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If the recommendation receives support from USDA, State and AID a private sector group of American PVOs, cooperatives, bankers, agribusinessmen and market cooperators committed to an action-related approach in support of the dual objectives of increased trade and development would be prepared to travel to the Philippines, to make an institutional commitment to set up and administer the Fund on a solid business like basis and to secure additional resources in support of the objectives of the Fund. Eventually, when independent evaluation so recommends and when USDA and AID concur, the group will begin to implement a carefully worked out plan to transfer control, administration and ownership of the Fund into a binational foundation in cooperation with the appropriate Philippine private sector structure. We feel the ultimate evolution of the Fund into a binational foundation as key in order to achieve the long term objectives of a permanent institution and a self-sustainable joint effort in the promotion of the trade and development initiatives.

The Philippine Trade and Development Fund would be designed to compliment existing USG program promoting aid and trade and would provide support to private enterprise initiatives as well as support to all those activities outlined in the Agriculture Aid and Trade Missions Act.

Specifically, it would use, as recommended earlier, proceeds from the proposed monetization to support PVO and cooperatives' programs directed to:

- o providing communities with the means to increase incomes and productivity;
- o establishing the infrastructure that is essential to the expansion of markets for agricultural commodities and products;
- o stimulating and enhancing the capacity of local PVOs, cooperatives and institutions to more effectively promote dynamic economic growth.

Furthermore as recommended, the Fund would provide the start-up costs and initial capitalization for the creation in cooperation with a Philippine commercial bank of an Intermediate Financial Institution (IFI), which is described separately. The IFI would in turn provide support as well as intermediate credit financing or credit guarantees:

- o to agribusiness ventures, especially those that assure value-added enhancements and greater employment and income through contract farming as well as those that use American goods and services;
- o to improve the handling, marketing, processing, storage and distribution of both domestic and imported agricultural commodities; and
- o to increase livestock and aquaculture production in order to enhance the demand for American feed grains.

In addition, the Philippine Trade and Development Fund could provide support to compliment American and Philippine cooperators and agribusiness efforts and could also provide funds to match or supplement their private monies and market development monies (TEA) to finance:

- o pilot schemes (which could lead to joint ventures with Philippine partners);
- o market development schemes;
- o improved food production and food processing; and
- o export promotion endeavors.

## DYNAMIC GROWTH IN PRAWN CULTIVATION

Total production in the Philippines of fish and shrimp is 2 million tons annually (1.3 million tons marine fishing, 260,000 tons inland fishing and 500,000 tons aquaculture). Shrimp farming is by far the most rapidly expanding agribusiness in the Philippines. The Philippines offers the key ingredients necessary to successful shrimp farming: year around warm temperatures, good sites, low labor costs, government support and expanding export markets. Philippine growers have an advantage over Taiwan growers--the temperature in the Philippines allows for two harvests per year.

During the workshops held in Washington prior to the ATDM to the Philippines prawn (specifically penaeid shrimp) culture was identified by both the Philippine and American participants as one of the fastest growing agriculture enterprises. Discussions with GOP officials, U.S. Embassy and USAID staff as well as with American Philippine investors confirmed shrimp culture as a major area of opportunity for expanded trade. Given that shrimp exports last year generated \$150 million in revenues, the Philippine government is fully supportive of all initiatives leading to an expansion of the industry. A number of American agribusinessmen have invested in semi-intensive and integrated shrimp culture ventures. They report net profits of \$12,000 per hectare. Dole Philippines has invested more than \$10 million and plans to expand its investments.

While still a young industry, prawn exports in 1987 generated for the Philippines almost twice the hard currency revenues as sugar exports (which totalled only \$78 million last year). The GOP projects that shrimp exports will expand dramatically and that shrimp exports will provide \$300 million in revenue in the current year. Japan is, by far, the major market for Philippine shrimp, followed by the U.S. and Europe.

Prawn production in 1987 was 25,000 metric tons (MT), nearly double the 1986 output of 14,000 MT. Given the current growth rates the U.S. Embassy estimates production levels of 50,000 MT by 1990. Assuming a 2 to 1 feed conversion ratio, the feed requirements for prawn alone would be 100,000 MT in 1990. Presently 50 percent of the prawn feed is supplied domestically and the other half is imported. Pelletized prawn feed sells in the Philippines from \$1.30 to \$1.50 per kilogram. The prawn feed market now at \$75 million per year will increase to \$140 million annually before the end of this decade, if the Embassy projections are accurate. Others foresee the demand for feed in the Philippine prawn industry exceeding 200,000 MT within three years.

U.S. suppliers are only minimally present in this thriving market. Penaeid shrimp have protein requirements of 40 percent of feed. The shrimp feed pellet must be stable in water for several hours. To achieve desired levels of water stability, binders such as wheat gluten and gelatin are required.

Feed costs represent 46 percent of the variable costs of a shrimp farm. Currently the cost of shrimp feed to the Philippine grower is twice the comparative price to the Thai shrimp producer. Less expensive feed reportedly could be produced with the combination of American technology and less expensive (U.S. supplied) feed ingredients such as soybean meal, rice bran and wheat bran, vitamins, minerals and pre-mixes. The American Soybean Association (ASA) is attempting to make the case that the costs of aquaculture feed can be reduced by replacing expensive marine animal feed ingredients with plant protein. The San Miguel Corporation has registered concern about the diminishing quality of U.S. soybean meal. Their buying contract specified 48 percent protein but the protein content of U.S. supplied soybean meal in 1987 was only 47 percent. The protein content of hi-pro soybean meal has reportedly diminished one-half percent in each of the last three years.

ASA's earlier initiatives in the U.S. media to discourage imports of tropical oils by suggesting high cholesterol levels created a strong public outburst and backlash in the Philippines. This, in combination with the reported complaint of successive lower levels of protein in U.S. Soybean meal, may be contributing factors to American suppliers losing the Philippine market to Chinese suppliers. In 1987, total soybean meal imports exceeded 400,000 MT due, in great part, to growth in the domestic swine and poultry production. The U.S. had 31 percent of this market in 1987, but this is down from 45 percent in 1986.

The debates in the National Assembly on the new land reform measures have seemingly led to a ruling that commercial prawn farms as well as orchards and commercial poultry and swine farms will be exempted and this will certainly encourage investors. Municipalities that own land convertible to shrimp culture will be willing to subcontract with integrated shrimp producers and thereby generate substantial supplemental revenues. More and more commercial banks are willing to finance major investors in this industry given prawn culture's high yields and quick returns. Every indication confirms the strength of this growth industry. Opportunities for American suppliers are not limited to feed components. Significant opportunity is also available to fertilizer suppliers (specially developed fertilizers to grow natural feeds such as diatoms and zooplankton), suppliers of equipment such as aerators, processing and packaging suppliers and suppliers of American technology and marketing expertise.

## P.L. 480, TITLE II, DIRECT FEEDING PROGRAMS

The Philippines is normally a food surplus country but due to a severe three-year economic contraction, per capital GNP has fallen, while poverty and malnutrition have increased. Current Title II direct feeding programs of CARE and CRS, valued at \$27 million, are helping reduce the incidence of malnutrition for more than 2.8 million children at risk. While the Title II programs have almost doubled in size since 1984, a recent survey of the Department of Health estimates more than 6.5 million children are malnourished.

### CARE Title II Programs

Stanley Dunn, Director of CARE Philippines, presented to the ATDM a summary of their Title II programs.

#### 1. Primary School Nutrition Program

This CARE-sponsored program, begun in 1958 in collaboration with the Department of Education, Culture and Sports (DECS), presently reaches 1.2 million children. CARE's Title II contribution consists of 11,000 tones of wheat flour and bulgur wheat. The government of the Philippines through the DECS contributes annually 25 million pesos (\$1.2 million) to cover the cost of transport and storage of the donated Title II commodities.

#### 2. Maternal Child Health, MCH Program

The MCH program carried out in cooperation with the Department of Health (DOH) was initiated by CARE in 1976 and now reaches 500,000 preschool children. Inland transport and storage costs of the Title II foods annually total 18 million pesos (\$850,000) and are covered by the Department of Health. Originally 17,000 tons of NFDM was approved for FY 1988, but this was reduced to 12,000 tons.

CARE is proposing to convert the program from a dry take-home ration to a wet feeding program using local foods. The CARE proposal seeks to monetize 10,000 tons of wheat and to use the proceeds to fund a three-year program in support of the transition from a dry-ration to center based feeding. Approximately 30 percent of the proceeds will be channelled to strengthen and expand CARE's rural capital formation program.

The ATDM supports and recommends approval of the CARE proposal.

#### 3. Emergency Feeding Program

As a result of the depressed sugar market, the population of Negros has experienced exceptionally hard times and devastating levels of unemployment. CARE is providing 3,000 tons of Title II commodities under a program targeted to 240,000 malnourished children in Negros.

In addition to their Title II food programs, CARE has been supporting programs of technical assistance. Under these programs CARE is assisting local PVOs, small enterprises and village groups in project design, setting up basic financial accounting and other forms of technical assistance. Since 1981, CARE has piloted credit schemes direct to:

- o small farmers and
- o micro-entrepreneurs.

There is no effective national mechanism to provide credit to the majority of the population. Local money lenders apply the 5/6 rule which implies effective interest rates in excess of 20 percent per month.

Individual small farmers require loans in the \$100 to \$200 range each cropping season. If their only recourse is the local money lender, all potential profit is wiped out by the excessive interest rates. CARE has developed a program of providing loans to Philippine PVOs who, in turn, then lend to small farmers and entrepreneurs. This program was initiated with a \$200,000 capitalization grant from CARE's own private funds. CARE makes the loan to the local PVO under the following terms: one year grace period and interest rates varying between 9 and 12 percent. The Philippine PVO, in turn, lends the money to small farmers on short term basis and at interest rates between 18 and 24 percent. The CARE Director indicated that the 9 percent interest they charge does not cover all their overhead, since CARE also provides technical training. The 9 to 12 point spread charged by the local PVO may be sufficient to cover their overhead.

The CARE program is also trying to link their (local PVO) clients to formal banking structure by certifying the Philippine PVO to be credit worthy. Under this system, the bank lends to the certified PVO at 14 percent interest. The PVO then on-lends to small farmers at 18 to 22 percent. CARE is also promoting and assisting local cooperatives and cooperative credit schemes.

CARE indicates they could significantly expand their various credit schemes if additional funds were available.

#### **CATHOLIC RELIEF SERVICES**

In 1987 the CRS/Philippines program continued to hold firm to its mandate to assist the poor. Its programs fall in the same basic areas that have prevailed since its beginnings in the Philippines.

The three basic thrusts of the CRS/Philippines program in 1987 were:

- o Health and Nutrition;
- o Agricultural Productivity
- o Emergency Response.

## HEALTH AND NUTRITION

In 59 Catholic dioceses throughout the country a program of health and nutrition is carried on. That program, under the title "Targeted Maternal and Child Health" (TMCH), reaches over 448,000 of the country's poorest families each month. It seeks to achieve one fundamental objective: improvement in the nutritional status of the preschool aged child. In over 7,500 centers nationwide the program carries out education for improved health and sanitation, community potable water projects, immunization efforts, and small income generating activities.

In addition, CRS supports a Day Care program with the Department of Social Welfare and Development. As with the TMCH Program, its coverage is nationwide and reaches roughly 400,000 beneficiaries.

The total estimated value of the two programs is roughly \$14.9 million including P.L. 480 food valued at \$12.4 million; counterpart support of over \$2.8 million and additional support of over \$0.1 million.

## AGRICULTURAL PRODUCTIVITY

Conscious that basic food needs were still a problem in many of the poorer households in the country, CRS supported numerous projects designed to increase the available supply. With funds for irrigation, new technologies (e.g., sloping agricultural land technology, fish cages), and post harvest storage, rural groups were assisted to increase their production. During the year, also, two new ingredients, credit and marketing assistance, were added.

In 1987, CRS had commitments to over 60 projects with a total value greater than \$700,000.

## FUTURE DIRECTION

CRS emerges in 1988 with the following new directions in program strategy.

In the area of rural development, CRS will give attention to profitability of the rural producer.

Productivity in the areas of staple crops, fish and cash crops has been under the direction of CRS' past efforts. Success has been noted but the changes in the economic conditions of producers have lagged behind the gains in production. Due to inadequate attention being placed on putting cash benefits in the pockets of the producers. Benefits accrued to middlemen and marketers to a much greater extent than to producers.

In the future, CRS will emphasize support to projects in which the producers themselves handle marketing, gain more direct access to credit on more favorable terms, improve their ability to withstand price fluctuations and engage in horizontal support activities which increase the value of their production.



In the TMCH Program, CRS will utilize the diocesan TMCHP structures for credit support.

The network of 7,500 distribution centers with an audience of over 250,000 mothers provides a unique opportunity for providing small scale financing to what is called "livelihood" activities. Such activities entail a small injection of capital to mothers to stimulate income/loan generating endeavors.

Experience in some areas indicates that such an infusion of credit can result in small, albeit dramatic changes in income among families on or below the poverty line. CRS will continue to import P.L. 480, Title II, but couple its distribution with income generating activities to the extent feasible.

CRS will continue its assistance to the Department of Social Welfare and Development's Day Care programs.

As heretofore, CRS will respond appropriately to requests for emergency assistance. CRS will also develop a database, built upon the nationwide Diocesan structure, which can be used by all donors to maximize the effectiveness of their responses to disasters.

## EXPANDED ROLE FOR PRIVATE VOLUNTARY ORGANIZATIONS, PVOs

In discussions with the Secretaries of Agriculture, Trade and the National Economic Development Authority as well as with other senior members of the Philippine government the role of the private sector was highlighted and all lauded the work of the PVOs in the promotion of economic revitalization and effective development. Likewise, they cited the role of the PVOs as key to their goals of broad based development, and they called upon the PVO community to multiply their efforts in support of increased productivity among farmers, rural-based entrepreneurs and the urban poor.

In order to respond to this call, the PVO community will require increased levels of support. USAID and U.S. Embassy officials acknowledge the exceptional work accomplished by the diverse, multifaceted and mature Philippine PVO community and point with due pride to the long-standing USAID supported PVO Co-Financing project. However, concern was registered relative to the absorptive capacity of some of the PVOs. The USAID Mission Director, indicating that the emphasis has been in support of Philippine PVOs, expressed the view that more support could be provided to American PVOs, but he also cautioned against indiscriminate dumping of large sums into the coffers of Philippine PVOs.

Subsequent interviews with a wide range of Philippine PVO leadership confirmed that many have taken serious the call of the government and of the people to play an ever increasing role. These PVOs have, over the past year, spent considerable time, effort and funds to increase and upgrade staff and outreach facilities. They now feel postured to increase their programs without compromising quality and professionalism. The Executive Director of Philippine Business for Social Progress (PBSP), whose program level last year was P.70 million, indicated that a backlog of thoroughly reviewed and valid projects valued at P.30 million were not financed for lack of funds. This year's inventory of solid project proposals total P.150 million but available funds will cover less than two-thirds the requirement. The various PVOs under the umbrella groupings of the Association of Foundations and Philippine Partnership for the Development of Human Resources in Rural Areas (PHILDHARRA) indicate that unmet funding requirements total several millions. American PVOs interviewed confirmed they could increase both quality and quantity of program delivery, if additional funds were available.

USAID officials indicate the funding levels of the PVO Co-Financing project could be increased. However, the USAID facility is a grant mechanism and some of the PVOs are seeking a loan facility to compliment and expand their activities and effectiveness. Furthermore, some PVOs find AID requirements, especially the procurement procedure, restrictive adding considerable bureaucratic overhead to their operations. Cases cited were securing prior approval for purchases of agriculture inputs, supplies and equipment, especially burdensome, if the Philippine PVO is located in one of the more remote areas.

What is called for is the creation of a Fund that would provide a complimentary funding source in support of PVO activities. If this Fund were set up by a group of American PVOs to fund PVO activities in the Philippines, the sense of a people-to-people program would reinforce the GOP thrust in favor of a greater role for PVOs, and it would also assure that a wider number of PVO programs would be assisted. Given that the USAID PVO Co-Financing project is on a grant basis and in support of enhancing the PVO institutional capabilities the proposed Fund should be structured so that the majority of the funding be provided as loans or loan guarantees.

#### SUMMARY

In order to stimulate economic development in the rural areas where the majority of the less privileged live and work, it is necessary to provide access to credit, training, production inputs and markets. Both the Philippine and American government officials lauded the work of the international and Philippine PVOs in providing credit, training and other services to the rural areas. The Philippine government is calling on the PVO community to play an increasingly important role in economic development efforts directed to increasing the income and productivity of small farmers, rural-based entrepreneurs and the urban poor.

A major breakthrough occurred during the negotiations between the American side as represented by ATDM and USAID officials and the Philippine side as represented by Secretary Monsod and senior officials of the National Economic and Development Authority (NEDA). The Philippine side has taken a firm position to the effect that all Title I proceeds be applied to general budget support. The U.S. side has been trying to secure agreement that a small part of Title I proceeds be set aside in support of Section 108 efforts directed to the private sector. Secretary Monsod responded most favorably to a proposal of an American PVO monetizing P.L. 480 commodities. She clarified: if an American PVO generates local currencies through the sale of mutually agreed upon P.L. 480 commodities and these funds were to be used in support of PVO sponsored activities and private sector efforts directed towards increased agricultural activity. Such a proposal would enjoy the full support of the Philippine government. She stressed that selection of the appropriate commodity was of importance to assure that local producer markets would not be disrupted. American PVOs are authorized to negotiate a monetization program under several windows: Title I, Section 108; Title II; and Section 416. The flexibility of using one of these three windows facilitates the process and helps overcome potential bottlenecks in the negotiations. It was understood by all parties that the PVO input would be additional to the current levels of P.L. 480 commodities being supplied under the bilateral agreements.

**VI. APPENDIX**

## Action Package

In preparation for the ATDM trips an advance team was sent to each country to meet with appropriate USG personnel and host country representatives. From these meetings an the advance team developed an understanding of issues of concern to all participants. This information was used to formulate an "Action Package" for each country to be used by the ATDM. The Action Packages briefly summarized the major topics the Mission would likely face in discussions with host country government and private sector representatives and issues that would be of interest to the USG. The elements of the action package were intended to serve as a guide for possible issues and not to limit the scope of the Mission discussions. The Action Packages developed for Hong Kong and the Republic of the Philippines are presented in this section.

### Hong Kong

Major points for the Mission's attention:

1. Hong Kong is an underrated consumer market for the United States. American Business perceives Hong Kong to be a small market, while there is, in fact, much disposable income there.
2. Barriers exist for U.S. products entering distribution channels in Hong Kong, which might be reviewed.
3. Hong Kong is an increasingly important base for expanding into the China market.
4. Specific opportunities for U.S. supermarkets, which do not presently operate in Hong Kong, which should be explored by the Mission.

## Action Package

### Republic of the Philippines

Following are potential activities and private sector initiatives in agricultural trade and development with the Philippines which have been suggested as a result of the workshop and follow-up meetings. These activities are intended to complement Philippine development interests. As defined by Philippine Ambassador to U.S., while contributing to U.S. agricultural trade interests and may be expected to be raised during the agricultural mission visit.

The emphasis of the proposed two-pronged action package is focused on (1) establishing a policy dialogue on market access and trade issues and (2) consideration of cooperative trade and development initiatives, initially in the grain/livestock and aquaculture (prawn) sectors.

#### I. Market Access and Trade Expansion

- A. Bilateral trade issues of concern to the Philippines: tropical fruits; meat inspection and processing (need to upgrade to U.S. standards); sugar; textiles, vegetable oil (specifically coconut oil); shrimp? (quality standards).
- B. U.S. Trade Issues: Philippine ban on U.S. corn; high tariffs on fruits and vegetables; investment code; restrictions on fruit imports; 32-day letter of credit limit and foreign exchange risk.
- C. Trade Financing. Range and types of financing available, including Japanese Aid Fund, other donor financing, EEP and P.L. 480.
- D. Multilateral Issues: Coordination of positions in the MTN.

#### II. Cooperative Trade, Development and Investment Projects

- A. Aquaculture. Import of U.S. feeds to expand local shrimp and prawn industry, increased use of foreign exchange for this purpose justified by increased access to U.S. market and improved quality control.
- B. Livestock feed and dairy development. While difficulties exist here, i.e., GOP restrictions on U.S. feed grain import issue can be resolved. One feasible alternative which might be explored is use of imported sorghum as feed, which may later lead to opening for corn.

Also U.S. assistance to upgrade local meat processing and inspection standards might be considered, if this issue can be resolved and will clearly help increase need for feed imports. For these purposes, GOP use of P.L. 480 resources could be explored. For both livestock and prawn industries. A bottom-up, top-down approach could be taken. For example, PVOs, cooperatives and AID mission could support small producers, while cooperators assist large producers, processors, and agribusiness enterprises.

- C. Upgrading port facilities through the private sector. Possibly using GSM-123 export credits or P.L. 480/Section 128 funds, if additional commodity sales are possible.
- D. Joint ventures in food processing. As examples, processing U.S. agricultural products for reexport, assistance in processing tropical fruits and juices, and exporting dried tropical fruits to Europe.
- E. Marketing infrastructure development. Including rolling stock, feeder roads, electricity. Food-for-Work schemes might be explored for projects to improve intra- and inter-island transport.
- F. Develop interest in two-way trade, such as cotton-textiles and fish food-shrimp.

### III. Food and Economic Assistance

Due to limited funding and minimal short-run program flexibility, major focus will be on evaluating existing programs to improve coordination and to review long-term objectives and requirements.

- A. Review existing programs and assess appropriateness.
- B. Review present training programs, consider possible new areas and necessary funding.
- C. Expanded role of PVOs and cooperatives in food distribution and self-help activities.
- D. Role of Cooperatives in Economic Development.

## Hong Kong

### A Brief Overview of the Market for U.S. Agricultural Commodities

Hong Kong is an important market for American foods and farm commodities. It is the second largest importer of high-value/value-added agricultural products in Asia and the fifth largest market for total U.S. agricultural exports among the 18 Asian countries (after Japan, South Korea, Taiwan and the PRC). The value of U.S. agricultural exports to Hong Kong has increased from (U.S.\$) \$206 million in 1976 to (U.S.\$) \$466 million in 1987, more than double in 10 years. This growth reflects the increasing importance of Hong Kong as a market for U.S. agricultural products. On a per capita basis, Hong Kong's estimated 6.0 million people consume (U.S.\$) \$77 worth of U.S. farm products in 1987.

Of all U.S. agricultural exports to Hong Kong, poultry meats, oranges, ginseng, and tobacco are leading items. Exports of U.S. fresh fruits alone add up to over (U.S.\$) \$150 million a year and account for about one-third of the total U.S. agricultural exports to Hong Kong. Out of all U.S. fresh produce exported offshore, Hong Kong takes about one-fifth of the citrus fruits, non-citrus fruits, and vegetables. The territory is among the top three U.S. markets for oranges, grapes, prunes and plums, melons, tomatoes, cabbage, celery, lettuce, peppers, apples, sweet cherries, and onions. Hong Kong, with probably the highest per capita consumption of fresh oranges in the world, imported 93,355 metric tons of fresh oranges from the United States in 1987. Fresh cherries, prunes and plums have done exceedingly well and the volumes have multiplied over the past five years.

Poultry meats, which added up to (U.S.\$) \$54 million, topped the list of U.S. agricultural exports to the territory in 1987. Chicken meat alone accounted for (U.S.\$) \$52 million in the year. Hong Kong is the largest U.S. market for shell eggs and exports in 1987 totalled (U.S.\$) \$6 million. While imports of U.S. cotton have dropped considerably in the past few years due to the contraction of the local textile industry and lower prices for Chinese and Pakistani cotton, the territory has recently emerged as a promising market for U.S. mink skins. U.S. exports of undressed mink fur to Hong Kong jumped from less than half a million dollars in 1978 to more than (U.S.\$) \$6 million in 1986 and surged to a new record of (U.S.\$) \$13 million in 1987. Hong Kong is now the largest U.S. mink skin export market. Imports of both dressed and undressed U.S. mink skins totalled over (U.S.\$) \$30 million in 1987, double 1986 level.

U.S. ginseng picked up by 35 percent in 1987 over 1986 exports and recovered the previous 1982 record level. U.S. wild ginseng is much sought after in this market. Tobacco has shown steady growth in Hong Kong, since the early 1970s and has tripled in the last five years. The territory is also the leading market for U.S. cigarettes. Hong Kong imported (U.S.\$) \$242 million worth of cigarettes to Hong Kong in 1987.

The trend of increasing sales of U.S. farm products to Hong Kong is expected to continue over the next few years. Per capita incomes in Hong Kong are the third highest in Asia next to Japan and Singapore and a significant portion is spent on food. While the Hong Kong food



market is segmented between the largely western-oriented institutional trade (including hotels, restaurants and modern style supermarkets) and the traditional Chinese market, there is a growing overall awareness of the high quality and availability of American foods.

Many of Hong Kong's leading restaurants and hotels insist on serving high quality U.S. beef, chicken, turkey, eggs and wide assortment of fruits and vegetables. This is particularly significant with the rapid development of the hotel business in both Hong Kong and China. It is important to note that about 4.5 million tourists visited Hong Kong in 1987. A number of Hong Kong hotels have been invited to venture into China's hotel projects and have been importing food and beverages for these hotels. These Hong Kong partners are important agents in introducing western foods to China.

There is also potential for growth in the sale of U.S. grocery line items as the number of new retail food outlets continues to increase rapidly. Because of traditional ties and advantageous freight rates, most of Hong Kong's grocers have looked to Australia, New Zealand and Europe for supplies. In recent years, however, those buying habits have shifted and American items are now available on the shelves. While the Hong Kong dollar is pegged to the U.S. dollar at U.S. \$1.00 = HK \$7.80, the recent decline of the U.S. dollar against the currencies of some suppliers has helped to increase the competitiveness of American products.

With the growing presence of Americans in Hong Kong and the increasing westernization of Hong Kong consumption habits (the number of U.S. passport holders now exceeding U.K. passport holders), grocery stores are showing increasing interest in U.S. grocery products. More than (U.S.\$) \$10 million worth of beer and ale was exported to Hong Kong, compared to (U.S.\$) \$2.8 million in 1985 and (U.S.\$) \$8.8 in 1986 due to aggressive marketing of current U.S. brands. U.S. exports of shell nuts (including pistachio, almonds and Macademian nuts) increased 60 percent over 1986. U.S. ice cream exports of (U.S.\$) \$3.4 million are up 200 percent over 1986 and 20 times the 1983 level. Frozen vegetables, led by french fries, rose significantly.

The local Chinese market (i.e., 5.7 million out of 6 million people) is changing rapidly. This is especially true among the young, many of whom are opting for western life-styles and eating habits. This, coupled with the higher per capita incomes, is starting a trend toward the consumption of higher quality foods and meats, as well as sandwiches and convenience foods. McDonald's, Pizza Huts, Burger King, Kentucky Fried Chicken and Spaghetti Houses have grown so fast in number over the past few years that they are now part of the street scene of Hong Kong. These shops have a special appeal to the younger Chinese consumer, a factor especially significant for the future.

U.S. companies should be aware that Hong Kong is also the staging base for an increasing number of agribusinesses in China. In addition to hotels, joint ventures include: dairies, hog farms, feedmills, and food processing. A number of international agricultural companies have offices in Hong Kong to operate their joint ventures, to look for new ventures, and to trade.

Tables 1 and 2 provide major U.S. agricultural exports to Hong Kong for CY 1983-87 in value and quantity, respectively.

TABLE 1

VALUE OF MAJOR U.S. AGRICULTURAL EXPORTS TO HONG KONG, CY 1983-1987

Commodity	-----1,000 U.S. dollars -----				
	1983	1984	1985	1986	1987
Poultry Meat	23,922	34,470	40,353	38,119	54,366
Oranges	67,457	52,064	64,244	70,367	49,106
Ginseng	38,708	37,145	36,883	29,805	40,794
Raw Tobacco	10,198	24,968	30,557	28,928	36,408
Cotton	38,745	85,191	17,800	1,970	18,325
Wheat	18,844	18,247	15,269	13,977	16,149
Beverages Bases	7,142	3,256	4,616	13,321	15,272
Apples	14,214	15,105	14,330	12,432	13,545
Furskins (undressed)	2,800	3,611	5,288	6,158	13,263
Grapes	8,083	9,944	15,234	14,508	11,013
Beer & Ale	3,618	2,238	2,894	8,794	10,545
Beef, Frozen & Fresh	4,738	4,314	4,071	6,370	10,204
Prunes & Plums	2,395	5,016	5,551	7,556	9,789
Cattle Hides	4,516	2,498	3,384	4,029	6,037
Shell Eggs	3,091	4,389	4,080	3,734	5,716
Lettuce	5,687	4,753	4,188	4,225	4,632
Cherries	1,641	2,169	2,063	3,020	4,603
Melons	3,146	3,295	4,788	4,192	4,214
Lemons	3,344	3,575	2,927	3,082	3,880
Potatoes F.Fry Frozen	2,551	2,194	2,613	3,366	3,647
Rice	71	56	86	786	3,528
Refined Corn Oil	3,290	5,583	5,909	3,252	3,487
Ice cream	115	528	884	1,123	3,480
Subtotal	253,288	320,470	288,012	283,114	342,003
Total all U.S.					
Ag. Exp.	357,131	411,467	388,669	395,836	466,008

NOTE: In addition, the territory imports significant amounts of cigarettes and dressed miniskins from the United States. Hong Kong imported about (U.S.\$) \$16 million of dressed skins and (U.S.\$) \$242 million worth of cigarettes from the States in 1987.

SOURCE: U.S. Census Bureau

TABLE 2

Quantity of Major U.S. AGRICULTURAL EXPORTS  
TO HONG KONG, CY 1983-1987

<u>Commodity</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Poultry Meats (m.t.)	25,169	33,404	41,687	36,043	56,051
Oranges (m.t.)	127,274	95,383	115,135	127,282	93,355
Ginseng	300	226	407	384	491
Raw Tobacco (m.t.)	1,705	3,915	5,196	5,618	7,088
Cotton (m.t.)	30,584	61,691	12,781	2,732	14,970
Wheat (1000 (m.t.))	110	113	99	98	125
Beverage base (m.t.)	498	404	402	842	1,122
Apples (m.t.)	26,922	28,039	25,921	19,863	26,329
Undressed Furskins (1000 pcs)	114	111	195	304	352
Grapes (m.t.)	6,897	9,058	14,194	14,007	9,173
Beer & Ale (1000 liters)	6,364	4,133	5,733	15,256	17,145
Beef, Fresh & Frozen	740	667	647	1,068	2,019
Prunes & Plums	2,038	5,441	6,643	7,056	11,073
Cattle Hides Whole (1000 pcs)	160	63	106	117	122
Shell Eggs (1000 dozen)	6,595	6,924	7,009	6,067	9,614
Lettuce (m.t.)	18,444	15,973	13,635	11,142	11,308
Cherries	659	1,168	1,243	1,671	1,952
Melons (m.t.)	4,865	6,335	9,627	8,147	7,499
Lemons (m.t.)	5,397	5,741	5,054	5,574	7,136
Potatoes F. Fry Frozen	3,738	3,338	3,725	4,945	5,454
Rice	176	120	186	2,613	11,595
Refined Corn Oil (m.t.)	3,304	5,725	6,987	4,967	4,487
Ice Cream (1000 liters)	167	688	1,217	1,735	5,601

SOURCE: U.S. Census Bureau

## Republic OF THE PHILIPPINES

### A Brief Overview of the Agriculture Sector

**Agriculture Sector:** Agriculture is an integral part of the Philippine domestic economy, accounting for nearly one-third of gross national product. About 34 million of the country's 57 million people reside in rural areas, with most depending on agriculture for their livelihood. Major agricultural crops (in order of production value) are: rice, corn, coconut, sugarcane, pineapple, banana and mango. As a result of a major drought and several damaging typhoons, agricultural sector growth in 1987 is estimated by the GOP at less than 1 percent, down from a 1.5 percent growth rate in 1986. Annual agricultural sector growth rates were 2.6 percent and 3.5 percent during 1984 and 1985 respectively; over the same two-year period GNP fell by 7.2 percent and 4.2 percent respectively.

**Agricultural Trade:** The Philippines has traditionally run a large surplus in agricultural trade, although the positive balance has declined sharply in recent years. For example, agricultural exports exceeded imports by (U.S.\$) \$501 million in 1987, down from a net surplus of \$593 million in 1986 and \$1.39 billion in 1980. Agricultural imports amounted to \$666 million in 1987, up 20 percent from 1986. In 1987, agricultural exports totaled \$1.17 billion, 2 percent higher than 1986. Agricultural trade accounted for 15.2 percent of total merchandise trade in 1987, down from 14.7 percent in 1986.

The Philippines' major agricultural exports are fats and oils (mostly coconut oil) and fruits and vegetables (mostly pineapple and banana). In 1987, the value of these two categories accounted for nearly two-thirds of total agricultural exports. Other major exports include sugar and products, copra meal, fibers, coffee, copra, rubber, and cocoa. Major agricultural imports are dairy products, grains and products, feedstuffs, tobacco and fibers (mostly cotton). In 1987, these items accounted for 80 percent of total agricultural import value.

**Agricultural Trade with the U.S.:** The U.S. is the primary supplier and the primary market for Philippine agricultural products. The U.S. supplies about one-third of Philippine agricultural imports and is the market for one-third of Philippine exports. In 1987, agricultural trade between the U.S. and the Philippines totaled (U.S.\$) \$592 million agricultural exports to the Philippines totaled \$217.4 million, while Philippine agricultural exports to the U.S. totaled \$374.4 million. The Philippines is a major market for U.S. wheat, cotton, tobacco, soybean meal, and nonfat milk. Major Philippine agricultural exports to the U.S. include coconut products (oil and shredded coconut), pineapple products, sugar, cocoa products and coffee.

## U.S. Government Programs

- **P.L. 480, Title I:** In FY 1988, the U.S. has provided \$30 million in Title I funding (will supply about 90,000 metric tons (MT) of rice). The rice will be imported for the account of the National Food Authority.
- **P.L. 480, Title II, Section 206:** For FY 1988, a \$20 million program has been approved that will supply an additional quantity of rice. In FY 1987, the U.S. provided \$43.5 million (234,800 MT of wheat) under the program. The wheat was monetized by the GOP for general budget support.
- **P.L. 480, Title II, Direct Feeding Program:** In FY 1987, \$28.2 million in commodities (including freight) were supplied under the program. In FY 1988, a similar amount will be supplied. The food is coursed through CARE and CRS, with an additional amount supplied on an "Emergency" basis.
- **Export Enhancement Program (EEP):** Initiatives announced include 1,150,000 MT of wheat, 100,000 MT of wheat flour and 65,000 MT of barley malt. To date, 155,000 MT of wheat and 14,000 MT of barley malt remain available under the program (the wheat flour EEP was withdrawn following the purchase of 50,000 MT).
- **Sugar Quota:** The Philippines receives 15.8 percent of the U.S. base quota. In CY 1988, the Philippine share of the U.S. quota is 110,600 short tons raw value (STRV). For CY 1987, the Philippine received a quota of 143,800 STRV.
- **Section 416, Sugar Quota Offset:** To help offset the decline in the U.S. sugar quota a total of \$32.8 million (190,200 MT of wheat) was provided in CY 1987. The wheat was monetized by the GOP for general budget support.

**U.S. AGRICULTURAL EXPORTS TO THE PHILIPPINES**

CATEGORY	1983	1984	1985	1986	1987
	-----MILLION U.S. DOLLARS-----				
<b>GRAIN &amp; FEED</b>	\$197.5	\$173.5	\$167.4	\$128.5	\$117.8
Wheat and products	\$148.4	\$123.9	\$116.4	\$120.6	\$106.4
wheat, not relief	\$145.4	\$121.6	\$115.1	\$106.7	\$95.1
Rice and products	\$ .0	\$6.9	\$35.7	\$ .0	\$ .0
rice, relief	\$ .0	\$6.8	\$1.4	\$ .0	\$ .0
Coarse grains & products	\$37.3	\$30.5	\$10.8	\$ .6	\$3.6
yellow corn, not relief	\$36.9	\$24.1	\$3.3	\$ .0	\$ .0
malts	\$ .0	\$6.0	\$7.1	\$ .0	\$3.1
Corn soy milk	\$8.5	\$9.6	\$2.8	\$3.7	\$2.8
<b>OILSEED PRODUCTS</b>	\$20.6	\$84.0	\$34.1	\$39.5	\$23.3
Soymeal (oilcake & meal)	\$6.0	\$80.6	\$31.7	\$34.6	\$18.1
Soybean oil, crude	\$3.3	\$2.3	\$1.5	\$1.5	\$2.1
Soybeans	\$8.2	\$ .0	\$ .0	\$1.1	\$ .0
Coffee whiteners	\$1.1	\$ .0	\$ .3	\$ .7	\$ .7
<b>DAIRY, LIVESTOCK &amp; POULTRY</b>	\$19.2	\$15.0	\$13.3	\$16.9	\$25.2
Breeding stock, chicks	\$1.8	\$1.6	\$1.4	\$1.3	\$1.7
Nonfat milk	\$4.4	\$5.5	\$5.9	\$8.7	\$16.2
Whey, dried	\$1.8	\$1.5	\$ .5	\$1.8	\$1.1
Inedible tallow	\$3.0	\$2.4	\$2.7	\$1.4	\$1.3
Meat, bone, feather meal	\$3.4	\$1.5	\$ .1	\$ .1	\$ .0
Beef carcasses	\$1.3	\$ .9	\$ .6	\$ .3	\$ .6
<b>FRUITS AND VEGETABLES</b>	\$12.4	\$3.2	\$6.0	\$9.7	\$11.8
Canned Fruits	\$1.1	\$ .0	\$ .2	\$3.8	\$1.5
Fresh fruit	\$ .0	\$ .0	\$ .0	\$ .0	\$ .2
apples	\$ .0	\$ .0	\$ .0	\$ .0	\$ .0
grapes	\$ .0	\$ .0	\$ .0	\$ .0	\$ .0
Dried fruit	\$1.3	\$ .2	\$ .9	\$ .9	\$ .8
raisins	\$1.1	\$ .2	\$ .9	\$ .7	\$ .6
Fruit juices	\$2.0	\$ .7	\$ .7	\$ .8	\$ .8
Hops	\$3.3	\$1.2	\$2.6	\$ .6	\$2.2
Misc. fruits & vegetables	\$2.8	\$ .5	\$ .8	\$2.1	\$4.1
<b>COTTON, TOBACCO &amp; SEED</b>	\$64.9	\$33.5	\$55.7	\$43.1	\$71.0
Cotton & Linters	\$23.6	\$14.3	\$13.0	\$9.1	\$35.5
raw cotton 1" to 1 1/8"	\$20.5	\$12.6	\$11.6	\$8.7	\$34.4
Tobacco	\$40.6	\$18.3	\$42.0	\$34.9	\$34.6
flue-cured	\$15.2	\$3.3	\$16.0	\$13.1	\$10.8
Burley	\$23.8	\$13.1	\$25.0	\$20.5	\$23.0
<b>SUGAR &amp; TROPICAL</b>	\$17.5	\$9.3	\$15.7	\$17.4	\$17.1
Natural rubber	\$1.0	\$ .6	\$ .5	\$1.1	\$1.8
Liquid flavoring, nat & syn	\$5.8	\$3.4	\$6.0	\$6.8	\$5.1
Flavoring material	\$1.1	\$1.2	\$2.3	\$2.6	\$1.6
Essential oils	\$2.6	\$1.6	\$1.6	\$2.3	\$1.0
Beverage bases	\$2.4	\$ .6	\$ .4	\$1.0	\$ .9
<b>TOTAL AGR. PRODUCTS</b>	\$332.1	\$318.5	\$292.2	\$255.1	\$266.3

SOURCE: U.S. CENSUS

**U.S. AGRICULTURAL IMPORTS FROM THE PHILIPPINES**

CATEGORY	1983	1984	1985	1986	1987
	-----MILLION U.S. DOLLARS-----				
GRAIN & FEED	\$4.2	\$4.4	\$4.5	\$5.4	\$5.6
OILSEED PRODUCTS	\$193.8	\$275.9	\$183.5	\$162.8	\$171.6
CRUDE COCONUT OIL	\$176.2	\$256.5	\$163.0	\$153.9	\$159.5
REFINED COCONUT OIL	\$17.4	\$16.5	\$16.0	\$5.7	\$5.0
DAIRY, LIVESTOCK & POULTRY	\$0	\$0.3	\$0.3	\$0.2	\$0.1
FRUITS AND VEGETABLES	\$117.9	\$137.4	\$162.9	\$133.3	\$135.4
Bananas	\$2.9	\$6.0	\$4.8	\$3.3	\$2.5
Canned pineapples	\$58.8	\$55.7	\$73.7	\$68.8	\$66.6
Pineapple juice	\$12.4	\$15.6	\$21.8	\$25.1	\$23.5
Shredded coconut	\$36.4	\$47.5	\$51.9	\$25.4	\$33.0
COTTON, TOBACCO & SEED	\$11.0	\$6.4	\$5.1	\$3.6	\$2.2
Tobacco products	\$11.0	\$6.4	\$5.0	\$3.6	\$2.1
tobacco scrap	\$4.5	\$5.0	\$4.6	\$3.2	\$1.4
SUGAR & TROPICAL	\$169.7	\$191.7	\$198.3	\$182.1	\$82.9
Raw sugar	\$102.0	\$130.6	\$124.0	\$89.7	\$55.9
Cocoa and products	\$20.8	\$5.7	\$7.6	\$6.5	\$6.3
cocoa butter	\$20.2	\$5.6	\$7.4	\$6.3	\$6.3
Coffee, crude	\$37.9	\$45.8	\$56.2	\$77.9	\$12.6
Abaca, raw and wastes	\$6.0	\$8.4	\$7.3	\$3.8	\$3.8
Rubber	\$1.5	\$0.8	\$2.5	\$2.9	\$2.5
TOTAL AGR. PRODUCTS	\$496.6	\$616.1	\$554.6	\$487.4	\$397.8

SOURCE: U.S. CENSUS

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