ICT in the Philippines: Growth Amidst Mixed Government Intervention[1]

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I. Introduction

Information and communications technology (ICT) is perhaps the single most important sector that accelerated the globalization or greater mobility of people, goods and services, technology and capital, and sports and culture, across islands, countries and continents. New cellular phones and laptops, blogs, websites and online social networking, are some of the products of past and continuing revolution in ICT. For many people around the world, life without any ICT gadget or network will be horrible, at least in the short-term.

With more access to various information at little cost, sometimes at zero cost, citizen empowerment becomes inevitable. And because information is power, the most powerful people (in politics and government, business and economy, sports and competition, etc.) in this planet are also the most informed in their fields. Even the most dedicated and tested warriors or revolutionaries can be rendered powerless if they are cut off from the most basic and updated information about their friends and enemies, about their history and their future.

Empowered and well-informed citizens mean more independent, self-reliant and more responsible citizens. These are people who generally would not want unnecessary external intervention and regulation in their lives, work and family. At the same time, modern tyrants and despots would use information to find out what the informed citizens are doing and are busy with, to devise new ways on how they can control and regulate these people's lives, work and family. So information, like trade and many other things in life, is a double-bladed weapon -- although on average, there is net benefit to the individuals. That is, the advantages outweigh the disadvantages.

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[1] Presented at the "Congress Briefing on the Global IT Industry", December 3, 2008, Edsa Shangrila Hotel, Mandaluyong City, Philippines. Sponsored by Computing Technology Industry Association (CompTIA) Asia-Pacific.

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This paper is not a technical paper, nor will it attempt or pretend to be a technical paper, on ICT. Rather, it will make some preliminary analysis on the impact of certain government regulations and taxation on the growth of ICT in the Philippines. The paper takes off from the author's belief that there is little need for government intervention to encourage wide use of the internet by the public. The people's desire for more information to better conduct their own lives and businesses will take care of this. Hence, there should be regulatory restraints at all times when policy or legal issues would arise.

II. Internet Penetration, Asia and the Philippines

This year, global internet penetration (the share of internet users to total population) is 21.9 percent of world population. For Asia, the penetration rate is 15.3 percent and for the Philippines, 15.1 percent.

The growth rate of internet users around the world from 2000 to 2008 was 305 percent , and 406 percent for Asia. For the same period, growth rate among Filipino internet users was 600 percent, from an estimated 2 million in 2000 to an estimated 14 million in 2008, a seven-fold increase in a period of 8 years. This looks "fast" enough, but "not so fast" compared with the growth in other Asian countries.

Vietnam had only 0.2 million internet users in 2000. By 2008, this number has grown to more than 20 million, or 100-fold increase! Consequently, Vietnam's internet penetration rate has reached 23.4 percent of its total population, or nearly 1 out of 4 Vietnamese are connected with the worldwide web.

China saw an eleven-fold increase in the number of internet users among its citizens, from 22 million in 2000 to 253 million this year.

Most economies in East and South-east Asia did not have four-fold increase or more in internet users among their citizens because many of their people were already linked to the worldwide web as early as 2000 and earlier years. The result is that about 60 percent or more of their citizens are internet users this year.

The same cannot be said of other countries in South-east and South Asia, although a number of them have shown huge jump in growth of internet users. But coming from a very low base, even a 10 times or 50 times increase would not mean a lot. But at least the momentum is there, and if it is sustained, internet penetration should reach 20 percent or more in the next decade or two. See table below. Data source is the Internet World Stats.

Table 1. Internet Penetration in Asia, 2008

Country	Population, Mill. 2008	Internet Users, Mill. 2000	Internet Users, Mill. 2008	Use growth, 2000 to 2008	Internet penetration, % of Popn, 2008
North Asia:					
Japan	127.29	47.08	94.00	100%	73.8%
S. Korea	49.23	19.04	34.82	83%	70.7%
Hong Kong	7.02	2.28	4.88	114%	69.5%
Taiwan	22.92	6.26	15.40	146%	67.2%
China	1,330.04	22.50	253.00	1024%	19.0%
S.East Asia					
Malaysia	25.27	3.70	14.90	303%	59.0%
Singapore	4.61	1.20	2.70	125%	58.6%
Vietnam	86.12	0.20	20.16	9980%	23.4%
Thailand	65.49	2.30	13.42	483%	20.5%
Philippines	**92.68**	**2.00**	**14.00**	**600%**	**15.1%**
Indonesia	237.51	2.00	25.00	1150%	10.5%
Laos	6.68	0.01	0.10	1567%	1.5%
Cambodia	14.24	0	0	1067%	0.5%
Myanmar	47.76	0.00	0.04	3900%	0.1%
South Asia					
Pakistan	167.76	0.13	17.50	13362%	10.4%
India	1,148.00	5.00	60.00	1100%	5.2%
Sri Lanka	21.13	0.12	0.77	542%	3.6%
Nepal	29.52	0.05	0.34	580%	1.2%
Bangladesh	153.55	0.01	0.05	400%	0.0%

Source: Internet World Stats, http://www.internetworldstats.com/stats3.htm

With these results, it is fair to ask the following questions:

a. Why did the Philippines' internet penetration did not grow fast enough, considering that a big portion of its local industries and exports are on electronic products, many people speak English, the main language of the web, and a growing number of its students and professionals are working on IT-related sectors?

b. Were there lots of government regulations in the ICT sector that inhibited its potential for fast growth?

c. What other factors could have significantly influenced such modest growth, instead of the expected faster growth?

A little research and investigation is warranted to provide at least initial explanations and answers to the above and related questions. Below are some initial research findings.

III. Government regulations: ICT in particular, business in general

1. The E-Commerce Law (RA 8792)

This is perhaps the single important legislation affecting ICT in the Philippines recently. The law was enacted in 2000. While reviewing this law, this writer was looking for phrases like "in the name of national emergency (or national security), the government can use an important invention or technology even without permission by the patent or copyright holder to protect public interest." This is because such language was repeatedly used in the newly-enacted "Cheaper Medicines Law" or RA 9502, and its Implementing Rules and Regulations (IRR). And pharmaceutical and IT inventions are closely related because they are greatly affected by the level of respect or disrespect, of intellectual property rights (IPR) of those inventions such as patent and copyright.

No such provision, thankfully, could be found in the E-Commerce law and its IRR. In the IRR of the law, there is even an anti-bureaucracy provision that explicitly declared:

> "Sec. 38 c. *Elimination of Red Tape.* - Government processes shall be re-examined and if appropriate, simplified or re-engineered to maximize the functionality of technology and to eliminate unnecessary delays in the delivery of governmental services."

2. NTC Regulations

The National Telecommunications Commission (NTC), more than any other government agencies like the Commission on ICT (CICT) and the National Computer Center (NCC), makes regulatory control over the sector. Though this agency would prove to be very interventionist in other forms of communications like the broadcast media and the private telecommunications companies, NTC did not appear to be very interventionst in ICT. Some of its decisions have been rather liberal, like favoring Voice-over Internet Protocol (VoIP) as a value-added service.

Thus, compared to the more heavily-regulated sectors like oil and petroleum, mining, banking, pharmaceuticals and public transportation, the extent of government regulations in the ICT sector can be considered as "acceptable".

3. Business regulations in general

The overall business environment, more than specific sector regulations and policies, would tend to influence the sector, positively or negatively.

In the "Doing Business" 2009 Report, produced by the World Bank and International Finance Corporation (WB-IFC) and released sometime in September this year, the Philippines ranked a poor 140th out of 181 countries surveyed. The four other countries on similar ranking as the Philippines (ie, ranked 138 to 142) were Uzbekistan, Rwanda, Philippines, Mozambique and Iran. This is not something really to be proud of.

There were 10 factors considered in determining the "ease of doing business" by the globally-prominent study: (1) Starting a business, (2) Dealing with construction permits, (3) Employing workers, (4) Registering property, (5) Getting credit, (6) Protecting investors, (7) Paying taxes, (8) Trade across borders, (9) Enforcing contracts, and (10) Closing a business. For brevity purposes, only 2, numbers 1 and 10 out of 10 factors mentioned above will be shown below.

Table 2. Ranking in Ease of Doing Business out of 181 Economies, Selected Asian Countries, 2008

Economy	Overall Rank, Ease of Doing Business	Rank in Starting a Business	Rank in Closing a Business
Singapore	1	10	2
Hong Kong	4	15	13
Japan	12	64	1
Thailand	13	44	46
Malaysia	20	75	54
Korea	23	126	12
Taiwan	61	119	11
Pakistan	77	77	53
China	83	151	62
Brunei	88	130	35
Vietnam	92	108	124
India	122	121	140
Indonesia	129	171	139
Cambodia	135	169	181
Philippines	**140**	**155**	**151**
Lao PDR	165	92	181

Source: http://www.doingbusiness.org/economyrankings/

Note that even socialist countries China and Vietnam have higher rank than the Philippines, meaning it is easier to do business in those two socialist countries than capitalist Philippines. How did this happen? Lots of possible explanations but the "least common denominator" for them can be summarized as "multi-layer bureaucracies".

4. Tax burden

Related to the above indicator, is the tax burden that private enterprises have to bear. As the saying goes, "a tax is a tax is a tax!" And it is very seldom bearable. A friend who works at one of the biggest global software manufacturers, observed that "Sample/trial/demo/90-day software that we ship to the Philippines are taxed using their commercial values. The taxes were sometimes so exorbitant that we have to abandon some shipments. This has been a perennial problem for us for more than five years now."

The World Bank and the Price Waterhouse Coopers (WB-PWC) released its "Paying Taxes" 2009 Report early last month. This is another high profile annual international study analyzing not only tax rates (how high or how low taxes are) but also tax administration (how easy or how bureaucratic, to pay and comply).

Table 3. Ease of Paying Taxes, 2008

Economy	Number of tax payments per year	Total Tax Rate, % of comm'l profits
Hong Kong	4	24.2
Singapore	5	27.9
China	9	79.9
Malaysia	12	34.5
Japan	13	55.4
Korea	14	33.7
Brunei	15	37.4
Thailand	23	37.8
Taiwan	23	40.4
Cambodia	27	22.6
Vietnam	32	40.1
Lao PDR	34	33.7
Pakistan	47	28.9
Philippines	**47**	**50.8**
Indonesia	51	37.3
India	60	71.5

Source: WB-PWC, http://www.doingbusiness.org/documents/Paying_Taxes_2009.pdf

Note what "honest taxpayers" among private enterprises have to endure: spend time and money paying 47 differently taxes (remittance monthly, quarterly, or annually (various taxes have different payment schedules) and mandatory contributions, and be left with only one-half of the profits of their firms or corporations.

5. Low internet penetration and business bureaucracy: is there a link?

From the above 3 tables, the answer seems to be Yes. Consider the following:

a. Low internet penetration Asian countries: Philippines, Indonesia, Laos, Cambodia; India, Pakistan, Sri Lanka, Nepal, Bangladesh.
b. Low rank in "ease in doing business": India, Indonesia, Cambodia, Philippines and Laos.
c. Plenty of different taxes to pay: Laos, Pakistan, Philippines, Indonesia, and India.

IV. The DITC, not the new interventionist

One explanation why despite the burdensome business regulations in the country, the ICT sector was able to manage a modest growth over recent years, is the fact that there is no strong government department or agency that centralizes power and regulations in its own hands.

This thing will change soon. Currently, there are respective bills in the Senate and the House of Representatives creating the Department of Information and Communication Technology (DICT).

Senate Bill 920 and House Bill 4300, both called the "Department of Information and Communication Technology Act", make no explicit new regulations to private enterprises engaged in the ICT. That is a good news. Instead, the proposed legislation mainly transfers certain functions and offices from the Commission on ICT (CICT, currently under the Office of the President), NTC and other communications functions of the Department of Transportation and Communication (DOTC), and the National Computer Center (NCC) under the Department of Science and Technology (DOST), to the Department of ICT (DICT).

This consolidation and centralization of ICT-related functions from various government offices and departments will hopefully not result in centralization of power that will lead to more invasive government intervention in the ICT sector. The coming new and big department to be created would mean a big bureaucracy to be retained and expanded, which will require big annual funding from taxpayers.

V. Concluding Notes

A mixture of less government intervention and regulation in the ICT sector, and a regime of bureaucratic business regulations plus burdensome multiple taxation in general, created some modest growth in internet use and penetration in the Philippines. The 15 percent of Philippine population linked to the global web in this period is small even among many neighboring countries in east and south-east Asia.

The government needs to step back, not come and intervene more, in business regulations and taxation in general, and ICT sector in particular. The proposed creation of a new and big department to harmonize government use of ICT in the short-term, and centralize regulation of private enterprises in the ICT sector later, may create more problems than solutions because the pursuit and propagation of information is one of the inherent values of people. But since the DICT bills are already in advanced stage of possible enactment in Philippine Congress, regulatory restraint should be emphasized in the said measure.

The government and ICT players should go for policies that stimulate competition-driven solutions, innovation and investment. And policies designed to address perceived market inequities should be avoided as such measures are easily used to advance protectionist trade policies and an anti-competitive business environment.

In the current debate in the EU regarding more regulation of broadband access providers (BAPs) for instance, two writers proposed that "the best approach to improving the provision of broadband access is to ensure that the environment in which BAPs operate is competitive. That means removing regulatory and other government-imposed barriers to competition, *not* creating new barriers in the form of restrictions on differentiation and mandatory quality of service (QoS)." (Morris, Gelder, 2008).

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Annex

Use of internet by active users, Universal McCann study, March 2008

Among active internet users, reading blogs, in Percent

S. Korea 92.1	Italy 78.9	Netherlands 67.7
Philippines 90.3	France 78.0	UK 65.8
China 88.1	Spain 77.8	Hong Kong 65.8
Mexico 87.7	Pakistan 76.0	Switzerland 63.2
Brazil 87.1	Poland 72.3	Australia 62.0
Taiwan 86.6	Greece 72.2	USA 60.3
Puerto Rico 86.4	Russia 70.8	Austria 59.7
India 85.0	Czech Rep. 69.8	Canada 56.6
Japan 84.7	Turkey 69.6	Germany 55.4

And among active internet users, belonging to social network, in Percent

Philippines 83.1	India 66.0	Denmark 47.5
Hungary 79.9	China 64.0	Austria 47.4
Poland 76.8	Taiwan 63.1	Germany 43.3
Mexico 76.3	Romania 62.5	Spain 43.2
Brazil 75.7	Netherlands 61.4	USA 43.0
Pakistan 72.0	UK 59.6	Japan 41.7
Russia 71.1	Canada 58.5	Switzerland 41.4
S. Korea 70.3	HK 53.2	Italy 38.6
Turkey 66.0	Australia 50.2	France 33.1

Source:
http://www.universalmccann.com/Assets/UM%20Wave%203%20Final_20080505110444.pdf