

# **The Philippine New Industrial Policy for More Competitive Regional Economies**

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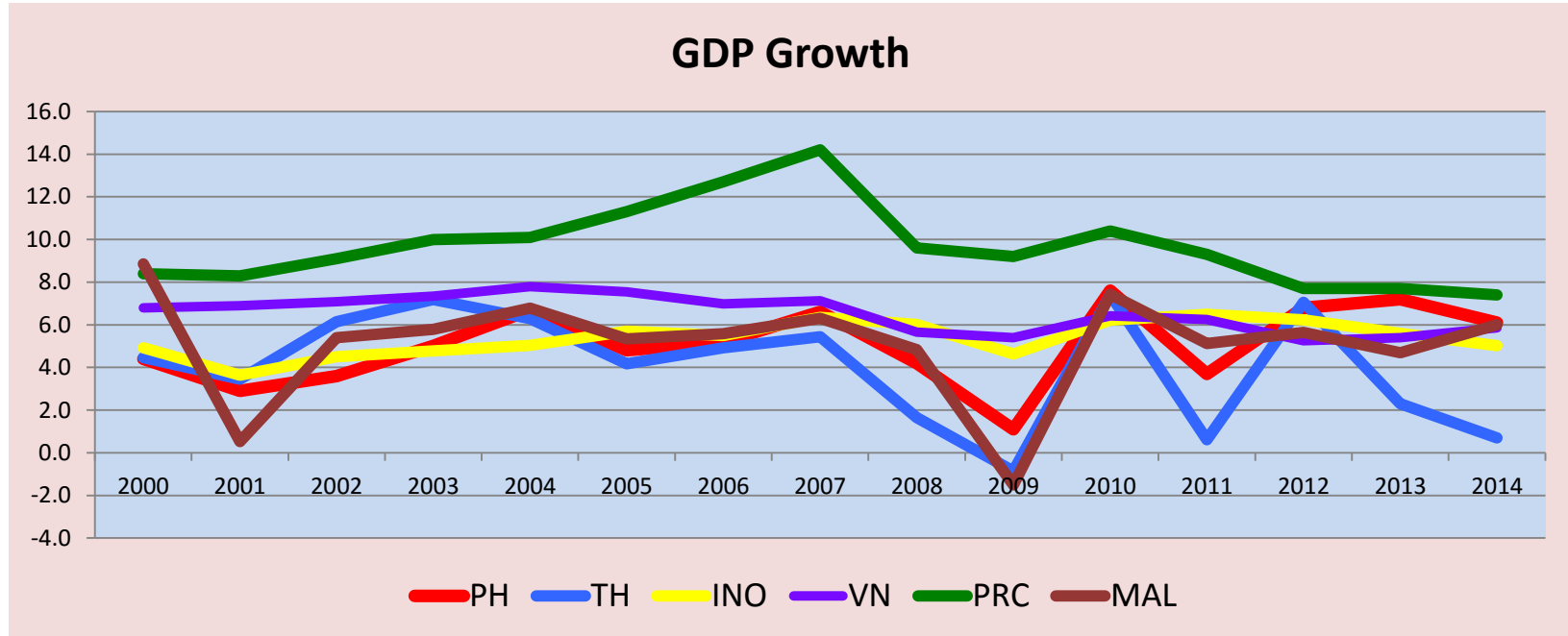
# **Outline of Presentation**

**Objective: PH new industrial policy & Region 3's transformation**

- **PH Opportunities & Challenges**
- **New Industrial Policy for Structural Transformation**
- **Transforming Region 3**
  - **Industry Upgrading**
  - **Roadmap for Building A Competitive Economy**

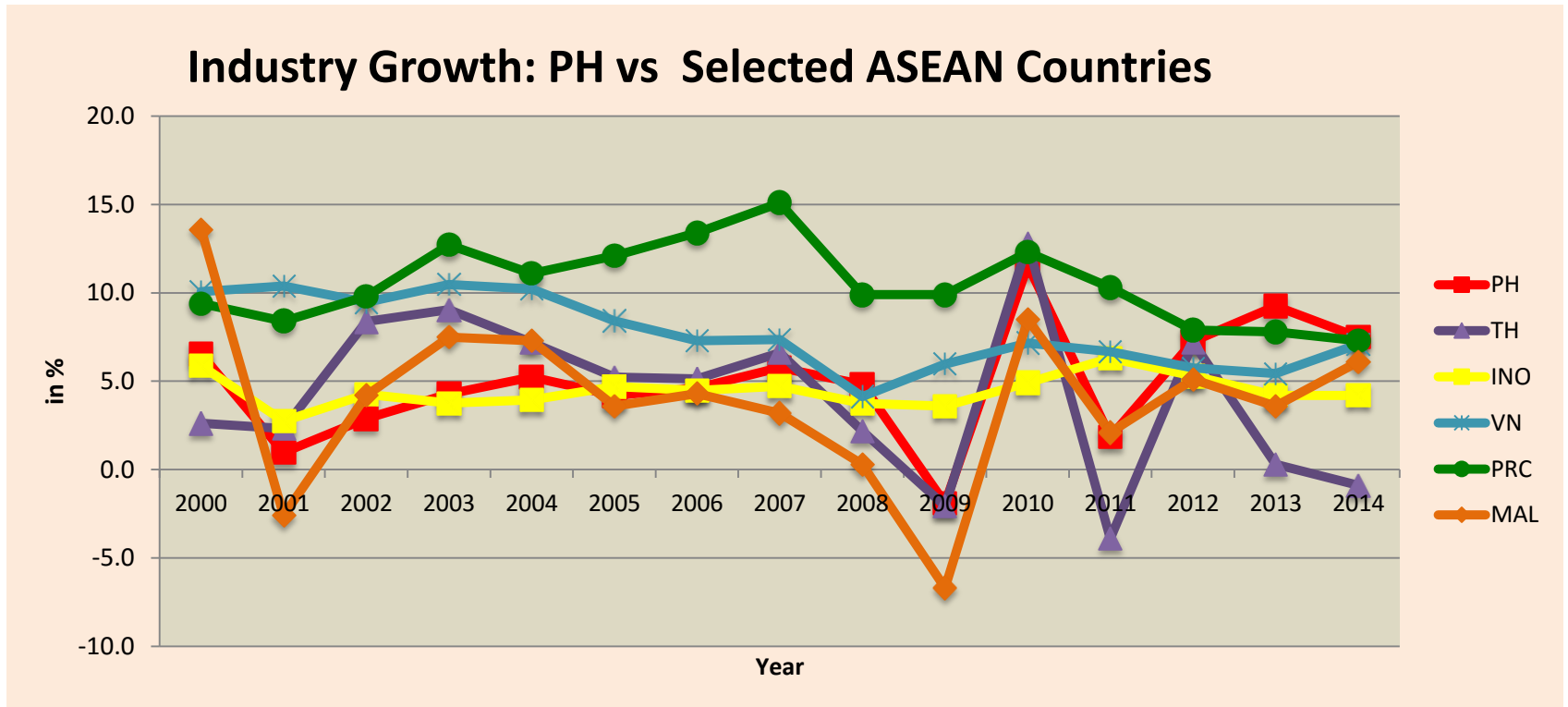
# Part 1: Opportunities & Challenges

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

# 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

# **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**

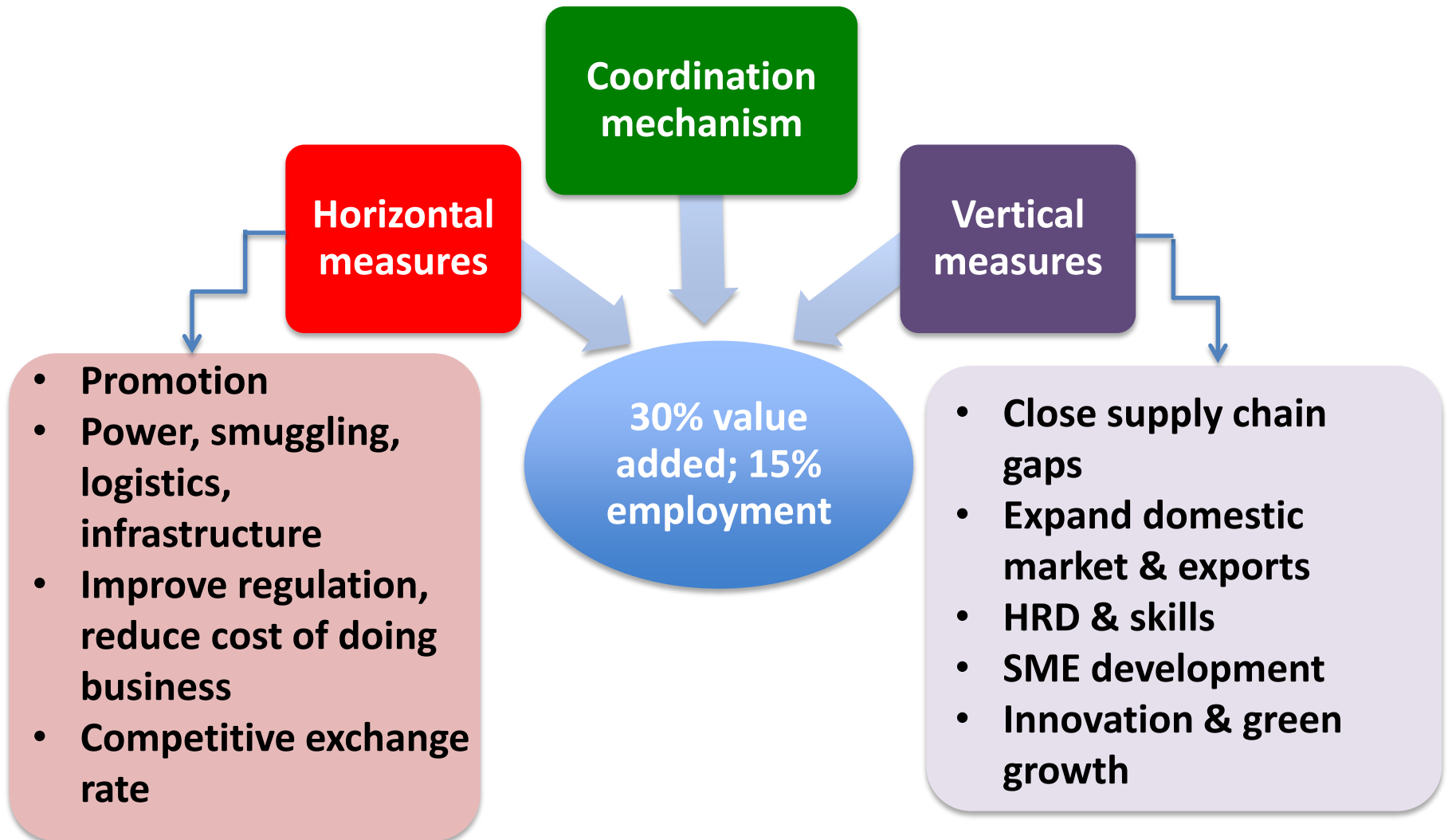
**-high value added  
activities upstream  
industries  
(chemicals, iron &  
steel), med-tech  
basic & fabricated  
metal**

## **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**

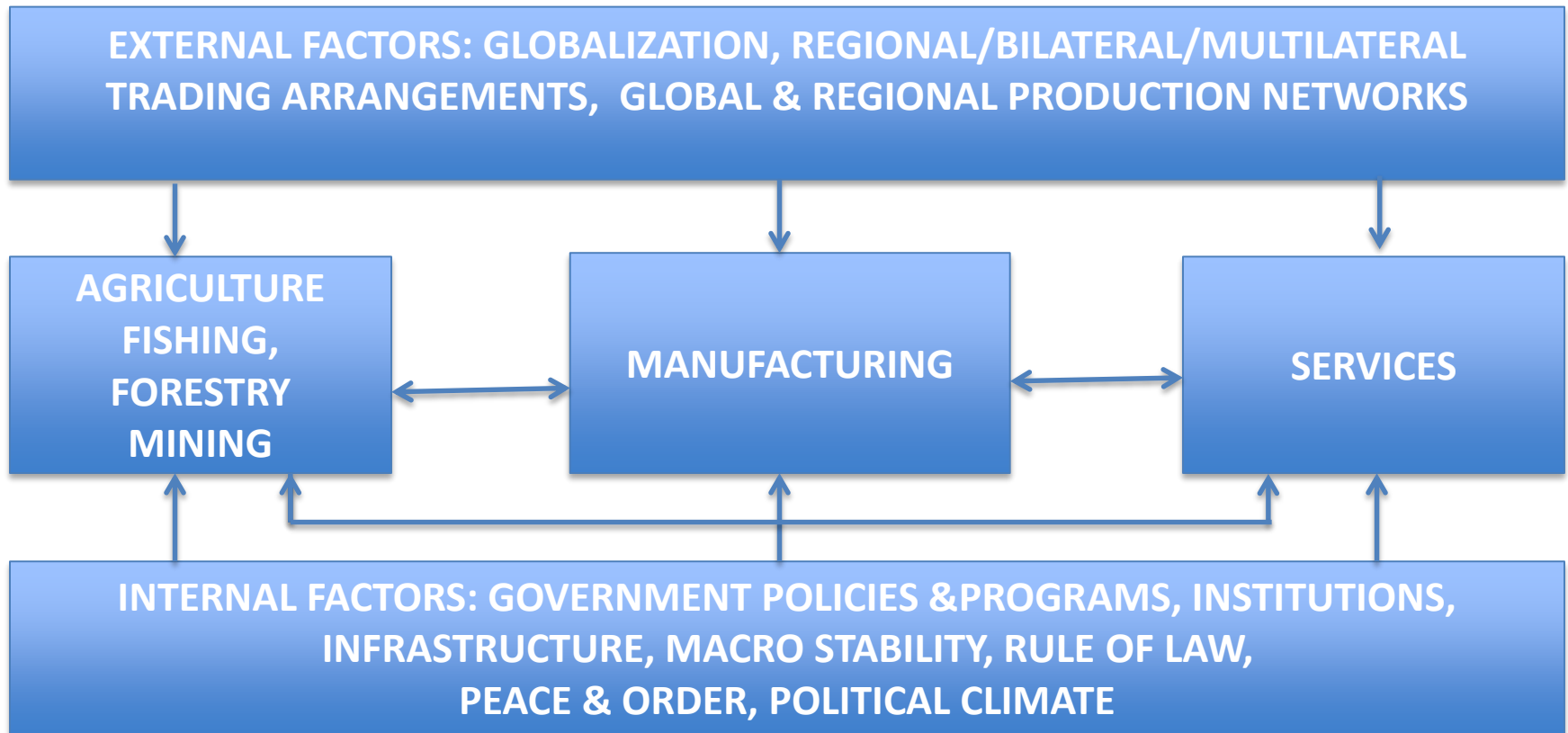


# Strategy to make manufacturing an engine of growth & source of more & better Jobs



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

# Comprehensive National Industrial Strategy (CNIS)



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

# **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

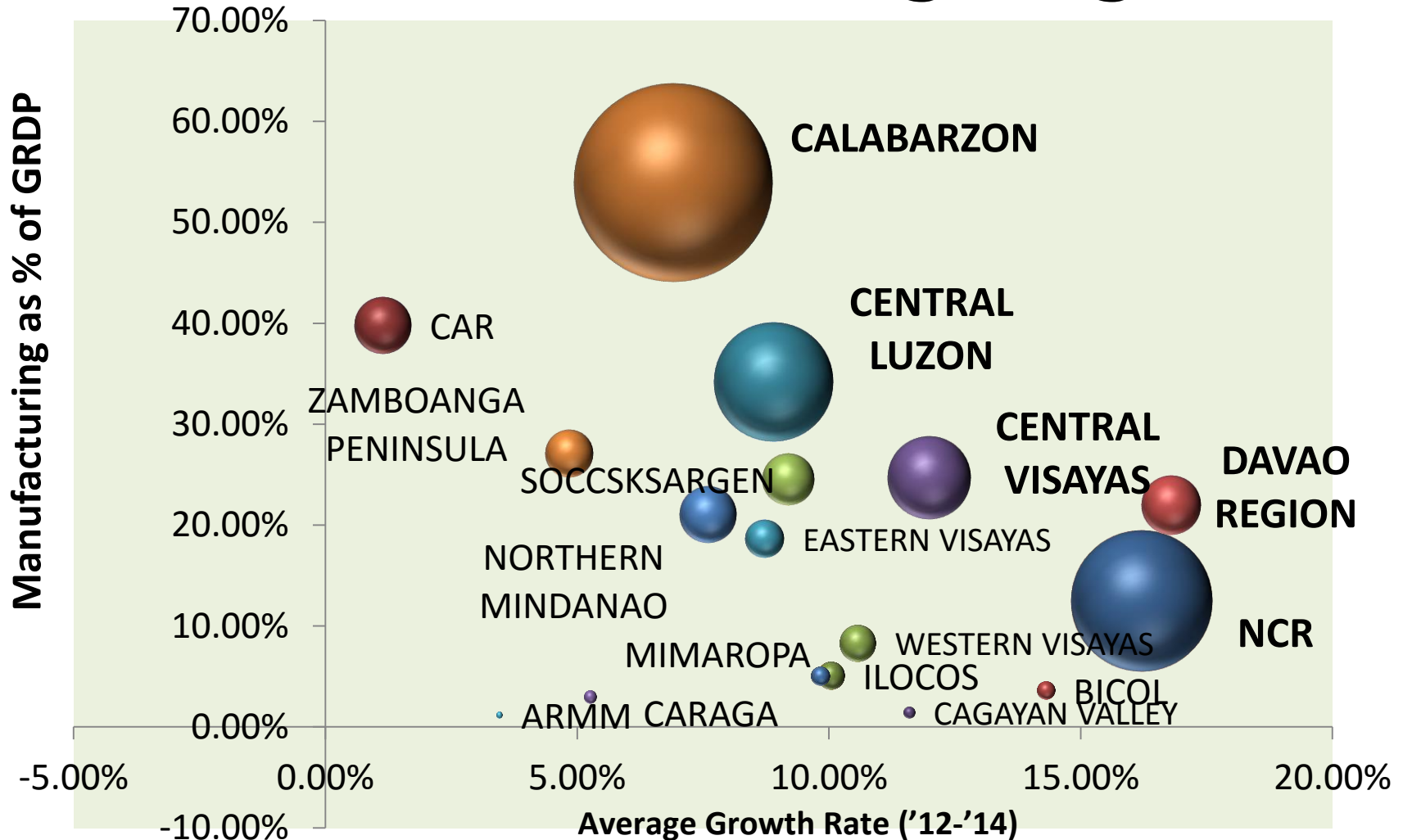
## **Phase II 2018-2021**

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

## **Phase III 2022-2025**

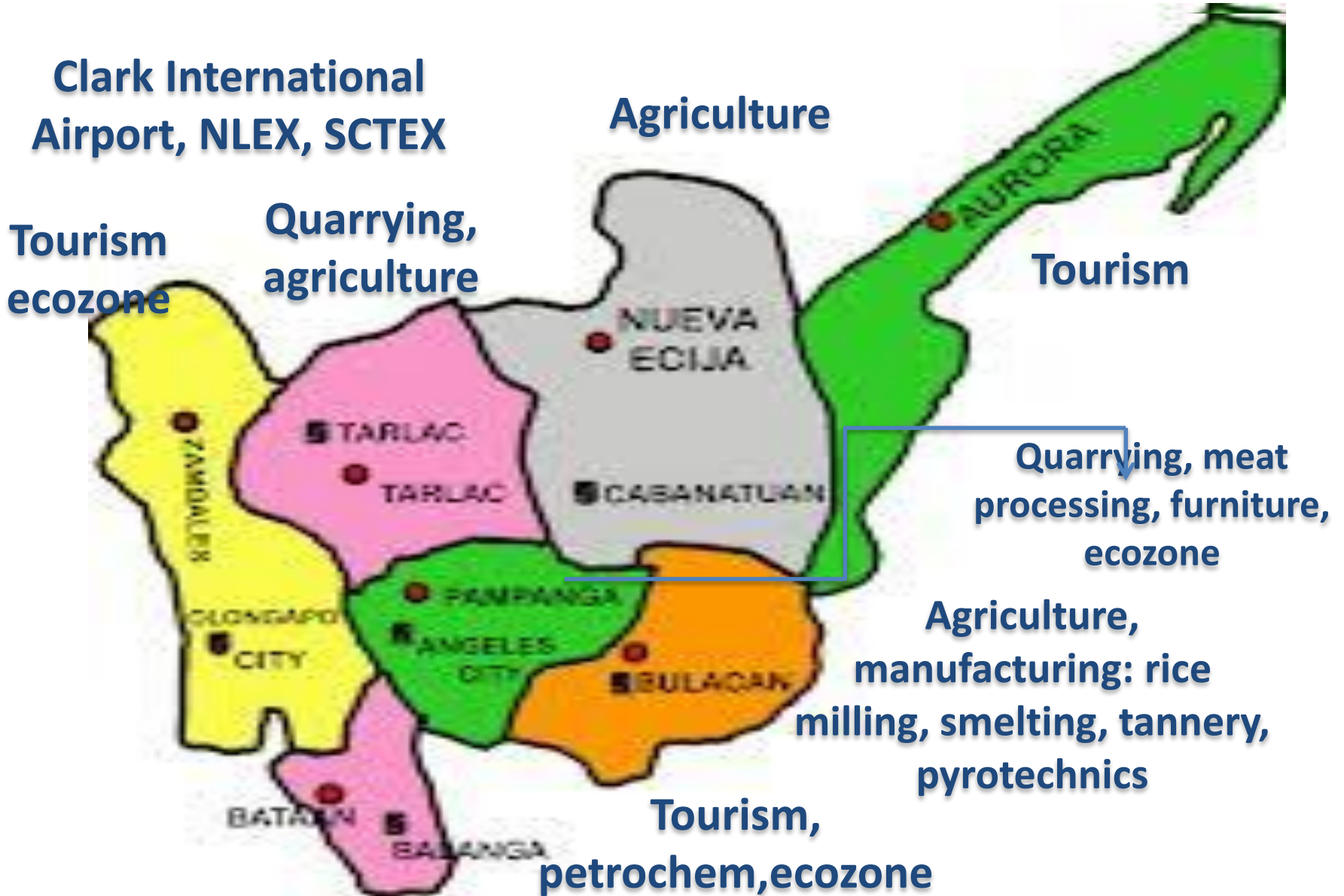
- PH as regional hub: training
- upgrade services, manufacturing related services to sustain growth & job creation

# Part 3. Transforming Region 3



- **C. Luzon: 22% manufacturing GRDP, 13% average growth rate**
- **How to sustain manufacturing growth?**

# Upgrading Industries: Challenges



# 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](http://industry.gov.ph)**