

Interview with Dr. Arsenio Balisacan, Secretary (Minister) of the National Economic and Development Authority (NEDA) of the Philippines

# Research on Industrial Policies Relevant to Welfare in Asia

By Japan SPOTLIGHT

Dr. Arsenio Balisacan, secretary (minister) of the National Economic and Development Authority (NEDA) and former chairperson of the governmental Philippine Competition Commission, was a member of the Economic Research Institute for ASEAN and East Asia (ERIA)-JEF evidence-based research collaboration project to explore sustainable economic growth in Asia in 2022.

What are the implications of industrial policies for developing Asian nations, and how can other policies like competition policies work in tandem with industrial policies to boost social welfare in the region? The interview follows below:

(Interviewed on Sept. 18, 2023)

## His Research in ERIA-JEF Project

**JS:** What do you think about our ERIA-JEF project? It is examining the impact of industrial policies with regards to the economic performance of SMEs in the Philippines.

**Balisacan:** The project is important and timely, especially since after the world's experience with Covid-19, and indeed during the pandemic we are seeing a tension between industrial policies, on the one hand, and competition policy, on the other hand. For many, it would seem that an effective response to the pandemic and its health and economic consequences would involve the government prioritizing the deployment of strategic industrial policies, including public-private sector coordination, cooperation, and state support to promote local industries, even temporarily suspending enforcement of competition policy. We maintain the view that there is not necessarily a conflict between the two if both policies are mainstreamed in the development agenda. Our work at the Philippine Competition Commission and National Economic and Development Authority indicates that competition policy improves the performance of small and medium enterprises (SMEs) in the Philippines. Indeed, a careful reading of the recent economic history of East Asia shows the interplay of the two policies in promoting industrialization and sustainable economic development. So, I think, in the case of East Asia, the narrative about complementarity is an important story to



Dr. Arsenio Balisacan

tell, especially in clarifying the view that these two are contradictory; I don't find it as such.

## Trade Liberalization & Competition

**JS:** Thank you. How do you assess the impact of trade policy on industries? Trade liberalization is expected to promote competition and could improve economic performance in general. What about the consequences of free trade for developing countries in Asia?

**Balisacan:** In our work, we emphasize the importance of context and the initial conditions in the economy. The effects of trade policy and economic performance depend so much on the economic and political structures of the country. For example, in the case of the Philippines, you see many sectors and markets that are highly concentrated and quite oligarchic in many cases. Opening up the economy and allowing more foreign competition can reduce the inefficiencies created by oligarchic structures and the concentration of wealth, income, and opportunities to a small segment of society. In that sense, international competition and a robust competition policy can help improve economic performance. That is what we were seeing in the Philippines when we started opening up the economy and, at the same time, introducing more competition into the picture by reducing concentration and opening up sectors like energy, telecommunications, and the banking sector to more players. This

has resulted in a more vibrant economy.

## **Need for Industrial Policies**

**JS: It is certainly true that the government would need some intervention when market mechanisms do not function very well. For example, infrastructure could be an area where market mechanisms do not work. In that sense, would industrial policies be necessary in that area or are there other areas where they would be necessary in the Philippines?**

**Balisacan:** Infrastructure is pivotal to economic development, getting markets to work efficiently, and achieving societal goals, including growth with equity. Due to the peculiar characteristics of infrastructure, mechanisms other than the market are needed to deliver socially desirable provisions and outcomes. Coordinating the actions of various parties, including the private and public sectors, across markets is typical in infrastructure development. This is an area for industrial policy. In the Philippines, to address the tight fiscal space amid post-pandemic recovery, we have been promoting public-private partnership arrangements in the development, operation, and maintenance of various types of infrastructure, including physical connectivity (expressways, railways, airports), water, energy, telecommunication, and social infrastructure such as hospitals and schools. Market concentration in the telecommunication, energy, and Internet sectors can be relatively high, providing market power to the incumbent service providers. However, given the market size, having too many players is not conducive to efficiency. So, there is a need for regulations here.

There are other areas for industrial policy. For instance, given global supply chain disruptions and climate change, there is some place for industrial policies regarding agriculture and food security, which are very high on the economic agenda of countries. Industrial policies are everywhere now, and you cannot limit them to a few sectors. Industrial policies may lead to the exercise of market power by favored groups or “chosen champions”, but if you have a robust competition policy regime with a clear mandate to check abuses by economic players, that should be okay. I think that is what we see in our energy sector; we recognize that industrial policies have a role in reaching out to areas that we call “missionary areas”. Our country is an archipelago with many small islands; in many of those places, you

would not expect competition to prevail. But at the same time, you would need a very strategic government policy to get the private sector to also provide far-flung areas and poor communities with electricity and the Internet at affordable prices. In such cases, you have a competition policy enforcing competitive neutrality, where a government provides one player with specific incentives, but it has to make sure that the same incentives are open to any potential players or competitors. So, while you are pursuing industrial policies, you are maintaining some competition in place.

**JS: How about education and social welfare? We all need human resource development today to raise productivity. In Japan we are facing an aging society and so social welfare programs for the elderly are very important. Industry-wide, there are lots of health industries and care-giving industries to deal with the aging society. So we need an industrial policy for these social welfare sectors. How do you assess education and social welfare?**

**Balisacan:** Again, education or, broadly, human resource development is a well-recognized area where market forces alone would be insufficient to achieve socially desirable outcomes. In developing countries, such as the Philippines, providing equitable access to opportunities for education and social protection programs is crucial for ensuring that economic growth will not leave anyone behind but is also critical to sustaining social stability and nationhood. In mature and advanced societies like Japan, population aging adds societal pressure for stronger social welfare programs. While these programs are usually associated with the level of economic development, evidence shows that it is not income alone that determines achievements in well-being among the elderly. Societies with strong programs promoting health and healthcare industries tend to perform better in social welfare outcomes than those without. Usually, the question is what public-private sector mechanisms best deliver or advance social welfare, especially for the aging population. One key role of governments is to facilitate coordination among industry players, particularly the private sector, toward efficiently delivering essential services.

## Achieving the Best Mix to Maximize Welfare

**JS: In order to raise the effectiveness of industrial policies or competition policies, what kind of other policies would be necessary?**

**Balisacan:** I believe it is not one or the other, but both, and each kind of policy has particular roles and objectives. If they are mainstreamed and not seen working independently, the effect of either one would be more robust. That is how I see competition policy as we started crafting it in the Philippines, where our approach was to mainstream it as part of the overall development policy architecture. The prevailing view is an agency mandated to enforce competition policy should be independent and left on its own. The problem is that if you are separated, you don't become as effective as expected in contributing to the common goal – advancing social welfare – because the rest of the government may set you aside, making you less effective than being part of the development agenda. The returns to the activities – the investments of a competition agency (whether that is enforcement or merger work) – depend on how the other policies work. For example, suppose you find that infrastructure is poorly provided because you haven't addressed the issue of coordination between and among government and the private sector. In that case, competition policy is not expected to work well in those sectors that highly depend on infrastructure. Only when these two work in tandem can you get the maximum outcomes out of the interventions.

**JS: That links into the next question. I fully agree that competition policy and industrial policy are not contradictory to each other but are supporting each other. However, in cases where some industries are losing international competitiveness, if industrial policy tries to protect those declining companies or declining sectors, that would be detrimental in terms of competition policy. Would you agree?**

**Balisacan:** The way we resolve this issue is to clearly identify the objective of development policy, whether it is industrial policy or competition policy. For competition policy, the usual aim is to protect and promote competition in the marketplace to enhance economic welfare. Suppose the end goal of industrial policy is also

to improve economic welfare. In that case, there is less conflict, and it becomes easier to achieve coordination in enhancing the efficiency of markets and industries toward achieving the objective. If you are using industrial policy to protect a declining industry, that is not its proper use and becomes quite inconsistent with competition policy.

## Evidence-Based Approach

**JS: Here, evidence-based policy analysis would definitely be needed. Data would justify government intervention and if the data shows that a competition policy is needed then it should be implemented; but if the data shows that protection would have more benefits for the national economy, then you can opt for an industrial policy.**

**Balisacan:** That is exactly my view as well. A government intervention can achieve its objective better if it is informed by evidence. And context is important. What works well in one country, area, or period may produce unexpected or contrary results in another country, place, or time, perhaps because of economic and legal structures, institutions, or culture differences.

**JS: Data collection is very important and in Japan we feel the limitation of data because statistics are sometimes published after some economic developments. However, new technology such as big data seems to be shortening the time gap between available statistics and reality. What do you think about the current data situation? Is data good enough for making quick and correct decisions in policy making?**

**Balisacan:** The emergence of big data and artificial intelligence (AI) is making us rethink our data collection systems and how responsive we are regarding policy design and policy prescription *vis-à-vis* data. With big data, the algorithms employed by different companies are evolving faster than we researchers can figure out. When I was at the Philippine Competition Commission, we had an experience where Grab and Uber merged – two ride-hailing service providers with respective platforms. The problem was coming up with the data that would allow us to restructure the regulations and monitoring that

come with the Commission's decisions. Their practices evolved rapidly, and we were always catching up with them. Moving forward, we must rethink the designs, practices, and investment in data collection and statistical systems.

**JS: I think that sometimes statisticians are not aware of the needs of economists. How can an environment be nurtured where the two can better work together?**

**Balisacan:** We need to work together, but the tension, at least in the Philippines, is not so much between statisticians and economists but somewhat between economists and statisticians, on the one hand, and the politicians, on the other. In our system of government, Congress has the power of the purse. It responds to influence-peddling lobbies and voting blocks. Statisticians and economists are politically weak interest groups relative to highly concentrated interest groups such as industrialists or farmer lobbies. It is common in developing countries to see underspending in investment for good data or R&D in general.

## **Geopolitics & Industrial Policy for Sustainable Growth**

**JS: Today, without geopolitical knowledge we cannot find a solution for many issues. Is it worth trying to create new quantitative analysis reflecting geopolitical risks?**

**Balisacan:** Geopolitical considerations are an essential part of the equation in addressing domestic economic issues facing nations, large or small. Economists must expand our paradigms and analytical tools, allowing insights from other disciplines. For example, we can only be as responsive to evolving policy issues with a good understanding of how AI works and how many of these algorithms influence how we think about the world. So our tools must also expand and evolve.

**JS: The global economy is facing a geopolitical crisis and there is a high risk of decline. What would be necessary to stave off this decline and how should G7 countries cope?**

**Balisacan:** The risk that the global economy will further deteriorate is on the upside. Geopolitical tensions are high. Partnership at the global level is more crucial now than ever before. But leadership appears wanting. The G7 leaders would need to work harder to stave off the crisis. What is required is coordination in policy response to the global decline in trade, investment, and technology flows. Unfortunately, even within our region, that is far-fetched: partly because of these geopolitical tensions, countries do not find space for coordination, making it more challenging. For small countries like the Philippines, we should not side with one country or the other but should diversify and reduce the risks these big players face. Of course, we are all caught up in the geopolitical struggle, but we have to find our place within that geopolitical struggle so that we can continue to prosper.

**JS: To be specific, China and the United States are not adopting a free trade policy, but do you think they should?**

**Balisacan:** Ideally, the world would be better if there was more open trade between them. Still, the US decision to tighten its industrial policy to protect its industries may work as it is a big country, but it may be at the expense of many smaller countries. In the long run, it may not work for the US even, because the policy will force other countries to aggressively invest in their own high-tech industries, so the gains are likely to be short-lived, even for the US. **JS**

Written with the cooperation of Joel Challender who is a translator, interpreter, researcher and writer specializing in Japanese disaster preparedness.