Trade Representative, *Annual Report of the President of the United States on the Trade Agreements Program, 1983* (Washington: Office of the US Trade Representative, 1984); and USTR, "Levels of Protection on Manufactured Goods: The US, EC, Canada and Japan," mimeo, n.d. cited in De Rosa (1985).