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Macroeconomic overview of the Philippines and the new industrial policy

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Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Macroeconomic Overview of the Philippines and the New Industrial Policy

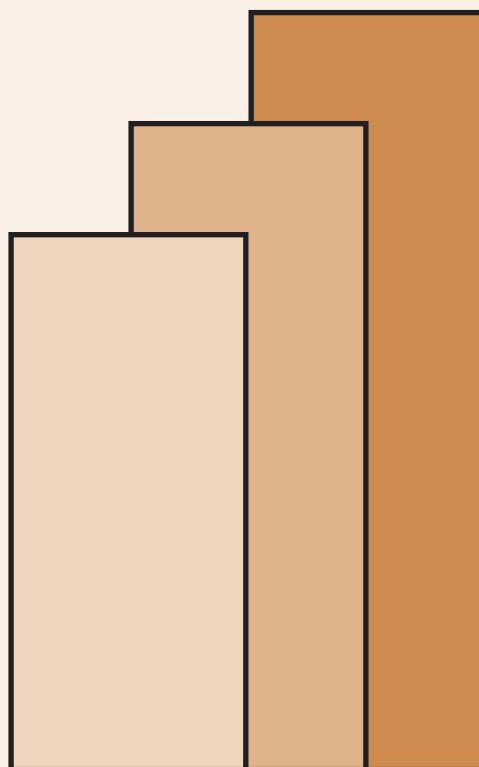
Maureen Ane D. Rosellon and Erlinda M. Medalla

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Macroeconomic Overview of the Philippines and the New Industrial Policy

Maureen Ane Rosellon and Erlinda M. Medalla

1. Introduction

The Philippine economy has been posting outstanding growth and gaining momentum in recent years. Having consistently high GDP growth rate at 6-7% in the past years, the Philippines is among the fastest growing economies in Asia. This is a big turnaround from its dismal performance in past decades of boom-and-bust cycle which has left the country behind, vastly outperformed by its Asian neighbors. From being the so-called “sick man of Asia,”¹ the country has become a consistent major performer in the region.

The prospects for the economy remains very optimistic as the country garnered positive investment, credit and competitiveness ratings and growth projections from investment grade and credit rating agencies – Moody’s, Fitch, and Standard and Poor (PDP 2017-2022). More recently, the Philippines received another upgrade from Fitch, placing it ahead of Indonesia, in anticipation of a strengthened fiscal outlook with the passing of the tax reform package.² In the World Economic Forum’s Global Competitiveness Report 2017, the Philippines ranked 56th out of 137 economies and performed well in several areas including macroeconomic environment, inflation management (no.1), government debt and budget balance-both as percentage of GDP, soundness of banks, regulation of securities exchanges, primary and higher education, among others.³ International organizations such as the Asian Development Bank, International Monetary Fund and World Bank have projected that the Philippine economy will experience continued robust growth in 2017-2019.⁴ In sustaining the strong economy and realizing the growth projections, continued sound performance of growth drivers and government policies to support them are crucial.

While many factors contributed to these positive developments (including strong macro-economic fundamentals), one cannot discount the contribution of the New Industrial Policy (NIP) to this recent success of the Philippines. In addition, major challenges remain (e. g. related to infrastructure and the fourth industrial revolution), which NIP could at least identify and hopefully address. Accordingly, this short paper has two main sections. The first section presents a more detailed picture and overview of the macroeconomic performance of the Philippines behind the Philippines’ remarkable growth. The second section discusses the New Industrial Policy of the Philippines to provide information on the efforts to sustain the growth that the economy has been experiencing.

¹ Remo, A. and de Vera, B. (2015), “PH no more the ‘sick man of Asia’”, Inquirer.net. <http://business.inquirer.net/185775/ph-no-more-the-sick-man-of-asia>.

² <https://www.bloomberg.com/news/articles/2017-12-11/fitch-upgrades-philippines-in-win-for-duterte-economic-plans>

³ Information from National Competitiveness Council website (<http://www.competitive.org.ph/stories/1377>).

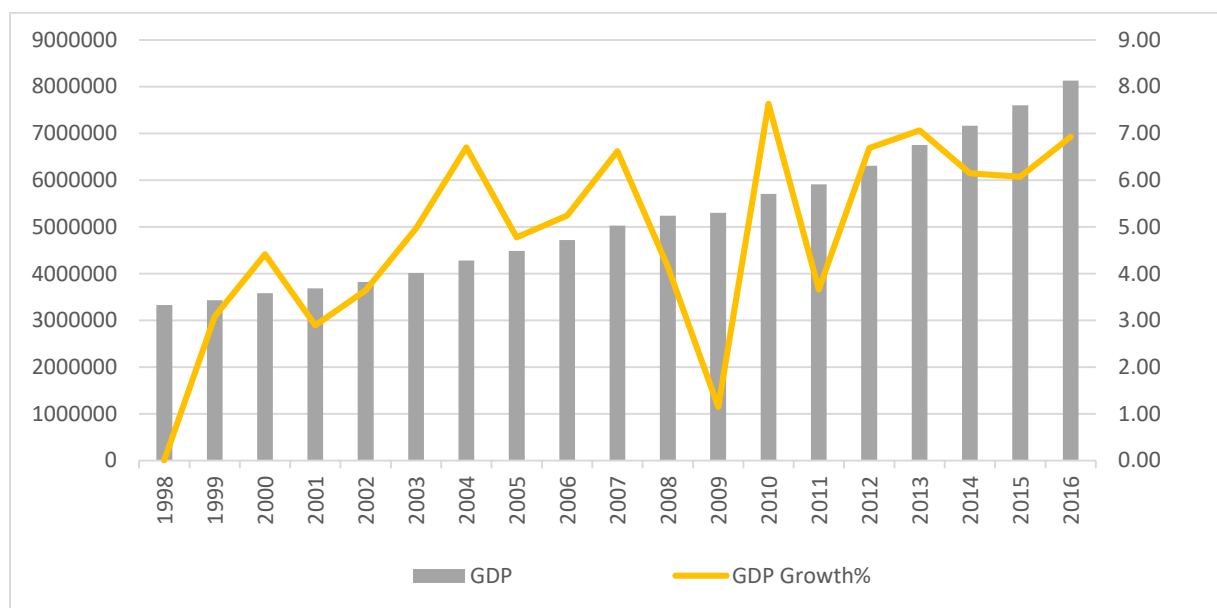
⁴ ADB (2017); IMF (2017); WB Group (2017) projected up to 2019.

2. Macroeconomic Performance

Economic Growth

Growth of the Philippine economy has improved in the last two decades, and was strong especially in recent years (Figure 1). From 2012 to 2016, annual GDP growth rate was from 6 percent to almost 7 percent, averaging 6.6 percent. In 2004, 2007 and 2010, GDP annual growth rate reached 6 to 7 percent level. Although there was some fluctuation around those years, the country still fared better than most economies in the region after the Global Financial Crisis in 2008. In 2010 the economy started to take off coming from strong efforts against corruption, but this was muted down somewhat in 2011. There were a number of factors identified to have contributed to the slowdown in growth. Internally, there was public infrastructure underspending and weak government consumption under the cautious approach of the new government. At the same time, there were external shocks from oil price hike resulting from political unrest in the Middle East and North Africa, natural disasters in Asia that disrupted the global supply chain (earthquake and tsunami in Japan and flooding in Thailand), and weak demand from the sluggish US and European economies (SEPO 2012).⁵

Figure 1. Gross Domestic Product, 1998-2016



Note: Data in million pesos at constant 2000 prices

Source: Philippine Statistics Authority (PSA)

The Philippines is also observed to be one of the fastest growing economies in the ASEAN Plus Three region, along with China, in terms of GDP growth in the last five years (Table 2). Projections by different international organizations also indicate that the Philippine economy will continue to grow as fast in the next 2-3 years.

⁵ Olchondra, R. (2012), "Philippine growth slows to anemic 3.7% growth in 2011", Inquirer.net. <http://business.inquirer.net/42219/philippine-growth-slows-to-anemic-3-7-in-2011>.

Table 2. GDP growth in ASEAN and East Asia, by Country, Actual and Projected, 2012-2019

	2012	2013	2014	2015	2016	2017*			2018*			2019*
						ADB	IMF	WB	ADB	IMF	WB	WB
Brunei Darussalam	0.9	-2.1	-2.3	-0.6	-2.5	0.0	-1.3		1.0	0.6	-	-
Cambodia	7.3	7.4	7.1	7.0	6.9	7.1	6.9	6.9	7.1	6.8	6.9	6.7
Indonesia	6.0	5.6	5.0	4.9	5.0	5.1	5.2	5.2	5.3	5.3	5.3	5.4
Lao PDR	8.0	8.0	7.6	7.3	7.0	6.9	6.9	7.0	7.0	6.9	6.8	7.2
Malaysia	5.5	4.7	6.0	5.0	4.2	5.4	5.4	4.9	5.4	4.8	4.9	5.0
Myanmar	7.3	8.4	8.0	7.3	6.5	7.7	7.2	6.9	8.0	7.6	7.2	7.3
Philippines**	6.7	7.1	6.1	6.1	6.9	6.5	6.6	6.6	6.7	6.7	6.7	6.7
Singapore	3.9	5.0	3.6	1.9	2.0	2.7	2.5	-	2.7	2.6	-	-
Thailand	7.2	2.7	0.9	2.9	3.2	3.5	3.7	3.2	3.6	3.5	3.3	3.4
Vietnam	5.2	5.4	6.0	6.7	6.2	6.3	6.3	6.3	6.5	6.3	6.4	6.4
China	7.9	7.8	7.3	6.9	6.7	6.7	6.8	6.5	6.4	6.5	6.3	6.3
Japan	1.5	2.0	0.3	1.2	1.0	-	1.5	1.1	-	0.7	1.0	0.6
Korea, Rep.	2.3	2.9	3.3	2.8	2.8	2.8	3.0	-	2.8	3.0	-	-

* - projections by organizations as indicated.

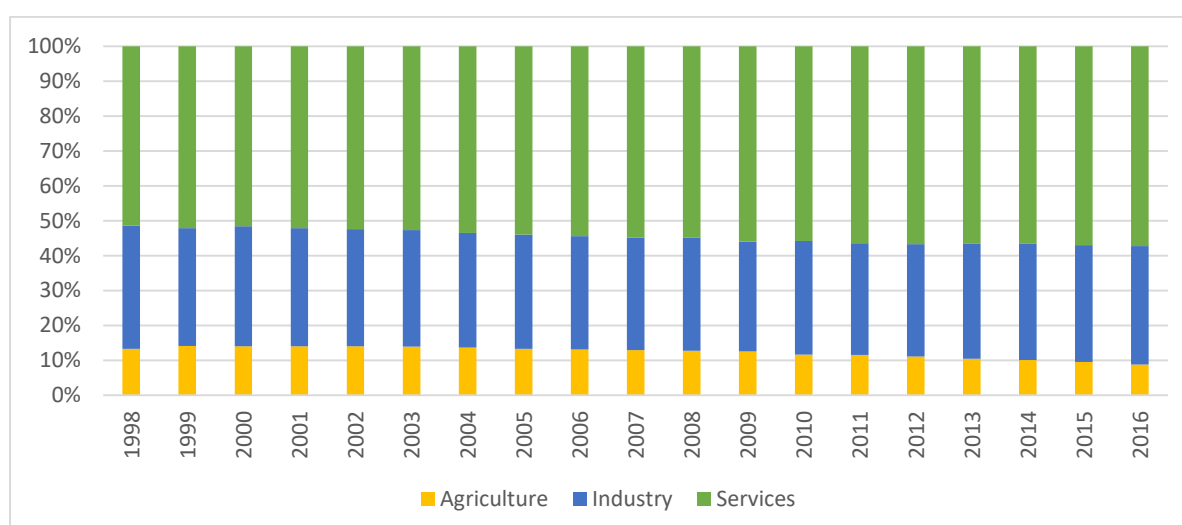
** Philippine government's projection is 6.5-7.5% for 2017; projections by WB based on update in October 2017.

"-" data not available

Source: World Bank online database; ADB (2017); WB Group (2017); IMF (2017).

Examining GDP by industrial origin, services is the top contributor at more than 50 percent from 1998-2016 (Figure 2). Industry share during this period is at an average of 33 percent, and agriculture at 12.3 percent. Detailed data (not shown here) indicate that under services, trade and repair consistently contributed the most value added and growth to the sector. The second largest GVA contributor is real estate whose contribution increased starting in the mid-2000s. Moreover, within industry, manufacturing contributes the most value-added and growth, followed by construction.

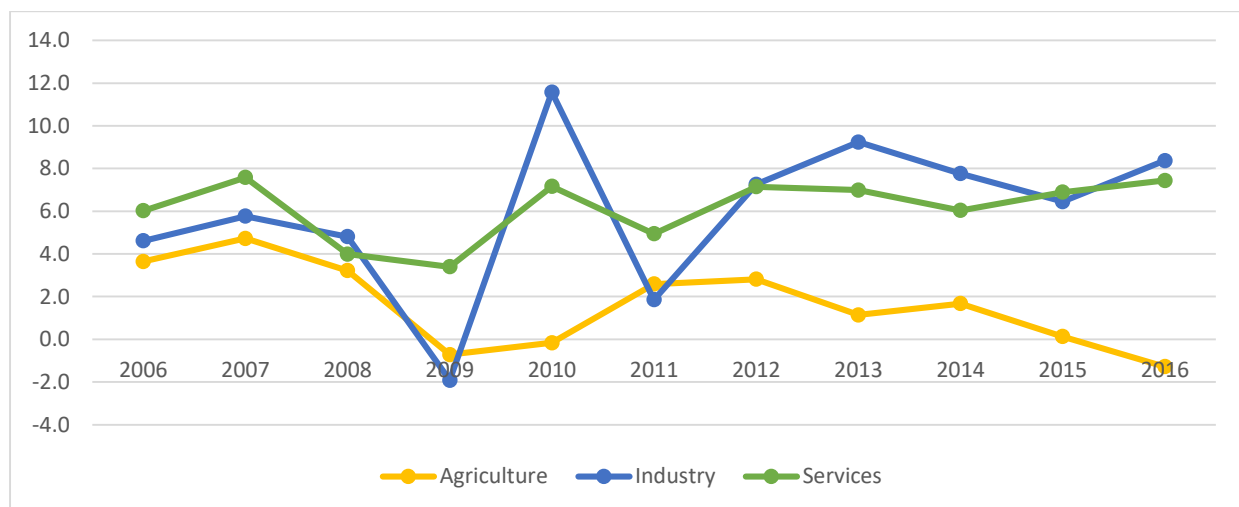
Figure 2. GDP share by industrial origin, 1998-2016



Source: Authors' calculations using data from PSA.

Services has experienced relatively steady growth, with an average of 6.1 percent, from 2006 to 2016 (Figure 3). What is most remarkable was that in the same period, industry, particularly manufacturing, registered similar average growth and even better performance in recent years, resurging from a sluggish performance for nearly three decades. Meanwhile, growth in agriculture has been declining in the last decade, from 13.1 percent in 2006 to 8.7 percent in 2016. In recent years, the slowdown in the sector can be traced to weather-related shocks, such as typhoons (especially in the second half of 2015) and El Niño (PIDS 2016).

Figure 3. GVA growth rate by industrial origin



Source: Authors' calculations using data from PSA.

Looking at the expenditure component of GDP, all generally posted positive growth in the last five years, 2012 to 2016 (Table 3). An upsurge in capital formation expenditures and imports is observed during this period. The two expenditure components have the largest increase in growth. Moreover, it may not have the highest share to GDP, but investment expenditures recorded the largest increase in GDP share. Household consumption, while it constitutes the biggest share in GDP among expenditure types, did not register substantial change in the last five years at 69-70 percent. The data implies that capital investments have driven GDP in the most recent years.

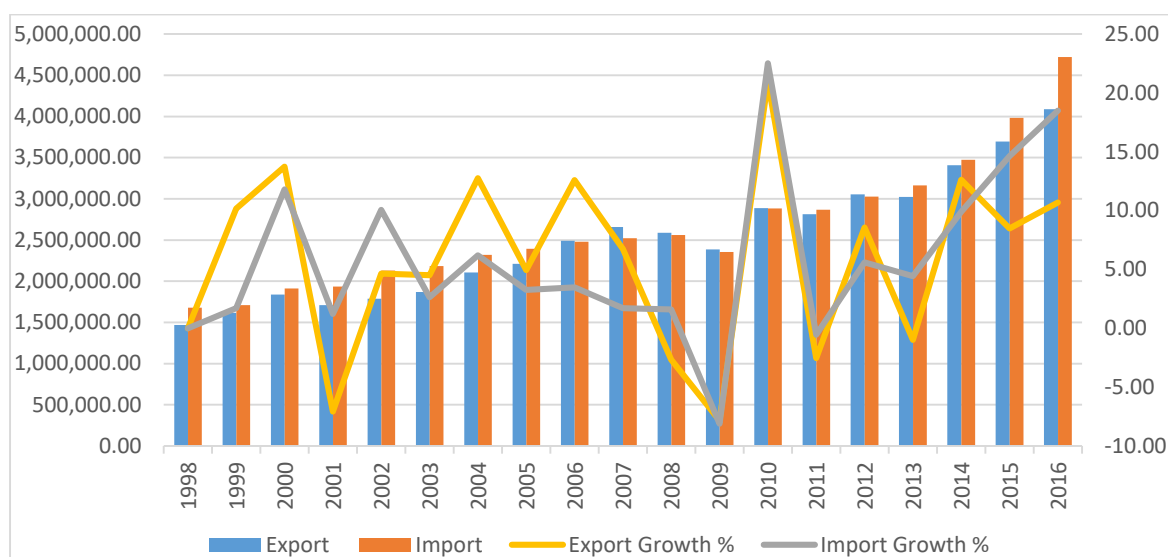
Table 3. Selected macroeconomic Indicators, Philippines
At constant 2000 prices, in percent unless otherwise stated

	2012	2013	2014	2015	2016
<u>Gross Domestic Product (GDP) growth</u>	6.7	7.1	6.1	6.1	6.9
<u>GDP by industrial origin (growth and shares)</u>					
Agriculture, hunting, forestry, and fishing	2.8	1.1	1.7	0.1	-1.3
<i>Percent share to total GDP</i>	11.1	10.5	10.0	9.5	8.7
Industry sector	7.3	9.2	7.8	6.4	8.4
<i>Percent share to total GDP</i>	32.2	32.9	33.4	33.5	33.9
Services sector	7.1	7.0	6.0	6.9	7.4
<i>Percent share to total GDP</i>	56.7	56.7	56.6	57.0	57.3
<u>GDP by expenditure component (growth and shares)</u>					
Household final consumption expenditure	6.6	5.6	5.6	6.3	7.0
<i>Percent share to total GDP</i>	70.5	69.5	69.1	69.3	69.3
Government final consumption expenditure	15.5	5.0	3.3	7.6	8.4
<i>Percent share to total GDP</i>	10.7	10.5	10.2	10.3	10.5
Capital Formation	-4.3	27.9	4.2	18.4	23.7
<i>Percent share to total GDP</i>	18.5	22.1	21.7	24.2	28.0
Exports	8.6	-1.0	12.6	8.5	10.7
<i>Percent share to total GDP</i>	48.4	44.8	47.5	48.6	50.3
Imports	5.6	4.4	9.9	14.6	18.5
<i>Percent share to total GDP</i>	48.0	46.8	48.5	52.4	58.1
Core inflation (2006=100)	3.7	2.9	3.0	2.1	1.9
Headline inflation (2006=100)	3.2	3.0	4.1	1.4	1.8
Nominal interest rates (T-bills 91 days)	1.58	0.31	1.24	1.77	1.50

Source: PSA; Authors' calculations.

Meanwhile, looking at overall trade performance, exports and imports of goods and services demonstrated persistent upsurge especially in the last five years, after fluctuating growth with a few dips due to crises in 2008-2009 and 2011 (Figure 4). Export and import activities are a significant part of the Philippine economy, as both of them are valued at about half of GDP (as shown in Table 3).

Figure 4. Export and Import Growth, 1998-2016



Note: Data in million pesos

Source: National Accounts, Philippine Statistics Authority (PSA)

Overseas Filipino Remittances

Overseas Filipino remittance has been considered as one of the significant sources of financial inflow to the Philippines. There are about 10.2 million Filipinos worldwide⁶ and about 2.2 million Filipino workers overseas (based on PSA 2016 Survey on Overseas Filipinos). Data from the Bangko Sentral ng Pilipinas (BSP) indicate that in 2016, US\$ 26.9 billion in cash remittances (through banks) were transferred to the Philippines, corresponding to about 8.8 percent of GDP; while personal remittances,⁷ which include non-bank transfers, amount to US\$ 29.7 billion, which accounts to about 9.7 percent of GDP.

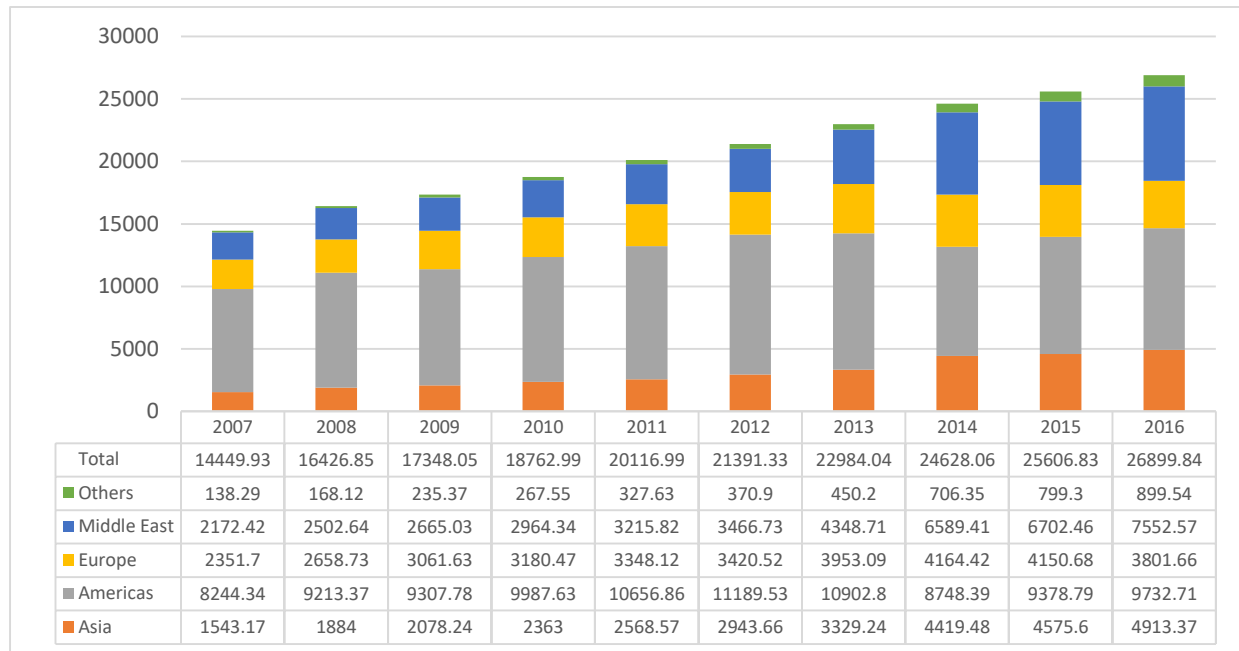
Looking closely at cash remittances, an increasing trend was observed in the last ten years (Figure 5). There was an increase of 86.2 percent from US\$ 14.4 billion in 2007 to US\$ 26.9 billion in 2016. The Americas (North and South) are the biggest sources of cash remittances, making up 36.2 percent of total cash remittances, followed by the Middle East with 28.1 percent share, based on 2016 data. Meanwhile, cash remittances from Asia has been

⁶ This is based on 2013 stock estimate of overseas Filipinos compiled by the Commission on Filipinos Overseas. The estimate constitutes permanent, temporary and irregular migrants, and data/information sourced from the Department of Foreign Affairs, Philippine Overseas Employment Administration and Commission on Filipinos Overseas.

⁷ Personal remittances is computed as the sum of net compensation of employees (i.e., gross earnings of overseas Filipino (OF) workers with work contracts of less than one year, including all sea-based workers, less taxes, social contributions, and transportation and travel expenditures in their host countries), personal transfers (i.e., all current transfers in cash or in kind by OF workers with work contracts of one year or more as well as other household-to-household transfers between Filipinos who have migrated abroad and their families in the Philippines) and capital transfers between households (i.e., the provision of resources for capital purposes, such as for construction of residential houses, between resident and non-resident households without anything of economic value being supplied in return).

increasing in the last ten years, surpassing Europe, particularly in the last three years. Interestingly, 2016 data from PSA on Overseas Filipino Workers (OFWs) indicate that of the 2.2 million Filipino workers overseas, more than half (56.9%) can be found in the Middle East countries. Only about 5.6 percent are in the Americas, and 28.1 percent in Asia.

Figure 5. Overseas Filipinos’ Cash Remittances by Source, 2007-2016, in million USD



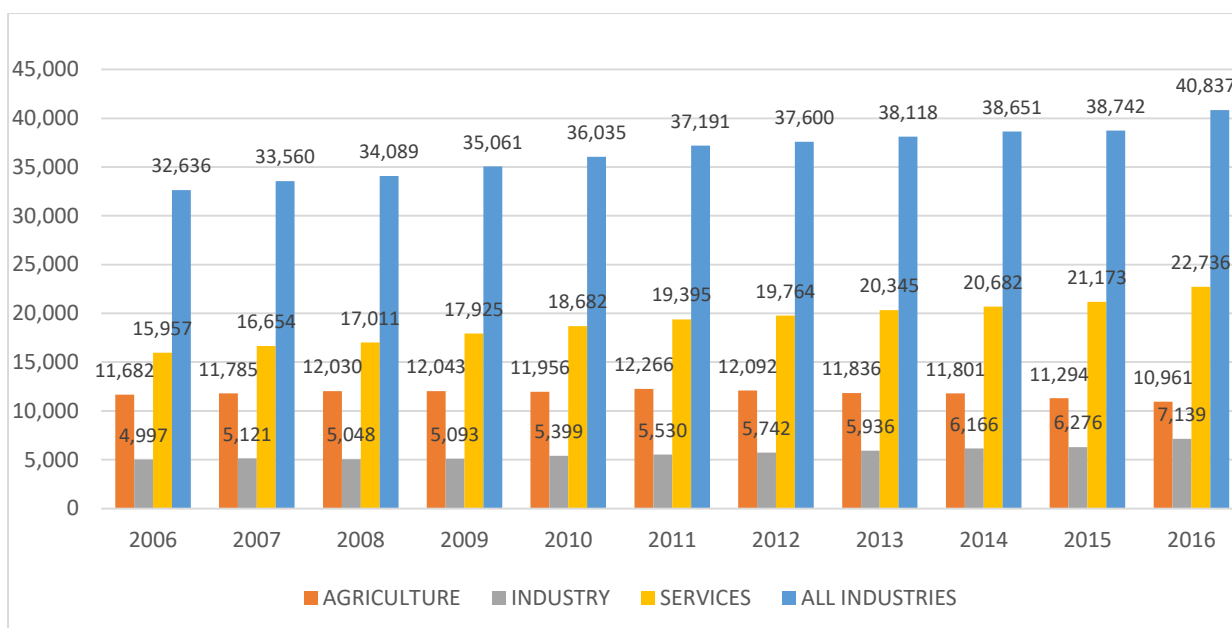
Note: Cash remittances are remittances coursed through banks by land-based and sea-based workers.

Source: Bangko Sentral ng Pilipinas (BSP).

Employment

Job creation has always been part of the development objectives of the Philippines. In 2016, all sectors of the economy employed 40.8 million workers, which is roughly 40 percent of the entire population of the Philippines. In the last decade, 2006-2016, employment increased by 25 percent from 32.6 million workers to 40.8 million workers (Figure 6). In terms of sector, services employed the most number of workers composing an average of about 52 percent of total employment in the last decade. The sector grew by 42.5 percent from 2006 to 2016. Agriculture comes second to services, composing an average of about 32.4 percent of total employment. The sector, however, experienced inferior employment growth as the number of workers declined by 6.2 percent from 2006 to 2016. The industry sector, on the other hand, composed 15.5 percent of total employment on average, and managed to register employment growth by 42.9 percent from 2006 to 2016.

Figure 6. Number of Employed Persons by Sector, 2006-2016



Note: Figures are in thousands.

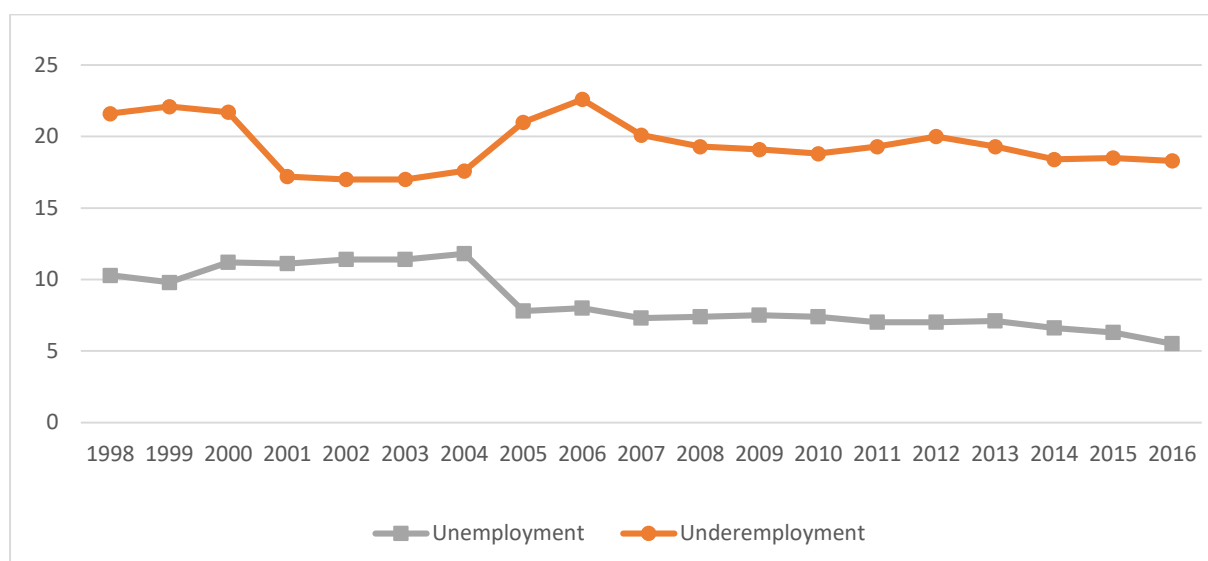
Source: PSA

The growth in total employment was coupled with decelerating unemployment rate. Data suggests that the Philippines has managed to reduce unemployment rate over the years (Figure 7). Unemployment rate declined 10.3 percent in 1998 to 5.5 percent in 2016. There was a period of increasing pattern in unemployment in the early 2000s, but it decayed midway during the decade. The government target of 6.5-6.7 percent in 2016⁸ was achieved, even surpassed, as unemployment rate registered at 5.5 percent.

But while the Philippines has made progress in increasing employment and trimming down unemployment, underemployment rate data remain discouraging (Figure 7). Underemployment rate generally shows a slow decreasing trend from 1998 to 2016, with the lowest levels registered in 2001-2004. However, the rate has decreased by only 3.3 percentage points over the last two decades (from 21.6% in 2006 to 18.3% in 2016) and remains at a double-digit level. Underemployment rate in 2016 was 18.3 percent, which missed the government target of 17 percent. Indeed, the government should give attention to policies that will create more and better-quality jobs.

⁸ Information on unemployment and underemployment targets were sourced from PDP 2017-2022.

Figure 7. Unemployment and Underemployment rates



Source: PSA

Productivity

Labor productivity in the Philippines, measured as GDP per employed person, has been increasing in trend over the last two decades (Figure 8). Rate of growth has been positive, reaching peaks (over 5% annual growth rate) in 2000, 2012, 2013 and 2015, though with negative growth before 2000s and in 2009. Over the period 1998 to 2016, productivity increased by 59.3 percent from PHP 124,926 per worker to PHP 198,996 per worker, and registered an average annual growth of 2.4 percent.

Figure 8. Labor Productivity, 1998-2016

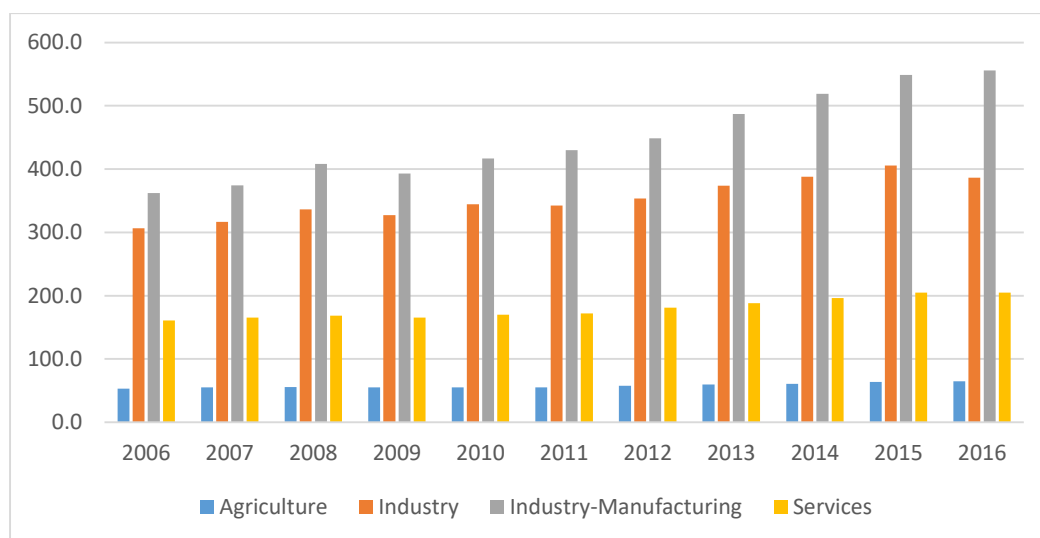


Note: Data in PHP/person (GDP at constant 2000 prices per employed person).

Source: Philippine Statistics Authority (PSA)

On a sectoral level, all major sectors (agriculture, industry and services) experienced positive growth in labor productivity, except for 2009 (financial crisis year) and particularly 2011 (natural disasters in Asia) for industry (Figure 9). Among the sectors, industry registered the highest labor productivity. Manufacturing, as a subsector of industry, likewise registered high labor productivity and also posted an average annual growth of 4.4 percent from 2007 to 2016. Meanwhile, agriculture, industry (total), and services experienced average annual labor productivity growth of 2.1, 2.4 and 2.5 percent, respectively (Figure 10).

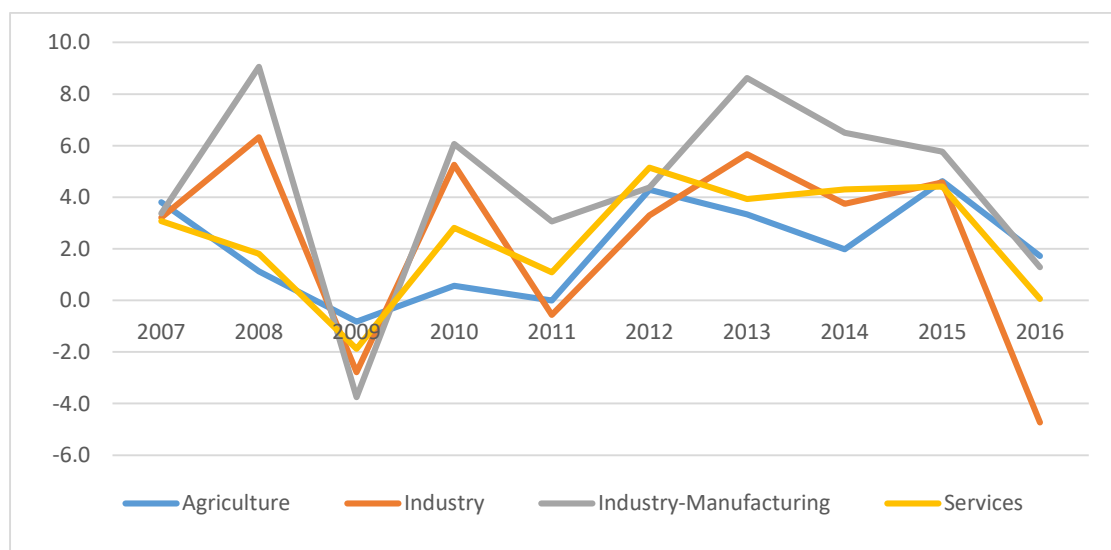
Figure 9. Labor Productivity by Sector (GVA per employed person), 2006-2016



Note: In thousand pesos per employed person.

Source: PSA; Authors' calculations.

Figure 10. Labor Productivity Growth by Sector in Percent, by Sector, 2007-2016



Source: PSA; Authors' calculations.

3. The New Industrial Policy

Manufacturing growth suddenly gained strength and momentum just as the government launched its New Industrial Policy. That this growth has been consistent and sustained during the past years, surpassing even the services sector, brings more confidence that this is not mere coincidence. The program continued to evolve, from mainly a Manufacturing Resurgence Program to the more comprehensive approach incorporating stronger linkages with Services and Agriculture (the Comprehensive National Industrial Strategy) and most recently integrating innovation and inclusiveness in the process (Inclusive Innovative Industrial Strategy).

With the integration of markets globally, industries in the Philippines are confronted with strong competition, are susceptible to the impact of economic shocks, and are compelled to innovate to be competent. At home, they face constraints such as in infrastructure, logistics, narrow supply base, access to technology, inefficient regulatory processes, among others. A new industrial policy is crucial to address these industry constraints and challenges brought by current global market trends. For instance, how businesses, especially MSMEs, can latch into the global value chains (GVCs); how connectivity can be enhanced; how to adapt to climate change impacts; and how to prepare for Industry 4.0.

It is observed that while the services sector has led the Philippine economy, it has not created enough jobs as the sector mostly hires skilled workers (Aldaba 2013; Usui 2011). The recommendation of economists is to revive the sluggish manufacturing industry as it will accelerate industrialization and improve productivity (Aldaba 2013; Usui 2011). The sector can generate jobs for more participants in the labor force (including unskilled workers), which is crucial for inclusive growth. A strong manufacturing sector, along with continued growth in services, can be drivers of high, inclusive and sustained growth for the Philippines.

Manufacturing Resurgence Program

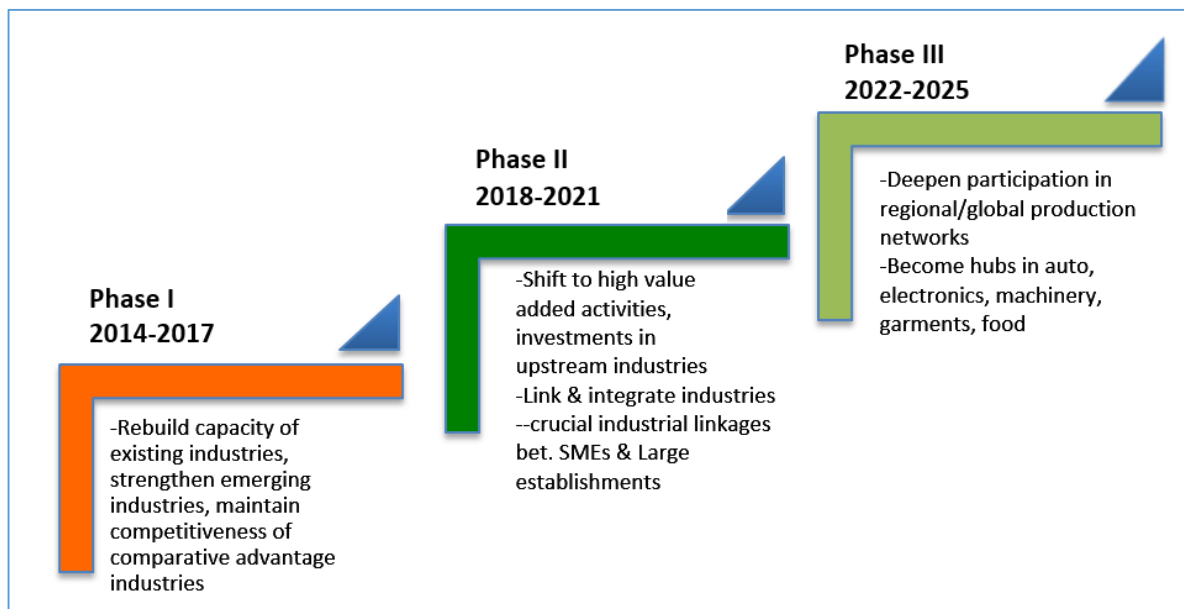
Recognizing the pressing need for a new industrial policy, the Philippine government, led by the Department of Trade and Industry (DTI), collaborated with the private sector to undertake a sectoral roadmap project. Called the Manufacturing Industry Roadmap project, it aimed to generate over 30 sectoral roadmaps covering the manufacturing, as well as agriculture and services sectors to make it comprehensive. To engage greater participation and impactful collaboration with the private sector, the sectoral roadmaps were developed by the industry associations. Technical support was also provided by the government.⁹ The roadmaps formulated from the project were used as inputs to the Manufacturing Resurgence Program (MRP). The MRP can be considered as the commencing program in the government's strategy to revive the manufacturing industry.

⁹ For instance, from the Board of Investments, DTI, and Philippine Institute for Development Studies.

The MRP aims to ‘rebuild the existing capacity of industries, strengthen new ones and maintain the competitiveness of industries with comparative advantage.’ The key goal is to ‘enhance the competitiveness of domestic manufacturing industries so they can be integrated in higher value-added, ASEAN-based production networks and global value chains.’¹⁰ Figure 11 presents the objectives of the MRP, in different phases – short term (2014-2017), medium term (2018-2021) and long-term (2022-2025).

The MRP recognizes the importance and potential contribution of the job-generating agriculture-based manufacturing industries to strong and inclusive growth in the manufacturing industry. The MRP supports the promotion of this sector and aims to provide assistance to small-holder farmers and agriculture cooperatives in product development, value-adding, and integration to big enterprises for marketing and financing purposes.

Figure 11. Manufacturing Resurgence Program Objectives



Source: <http://industry.gov.ph/manufacturing-resurgence-program/>.

The MRP targets to increase the contribution of manufacturing to 30 percent of total output (GDP) and 15 percent of total employment by 2020 (Aldaba 2015). To achieve its targets and goals, the MRP comprises five major actions: addressing the supply/value chain gaps, expanding the domestic market base, implementing/investing in HRD and skills trainings, MSME development and investing in innovation/technology, marketing and promotions, and addressing horizontal issues such as power, shipping, smuggling and doing business procedures. Specific actions are presented in Table 4.

¹⁰ <http://industry.gov.ph/manufacturing-resurgence-program/>.

Example of sectors that will be benefitting from actions to close the supply chain gap include: copper, furniture, paper and automotive.¹¹ The copper sector institutional mechanism is needed to fully integrate the sector. For the furniture sector, establishment of supply hubs for raw and natural materials are aimed. Fiber raw material base, development of massive tree plantations, promoting commercial agroforestry are programmed for paper industry. For automotive, the action is to address the weak parts and components sector (supply base).

Programs to support expansion of local market base would benefit industries such as the automotive sector, including its backward and forward linkages. Development and strengthening of basic industries such as petrochemicals, textile, chemicals, rubber, iron and steel; the part and components manufacturing industries; and other supporting industries (e.g. machinery and equipment, die and moulds, metal stamping, die casting, etc.), which are part of vehicle manufacturing, can create large multiplier effect and contribute significantly to industrial growth. The Comprehensive Automotive Resurgence Strategy (CARS) Program is an example of a strategy that was developed following the goals and corresponding actions under the MRP (see Box 1).

Human capital development is also part of the MRP. Investment in skills training and education is crucial to meet the needs of a growing industry. Introduction of new and strengthening of existing human resource trainings and programs are desired for different manufacturing sectors. For instance: design, tool making, prototyping, moulding, die casting, die, design, tool and die engineering for the automotive parts and tool and die sectors; foundry technology, metallurgical, mechanical, industrial, metal casting engineering for metal casting sector; chemical engineering, materials engineering for the chemicals, plastics and rubber sectors; vocational trainings for iron and steel and furniture sectors; as well as supervisory, managerial and productivity education and training programs.

The MRP also includes specific actions for SME development and innovation. One of them is the adoption of green processes, products and technologies in sectors such as plastics, paper, automotive, furniture and housing. Incentives mechanisms are also planned to bring in investments in low-carbon technology and innovation/R&D to sectors such as motor vehicles, shipbuilding, aerospace, chemicals, virgin pulp paper, copper wires/rods, tool and die, energy efficiency projects, renewable energy, etc., in support of greening and making the industry climate-resilient.

Other actions referring to marketing and promotions, and addressing issues concerning infrastructure and regulatory procedures are also part of the MRP.

Guided by these action plans, several key government agencies, led by the DTI, are involved in implementing the MRP: Board of Investments, Department of Labor and Employment, Department of Science and Technology, Department of Energy, Department of Agriculture, Commission on Higher Education, Technical Education and Skills Development Authority, National Electrification Administration, National Power Corporation, and Philippine Coconut Authority.

¹¹ Information on this and other actions are taken from Aldaba (2015).

Table 4. Manufacturing Resurgence Program Action Points

Action 1: Close Supply/Value Chain Gaps	Action 2: Domestic Market Base Expansion	Action 3: HRD & Skills/Training	Action 4: SME Development & Technology/Innovation	Action 5: Other Actions
<ul style="list-style-type: none"> ▪ Institutional mechanism to fully integrate the industry ▪ Full integration of industry upstream-mining, reliable supply of iron ore & coal ▪ Supply hubs for raw & natural materials, equipment and software ▪ Fiber raw material base, develop massive tree plantations, commercial agroforestry with virgin wood pulp production 	<ul style="list-style-type: none"> ▪ Incentive to rebuild domestic market: fiscal & non-fiscal incentives ▪ Development of the support (local parts) industries 	<ul style="list-style-type: none"> ▪ Cooperation with TESDA, CHED ▪ Investment in skills & education ▪ Labor policies to facilitate movement from low productivity to high productivity jobs 	<p>SME Development</p> <ul style="list-style-type: none"> ▪ Financial access ▪ Compliance with product standards ▪ Clusters ▪ Incubation ▪ Share Services Facilities ▪ Quality testing facilities, Fablabs <p>Innovation</p> <ul style="list-style-type: none"> ▪ Industry-academe linkages, R&D, adoption of green processes, green products, technology extension services esp. to SMEs ▪ Metrology, standards testing, quality control ▪ Incubation ▪ Information & communication 	<p>Marketing & promotion: Attract investments</p> <p>Horizontal issues:</p> <ul style="list-style-type: none"> ▪ Power ▪ Shipping ▪ Smuggling ▪ Doing business procedures

Source: <http://industry.gov.ph/manufacturing-resurgence-program/>.

Box 1. Comprehensive Automotive Resurgence Strategy (CARS) Program

In line with the MRP, the CARS program was launched through Executive Order (EO) 182 in 2015, which states the adoption of the program “to attract new investments, stimulate demand and effectively implement industry regulations that will revitalize the Philippine automotive industry, and develop the country as a regional automotive manufacturing hub. “

Development of the program originated from the need to enhance the existing motor vehicle development programs to incorporate innovation, technology transfer, environmental protection and SMEs development; and to formulate measures that will deepen participation in GVCs and regional production networks and take advantage of economic opportunities including creation of jobs.

The program covers vehicle manufacturing (three models of four-wheeled motor vehicles) and parts manufacturing, namely, body shell/large plastic assemblies, common & strategic parts not produced in the Philippines, and shared testing facilities for vehicles and/or parts. Each of the three models is expected to be produced not lower than 200,000 units.

The program provides time-bound and output/performance-based fiscal incentives. Registered participants may be entitled to two types of fiscal support – Fixed Investment Support (FIS) and Production Volume Incentive (PIV). The program holds fiscal support amounting to PHP 27 billion over six years.

An Inter-Agency Committee on Automotive Industry Development is created under the EO to administer and implement the CARS program. The inter-agency committee is composed of representatives from the Department of Finance, Department of Transportation, Department of Information and Communications Technology, National Economic and Development Authority, Technical Education and Skills Development Authority, Industry Development Council, National Competitiveness Council, and the Department of Trade and Industry-Board of Investments (BOI). BOI is the lead implementing and coordinating agency.

CARS has already enrolled two models: Mirage G4 by Mitsubishi Motors Philippines Corporation and Vios by Toyota Motors Philippines Corporation. The slot for the third model is intended for public utility vehicle. While 29 certificates of registration to the program have been issued to manufacturers of automotive parts such as battery, glass, tire, wheel assembly, meter comb, radiator, HVAC assembly, RR wiper assembly, steering wheel, seat assembly, brake tubes & fuel pipes, electronic power steering, windshield washer system, door trim/instrument panel/CTR console, etc.

Sources: Aldaba (2017); <http://industry.gov.ph/cars-program/>; Executive Order 182 (2017).

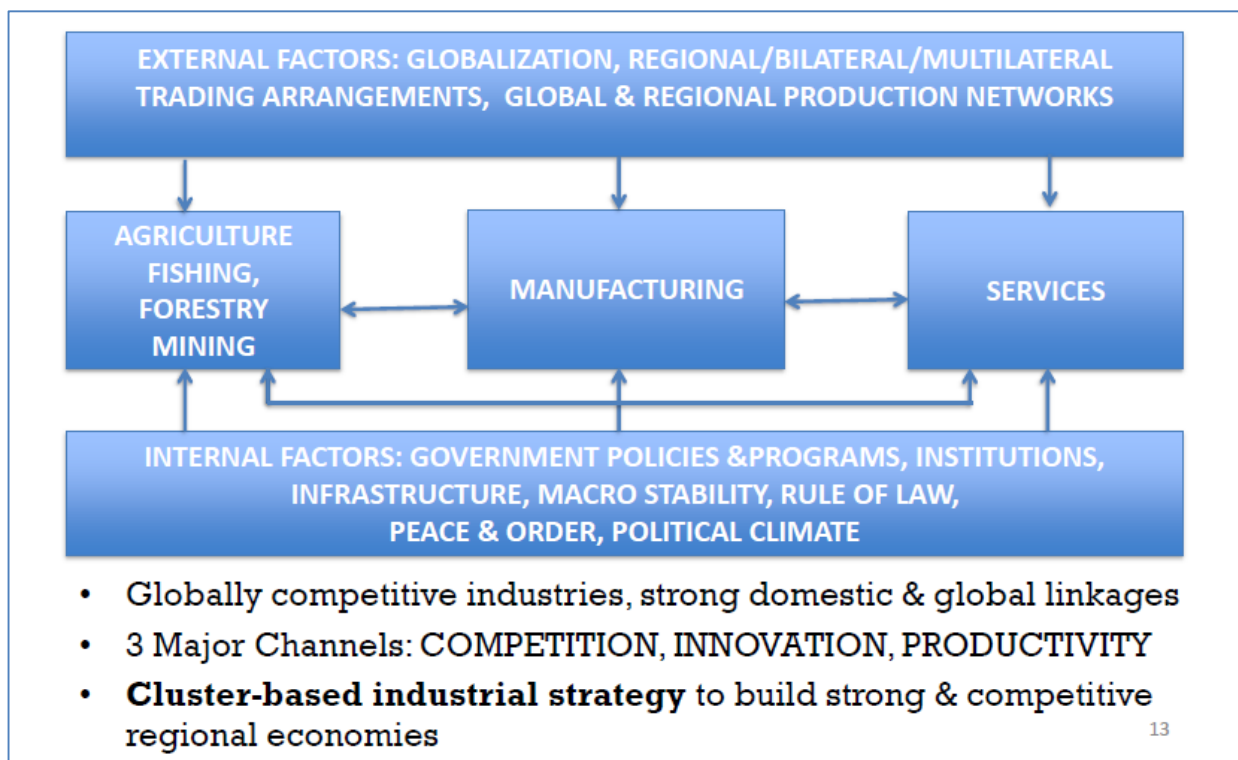
Comprehensive National Industrial Strategy Framework

To link and integrate industry/manufacturing with the agriculture and services, a Comprehensive National Industrial Strategy (CNIS) was developed. The objective is to build globally-competitive industries and strong domestic and global linkages. Founded on the sectoral-industry roadmaps earlier produced, the CNIS framework holds similar goals as the MRP in deepening industry participation in GVCs and addressing supply chain gaps, and considers addressing horizontal issues in infrastructure, logistics, governance and regulations that cuts across the three industries– agriculture, manufacturing and services.

In the CNIS framework, five priority industries are initially identified, namely, manufacturing, tourism, infrastructure and logistics, Information Technology and Business Process Management/ Knowledge Process Outsourcing (IT-BPM/KPO), and agribusiness. The overall goal is to produce more and higher quality jobs and attain sustainable and inclusive growth, through a new industrial policy, bolder trade policy, intense investment promotion, skills training and HRD, enhance innovation and R&D, and a modern MSME policy.¹²

The overall strategy under the CNIS framework considers both domestic and international environment as internal and external factors, respectively, that will impact on the performance and growth of the three industries (Figure 12). Domestic Internal factors refer to government policies and programs, institutions, infrastructure, macroeconomic stability, rule of law, peace and order and political climate, which are critical elements of an industrial policy. While the private sector takes the role of ‘driver’ of industry growth, the government acts as an enabler and facilitator in crafting and implementing policies and regulations that will provide an environment conducive to growth.

Figure 12. Comprehensive National Industrial Strategy (CNIS) Framework



Source: <http://industry.gov.ph/comprehensive-national-industrial-strategy/>

External factors include regional/bilateral/multilateral trading arrangements, global and regional production networks and globalization. The Philippines has been open to trade with its unilateral trade reforms and engagement with trade partners through preferential trade

¹² <http://industry.gov.ph/comprehensive-national-industrial-strategy/>

agreements. The country is party to seven FTAs/ economic cooperation agreements: ASEAN as the first one; a bilateral free trade agreement (FTA) with Japan; and as part of ASEAN, with Australia, New Zealand, India, Japan, Korea, and China. A new FTA with ASEAN and Hong Kong, China was recently signed (in November 2017, at the sidelines of the ASEAN Summit) and is expected to be entered into force in January 2019 (Table 5). Preferential arrangements post both challenges and benefits to industries. Similarly, participation in GVCs and production networks exposes industries to fierce competition but also to market opportunities. Formulation of strategies to overcome these challenges and continue reaping the benefits becomes part of the framework.

Table 5. Free-Trade Agreements of which the Philippines is a signatory

Agreement	Entry into force
ASEAN Free Trade Area	1-Jan-93
ASEAN-Australia and New Zealand Free Trade Agreement	1-Jan-10
ASEAN-India Comprehensive Economic Cooperation Agreement	1-Jan-10
ASEAN Japan Comprehensive Economic Partnership	1-Dec-08
ASEAN-Korea Comprehensive Economic Cooperation Agreement	1-Jun-07
ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement	1-Jul-05
Philippines-Japan Economic Partnership Agreement	11-Dec-08
ASEAN-Hong Kong, China Free Trade Agreement	1-Jan-19

Source: aric.adb.org

The CNIS framework identified three main channels that affect industry growth: competition, innovation and productivity. Taking into consideration these channels and other elements in the framework, strategic actions for growth in the agriculture, manufacturing and services sectors include: human resource development; SME development; innovation and R&D activities; green industries; aggressive promotion and marketing programs; infrastructure investments to address the high cost of power, logistics and shipping; and streamlining and automation of government procedures and regulations affecting business operations.

Inclusive, Innovation-led Industrial Strategy (i3s, “i-cube”)

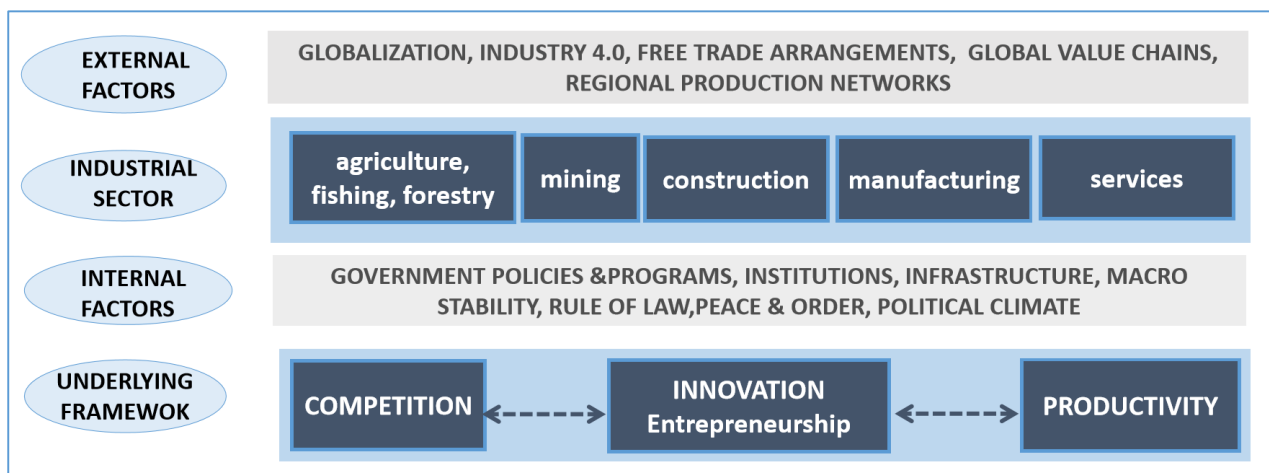
In 2017, the government upgraded the CNIS framework and released the Inclusive, Innovation-led Industrial Strategy (i3s, “i-cube”). The upgraded industrial strategy has similar underlying framework as the CNIS (competition, innovation, productivity), but puts greater emphasis on innovation. It retains goals in the CNIS framework, i.e. strengthening domestic supply chains, deepening participation in GVCs, and removing obstacles to growth to attract

investments, but building inclusive innovation ecosystem is listed as an additional goal, underscoring the importance of innovation in the industrial strategy and ultimately in transforming the economy especially as we move towards Industry 4.0. Accordingly, the CNIS framework was revised, adding Industry 4.0 as one of the external factors affecting industry growth (Figure 13).

The fourth industrial revolution will pose new challenges and opportunities, and to take part and survive, it is critical for the Philippines to build an innovative ecosystem. Hence, the government has put innovation at the heart of the industrial strategy (Aldaba 2017). The government also has recognized the importance of developing human capital with skills in science, technology, engineering, mathematics, and employing innovation-led technologies to improve productivity. Entrepreneurship is added the framework as it is also envisioned that the innovation ecosystem will produce a breed of Filipino entrepreneurs that will espouse ‘idea-based, demand-oriented, and research-driven innovation.’¹³

Updating of the CNIS to the i3s also involved updating of the top priority sectors (Figure 14). The i3s has 12, composed of the four sectors initially identified in CNIS (tourism, infrastructure and logistics, IT-BPM, agribusiness), and specific manufacturing sectors, namely, electrical and electronics; aerospace parts; automotive and parts; chemicals; shipbuilding; construction; e-commerce (together with IT-BPM); tool and die; and furniture, garments and creative.

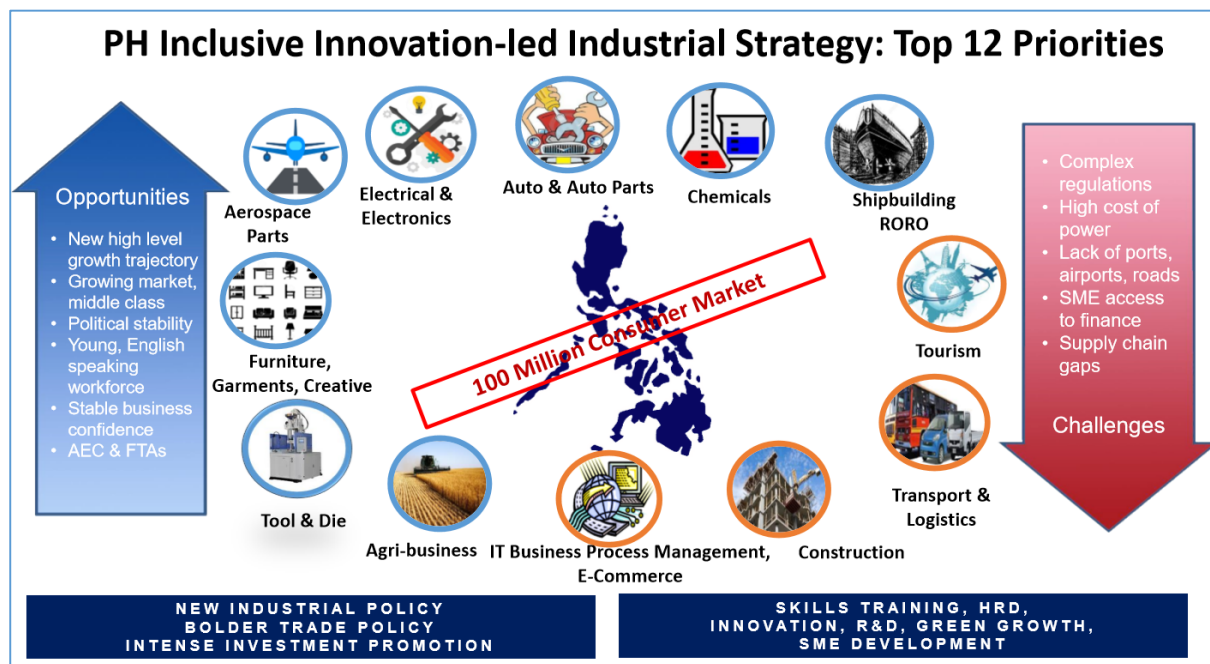
Figure 13. Framework of the Inclusive, Innovation-led Industrial Strategy



Source: Aldaba (2017).

¹³ <http://www.dti.gov.ph/media/latest-news/11189-dti-chief-explains-i3-strategy>.

Figure 14. Priorities of the Inclusive Innovation-led Industrial Strategy



Source: Aldaba (2017).

4. Summary/Conclusion

The Philippines demonstrated significant economic growth and is gaining momentum in recent years, after being tagged as ‘sick man of Asia’ for having slow growth while its Asian neighbors flourished. It has maintained this momentum, being one of the fastest growing economies in Asia. GDP growth ranged from 6 to 7 percent, with average of 6.6 percent, in the last five years; and continued robust growth is projected. The services sector continues to drive the economy, as it contributes the most to GDP. Industry is picking up after sluggish performance, and the manufacturing sector has even outpaced services growth in the last two years. Meanwhile agriculture growth is on a slowdown.

The Philippines has also gained significant accomplishment in reducing unemployment rate to 5.5 percent in 2016, even surpassing the government target of 6.5-6.7 percent. Underemployment rate, however, while also declining, has not been decreasing at the same pace as unemployment and has missed the government target (18.3% vs. target of 17%).

On the productivity side, performance is improving but the rate of growth still needs a boost. In the last ten years, manufacturing registered labor productivity growth at an annual average growth of 4.4 percent; while, agriculture, industry (total) and services registered labor productivity growth within the two percent mark.

To be able to sustain the current growth momentum and make it inclusive, transforming the economy becomes crucial. The government developed a new industrial strategy that integrates industry/manufacturing with agriculture and services, and identifies competition,

innovation and productivity as the underlying framework. In particular, innovation is placed at the heart of the industrial strategy, as the government recognizes the crucial role of innovation especially as we are on the road towards Industry 4.0.

The overall objective of the Philippine industrial strategy is to build globally-competitive industries and strong domestic and global linkages. Currently, there are 12 priority industries identified. To boost growth and make these industries competitive and productive, several strategic actions/measures have also been identified, such as addressing supply chain gaps, HRD and skills training, SME development, innovation and upgrading, intense investment promotion, and addressing horizontal issues (e.g. infrastructure, logistics, regulatory processes), among others.

With the strong economy that the Philippines has been experiencing and the new industrial policy being implemented, attaining growth that is sustainable and inclusive is promising. The growth in manufacturing surpassing services sector growth in the last three years is testament to the impact of the new industrial policy on the economy, especially the manufacturing sector. With continuous implementation of the strategic actions and programs and support from stakeholders, goals to strengthen SMEs, establish industry and innovation hubs, generate more and quality labor and enhance labor productivity, among other aspirations for the industry, can be achieved.

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