Securing the Future of Philippine Industries

Transforming Philippine Industries
Through DTI’s New Comprehensive National Industrial Strategy
“Trabaho at Negosyo”

Amid global economic volatility, Philippine economic growth performance has been quite remarkable averaging at 5.9 percent from 2011 to 2015. The manufacturing industry has been leading the country’s growth with an average rate of 6.9 percent, while services posted 6.4 percent. From 2013-2015, a manufacturing revival was evident, as the sector pulled away, consistently surpassing services growth for eight quarters. In the third quarter of 2016, GDP growth stood at 7 percent, outpacing other Asian countries, including China (which grew 6.7 percent), and faring higher than the average consensus forecast of 6.8 percent. Manufacturing posted a growth rate of 8 percent in the first quarter of 2016, the highest in seven quarters before slowing down to 6.2 percent in the second quarter. Most recently in the third quarter, manufacturing bounced back to 6.9 percent.

Our recent performance has demonstrated remarkable economic resilience, owing to vigorous governance and economic reforms, as well as to our continuous efforts to streamline processes and promote industrial and manufacturing resurgence. This strong performance can provide the necessary momentum that will drive the country to a higher and more rapid growth path. The creation of the ASEAN Economic Community in 2015 and the emergence of regional and international production networks are seen to offer increased trade and investment opportunities that can provide additional benefits for the country, if the correct strategies and policies are implemented. More importantly, the necessary ingredients for investment and employment growth are now present in the Philippines, such as a growing domestic market with over 100 million population, an emerging middle class, political stability, strong macroeconomic foundation, rising consumer and business confidence, and a young, English speaking, highly trainable workforce.

In this context, the Zero + 10-Point Socioeconomic Agenda of President Rodrigo Roa Duterte states that the country will continue and maintain the current macro policies, including fiscal, monetary, and trade policies. At the same time, it will rebalance the economy from services towards agriculture, manufacturing, and exports. It will also focus on increasing competitiveness and ease of doing business, as well as promote rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism.

Aligned with the President’s agenda and the National Economic Development Authority’s Ambisyon Natin 2040, the main thrust of the Department of Trade and Industry (DTI) focuses on inclusive and sustainable growth that generates more income opportunities through “Trabaho at Negosyo” or “Employment and Entrepreneurship.” This strategy aims at building innovative, value adding, technology enhancing, and globally competitive industries where the Philippines will be known for, thereby creating a competitive policy environment and an efficient supply chain ecosystem. It will build an entrepreneurial culture, provide policy program support to develop competitive micro, small, and medium enterprises, and promote more inclusive business models and social enterprises to link MSMEs into the value chain of big businesses.
Towards this, the DTI has formulated a new **Comprehensive National Industrial Strategy** (CNIS) aimed at upgrading manufacturing, agriculture, and services, while strengthening their linkages into domestic and global value chains. Our goal is to develop globally competitive industries with strong forward and backward linkages, characterized by deep participation, particularly by small and medium enterprises, in regional and global production networks and global value chains.

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**COMPREHENSIVE NATIONAL INDUSTRIAL STRATEGY**

**TOP FIVE PRIORITIES**

- New high level growth trajectory
- Growing middle class
- Political stability
- Young, English speaking workforce
- Rising business confidence
- AEC & FTAs
- Manufacturing - CARS Program
- Infrastructure & Logistics
- Agribusiness - High value crops
- Tourism
- IT BPM From voice to non-voice KPO

**NEW JOBS**

**HIGHER GDP**

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In implementing the *Employment and Entrepreneurship* strategy, the DTI acts as enabler of industry to address the most binding constraints that prevent the entry of new firms or hinder their integration into the global value chains of multinational companies. It coordinates closely with other government agencies to address the biggest obstacles to the entry and growth of domestic firms. It facilitates the creation of the right policy framework to encourage the development of the private sector along the lines of the country’s comparative advantage. This will entail programs and policies to address the high cost of power, high cost of domestic shipping and logistics, inadequate infrastructure, and, in addition, complex government rules and regulations affecting business operations. Equally important are strategies including human resource development and skills training programs, micro, small, and medium enterprise (MSME) development, innovation and green growth, as well as investment promotion especially foreign direct investment that would bring in new technologies.

The *Employment and Entrepreneurship* strategy focuses on the growth and development of five priority industries: (1) manufacturing; (2) agribusiness; (3) IT-business process management, particularly knowledge process outsourcing; (4) tourism; and (5) infrastructure and logistics. Tourism and agribusiness are important job generators in the regions. Improving agricultural productivity is crucial in order to transform regional economies from traditional agriculture to more modern agribusiness. Huge investments in infrastructure and logistics would boost the competitiveness of industries and improve connectivity within the country.

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**On International Trade Strategy**

**TOP FIVE PRIORITIES**

- Complex regulations
- High cost of power
- Lack of ports, airports, roads
- SMEs’ access to finance
- Supply chain gaps

**Opportunities**

- New high level growth trajectory
- Growing middle class
- Political stability
- Young, English speaking workforce
- Rising business confidence
- AEC & FTAs

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**New jobs**

**Higher GDP**

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**New Industr**

**al Policy**

- **NEW INDUSTRIAL POLICY**
- **BOLDER TRADE POLICY**
- **INTENSE INVESTMENT PROMOTION**

**Skills Training & H**

**uman Resource Development**

- **SKILLS TRAINING & HUMAN RESOURCE DEVELOPMENT**
- **INNOVATION, R&D, GREEN POLICY**
- **MODERN SME POLICY**
Manufacturing resurgence is crucial in generating jobs not only for skilled workers, but also for semi- and low-skilled laborers. The transformation of the manufacturing industry will allow the movement of workers from the informal to the formal sector, as well as from low value-added activities to high value-added ones, where wages and compensation are much higher. Currently, the Manufacturing Industry Roadmap is pursuing the development of various manufacturing subsectors, such as auto and auto parts through the Comprehensive Automotive Resurgence Strategy (CARS) Program, aerospace parts, electronics, garments, chemicals, furniture, tool and die, and shipbuilding.

The CARS Program aims to jumpstart auto manufacturing, stimulate investments in parts manufacturing, generate quality jobs, create a competitive industry, and become a regional hub in the very near future. It focuses on developing parts manufacturing, particularly large body shell and plastic assemblies, common parts, strategic parts not yet manufactured locally, and shared service facilities. Through temporary fiscal support, CARS attempts to close the competitiveness gap and kick-start automotive industry development in the country. The implementation of the CARS Program signals government’s vigorous support to and focus on the development of our manufacturing industries.

In coordination with other government agencies like the Department of Science and Technology, Department of Agriculture, and Department of Energy, among others, the DTI is the lead agency implementing the Manufacturing Resurgence Program (MRP), which aims to craft and implement projects that ensure the sustainable and inclusive growth of the manufacturing industry. Together with the sectoral industry roadmaps, the MRP has been contributing substantially in addressing ease of doing business concerns cutting across many industries, while at the same time, resolving competitiveness constraints affecting specific industries through initiatives such as the CARS Program.

Moreover, DTI is implementing programs to put MSME development at the front and center of its policies. These include initiatives such as Shared Services Facilities, the SME Roving Academy, Mentor Me, KAPATID Program, Negosyo Konsumer Atbp., and Negosyo Centers to improve MSME capacity, access to market and finance, technology and MSME participation in global value chains and regional/global production networks. We are also working towards the establishment of innovation centers, incubation centers, accelerators, and co-working spaces for MSMEs.

Priorities in agribusiness include rubber, coconut, mangoes, coffee, banana, palm oil, and other high value crops. Apart from the IT-BPM sector, which has remained a major strength of the country, the Services Roadmap focuses on the development of labor intensive sectors like tourism, construction, ship repair, aircraft MRO (maintenance, repair, and overhaul), logistics and infrastructure investments.

Currently, there are 40 roadmaps submitted to the Board of Investments (BOI), of which 36 are completed and/or for implementation (16 manufacturing, 12 resource-based/agribusiness, and 8 services industries). These include: (for manufacturing) automotive, auto parts, aerospace, chemicals, copper, e-vehicles, electronics, furniture, gifts & houseware, holiday décor, iron and steel, metalcasting, motorcycle, petrochemicals, plastics, tool and die; (for agribusiness/resource-based) bamboo, biodiesel, cacao-tablea, cement, ceramic tiles, coco coir, natural health products, paper, rubber, seaweed/carrageenan, processed fruits (dried mangoes), processed shrimp/prawn; and (for services) book publishing, health care services, integrated circuit design, IT-BPM, housing, printing, retirement, and ship-building.
Securing the Future of Philippine Industries

While the private sector is seen as the major driver of growth, the government has an important role to play in coordinating policies and necessary support measures that will address the obstacles to the entry and growth of domestic firms. Close coordination among government agencies and effective policy implementation are the most crucial factors for industry development. Effective implementation of legislation; strict enforcement of product quality standards; modernizing investment incentives and measures to address supply/value chain gaps, increase spill-over effects, and provide access to raw materials, intermediate inputs and common service facilities; and aggressive investment promotion and marketing to attract investments are some of the immediate policies that the government is trying to put in place. The DTI is also pursuing the following more specific strategic actions:

- address gaps and linkages in industry supply chains;
- expand the domestic market base to enable industries to attain necessary economies of scale towards building their export capacity;
- design human resource development and training programs to improve skills and establish tie ups with universities and training institutions;
- support SME development through establishment of common service facilities, incubation, and innovation and R&D activities;
- implement aggressive promotion and marketing programs to attract more foreign direct investments especially those that would bring in new technologies;
- continue to address the high cost of power and domestic shipping, smuggling and implementation of measures to streamline and automate government procedures and regulations; and
- “greening” the industries which will make them more competitive, innovative, environment friendly, climate smart, and inclusive.

By creating the proper environment and strengthening industries to ensure that they are not disadvantaged by international competitors, government can promote the success of domestic firms in both local and international markets. Only with the right environment can our industries unleash their full potential to take advantage of domestic, regional, and global market opportunities and become engines for sustained, inclusive growth, job creation, and poverty reduction.

The Philippines is now seen as one of the few breakout economies in the world. This makes the country better equipped to take advantage of market opportunities. With a more proactive government, pursuing industry reforms to successfully bring the economy into a globally competitive, low carbon, innovation driven pathway and intensifying efforts to improve the country’s infrastructure and investment climate, sustainable growth and shared prosperity for all will be achieved.