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Philippines

Agricultural Situation

State of the Nation Address

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Report Highlights:

In her first State of the Nation Address, President Gloria Macapagal-Arroyo revealed her administration's economic platform. In the plan, Philippine agriculture will be modernized with an annual allocation of P20 billion, rice imports will be liberalized, and agrarian reform will be pursued.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Manila [RP1], RP

President Gloria Macapagal-Arroyo, in her first state of the nation address (SONA) which coincided with the opening of the 12th Congress, outlined her plan in pursuing her "vision of winning the war against poverty within the decade." Her address revolved around four major components.

"The first is an economic philosophy for the 21st century, the way to fight poverty is to create jobs, not destroy them. To create jobs, we will attract investments. To attract investments, we will attend to macro measures and concerns.

In addressing macro concerns, we will focus on long-term structural issues. We started with the reform of the power sector, and I congratulate those of you who were in the previous Congress for this accomplishment. Now, we will focus on infrastructure, productivity and the savings rate."

She emphasized the need to minimize bottlenecks to productivity including deterrents to investments in agriculture, among others. She also asked Congress "to enact a law making farm land acceptable as loan collateral." How to operationalize this is expected to be complicated considering the GOP is still bent on pursuing its agrarian reform which has been identified as a major investment deterrent.

The President also touched on measures on how to reduce corruption and red tape in government, controlling the budget deficit, and how to prepare fast growing industries for the future. She likewise underscored the role of education in the economic development process and articulated her desire to reduce the cost of educating the young.

"The second component of our national agenda to fight poverty is the modernization of agriculture founded on social equity...

There can be a million new jobs in agriculture and fisheries. Within the year, the Department of Agriculture (DA) shall begin to implement the program to generate them. We will approach this with a sense of urgency. I don't want the one million new jobs to come in the long term..."

The program the President was referring to is the Agricultural and Fisheries Modernization Act of 1997 or AFMA (refer to RP9001) whose implementation has been delayed. To show the seriousness of the matter, the Chief Executive announced that she will be holding office at the DA "until we can demonstrate our first 100 days' accomplishments in agriculture, until we can see the million new jobs get off the ground, and until I can ensure that short-term goals are in sync with the goals of the farmer groups and agribusiness."

Speaking in Tagalog or the local dialect, President Arroyo also stated that annually, at least P20 billion (\$377 million) will be allocated for the AFMA. Included here will be P6 billion (\$113 million) for irrigation; P2 (\$38 million) billion for post-harvest facilities; P2 billion (\$38 million) for infrastructure; P2 billion (\$38 million) for credit; and P2 billion (\$38 million) for research and development. The President added that "There is money and there will be money, and the DA shall demonstrate its capacity to use these funds."

In the area of rice, while the President noted that the AFMA promises rice self-sufficiency, she likewise announced the plan to remove the monopolistic function of the National Food Authority (NFA) over rice imports. She further mentioned "that if a shortage seems likely, we will allow the private sector to import rice" for as long as the appropriate Customs duties are paid. The collected duties will finance the modernization of domestic rice production the President explained. Cheap rice and a bountiful harvest. This is the Presidents wish for the masses.

While a copy of the text of her message indicates that it will be the private sector in general which will be able to bring in rice, during the actual address, the Chief Executive specifically mentioned it was farmers that will be allowed to import rice. Whether this meant small farming groups or corporate producers, rice or raisers of other crops, etc., she did not elaborate.

The NFA's monopoly over rice imports has been a contentious issue. The GOP and Asian Development Bank (ADB) in a Memorandum of Understanding (MOU) signed in 1999 called for the privatization of 51 percent of the NFA's trading operations, among others. The NFA continues to be opposed to privatization contending that the country has not yet attained rice self-sufficiency and that local farmers have not reached that level to be globally competitive. Instead of privatization, the NFA is refocusing its efforts in trying to be more efficient. The NFA has consistently been losing money in its operations.

For the coconut industry, President Arroyo indicated that her government would be able to serve the coconut industry more should the courts rule in favor of the GOP on the controversial Coconut Levy Fund issue.

"To fight poverty, agricultural modernization will be socially equitable. We shall redeem in earnest the promise of land reform, a commitment that spans several presidents."

The "several presidents" includes Presidents Arroyo's father, the late President Diosdado Macapagal who was a staunch advocate and supporter of land reform. President Arroyo said that annually 200,000 hectares of land will be redistributed: "100,000 of private land and 100,000 of public land, including 100 ancestral domain titles for indigenous peoples.

Next, the President announced that "We will bring our war against poverty to rural Mindanao, especially the areas most affected by the past conflicts...In the next 12 months, we will spend P500 million from the OPEC Fund for community projects in their areas."

"The third component of our national agenda is a social bias to balance economic development. This social bias consists in immediate measures."

President Arroyo continued her address in Tagalog saying that to give immediate relief, her Administration has given the right to at least 80,000 poor households to purchase the land they were residing on. She added that the GOP would work harder to give security of land tenure to 150,000 urban poor families every year and that she did not like to see a Filipino squatter in his own country.

Around half of the Philippine population reside in the rural areas where poverty is most

prevalent. The President's pronouncements, while politically sound and appealing, may aggravate the already very large urban population and accelerate rural-to-urban migration. Metro Manila alone has an estimated population of more than 11 million and growing. Squatting is a major problem.

The Chief Executive appealed to the business sector to give emergency cost of allowance to their employees if they are in a position to, adding that this could be credited when a new salary scale is legislated or determined by the Wage Board.

The GOP was also working to prevent further increase in prices of basic goods. Because rice is very important to the laborers, President Arroyo said she would field 1,000 rolling stores that would sell rice at a low P14 per kilo (\$0.26/kilo) instead of P18/kilo (\$0.34/kilo). In addition, the GOP would slash the cost of basic medicines by half. This would materialize this year, according to the President.

"The fourth component of our national agenda is improving moral standards and the rule of law."

Under this component, the President touched on strengthening of the justice system and the enforcement of law and order as well good conduct and morals of those in government. She particularly cited the efforts in the Bureau of Internal Revenue and the Bureau of Customs in their revenue collections and anti-smuggling drive, respectively.

COMMENTS: It was a good speech, well delivered. It was interrupted by applause 80 times by a room packed with her supporters. As with most speeches of this type it was long on promises and the budget numbers short on specifics. Getting the legislation she needs and the budget numbers she was indicating from a narrowly divided Senate will be a major challenge.

Agricultural modernization founded on social equity presents a paradox. Social equity refers to land reform more than anything else. Land reform in the Philippine context means breaking up large land holdings in order to give titles of 1-2 hectare plots to tenants. It has served to create subsistence farmers not modern farmers. It has also been a major deterrent to investment by agribusiness.