The Philippine Manufacturing Industry Roadmap For Sustainable & Inclusive Growth

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Motivations: Why promote a new industrial policy?

- Inclusive growth, creation of more & better jobs
  - Jobless growth: unemployment 7.5% (’06-’10);
    underemployment 18-20% (late 2000s)
  - Stagnant manufacturing & failure to create jobs
  - Persistently high inequality: poverty incidence has declined but inequality hardly changed, worsened in in ‘97 & ’00

- Globalization, AEC 2015, global value chains (GVCs)

- **Competitiveness is crucial**: innovation ability
  - sustainable growth: cleaner production process; efficient use of materials, water, power; reduce impact on the environment; compliance with global health & environment standards

- Industrial Policy: best way to secure industries, attain inclusive & sustainable growth
PH growth rate: 6.8 ('12), 7.2% ('13), 6.1% ('14)
Q1 2015: China 7.3%, VN 6.96%, PH 5.2%, MAL 1.2%, TH 0.3%, INO -0.18%
PH impressive growth: Asia’s new economic tiger
Manufacturing Resurgence

- PH Industry growth: 7.3% (‘12); 9.3% (‘13, highest), 7.5% (‘14 highest)
- Manufacturing resurgence: 5.4% (‘12); 10.3% (‘13); 8.1% (‘14)
WHAT MAKES PH DIFFERENT

Market Opportunities
- Growing market & middle class: demographic sweet spot

Labor
- Young, English speaking, highly trainable workforce
- Moderate wage increases

Operating Environment
- Strong macroeconomic fundamentals
- Political stability, business/consumer confidence

Policy Focus
- New Industrial Policy & a more pro-active Government
- IPA rules & regulations, incentives & investor care

Improved competitiveness ranking (WEF)
- Rank #52 in 2014-15 from rank #59
## Growth Challenges

<table>
<thead>
<tr>
<th>Area</th>
<th>Major Constraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulation</td>
<td>• Complex/costly business procedures&lt;br&gt;• Policy consistency, transparency, predictability&lt;br&gt;• 60-40% foreign equity rule, competition law</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>• High cost of power, domestic shipping&lt;br&gt;• Lack of ports, airports, road infrastructure, etc</td>
</tr>
<tr>
<td>SME</td>
<td>• Access to finance, technology, support for start-ups, product standards, marketing, network links</td>
</tr>
<tr>
<td>HRD</td>
<td>• Lack of skilled workers, limited standards &amp; certifications, quality of teachers</td>
</tr>
<tr>
<td>Innovation</td>
<td>• Industry-academe linkages, R&amp;D facilities</td>
</tr>
<tr>
<td>Supply/value chain</td>
<td>• Weak linkages: manufacturing, agriculture, &amp; services</td>
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</tbody>
</table>

◆ **Required Components:** Materials, Skills, Energy, Capital, Digital technology
Strategic Industrial Policy

- Goal: improving competitiveness & productivity
  - Growth oriented action to upgrade industries, move up the value chain, from low productivity to high productivity sectors ➔ structural change
  - Remove obstacles to growth ➔ Investments
  - Deepen participation in regional production networks

- Role of Government: Coordination/facilitation
  - Government not proximate cause of growth, but private sector, investment & entrepreneurship
  - Create proper environment for private sector development

- GVC-focused industrial policy
  - Define position in the GVC, how do we plug into global/regional production networks

- Cluster-based industrial strategy to build strong & competitive regional economies
Manufacturing Roadmap

Vision: globally competitive industries with strong forward & backward linkages

Phase I 2014-2017
- automotive, aerospace parts electronics, garments, food, resource-based industries, chemicals, furniture, tool & die, shipbuilding

Phase II 2018-2021
- Shift to high value added activities, investments in upstream industries: chemicals, iron & steel, med-tech fabricated metal
- Link & integrate industries, SMEs & large firms, Innovation ecosystem; R&D

Phase III 2022-2025
- Move to high tech activities transport, electronics, chemicals
- Participate as manufacturing hubs in regional & global production networks for auto, electronics, machinery, garments, food

Vision: globally competitive industries with strong forward & backward linkages
To Make Manufacturing An Engine Of Growth

Horizontal measures
- Promotion
- Power, smuggling, logistics, infrastructure
- Improve regulation, reduce cost of doing business
- Competitive exchange rate

Coordination mechanism

Vertical measures
- Close supply chain gaps
- Expand domestic market & exports
- HRD & skills trainings
- SME development
- Innovation
- Green growth

30% value added

open trade regime, sustainable macro policies, sound tax policies & administration, efficient bureaucracy, secure property rights, institutions
# Strategic Actions

## 1 Close Supply/Value Chain Gaps

<table>
<thead>
<tr>
<th>Sector</th>
<th>Action</th>
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</thead>
<tbody>
<tr>
<td>Copper</td>
<td>Institutional mechanism to fully integrate the industry</td>
</tr>
<tr>
<td>Furniture</td>
<td>Supply hubs for raw &amp; natural materials</td>
</tr>
<tr>
<td>Paper</td>
<td>Fiber raw material base, develop massive tree plantations, commercial agro forestry with virgin wood pulp production</td>
</tr>
<tr>
<td>Auto</td>
<td>Weak parts &amp; components sector</td>
</tr>
</tbody>
</table>
② Expand domestic market ➔ export platform

- Complex product, 30,000+ parts & components, different production processes: large multiplier effect
- Auto investments: foundation for broad-based industrial growth
- CARS Program: jumpstart industry development to enable PH to deepen its integration into global production networks
## HRD & Skills Trainings

<table>
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<th>Type</th>
<th>Sectors</th>
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<tbody>
<tr>
<td>Design, tool making, prototyping, molding, die casting</td>
<td>Auto parts, Tool &amp; Die</td>
</tr>
<tr>
<td>Chemical engineering, Materials Engineering</td>
<td>Chemical, Rubber, Plastics</td>
</tr>
<tr>
<td>Supervisory, managerial, productivity</td>
<td>Furniture</td>
</tr>
<tr>
<td>Foundry technology, Metallurgical, Mechanical, Industrial, Metal casting Engineering</td>
<td>Metal casting</td>
</tr>
<tr>
<td>Die design, Tool &amp; Die Engineering</td>
<td>Tool &amp; Die</td>
</tr>
<tr>
<td>Vocational trainings (TESDA)</td>
<td>Iron &amp; steel, Furniture</td>
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- Cooperation with TESDA, CHED
- Investment in skills & education
### Other Strategic Actions

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<th>STRATEGIC ACTIONS</th>
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<tbody>
<tr>
<td>• <strong>SME Development</strong>: Finance access, compliance with product standards, Clusters, Incubation, Shared Services Facilities (Quality testing facilities, Fablabs)</td>
</tr>
<tr>
<td>• <strong>Innovation</strong>: Industry-academe linkages, R&amp;D, technology extension services esp. to SMEs; metrology, standards testing, quality control; incubation; IEC</td>
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<tr>
<td>• <strong>Greening industries</strong>: adaption of green processes, green products</td>
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<tr>
<td>• <strong>Marketing &amp; promotion</strong>: attract investments</td>
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<tr>
<td>• <strong>Horizontal issues</strong>: high cost of power &amp; domestic shipping, smuggling &amp; streamline &amp; automate government procedures</td>
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Greening PH Industries

- Greening industries: adaption of green processes, green products
  - Plastic, paper, auto, furniture, & housing
- Design incentive mechanisms to bring in investments in low carbon, climate resilient industries
  - Innovation, R&D
  - IPP: motor vehicles, shipbuilding, aerospace, chemicals, virgin pulp paper, copper wires/rods, tool & die
- Charging stations for e-vehicles, industrial waste treatment, energy efficiency projects, renewable energy
- Information awareness, communication campaign programs – green products are expensive
- Capacity building
  - Transition/Adjustment Process
- Coordination between government & industry; closer interaction among government agencies & regulators
  - DTI, DENR, DOE
- Clean Air Act, Renewable Energy Act, Green Building Code, National Greening Program, DAO (euro 4) – effective implementation
The Future of Philippine Industries

Comprehensive National Industry Strategy (CNIS) FRAMEWORK

- THREE IMPORTANT CHANNELS AFFECTING INDUSTRY GROWTH: COMPETITION, INNOVATION, PRODUCTIVITY

**EXTERNAL FACTORS:**
- GLOBALIZATION
- REGIONAL/BILATERAL/MULTILATERAL TRADING ARRANGEMENTS
- GLOBAL & REGIONAL PRODUCTION NETWORKS

**INTERNAL FACTORS:**
- GOVERNMENT POLICIES & PROGRAMS
- INSTITUTIONS
- INFRASTRUCTURE
- MACRO STABILITY
- RULE OF LAW
- PEACE & ORDER
- POLITICAL CLIMATE

**INDUSTRIAL SECTORS:**
- AGRICULTURE
- FISHING
- FORESTRY
- MINING
- MANUFACTURING
- SERVICES
Greening the Industry Roadmaps: inclusive & sustainable growth

- Competitiveness is crucial
  - Globalization, AEC 2015 & other FTAs
  - GVCs affect both manufacturing & services

- Green manufacturing: cleaner production process; efficient use of materials, water, power; reduce impact on environment; compliance with global health & environment standards

- Strategies to improve competitiveness
  - Power issue
  - HRD & skill trainings
  - Technology upgrading
  - Innovation ecosystem, link R&D to business

- Government-private sector collaboration
THANK YOU!

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