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PART 1

Introduction and Synthesis

1 From Agriculture to Competition: Overview and Lessons from the Philippines and Asia for Pro-poor Development

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1 INTRODUCTION

The Philippines has a complex development history. Initially regarded as one of Asia's prospective stars, by 1980 it had clearly failed to live up to such a lofty expectation. It parted company with its dynamic East Asian neighbours during the 1980s, and experienced prolonged and deep twin crises, both economic and political. Popular commentary over this period labelled it "the sick man of Asia", "the East Asian exception", a "crony capitalist economy", "Asia's Latin American economy" and various other unflattering descriptors. It appeared at that time that poverty and inequality were deeply entrenched, that agriculture lacked the resilience of its neighbours, that the ethno-religious conflict in Mindanao was beyond resolution, and that macroeconomic adventurism was consigning the country to a bleak period of recurring debt crises. Many of its best and brightest citizens relocated abroad; the prospect was that the Philippines would become a "remittance economy".

However, just as the earlier optimistic prognostications proved to be mistaken, subsequent developments have been unkind to the 1980s doomsayers. The Philippines transitioned to a workable, decentralized democracy with governments that (mostly) enjoyed electoral legitimacy.

Economic reforms introduced in the wake of the 1980s' crises resulted in economic recovery and a return to growth, which, in turn, generated significant improvements in living standards. Prior to the COVID-19 pandemic, the country had enjoyed more than 70 quarters of continuously positive economic growth.¹ Moreover, from 2000 to 2019, its growth was not far short of those of Asia's most dynamic economies. Viewed from the crisis decade of the 1980s, both these outcomes would have been unimaginable.

Just as this renewed prosperity appeared to be durable, the COVID-19 pandemic struck with unexpected ferocity. The Philippines experienced one of the most severe economic downturns, with its 2020 decline in gross domestic product (GDP) almost three times the global average. It introduced one of the world's most severe lockdowns, partly in recognition of the weak capacity of the country's under-resourced public health system. Poverty and inequality have increased substantially as many of the poor and near-poor have been unable to sustain their livelihoods, and social protection measures have limited reach. While recovery is proceeding gradually in 2021, in some respects the country is once again back to being at the crossroads.

The Philippines therefore provides fertile material for many of the major issues and challenges in contemporary development economics. It also has a vibrant scholarly community, both within and outside the country, that has provided much illuminating research and policy materials, including comparative analyses that place the country's experience in broader Asian perspectives. This volume, comprising contributions by an eminent group of Filipino and international authors, showcases and builds on much of this research. The essays are written in honour of Arsenio M. Balisacan, an eminent Filipino scholar and public servant. They reflect his research and policy interests, which are central to understanding the Philippine development dynamics. The overarching theme is the challenge of overcoming the country's deep-seated poverty and inequality. As an analytical template, the volume focuses on agricultural, competition and other policies that are key to reducing poverty. These are also the issues that Arsenio Balisacan has focused on in his academic and policy careers. That is, agriculture, where many of the poor reside, remains an important sector. In the major emerging countries, particularly in Asia, successful

¹ In fact, prior to the pandemic, the last occasions of negative economic growth were the second and fourth quarters of 1998, during the worst of the Asian financial crisis.

poverty reduction had been achieved following productivity-driven economic growth and structural transformation away from the primacy of agriculture. Competition policy has long been recognized as a complementary pillar for socio-economic development in the Philippines, although it took nearly a quarter of a century for Congress to implement the 1987 constitutional provision against “combinations in restraint of trade or unfair competition”.

This volume is divided into six themes. Theme I provides an interpretative essay on Philippine economic development in a comparative perspective. Theme II examines agricultural development and its relationship to economic development and poverty reduction. Theme III deals with poverty and economic policies for achieving targeted levels of living in the Philippines. Theme IV tackles inequality and economic development in the Philippines. Theme V covers competition law and policy, with a particular focus on the Philippines. The last theme touches on international dimensions.

This chapter provides a synthesis of each chapter and how each section relates to the academic and policy interests of Professor Balisacan. In the last part of this chapter, we sketch his interests, achievements and journey through life.

The volume commences with a scene-setting chapter 2 by Hill, Balisacan and dela Cruz, who reflect on and draw lessons for economic development and policy by examining the country's three main economic episodes over the post-independence era, namely: (a) the period of moderately strong growth from 1946 to the late 1970s, (b) the tumultuous crisis years from the late 1970s to the early 1990s, and (c) the period from the early 1990s to 2019 when the Philippines rejoined the dynamic East Asian mainstream.

2 AGRICULTURE AND ECONOMIC DEVELOPMENT

Balisacan's initial foray into academic publishing reflects his deep interest in agricultural development and political economy, a research theme he has maintained throughout his career.² This section establishes

² See, for example, Rosegrant, Roumasset, and Balisacan (1985), Balisacan and Roumasset (1987), Balisacan (1987), Balisacan and Nozawa (1993), David and Balisacan (1995), Balisacan and Ravago (2003), Balisacan and Fuwa (2007a), David, Intal, and Balisacan (2009), Ravago and Balisacan (2016), Ravago, Balisacan, and Sombilla (2018).

the importance of agricultural development and poverty reduction, describes the nature and consequences of price and non-price distortions, summarizes the policy implications (including for climate adaptation), and provides a case study of the political economy of policy reform. It provides some of the reasons why the Philippines has mostly been an outlier in the story of the East Asian miracle.

The unfinished agricultural policy reform agenda in East Asian countries is substantial. This is the subject of chapter 3 by Anderson's "Trade Distortions as Constraints to Agricultural Development in East Asia". Anderson traces the impacts of trade, farm and food policy developments since the 1950s, particularly in East Asia. The mid-1980s were characterized by anti-trade policies that added to the volatility of international food prices and to poverty and inequality in most developing countries. The subsequent two decades saw the gradual unwinding of those trade-distorting policies. The chapter details both the extent and consequences of trade and agricultural interventions. During the current century, international farm prices have increased, and the governments of many countries have reacted in ways that tended to insulate their domestic markets. Far from reducing the number of people who fell into poverty, the combined effect of those unilateral policy responses has exacerbated global poverty. The chapter concludes by noting alternatives to trade-related policies that can achieve the stated objectives far more efficiently and equitably than price-distorting policies.

In chapter 4, "Beyond Krugman: The Importance of Agriculture for East Asian Growth", Warr focuses on the role of agriculture in structural transformation to explain Asia's rapid economic growth over the two decades preceding Krugman's famous paper (1994), "The Myth of Asia's Miracle". In this paper, Krugman rightly discounts the "miracle" rhetoric that had been applied to Asia's rapid economic growth, but misses a key point. By focusing on the economic record of enclave, city-based economies like Singapore and Hong Kong, which lack traditional agriculture, Krugman overlooks the role of agriculture and the process of structural transformation. This is the mechanism through which workers gradually transition from low-productivity employment in agriculture to higher-productivity employment in the growing industry and services sectors. Using data for Thailand and Indonesia, Warr shows that the forces behind structural transformation, especially agricultural development, contributed 47 per cent of long-term growth in Thailand's labour productivity and 28 per cent in Indonesia.

Agriculture still employs a sizable share of the Philippine labour force, and the majority of the poor continue to work in this sector. Because of this and the sector's contributions to reducing the cost of living and industrialization, agricultural growth is important for poverty reduction. This is the focus of Huang's "The Role of Agricultural and Structural Transformations in Rural Poverty Reduction" in chapter 5. He begins with the observation that China and Southeast Asia have generally experienced rapid agricultural and structural transformation and that these events have been accompanied by declining rural poverty. Huang examines agricultural and structural transformation in China, Indonesia, Lao PDR, the Philippines and Vietnam. He finds that, while all five countries have undergone significant agricultural transformations, the stage and speed of these transformations have differed substantially. Rapid agricultural and structural transformation in particular are associated with rapid rural poverty reduction. The chapter also draws policy implications for more inclusive transformation.

The agricultural policy regime in the Philippines has contributed to its slow productivity growth. In chapter 6, "The Changing Relationship between Farm Size and Productivity: Asia and the Philippines", Otsuka highlights this slow growth compared with regional counterparts, and relates it to the controversy regarding the inverse relationship between farm size and productivity. More recently, the inverse relationship has waned in Asia and has been replaced by a U-shaped relationship. While family farms often exhibit something of an inverse relationship, larger and more commercial farms are able to take advantage of scale economies. The implication for the Philippines is that land policy reforms are needed to render the farmland market more robust in both rents and sales to allow the country to appropriate available scale economies, thereby increasing productivity and rural wages.

Market-oriented agricultural policy reform in the Philippines, as well as in many other countries, has been a slow process. Tolentino and de la Peña in chapter 7, "The Political Economy of Rice Policy in the Philippines", provide a hopeful perspective. They argue that the rice tariffication law (RTL), which became effective in March 2019, has dramatically changed the policy regime governing the Philippine rice industry. The reform promises enhanced and more sustainable food security for the nation, as well as increased economic efficiency and improved welfare for both rice consumers and producers. The authors note that the RTL passage was the result of more than thirty-five years of economic analysis, reform advocacy, political economy calculus and

political leadership. Nevertheless, significant additional efforts are necessary to ensure that the reform's benefits are sustained and redound to both farmers and consumers. The authors review the experience of the Philippines in managing this reform and examine aspects of political governance that initially frustrated and later accelerated the reform efforts. They conclude that effective governance in facilitating policy change and delivering public-sector goods and services is crucial to sustainably boosting rice productivity and ensuring food security.

In the final chapter of Theme II, "Adapting Philippine Agriculture to Climate Change", Rosegrant, Sombilla and Associates examine climate and agriculture. After providing a global context, the authors discuss the threats that climate change poses to Philippine agriculture, including recent impacts. They estimate future impacts of climate change on agriculture, food security and the overall economy. They then examine the challenge of developing and modernizing the Philippine agriculture sector, including the process of structural transformation and patterns of agricultural growth and productivity. This includes a discussion of key government policies and programmes, their performance in climate adaptation, the promotion of productivity and sustainable consumption, and remaining gaps. Finally, the authors advance recommendations for policy and institutional changes needed to strengthen the agriculture sector and enhance its resilience.

3 ECONOMIC POLICIES FOR ACHIEVING TARGETED LEVELS OF LIVING IN THE PHILIPPINES

Theme III of this volume is a collection of papers reflecting Arsenio Balisacan's research and policy interest in poverty and Philippine economic growth and development.³ During his stint as socio-economic planning secretary and concurrent director general of the National Economic and Development Authority (NEDA), he led efforts to create a positive long-term vision for the country (Balisacan 2018), known as *Ambisyon Natin 2040* (our ambition/vision for 2040). This section explores the channels by which structural transformation reduces

³ See, for example, Balisacan (1990, 1995a, 1995b, 2001, 2007, 2009a, 2015), Balisacan and Bacawag (1995), Balisacan, Edillon, and Piza (2005), Balisacan and Fuwa (2007b), Balisacan, Chakravorty, and Ravago (2015).

poverty and how policy distortions have thwarted their effectiveness, including premature deindustrialization, limited participation in global value chains, and limitations to productivity growth in agriculture. It also explores why the Philippines has largely failed to appropriate the demographic dividend as well as promising avenues for expanding credit opportunities.

The slow poverty reduction in the Philippines in the post-Asian financial crisis period despite relatively rapid economic growth has long been a puzzle, especially in contrast to comparable East Asian neighbours. This is the focus of chapter 9, “Low Income Traps and Philippine Poverty Incidence” by Fabella and Ducanes. The authors argue that the relatively low growth elasticity of poverty is due to the premature deindustrialization of the Philippine economy until fairly recently. They show that the share of the formal sector in Philippine employment correlates positively and significantly with reduced poverty incidence among households. The share of agricultural employment has no effect on household poverty reduction, possibly because, as suggested elsewhere in this volume, agricultural productivity has been artificially constrained by misguided policies.

Continuing the focus on the manufacturing sector, Athukorala’s chapter 10, “The Philippines in Global Manufacturing Value Chains: A Tale of Arrested Growth”, examines how government policies and a country’s investment climate condition the potential for export-oriented industrialization through global production sharing. He examines the experience of the Philippines from a Southeast Asian perspective. In the early 1970s, the Philippines had a promising start, participating in the Singapore-centred electronics assembly networks. However, the industrialization trajectory over the subsequent years has not lived up to the initial expectations. Manufacturing exports from the country have become increasingly characterized by low-end assembly processes undertaken within export processing zones (EPZs). The Philippines has also underperformed within the rapidly expanding global production networks instead of exploiting opportunities for backward integration. The lacklustre performance record is rooted in the dualistic, EPZ-centred investment climate: policies are liberal within EPZs and restrictive elsewhere.

Chapter 11, “The Limits of Trade Policy Liberalization in the Philippines” by Aldaba, Ang and Habito, further examines the Philippines’ participation in the global value chain. It investigates how trade policies in the last thirty years have affected economic growth and

poverty alleviation in the country. Trade policy liberalization has indeed increased trade, but the gains have been limited to a narrow segment of manufacturing, especially electronics. While this has helped stabilize the foreign exchange market, the benefits of increased trade have not been felt by the whole economy. The country continues to play only a minor role in global value chains, and one largely confined to electronics assembly. The agriculture sector meanwhile has also not benefited from trade liberalization due to agricultural policies that have constrained productivity growth. For many years, the services sector has carried the burden of the expanding economy, largely stimulated by the remittances of overseas workers.

Chapter 12 by Mapa, Pernia and Bersales investigates “Reaching for the Demographic Dividend to Achieve Inclusive Economic Growth”. The *demographic transition* from high to low fertility and mortality potentially delivers a dividend to economic growth and development. This chapter looks at the population-age structure of the Philippines—using the population census, birth and fertility data, and projections of future population from the Philippine Statistics Authority—to estimate how these factors bear on the demographic transition. It presents the likely challenges to gaining the demographic dividend due to the COVID-19 pandemic’s effect in terms of higher unemployment rates, particularly among younger workers. This, in turn, presents challenges to achieving the targets of *Ambisyon Natin 2040* for a strongly rooted, comfortable and secure life (*matatag, maginhawa at panatag na buhay*) for Filipinos.

A commonly observed constraint to the advancement of low-income farmers and consumers is the availability of credit at reasonable rates. In chapter 13,⁴ “Collateralizing Wages: The Case of *Sangla* ATM”, Fuwa, Kajisa, Lucio, Piza and Sawada examine an emerging credit arrangement called “*Sangla* ATM”, the pawning of debit cards. In this informal loan arrangement, the borrower’s debit card is the collateral. The lender uses the card to withdraw the repayment (principal and interest) from the

⁴ Chapter 13 is dedicated to the memory of Nobuhiko Fuwa. Nobu was Arsi’s long-time collaborator and dear friend. The two of them, together with associates at the Asia Pacific Policy Center, pioneered the innovative merging of data from the Philippines’ Family Income and Expenditure Surveys with administrative data, including the development of a political dynasty index. This led to many publications, including Balisacan and Fuwa (2003) in *Economic Letters* and Balisacan and Fuwa (2004) in *World Development*.

linked account that receives regular salary deposits. Using their unique survey data of factory workers in an industrial estate near Metro Manila, the authors find that a large proportion of respondents had used *Sangla* ATM at least once, with the average loan amount approximating the average monthly salary. *Sangla* ATM can be regarded as an institutional innovation in the informal finance sector to relax credit constraints of borrowers without other collateralizable assets. However, such loan arrangements have both positive and negative aspects, and careful public policy actions are needed to minimize their adverse impacts.

4 INEQUALITY AND ECONOMIC DEVELOPMENT

Theme IV presents chapters on inequality and economic development, a topic that accounts for a big share in Arsenio Balisacan's research portfolio.⁵ This section includes papers that review the history of inequality in the Philippines (both with and beyond Gini coefficients) and direct attention to policy implication and directions for further research.

Chapter 14, "An Essay on Markets, Distributive Justice and Social Safety Nets" by Canlas, characterizes the economic experience of the Philippines as growth with high and, for some periods, rising income inequality. As indicated by the Gini coefficient constructed from household income and expenditure data, income inequality continued to worsen through 2018. Canlas notes the adverse distribution effects of free markets that fall short of the neoclassical ideal due to imperfect and asymmetric information. He examines data on unemployment among heterogeneous workers in a labour market with job search and job matching, as well as with incomplete financial markets. Data on unemployment rates by age group and educational attainment, and credit starvation among low-income individuals and households are consistent with predictions of his analytical framework. Social safety nets that interfere with the workings of labour markets, such as minimum wage legislation and employment protection, are not helpful in easing the sorry plight of the unemployed and those employed at low wages. Financial-inclusion programmes aimed at addressing absent credit

⁵ See, for example, Balisacan (1996a, 2003), Balisacan and Fuwa (2003, 2004, 2006), Balisacan and Pernia (2003), Ducanes and Balisacan (2019), Reardon et al. (2008).

markets for job search, higher education, entrepreneurship training and reforms of government financial institutions are more promising policy options.

Chapter 15, “Convergence of Philippine Spatial Inequality during the American Colonial Period” by Punongbayan, Williamson and Jandoc, explores spatial inequality in the Philippines during the American colonial period. The authors constructed a proxy Human Development Index (HDI) for regions of the Philippines for the American colonial period. They observe that the overall country index improved over the first four decades of American occupation. Finding convergence in the HDIs of outlying Philippine regions with Manila’s, the authors explain how convergence relates to growth patterns of agriculture and industry as well as patterns of public expenditure on health and education. American colonial policies on health and education narrowed the disparity in literacy and infant mortality of the provinces relative to Manila. The growth patterns of agriculture and industry, however, may have had offsetting effects on spatial inequality. The terms-of-trade boom that benefited provinces producing commercial crops enabled these provinces to catch up. However, the terms-of-trade decline during the Depression era may have widened spatial inequality. These same forces also dampened real wages in large industries based in Manila, possibly narrowing spatial inequality. The authors call for further research to settle remaining ambiguities and to further explain patterns of spatial inequality up to the present.

In chapter 16, “Social Differentiation: The Middle Class and Its Discontents”, de Dios and Tuaño review trends in social differentiation and social mobility, and outline the consequences for future directions and approaches in welfare provision and social protection. More than a decade of high growth before the pandemic-induced recession has placed the Philippines on the threshold of upper middle-income status. Internally, this has created a social differentiation in which the existentially poor are outnumbered by the vulnerable, the secure and the upper middle-income groups. Much of political rhetoric and social policy, however, continue to be guided by an outmoded dichotomy of rich and poor, leading to policy blind spots, inconsistencies and unintended social harm.

Chapter 17, “Redistributive Preferences and Prospects for Intergenerational Mobility in Southeast Asia” by Capuno, investigates whether the prospect for intergenerational mobility influences preferences for government redistribution. The “prospects of upward

mobility” hypothesis holds that when people expect redistributive policies not to change for some time, those with income below the mean but who anticipate better fortunes may not support redistribution. The author examines this hypothesis in eight Southeast Asian countries, whose varied economic performances, redistributive programmes and governance regimes provide a rich setting. Using data from the fourth wave of the Asian Barometer Survey, Capuno finds that, after controlling for other factors, a greater preference for redistribution is expressed by those who consider themselves economically vulnerable and by those who expect their offspring in the future to surpass or match their own current socio-economic status. The second finding, which is inconsistent with the hypothesis, appears to hold more for those in the poorest two income quintiles, for whom the prospects are perhaps more aspirational than real. While the results for Malaysia, Vietnam and Myanmar are broadly consistent with the hypothesis, they are not for Cambodia, Indonesia, Philippines, Singapore and Thailand. The challenge facing the governments in these countries then is how to encourage their citizens to hope and aspire and to take responsibility for improving their lives, and to promote opportunities for doing so.

5 COMPETITION LAW AND POLICY

In February 2016, Arsenio Balisacan found himself in the arena of competition law and policy when he was appointed as the first chairperson of the newly formed Philippine Competition Commission. Theme V consists of chapters reflecting this stage of life in his research and policy work (Balisacan 2019; Balisacan and Papa 2020; Ravago, Roumasset, and Balisacan 2021), beginning with a chapter he co-authored with Ravago and Roumasset, two of this volume’s editors. This section reviews the evolution of competition policy in Asia, estimates the effect of market competition on employment, and provides case studies on the shoe and microfinance industries. It also explains how agricultural subsidies can worsen market competition and how reforms aimed at increasing competition may turn out to be incomplete.

In chapter 18, “Adopting and Adapting Competition Policy: Asian Illustrations”, Ravago, Roumasset and Balisacan investigate whether the needs of countries in different economic environments and at various stages of development warrant different policies. In the pursuit

of economic development and consumer welfare, competition policy should curb rent-seeking and promote market efficiency. This requires the coordination of competition policy with other tools of development, especially trade, industrial, agricultural and infrastructure policies. The chapter examines the impact of the adoption of competition law on long-term economic growth using cross-country data for the period 1975–2015. Countries may choose to adopt—or not adopt—competition law depending on their circumstances, including level of economic development, institutions and geography. The authors employ an endogenous switching regression model to control for endogeneity and self-selection. The analysis shows that adoption of competition policy has increased growth in adopting countries but would have decreased growth in non-adopting countries. This suggests that countries should not be pressured into prematurely adopting competition law. Rather, more limited international or regional agreements can be pursued, aimed at harmonizing country treatment of multinational corporations. In addition to correcting the abuses of anticompetitive behaviour, competition policy should be designed to promote innovation and productivity growth. These arguments are reviewed focusing on the cases of Korea, Thailand and the Philippines, which capture the characteristics of the law and authorities at various stages of maturity.

Against the backdrop of a fairly new competition law in the Philippines, chapter 19, “Competition and Employment Growth in the Philippines: A Baseline Assessment” by Quimbo, Regañon, Concepcion and Latinazo, explains how increased competition tends to increase productivity via innovation and firm selection. They then estimate the relationship, finding that a 10 per cent decrease in the Herfindahl-Hirschman Index predicts a 1.8 per cent growth in employment and that employment effects are more pronounced in more labour-intensive industries and for more profitable firms. Effective enforcement of the competition law is needed to secure potential employment gains. Constitutional reform to promote the entry of foreign firms will also help to augment the employment effects from increased competition.

Investigating sector-specific competition policy issues, Sonobe’s chapter 20, “Buyer Power and Late Payment Behaviour in the Shoe Capital of the Philippines”, uses data collected on small and medium enterprises (SMEs) in the Philippine footwear industry circa 2000 to illustrate how widespread late payment practices are, why creditors allow debtors to delay payment for extended periods, and how late

payment can stifle employment opportunities and hinder industrial development. Many payments in commercial transactions are made much later than the delivery of goods or the provision of services. Late payment affects the liquidity and financial stability of creditors, especially when the creditors are SMEs, and forces them to cancel or postpone planned investments and other activities. Late payment practices may also possibly inhibit the incentive and financial ability of industries to innovate, hence negatively impacting consumers' benefits and job creation. A major finding is that remarkably late payments are exploitative abuses of buyer power that large-scale retailers had vis-à-vis relatively large shoemakers in Marikina, the shoe capital of the country. They contributed to the stagnation of the Philippine shoe industry, instead of its adapting to competition from abroad.

In chapter 21, "Regulation, Market Evolution and Competition in the Philippine Microfinance Sector", Punongbayan, Llanto and Esguerra examine the status of competition in the microfinance sector of the Philippines in light of changes in the regulatory environment that opened up the sector to commercialization in the late 1990s. Specifically, they assessed the level of competition during the period 1999–2018 using three measures of concentration: the Herfindahl-Hirschman Index, the Panzar-Rosse method and the Boone indicator. The authors generally observe a weakening of competition after 2010, while the preceding years were characterized by steady to increasing competition. This development is less the result of regulation than industry dynamics. This chapter serves to break ground for further research on the microfinance industry, including the effect of competition on the performance of microfinance institutions (MFIs), MFI competition in product quality, the impact of the entry of new players on competition, e.g., fintech firms with innovative underwriting practices and loan screening techniques, and the effect of new technologies on competition and financial inclusion of the poor and the underbanked.

Chapters 22 and 23 deal with competition issues in the agriculture sector. Clarete's chapter 22, "Tariffication and Market Structure: The Case of the Philippine Rice Industry", explains the price effects of the 2019 Rice Tariffication Law, which replaced import control by the National Food Authority with a 35 per cent tariff on privately imported rice. Retail and farmer prices have thus far failed to meet expectations from the liberalization of rice importation. Tariffication has left behind

a marketing system dominated by a few traders instead of the expected import competition. Nevertheless, instead of abolishing tariffication and returning to parastatal import controls, policymakers are urged to focus their efforts on facilitating competition in the rice market.

In chapter 23, “The Role of Government Subsidies in Philippine Agricultural Competition”, Inocencio and Rola examine the impact of subsidies (e.g., income or price support) on competition in agriculture. Using the Philippine Statistics Authority’s data on business and industry for 2010–15, the authors show that a few highly concentrated agriculture subsectors receive most of the subsidies. Moreover, the subsidies went largely to state-enabled monopolies, which may have dissipated potential rents via unnecessary costs and other inefficiencies. However, even if the subsidies do not lead to market-power abuse, the subsectors being subsidized are very highly concentrated, potentially blunting incentives for investment and growth. Performance assessments of selected government-owned and controlled corporations (GOCCs) indicate the need to study the coherence of the laws that created the GOCCs vis-à-vis the national competition policy. Given the resources poured into these subsectors, a review of the GOCCs’ decision-making processes, governance structure, transparency and accountability, and consumer benefits are warranted.

6 INTERNATIONAL DIMENSIONS

When Arsenio Balisacan was first appointed as undersecretary for policy and planning at the Department of Agriculture from 2000 to 2001, he served as the country’s chief negotiator in the World Trade Organization’s Agriculture Negotiations and in various bilateral agriculture negotiations. He has also done research and policy work covering international dimensions and cooperation related to agriculture and development (e.g., Balisacan 1996b; Hill, Balisacan, and Piza 2007). This section underscores the importance of international cooperation for economic development, especially regarding agricultural policy, trade, tax havens and competition policy.

In chapter 24, “Modernization of the Global Rice Market,” Suthad Setboonsarng discusses the destabilizing effect of government intervention during crises. Such beggar-thy-neighbour protectionism could be avoided by cooperation between countries. During the past decade, China has become the largest rice importer while India has

become the largest exporter (although there is little trade between them). The Philippines, which was the largest importer during 2008–10, had dropped to the eighth position in 2018. With better packaging, information and connectivity (including e-commerce) since the turn of the millennium, both the international and domestic rice markets have become more competitive and better able to cater to diverse tastes and deliver improved quality.

In the last chapter, “International Cooperation for Development: Learning from Trade and Tax Policies”, Uy explains how international cooperation on trade, corporate taxation and competition policies can help to promote an effective and fair competitive environment. Domestic policies are not always adequate nor sufficient to create the conditions for countries to achieve competitiveness, especially in the presence of multinational corporations. Developing countries have benefited from a rules-based multilateral trading system, which coordinated tariff reductions and trade practices that have levelled the playing field across firms and countries. As with liberty, eternal vigilance is the price of maintaining and extending the rules-based system, especially in light of the risks posed by the rise of populism in several large economies. International tax cooperation has been more elusive, and countries have continued to engage in wasteful corporate tax competition to attract investments to their shores. The recent international agreement on a minimum corporate tax is a promising step towards international cooperation. This chapter encourages policymakers from developing countries to improve their understanding of how the trade and tax policies of countries jointly affect firms’ incentives, and advocates necessary international cooperation to optimize their development impacts. Competition policies could benefit from similar coordination across countries.

**7 ARSENIO M. BALISACAN:
HIS JOURNEY THROUGH LIFE,
ACADEMIA AND PUBLIC POLICY**

Finally, on the scholar and public servant in whose honour these essays are written: Arsenio Molina Balisacan, universally known as “Arsi” to his friends and colleagues. He was born on 8 November 1957 to a family of very modest means: his father was a tenant rice farmer, his mother also a farmer and a housewife. The family lived in the village of Solsona

located at the foothills of the Sierra Madre Mountain Range in Ilocos Norte province, the traditionally poor, northernmost region of Luzon Island in the Philippines. The family relocated on several occasions during his childhood for various reasons, including an eviction from a squatter settlement. For a period, they lived in Laoag City, the provincial capital, where his father obtained work as a local school janitor. When some of the family followed his employed elder brother to Cebu in central Philippines, Arsi remained in Laoag City to continue his education at Divine Word College. He credits an aunt, a local mayor of modest means but a great heart, for support and inspiration. Under the influence of both his aunt and the Divine Word priests, he aspired to be a missionary priest. A priest he did not become, but he retained his missionary zeal, channelling it instead through the instruments of research, teaching and public service.

Arsi was a “scholarship student”. As his family did not have the resources to support his continuing education, he knew his only path forward was securing high academic grades that would attract study support. This he did, first gaining entry to the local Mariano Marcos State University (MMSU), where he obtained his BS in agriculture *magna cum laude* in 1979. Starting as editor of MMSU’s school paper, Arsi also had a career as a creative writer, even writing tragic love stories for the Ilocano counterpart of *Livewayway* magazine! He also published poems under the pen name Oinesra (Arsenio spelled backwards).

After college, Arsi got a job as research assistant at the Cotton Research and Development Institute. After a short while, he secured a scholarship from the Southeast Asian Regional Center for Graduate Study and Research in Agriculture (SEARCA) to enrol in the master’s programme on agricultural economics of the University of the Philippines Los Baños (UPLB), the agricultural campus of the country’s national university. This was to be his first exposure to the international world of scholarship, as UPLB hosted the famed International Rice Research Institute (IRRI). Arsi thrived in this environment, again achieving high academic grades. UPLB Professor Cristina David recruited him to work on fertilizer policy and to be part of a project on Philippine agricultural policy jointly with two professors of the University of Hawaii, John Power and James Roumasset. This led Roumasset to recruit Arsi to pursue his PhD in economics at the University of Hawaii and continue working on the *nature, causes, and consequences of agricultural policy*.

Adjusting quickly to graduate school in Hawaii, Arsi completed his course work and dissertation in just a little over three years, graduating

in 1985.⁶ His dissertation (Balisacan 1985) reflects his continuing interest in agricultural development and political economy—why governments choose the policies they do. In particular, he sought to explain the strong correlation between a country's per capita income and its rate of agricultural protection. At the time, poorer countries tended to tax agriculture. His dissertation provides a theory of political influence by endogenous special interest groups and uses the theory to explain the stylized fact about increasing agricultural protection. In lower income countries, the forces of consumer provisionism and industrial profitability dominated those of agricultural protection. The balance of political influence gradually reversed with a country's economic development.

At this stage Arsi's personal characteristics were already evident: his well-developed work ethic, his pursuit of scientific knowledge, his choice of research topics (agricultural development, poverty) based on his personal experience and a sense of what was nationally important, and his interest in policymaking processes and outcomes. He saw economics as a means of understanding—and improving—the world, including the low agricultural productivity and deep-seated poverty in the Philippines. These interrelated topics occupied much of his research in the decades to come. In their pursuit, Arsi has epitomized Blinder's (1987) economist of *hard head and soft heart*.

After a stint as research fellow at Hawaii's East-West Center (1985–86), Arsi joined the World Bank's project on the political economy of agricultural pricing policies in developing countries, which, like Arsi's dissertation, documented and explained the bias against agriculture (e.g., Krueger 1992). A comfortable career as an international civil servant was in prospect. But this was a turbulent period in Philippine history, and he felt the need to go home. The People's Power movement toppled President Ferdinand Marcos in February 1986, but the economic crisis was deep and the political situation fluid. At the urging of Professor Gerry Sicat, also at the World Bank at the time, Arsi took up a teaching position as assistant professor at UPLB in 1987, transferring a year later to UP Diliman on the invitation of Dean Pepe Encarnacion of the UP School

⁶ While in Hawaii, Arsi fell in love with running, after observing joggers on Waikiki Beach. This has developed into a life-long interest. He has completed several full (42 km) marathons, including Hawaii in 2012, Chicago in 2017, Paris in 2019, and New York (virtually) in 2021. He is a regular sight at his favourite training ground, the leafy UP Diliman campus.

of Economics (UPSE). He rose rapidly through the ranks, becoming a full professor in 1995. The renowned UPSE became his home, on and off, for the next three decades.

From the late 1980s, Arsi began to establish an international reputation in the fields of agriculture and poverty. He had papers published in *Weltwirtschaftliches Archiv* (Balisacan and Roumasset 1987), *American Journal of Agricultural Economics* (Rosegrant, Roumasset, and Balisacan 1985), *Economic Development and Cultural Change* (Balisacan 1993, 1995a), *Journal of Agricultural Economics* (Reardon et al. 2008), *Economics Letters* (Balisacan and Fuwa 2003) and *World Development* (Balisacan and Fuwa 2004), in addition to many book chapters and articles in national and regional journals. He has carved out a niche as an economist who is analytically rigorous and takes data seriously. He built his academic consulting work by constructing, for the first time in the country's history, a rich panel data set based on the country's Family Income and Expenditure Surveys. Here his academic entrepreneurial skills came to the fore, as he employed well-trained young UP students as research assistants while they completed their doctoral dissertations. His work also displayed considerable conceptual originality—for example, he included a local “dynasty” variable to better understand subnational variations in poverty outcomes. It would be invidious to single out one paper over this period, but it is worth recording that his 1995 EDCC paper, “Anatomy of Poverty during Adjustment: The Case of the Philippines”, was very widely cited in the international poverty debates at the time. He also began to develop collaborative international research projects, one of which resulted in a widely cited volume on the Philippine economy (Balisacan and Hill 2003).

Arsi's national profile resulted in his first call to government service at the turn of the century. During the Estrada administration, one of the country's most prominent figures, Edgardo J. Angara, was appointed secretary of the Department of Agriculture (DA). Arsi was, in turn, appointed undersecretary for policy, planning and research. Under their joint tenure, the DA spearheaded the implementation of the Agriculture and Fisheries Modernization Act, which boosted agricultural productivity, at least temporarily. This was Arsi's first immersion in public service and international affairs, particularly as head of the Philippine delegation to WTO agricultural trade negotiations. The work gave him a taste of the possibilities of promoting better policies.

In 2003, Arsi was appointed as director of SEARCA. SEARCA is a major regional treaty organization operating in 11 countries (the ASEAN

10 plus Timor Leste). The position involved managing a large agency with active research, training and policy advisory activities throughout the region. Arsi embraced the mission of reinvigorating SEARCA (almost four decades old then), engaging in rather courageous acts of reorganization and programme redirection. On completing his term, he wrote an influential roadmap charting the way forward for the agency (see Balisacan 2009b).

After six years of secondment to SEARCA, Arsi returned to UPSE, of which he was appointed dean in 2010. Over this period, he had numerous additional responsibilities, reflecting his role as an institution builder. He was president of the Philippine Economic Society in 2006 and of the Asian Society of Agricultural Economists in 2011–14. He founded the *Asian Journal of Agriculture and Development*, serving as its editor from 2004 to 2015. His work and achievements led to numerous awards, including his election to the country's pre-eminent academic body, the National Academy of Science and Technology.

One day in 2012, UPSE Dean Arsi received a call from Malacañang to meet with President Noynoy Aquino. Arsi assumed the President wanted advice on the replacement of UPSE colleague, Professor Cayetano Paderanga, who was retiring owing to poor health. Professor Paderanga was then serving as director general of NEDA and concurrent secretary of socio-economic planning. Traditionally, NEDA has been headed by a non-political technocrat. Starting with Professor Gerardo Sicat in the Marcos era, the occupant has often been an UPSE faculty member or graduate, including the five most recent appointees. In addition to its administrative responsibilities, NEDA serves as the national government's "think tank", with a remit to examine long-term development issues. Attached to NEDA are several important agencies, including the Philippine Statistics Authority and the Philippine Institute for Development Studies (PIDS), the region's premier policy research centre.

In fact, the purpose of Malacañang's summons was not to request presidential advice, but rather to invite Arsi to take up the position of NEDA head. Arsi accepted the cabinet-level position on the condition that he would not be involved in the political affairs of the administration. He helmed NEDA for nearly four years, until January 2016. While some of NEDA's responsibilities were familiar territory to Arsi (e.g., he was well acquainted with Philippine statistics and had worked as a consultant to PIDS), some were new, especially macroeconomic analysis and modelling. The job also entailed frequent international travel as

President Noynoy Aquino, an avid consumer of Arsi's expertise, would bring him to meetings with heads of state to give briefings on the Philippine economy as well as to answer the President's own questions. (When Arsi writes his memoirs, we may learn more about these meetings and his impressions of those heads of state.)

Arsi's NEDA directorship concurred with a run of good economic times, during which the country's economic growth was sustained at around 6.3 per cent. During this period, poverty was falling, living standards were rising, and the macroeconomy was sound. But Arsi was conscious that the country had been slipping behind its more dynamic neighbours for decades. His frustration peaked on reading the Asian Development Bank's landmark study, *Asia 2050: Realizing the Asian Century* (Kohli, Sharma, and Sood 2011). The study projected an optimistic future for developing Asia. However, it lumped the Philippines in the "slow-modest growth" group of countries, along with Afghanistan, North Korea, Nepal and the Pacific Island economies, among others. Arsi saw the report as an opportunity to remind the Philippine citizenry of the importance of maintaining the growth momentum. As he records in the foreword (Balisacan 2018) to a recent volume on the Philippine economy (Clarete, Esguerra, and Hill 2018):

Both pride and necessity prodded me and my colleagues at NEDA ... to help change the narrative on the Philippine economy and society... We could not allow ourselves to be left behind, to remain a laggard in an otherwise highly dynamic, rapidly growing and prospering region.

Cognizant of the political realities of the fixed six-year term of the presidency and a new administration's predilection to abandon even good plans and programmes of its predecessor, Arsi and his staff prepared a long-term blueprint, *Ambisyon Natin 2040* (NEDA 2016), which articulates a common development vision for the Filipinos as a nation and for accelerated Philippine development. He was understandably pleased when the new Duterte administration adopted *Ambisyon Natin 2040* as a guiding policy document, issuing an Executive Order for all government offices and instrumentalities to develop and implement their plans consistent with this long-term vision.

Towards the end of his administration, President Noynoy Aquino had yet another assignment for Arsi. In 2015, Congress passed the Philippine Competition Act, which established the Philippine Competition Commission (PCC). The President appointed Arsi as the PCC's inaugural chairperson. This quasi-judicial body is an entirely new entity on the Philippine landscape; nothing like it hitherto existed.

While the PCC enjoys *de facto* independence, it can always suffer budget cuts if it loses support. Arsi's reputation as a non-partisan technocrat has helped the PCC maintain support across different administrations.

The PCC has arguably been Arsi's most challenging assignment as a public servant. It has involved establishing a new institution and administrative apparatus.⁷ Undergirded by industrial organization and law and economics, competition policy has been a new endeavour for him. The Philippine economy is characterized by high levels of concentration in the modern sector, a complex, corruption-prone regulatory environment,⁸ and the perception of a cosy relationship between the worlds of business and politics. After all, it is the country that popularized the phrase "crony capitalism". Thus, the challenge has been to establish an analytically rigorous and credible institution with "teeth", one that is faithful to its congressional mandate. At the same time, the Philippine business community has to be assured that the PCC will operate in a fair, transparent and non-political manner. It was important to quickly and publicly establish the Commission's credibility as an impartial enforcer of its mandate.⁹

This biographical sketch helps us understand why and how Arsi has achieved so much in his professional life. The prime factors are his work ethic and discipline. Born to an unprivileged life, he reaped scholastic achievements because of his ability, dedication, courage and hard work—habits he has maintained throughout his working life (his 4–5 a.m. starts have not only supported his running career). His experience reminds—nay, inspires—that, although the Philippines

⁷ For a detailed discussion of the structure, conduct and scope of competition policy in the Philippines, see Balisacan (2019), Ravago, Roumasset, and Balisacan (2021), chapter 18 of this volume, and Arsi's forthcoming exit report when his term as chairperson of the PCC ends in January 2023.

⁸ See, for example, the World Bank (2018), which argues that the Philippines is "one of the most restrictive economies in the world".

⁹ The PCC's first abuse of dominance case was therefore crucial. The Commission responded to a case brought by residents of Urban Deca Homes Condominium in Tondo, Manila, who alleged that they were only allowed access to a single internet service provider that was slow, expensive and unreliable. Finding sufficient grounds of abuse of dominance, the PCC ordered the company to allow residents to contract with other internet service providers and to pay the fine of PHP27.11 million.

is a stratified and unequal society, children from poor families can progress.

Second, like all influential economists, he chose to work on important topics of national significance. His interest in agriculture reflects his experience as a young boy. It prompted him to seek answers for big questions: Why are the poor predominantly in this sector? Why has Philippine agricultural productivity lagged behind its neighbours? Why have aspects of the policy regime adversely affected the sector? Arsi's first degree was in agriculture, but he transferred to economics because he thought it would provide some answers to these pressing questions. Subsequently, his approach to economics has been in the conventional mainstream—what might be termed as pragmatic neoclassical economics. He believes in markets but also sees a role for government in direct poverty alleviation programmes (such as the country's *conditional cash transfers*) and in ensuring a competitive marketplace. His empirical work in poverty analysis is meticulous; unlike some commentators in the field, he takes data quality seriously and is inclined to “let the data tell their story”.

Third, Arsi has shown a capacity to work effectively at many levels. Although not an overtly political person—and perhaps because of it—he has been trusted by the Philippine political class, as illustrated by cabinet-level appointments in four very different presidential administrations. He favours evidence-based policymaking advocacy, has generally eschewed going public on policy battles, and has learned to move on from the inevitable policy disappointments.¹⁰

Arsi's integrity and work ethic have been tested many times. When offered personal benefits in exchange for turning a blind eye towards agency irregularities, he resigned his position instead. When a relative was approached to influence him, the relative declined on the grounds that Arsi would not countenance even the appearance of corruption.

¹⁰ While most of the policy battles have remained behind closed doors, occasionally they leaked to the press. One such example concerned the issue of rice production and importation in 2013, which resulted in accelerating inflation and the contrasting recommendations emanating from NEDA and the DA. On this occasion President Noynoy Aquino sided with the restrictive approach favoured by the DA, presumably because its Secretary Alcala was very close to the president. For press coverage of the case, see <https://newsinfo.inquirer.net/504535>.

He has successfully held senior positions in the academic world, sometimes taking tough decisions by developing a consensus for change, as well as building a wide array of international connections (as exemplified by the contributors to this volume). Like several of his UPSE colleagues, from Gerry Sicat onwards, he has moved easily and productively between the academic and policy worlds. He has also been a popular (and demanding) teacher, who has mentored many young academics. And in academic environments with scarce resources, he has well-developed entrepreneurial skills for securing research funds and using them productively.

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