**Competition Policy for Sustained and Inclusive Growth**

Keynote Presentation

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*<Salutations>* Mr. Allan Lee, AVCJ publisher and AVCJ Philippines Forum organizer, members of the various business chambers in attendance and members of the investor community, fellow speakers and experts, colleagues, friends from the media, ladies and gentlemen, good morning.

I would like to thank the Asian Venture Capital Journal for the honor of speaking before you today to share my views on the Philippine economy in the midst of domestic and global challenges. I am glad also for the opportunity to update you on recent developments in one key element of the government’s development strategy to foster rapid and inclusive economic growth—the vigorous enforcement of a comprehensive Competition Policy.

As a member of the academe, former Socioeconomic Planning Secretary, and as the inaugural chairman of the country’s antitrust authority—the Philippine Competition Commission—I have been given the unique privilege of acquiring a nuanced and broad understanding of the general trends and underlying currents affecting the Philippine economy. Over the years, this understanding has allowed me to sift through the numerous observations and commentaries thrown around, and to assess the country’s situation in a careful and balanced manner.

*Prospects of the Philippine Economy*

First, let us talk about the prospects of the Philippine economy.

I would like to begin by pointing out that the Philippine economy in the current decade has been a stellar performer among the world’s emerging economies, including those in Asia. This performance is in sharp contrast to the country’s image as Asia’s basket case in the 1980s through the first decade of the new millennium. Thus, it has been quite a pleasure for me as a student of the Philippine economy to see how the country has transformed its prospects in recent years.

The economy’s prospects remain strong, notwithstanding its growth deceleration in the first half of this year and despite global trade disruptions. Even if the growth this year will hover at just around 6 percent, it will still be comparatively respectable, given the growth deceleration almost everywhere else in the world.

To be sure, the Philippine economy is not immune from the effects of recent global developments, particularly the US-China trade war. This tit-for-tat of the two global economic powers has undermined international trade and foreign investment, the primary driver of economic growth for many of the economies in Asia, as well as that of China and the US.

Unlike our Asian neighbors, however, international trade has not been the main driver of economic growth in the Philippines. For the current decade, domestic consumption—that is, private consumption, government consumption, and investment—accounts for the bulk of GDP growth. Historically, final consumption expenditure (private consumption plus general government consumption) has contributed around 70-80 percent of our economy. In recent years, the steady widening of the middle class, the income boost provided by overseas remittances, and the proliferation and expansion of the services sector in the retail, food, hospitality and banking industries have supported domestic consumption expenditure.

Moreover, the sources of foreign exchange for the financing of imports have increasingly diversified to include not just earnings from exports of goods but also earnings from exports of services, overseas labor, and tourism, as well as foreign investments. The Philippines has been experiencing a boom in tourism recently; tourism’s share to the total value of the economy has been increasing as more and more regions of the country are becoming interconnected.

Reliance on the domestic market has delivered economic growth. But beyond the current hiccups in global trade, it is clear that continued improvement in income and employment opportunities requires a diversification of the economy to include an increasingly more robust role for exports and foreign direct investment (FDI), especially in the industrial and services sectors. Otherwise, the size of the domestic market is simply too small, despite its growth, to permit rapid expansion of high-quality employment opportunities for our vast labor force.

The positive outlook for the Philippine economy is evidenced also by the growing value of the net FDI being poured into the country in recent years. Net FDI in 2018 alone was almost double the annual average in the previous two decades. This brings us much closer to the performance of our Southeast Asian neighbors. It is likewise a strong signal of the confidence that investors have in the sound fundamentals of the Philippine economy. There is now widespread recognition that the country’s economic policy regime is undergoing dramatic changes for the better.

However, serious concerns remain about the sustainability of the growth we are enjoying. This high growth also appears to be weakly inclusive. That is, real wages have remained stagnant and poverty reduction has not been as rapid as one might expect from a strong economic expansion.

In this regard, the questions for us are: Can this growth be sustained in the next decade? More importantly, can it be sustained in a way that it is also inclusive, thereby eliminating abject poverty and preventing highly unequal growth of opportunities in society?

The Philippines is poised for a full economic take off, if it can address the main barriers to sustained growth. Let me discuss two key constraints to growth and investments, particularly FDI, in the Philippines: first, the huge infrastructure deficits and bottlenecks, and second, the numerous barriers to fair competition across different industries. Timely policy actions and critical reforms are needed to realize the potential of Philippine growth and unleash economic activity across different sectors.

On the matter of infrastructure, the country has had a low proportion of infrastructure spending to total economic output compared with other developing and emerging economies. The government’s flagship socioeconomic program, aptly titled, *Build, Build, Build*, aims to raise this proportion to 7 percent by 2022, a level that is historically unmatched and expected to significantly contribute to the sustainability of the country’s economic rise. The *Build, Build, Build* projects are foreseen to boost productivity by more effectively connecting the country’s economic hinterlands to the centers of trade, thereby broadening the market, enabling opportunities for business and consumers, and integrating the poorest sectors of society into the economic mainstream.

There has also been significant progress on the regulatory front, addressing especially the country’s long history of protectionism, which had fostered the proliferation of oligopolies and highly concentrated markets for goods and services.

Economic reforms gained some momentum in the 1980s and the decades that followed. The country achieved significant progress in opening up the economy to competition by removing tariff and nontariff barriers in the manufacturing and agricultural sectors. Deregulation and privatization policies, especially in the services sector, accompanied these trade liberalization reforms. Reforms intended to reduce barriers to entry and high market concentration were initiated in the banking sector, as well as utilities, including telco, power, water, air transport, and shipping. Investment liberalization allowed foreign investments in sectors not specified in the country’s Foreign Negative List. Albeit slowly, we progressed from a highly protectionist system to a relatively open-trade regime.

I believe these reforms have contributed to the upward growth trajectory of our economy today. However, they are not enough for the sustained and inclusive growth that we aspire. For one, despite the market-opening reforms and liberalization policies, competition in the Philippines has remained comparatively weak because they lacked the necessary policy support measures to enable a level playing business environment among firms of all sizes and origins.

*Philippine Competition Policy*

The adoption of the Philippine Competition Act (PCA) in 2015 signaled the country’s readiness to take on anticompetitive practices and regulatory barriers pervading the Philippine business landscape. The PCA and along with it the creation of the Philippine Competition Commission (PCC) were bold steps to take in a country whose economy is characterized by private conglomerates with strong ties to the political elite and a weak competition culture.

As the country’s antitrust authority, the PCC is mandated to prohibit anticompetitive agreements, abuses of market dominance, and anticompetitive mergers and acquisitions. The Commission is also entrusted with the crucial tasks of advocating for pro-competitive government policies and conducting market studies so that it can properly assess and appropriately remedy the structural inefficiencies of the market.

Since its organization in February 2016, the PCC has been working tirelessly to weave its institutional frameworks, strengthen its capacity, expand its operations, and build up its portfolio of cases.

The past two years saw the Commission issuing a number of rules and adjustments to establish its enforcement frameworks, streamline processes to reduce transaction costs for businesses, and demonstrate institutional transparency and predictability to its stakeholders. Presently, we are actively engaging with legislators and regulators in various sectors to push for the passage of several pro-competitive laws and regulations.

Let me summarize a few of our initiatives in this regard.

One, the PCC welcomes the updating of the Foreign Investments Act to ease the restrictions on the entry of foreign investors in key sectors of the economy. In our position papers expressing support for the amendment of the 80-year old Public Services Act, the PCC has proposed a more streamlined and straightforward definition of what constitutes a public utility, while at the same time balancing the interests of necessity and market competition.

Two, the PCC has championed the competition lens in the selection of the third player in the telecoms market by providing technical inputs to the Department of Information and Communications Technology and the National Telecommunications Commission. To complement this major reform, we have likewise advocated for pro-competitive features in legislative and regulatory measures concerning the common tower policy, mobile number portability, open access in data transmission, and spectrum management reform. These reforms are expected to inject much-needed competition in a sector long-characterized by high prices and poor quality of service.

Three, we have advocated for the easing of the nationality-based restrictions in the domestic construction business by filing an *amicus* brief in a case before the Supreme Court. Relatedly, we have submitted a position paper on a bill concerning foreign participation in the construction sector. Healthy competition in this industry is especially critical if we are to achieve the ambitious targets of the *Build, Build, Build* program.

With respect to retail trade, the PCC supports the amendment of the Retail Trade Liberalization Act. In our position paper, we argue that easing the entry of foreign retailers by removing their minimum capitalization requirement is beneficial to both consumers and domestic retailers.

The Commission has also been very active in providing its position whenever Congress requests for an analysis of the competitive effects of legislative franchises, especially in the energy and telecoms sectors. Through these inputs, we hope to inject the competition perspective and foster a deeper appreciation of sound competition principles among our legislators.

Lastly, the PCC has been active in the Philippines’ review and negotiations of its modern trade agreements, introducing the competition lens to them. These include the Philippine-Japan Economic Partnership Agreement (PJEPA), the Regional Comprehensive Economic Partnership (RCEP), and more recently the Philippine-Korea Free Trade Agreement.

On the other hand, the Commission has been enforcing the PCA through merger review and enforcement activities. Thus far, we have received a total of 196 M&A transactions. Of these, 184 have been approved while others are undergoing different stages of review or monitoring for compliance with voluntary commitments. The Commission has also approved three transactions with conditions or voluntary commitments that seek to remedy the competition harms identified during merger review.

I would like to assure the business community that the PCC devotes significant resources and effort to ensure that in carrying out its mandate, it does not act as a roadblock to the private sector’s expansion. For instance, the PCC’s review days in 2018 were well within the statutory periods. This shows that as we commit to fulfilling our merger review mandate, we also keep in mind considerations related to the ease of doing business.

Prospective investors and businesses need not be worried by the PCC’s review process, for as long as their transaction is not found to result in a substantial lessening of competition in the relevant markets being considered. It is these anticompetitive M&As that are in the PCC’s cross hairs.

Thus far, the PCC has blocked one transaction in a landmark case involving an acquisition that would have resulted in a monopoly of the market for sugarcane milling services. While the parties offered voluntary commitments to address these concerns, the Commission found that these did not sufficiently address the anticompetitive effects identified by our Merger & Acquisition Office.

Another landmark case recently decided on by the Commission had to do with abuse of dominance involving a condominium developer. Last March, our Enforcement Office filed with the Commission the case against the developer. The condominium corporation was alleged to have abused its dominant position through exclusionary conduct: it prevented internet service providers or ISPs other than its own from providing internet service to residents of the condominium. In its investigation, our Enforcement Office also found that its ISP charges significantly higher prices than other ISPs for similar services.

After a series of negotiation in the ensuing months, the respondents and our Enforcement Office filed a Joint Motion for Settlement with the Commission. In late September, the Commission issued a decision approving the terms of settlement. The terms of settlement seek to have the respondents admit and publicly apologize for their abusive conduct, pay an administrative fine, cease from engaging in such conduct, and allow the entry of other ISPs in the market so that their residents will have a choice.

This landmark case shows that the PCC is serious about addressing anticompetitive practices that have long been considered par for the course in different industries. Unscrupulous businessmen can only expect the Commission to pursue more cases of a similar nature in the future.

For purposes of effectiveness and efficiency, the Commission focuses its enforcement and advocacy resources on sectors that hold strategic value. We identify these sectors based on a careful and strategic assessment of their impact on consumers, the probability of enforcement success, and legislative priorities. In 2020, the PCC’s initiatives will focus on telecommunications, retail, energy and electricity, transportation, construction, health and pharmaceuticals, and food.

Our initiatives and activities in these sectors are intended to unlock the economic potential of these industries—to bring down the costs of providing these services in order to benefit consumers and businesses, and to boost productivity-improving investments and innovations in sectors that have long been protected by regulation.

How does the PCC’s endeavors tie up with the concerns of investors?

Evidently, effective enforcement of competition policy facilitates market development and expansion, giving rise to higher and more enduring returns to investment. There is ample evidence on the nexus between competition, on one hand, and GDP growth, productivity growth, and innovation, on the other hand. Social outcomes related to poverty reduction and distribution of opportunities are also more favorable in markets reigned by competition than in those exhibiting high barriers to entry (exit) and ruled by monopolies and oligopolies abusively exercising market power.

In addition, as the Philippine middle class expands, the strong links between political influence and market power are expected to weaken, leading to better governance and a less discretionary approach to the application of rules and regulations. This is also expected to widen access to opportunities to a broader segment of the population, thus further opening the market to greater economic activity.

**In conclusion,** the Philippine economy is transforming and in transition to rapid growth. Fostering a conducive investment climate is key to sustaining the transformation and enabling the country to join the ranks of its prosperous neighbors.

The strong and effective implementation of a robust and game-changing competition policy is part and parcel of the development agenda aimed at sustaining growth and making it more inclusive.

By ensuring that anticompetitive conduct is caught or deterred, the PCC is, in effect, upholding the principle of fairness for anyone who chooses to set up shop in the country, foreign investors included.

In a very real sense, the PCC functions as the “Ombudsman of the Market,” assuring current and prospective investors that the Philippines offers a level playing field—one where companies are expected to increase their market shares or attain dominance through merit and innovation alone, not through underhanded deals or unscrupulous business practices.

By upholding transparency in its rules and processes, and ensuring that its actions are procedurally sound and substantively meritorious, the PCC contributes to the stability of the policy environment, reducing the uncertainty and risk faced by investors.

No business wants to compete in a playing field that is rigged from the start. Thus, we call on the business community to be our partners in achieving our shared goal of enabling a more vibrant competition landscape across all industries.

Thank you very much. I look forward to the discussions we have ahead of us.