TRADE AND EXCHANGE RATE IMPACTS ON THE PHILIPPINE FISHERIES SECTOR

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ABSTRACT

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The fisheries industry is one of the most important sectors in the Philippine economy. Next to agriculture, the industry is a major source of foreign exchange, employment and sustenance. However a major determinant of efficiency and long-term sustainability is the existing policy environment regime. The types of intervention present within the economy affects the allocation of resources. In fact, sectoral and economywide policies have direct and indirect impacts on industries such as the fisheries. Thus, the study was conducted to determine what are the existing government policies that affect the sector and their likely impacts.

The study has utilized the Krueger, Schiff and Valdez (KSV, 1988) approach to asses the impact of government policies on the fisheries sector. This methodology decomposes the total nominal protection rate into direct and indirect protection rates. The former is the impact of sector-specific policies such as tariff, export tax measures and the like. The latter is the consequence of the economywide policies as highlighted by the distortion in the exchange rate.

The KSV measure for the direct protection rate is a net estimate of the effects of both sectoral and economywide measures. In order to understand better how these two measures interact with each other, this study decomposed the KSV's direct nominal protection rate, designated as nprD, into its corresponding components: the traditional nominal protection rate denoted as NPRd and a term that is a product of NPRd and KSV's NPRi (or D*I) . The interaction term reflects the interaction of these two types of policy measures. Specifically KSV's nprD is the sum of NPRd and D*I or equivalently is equal NPRd (1+NPRi).

With this slight modification, the study has two important features: 1) it retains the original definition of the direct nominal protection rate, and 2) it has explicitly derived an interaction term that has several economic implications. The slight refinement in the KSV approach highlighted the following possible scenarios. Case 1 was a situation where both sectoral and economywide policies convey protection. Case 2, on the other hand was when both policies provide penalty, and case 3 was when the sectoral policies provide protection while the economywide policies convey penalty. In all three cases, the interaction effect produced non-trivial results. In case 1, the interaction effect exacerbated the total protection afforded by both policies. However, in case 2, the interaction effect mitigated the total penalty. Case 3, on the other hand saw a reinforcing effect made by the interaction term in the penalty provided by the indirect policies. This has likewise reduced the protection placed by the sectoral policies. In both approaches, however, the total nominal protection rate did not change. The main difference between the two approaches, is a decomposed direct nominal protection rate that was present in the modified version.

Empirical results generated by both KSV and modified KSV show that the Philippines had used a wide variety of intervention policies. Among these, are trade, subsidies, incentives,

investment and infrastructure policies. Similarly, the exchange rate and overall protection system had also been identified as equally distorting policies.

Because of these interventions, sectoral impact estimates in both approaches demonstrated that all the remaining fish commodities were penalized except for tilapia and canned tuna. Due to the exchange rate distortion, the penalty exhibited in tuna, mackerel, milkfish, shrimps and prawns was exacerbated. This has also reduced the protection levels for tilapia and canned tuna. On the other hand, interaction results in the modified KSV version showed that tuna, mackerel, milkfish, shrimps and prawns commodities displayed the case 2 scenario while tilapia and canned tuna exhibited the case 3 scenario.

Hence, the study's findings recommended four major policy reforms. These are trade policy reforms, liberalized exchange rate regimes, removal of price subsidies, and policies designed to increase private sector participation.

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1.0 INTRODUCTION

1.1 Background of the Study

The fisheries industry is considered as one of the most important sectors in the economy. The sector generates substantial foreign exchange revenues by exporting high value fish commodities. Apart from its revenue contribution, the sector also provides employment in activities such as fish processing, fish input production and others. Moreover, it is also a significant protein source.

However, recent studies have shown that a major determinant of long-term growth and sustainability is the type of policy environment that is present in the economy. Macropolicies such as trade, exchange rate, fiscal and monetary policies have direct and indirect effects on a sector such as the fisheries industry. Unfortunately, little is known about how these policies affect the industry. More specifically, information, on the directional as well as magnitudinal policy impacts had been non-existent. Likewise, past studies have shown that intervention policies form a major factor in opening the policy environment to distortions and inefficiencies.

The task of quantifying and measuring these distortionary impacts had been relegated to the use of Nominal and Effective Protection Rates (NPR and EPR). These measures indicate the degree of protection or penalty afforded to a particular sector or commodity. Of all the price comparison methodologies available in the literature, the methodology developed by Krueger, Schiff and Valdez (1988) is the most comprehensive. The approach encompasses the effects of both sectoral and economywide policies on a particular sector or commodity.