Comparative analysis of the Philippines with countries that have more liberal retail trade industry, and have benefited from thereof

Prepared by Ramonette B. Serafica[1]

19 February 2020

Measure of restrictiveness

The OECD FDI Regulatory Restrictiveness Index (FDI Index) measures the restrictiveness of a country's FDI rules by looking at the four main types of restrictions on FDI (Kalinova, et al. 2010):

- Foreign equity limitations
- Screening or approval mechanisms - For example, applying economic needs, net economic benefit or national interest tests. Does not include the screening mechanisms applied for national security reasons, nor screening at the sub-national level. Implementation issues are also not addressed including the degree of transparency or discretion in granting approvals.
- Restrictions on the employment of foreigners as key personnel – Measures include economic needs tests for the employment of foreign managers, time bound limits on the employment of foreign managers as well as nationality requirements for members of the board of directors. The requirement that there be some legal representative that resides in the country is quite common and not necessarily as restrictive as rules excluding foreigners from the management/direction of the local enterprise
- Operational restrictions – These measures include restrictions on the establishment of branches, acquisition of land for business purposes, including cases where foreigners may not own property but may sign leases; reciprocity clauses; and restrictions on profit or capital repatriation.

[1] Dr. Ramonette B. Serafica, Senior Research Fellow, Philippine Institute for Development Studies

Table 1 presents the 2018 scores for the retail industry of select economies, ranked from most to least restrictive.

Table 1. FDI Index scores for the retail industry (2018)

	Economy	Equity restriction	Screening & approval	Key foreign personnel	Other restrictions	TOTAL (All types of restrictions)
More closed/More restrictive	Malaysia	0.333	0.200	0.020	0.050	0.603
	India	0.295	0.150	0.000	0.113	0.558
	Indonesia	0.480	0.000	0.050	0.010	0.540
	Lao People's Democratic Republic	0.125	0.100	0.000	0.080	0.305
	PHILIPPINES	0.000	0.000	0.000	0.240	0.240
	Viet Nam	0.038	0.100	0.020	0.050	0.208
	Mexico	0.045	0.100	0.000	0.000	0.145
	China (People's Republic of)	0.025	0.000	0.050	0.000	0.075
	Myanmar	0.063	0.000	0.000	0.010	0.073
	Cambodia	0.000	0.000	0.000	0.010	0.010
	Japan	0.000	0.001	0.000	0.000	0.001
More open/Less restrictive	Romania	0.000	0.000	0.000	0.000	0.000
	Korea	0.000	0.000	0.000	0.000	0.000

Notes:

a) 1 - closed, 0 – open

b) FDI Index is not a full measure of a country's investment climate. A range of other factors come into play, including how FDI rules are implemented. The ability of a country to attract FDI will be affected by various factors such as the size of its market, the extent of its integration with neighbors and even geography. Nonetheless, FDI rules are a critical determinant of a country's attractiveness to foreign investors. Moreover, unlike geography, FDI rules are something over which governments have control (https://www.oecd.org/investment/fdiindex.htm).

Source: https://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX# accessed on Feb. 17, 2020

Experience with liberalization

Below is a summary table of the impact of retail trade liberalization in countries that are more open than the Philippines, as measured by the OECD FDI Index.

Table 2. Impact of retail trade liberalization

Study	**Country**	**Effect**
Atkin et al. (2018)	Mexico	Foreign supermarket entry into the retail sector led to large and significant welfare gains for the average household, equal to 6 per cent of initial household income. These welfare gains came from reductions in retail prices in both the outlets of the foreign supermarkets and their domestic competitors, availability of new product varieties, and different shopping amenities offered by foreign retailers. The welfare gains were concentrated among the

		more affluent households because of the greater value these households place on product variety and shopping amenities offered by foreign retailers.
Head, et al. (2014)	China	Four of the world's five largest retailers—Walmart, Carrefour, Tesco, and Metro—entered China after 1995, following new policies that allowed foreign retailers to participate more fully in the Chinese retail market. As each retailer added both stores and global procurement centers, they created unique footprints that caused Chinese cities to be differentially exposed to the activities of these global retailers. The study provides robust evidence that increased exposure to multinational retailers was followed by rising exports. Specifically, a 1% increase in proximity to global procurement centers was associated with a 0.21% increase in city exports, while a 1% increase in the number of retailer stores in a city increased city exports by 0.17%. Since the export expansions are not limited to the connections formed by the retailers' bilateral networks, the evidence suggests that the growing presence of global retailers operated, at least in part, by enhancing the general export capabilities of the affected cities.
Javorcik and Li (2013)	Romania	The expansion of global retail chains leads to a significant increase in the total factor productivity (TFP) in the supplying manufacturing industries: a 10% increase in the number of foreign chains' outlets is associated with a 2.4% to 2.6% boost to the TFP in the supplying industries. The decomposition of the aggregate productivity in the supplying industries suggests that the boost to performance is driven by both within-firm improvements and between-firm reallocation. Study provides evidence that opening of the retail sector to FDI may stimulate productivity growth and improve allocation efficiency in manufacturing industries.
Toshiyuki and Saki (2009)	Japan	Studies the effect of liberalization of entry restriction for large-scale retailers (LSR) on small and medium enterprises (SME) for the Japanese retailing sector in the late 1990s. Compared SME performance at the regional level between regions with/without LSR entry. Findings suggest that LSR entry does not have any negative effect on SME performance. On the contrary, there was a positive effect on SME sales and employment especially in suburban districts.
Kim and Kim (2003)	Korea	The distribution sector experienced significant liberalization during the 1990s leading to growth in terms of number of establishments as well as the size of establishments. It also resulted in price competition and a decline in price margins of the supermarkets and department stores by 4.2 and 2.5 percent, respectively, from 1995–1999. Foreign retail firms introduced best practice management, transferred advanced techniques in merchandising and inventory management as well as new technologies such as point of sales (POS) systems.

References

Atkin, D., B. Faber, and M. Gonzalez-Navarro. 2018. "Retail globalization and household welfare: evidence from Mexico", Journal of Political Economy 126(1):1-73." *Journal of Political Economy* 126 (1): 1-73.

Head, Keith, Ran Jing, and Deborah L. Swenson. 2014. "From Beijing to Bentonville: Do multinational retailers link markets?" *Journal of Development Economics* 110: 79-92.

Javorcik, Beata S., and Yue Li. 2013. "Do the biggest aisles serve a brighter future? Global retail chains and their implications for Romania." *Journal of International Economics* 90 (2): 348-363.

Kalinova, Blanka, Angel Palerm, and Stephen Thomsen. 2010. *OECD'S FDI Restrictiveness Index: 2010 Update.* OECD Working Papers on International Investment 2010/03 , Paris: OECD. doi:https://doi.org/10.1787/5km91p02zj7g-en.

Kim, Jong-Il, and June-Dong Kim. 2003. "Liberalization of Trade in Services and Productivity Growth in Korea." In *NBER book Trade in Services in the Asia Pacific Region*, edited by Takatoshi and Krueger, Anne O. Ito, 179 - 208. Chicago.

Toshiyuki, Matsuura, and Sugano Saki. 2009. *The Effect of Relaxation of Entry Restrictions for Large-Scale Retailers on SME Performance: Evidence from Japanese Retail Census.* RIETI Discussion Paper Series 09-E-054 , Tokyo: The Research Institute of Economy, Trade and Industry.

Industry classification of online retail

Based on the Philippines Standard Industrial Classification 2009, retail sale via internet is part of SECTION G. WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES DIVISION 47. RETAIL TRADE, EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES:

479			Retail trade not in stores, stalls or markets			
			This group includes retail sale activities by mail order houses, over the internet, through door-to-door sales, vending machines, etc.			
	4791		Retail sale via mail/telephone order houses or via internet			
			This class includes retail sale activities via mail order houses of internet, i.e., retail sale activities where the buyer makes his choice on the basis of advertisements, catalogues, information provided on a website, models or any other means of advertising and places his order by mail, phone or over the internet (usually through special means provided by a website). The products purchased can be either directly downloaded from the internet or physically delivered to the customer.			
		47911	Retail sale via mail order	G52510 part	4791	479
		47912	Retail sale via telephone order	G52510 part	4791	479
		47913	Retail sale via internet	NEW	4791	479

Publishing activities, programming and broadcasting activities, etc. are part of Section J – Information and Communication.