

# The Importance of Competition Policy in Structural Reform

## The Case of the Philippines

*APEC Structural Reform Capacity Building Workshop:  
Developing RAASR Individual Action Plans*  
Singapore, 1-3 June 2016

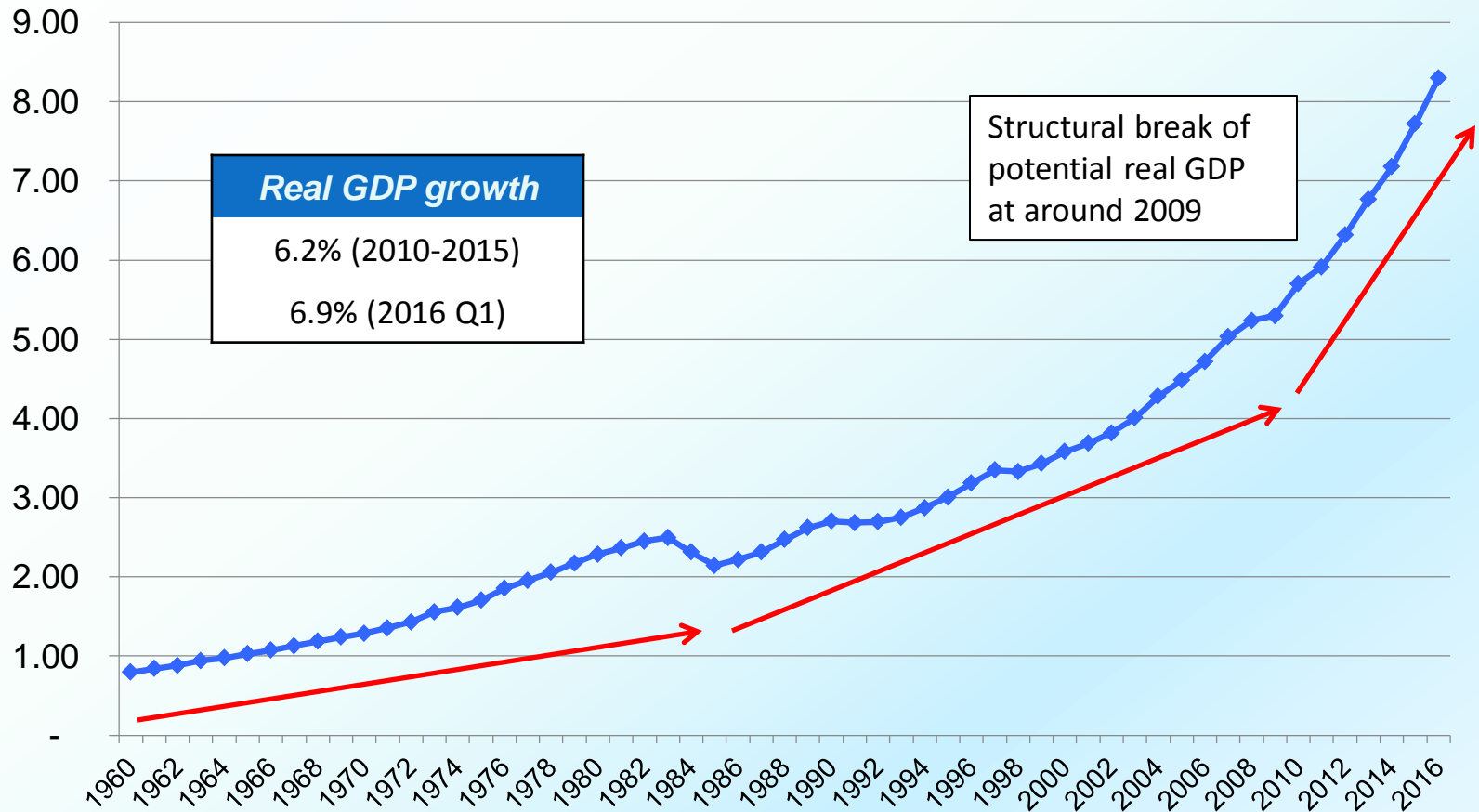
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Chairman, Philippine Competition Commission

# Takeaway

- **Low commitment to structural reforms** held back development for decades
  - *1970s to 2000s: Low economic growth in comparison with Southeast & East Asian neighbors*
  - *If **boom** occurred, it was soon followed by **bust***
- **Resurgence** beginning 2010
  - *“Structural break” to higher growth trajectory*
  - *2010-2015 average growth: 6.2%, highest 6-year average since the late 1970s; among the highest in Asia*
  - *Supported by sound economic fundamentals*
- **Bright prospects in the near term:** 2016 & 2017 growth to remain among the fastest in Asia
- But **big challenges** remain: **deepening reforms** to *sustain* growth and make it more *inclusive*
- **Competition policy** is key moving forward

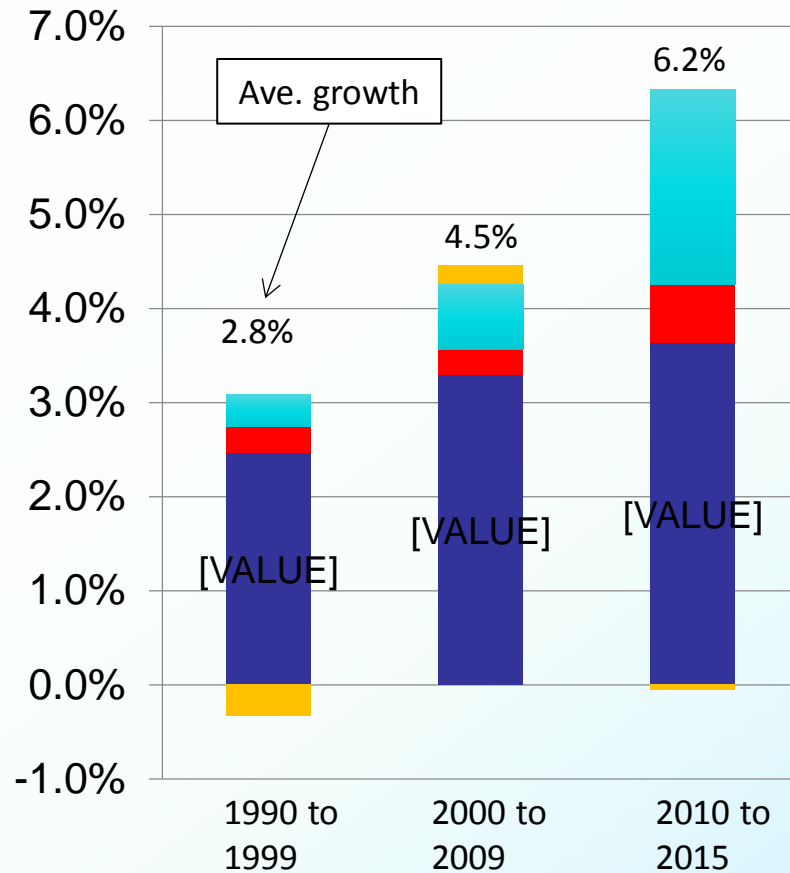
# The Philippine economy is on a higher growth trajectory since the beginning of the current decade

GDP in '000 billion Php (constant 2000 prices), 1960-2016



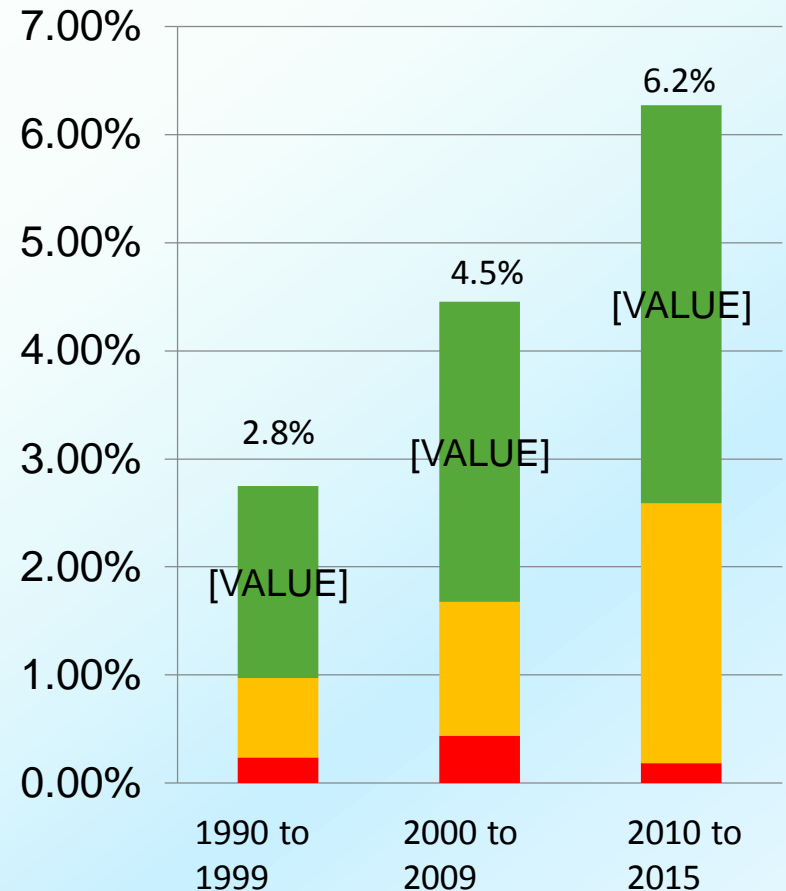
# Investment and industry are increasingly becoming major drivers of GDP growth

## Demand side



■ Consumption    ■ Government  
■ Investment    ■ Net exports

## Supply side



■ Agriculture    ■ Industry    ■ Services

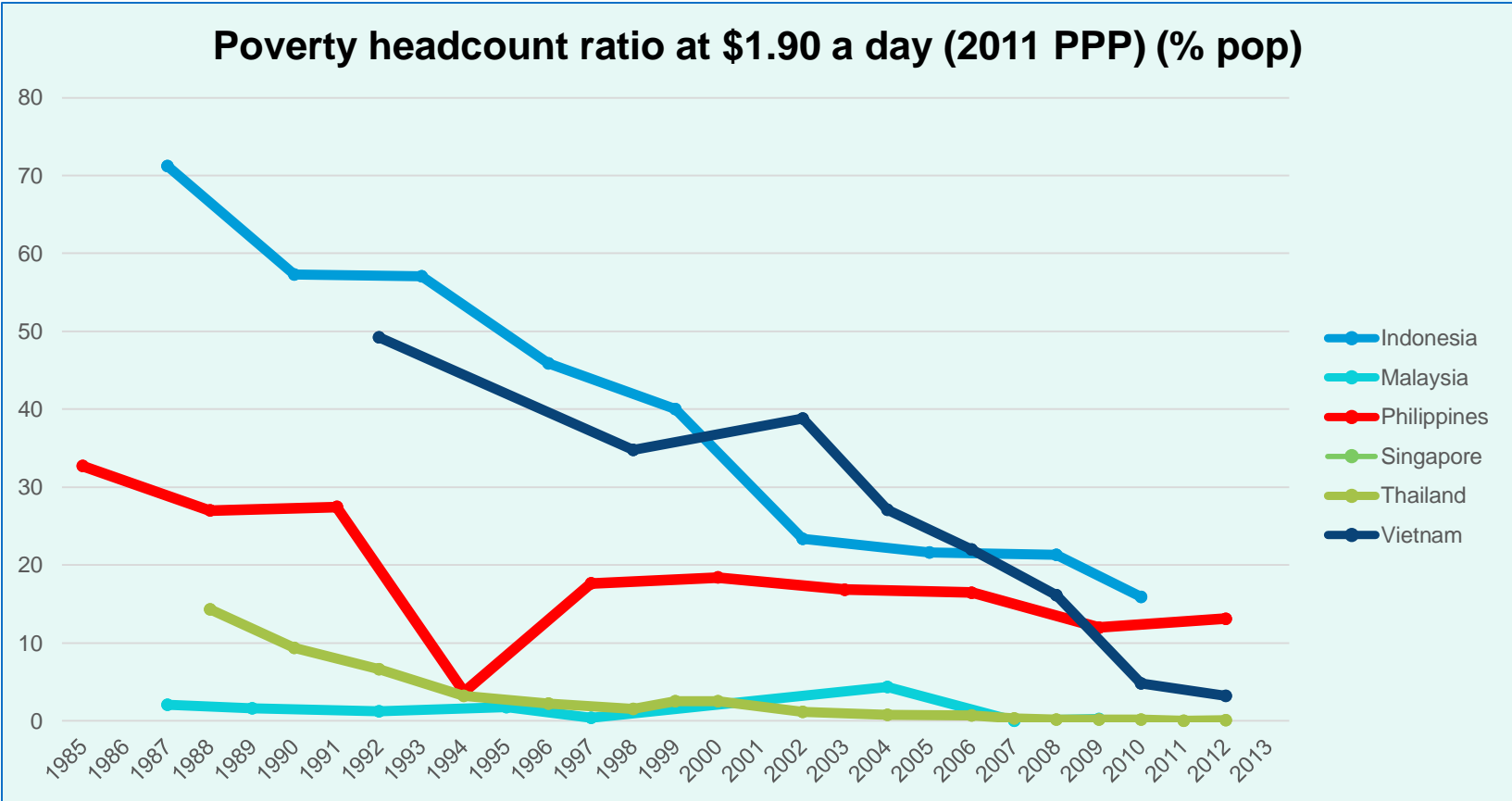
# Improving performance of the economy reflects reform efforts over the years

- Significant structural reforms from the late 80s to early 90s, though few and far in:
  - *Breaking up of monopolies in selected industries (telecoms, airline, water and power utilities)*
  - *Deregulation of the oil industry*
  - *Establishment of an independent monetary authority*
  - *Liberalization of the banking sector*
  - *Tariff reform and import liberalization*

# Focus on governance reforms & anti-corruption agenda since 2010



# BUT weak performance in poverty reduction, even as growth accelerated



Source: The World Bank

# The other big challenge: EMPLOYMENT

- Not a “jobless growth”: unemployment rate is decreasing
- But **underemployment remains stubbornly high**.
- Quality of jobs is improving – rising share of wage and salaried workers in total employment. But not fast enough

| <i>Indicator</i>                | <i>Ave 2010</i> | <i>Ave 2011</i> | <i>Ave 2012</i> | <i>Ave 2013</i> | <i>Ave 2014</i> | <i>Ave 2015</i> |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Labor force ('000)</b>       | 38,893          | 40,006          | 40,426          | 41,022          | 41,379          | 41,343          |
| <b>Employed ('000)</b>          | 36,035          | 37,192          | 37,600          | 38,118          | 38,651          | 38,741          |
| Wage and Salaried Workers       |                 |                 |                 | 22, 247         | 22, 407         | 22, 956         |
| <b>Unemployment rate (%)</b>    | 7.3             | 7.0             | 7.0             | 7.1             | 6.6             | 6.3             |
| <b>Underemployment rate (%)</b> | 18.8            | 19.3            | 20.0            | 19.3            | 18.4            | 18.5            |

Source: Labor Force Survey, Philippine Statistics Authority

Notes:

1. The province of Leyte was not covered in April, July and October 2014; January and April 2015 LFS. July and October 2015 data reflected also exclude the province of Leyte to be able to come up with annualized data for 2015.

2. Annualized data for 2014 refer to the average of estimates for April, July and October survey rounds. The estimates for these rounds exclude data of Leyte province only while that of January exclude Region VIII.

3. Annualized data for 2015 refer to the average of the four survey rounds. These should not be compared with the 2014 annualized data as the latter exclude the January 2014 round.



# Reality check

- Lesson of recent economic history: structural transformation drives poverty reduction.
  - *From low-productivity areas/sectors to high-productivity areas/sectors*
- East Asia's experience: Rapid & sustained growth (3 to 4 decades); shift of employment from agriculture to industry and services, facilitated by robust agricultural productivity growth.
- Philippines: Low growth for most of post-1970s.
  - *Poorly performing agriculture*
  - *Industry, particularly manufacturing, saddled by high production costs (low productivity)*

# Reality check

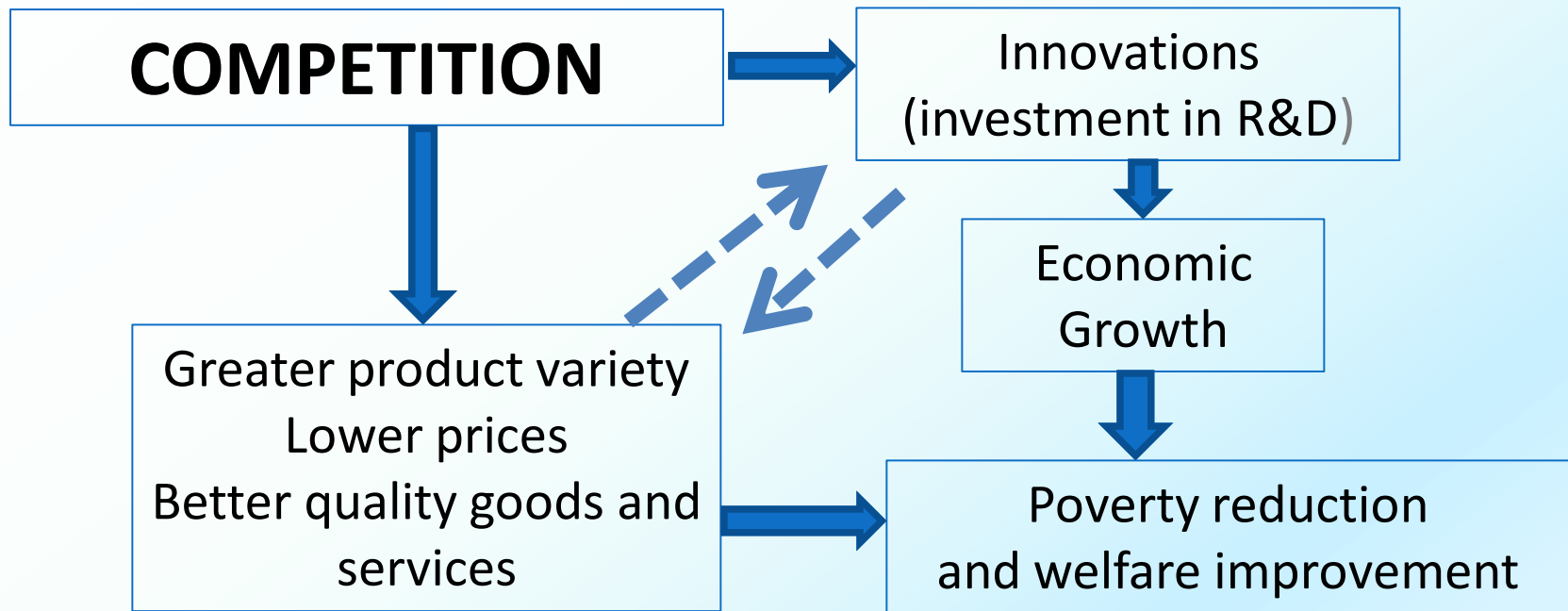
- Remarkably rapid growth in recent years, but rapidly rising inequality as well
- Another lesson from recent economic history: rapid growth that is not inclusive will not last. Sooner or later, the rising inequality will
  - *Create social instability*
  - *Hinder human capital development, especially among the poor*
  - *Stifle innovations and productivity growth*

# Deepening reforms to sustain growth and make it more inclusive

Lessons learned in recent years:

- ***Good governance*** is an effective platform for the strategies' implementation
- ***Macroeconomic and political stability*** fuel positive expectations leading to growth
- ***Economic growth*** is necessary but not sufficient for poverty reduction
- Growth strategies need to have ***spatial and sectoral dimensions*** to ensure inclusivity
- ***Disasters can negate gains*** and even push back development
- ***Effective market competition stimulates innovation and productivity, and alleviates poverty*** by lowering prices and widening consumer choice

# CHANNELS by which competition reduces poverty and enhances public welfare



# The Philippine Competition Act – A Game Changer

## Very restrictive economic policies and anti-competitive business practices:

- Major contributing factor to the comparatively poor performance of the Philippine economy over the last four decades.
- Promoted very unequal distribution of opportunities, perpetuating a condition of widespread poverty co-existing with growing affluence and prosperity in certain enclaves of society.
  - *Extremely difficult for SMEs to thrive and prosper in an economic environment where level-playing field is more of an exception than the norm.*
- Runs counter to ASEAN economic integration - the Philippines would have to scale up quickly improving its economic landscape for competition and regulation

# The Philippine Competition Act – What it can do

- Deepen efficiency-enhancing competitive practices so that economic growth becomes more ENDURING and more INCLUSIVE
- Create a policy environment that promotes a fair and competitive market by regulating business practices that unreasonably restrain competition.
- Prohibits:
  - *Anti-competitive agreements*
  - *Abuse of dominant position*
  - *Anti-competitive mergers and acquisitions*

# Milestones

June 2016  
Target issuance of the IRR



February 2016  
Issuance of transitory rules on  
mergers and acquisitions



**February and March 2016**  
Members of the Commission assumed office

8 August 2015  
Competition Act became effective

21 July 2015  
Competition Act was signed into law

# The Philippine Competition Commission

## Has powers to address competition-related inefficiency issues

- **Antitrust:** enforcing legal prohibitions against anti-competitive business agreements, including cartels, and the abuse of a dominant market position
- **Merger control:** protecting competition in markets by regulating mergers between businesses.
- **Market studies & investigations:** examining markets which may not be working well, with powers to impose remedies where an adverse effect on competition is found
- **Competition Advocacy:** promoting and encouraging competition-enhancing practices and challenging barriers to competition



# Way forward

- Potential gains from competition and structural reforms are massive.
- Advocacy for deeper competition & regulatory reforms
  - *Scaling up sharing of experiences on design and implementation of competition policy*
  - *Building good governance practices for effective regulation*
  - *Developing Structural Reform & Competition champions*

**Thank you!**