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GENERAL POLITICAL SITUATION: The bilateral relationship between the United States and the Government of the Philippines (GRP) is truly unique in the intimacy of its history and the depth of its human ties. The two countries share a profound commitment to democracy, broad economic ties, and a treaty defense alliance. Two million Filipino-Americans constitute the second largest immigrant group in the United States, while 120,000 U.S. citizens reside in the Philippines. Reflecting this important relationship, the U.S. Embassy-Manila is the second largest overseas Post in the world.

In general, government structure is similar to that of the United States. The country has had three electoral presidential transitions since the removal of President Marcos in 1986. The current president, Gloria Macapagal-Arroyo, has been in power since January 2001. Her election to a new six-year term in 2004 brought some stability to the financial markets, an appreciation in the Philippine Peso, and renewed though cautious interest in increased foreign investments. Significant political challenges remain, however, including lack of progress on key economic and fiscal legislation; need for judicial reforms; rising energy prices; rapid population growth; and ongoing insurgencies by Islamic groups in the southern islands of Mindanao.

MACROECONOMIC SITUATI0N AND TREND: From the end of the Marcos era to the present, the Philippine economy has begun a gradual transformation from inward to outward looking orientation. Successive administrations have managed to gradually lower trade barriers, privatize government corporations, reform financial markets and ease restrictions on foreign investment, despite political upheavals, external shocks like the Asian financial crisis, and natural disasters. During this period, national income (Gross Domestic Product - GDP) increased by an average of 3 percent per year. The annual population growth rate of 2.36 percent of the estimated 90 million Filipinos, however, has meant that the Philippines has fallen behind most of its Asian neighbors in terms of per capita income. Roughly 37 percent of the Philippine population is below 15 years of age with the number of males marginally higher than those of females. Annual average income for a household of five persons is around $4,200.

Economic growth has averaged 5 percent since President Arroyo took office in 2001. President Arroyo’s administration averted a fiscal crisis by pushing for new revenue measures and, until recently, tightening expenditures. Declining fiscal deficits, tapering debt and debt service ratios, as well as recent efforts to increase spending on infrastructure and social services have heightened optimism over Philippine economic prospects. Although the general macroeconomic outlook has improved, the Philippines continues to face challenges. It must maintain the reform momentum in order to catch up with regional competitors, improve employment opportunities, and alleviate poverty.

Philippine GDP growth in 2007 reached 7.3 percent, exceeding expectations and higher than the 5.4 expansion in 2006. Higher GRP spending contributed to the higher growth rate with all sectors posting positive growth led by services and industry. Significant remittances from the millions of overseas Filipino workers (OFWs) play an increasingly important role in the economy. OFW remittances in 2007 reached over $14 billion, equal to about 11 percent of GDP. The remittances help curb inflation (2.8 percent) and helped personal consumption fuel the economy's growth last year. The same remittances also enhanced the 19 percent appreciation of the Philippine Peso relative to the United States dollar in 2007, making it the best performing currency in Asia in 2007.

THE ECONOMY AS IT RELATES TO AGRICULTURE: Agriculture plays a significant role in the Philippine economy. Roughly 70 percent of the country's population is in the rural areas and agriculture contributes about 18 percent to the country's GDP. Two-thirds of the country's population depends on farming for its livelihood, and about 38 percent of the labor force is engaged in agricultural activities. The Philippines is an archipelago consisting of more than 7,000 islands with an aggregate land area of 30 million hectares (74 million acres), 47 percent of which is agricultural land. There are three main island groups with Mindanao, the southern island group, having the most potential for expanded agricultural production.

The total area devoted to agricultural crops is about 13 million hectares. Of that area, coconut production accounts for the largest average harvest area of 4.25 million hectares (10.5 million acres); sugarcane, 673,000 hectares (1.66 million); industrial crops, 591,000 hectares (1.46 million hectares); pasture, 404,000 hectares (998,300 hectares); vegetables and root crops, 270,000 hectares (667,180 acres); fruits, 148,000 hectares (365,720 hectares; and 133,000 hectares (328,650 acres) for cut flowers. Four commodities: rice, corn, livestock and poultry account for about 76 percent of the country's gross agricultural production.

The majority of Philippine farms are small in size, averaging about 2 hectares and are managed by single families engaged in subsistence production. The Philippines has prioritized livestock development – specifically in upgrading the genetics of dairy/beef cattle and small ruminants; investment in pre and post-harvest facilities and infrastructure; and biotechnology research and development. Agricultural development is a priority of the Arroyo administration as agricultural households account for the highest levels of poverty and malnutrition. Performance of the sector, however, is largely a function of weather conditions.

AGRICULTURAL POLICY OVERVIEW: Traditionally employing nearly 38 percent of the labor force while accounting for barely a fifth of GDP, Philippine agriculture is considered to be inefficient. Agricultural production has not been able to cope with the growing food demand of the rapidly growing Philippine population.

The Philippines formally joined the WTO in 1995, the year the country became a net food importer and in 1996, to comply with WTO rules, then President Fidel V. Ramos signed Republic Act (RA) 8178, the "Agricultural Tariffication Act." RA 8178 provided a list of sensitive agricultural products that were regulated by tariff-rate-quotas (TRQs).

GENERAL AND AGRICULTURAL TRADE SITUATION: Economic liberalization in the Philippines has pushed the country to extend its formal international economic links. The Philippines has a relatively open trading system and has some of the lowest applied tariffs in the region. The Philippines acceded to the WTO in 1995. It is a member of the G-33 and also belongs to the G-20 and the Cairns Group. As a party to the ASEAN Free Trade Agreement (AFTA), its exports to ASEAN benefit from the lower common effective tariff (CEPT) applicable to members' products. The Philippines has also entered into and/or is currently negotiating a series of regional or bilateral FTA's with neighboring countries to include China, Japan and Korea. It is an active member and participant in Codex, SPS Committee and OIE.

The Philippines has a relatively open trading system and has some of the lowest applied tariffs in the region. Tariff exemptions are also provided by law for a wide range of imported items generally used as production inputs. About 65 percent of total Philippine export is comprised of computer and electronic components, but those products' raw material is largely imported. Total merchandise exports in 2006 reached $47.0 billion while imports were $51.5 billion for a trade deficit of $4.5 billion. For 2007, merchandise exports reached $50.3 billion while imports totaled $55.3 billion for a trade deficit of $5.0 billion. The United States is the Philippines' most important trading partner. Last year, it exported nearly $8.7 billion worth of goods to the United States and imported approximately $8.4 billion for a Philippine trade surplus of $178 million. Other important trading partners are Japan, Korea and the ASEAN-member countries.

The Philippines enjoys a healthy agricultural, fish and forestry trade relationship with the U.S. From 2003-2005, it enjoyed an agricultural trade surplus but experienced a modest deficit in the last two years. The United States is the number one market for Filipino agricultural, fish and forestry exports, with record sales reaching $992 million in 2007 representing an 8 percent increase from the previous year's level. Major agricultural products exported were coconut oil ($314 million), fish and seafood products ($248 million) tropical fruits and vegetables ($130 million) and sugar ($71 million). The country is the world's largest coconut oil exporter and the U.S. is its largest buyer. As a member of the G-33, G-20, Cairns and ASEAN Groups, its positions and negotiating strategies on agricultural issues tend to mirror these groups, e.g., sharp reductions in domestic agricultural support by developed countries, minimal market access concessions and generous flexibility for developing countries.

The Philippines is a key market in Southeast Asia for U.S. agricultural, fish and forestry exports, with sales reaching over $1.15 billion in 2007, the highest level ever. The top U.S. exports last year were wheat ($351million), soybean & soybean meal ($216 million), dairy products ($152 million), processed fruits and vegetables ($52 million) and snack foods ($41 million). Total U.S. agricultural exports rose 25 percent compared to 2006 due to rising commodity prices, strengthening of the Philippine peso and sustained efforts of Post to expand U.S. agricultural sales. The United States remains the top food and beverage supplier to the Philippines. However, competition has greatly intensified over time, with products from Australia, New Zealand, the EU, Canada, China, and the ASEAN accounting for a growing share of the market.

REGULATORY SYSTEM: The Bureau of Animal Industry (BAI) is charged with regulating the flow of domestic and imported animals and animal products in the country. The National Meat Inspection Service (NMIS) ensures that imported or exportable meat and meat products are produced under acceptable conditions and systems. The Bureau of Plant Industry (BPI) has the task of inspection and certification of imported and exportable plant products such as fruits and vegetables. The Bureau of Fisheries and Aquatic Resources (BFAR) is responsible for controlling fish and other marine products, including, the issuance of import permits for fish and fishery products. The Bureau of Food and Drug (BFAD) regulates imported processed food products. All these bureaus are under the jurisdiction of DA except BFAD, which is under the Department of Health.

With some exceptions, the GRP's food laws are patterned after internationally agreed standards and practices. The Philippines biotechnology programs are largely science-based. The Philippines is considered a regional leader in modern agricultural biotechnology having science-based commercialization guidelines in place.