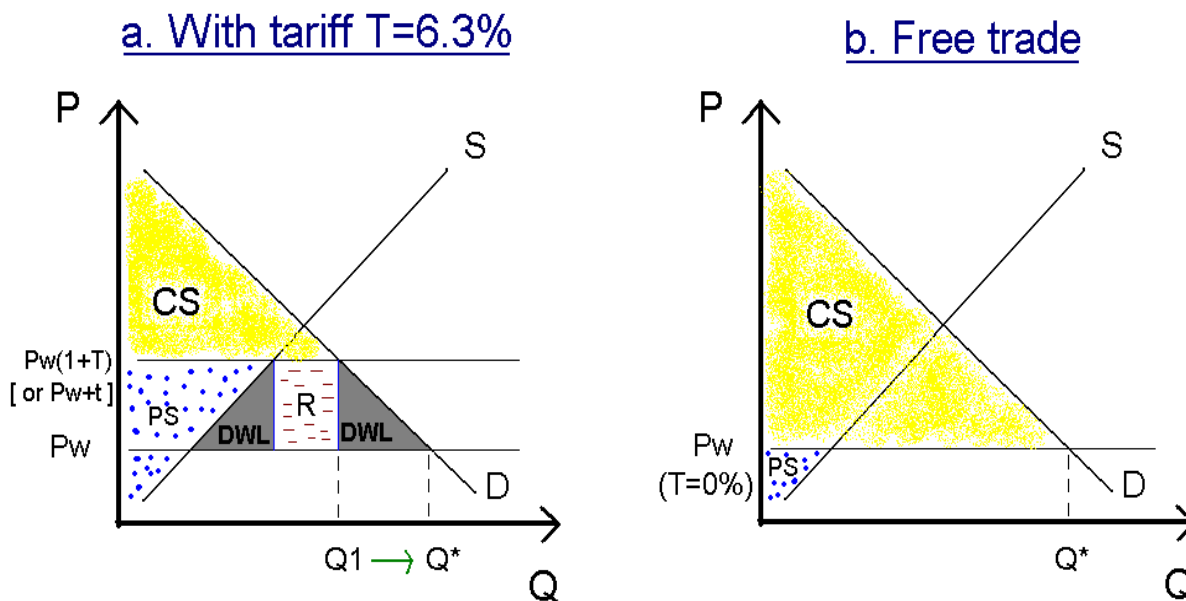


## Brief Essay

about Trade policy and Optimal tariff of Philippines.

Republic of the Philippines is an island country in Southeast Asia with a population of 113.51 million by 2017 and an area of 300,000 square kilometres.<sup>1</sup> It is a member of the World Trade Organization since 1<sup>st</sup> of January 1995.<sup>2</sup> Its GDP in millions of current US dollars and GDP per capita in dollars are 304,696\$ and 2878\$, respectively. Moreover, Philippines constitutes the 0.35% share of total world exports and the 0.53% share of total world imports as of 2016. Since the shares of its world exports and imports are relatively small, the Philippines is assumed to be a small country in the further analyses.

According to its Tariff profile, the average applied tariff<sup>3</sup> of Philippines is 6.3% ad valorem, although the binding coverage of Philippines in WTO is 67% of all types of products. Optimal tariff



optimization problem by maximizing countries welfare suggests that welfare of a small country is maximized when tariff is zero, i.e. when there is a free trade. The reason is small country does not have sufficient effect on world's demand and, thus, any tariff amount will not decrease world

<sup>1</sup> Population and area are taken from [www.geoba.se](http://www.geoba.se).

<sup>2</sup> The date and all of the subsequent data, if not otherwise mentioned, is from [www.wto.org](http://www.wto.org) (2016).

<sup>3</sup> Simple average MFN (Most Favoured Nations) applied.

prices. As seen in the second graph<sup>4</sup> above, the welfare of Philippines under the free trade conditions (with approximately zero amount of tariff) could be the sum of Consumer Surplus (CS) and Producer Surplus (PS) areas. On the other hand, while average ad valorem tariff is 6.3%, the Philippines misses an opportunity of having greater total welfare. Although in this case PS and Government Revenues (R) increase, huge loss in CS is not compensated and, therefore, loss in welfare (DWL)<sup>5</sup> is observed as seen in the first graph.<sup>6</sup> Consequently, welfare analyses for small countries, such as Philippines, with optimal tariff optimization and graphs, demonstrate how beneficial it is for such countries to move to the free trade.

According to a Filipino political economist Calixto Chikiamco,<sup>7</sup> there are many monopolistic and oligopolistic structures in various sectors of the Philippines' economy, such as telecommunications, that have high prices providing bad and low quality services. He states that elite groups influence government decisions in favourable regulations in a way that keeps their market power and prevents other firms from free entry.<sup>8</sup> Several of such regulations are products with uncovered tariff lines in WTO agreements and other trade barriers with an average of 6.3% ad valorem tariff, as seen above. Moving to the free trade, would reduce local prices to the world level and, therefore, would force Philippine firms to decrease their prices and improve quality of services in order to be competitive. Movement towards free trade results also in tendency towards perfect competition that can liquidate local monopolies and oligopolies. Such change would definitely provide free entry that opens new horizons for entrepreneurs. Consumers would also benefit lower prices and improved quality of products and services. In this case, the domestic elites would lose their market power, making government institutions more inclusive and democratic.

In a nutshell, it is doubtlessly advantageous for the Philippines to remove all barriers of trade because then the social welfare of Philippines would be maximized and its economy would face world competition that can clean domestic politics, benefit consumers and entrepreneurs.

## References.

1. Official site of the World Trade Organization - [www.wto.org](http://www.wto.org). Trade and Tariff profiles of Philippines were used for various statistical data.
2. The site [www.geoba.se](http://www.geoba.se) was used for determining country's population and area statistics.
3. Speech on inclusive economic growth by Calixto Chikiamco, <https://www.slideshare.net/FEFPhilippines/speech-on-inclusive-economic-growth-by-calixto-chikiamco>.

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<sup>4</sup> Graph b. Free trade

<sup>5</sup> Deadweight loss

<sup>6</sup> Graph a. With tariff  $T=6.3\%$

<sup>7</sup> President of Foundation for Economic Freedom in Philippines

<sup>8</sup> Chikiamco, Speech on inclusive economic growth, 3-4.