

The Philippine New Industrial Policy for More Competitive Regional Economies

Rafaelita M. Aldaba
Department of Trade & Industry
Board of Investments
6 August 2015, Tagaytay City

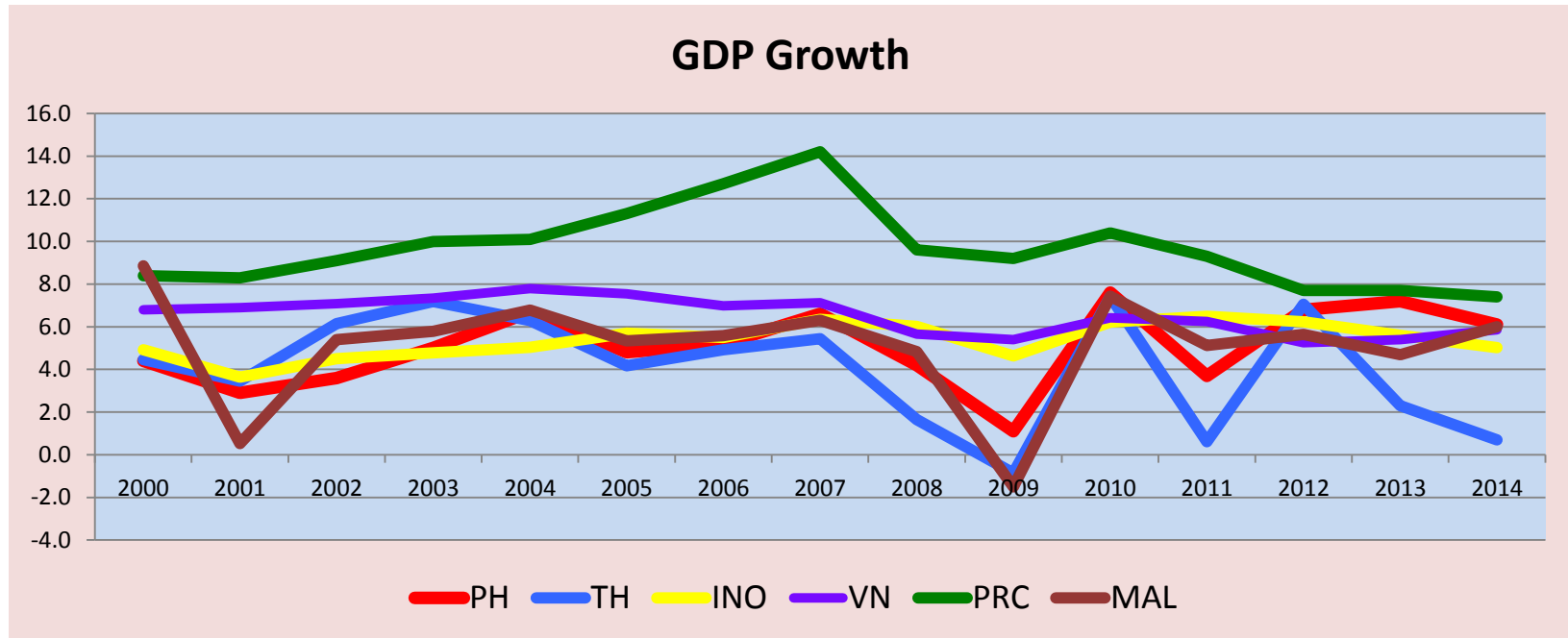
Outline of Presentation

Objective: PH new industrial policy & Region 4's transformation

- **PH Opportunities & Challenges**
- **New Industrial Policy for Structural Transformation**
- **Transforming Region 4**
 - **Industry Upgrading**
 - **Roadmap for Building A Competitive Economy for Region 4**

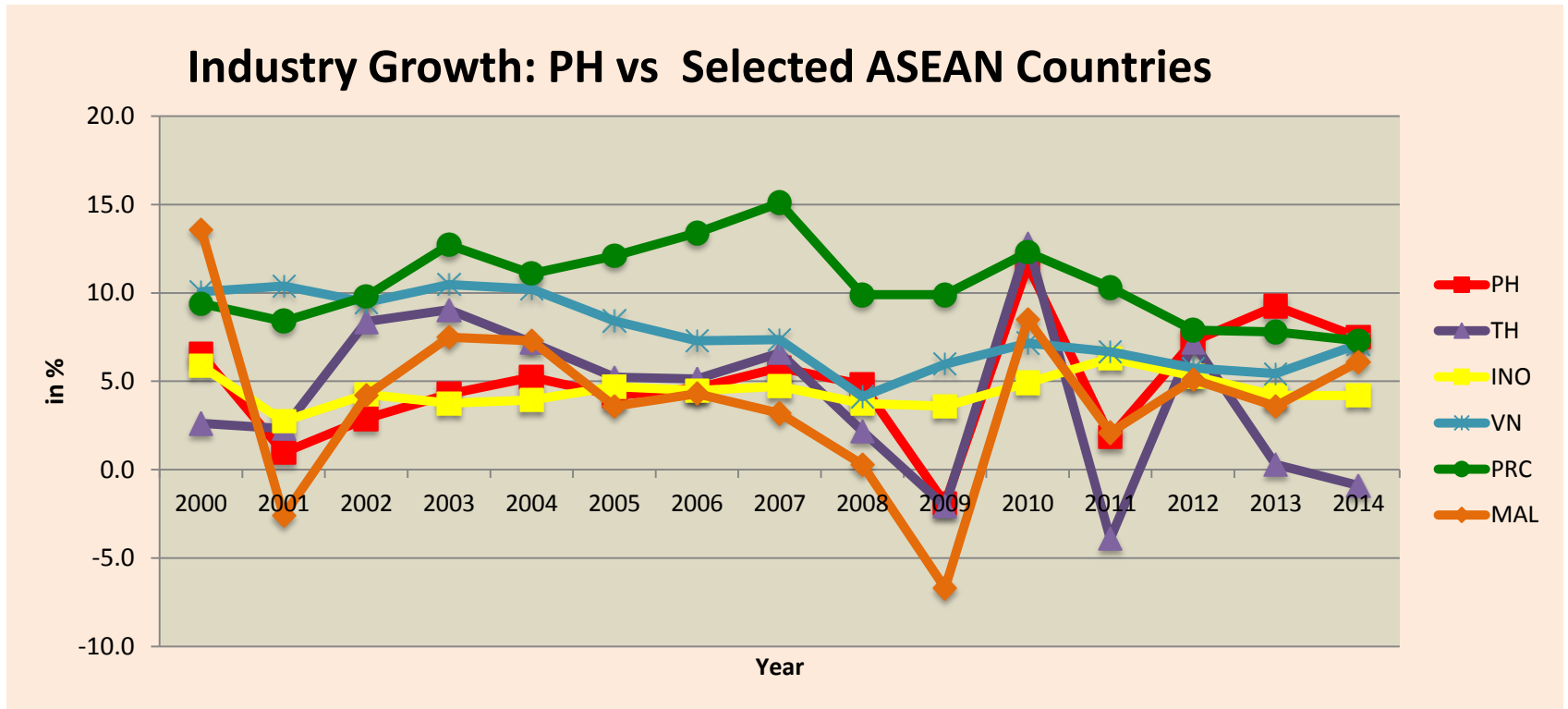
Part 1: Opportunities & Challenges

Short-term Outlook



- 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
- 2015 Forecasts- Government: 7-8%, IMF: 6.7%, ADB: 6.4%, OECD: 6.2% (to lead growth in ASEAN), JPMorgan: 6.4%, Fitch Ratings: 6.3%

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

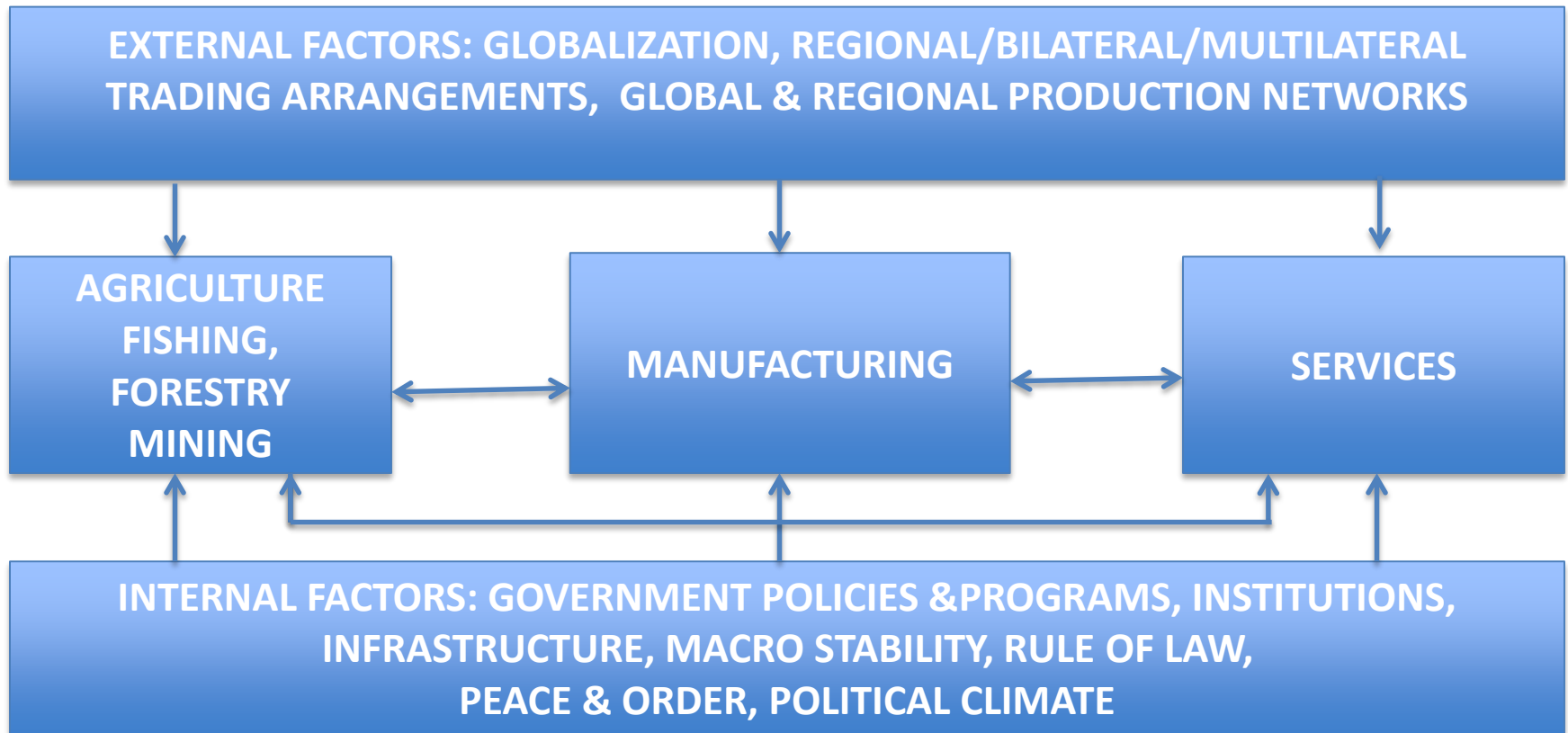
Growth Challenges

Area	Major Constraints
Regulation	<ul style="list-style-type: none">• Complex/costly business procedures• Policy consistency, transparency, predictability• 60-40% foreign equity rule
Infrastructure/ Logistics	<ul style="list-style-type: none">• High cost of power, domestic shipping• Lack of ports, airports, road infrastructure
SME	<ul style="list-style-type: none">• Access to finance, technology, support for start-ups, standards, marketing, network links
HRD	<ul style="list-style-type: none">• Lack of skilled workers, limited standards & certifications
Innovation	<ul style="list-style-type: none">• Industry-academe linkages, R&D facilities
Supply/value chain	<ul style="list-style-type: none">• Limited linkages in manufacturing, agriculture, & services, weak parts & components sector

Part 2: Strategic Industrial Policy

- **Goal: improve competitiveness & productivity**
 - Growth oriented action to upgrade industries, move up the value chain, low productivity to high productivity
 - Remove obstacles to growth → Investments
 - Deepen participation in regional production networks
- **Role of Government: Coordination/facilitation**
 - Create proper environment for private sector development
 - Private sector, investment & entrepreneurship are proximate cause of growth
- **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**
 - Inter-firm cooperation & agglomeration

Comprehensive National Industrial Strategy (CNIS)



- 3 Major Channels: **COMPETITION, INNOVATION, PRODUCTIVITY**
- Cluster-based industrial strategy to build strong & competitive regional economies

Vision, Goals, Strategies

- **Vision:** create globally competitive industries with strong forward and backward linkages
- **Short-run**
 - Strengthen existing industries, support emerging sectors
- **Medium-run**
 - Increase investments especially in upstream industries, high value added activities, infrastructure
- **Long Run**
 - Continue to implement competitiveness measures to sustain growth & make Philippines a regional hub
- **Strategies:** HRD & Skills Training, SME Development, Innovation, Green Growth, Investment Promotion, Regulatory System

MANUFACTURING DRIVER for STRUCTURAL CHANGE

VISION: globally competitive & strongly linked with other sectors, a main growth driver

Phase I 2014-2017

**-automotive,
aerospace parts
electronics,
garments, food,
resource-based
industries,
chemicals,
furniture, tool &
die, shipbuilding**

Phase II 2018- 2021

**-high value added
activities upstream
industries
(chemicals, iron &
steel), med-tech
basic & fabricated
metal**

Phase III 2022- 2025

**-move to high tech
transport equipment,
chemicals, electrical
machinery
-manufacturing hubs
in regional & global
production networks
for auto, electronics,
machinery, garments,
food**

AGRIBUSINESS: CATALYST TO DRIVE REGIONAL ECONOMIC TRANSFORMATION

Transform & upgrade agriculture from traditional farming to a globally competitive agribusiness sector

Phase I 2014-2017

-rubber, coconut, mangoes, coffee, cacao, banana, palm oil; high value crops; supply chain gaps

Phase II 2018-2021

-strengthen agro-processing & its linkages to production: R&D; strengthen supply chains, upgrade commodity clusters; access to technologies, finance; regulatory & certification system

Phase III 2022-2025

-deepen participation in GVC
-PH as agribusiness regional hub

SERVICES: GLUE THAT BINDS ALL SECTORS TOGETHER

Globally competitive services, create quality jobs, move up the value chain, enable structural transformation

Phase I 2014-2017

- labor-intensive sectors: tourism, construction, ship repair, MRO
- accelerate infrastructure investments
- move up ITBPM GVC

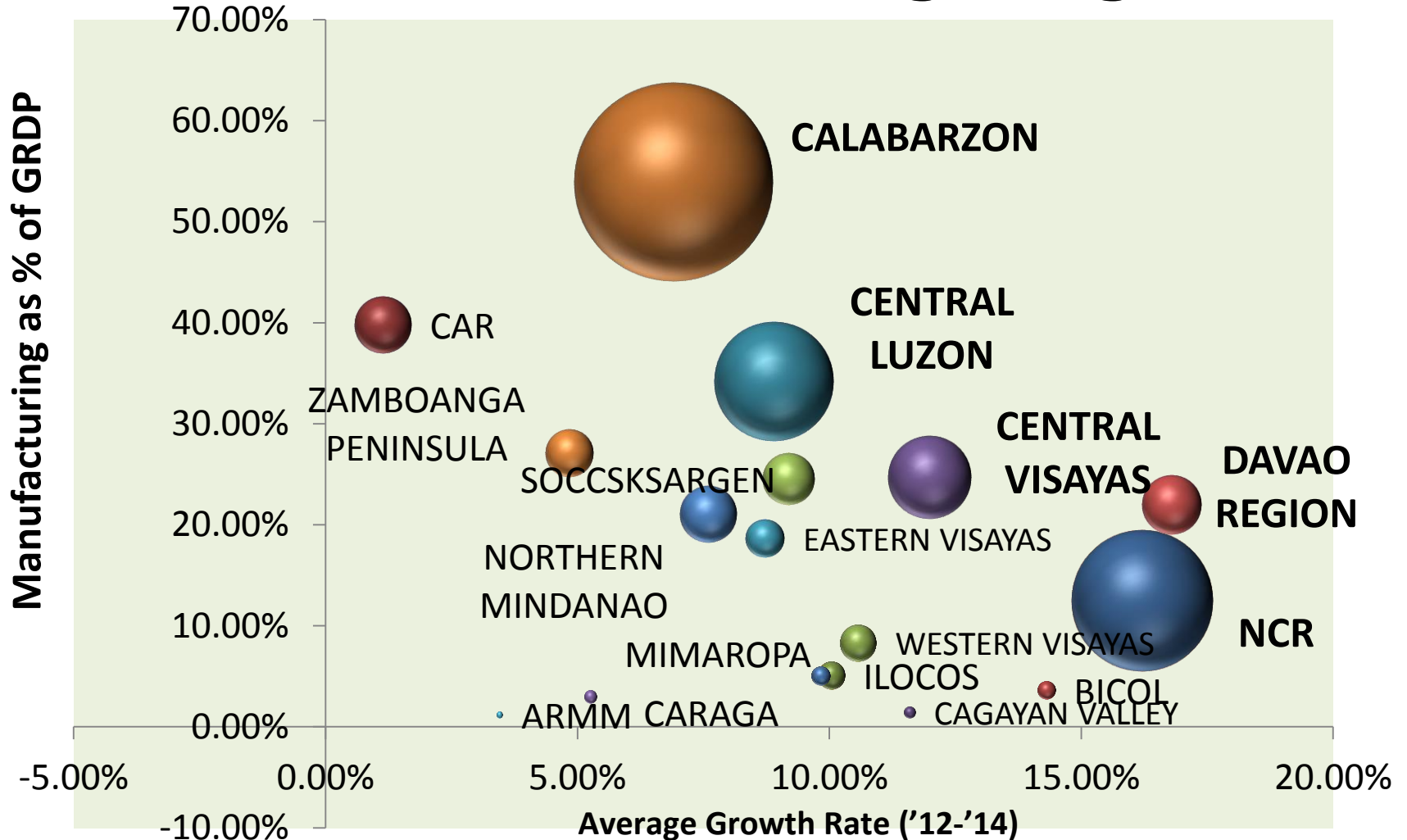
Phase II 2018-2021

- education, design, R&D, finance, infrastructure
- engineering & services embedded in manufacturing
- HRD & skills training, innovation ecosystem linked with manufacturing

Phase III 2022-2025

- PH as regional hub: training
- upgrade services, manufacturing related services to sustain growth & job creation

Part 3. Transforming Region 4



- Calabarzon highest manufacturing share to GRDP, slower growth
- High-tech automotive, electronics

Policy Challenges

- **Classics:** knitted men's, boys clothing; women, girl clothing; other textile apparel); radio receivers, printed circuits, insulated electric wire, electronic microcircuits, electric distribution equipment, nes; radio broadcast receiver; transistors, valves; alcohol, phenol
 - **Maintain long-term competitiveness**
- **Emerging Champions:** rolled glass, tires, steel & iron forging & stampings, aircon machine parts, **switches, relays, parts for tractors & vehicles, photographic & cinematographic apparatus eq, lenses & optical elements**, acrylic alcohol, metallic salts, inorganic acids, tulle, lace, embroidery, other electrical parts, aircraft parts nes
 - **Build on these products**
- **Marginal:** articles of plastic, rubber nes, **motorcycles**, aircraft equipment, ship boat, float structures, aircraft, associated equipment; **medical instruments**; soaps, cleaners, polish
 - **Observe, let them grow**

Roadmap Formulation

STEP 1: What are the existing & future growth potentials of the industry in both domestic and export markets?

- Identify dynamically growing tradable industries

STEP 2: See if private sector is already in these industries; are there existing or nascent activities? if none, seek FDI

STEP 3: What are the obstacles preventing firms from upgrading quality of their products? new firms from coming in?

STEP 4: Take action to remove constraints

- **Horizontal:** protection of property rights, business & investment environment, industrial clusters, eco zones
- **Vertical:** tax incentives for a limited time, direct credits, access to raw materials & capital equipment
- **Coordination mechanisms:** Regional Development Council

Regional Manufacturing Industry Roadmaps

- **Private sector: ownership of the roadmaps, leadership**
- **Government: facilitator & coordinator**
- **Remove binding constraints to competitiveness**
 - **Physical infrastructure**
 - **Administrative infrastructure: trade facilitation, FTAs**
 - **S&T infrastructure**
 - **Supply/value chain gaps: collective action**
 - **HRD & skills trainings**
- **Get mix of incentives right SMEs' inclusion in clusters**
- **Cluster upgrading & moving up the value chain**
- **Required Components: Materials, Skills, Energy, Capital, Digital technology**

THANK YOU!

We cannot leapfrog industrialization, we need to upgrade & transform our industries.

Through a new industrial policy, we can make our industries competitive and create an environment conducive to private sector development.

This could lead to more investments, & more & better jobs, sustainable & inclusive growth.

For more information, visit our website
industry.gov.ph