



Industrialization, Inclusion, and Competition Policy

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Philippine Competition Commission

NAST Luzon Regional Scientific Meeting

Keynote Address

Clark Freeport Zone, Pampanga

9 May 2018

Takeaways

- **Rapid growth** of the Philippine economy in recent years, but weak competitiveness and poor social outcomes (poverty reduction, human development). Is growth sustainable?
- Ph economy is **deindustrializing**, behaving like a rich country: bad for employment & inclusion.
- Recover lost grounds by improving **fundamentals**: better institutions; better infrastructure; growing stocks of human capital, skills, & knowledge
- **Technological advances** drive higher productivity, but they may also sharpen social divides and facilitate abuse of market power.
- **Competition policy** (CP) is key to undoing highly anti-competitive market practices, including those facilitated by technological advances, to enhance people's welfare and sustain growth.
- CP is not panacea: part & parcel of **development strategy** to sustain growth and foster inclusive development.

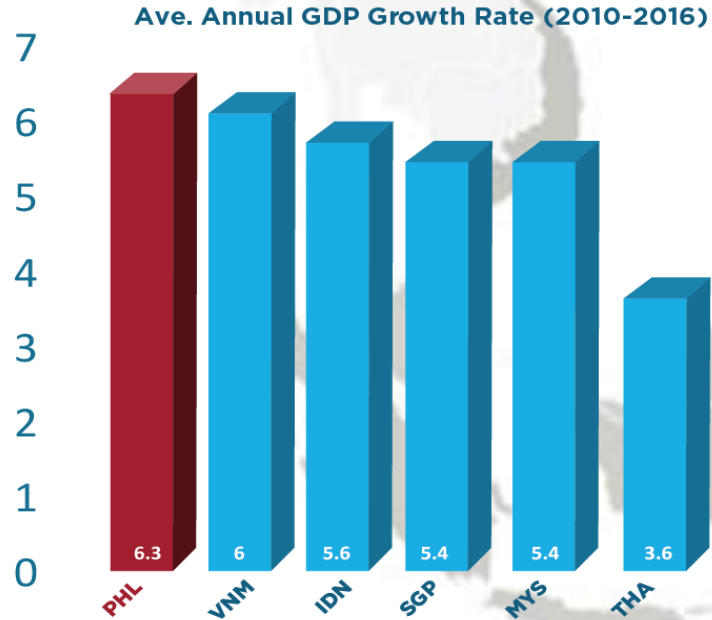


Outline

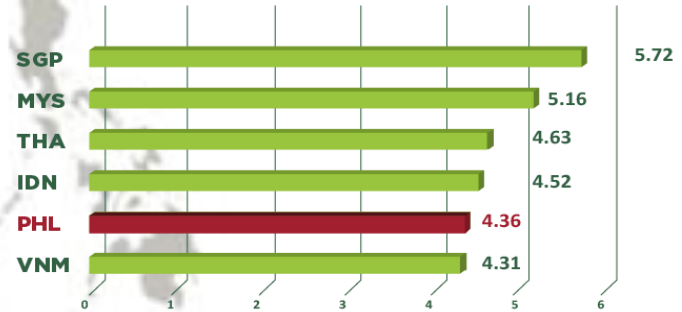
- Some facets of the Philippine economy
- Premature deindustrialization?
- (De)industrialization & employment
- Science & technology for inclusion
- Competition policy & sustainability
- Benefits of competition
- Summary

Facets of the Philippine Economy

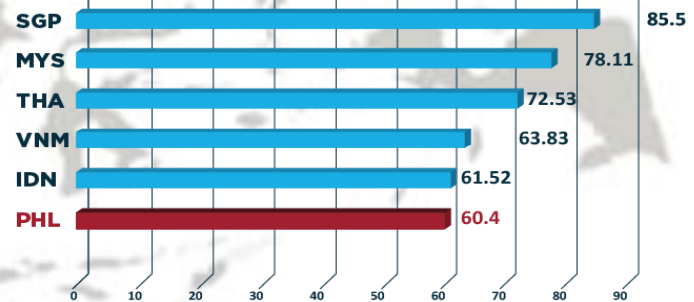
Rapid Growth, Weak Competitiveness



Global Competitiveness Index score (2016-2017)



Ease of Doing Business score (2017)

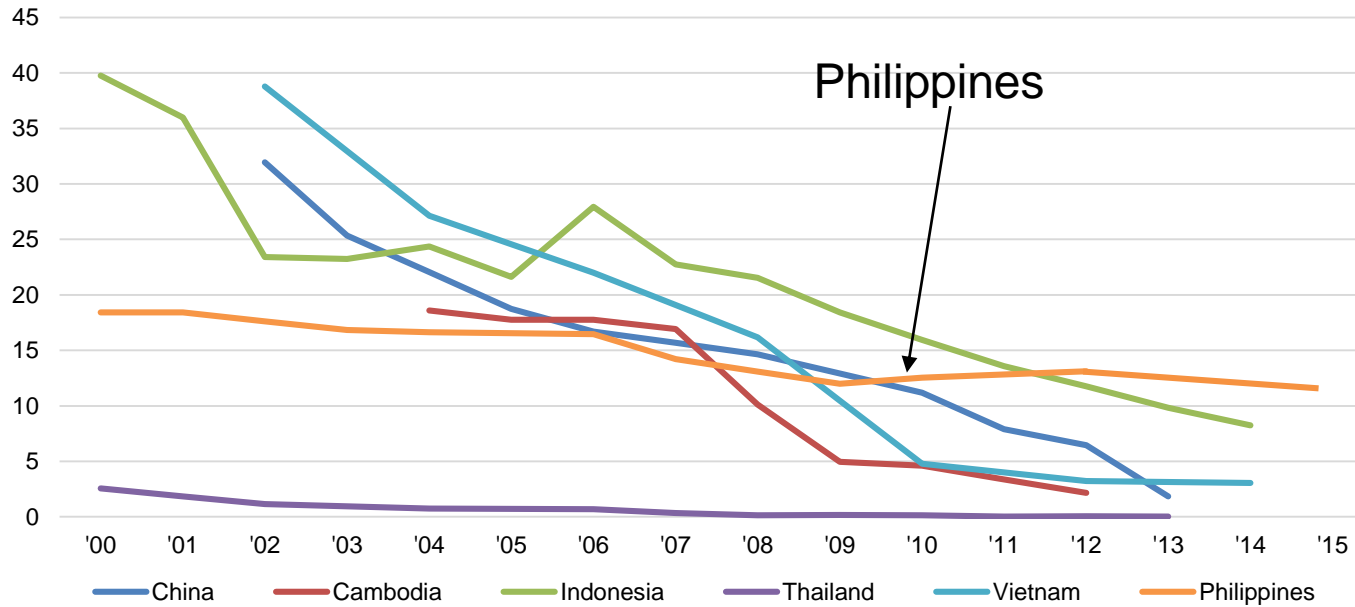


Is PH growth sustainable?

Facets of the Philippine Economy

Slow poverty reduction amid rapid economic growth in recent years

Poverty Headcount Ratio at \$1.90/day
(percent of population)



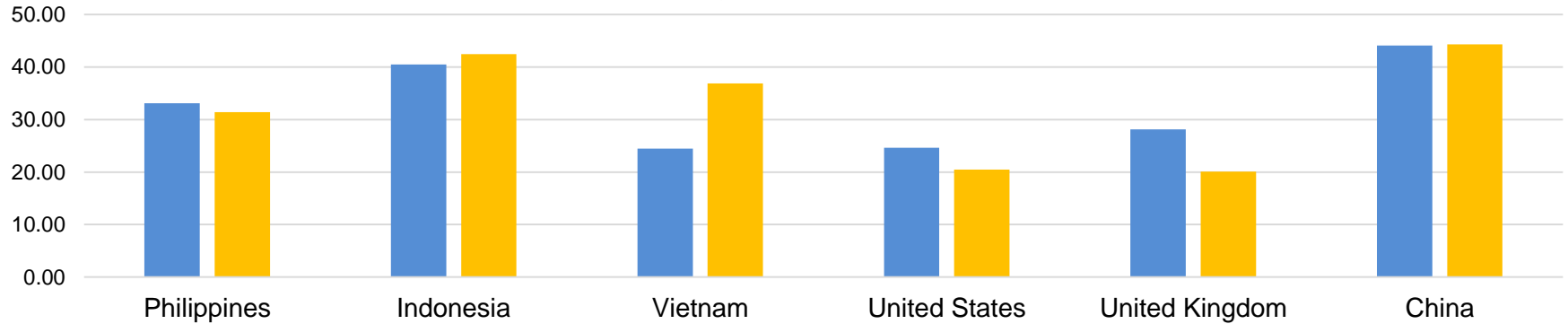
Rapid economic growth has **not been broadly inclusive**: Will growth be **sustainable**?

Economic growth is only a means to an end: **enhancing well-being**.

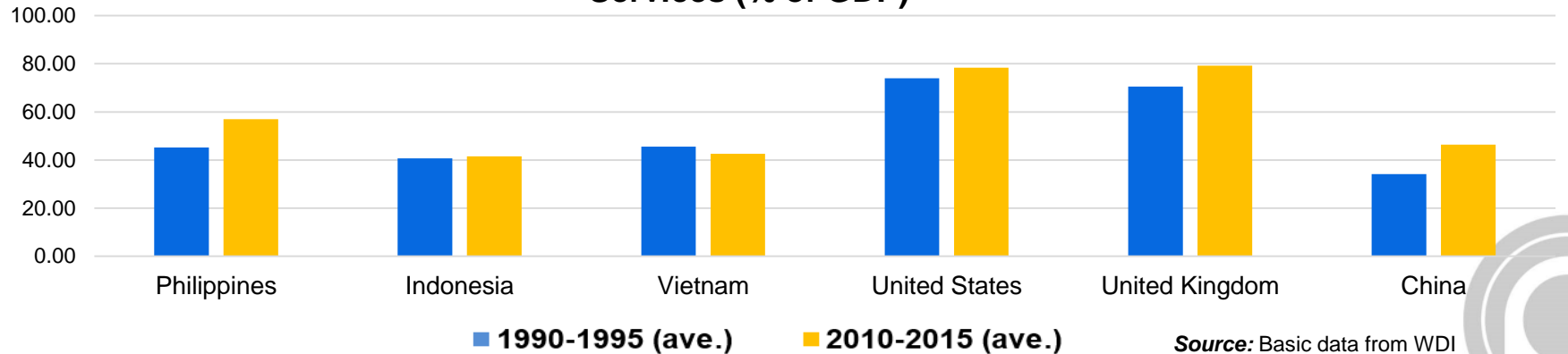
Facets of the Philippine Economy

Behaving like a rich economy?

Industry (% of GDP)

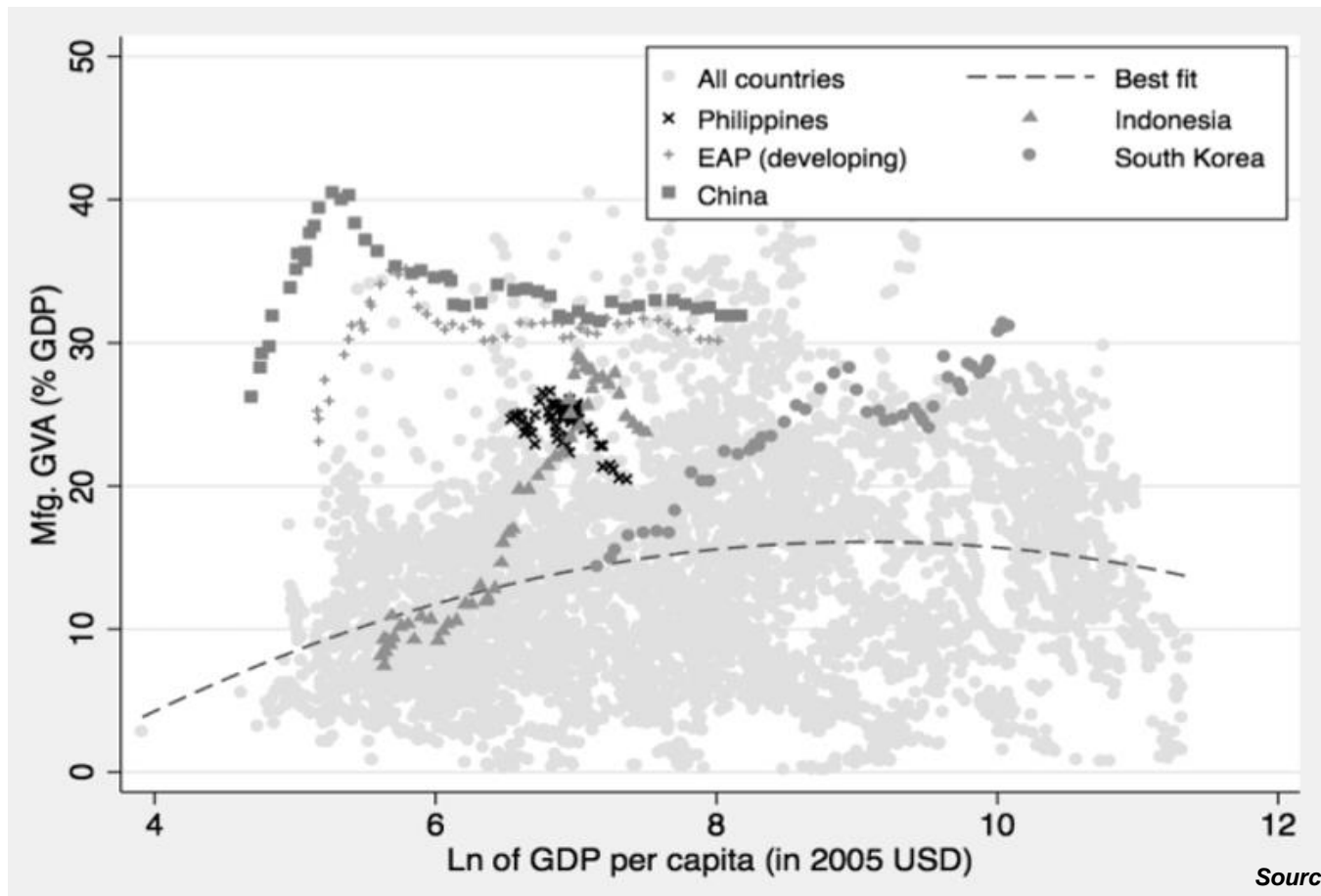


Services (% of GDP)



Source: Basic data from WDI

Premature deindustrialization in the Philippine economy?



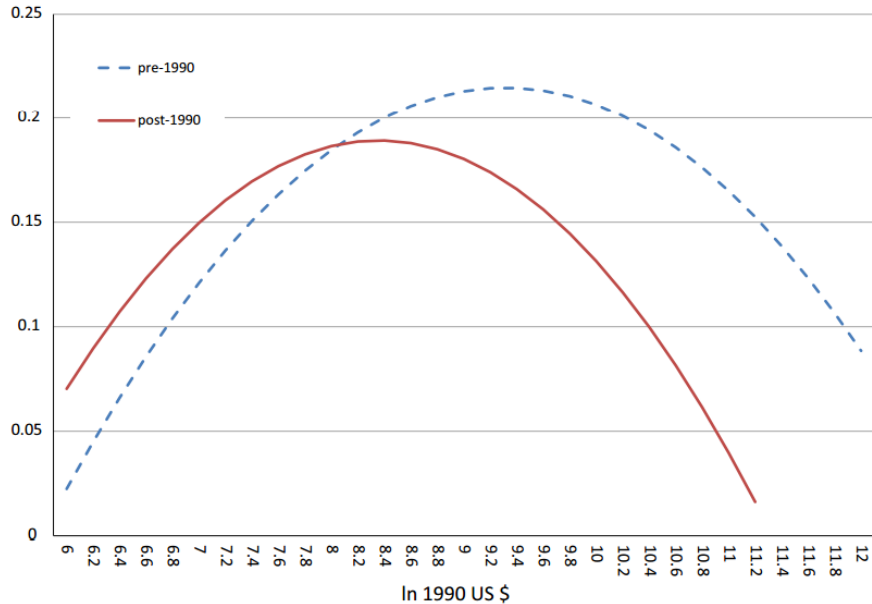
Data: 1960-2015

All: 189 countries
EAP (East Asia and the Pacific): 13 developing countries

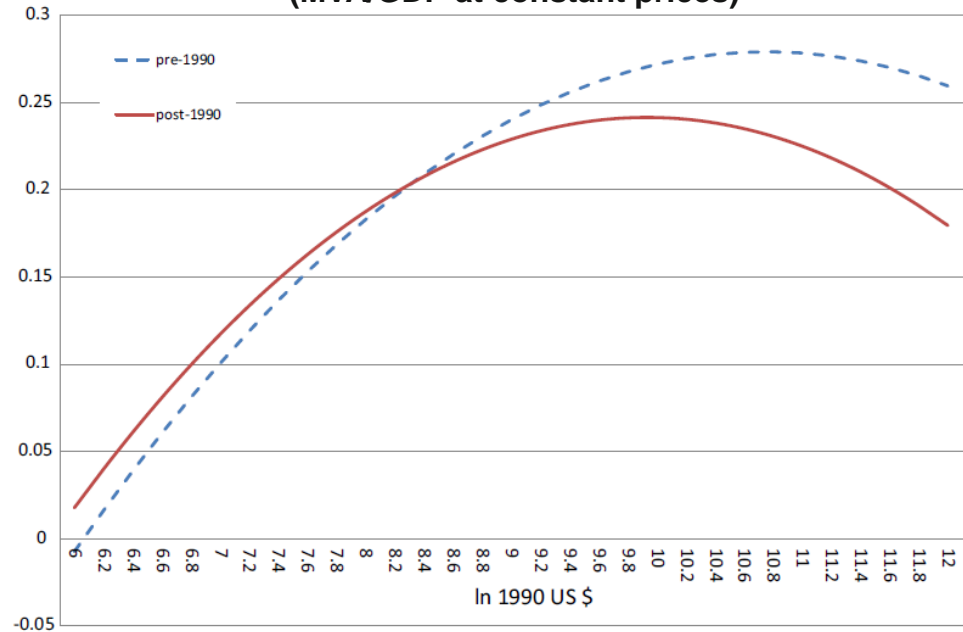
Source: Ravago et al (2017). Basic data from WDI

Deindustrialization and the labor market

Simulated manufacturing **employment** shares



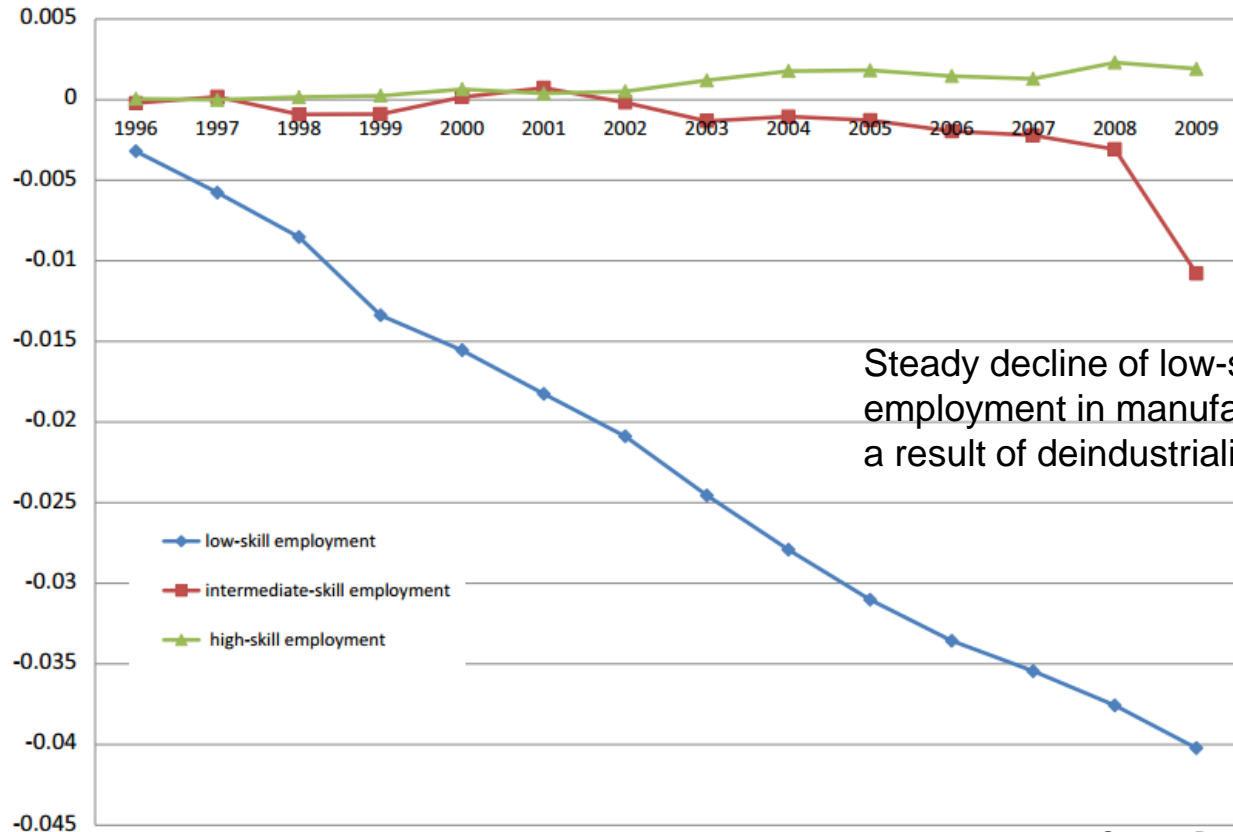
Simulated manufacturing **output** shares (MVA/GDP at constant prices)



Lower manufacturing employment and output shares for post-1990 industrializers

Deindustrialization and the labor market

Estimated year coefficients for employment of different skill types



Source: Rodrik (2016)

Why do we care?

Manufacturing has a relatively high median basic pay per day, low visible underemployment and a large percentage of workers in permanent status...

Measures of quality of employment by sector, all workers			
Sector	Median basic pay per day*	Visible under-employment rate	Workers in permanent status (%)
Agriculture	200	18.6	75.9
Manufacturing	353	5.4	79.0
Other Industry	350	7.3	59.6
High-skill services	500	1.7	87.9
Other Services	350	6.9	82.5
Total	326	10.0	78.4

Source: Ravago (2018) based on October 2016 Labor Force Survey

*Includes only workers for which median basic pay data is available



Why do we care?

Manufacturing is much more accessible to lower-skilled or less-educated workers.

Distribution of workers by Sector and by Education, first time workers only

Sector	HS undergrad	HS grad	Post- secondary undergrad	Post- secondary grad	College under- grad	College grad	Total	Total first- time workers
Agriculture	79.4	10.2	0.0	1.9	6.5	2.0	100	120,809
Manufacturing	22.2	43.0	1.5	6.7	10.5	16.1	100	82,183
Other Industry	56.1	25.8	0.0	2.5	8.8	6.8	100	73,388
High-skill services	2.2	4.6	0.4	8.4	5.5	78.9	100	30,045
Other Services	22.9	27.5	0.8	6.0	14.8	28.0	100	474,209
Total	33.9	25.4	0.7	5.2	12.2	22.7	100	780,634

Source: Ravago (2018) based on October 2016 Labor Force Survey

*Includes only workers for which median basic pay data is available

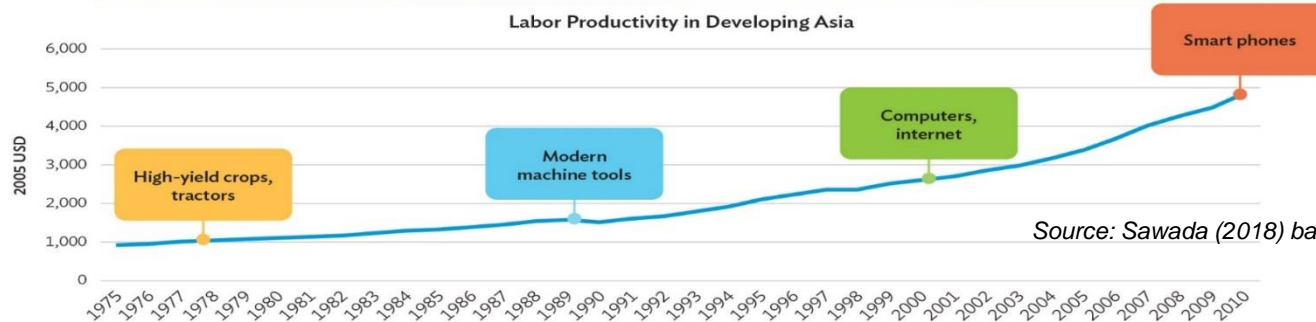
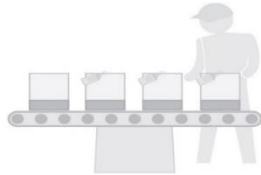


Regaining lost grounds

- Improving fundamentals: better institutions/governance; better infrastructure; growing stocks of human capital, skills, & knowledge
- Key is efficient structural transformation of the economy: movement of labor from low-productivity sector or areas to high-productivity sectors or areas
- Science & technology advancement drives higher productivity

Science and Technology for Inclusion

Technological advancement drives higher productivity, the foundation for better-paid jobs and economic growth

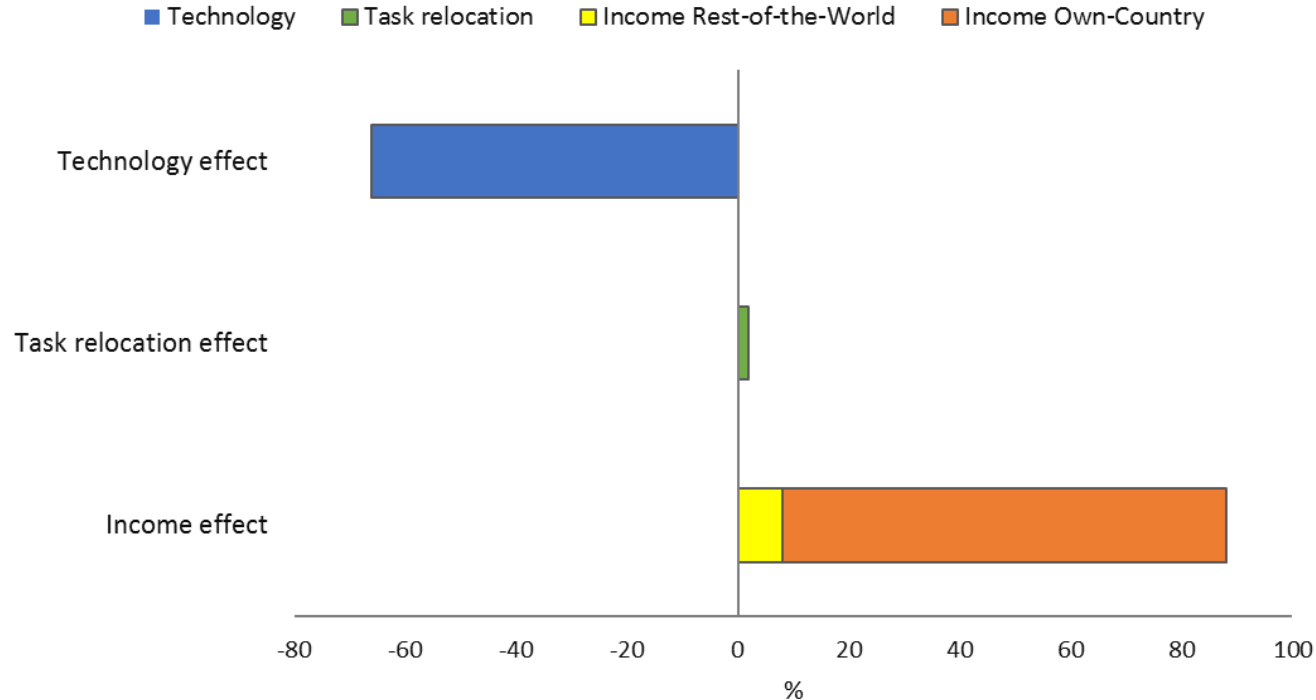


Source: Sawada (2018) based on ADB (2018)



Science and Technology for Inclusion

Decomposing the percentage change in employment, 2005-2015



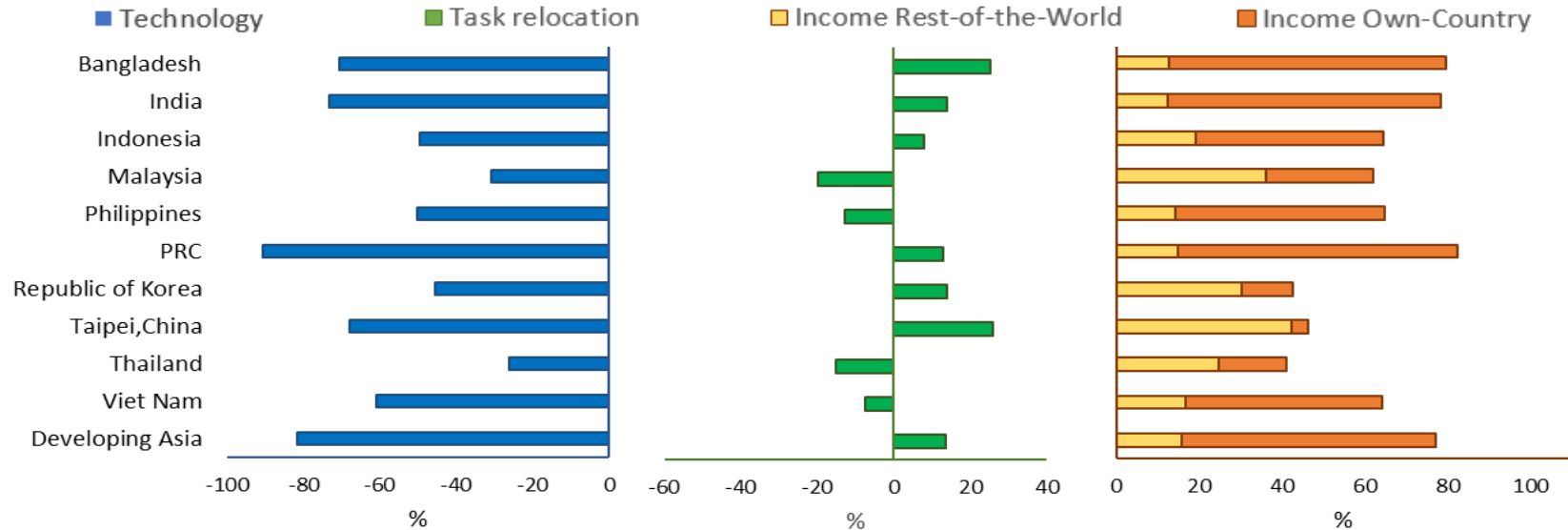
Rising demand offsets displacement driven by automation



Science and Technology for Inclusion

Countervailing force is at work across the Asian region

Manufacturing



GVC = global value chain, PRC = People's Republic of China.

Note: Developing Asia in the decomposition analysis includes Bangladesh, India, Indonesia, Malaysia, Mongolia, the People's Republic of China, the Philippines, the Republic of Korea, Sri Lanka, Taipei,China, Thailand, and Viet Nam.

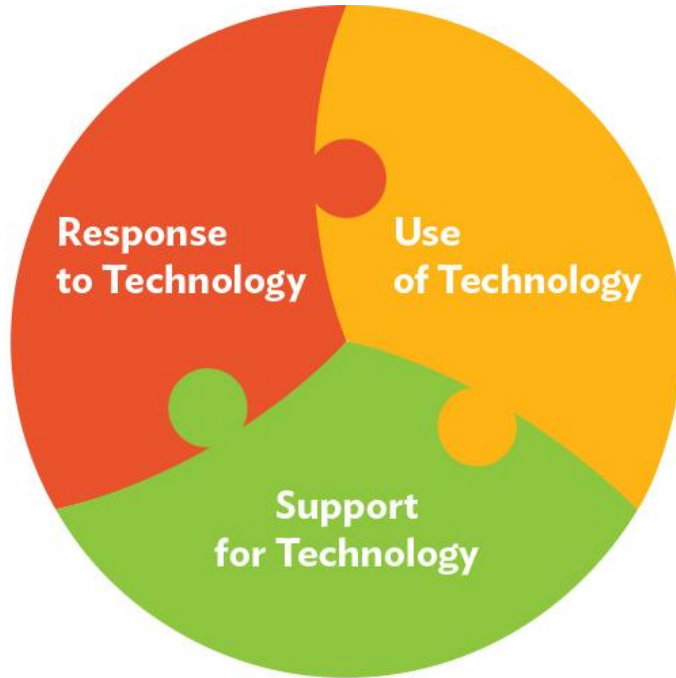
Source: ADB estimates using the ADB Multiregional Input–Output Database (accessed 20 November 2017); Labor force surveys, various countries; World Input–Output Database—Socioeconomic Accounts (Timmer et al. 2015).

Source: Sawada (2018) based on ADB (2018)



Leveraging technological advances for inclusion

The new industrial revolution and the role of government



- Education and training
 - Favorable labor regulation
 - Social protection
 - Tax policies
- Facilitate skills development and job-matching
 - Provision of public goods and services
- Investments in ICT infrastructure
 - **Antitrust and consumer protection**
 - Innovation and technology adoption

Source: Sawada (2018) based on ADB (2018)



Technological progress: both boon and bane

Google amazon



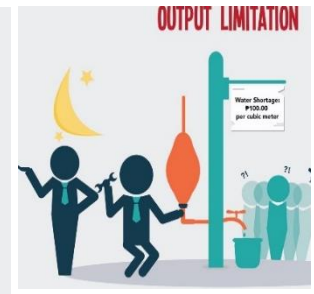
Microsoft

Risks: Algorithmic collusion, abuse of market dominance facilitated by big data, anti-competitive mergers and acquisitions and other features of the 'digital economy'



Competition Policy & Sustainability

Competition Policy: The rules—policies and laws—which ensure that competition in the marketplace is not restricted in a way that is detrimental to society



The PCC comes in to prohibit **cartels**, **abuses of dominance** and **anti-competitive M&As** and ensures that competition is robust, particularly, in markets characterized by **monopolies and high concentration**.

Chapter 16: Leveling the Playing Field through a National Competition Policy

- A first in the country's socio-economic planning history
- Signals commitment to mainstream competition issues in the development discourse
- Goal: improve consumer welfare and market efficiency

Priority Sectors for Competition Enforcement



Agriculture



Power/Electricity



Manufacturing



Telecommunications



Transportation/Logistics



Philippine
Development Plan
2017-2022

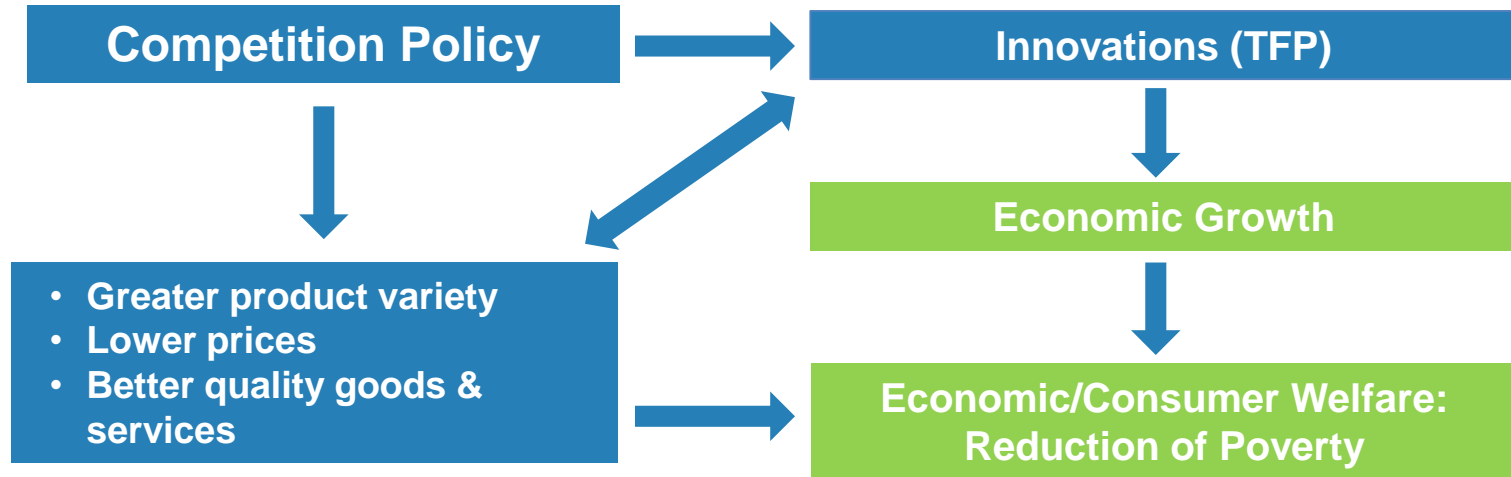
Competition law (policy) is increasingly becoming global



Source: Staff estimates based on OECD (2014) graph

Competition Policy, Economic Growth and Welfare

- Channels: Directly & indirectly **via innovations** (total factor productivity or TFP) to **economic growth**.
- Economic growth has been the predominant **source of poverty reduction in LICs & MICs**. In the medium to long term, **TFP growth is what makes growth sustainable**.
- Ample evidence on the nexus between competition & TFP growth. **Competition induces structural transformation** (of employment), from low to high productivity sectors/areas.

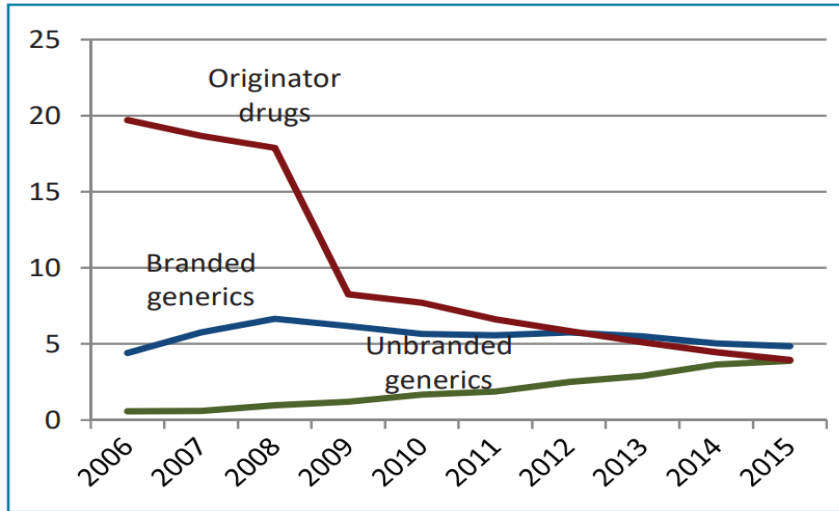


Benefits of Competition – Some Examples

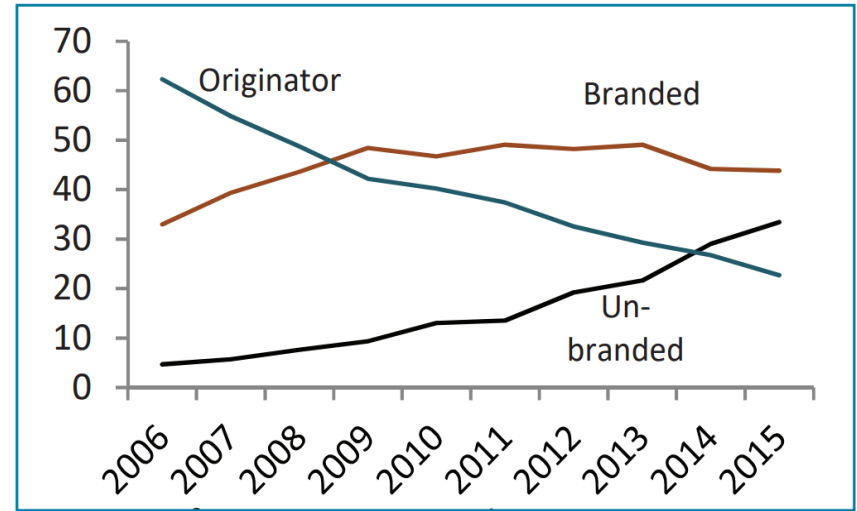
1. Cheaper medicine for all

Strengthening competition in the local medicine market is crucial to lowering prices.

Average prices of medicines by type of manufacturer, 2006–2015



Units of medicines (in million) sold by type of manufacturer, 2006–2015



Benefits of Competition – Some Examples

2. De-monopolization of Telcos

Early 1990s

Late 1990s



"Ninety-nine percent of Filipinos are waiting for a telephone and the other one percent for a dial tone..."
- Lee Kuan Yew, November 1992.

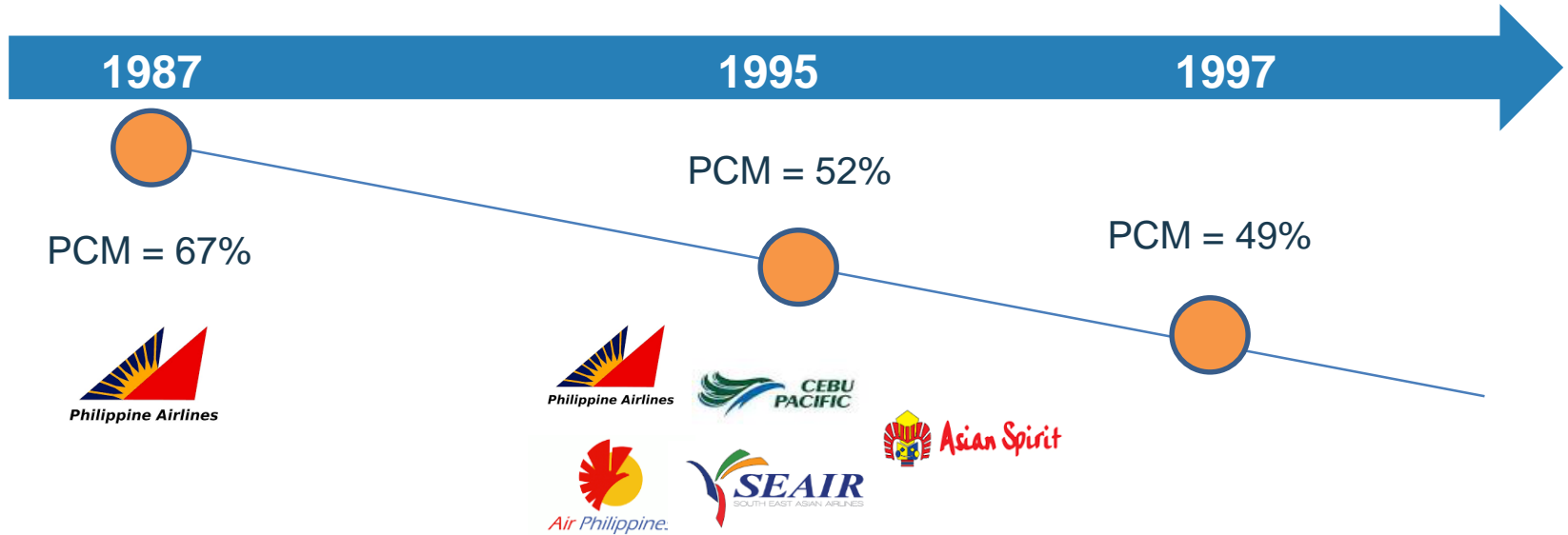


"This minimized the prices charged for calls within the same networks and made SMS a lot cheaper. The international calls have become cheaper, too. It was USD2.00 per minute before the liberalization.

At present, the charge for IDD calls from landlines is USD0.40 per minute."
(Cayanan and Suan, 2014)

Benefits of Competition – Some Examples

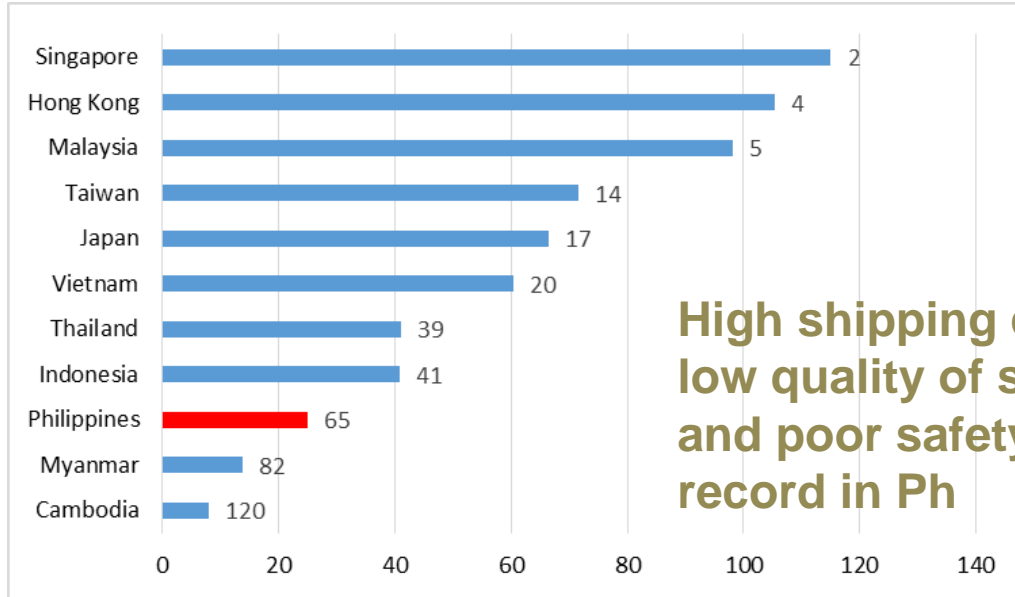
3. Lower margins in the Philippine Air Transport Industry



Benefits of Competition – Some Examples

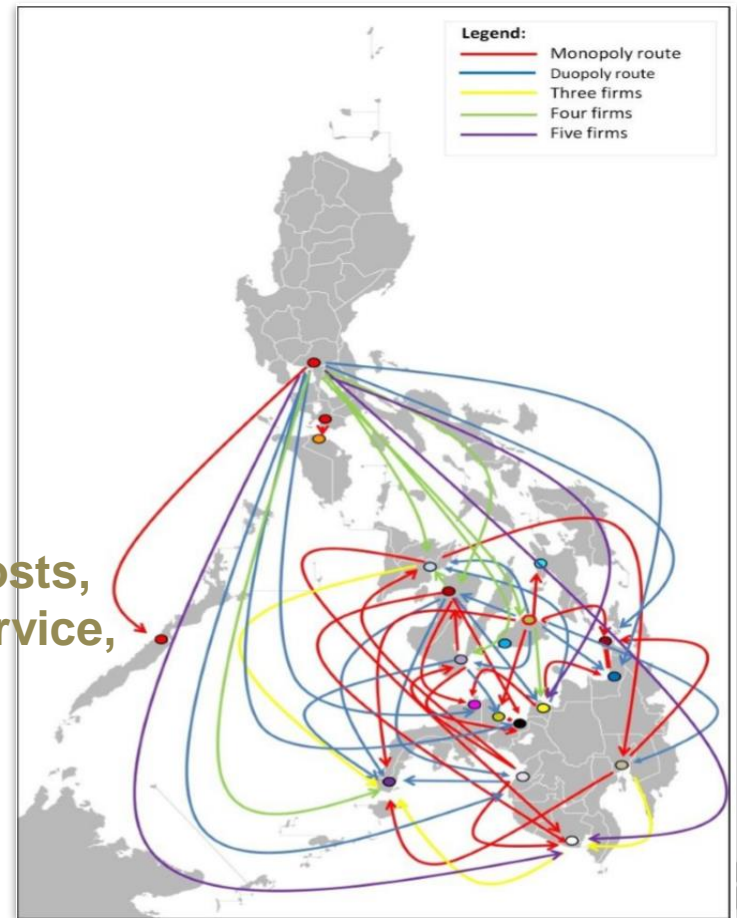
4. Domestic shipping: Potential Gains

Liner Shipping Connectivity Index, 2017



PH ranks very low in performance and connectivity indices

**High shipping costs,
low quality of service,
and poor safety
record in Ph**



Of around 54 primary routes, over 40 percent are served by a single operator.

Summary

- One step forward (rapid growth), one step backward (premature deindustrialization): Non-inclusive growth
- Regaining lost grounds (all steps forward): better institutions/governance; better infrastructure; growing stocks of skills & knowledge
- Govt plays a key role in leveraging S&T advances to foster higher productivity
- National Competition Policy to complement a development strategy toward inclusive industrialization & sustainable development



**PHILIPPINE
COMPETITION
COMMISSION**

Ensuring businesses compete and consumers benefit

Thank you.

Sustainable Economic Development Resources, Environment, and Institutions

Edited by Arsenio M. Balisacan | Ujjayant Chakravorty | Majah-Leah V. Ravago

"If we are to understand the impact of public policy on sustainable economic development and poverty reduction, we must likewise understand the structure of the economy and its institutions. The illustrious authors of this volume contribute to this mission by providing an integrated vision of an economy's natural resources, institutions of governance, and especially its agricultural and rural development."

- His Excellency Benigno S. Aquino III, President of the Republic of the Philippines

"As nations around the world experience both the benefits and the problems that come with economic growth, many have come to see sustainable economic development as their key objective. This volume brings together social scientists and natural scientists from industrialized countries, emerging economies, and the developing world to examine the crucial interface between environment, resources, economic development, and political institutions. This book thereby provides an effective entry-point to the literature for novices, as well as a state-of-the-art survey for experts."

- Robert N. Stavins, Harvard Kennedy School

"The pursuit of sustainable development has become an important policy objective. By presenting a unique combination of conceptual analyses and insightful case studies, the book, **Sustainable Economic Development: Resources, Environment, and Institutions** makes an important contribution in defining this challenging notion and identifies strategies to achieve it. This book emphasizes that the design of sustainable development policies requires understanding of the dynamics of natural resources, human behavior, economic forces, and the inner-working of institutions. The book explains complex concepts with lively analysis of important examples from fields such as water, energy, and agriculture as well as macroeconomic stabilization and poverty alleviation.

This book provides an excellent introduction to development and natural resource policy for advanced students, and it is an outstanding source for economists, natural resource specialists, policy analysts, and other practitioners working in the resource and development fields."

- David Zilberman, UC Berkeley

The 25 chapters in this book lay down the foundations of sustainable development in a way that facilitates effective policy design. The editors mix broad thematic articles with focused micro articles, balancing theories with policy designs. It begins with two sections on sustainable development principles and practice and on specific settings where sustainable development is employed. Other sections illuminate institutions, governance, and political economy. Additional sections cover sustainable development and agriculture and risk and economic security, including disaster management. This rich source of information should appeal to any institution involved in development work and to development practitioners grappling with an array of difficult on-the-ground developmental challenges.



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Edited by

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