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Balancing Industrial Concentration and Competition for Economic Development in Asia: Insights from South Korea, China, India, Indonesia and the Philippines

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Abstract: In pursuit of economic growth and development, countries have tried to strike a balance between competition and industrial policies across time. This paper will review the empirical evidence on industrial concentration and its economic correlates (notably firms' performance as measured by profitability, factor productivity and innovation). It will also analyze how the introduction of competition policies and laws in South Korea, China, India, Indonesia and the Philippines affected industrial concentration. It will examine at what point in their industrialization and economic development these economies implemented these laws and policies. The empirical literature suggests that industrial concentration could exhibit an inverted-U-shaped relationship as far as its link to certain economic indicators of success, such as productivity and innovation. This suggests a role for recalibrating policies to adjust the balance between industrial concentration and competition, so that the over-all outcomes are net welfare enhancing. Indeed, country policy experiences reviewed here appear to demonstrate this recalibration, notably following privatization and liberalization policies.

Keywords: Industrial policy, competition, import substitution, concentration, productivity.

1. INTRODUCTION

Over the last few decades, numerous developing countries adopted policy reforms to jumpstart economic growth and development, either through import substitution industrialization (ISI) or export-led strategies (often both and in this order). During this time, it was not uncommon to see state enterprises or national champions grown and nurtured with direct or implicit public subsidies and other support. The objective was to enable these enterprises to reach scale economies to compete (or at least reach economic viability), first in domestic markets and later in international markets. This first wave of industrial policies inevitably contributed to industrial concentration—the expansion and dominance of one or a few firms in certain industries—with ambiguous net economic implications.

Industrial concentration could be associated with relatively more successful and efficient firms rising to the top and reaching scale (Demsetz, 1973, 1974), and large firms with more secure market share could be more likely to innovate since they would better capture the proceeds (Schumpeter, 1942; 1947). From this vantage point, concentration could contribute to more innovation, productivity and robust growth prospects for the country. On the other hand, industrial concentration could also (though not necessarily) result in the abuse of market power, weaken the motivation for innovation (due to the lack of competition from rivals), discourage new entrants and perpetuate monopoly profits (e.g., Scherer, 1980; Baumol, 1982). Further, larger firms may not necessarily be more innovative than smaller ones, and the lack of competition could also deter innovation and expansion after a certain scale is reached. These conditions combined with entry barriers for new firms could eventually be net welfare reducing despite any benefits from initial industrial scale-up.

In a second wave of policy reforms, countries later adopted market-oriented principles and turned to privatization of state owned enterprises and liberalization of formerly protected sectors. These second generation reforms meld and temper the initial industrialization strategies with competition policies and laws that are intended to encourage new (domestic and foreign) entrants in industries in order to foster competition. Transitioning into this second wave of reforms entails a paradigm shift in economic policy-making and business practices. This involves not only changing the status quo and challenging well-entrenched interests, but also developing the technical capacity to effectively implement and calibrate these reforms, particularly, competition laws. Under these conditions, managing competition is essentially about striking a balance between industrial concentration and market competition.

This paper will briefly review the empirical evidence on industrial concentration and its economic correlates (notably firms' performance as measured by profitability, factor productivity and innovation). It will

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then examine the factors and influences that prompted the adoption of competition policies and laws in selected countries that transitioned from centrally-planned economies to a more market-oriented framework. It will examine at what point in their industrialization and economic development these economies implemented these laws and policies. Indeed, empirical evidence across countries suggests that industrial concentration has various economic implications – and these implications depend on what stage of development the country is in.

While it is difficult to formulate precise comparisons across these countries, the analysis herein nevertheless highlights some similarities in how countries seek to achieve a pragmatic balance between industrial and competition policies. There is evidence that industrial concentration could exhibit an inverted-U-shaped relationship as far as its link to certain economic indicators of success. In terms of productivity and innovation for example, initial increases in industrial concentration could strengthen a positive relationship. However, once a certain point is reached, the link may turn negative (i.e., concentration may begin to deter innovation and stifle productivity). This suggests a role for recalibrating policies to adjust the balance between industrial concentration and competition, so that the over-all outcomes are net welfare enhancing. Indeed, country policy experiences reviewed here appear to demonstrate this attempt at recalibration, notably following privatization and liberalization policies.

2. EMPIRICAL EVIDENCE ON INDUSTRIAL CONCENTRATION

The empirical evidence on the degree of competition and its economic correlates often considers measures of industrial concentration as a proxy indicator for competition. The X-firm concentration ratio in each industry is a widely used measure in this body of literature.[1] While this measure is not without its limitations (i.e., industrial concentration is thought to be a necessary though insufficient condition for market power), it has become accepted as an initial proxy which nevertheless requires further probing.[2] The now extensive empirical literature on industrial concentration and its economic correlates paints a mixed picture.

2.1. Concentration, Innovation and Productivity

As regards the link between concentration and innovation, the literature contains an extensive discussion of the pros and cons of “big firm capitalism” (see for instance Baumol, Litan and Schramm, 2007). Vossen (1999), for example, discussed the possible paradoxical implications of industrial concentration on research and development (R&D) spending and innovation outputs. A more concentrated market is expected to produce higher price-cost margins for its firms, in turn providing incentives for innovation, notably if the protection period for the innovator is secured (e.g., through a patent period of sufficient length). On the other hand, an unsecured protection period combined with fewer and larger competitors could imply that these larger firms are more capable of circumventing patent protection measures. The link between an industrial structure characterized by a few large firms and innovation is therefore an empirical question. Examining data from national innovation surveys in 1988 and 1992 in the Netherlands’ manufacturing sector, Vossen found evidence that the positive link of industrial concentration and R&D spending is at least as strong for small firms when compared to larger firms within the same industry, suggesting that market power does not seem necessary for innovative effort. Nevertheless, R&D spending translates to stronger innovative output in less concentrated industries, even as R&D spending tends to be higher with increased industrial concentration.

In terms of industrial concentration and firm performance (e.g., measured by factor productivity and profitability), a possible inverted-U-shaped relationship could occur (Scherer, 1980). Initially, monopoly profits accompanying increased industrial concentration could free resources to be channelled into innovation and enhanced productivity. However, at higher levels of concentration the relationship could turn negative, as imperfect competition also weakens the incentives to innovate in order to remain competitive. Empirical analysis of this topic focused on the US banking industry suggests that concentration is not necessarily random, rather it is the outcome of more efficient firms expanding and dominating their respective industries. Profitability is therefore not necessarily due to industrial concentration per se (Smirlock, 1985). Separate empirical analysis of the US manufacturing industry

[1] Most studies use a 4-firm concentration ratio. For a discussion of alternative firm concentration ratios, see Kilpatrick (1967).
[2] For further elaboration on industrial concentration and the different possible measures, see for example Adelman (1951), Kwoka (1981) and Curry and George (1983).

shows that firm group price-cost margins tend to be larger where firm group productivity is above the industry average (Martin, 1988).

Evidence on the manufacturing sectors of the United States (Gopinath, Pick and Li, 2004) and India (Goldar, 1986) also further suggest a positive link between industrial concentration and productivity. Both studies also provide evidence that better firm performance may not necessarily be due to increased concentration; rather the latter may simply be proxying for other factors like the presence of scale economies. The study by Gopinath, Pick and Li (2004) provided additional evidence in support of the inverted-U-shaped relationship between industrial concentration and productivity. They find that a 1 percent growth in industrial concentration is associated with an initial 0.14 percent increase in total factor productivity growth. However, this empirical relationship appeared to decline—and later turn negative—as industrial concentration increased. This suggests a need to recalibrate policies at certain stages of industrialization. The process of market-oriented reforms does not appear to be linear, and it depends critically on the country's stage of development as well as broader pressures on the reform process.[3]

2.2. Concentration and Economic Openness

Industrial concentration and economic openness could also be ambiguously linked. On the one hand, the penetration of imported products could exert a disciplining effect on the profitability of highly concentrated sectors. The "import-discipline" hypothesis contends that the threat of entry by foreign competitors motivates domestic firms to use pricing strategies that forestall entry, approximating pricing under more competitive conditions.[4] On the other hand, more competitive export-oriented firms could thrive in a much more liberalized environment. They could begin to scale-up their operations to take advantage of far larger international markets and production networks. Even firms focused primarily on the domestic market could benefit perhaps from foreign investments and access to international capital, alleviating any domestic capital challenges that once constrained them.

As regards empirical evidence, an analysis of the Chilean manufacturing industry shows that economic openness in trade contributed to an increase in its industrial concentration, an outcome consistent with theories suggesting the disappearance of small and inefficient firms that could not compete, and the expansion of more efficient firms that sought to exploit scale economies (De Melo and Urata, 1986). On the other hand, evidence on the Philippines suggests that the absence of openness could also contribute to an oligopolistic industrial structure. De Dios (1985) examined data on the Philippine manufacturing industry and the effective rate of protection, and found that the latter contributed to seller concentration. This study also found evidence that tariffs not only contribute to industrial concentration, but it also fosters more concentrated FDI inflows to the extent that these are primarily motivated by tariff-jumping. This finding was consistent with the hypothesis that the concentration of foreign investments could be due in part to their attraction to monopolistic returns in heavily concentrated industries.

In addition, Bird (1999) analyzed industrial concentration patterns in Indonesia during the period from 1975-1993 and found evidence that average industrial concentration is lower in export-competing (compared to import-competing) industries both before and after the trade policy reforms in the 1980s. One possible explanation is that trade openness enabled industries to sustain a larger number of firms, many of which were able to reach scale partly due to the much larger international export markets. Correcting for the influence of international trade also leads to much lower industrial concentration estimates for Indonesia, suggesting that comparisons of concentration indicators should be appropriately "deflated" for the influence of trade.

More concentrated industries may also offer conditions that are much more conducive to successful protectionist lobbying (e.g., Peltzman, 1976; Stigler, 1971). Chari and Gupta (2007) examine whether this holds true in India, using an extensive firm-level data covering balance sheet and ownership information on over 2,100 firms accounting for over 70 percent of Indian industrial output. These authors examined whether pre-liberalization characteristics such as industry structure and the ownership of incumbent firms are linked to government policies on selective liberalization. Their findings suggest that firms in concentrated industries and state-owned enterprises tend to be more effective in blocking foreign entry

[3]The interested reader may wish to refer to Medalla (2002) for a review of the state of competition and issues behind competition policy reforms vis-à-vis selected industries in the Philippines. In addition, Kagami and Tsuji (2003) contain analyses of different industrial agglomeration experiences across Japan (e.g., automobile, iron, information technology), Vietnam, South Korea, China, Italy and the United States.
[4]See the discussion on potential entry of importers (Geroski and Jacquemin, 1981) and multinational companies (Sleuwagen, 1983).

(compared to, respectively, firms in non-concentrated industries and similarly placed private, non-state firms). Consistent with theory, they also find evidence that more profitable state owned firms tend to be much more effective in blocking foreign competitors from entering (compared to less profitable state firms).

3. INSIGHTS FROM ASIAN INDUSTRIALIZATION EXPERIENCES

A review of industrial and competition policy trajectories of South Korea, China, India, Indonesia and the Philippines shows that these countries seem to be approximating a general pattern of initial strong industrial support strategies, followed by the phased introduction of competition policies and laws. Competition policy is almost always gradually introduced, and it often follows after a certain critical mass of industrial concentration is reached.

3.1. Republic of Korea

Beginning in the 1960s, the South Korean government adopted policies to nurture "national champions" by promoting the growth of selected labor-intensive and export-oriented industries, and later moving on to heavy industries, through tax and financial incentives and tight import controls. Such industrial policy ushered in the growth of a few big family-owned industrial conglomerates, the *chaebols*. High entry and exit barriers created in favor of these *chaebols* further ensconced these few conglomerates across Korean industries (Chang and Jung, 2002).

Korea's export-oriented strategy and subsequent investments in heavy industries helped usher rapid economic growth. Real GDP per capita growth averaged about 5.53% (computed average from 1961-1980) during the 1961-1980 period (World Development Indicators Online). Real GDP per capita (constant 2000 USD) increased from USD 1,109.86 in 1960 to about USD 3,221.45 by 1980.[5] Nevertheless, *chaebols* prices in the domestic market tended to be higher than world prices, generating public clamor to rein in their perceived abuse of market power. On the other hand, strong GDP growth provided a strong argument for *chaebols* to oppose the adoption of competition law, despite efforts to pass this by consumer groups (Chang and Jung, 2002). The economic crisis in 1980 coupled with the ouster of President Park gave the new regime the impetus to institute significant reforms by transitioning from a government-led economy to a market economy (Chang and Jung, 2002). Together with initiating the process of liberalization and deregulation of industries, the South Korean government also adopted the Monopoly Regulation and Fair Trade Act (MRFTA) in 1980. Through the MRFTA, the Fair Trade Office (FTO) under the Economic Planning Board (EPB) was established (Jung and Chan, 2006).

During the period 1981-1986 or the first phase of the development of competition promotion and enforcement, the FTO engaged mostly in activities geared towards increasing awareness of the MRFTA. The FTO started enforcement work from 1986, and its functions were later transferred to the Korea Fair Trade Commission (KFTC), an independent organization under the EPB (Korea Fair Trade Commission, 2011).

In 1990, the Secretariat and regional offices in Busan, Gwangju and Daejeoun were established, thereby integrating the jurisdictions of fair trade enforcement (Korea Fair Trade Commission 2011). After 1986, KFTC enforcement was more focused on regulating chaebol activities, including prohibiting the establishment of holding companies, as well as cross-shareholding between affiliates of large business groups, and providing a cap to the total equity investment. During the period from 1986-1997, the second phase of development, the KFTC continued to focus in this area and improved competition-promoting regulations (Korea Fair Trade Commission, 2011).

Also within this period, in 1996, the KFTC was promoted to a ministerial-level agency and became the official competition authority of South Korea (Korea Fair Trade Commission, 2011). Its jurisdiction covers matters related to:

- Regulating abuse of dominance;
- Restricting combination of enterprises and preventing the concentration of market power;
- Regulating improper cartels and anti-competitive behavior;
- Regulating unfair business practices and resale price maintenance;
- Preventing the conclusion of unfair international contracts;

[5]Data from the World Bank's World Development Indicators Online.

- Competition encouragement policies through consultation and coordination with respect to Acts, subordinate statutes, and administrative measures that restrict competition;

- Other than Acts and subordinate statutes to be established (MRFTA, Art. 36).

The Asian Crisis of 1997-1998 exposed a variety of structural economic weaknesses among the Asian economies affected by it. South Korea was particularly affected—its GDP growth rate plunged from 7% in 1996 to 4.65% in 1997 to -6.85% in 1998, later recovering to about 9.49% in 1999 (World Development Indicators Online).

Lee *et al*. (2002) note that financial liberalization in South Korea went through a process of limited liberalization in the 1980s that promoted the growth of non-bank financial institutions (NBFIs) and stock and bond markets, and deregulation of entry restrictions in financial institutions in the early 1990s. They observe that these were heavily influenced by *chaebol* interests amid generally weak government supervision and regulation. According to these authors, this paved the way for the financial meltdown in 1997-1998.

They note that South Korea's industrial policy in the 1960s was characterized by a hierarchical relationship between the government and selected firms, later to be known as *chaebols*. The government directed and funded investments through government-owned banks, coordinated activities among interdependent firms and imposed objective criteria for choosing firms receiving government support. This effectively promoted the fast growth of the Korean economy from the 1960s (Lee *et al.* 2002).

However, as the *chaebols* grew and gained economic power and began to chafe against government control, the government-business relationship that prevailed began to unravel. With the increasing power of the *chaebols*, government's influence in directing them diminished, while the structure of allocating credit remained. This created an environment of corruption and rent-seeking. Ha Joon Chang claims that this contributed to the crisis of confidence in Korean markets that worsened the 1997-1998 financial crisis in Korea (Lee *et al*., 2002; Chang, 1998).

In addition, when government began to liberalize the financial industry, *chaebols* were quick to take advantage of the opportunity to access independent financing sources. NBFI deregulation saw the increase in *chaebol* ownership in these institutions and became an alternative source of financing to government-controlled commercial banks. The financial reforms were characterized by a paradigm shift to a neo-liberal and hands-off approach to economic management. This, including deregulating entry into the financial sector in the early 1990s, provided a greater opportunity for *chaebols* to control the financial system. By 1995, the top 10 *chaebols* owned an average of 2.5 NBFIs (Lee *et al.,* 2002).

Interest rate deregulation, on the other hand, was implemented on a piecemeal basis, with short-term interest rates deregulated first, and long-term interest rates at a later time. As a result, external financing became dominated by short term instruments with *chaebol* owned NBFIs being major players in the business. Strong lobbying of *chaebols* for liberalization of international financial transactions coupled with pressure from international financial capital to access the Korean market, resulted in further financial deregulation. This included deregulation of foreign-currency denominated bonds, export-related foreign borrowing and removal of the annual ceiling on foreign currency loans. However, with the initial deregulation of short term instruments, most of the foreign currency financing issued were short-term (Lee *et al.,* 2002).

In the meantime, efforts by the government to rein in *chaebols* during the process of reform in the 1980s were generally ineffective in the face of strong *chaebol* opposition. With weak government oversight, by 1997, debt-asset ratio of *chaebols* with no affiliate finance companies was 45.9% while those with financing affiliates was 56.6%. This, while the rate of return of *chaebol* affiliated finance companies was 0.27% and non-affiliated companies was 1%. In other words, debt-financed investment expanded, while profitability, especially of financing institutions, was low. This set the stage for the financial crisis of 1997-1998. The failure of the *chaebols* resulted not only to the failure of their affiliated finance companies but also of other unrelated institutions given the credit linkages among these institutions (Lee *et al*., 2002).

In an effort to address this after the Asian crisis, the KFTC strengthened its enforcement activities against large business groups. It conducted investigations on alleged wrongdoings and imposing hefty fines on these groups. The belief that the *chaebols* worsened, if not caused, the effects of the Asian crisis in the South

Korean economy, provided impetus for the KFTC to take a more proactive role in competition promotion and enforcement.

Thus, from 1998-2007, the 3rd phase of competition promotion and enforcement, the number of corrective measures or more stringent sanctions against companies increased by three times compared to the period from 1986-1997. Surcharge impositions also increased 6.7 times compared to the same period. Companies that received sanctions included several foreign companies including Microsoft (Korea Fair Trade Commission, 2011).

With its more pro-active role in competition enforcement, the KFTC also enacted and implemented a series of laws aimed at consumer protection, and engaged in activities geared towards empowering consumers (Korea Fair Trade Commission, 2011). The KFTC's competition advocacy activities through the enactment or revision of competition laws issued by different administrative agencies also steadily increased. Government agencies consulted the KFTC on matters relating to competition in other government legislations. Consultations increased from 430 in 2004 to 635 in 2007 (Korea Fair Trade Commission, 2011).

Following the global financial crisis in 2008, a fourth phase of development of competition policy introduced stronger enforcement activities against international cartels and detection of possible abuse of market dominance by several multinational companies. KFTC also expanded the autonomy of market participants by establishing mechanisms for consumer complaints and promoted shared growth agreements between large companies and small and medium enterprises (SMEs) to encourage voluntary improvement of transaction practices. The partnership between these large companies and SMEs is seen as a means of maintaining the competitiveness of South Korean companies against the growing trend of global production networks (Korea Fair Trade Commission, 2011).

To ensure that its decisions are credible and thus minimize unnecessary disputes, the KFTC turned to in-depth and evidence based economic analysis as a tool for providing support to its findings and judgments. It also introduced competition impact assessments of newly instituted and reinforced regulations as part of its mandate to be consulted on and coordinate with other government agencies on competition restrictive regulations of these agencies. In 2010, as part of its competition advocacy measures, the KFTC issued the guidelines for review of statutory restriction of competition. It sets out guidelines on how to determine whether an administrative or legislative issuance is anti-competitive or not (Korea Fair Trade Commission, 2011).

In addition, since the 1990s, South Korean foreign direct investments to other countries started to increase dramatically (See Figure **1**). It is not coincidental that the KFTC increased its international cooperation and outreach to other countries on competition related matters during this period. South Korea participates in discussions for cooperation in competition law and policy in the Organization for Economic Cooperation and Development (OECD), International Competition Network (ICN), Asia Pacific Economic Cooperation (APEC), United Nations Conference on Trade and Development (UNCTAD), and other multilateral fora. It is a Bureau member of the OECD Competition Committee since 2001, and a member of the Steering Group of ICN since its inception in 2001 (Korea Fair Trade Commission, 2011).

South Korea has also recently signed a bilateral agreement with the European Union in 2009 entitled, "Agreement between the European Community and the Government of the Republic of Korea concerning cooperation on anti-competitive activities." (Official Journal of the European Union, 2009). In addition, the EU-South Korean Free Trade Agreement signed in 2010, in its Chapter 11, provides harmonized principles in maintaining and executing each Party's competition laws, cooperation, consultation and dispute settlement mechanisms to address competition issues between the Parties, and the application of competition laws in removing distortions to competition caused by subsidies (Official Journal of the European Union, 2011). Perhaps, this reflected the need to protect South Korean interests as their companies begin to go global.

As the South Korean economy continued to expand after the adoption of liberalization and deregulation policies, its competition laws and enforcement also continued to evolve. Industry concentration indicators have also evolved over time, showing a general downward tendency during the last decade (see Tables **1a**; **1b**). As GDP per capita grew, signifying increased economic activity, and with the broad mandate given to it by the MRFTA, the KFTC continued to adapt to the evolving market structure of the Korean economy. From initial information dissemination, to regulation of *chaebol* activities and transactions, active enforcement of the MRFTA provisions against abuses of market

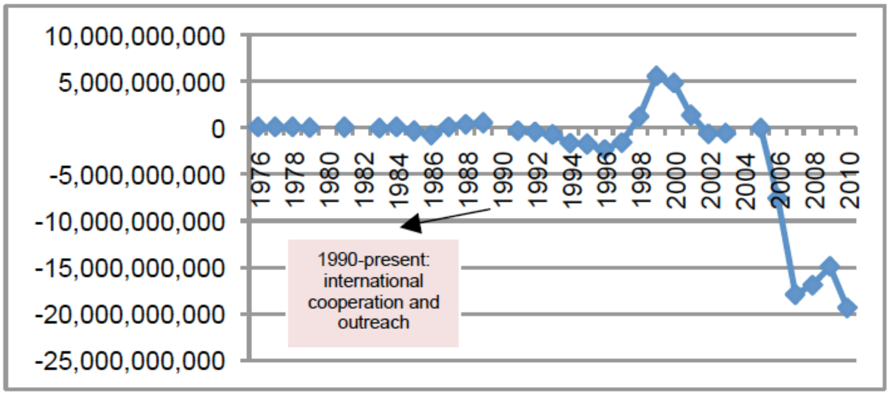

Figure 1: South Korea Net FDI (constant 2000 US$), 1976-2010.
Source: World Development Indicators Online.

Table 1a: South Korea Market Concentration Ratio, 1999-2008

	CR3 Korean Standard Industrial Classification (8-digit)		CR, ≥ 50%; CR, ≥ 75% Ratio of Highly Concentrated Item		
	Simple Average	Weighted Average	CR, ≥ 50%	CR, ≥ 75%	Total
1999	75.3	68.0	44.0	13.8	57.8
2000	71.5	65.6	38.8	13.6	52.4
2001	68.5	64.0	35.4	12.4	47.8
2002	64.6	61.0	30.9	11.8	42.7
2003	61.4	60.1	26.5	11.7	38.2
2004	59.4	61.6	30.0	15.9	45.9
2005	59.1	61.1	23.3	22.7	46.0
2006	64.3	62.8	28.4	12.7	41.1
2007	67.0	65.4	30.7	14.7	45.4
2008	67.8	66.5	31.3	14.2	45.5

Source: Statistical Yearbook (2010). Korea Fair Trade Commission.

Table 1b: South Korea Industry Concentration Ratio, 1999-2008

	CR3 Korean Standard Industrial Classification (sub-classification, 5-digit)		CR, ≥ 50%; CR, ≥ 75% Ratio of Industries		
	Simple Average	Weighted Average	CR, ≥ 50%	CR, ≥ 75%	Total
1999	49.0	56.7	15.9	6.9	22.8
2000	44.6	53.9	13.2	5.0	18.2
2001	45.3	52.8	13.4	6.4	19.8
2002	43.1	50.8	13.1	5.1	18.2
2003	43.0	50.9	12.9	4.7	17.6
2004	44.0	52.2	12.5	5.1	17.6
2005	43.6	51.6	12.2	4.4	16.6
2006	45.6	51.2	13.1	5.6	18.7
2007	45.2	54.2	15.0	5.1	20.1
2008	45.5	55.3	13.5	5.7	19.2

Source: Statistical Yearbook (2010). Korea Fair Trade Commission.

power, consumer protection, promotion of cooperative agreements among market players, actions against international cartels, and international cooperation and outreach both bilaterally and multilaterally (Korea Fair Trade Commission, 2011).

Table **2** summarizes the growth trends of GDP per capita/per capita growth, trade openness and net FDI inflow during the various stages of competition policy development in South Korea.

3.2. People's Republic of China

While pursuing targeted industrial strategies under a centrally planned economy, China opened its market to competition in the early stages of market reforms from the late 1970s to the mid-1980s. Some scholars refer to this period as the first stage of policy development (Jiang, 2002). During this period, China encouraged the entry of new firms, promoted competition among existing enterprises and relaxed price controls. Like the other East Asian economies of Japan and South Korea, China also promoted the growth of large-scale enterprises and adopted an export-oriented strategy (Lin, 2005).

It was also within this period, in 1980, that China adopted its first major competition policy document, the Provisional Regulations Concerning Development and Protection of the Socialist Competition Mechanism. Lin (2005) notes, however, that the regulations were never properly enforced. The regulation prohibited monopolistic activities of private enterprises, but exempted state-owned companies (Provisional Regulations Concerning Development and Protection of the Socialist Competition Mechanism, Art. 3). Beyond this, the regulation simply declared a general policy of introducing competition by breaking down regional blockades and departmental barriers. What is notable is the regulation's express recognition of one of the major barriers to competition in the Chinese economy, administrative monopolies and regional protectionism.

From the mid-1980s to mid-1990s, China reversed gears and adopted policies that limited the growth of new small and medium-sized enterprises, restrained competition between rural and state owned enterprises, and extended preferential treatment to SOEs. This was considered the second stage of policy development. The change in policy was a response to the growing number of non-state companies that threatened the viability of large state-owned enterprises (SOEs), as well as the duplication of investments, among others. In this case, industrial policy trumped competition policy as China sought to protect government enterprises to maintain scale economies and compete in the export market (Lin, 2005). By the early to mid-1990s, China began to implement policies that veered away from a centrally-planned economy toward a more market-oriented economy. It, however, continued to pursue the promotion of large-scale enterprises by encouraging the entry of foreign direct investments (FDI), and managed mergers and acquisitions (M&As) (Lin 2005).

Among the legislations adopted was China's first competition law, the 1993 Anti Unfair Competition Law (AUCL). The law prohibited:

(a) Fraudulent acts against consumers, such as deceptive advertising and deceptive sales tactics,

(b) Dishonesty in business transactions, such as bribery, and uttering and disseminating false information that would hurt the reputation of a competitor;

(c) Violation of intellectual property rights and unlawful acquisition and disclosure of trade secrets; and

(d) Anti-competitive conduct, such as restrictions on the use of related products imposed by public enterprises and legal monopolies, abuse of administrative power or restraints on regional free trade by government agencies, predatory pricing, tied sales and bid rigging (Lin, 2005).

Table 2: Summary of Growth Trends for the Period 1981-2010

	1981-1986	1987-1997	1998-2007	2008-2010
GDP Per Capita ($2000)	4,195.67	7,948.82	12,528.20	15,764.33
GDP Per Capita Growth (annual %)	6.91	6.96	3.84	2.63
Trade openness (X+M/GDP)	0.33	0.46	0.8	1.04
Net FDI inflow (% of GDP)	0.18	0.37	0.96	0.2

Source: World Development Indicators Online.

However, the law only provided penalties for trademark infringement and bribery. It is thus not surprising that implementation of the law by its administering agency, the State Administration for Industry and Commerce (SAIC) substantially involved administrative measures and very little criminal prosecution. Measures were mostly directed at consumer protection and business dishonesty, anti-trust violations, trademark infringement and unlawful use of trade secrets (Lin, 2005).

It was only from 1995-2002 that SAIC stepped up actions against administrative monopolies, a large number of which involved public utilities. This reflected the increased attention of the SAIC in fighting abuse of administrative power and restrictive practices of public utilities. It was also promoted to a ministerial level agency, thus consolidating its authority over competition matters under the AUCL (Lin, 2005).

In 1998, China adopted another competition law, the Price Law. The law was directed at fighting cartels, price fixing and predatory pricing. It imposed stiff fines against violations of the law. The administering authority of the law is the National Development and Reform Commission (NDRC). For lack of available records on the NDRC, the extent of its enforcement actions cannot yet be established (Lin, 2005).

In 2007, China adopted its latest and most comprehensive competition law, the Anti-Monopoly Law (AML). The law contains an express prohibition against administrative organs to pass laws or regulations that eliminate or restrict competition (AML, Art. 8). Again, this is intended to counter widespread administrative and regional monopolies. In addition, the AML contains some standard provisions on monopolies, abuse of market dominance, and merger review. It also provides for procedures on monopoly investigations, and liabilities of violators.

The AML also led to the creation of the Anti-Monopoly Commission (AMC) which is responsible for studying and drafting competition policies, investigating and assessing competition conditions in the market and issuing assessment reports, issuing anti-monopoly guidelines, and coordinating anti-monopoly administrative enforcement, among others (AML, Art. 9). The AML performs critically important coordinating functions—it oversees the work of three Anti-Monopoly Enforcement Agencies (AMEAs): (a) the Anti-Monopoly Bureau under the Ministry of Commerce for merger review; (b) the NDRC for price related infringements; and (c) the SAIC for non-price related infringements noted above (Ha, 2011).

So far, most the activities of the AMEAs under the AML since the law became effective up to December 2010 have been focused on developing the implementing rules of the law. Actions taken by NDRC and SAIC under pre-AML laws were mostly directed at cartels in politically sensitive sectors, and warnings against other anti-competitive practices. Among the challenges of the AMEAs in enforcement is the shortage of skilled personnel, although training activities have increased, as well as cooperation and collaboration with foreign anti-trust regulators (Ha, 2011).

Unlike South Korea, China has only very recently begun strengthening and implementing its main competition laws. It faces, among other challenges, coordination problems among various implementing agencies, as well as a shortage of qualified and skilled personnel. But like South Korea, its early efforts at competition regulation were also primarily directed at one of the major obstacles to competition, administrative and regional monopolies, both of which carry a strong imprint of the public sector (albeit at different levels).

As trade openness grew from 1996 onwards, the economy expanded as reflected in GDP per capita, and efforts at passing and implementing a competition law also gained ground. This seems to indicate that once the positive effects of competition and other development policies are felt in the economy, there is greater room for initiating and continuing the implementation of such law. In addition, just like South Korea, China has also reached out to other countries in order to cooperate on the implementation of competition policy.

For example, it has been engaging in dialogues over competition policy matters with the European Union since the adoption of the Joint Statement adopted at the EU-China Summit on 05 September 2001 where competition policy was identified as one of the areas where dialogues between the countries will be intensified (Joint Statement. Fourth EU-China Summit. 2001). The Joint Statement has since been followed by the Terms of Reference of the EU-China Competition Policy Dialogue signed on 06 May 2004. The Terms of Reference identified contact points between the two parties, the specific areas of dialogue, and provision of technical assistance and capacity

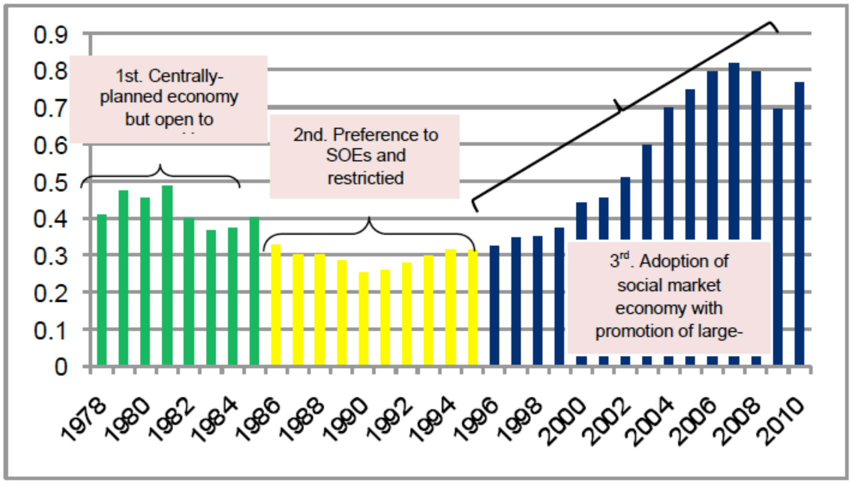

Figure 2: China Trade Openness (Exports plus Imports over GDP), 1978-2010.
Source: World Development Indicators Online.

building, among others (Terms of Reference of the EU-China Competition Policy Dialogue, 2004).

Also, in April 2011, China, together with the other BRICS (Brazil, Russia, India, China and South Africa) countries signed the Sanya Declaration of the BRICS Leaders Meeting, where the Parties agreed to hold the 2nd BRICS International Competition Conference in September 2011. (Sanya Declaration, 2011). The conference was held in Beijing and discussed competition enforcement in the context of economic globalization (BRICS International Competition Conference website).

Table **3** below summarizes the growth trends of GDP per capita/per capita growth, trade openness and net FDI inflow during the various stages of industrial and competition policy development in China.

3.3. India

India's economic development trajectory since its independence could be divided into three stages: a)

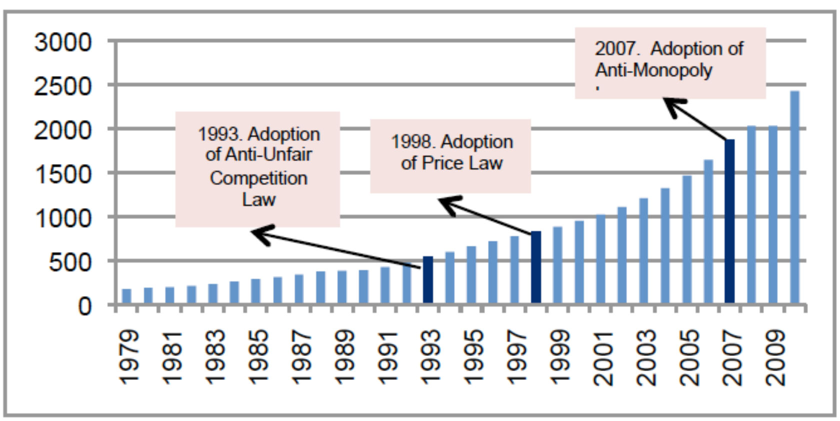

Figure 3: China GDP per Capita (constant 2000 US$), 1979-2010.
Source: World Development Indicators Online.

Table 3: Summary of Growth Trends from 1975-2010

	1975-1984	1985-1995	1996-2010
GDP Per Capita ($2000)	185.2	434.72	1350.8
GDP Per Capita Growth (annual %)	6.7	8.92	9.1
Trade openness (X+M/GDP)	0.42	0.3	0.58
Net FDI inflow (% of GDP)	0.31	2.37	3.77

Source: World Development Indicators Online.

Command control economy in 1950-1984; b) Modest liberal reforms in 1985-1990; c) More fundamental market-oriented reforms from 1991-present. From 1950 to the early 1980s, the Indian government heavily subsidized agricultural development and invested heavily in large scale industries. With its reliance on government to fast track the development of a self-sufficient economy, it nationalized banks, implemented regulatory and licensing structures to direct private investments to priority sectors, imposed high tariffs on consumer goods, imposed foreign exchange controls and discouraged foreign investments (Kaushik, 1997).

In particular, the Industry (Development and Regulations) Act of 1951 mandated the government to reserve certain industries for the public sector and imposed licensing requirements for new ventures and substantial expansion in the private sector. To prevent the concentration of wealth, two other legislations were enacted: the Capital Issues (Control) Act of 1947 and the Indian Companies Act of 1956. The Capital Issues Act promoted the wide distribution of share ownership, while the Companies Act restricted inter-corporate investments and directorships (Rajakumar and Henly, 2007).

However, an evaluation of these policies by the Indian government in the 1960s showed an increase in large business groups from 1951 to 1968. It was noted by one of the investigating committees that the then existing controls in fact helped large firms by restricting the entry of new firms (Rajakumar and Henly 2007). Thus, in 1969, India passed the Monopolies and Restrictive Trade Practices (MRTP) Act that regulated monopolistic and restrictive trade practices. The Act required large and dominant firms (as defined by the MRTP Act) to register with the Central Government, and to secure government approval for expansions, mergers, new ventures and appointment of directors in other companies. Limits were also imposed on the total assets that these firms can accumulate (Bhattacharjea, 2008).

However, tight government controls in the economy and an inward-looking strategy, promoted inefficient industries and a “license-permit-quota raj” that stifled competition. The results of these strategies showed sluggish growth from the ‘50s to the early 1980s, averaging 3-5 percent, with average annual increase of per capita income at 1.3 percent. This, while growth rates in the developing world during a period of expansion of global trade, averaged at 3 percent per capita (Das, 2006).

During the 1970s, industrialists began to lobby for liberalization, particularly, in the importation of raw materials and machinery. In the early 1970s, the government gradually relaxed industry regulation, and trade regulation in the late 1970s. More substantial reforms were put in place starting 1985 through import liberalization, decline of the government’s monopoly rights over certain imports, easing of regulation of the private sector, and provision of export incentives. Also, the asset limit imposed on large and dominant firms under the MRTP Act was raised from 1985-1986, which freed up these firms to venture into new products and businesses (Panagariya, 2004).

However, while average growth increased to around 5.6 percent as a result of these reforms, unchecked spending and a growing public debt contributed to India’s fiscal problems in the early 1990s (Das, 2006). In 1991, India adopted sweeping and significant economic policy reforms that included removal of most import quotas, further reduction of tariff and non tariff barriers, liberalization of foreign investments, industry deregulation, and limitation of the scope of participation of the public sector in industry (Das, 2006; Kohli, 2006; Konchar, Kumar, Rajan, Arvind and Tokatlidis, 2006). Licensing and registration requirements for large and dominant firms under the MRTP Act were also removed, except for a few industries (Bhattacharjea, 2008). And more importantly, approach to economic policy-making also underwent a paradigm shift. From a “command and control” economy, policy shifted to the adoption of market principles (Panagariya, 2004).

While there was a slight increase in GDP per capita since the 1980 reforms, there appeared to be a more marked increase after the 1991 reforms. Trade openness, likewise increased since the 1991 reforms.

Since the late 1960s, India adopted two competition laws: (a) the Monopolies and Restrictive Trade Practices (MRTP) Act of 1969; and (b) the Competition Law of 2002, which superseded the MRTP Act. The MRTP Act regulated monopolistic and restrictive trade practices (1969) and unfair trade practices (1984 amendment) (MRTPA, Sections 10 (a) and (b), 36A and 36B; Indian Ministry of Corporate Affairs 2004-2005; Bhattacharjea 2008). It also established the MRTP Commission, a quasi-judicial body attached to the Ministry of Corporate Affairs, to enforce the provisions of the MRTP Act (MRTPA, Section 5).

Bhattacharjea tracked the cases instituted under the MRTP Act based on earlier tabulations from different

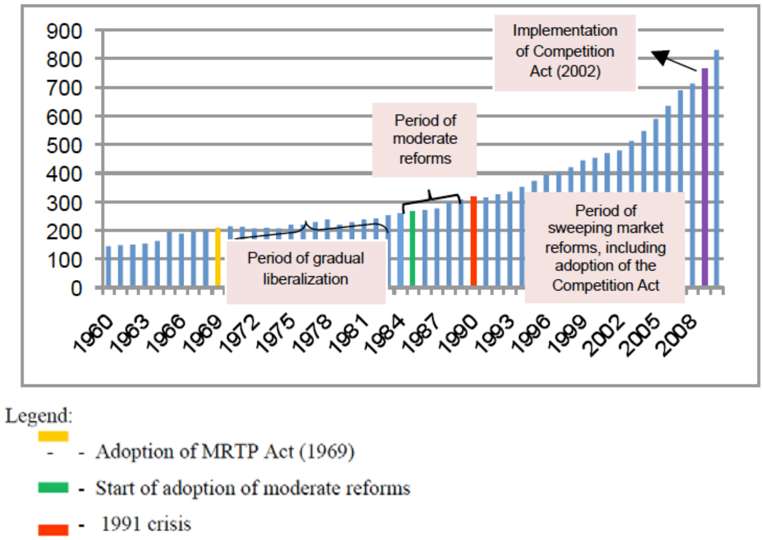

Figure 4: India GDP per Capita (constant 2000 US$), 1960-2010.
Source: World Development Indicators & Global Development Finance, World Bank.

sources. He notes that most cases initiated from 1972-2006 were for unfair and restrictive trade practices and were mostly instituted by consumer groups. Battacharjea also observed that a number of these cases could have been addressed under India's Consumer Protection Act (COPRA), which had similar provisions on unfair trade practices and a compensation mechanism to consumers (2008).

There are very few cases involving monopolistic trade practices. This was attributed to the removal of licensing requirements for large businesses in the 1990s, as well as the erratic enforcement of the provisions on aggregate concentration (Bhattacharjea, 2008). It is worthy to note, however, that analysis by Rajakumar and Henly of the growth of business groups from 1970-1991 showed that the policies adopted under the MRTP Act slowed the growth of large business groups from 1972 to 1989 (2007).

With the implementation of market reforms since 1991, the MRTP Act was deemed to be insufficient to meet the challenges of the new policy environment. Thus in 2003, a new competition law, the Competition Act of 2002 was enacted. The Competition Act covers: (a) prohibition of anti-competitive agreements, including cartels (Competition Act, Section 3); (b) prohibition against abuse of dominant position (Competition Act, Section 4); (c) regulation of mergers and acquisitions of large corporations (Competition Act, Sections 5 and 6); and (d) competition advocacy (Competition Act, Section 49). It also established the Competition Commission of India (CCI), a quasi-judicial body authorized to investigate, hear, decide cases and sanction violations of the Competition Act, as well as regulate mergers and acquisitions (Competition Act, Sections 18 and 40). Amendments in 2007 established the Competition Appellate Tribunal authorized to hear cases on appeal from the CCI (Ministry of Corporate Affairs 2010-2011).

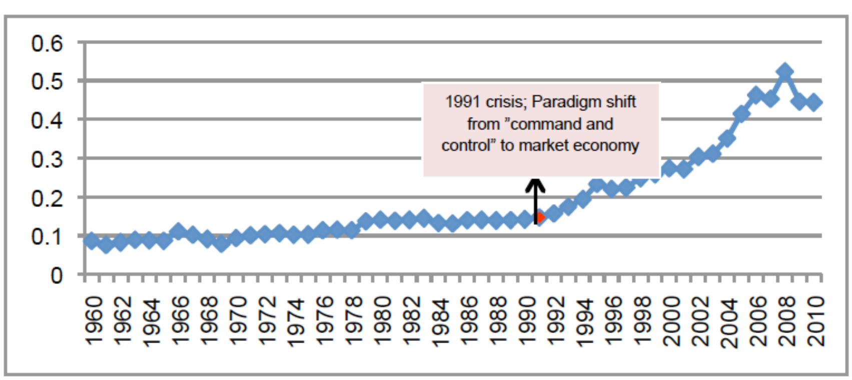

Figure 5: India Trade Openness (Exports plus Imports over GDP), 1960-2010.
Source: World Development Indicators Online.

After amendments in 2007 and 2009, the Competition Act became effective on September 1, 2009. The MRTP Commission was then dissolved in October 2009, and the CCI took over its functions. Pending cases of the MRTP Commission were also transferred to the CCI as a result (Ministry of Corporate Affairs 2010-2011).

From the period 2009 to 2010, CCI activities were chiefly focused on hiring personnel, formulating relevant regulations, competition advocacy, capacity building, and conducting relevant research and market studies. It has also reached out to other competition authorities from different jurisdictions and is considering entering into Memoranda of Understanding with these authorities. It has also acted on a few cases filed as well as those transferred by the MRTP Commission (Competition Commission of India 2009-2010).

While India had earlier adopted a competition law, its implementation under a government controlled-economy was flawed. Its efforts to curtail the growth of large business groups did not have any significant impact on economic growth or in fostering a more competitive environment. In the end, most of the cases handled by the MRTP Commission were consumer cases that could, in some instances, have been properly addressed under India's consumer protection law, thus creating an overlap of governmental functions (Bhattacharjea, 2008).

With the new competition law having been adopted only in 2009, it remains to be seen how the CCI will promote competition in the market. However, its initial activities show an understanding of the challenges in promoting competition in an environment that is in the process of adopting market principles, while still carrying the baggage of a government-controlled economy.

Table **4** below summarizes the growth trends of GDP per capita/per capita growth, trade openness and net FDI inflow during the various stages of industrialization strategy and competition policy development in India.

3.4. Indonesia

It is possible to identify four distinct stages in Indonesia's economic development since its independence: a) Early independence years from 1950-1958; b) Guided democracy and economy years from 1959-1965 under President Sukarno; c) New order years under President Suharto from 1966-1998; and d) Post-Asian crisis years from 1999 to present.

After its independence from the Dutch in 1949, Indonesian economic policies from 1950 to 1965 were characterized by economic nationalism that translated into hostility against foreign capital, particularly Dutch and ethnic Chinese due to their continuing dominance in the Indonesian economy (Wie, 2006).

Among the early actions taken by the new government was to nationalize the Java Bank, the bank of circulation during the Dutch colonial times. It also established two state-owned banks, the Bank Industri Negara (BIN) that was established to finance industrial projects, and the Bank Negara Indonesia (BNI), a foreign-exchange bank that finance importers. Nationalization then extended to Dutch companies including public utilities and railways. The government also established state corporations for cement production, textiles, automobile assembly, glass and bottle manufacture and hardboard (Wie, 2006; Robison, 2009).

In a bid to ensure the growth of indigenous Indonesian businessmen, the Indonesian government adopted affirmative programs, such as licensing preferences to indigenous business on import trade, transfer of ownership of certain businesses from ethnic Chinese to indigenous Indonesians, and banning of foreign nationals from rural retail trade. Subsidies and easy credit terms from state-owned banks were also granted to indigenous businessmen (Robison, 2009).

Table 4: Summary of Growth Trends from 1950-2010

	1950-1985	1986-1990	1991-2010
GDP Per Capita ($2000)	207.77	294	501.9
GDP Per Capita Growth (annual %)	2.53	3.77	4.89
Trade openness (X+M/GDP)	0.11	0.14	0.31
Net FDI inflow (% of GDP)	0.02	0.06	1.05

Source: World Development Indicators Online.

This, however, led to a culture of patronage, where members of political parties, particularly the largest party Partai Nasional Indonesia (PNI) or the Indonesian National Party, and government bureaucrats and individual capitalists allocated state credit, licenses, monopolies, contracts and other concessions among themselves to gain economic advantages. This period saw the transition of government officials and bureaucrats into business owners. These officials turned business owners used their influence to gain license permits, mostly import licenses, and secure government contracts (Robison, 2009).

Like other patronage systems, access to government resources and connections were unpredictable and dependent on persons in power. This led to short-term speculation and high profit ventures. Among the schemes adopted were overpricing of imported goods that allowed businessmen to accumulate capital reserves that they kept in foreign currency abroad which they then used to finance domestic investments (Robison, 2009).

Efforts to create an indigenous merchant bourgeoisie were generally unsuccessful. This was attributed to the limited entrepreneurial skills of the indigenous Indonesians, as well as their misuse of government support, such as acting as fronts for Chinese importers or engaging in corrupt practices, including colluding with powerful figures and bureaucrats in allocating import licenses and credit. What the government ended up creating was a group of license brokers and political fixers rather than an indigenous merchant bourgeoisie (Wie, 2008; Robison, 2009).

The whole experience showed Indonesian policymakers that indigenous capitalists were not capable of driving economic growth, that locally, Chinese capital is integral to domestic investment, and that indigenous and ethnic Chinese capital were not sufficient to replace foreign capital that could finance large-scale growth. This led to the conviction that economic growth led by indigenous capital can only be achieved under a state led economy, as the state is the only entity capable of financing large industries and directing policy to support these industries (Robison, 2009).

By 1959, President Sukarno restructured the political structures of government by establishing an authoritarian regime with the President and the military as the centers of authority. He abandoned the government's affirmative action programs and introduced his Guided Democracy and Guided Economy program. He took on a socialist approach to economic planning by prioritizing the growth of state-owned enterprises. Foreign direct investments and domestic private capital were also generally discouraged, although the state continued to engage foreign capital in joint ventures and production sharing. Foreign investments, mostly Dutch, were expropriated and transferred to state ownership and the Foreign Investments Law earlier enacted in 1957 was repealed in 1958 (Wie, 2006; Robison, 2009).

However, state-owned enterprises were generally inefficient and suffered from poor management, as managers were usually political appointees whose decisions were driven by personal gain and the interests of their political patrons. This resulted in losses and declines in revenues. Among those affected were Indonesia's exports, which declined due to lack of capital investments, mismanagement and widespread smuggling. Even industries that where left to private business were also adversely affected by uncertainty in prices, supplies and government regulations (Robison, 2009).

Efforts to build an industrial sector also failed due to limited capital as a result of declining export earnings, a burgeoning foreign debt (about US$2 billion in mid-1960s) and limited capacity to collect taxes. Government mismanagement of the economy resulted in economic collapse and chaos that precipitated the overthrow of President Sukarno (Robison, 2009).

President Suharto replaced Sukarno in 1966, and he adopted the New Order regime that initially dismantled the old regime's socialist policies, and later began to liberalize the economy. The new government removed most controls over foreign investment by enacting another Foreign Investment Law and a Domestic Investment Law that provided similar incentives and guarantees to private investors. It also curbed the activities of state-owned enterprises and removed government subsidies and preferential access to government-owned banks (Wie, 2006).

While liberalizing the economy, the new government also adopted a protectionist import substitution strategy particularly in the manufacturing sector. The favourable investment climate, in general, however, showed an increase in both foreign and domestic investments in various industries such as textiles, electronics, transport equipment and pharmaceuticals. Trade openness during the period from 1969 to the mid-1970s began to rise.

However, the oil boom in 1973 and 1978 precipitated a series of interventionist policies, as oil revenues provided substantial capital to the state to embark on another effort at import substitution industrialization. The state invested in large-scale basic industries and reversed its liberal investment policies. When the oil boom ended in 1982, the government reverted to liberal trade and investment policies. It also deregulated certain industries and implemented a series of trade reforms arising from its commitments under the ASEAN Free Trade Agreement (AFTA). Among these commitments under the 1992 Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area ("CEPT Agreement") include the exploration of measures on rules on fair competition (CEPT Agreement, Art. 5 [C]).

Incidentally, under the Declaration on the ASEAN Economic Community (AEC) Blueprint signed by the ASEAN member states on 20 November 2007, the State Parties committed to promote fair competition within the AEC by 2015. This will be accomplished through various initiatives, such as introducing competition policy in all ASEAN Member States, capacity building, establishing a network of competition authorities and developing regional guidelines on competition policy (ASEAN Economic Community Blueprint. 2007).

In addition to trade reforms, Indonesia also began to adopt an export oriented strategy in certain industries that attracted foreign direct investments. This resulted to a boom in investment until the Asian financial crisis of 1997 (Wie, 2006; Dowling, 2006).

Some analysts point to the inefficiency generated by "crony capitalism" that may have contributed to Indonesia's crisis vulnerability (Summers, 1998). Analysts noted that prior to the crisis, the business interests of the Suharto family trumped the national economic interests. Corruption, collusive behaviour among the political and economic elite, and nepotism was rampant. Productivity declined, while the gap between the rich and poor widened (Wie, 2006). The onset of the Asian economic crisis in 1998 resulted in a deep contraction in Indonesia's economy. It took until about 2004 for real GDP per capita to recover to its pre-crisis (1997) level.

As a result of the Asian crisis, Indonesia was brought under the supervision of the International Monetary Fund (IMF) from 1997 to the end of 2003 in exchange for a bail-out package of US$46 billion. During this period, substantial institutional changes were made, including constitutional revisions, expansion of local autonomy, enactment of the Central Bank Law that ensured the independence of the Bank of Indonesia, state finance and national planning. Market reforms were also put in place, such as reduction in export taxes, elimination of certain monopolies, liberalization of imports of many agricultural products, and removal of FDI restrictions (Hill and Shiraishi, 2007; Dowling, 2006).

Among the laws that the IMF required Indonesia to pass was the Competition Law (Law No. 5 of 1999 Concerning the Prohibition of Monopolistic Practices

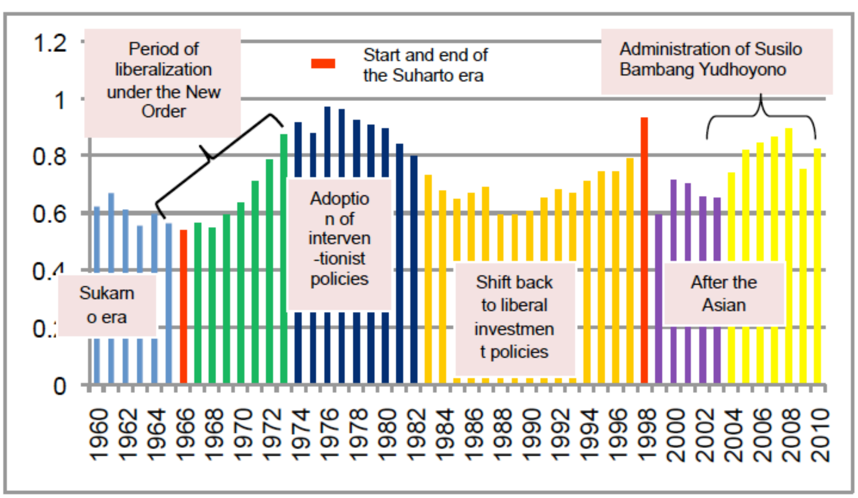

Figure 6: Indonesia Trade Openness (constant 2000 US$), 1960-2010.
Source: World Development Indicators Online.

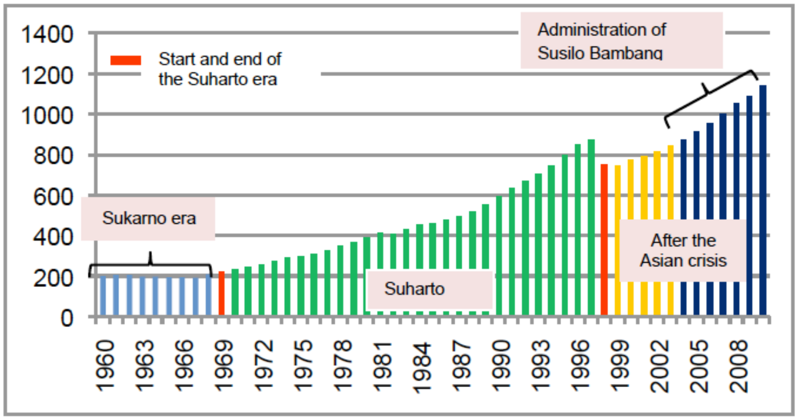

Figure 7: Indonesia GDP per Capita (constant 2000 US$), 1960-2010.
Source: World Development Indicators Online.

and Unhealthy/Unfair Business Competition) (Dowling, 2006). The enforcing agency for this law is the Commission to Monitor Business Competition (KPPU). The Competition Law contains standard provisions on monopoly, monopsony, anti-competitive behaviour, abuse of dominant position, cartelization, price fixing, horizontal and vertical agreements. It also authorizes the KPPU to investigate complaints for violation of its provisions, and provides remedies for appeal in the district courts and the Supreme Court (*See* Law No. 5 of 1999 Concerning the Prohibition of Monopolistic Practices and Unhealthy/Unfair Business Competition).

Analysts contend that implementation and interpretation of the law by the KPPU has been plagued with faulty economic reasoning and legal interpretation due to inadequacy of its capabilities to carry out its mandate. This has resulted in reversals by Indonesian courts of a number of cases the KPPU previously decided on. This has contributed to an environment of uncertainty in the implementation of the Competition Law (Sternberg, 2011).

The economic policies and strategies from the Sukarno to the Suharto era is clearly not linear, and could be characterized by wide swings from economic nationalism, to some degree of liberalization, to interventionism, and once again to a return to liberalization. Issues of corruption, nepotism and rent-seeking also surfaced during much of this period, further hindering a culture of competition despite efforts toward liberalization. The crisis in 1997-1998 brought all of these issues to a head. The subsequent sweeping reforms in the country—including the adoption of a competition law in 1999—began to address many of these structural vulnerabilities in the Indonesian economy. Indonesia's recent experience shows that liberalization without a strong regulatory environment to control the excesses of the economic players (i.e., the state or individual firms) could lead to fundamental structural weaknesses.

Table **5** below summarizes the growth trends of GDP per capita/per capita growth, trade openness and net FDI inflow during the various stages of economic and competition policy development in Indonesia.

3.5. Philippines

Like many developing countries, Philippines too adopted the model of import substitution in the quest for rapid industrialization during the post-war years. A complex arrangement of protective policies, investment incentives, and regulatory controls emerged. Over time these policies resulted in the protection of the

Table 5: Summary of Growth Trends for the Period 1950-2010

	1950-1958	1959-1965	1966-1998	1999-2010
GDP Per Capita ($2000)	not available	201.33	494.39	917
GDP Per Capita Growth	not available	-0.47	4.25	3.58
Trade openness (X+M/GDP)	not available	0.6	0.74	0.76
Net FDI inflow (% of GDP)	not available	not available	0.89	0.42

Source: World Development Indicators Online.

Table 6: Sector-Specific Reforms

1.	Investment Liberalization (Foreign Investments Act (1991)
2.	Foreign Exchange Liberalization (1992)
3.	Banking (BSP Law (1993), Foreign Bank Liberalization Act (1994)
4.	Telecommunications (1995
5.	Civil Aviation (1995)
6.	Downstream Oil Deregulation (1998)
7.	Retail Liberalization (2000)
8.	Electric Power Industry (2001)
9.	Shipping (2004)

Source: Authors' compilation.

Table 7: Acts Preventing Unfair Competition (Selected)

1.	Revised Penal Code, Art. 186; Pep. Act No. 3247(1930)
2.	Civil Code, Art. 28(1949)
3.	Tariff and Customs Code, Arts. 301 and 302 (1957)
4.	Intellectual Property Code, Arts. 168 to 169 (1997)
5.	Price Act, Sec. 5(3) (1992)

Source: Authors' compilation.

entrenched elites and resulted in rent seeking behavior (Medalla, 2002). The liberalization process started with the key reforms such as the unilateral tariff reduction program in 1981 and 1982 known as Tariff Reform Program I (TRP 1) and Import Liberalization Program. This was followed in 1991 by the Tariff Reform Program II and 1996 by Tariff Reform Program III. There were certain multilateral agreements entered into such as the World Trade Organization (WTO) Agreements. There has been a gradual reduction of tariffs and removal of import restrictions that commenced in 1986 and continues into the present day.

In order to prevent unfair competition a number of acts are in place (see Table **7**):

Recently, President Aquino signed Executive Order No. 45 (EO 45) in June 2010 which designated the Department of Justice (DOJ) as the Competition Authority of the Philippines. The EO also created the Office for Competition under the Office of Secretary of Justice and tasked it to exercise jurisdiction over competition matters (EO 45, Sections 1 and 2). It has the following responsibilities:

- Investigate all cases involving violations of competition laws and prosecute violators to prevent, restrain and punish monopolization, cartels and combinations in restraint of trade;
- Enforce competition policies and laws to protect consumers from abusive, fraudulent, or harmful corrupt business practices;
- Supervise competition in markets by ensuring that prohibitions and requirements of competition laws are adhered to, and to this end, call on other government agencies and/or entities for submission of reports and provision for assistance;
- Monitor and implement measures to promote transparency and accountability in markets;
- Prepare, publish and disseminate studies and reports on competition to inform and guide the industry and consumers; and
- Promote international cooperation and strengthen Philippine trade relations with other countries, economies, and institutions in trade agreements (EO 45, Sec. 1).

However, since the executive order is merely an executive issuance by the President, it is subordinate to existing laws passed by the Philippine legislature.

Rules on competition, including liberalization and deregulation legislations, are found in various Philippine laws. Provisions of the Philippine Constitution (Art. XII, Section 19) Revised Penal Code

(Arts. 185 and 186), Civil Code (Art. 28), and various legislations such as the Intellectual Property Code (1997), the Price Act (1992) address unfair trade practices and unfair competition. Sectoral laws and issuances covering foreign investments (Republic Act 7042, as amended), banking (Republic Act No. 7721), telecommunications (Republic Act No. 7925), civil aviation (Executive Order No. 219), downstream oil (Republic Act No. 8479), electric power (Republic Act No. 9136) and shipping (Republic Act No 9295), promote varying stages of privatization, liberalization, deregulation and competition (see Table **6**).

Enforcement of these laws are also dispersed among different courts and administrative agencies. This makes for a confusing tangle of state policies and enforcement agencies, which EO 45 does not have the power nor jurisdiction to address.

Efforts are thus underway to pass a comprehensive competition law. The Philippine legislature, both the House of Representatives (House Bill No. 4835) and the Senate (Senate Bill No.3098), have been considering their own versions of a competition bill in the previous 15th Congress. The House version has been submitted to the plenary body for discussion and voting. The Senate Bill was under consideration in the Senate Committee on Trade and Commerce. However, with the election of the 16th Congress in May 2013, these bills were deemed not filed and will have to be re-filed again for consideration.

Key elements of the bills filed in the previous Congress include prevention of cartelization, monopolization, abuse of dominant position, merger and acquisition, and other unfair competition practices. (See HB 4835 and SB 3098).

Table 8: Competition Laws in Selected South East Asian Countries

ASEAN Member Country	Competition Law/ Name of Legislation	Competition Authority	Prohibition of Restrictive activities	Prohibition of abuse of Dominance	Prohibition of anticompetitive mergers	Prohibition of Unfair Practices	Leniency Program	Penalties
Indonesia	Yes/ Law of the Rep. of Indonesia no. 5, 1999 "Prohibition of Monopolistic Practices and Unfair Business Competition"	Yes, Commission for the Supervision of Business Competition	Yes, Chapters III & IV set out the prohibited agreements and activities	Yes, Chapter IV & Chapter V set out the prohibitions on monopolies and abuse of dominance respectively	Yes, Article 28/ Mandatory notification for post merger (i) asset value above 2.5 trillion Rupiah and/or (ii) sales value above 5 trillion Rupiah. 20 trillion Rupiah combined asset threshold applies to banking sector	No, Separate regulation under the Law on Consumer Protection No.8 of 1999	No,	Administrativ e directions and fines from 1b to 25b rupiah and criminal sanctions including fines up to 100b Rupiah, or a maximum 6 month jail term.
Malaysia	Yes/ Competition Act 2010	Yes/Competition Commission of Malaysia	Yes, Section 4 prohibits anticompetitive agreements	Yes, Section 10 prohibits abuse of dominance	No	No, Separate regulation under the Consumer Protection Act 1999	Yes	Administrativ e directions/ fines up to 10%of the worldwide turnover of the enterprise for the period of infringement
Philippines	No	Yes/ Office for Competition under the Department of Justice	Competition issues are addressed through several different laws that are enforced by respective sector regulators				No	Administrative directions fines and/or jail terms under the respective sectoral legislation.
Thailand	Yes/ Trade Competition Act B.E. 2542(A.D. 1999)	Yes Trade Competition Commission	Yes, Section 27 prohibits specific types of anticompetitive agreement	Yes, Section 25 prohibits specific behaviors by dominant operator	Yes, See Section 26/Mandatory notification once thresholds met (Thresholds to be released)	Yes, Section 29 prohibits acts against fair and free competition	No	Jail term of up to 3 years and or fine of up to 6 m baht and double penalty for repeat offences

Source: Drew and Napier LLC (2012).

A country comparison with several other South East Asian countries in Table **6** reveals the main difference between the fast growing economies and the Philippines. The Philippines does not have a coherent and comprehensive competition policy and law. For the various possible violations of competitive practices there is a multitude of laws and regulations that govern.

The Philippine manufacturing industry was most favored by policy makers in terms of protection and incentives received from the 1950s and 60s. Through strong regulation, prices, domestic supply and market entry were effectively controlled by government institutions that were mandated to promote growth and development in industry. Automobile, cement, trucks, integrated steel, electrical appliances, sugar milling, flour milling, textile, synthetic fibre, and paper were some of the protected industries. The government encouraged collusion among industries such as cement and created a state controlled monopoly in iron and steel. Entry barriers were created in glass manufacturing, pulp and paper (Aldaba, 2008). After 3 decades of protectionism and import substitution policies the government started the liberalization process by removing tariffs and non-tariff barriers from the early 1980s.

The first major reform started in 1981 under a World Bank structural adjustment loan. TRP I was the major part of the overall trade policy package covering tariff reform, removal of import restrictions, elimination of the tax protection schemes and curtailment of exemptions of the import substitution industries. Further reforms were seen in 1991, 1992, up to 2001 when the TRP IV was passed to adjust the tariff structure to a uniform rate of 5%. In 2003 there was a comprehensive tariff review. Imported goods that are not locally produced experienced low tariffs and imported goods that are also locally produced experienced an upward tariff adjustment to level out the playing field (Medalla, 2002).

Over the subsequent differing political regimes in the Philippines, manufacturing became oligopolistic in nature. During President Marcos's regime in particular, the monopolistic and oligopolistic nature of Philippines' industry further strengthened (Kushida, 2003). The first Aquino administration (1986-1992) heralded the era of liberalization. The Ramos presidency (1992-98) built on the reforms and put a greater thrust on privatization (Canlas, 2007). Estrada's regime (1998-01) saw some reversals but some continuity in trade policy. The Arroyo administration (2001-10) saw an average economic growth rate of 5% over nine years.

However, despite the removal of many tariff barriers the industrial sector has stagnated for years and even decreased its share in GDP from 38% in 1980 and 15% of employment to 22% of GDP and 10% of employment by 2009 (ADB, 2010). Compared to neighboring countries this is a reverse trend in the manufacturing sector. Empirical work on the impact of trade liberalization in developing countries indicates that trade reforms were accompanied by falling mark-ups, productivity growth, technology advancement, and a reallocation of resources towards more efficient firms (Aldaba, 2005). But in the Philippines, liberalization failed to bring about these changes. Despite various reforms, much of the manufacturing sector remains structured as oligopoly businesses. Pharmaceutical drugs, automotive industry, shipbuilding and repair, cement and oil all remain oligopolistic in nature.[6]

In the services sector the result of liberalization policies has been fairly successful. This is illustrated by the banking sector. After 30 years of interventionist financial policies, Philippines initiated a financial liberalization program from early 1980s by liberalizing interest rates and easing restrictions on financial institutions. Further reforms were instituted in 1986 to address the interlinked problems of fraud, abuse and other insider problems. The 1990s marked the deregulation of entry of new domestic banks, deregulation of bank branches and the easing of restrictions on the entry of foreign banks. There was a progressive increase in minimum capitalization and mergers to promote financially strong well-managed banking systems. In 2000, a General Banking Law was enacted to replace the 52 year old general banking act. Apart from other innovations, the law encouraged microfinance banking. It was observed that after the entry of foreign banks that are more cost efficient and profit oriented, the gap between the performance of local banks and foreign banks actually narrowed. The banking sector can be broadly defined as partially oligopolistic and partially competitive in nature (Manlagni, Lamberte, 2005). In the present time, the Philippines banking industry has displayed resilience to the vagaries of the financial markets and the various financial crises that have hit the world economy

[6]Aldaba (2004), Lecciones (2004), Aldaba (2007) and Aldaba (2008).

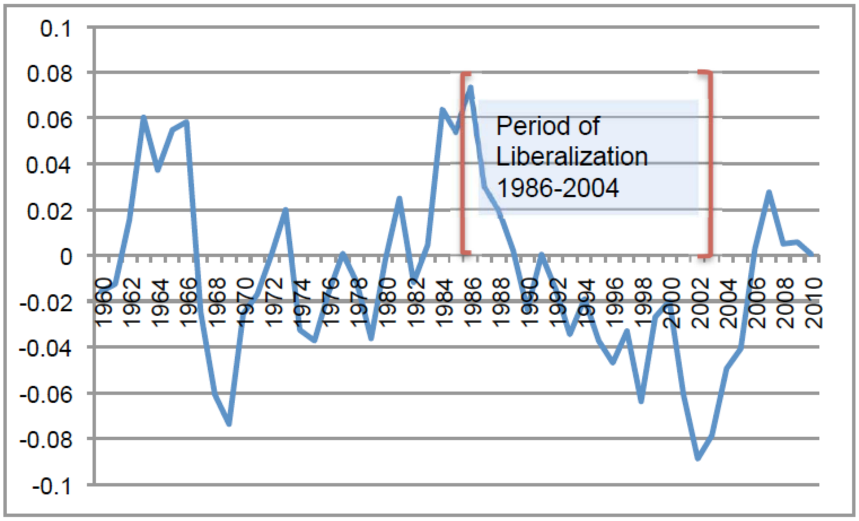

Figure 8: Trade Openness in the Philippines (constant 2000 US$).
Source: World Development Indicators Online.

recently. Despite the difficult global financial environment the local banks have performed well.

While the financial sector has met with mixed success, others such as the airline industry are more typical. The Civil Aeronautics Act of 1952 gave the CAB (Civil Aeronautics Board) and the ATO (Air Transportation Office) the authority to promote adequate economical and efficient passenger airline service, to promote competition between the various passenger airline services and to develop the airline industry in the Philippines. In 1973 with a shift in policy, PAL became a virtual monopoly. The Philippines' one airline policy resulted in a government monopoly. The government compelled PAL to subsidize missionary routes, the airline restricted the number of departures and passenger seats in a number of high density markets (Manuela, 2007). The air transport industry was deregulated in 1995 with the removal of restrictions on domestic routes and frequencies and government control on rates and charges. EO 219 legislated the changes in traffic rights and routes and carriers that may be designated the country's flag carriers. In 1992 the government privatized PAL after 14 years of operations. In 1999 business magnate Lucio Tan was able to control 90 percent of PAL. Among air cargo business, Clark field and Subic airports have been open to foreign freighters through EO no. 253 issued in 2003. Unlike the banking industry, the airline industry has gained only marginally from deregulation. Adoption of open skies policy is delayed and the restrictions on the entry of foreign aircraft at Subic and Clark field remain. Domestic services have gained from deregulation but not international services. The 4 firm concentration index CR4 for the airline industry shows that it is basically an oligopoly with PAL controlling 53% share of the market (Manuela, 2007).[7] A monopoly for more than 20 years, liberalization transformed the domestic industry into virtual duopolies in major airline markets while minor routes remain virtual monopolies, suggesting that the government's goal to make the industry more competitive has not been realized. Our calculations[8] also reveal that CR4 for transport (broad category for airlines) remains high within the otherwise competitive services sector.

3.6. Four Firm Concentration Ratios for the Philippine Economy (2002-08)

Using the data provided by NSO, Philippines, at the AIM Policy Center we calculated the four firm concentration ratios (CR4) for all the 3 sectors agriculture, industry and services in the Philippines updated till 2008. CR4 is used as one of the measures of judging the competitiveness of the economy; Price Cost Margins and Hirschmann-Herfindahl Index being the other such measures. CR4 measures the percentage of sales of the four largest firms in the

[7]Since 2007, there have been many significant changes in the airline industry. From 2007 to 2011, domestic passenger traffic increased by 80% while international passenger traffic (in local carriers) rose by 57%. Market shares also changed markedly. Cebu Pacific has the biggest share in domestic travel in 2011 with 45% while PAL has 23%. PAL retained its lead, though, in international travel with 56% share against Cebu Pacific's 35%. (Source: Civil Aeronautics Board, http://www.cab.gov.ph/statistics/item/scheduled-domestic-passenger-traffic-statistics-2006-1st-quarter-2012-as-of-may-11-2012?category_id=77 and http://www.cab.gov.ph/statistics/item/scheduled-international-passenger-traffic-2004-1st-qtr-2012-as-of-may-9-2012?category_id=78).
[8]See Annex Table B.

market divided by the total market sales. The larger the ratio, the less competition there is in the market; the smaller the ratio, the more competitive the market is. More specifically, a ratio of less than 40% is considered competitive; a ratio of more than 40% is considered an oligopoly.

The decade of the 1980s through to the 1990s revealed a high degree of concentration in Philippine manufacturing industry (Aldaba, 2000). For all manufacturing top 4 firms accounted for 81% of all output. 90% of manufacturing industry had concentration ratios ranging from 70-100%.[9] Manufacturing subsectors that displayed a high level of concentration were those that produce intermediate and capital goods. The 'price-cost margins' were also at 34% in 1998, considered as high (Aldaba, 2008). As of 2009, the manufacturing sector accounts only for 21% of GDP and less than 10% of employment. From the simultaneous presence of high concentration in industry and poor economic performance it is possible that concentration has stifled growth in manufacturing in the Philippines. One of the reasons cited for concentration is there is a "missing middle" (medium scale industries).[10] Therefore enterprises that have the scale gain oligopolistic powers in the market.

Broadly, concentration is divided in the following manner:

Table 9: Concentration Ratios

Level	Ratio
0 – 40	Low Concentration (Highly competitive)
40 – 70	Medium Concentration (Oligopolistic)
70 – 100	High Concentration (Monopolistic)

Source: Aldaba (2008).

Data from the industrial sector indicates that the top 4 firms control 57% of the revenues overall. This indicates medium level of concentration. Further if we take a look at the manufacturing sector we find an overall concentration of 59%. Comparing with the figure from 1998 which had a manufacturing concentration of 81%, we find a fairly dramatic improvement in the 2008 level of concentration. That this is not reflected in the performance of the manufacturing sector gives us reason to study the sector closely and unravel some of the other underlying factors behind poor performance.

There has been substantial movement in the above table since the 1990s. Plastics manufacturing has moved from highly concentrated to low concentration and rubber manufacturing and glass manufacturing has transitioned from high to moderate concentration among others.[11] Among the highly concentrated industries in 2008 we still have petrol, tobacco (97%), air and space craft (99%), basic, precious and non-ferrous metals (96%), electricity distribution and control apparatus (93%), repair and building of ships (90%), motor vehicles manufacturing, coconut oil, copra and related products (86%) and household appliances among others. Moderate concentration is still observed in dairy (69%), publishing (68%), semiconductors (60%), cement (55%), sugar (45%) and textiles (44%). Among the low concentration industries there is paper (31%), wood (30%), footwear, plastic (18%), rice and corn milling.

It can be clearly observed from Figure **10** that overall level of concentration is now in the moderate range across the *entire manufacturing sector*. Over the decade of the 90s the manufacturing concentration ratio ranged between 70.88% and 80.55%. From Figure **10** and Table **10** below it can be seen that the 4 firm concentration ratio from 2002 onwards is in the range of 60%. Therefore we can conclude that manufacturing concentration over time has reduced and that policies pursued in the last 2 decades are gradually increasing the level of competition in the economy. Observing some sub sectors up close, food industry, basic metals, radio, TV and commercial apparatus, motor vehicles are all less concentrated relative to the earlier levels in the 90s. However even after 2 decades of liberalization policies, most industries hover around 60% concentration, indicative of an oligopolistic structure. The refined petroleum industry is 99% concentrated. In general manufacturing industry is already open with low tariff rates and removal of constraints to foreign investment in the industry, however in reality oligopoly exists. This may help explain the small share that manufacturing has in the GDP.

The industrial sector has seen an average growth rate of 2.34% over 1981-2010. Since the reforms were initiated in the mid 80s the average growth rate has

[9]See Annex, Table A.
[10]Medium Scale enterprises are not present in many areas of production (Aldaba, 2007).

[11]See Annex, Table B.

Table 10: Four Firm Concentration Ratios for the Philippines across Sectors 2002-08

Concentration Ratio					Number of Establishments			
Sector	2003	2005	2006	2008	2003	2005	2006	2008
Agriculture	0.46	0.43	0.45	0.47	326	349	102	109
Industrial	0.54	0.57	0.57	0.57	765	645	365	347
Services	0.27	0.29	0.40	0.34	1342	1270	326	410

Source: Industry Statistics Division, NSO, 2012; Computations by the staff of the AIM Policy Center.

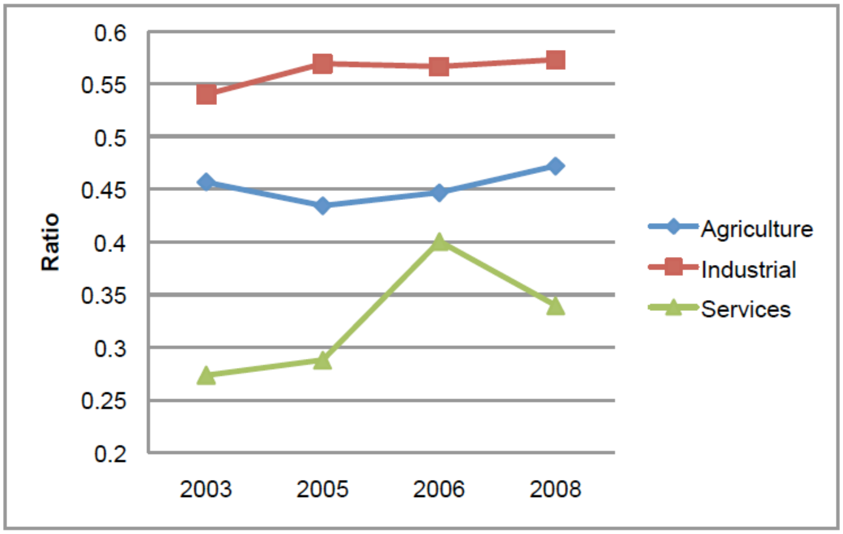

Figure 9: Four Firm Concentration Ratios by Major Sector for the Philippines.
Source: Industry Statistics Division, NSO (2012); Computations by the staff of the AIM Policy Center.

been 3.32%. The success of the liberalization policy if any may be seen in the changing composition of concentration as pointed out above.

Over the past decade the least concentrated sector is the *services sector*. With concentration ratios ranging between 0.27 and 0.34, we can conclude that this sector is very competitive in nature. Looking at the growth in this industry over the last few years especially in the BPO sector, we may be able to conclude that less concentration, leading to higher competitiveness may have been one of the reasons the BPO sector posted high growth rates. The services sector in the Philippines, accounts for 54% of the GDP and employs about 49% of the labor force. The growth of the services sector has accelerated since the mid-1990s when the Philippines started enjoying high remittance inflows (12% of GDP in 2008) and service exports mainly through the BPO industry (3.2% of GDP).

Within the services sub sectors, transport, storage and communication (which includes the airline industry) is highly concentrated with 81% of output controlled by the top 4 firms. This is followed by community, social and personal services at 54%. Least concentrated is the hotels and restaurants business at 10%. The BPO sector falls in the category of real estate renting and other business activities. This enjoys the benefits of a highly competitive market with concentration at 23%.[12] From a total investment project cost of Php 2 billion in 2000, the country's BPO industry rose to more than PhP11 billion in 2010. The government fully supports the outsourcing industry; laws and policies intended to attract foreign investors to put up their business in the country have been enacted. The collaboration between the government and the private sector for the benefit of the industry is evidenced by actions such as in 2001, the government formed the Information Technology and E-Commerce Council (ITTEC) which is tasked to provide direction on information and communication technology and develop the country as an E-services hub (Nejar, 2010). In order to encourage setting up of outsourcing units in the country, the government has

[12]See Annex, Table B.

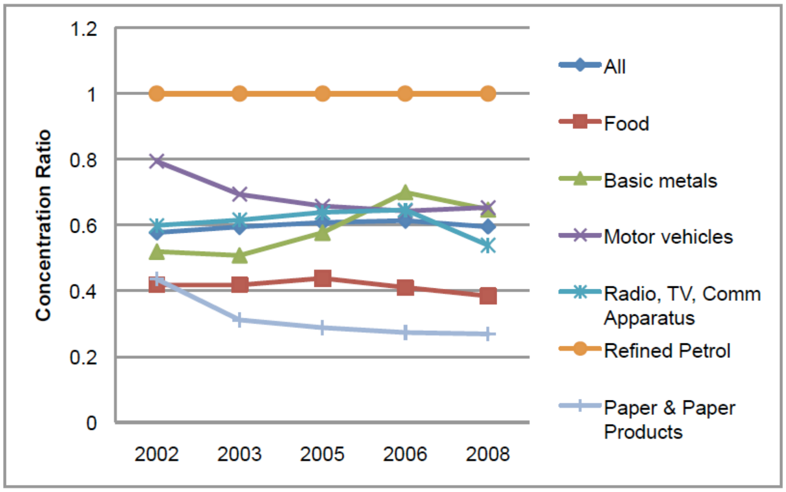

Figure 10: Concentration Ratios in Philippines Manufacturing Sub-Sectors 2002-08.
Source: Industry Statistics Division, NSO, 2012; Computations by the staff of the AIM Policy Center.

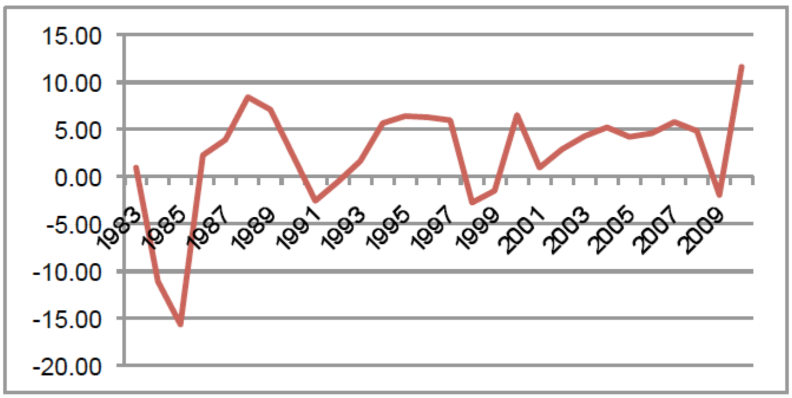

Figure 11: Growth Rate of Philippine Industrial Sector 1981-2010.
Source: NSCB, Philippines.

extended an array of incentives, both fiscal and non-fiscal.[13]

Although agricultural output remains volatile and subject to climatic shocks, the sector has tremendous importance in the Philippines as the employer of the last resort, accounting for 37% of jobs in the economy. The agricultural sector has grown by 4% average rate over the last decade. The economy has moved away from agriculture to a services based economy, however the competitiveness of the agricultural sector when examined reveals that it has a concentration ratio of 0.47. This places it just above the level of competitive markets displaying a tendency towards oligopoly. Cross-country comparisons of prices of various key agricultural commodities reveal the Philippines' challenges in agricultural competitiveness.

3.7. Overall Assessment of Policy and Reform Initiatives in the Philippines

In spite of a temporary reversal during the East Asian crisis in 1999, liberalization proceeded in line with the Philippines' commitments under the ASEAN free trade agreement (AFTA). However, after a partial reversal of tariff reductions in late 2003, new initiatives have been lacking. With a Tariff Trade Restrictiveness Index (TTRI) as calculated by the World Bank for

[13]The following are the investment laws that grant incentives to BPO activities:

- Executive Order (EO) No. 226, as amended – known as the Omnibus Investments Code (OIC) of the Philippines is being implemented by the Board of Investments (BOI);
- Republic Act (RA) No. 7916, as amended – known as the Special Economic Zone Act or the Philippine Economic Zone Authority (PEZA) Law; and
- Others such as RA No. 7227 (Bases Conversion and Development Act of 1992), as amended by RA No. 9400; RA No. 7903 (Zamboanga City Special Economic Zone Act of 1995); and RA No. 7922 (Cagayan Special Economic Zone Act of 1995).

The PEZA extends incentives to companies setting up operation within the PEZA administered zones while the Subic Bay Metropolitan Authority (SBMA) and Clark Development Corporation administer the economic zones (Subic Bay Freeport Zone and Clark Freeport Zone) established by the conversion of the former United States military base in Subic and Clark, respectively (Nejar, 2010).

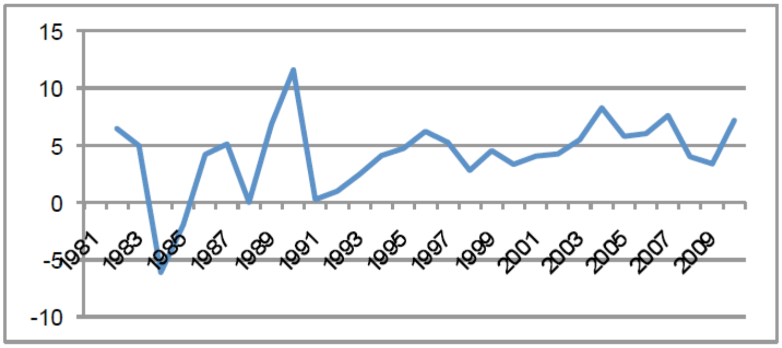

Figure 12: Growth Rate of Philippines Services Sector from 1981 to 2010.
Source: NSCB, Philippines.

overall trade of 3.8 percent, the Philippines remains a relatively open economy, and compares well to the average East Asian and Pacific (EAP) and lower-middle-income countries (with TTRIs of 4.9 and 8.4, respectively)[14]. The trade regime is more protective of imports of agricultural goods, which have a barrier three times higher than that for non-agricultural goods (World Bank). Nevertheless, the Philippines lacks a comprehensive competition policy as pointed out in Table **6**; but has a variety of laws that are implemented by various government authorities. This has created ambiguity and loopholes whereby oligopolistic and monopolistic practices flourish somewhat unchecked.

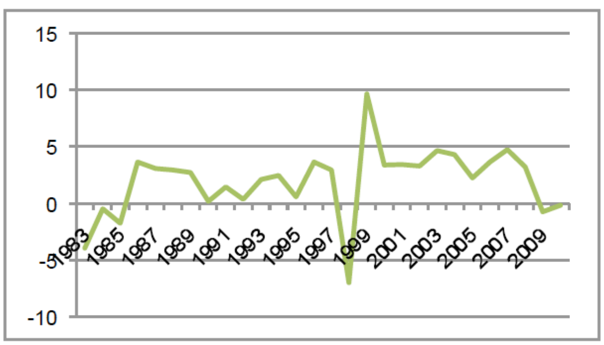

Figure 13: Growth Rate of Agriculture Sector, 1981-2010.
Source: NSCB (2012).

4. SYNTHESIS

Based on a brief review of the empirical literature and a synthesis of the experiences of South Korea, China, India, Philippines and Indonesia, it is clear that there is a delicate balancing act between policies to attain the advantages of industrial concentration and those that foster market competition. Different countries' economic development trajectories affect, and are in turn affected, by this balancing act. This paper finds that the adoption and implementation of competition policies and laws vary in their timing, consistency and elements across countries. Their successful implementation critically depends on their coherence with other industrial policies. At times, the tensions across industrial policies adopted under a government-led economy, protectionist tendencies, social welfare considerations and competition policies provide challenges to the adoption or implementation of competition law. Indeed, some view the lax implementation of competition policies as part and parcel of some countries' industrial policies (Pangestu, 2002).

Further, interest groups that benefit from initial industrial support policies will typically resist the introduction of competition-minded laws and policies (e.g., reduction of protection, abolition of subsidies, policies to de-concentrate and liberalize industries). It is not uncommon for economic crises to bring issues to a head, by exposing the weaknesses of lack of competition, and triggering the appropriate reforms. What is clear is that there is no clear path as regards the transition from a state-led system to a market-oriented economy characterized by the effective regulation and facilitation of free market competition. Nevertheless, factors such as increased economic openness, and linked to this, the risks of crisis vulnerability, appear to play a key role in triggering the necessary reforms. Public perceptions of fairness and consumer protection—in turn translating into political pressure—have also figured in some countries' efforts to strengthen competition policy. Economic openness does not substitute for coherent and effective competition policy and laws. Instead, further openness and integration necessitates a more sophisticated balancing of industrial concentration tendencies and market competition.

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[14] Based on World Bank Trade Indicators 2009-2010 (http://go.worldbank.org/7F01C2NTP0).

ANNEX

Table A: Four-firm Concentration Ratios in the Philippine Manufacturing Industry (1988-1998)

Sector	Concentration ratios				Number of establishments			
	1988	1994	1995	1998	1988	1994	1995	1998
High (above 70%)								
Petroleum Refineries	100	100	100	99.93	4	4	4	5
Professional and Scientific	100	100	99.97	97.41	14	13	20	80
Tobacco	96.64	99.56	99.41	99.50	25	21	22	21
Nonferrous Metal Products	99.67	99.28	98.57	97.76	35	34	40	35
Glass and Glass Products	96.33	90.58	92.05	95.43	35	53	46	66
Industrial Chemicals	90.14	87.52	84.65	86.49	112	171	197	375
Transport Equipment	80.98	86.2	84.4	77.67	230	264	265	364
Pottery, China and Earthen	92.82	86.05	93.74	d	59	68	61	-
Food Processing	79.51	81.37	81.74	a	915	751	717	-
Iron and Steel	84.18	80.64	70.55	79.43	128	191	201	505
Machinery except Electrical	63.59	77.47	79.43	94.90	556	464	460	888
Petroleum and Coal Products	81.1	77.0	87.4	100	16	14	16	13
Fabricated Metal Products	73.45	74.48	74.32	78.24	469	555	550	975
Other Chemicals	66.37	75.64	69.09	80.92	300	288	295	397
Rubber Products	79.15	73.5	73.66	90.33	137	187	181	136
Other Nonmetallic Mineral	68.92	71.31	74.54	90.03 d	353	304	253	701
Paper and Paper Products	78.97	71.23	70.4	78.14	167	215	206	335
Miscellaneous Manufacture	70.87	70.62	76.76	92.77	342	312	309	310
Textiles	64.12	64.14	72.37	72.84	549	537	508	586
Food Manufacturing	63.48	69.74	77.92	86.94a	2003	1879	1798	3919
Beverages	48.19	70.08	63.43	73.51	91	86	88	129
Electrical Machinery	64.8	69.36	63.73	72.42	217	271	310	448
Leather and Leather Products	57.7	63.89	64.02	73.47 c	120	84	85	595
Wood and Cork Products	40.5	55.47	65.35	76.32	683	401	354	584
Printing and Publishing	42.13	47.26	51.08	82.08	636	637	636	988
Plastic Products	49.41	40.75	50.87	70.09	300	377	365	490
Moderate (40 to 69%)								
Metal Furniture	80.88	79.49	62.67	b	36	34	35	-
Cement	45.3	48.3	45.37	68.22	17	18	18	20
Leather Footwear	30.33	41.7	55.0	c	425	384	373	-
Furniture	19.51	40.91	41.64	62.54 b	678	497	439	68
Low (below 39%)								
Wearing Apparel ex Footwear	34.7	31.69	26.52	23.57	1556	1512	1521	2025
Total Manufacturing	70.88	73.63	73.64	80.55	11208	10726	10373	15674

Source: (Aldaba, 2000).

Table B: Four Firm Concentration Ratios for Manufacturing Industry Sub Sectors 2002 – 2008

Sector	Concentration Ratio				Establishments			
	2003	2005	2006	2008	2003	2005	2006	2008
Manufacturing	0.59	0.61	0.62	0.59	711	574	306	295
High (>0.7)								
Manufacture of embroidered fabrics	1.00	0.90	0.95	0.65	65	7	4	4
Manufacture of other office, accounting and computing machinery, n.e.c.	1.00	1.00	0.99	1.00	3	5	4	4
Manufacture of watches and clocks	1.00	1.00	1.00	1.00	3	7	4	4
Manufacture of aircraft and spacecraft	0.99	1.00	0.99	0.99	6	3	4	4
Manufacture of tobacco products	0.97	0.96	0.96	0.96	4	4	4	4
Manufacture of basic precious and non-ferrous metals	0.96	0.97	0.96	0.96	4	4	4	4
Manufacture of electronic valves and tubes	0.93	1.00	0.98	1.00	6	6	4	2
Manufacture of electricity distribution and control apparatus	0.93	0.95	0.96	0.97	4	6	4	4
Recycling of non-metal waste and scrap	0.92	0.63	0.88	0.57	8	4	5	4
Manufacture of transport equipment, n.e.c.	0.90	0.86	0.85	0.91	4	4	4	4
Building and repairing of ships and boats	0.90	0.88	0.88	0.88	4	6	4	4
Manufacture of special purpose machinery	0.86	0.87	0.86	0.70	4	5	4	4
Production of crude coconut oil, copra cake, meals and pellets	0.86	0.68	0.79	0.82	4	4	4	4
Tanning and dressing of leather, manufacture of luggage and handbags	0.85	0.79	0.87	0.91	8	5	4	4
Manufacture of motor vehicles	0.84	0.83	0.86	0.88	4	4	4	4
Manufacture of computers, computer peripherals equipment and accessories	0.82	0.79	0.61	0.78	4	4	4	4
Manufacture of household appliances, n.e.c.	0.72	0.83	0.86	0.86	5	6	4	4
Moderate (0.4 to below 0.7)								
Manufacture of dairy products	0.69	0.66	0.71	0.58	4	4	4	4
Manufacture of electric motors, generators and transformers and electric generating sets	0.69	0.81	0.60	0.68	4	4	4	4
Manufacture of lighting equipment and electric lamps	0.68	0.51	0.58	0.68	4	4	4	4
Manufacture of medical appliances and instruments and appliances for measuring, checking, testing, navigating and other purposes, except optical	0.68	0.85	0.72	0.51	5	5	4	4
Publishing	0.68	0.60	0.61	0.56	4	4	4	4
Manufacture of television and radio transmitters, receivers, sound or video recording or reproducing apparatus, and associated goods	0.64	0.75	0.74	0.83	4	4	4	4
Manufacture of semi-conductor devices and other electronic components	0.60	0.62	0.62	0.52	4	4	4	4
Manufacture of products of bamboo, cane, rattan, and the like, and plaiting materials except furniture, manufacture of other products of wood	0.56	0.52	0.53	0.51	16	8	4	4
Manufacture of cement	0.55	0.45	0.47	0.48	4	4	4	4
Manufacture of rubber products	0.54	0.61	0.67	0.70	4	4	4	4
Manufacture of glass and glass products	0.53	0.63	0.69	0.68	4	4	4	4
Manufacture of other food products	0.53	0.58	0.50	0.32	4	7	4	4
Manufacture of basic chemicals	0.46	0.32	0.39	0.46	5	4	4	4

(Table B). Continued.

Sector	Concentration Ratio				Establishments			
	2003	2005	2006	2008	2003	2005	2006	2008
Manufacture of sugar	0.45	0.55	0.58	0.57	4	4	4	4
Manufacture of parts and accessories for motor vehicles and their engines	0.45	0.40	0.35	0.37	4	4	4	4
Manufacture of other textiles	0.44	0.50	0.50	0.37	4	4	4	4
Manufacture of other fabricated metal products, metal working service activities	0.41	0.23	0.27	0.27	9	5	4	4
Low (below 0.4)								
Spinning, weaving and finishing textiles	0.36	0.49	0.61	0.41	4	4	4	4
Manufacture of beverages	0.34	0.27	0.29	0.25	4	4	4	4
Manufacture of bodies (coachwork) for motor vehicles, manufacture of trailers and semi-trailers	0.34	0.71	0.80	0.62	22	6	4	4
Manufacture of paper and paper products	0.31	0.29	0.28	0.27	4	4	4	4
Manufacture of wood, and wood products, except furniture	0.30	0.54	0.68	0.72	4	4	4	4
Manufacture of footwear	0.29	0.27	0.37	0.35	4	5	4	4
Manufacture of knitted and crocheted fabrics and articles	0.29	0.26	0.35	0.38	4	4	4	4
Production processing and preservation of meat, fish and other seafoods, fruit, vegetables, oils and fats, including slaughtering and meat packing	0.24	0.35	0.27	0.31	4	5	4	4
Manufacture of basic iron and steel	0.19	0.28	0.35	0.32	4	4	4	4
Manufacture of plastic products	0.18	0.14	0.12	0.11	4	4	4	4
Manufacture and repair of furniture	0.16	0.18	0.23	0.23	4	4	4	4
Rice/corn milling	0.12	0.14	0.44	0.28	14	8	4	4
Ready-made garments manufacturing	0.12	0.11	0.15	0.17	4	4	4	4
Rebuilding or repairing of various kinds of machinery and equipment and associated parts/accessories	0.09	0.12	0.82	0.47	15	8	4	4

Source of Data: Industry Statistics Division, National Statistics Office. The concentration ratios refer to the ratio of combined revenues of four largest firms to total each major PSIC sector, AIM Policy Center Calculations, 2012.

Table C: Concentration within the Services Sub-Sectors

Sector	Establishments				Concentration ratio				Proportion of employment			
	2003	2005	2006	2008	2003	2005	2006	2008	2003	2005	2006	2008
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	595	842	101	133	0.13	0.15	0.28	0.22	1.2	1.8	6.2	3.8
Hotels and restaurants	9	8	8	9	0.05	0.17	0.09	0.10	0.9	6.6	2.5	3.7
Transport, storage and communications	74	151	63	62	0.76	0.75	0.78	0.81	26.9	24.8	33.4	38.0
Financial intermediation	32	32	29	46	0.40	0.35	0.40	0.41	16.2	16.9	22.1	24.2
Real estate, renting and business activities	423	161	72	104	0.28	0.27	0.31	0.23	9.5	6.7	10.7	8.8
Education	28	31	20	20	0.12	0.11	0.14	0.16	4.6	4.0	5.6	7.1

(Table C). Continued.

Sector	Establishments				Concentration ratio				Proportion of employment			
	2003	2005	2006	2008	2003	2005	2006	2008	2003	2005	2006	2008
Health and social work	158	14	12	12	0.21	0.19	0.24	0.25	6.8	5.3	10.6	13.0
Other community, social and personal service activities	23	31	21	24	0.48	0.50	0.59	0.54	6.6	6.4	25.5	21.7

Source of Data: Industry Statistics Division, National Statistics Office. The concentration ratios refer to the ratio of combined revenues of four largest firms to total each major PSIC sector.
+AMDG.

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