



Sardines factory, Zamboanga City
Photo courtesy of: Bangko Sentral ng Pilipinas

03

Competitive Industry & Services Sectors

Competitive Industry & Services Sectors

Several measures of competitiveness reveal fundamental weaknesses in major development aspects compared to the rest of the world. Compared with its neighbours, the country's economic performance in terms of investments, exports and competitiveness is unsatisfactory and need to be reversed. The Philippine economy over the past years has been characterized by a reduced share of manufacturing sector in the country's gross domestic product (GDP) and declining gross domestic investment rate.

Enabling the industry and services sectors to contribute significantly to economic growth and employment requires addressing a number of constraints to their development. Strategies shall therefore be pursued to help raise the competitiveness of industries by improving the business environment; raising productivity and efficiency and inculcating quality consciousness among manufacturers and producers to offer quality goods and services comparable with global brands.

Business competitiveness will be enhanced by improving governance, strengthening economic zones, and strengthening national brand identity/awareness. To increase productivity and efficiency, government shall focus interventions on key priority areas, provide firm level support to MSMEs, increase market access, expand industry cluster development and intensify the culture of competitiveness. Proactive measures to empower consumers, promote competition and enforce trade regulations shall also be pursued.

By addressing the country's problem of low competitiveness, this Plan aims to promote higher growth in per capita GDP and boost employment. The focus shall be to enable the industry and services sectors to contribute to massive job generation, provide opportunities for Filipinos to rise above poverty, and ultimately offer a meaningful choice for Filipinos to pursue gainful employment here or abroad. The Plan shall adopt a deliberate, focused approach that addresses the country's business environment, anchored on investments in human capital and implementation characterized by a "back to basics" approach coupled with innovation and "whole of government" as underlying principles.

The chapter focuses on three medium-term goals: (a) improved business

environment, (b) increased productivity and efficiency; and (c) enhanced consumer welfare.

For a better business environment, government and the private sector shall work to improve governance, as well as investment promotion areas and amplify a National Brand and Identity Awareness. Business competitiveness will be enhanced by promoting a consistent, predictable, and responsive policy environment, streamlining bureaucratic procedures and fostering transparency, promoting e-commerce and ICT-enabled automation, and encouraging partnerships with the private sector. The system of licensing, registration, and issuance of permits shall be improved to reduce the cost of doing

business. To promote investments, government shall give priority to key policy concerns, namely: labor, telecommunications, transport (aviation and domestic shipping), energy, peace and order and the rule of law. A national branding or marketing awareness campaign will be launched to bring pride in quality Philippine-made products and to give a distinct identity to the country as a source of products that are valued worldwide.

To increase productivity and efficiency, government shall give priority to the development of areas that have the highest growth potentials and generate the most jobs. These include: tourism; business process outsourcing (BPO); mining; agri-business and forest-based industries; logistics; shipbuilding; housing; electronics; infrastructure; and other industries with high growth potential. Likewise, the government will also increase its market access and further promote Philippine goods and services abroad. A culture of competitiveness shall be intensified, whereby the country's human capital shall be developed through market-sensitive education and training. Government shall work to promote mutually agreed work arrangements between employers and the labor sector and to strengthen tripartite councils to achieve industrial peace. More importantly, an entrepreneurial culture will be fostered by encouraging Filipinos to invest in their own businesses and become successful and innovative entrepreneurs. A two-pronged approach shall be adopted, consisting of firm-level assistance to potential/new and existing micro, small, and medium enterprises (MSMEs) and the use of the industry-cluster approach. Government shall promote sustainable livelihood and micro enterprise development, harnessing the Overseas Filipinos (OFs) community as a source of capital.

Program interventions shall be supported to develop the core values needed to form an enterprising nation.

The final key strategy is inculcating quality-consciousness among manufacturers and producers to offer quality goods and services comparable with global brands. Consumer expectations shall be promoted as the impetus for suppliers to deliver quality goods and services that give value for money. The concerns of both businesses and consumers shall be balanced through proactive measures to empower consumers, promote competition, and enforce trade regulations. Government shall: (a) promote consumer education and consumer advocacy; (b) intensify consumer protection and trade regulation; and (c) develop product and service standards. In addition, the entire supply chain shall reduce production and distribution cost particularly on basic and prime commodities

Assessment and Challenges

Competitiveness

Competitiveness indicators have for some time now been used to measure the country's business landscape. From 1994 to 1999, the Philippines ranked between 32 to 35 in the International Institute for Management and Development (IMD) Global Competitiveness Report but slipped to 49 from 2000 to 2007.

Several measures of competitiveness reveal weakness in major development aspects compared to the rest of the world. In the World Economic Forum (WEF) Global Competitiveness Index Ranking, the Philippines ranked 87th out of 133 countries, and last among the ASEAN-6 subset of countries for the period 2009-2010. In specific categories, the Philippines ranked 113th in institutions; 113th in labor market efficiency; 99th in innovation; and 98th in infrastructure.

Several measures of competitiveness reveal fundamental weakness in major development aspects compared to the rest of the world.

In 2009, the Philippines ranked 43rd out of 57 countries and last among five ASEAN members; next to last in infrastructure; and 51st in economic performance in the IMD Global Competitiveness Report; and placed 139th out of 180 countries (6th among the ASEAN-6) in the Transparency International's Corruption Perception Index. In 2010, the country ranked 144th among 183 countries and also last among the ASEAN-6 in the International Finance Corporation/World Bank's (IFC/WB) Doing Business 2010 Report.¹

Compared with its neighbors, the country's economic performance in terms of investments, exports, and competitiveness is unsatisfactory and needs to be improved. Over the past years, the Philippine economy has been characterized by a reduced share of the manufacturing sector in the country's GDP and declining gross domestic investment rate. The country continues to lag behind its neighbors in terms of foreign direct investments. (FDI). The *Arangkada Philippines 2010* report noted that inflows of FDI into the Philippines were lowest among six ASEAN countries, and that "many multinational firms not already present in the Philippines bypassed the country".²

In the 2010 IMD Global Competitiveness Report, the country's overall infrastructure quality ranked below that of Singapore, Malaysia, and Thailand and was closer to Indonesia and Vietnam. The inadequate and poor quality of infrastructure diminished the country's overall competitiveness and its capacity to attract investments.

Aside from cumbersome business procedures and high cost of power, inefficient transport network raises production cost, all causing a higher cost of doing business. Infrastructure and communication problems also hinder access to raw materials and distribution of goods and services to consumers.

The Doing Business survey of the IFC/WB also consistently identifies the high cost of doing business in the Philippines as a major obstacle to competitiveness. (Table 3.1). The IFC/WB Doing Business Report 2011, on the other hand, reported the 148th ranking of the Philippines in terms of ease in doing business, a finding related to the difficulties of transacting with the local government units (LGUs) and national agencies in terms of length of time, steps, signatories, costs and other indicators. There is broad agreement that the process of applying for a business renewal registration is a long, difficult, and tedious process. Starting a business in a Philippine city involves an average of 15 procedures, takes 38 days, and costs 29.7 percent of income per capita. The country was listed among the countries with high number of procedures for starting a business, although wide differences exist across different Philippine cities³.

Measured competitiveness affects the country's capacity to attract trade and investments. The economic situation remains a challenge for the Philippines, which is seen as falling short of its true potential for

¹ The Annual Meeting of the Global Federation of Competitiveness Councils held in Washington D.C. in December 2010 agreed to adopt new paradigm metrics beyond the existing competitiveness reports and surveys. Metrics of competitiveness substantially different from current indicators will be used in future surveys. The new measures, due by the end of 2011, will focus on the creation of a sound business environment for firm-level productivity.

² The same report notes that in the period 1970-2009, Indonesia, Malaysia, and Thailand each received twice or three times as much FDI as the Philippines, and that only 4.5 percent of total FDI in six ASEAN countries came to the country.

³ Such variations could be due to differing procedures and practices at the local government level, differential performance of local branches of national agencies, and variations in local taxes and fees.

Table 3.1 Cost of Doing Business Indicators

Country	Number of start-up procedures		Time to start a business (days)		Cost to register business		Procedures to enforce a contract		Time to enforce a contract (days)		Rigidity of employment index: 0 (less rigid) to 100 (very rigid)	
(% of GNI pc)												
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Philippines	15	15	60	52	25.4	28.2	37	37	862	842	29	29
PR China	13	14	48	37	15.9	4.9	35	34	406	406	28	31
Malaysia	9	9	30	11	25.1	11.9	30	30	600	585	10	10
Hong Kong	5	3	11	6	3.4	1.8	24	24	211	280	0	0
Indonesia	12	9	151	60	131	26	39	39	570	570	40	40
S Korea	10	8	17	14	15.7	14.7	35	35	230	230	27	38
Singapore	7	3	8	3	1	0.7	21	21	120	150	0	0
Thailand	8	7	33	32	6.7	6.3	35	35	479	479	11	11
Vietnam	11	11	56	50	30.6	13.3	34	34	356	295	33	21

Source: World Bank, *Doing Business 2005 and 2010* (<http://www.doingbusiness.org>)

attracting both domestic and foreign investment, given its human, natural, and capital endowments⁴.

Policies that distort competition are the main impediments to economic growth. Protectionist paradigms were embodied in flawed policies manifested through market power or the extent to which a firm can influence the price of an item by exercising control over its demand, supply or both, barriers to entry, and rent-seeking practices. Clearly, some businesses do not get level playing fields.

Philippine products and services face some challenges in the international market. For instance, there is lack of information on the standards of other countries. A certification system for exported products is still not fully in place. Laboratory and common service facilities are either incomplete

and outdated or inadequate. The costs of ISO certification can be borne only by the more liquid traders and producers.

With tariffs reduced, difficulties experienced by manufacturers, exporters/traders will increasingly pertain to technical barriers such as standards and conformity assessment. Standardization, a component of the technical infrastructure, protects consumers and accelerates product integration into the global trading system. Other components of the technical infrastructure, such as metrology, accreditation, certification and testing, are dispersed with different agencies involved in conformity assessment, spreading government resources thinly. A robust and harmonized technical infrastructure would not only help the country overcome trading barriers and protect the buying consumers, but also cut redundant overhead costs due to many regulatory bodies.

⁴ See, for example, the World Bank's Country Assessment Report 2005.

Exports of Goods and Services

If not for the global economic crisis, the last five years would have been a favorable period for exports. The country's exports grew by an average of 10.65 percent from 2004 to 2007, supported by continued strong growth in global trade. The expected negative effect of the 9/11 terrorist attacks in 2001 was mitigated by the renewed confidence on safer trade as ensured by more stringent export regimes of the European Union (EU) and the United States (US).

Export growth peaked in 2006, when exports surpassed targets and grew by 18.3 percent, driven by rising sales to the country's traditional trading partners, the US and Japan, as well as China, the Netherlands, Germany, Singapore, Malaysia and Korea. This pace could not be sustained in the following years, owing to the slowdown in the US market, high production costs, particularly in energy and logistics, and a strong peso.

In the fourth quarter of 2008 the sector felt the effects of the global economic

crisis, actually contracting by 2.19 percent relative to 2007. As the global recession dragged on in 2009, export value fell drastically, contracting by 16.1 percent compared to 2008. In 2010, however, exports began to rise again, surging ahead with two-digit growth rates in line with the expectations of global economic recovery (Table 3.2).

For 2010, merchandise exports amounted to US\$50.7 billion, growing 34.8 percent over exports in 2009. This was supported by increases in exports of manufactured goods and total agro-based products, both at about 36 percent. The country's top ten export commodities also registered increases particularly coconut oil, communication/radar and semiconductor devices. Exports registered positive growth with the recovery of global trade.

The movement of Philippine electronic exports has followed global trends. Electronic products still account for the bulk (61%) of Philippine merchandise exports

But for the global economic crisis, the last five years would have been a favorable period for exports.

Table 3.2 Export Performance: 2004-2010

	FOB Value (US\$ billion)							Growth Rate (%)						
	2004	2005	2006	2007	2008	2009	2010	2004	2005	2006	2007	2008	2009	2010
Goods & services														
Plan target	43.1	47.4	52.3	58.2	65.4	74.3	84.3	10	10	10	11	12	12	13
Actual	42.8	44.8	52.9	59.2	57.9	48.6	63.9	10.6	4.6	18.3	11.9	-2.2	-16.1	31.5
Percent to target (%)	99.3	94.5	101.3	101.9	88.6	65.4	75.8							
Of which: goods														
Plan target	39.8	43.8	48.2	53.5	60.0	67.1	75.8	10	10	10	11	12	12	14
Actual	38.8	40.3	46.5	49.5	48.3	37.6	50.7	9.8	3.8	15.6	6.4	-2.5	-22.1	34.8
Percent to target (%)	97.5	91.9	96.5	92.5	80.4	56.1	66.9							

Source: *Bangko Sentral ng Pilipinas with basic data from the National Statistics Office*

during the period. Semiconductor shipments, making up 77 percent of electronics exports, grew 53 percent in 2010.

The country's traditional trading partners, Japan and the US, remain as the country's top export destinations, followed by Singapore, China, Hong Kong, Germany, Netherlands, Republic of Korea, Thailand and Taiwan in the top ten destinations.

Exports of services meanwhile grew by 150 percent from US\$4 billion in 2004 to US\$13.2 billion in 2010. Other business services, travel, and computer and information services account for 48 percent, 21 percent, and 16 percent, respectively, of total services exports.

Globally, the evolution in technology, prioritization of business strategies, migration, innovation and trends, environment-consciousness, and value for money have influenced the emergence of technology based sectors, strengthened hospitality services and increased the capability for borderless transactions. The Government has been vigilant in the growth of these industries, two of which are the BPOs and tourism.

Business Process Outsourcing (BPO)

The BPO industry is acknowledged as a driving force for economic growth and employment in the country. Two distinct drivers largely contributed to the growth of BPO demand: (a) increasing globalization which led to the lowering of barriers to trade that allowed companies to explore alternative locations to lower operating costs without sacrificing the quality of service; and (b) advancements in information and communication technology (ICT) which enhanced service delivery using the internet in a cost efficient and timely manner.

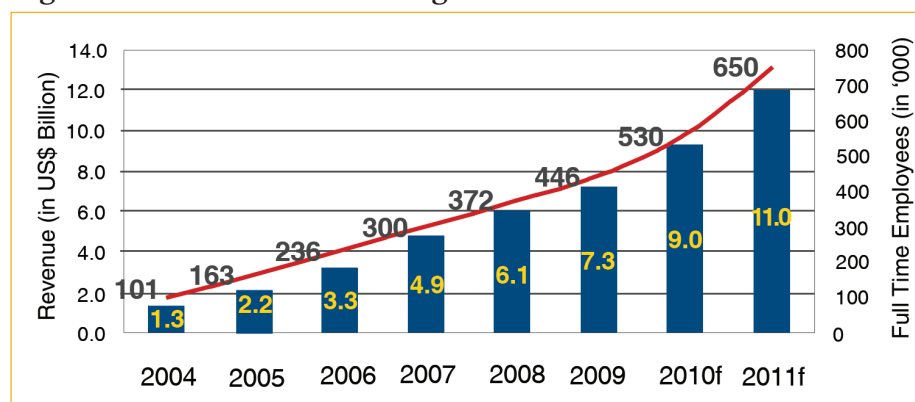
Typical outsourced services include the operation of human resources departments, telephone call centers, distribution centers, research needs, computer departments or services, and the design and/or engineering of components or end-products. The Philippines introduced BPO services in the country through the call centers or 'voice' services. However, the industry has evolved to higher value, non-voice BPO functions such as finance & accounting, human resource and administrative services, and transcription services. The years 2007 to 2008 marked the turning point and remarkable growth in the back office and knowledge process outsourcing (KPO) such as research, analytics and legal services; with more than two-fold growth in revenues from US\$400 million to US\$830 million.

In 2010, the BPO industry has attained its US\$9 billion revenue target while employing about 530,000 full-time employees (FTEs) (Figure 3.1). The US remains the prime source for outsourcing activities and opportunities for the Philippines as well as the major supplier of outsource work to the European and Japanese companies.

Because of its ready supply of professionals equipped with the required language skills, cultural affinity with the US and UK markets, and strong customer

The BPO industry is acknowledged as a driving force for economic growth and employment in the country.

Figure 3.1 BPO/IT Outsourcing: 2004-2011



Source: Business Processing Association of the Philippines

In the midst of global and national economic, political and social upheavals, the tourism sector remained resilient.

service orientation, the Philippines has gained considerable traction as a BPO destination. For the years 2007, 2008 and 2010, the country has been recognized by the National Outsourcing Association of UK and cited it as the “Offshoring Destination of the Year”.

In 2010, the Philippines posted almost US\$5.70 billion of pure voice-based revenues, which is even higher than India. Thus, in stand-alone voice business, the country ranks number one globally. However, India continues to be the leader in the global BPO industry mainly with its strong presence and capacity in information technology (IT) such as software development. On the supply side, while the country produces 480 thousand graduates per annum, the number of available workforce is undersized compared to India’s 3 million talent pool. The country would need to enhance the capability of its professionals in the IT sector to capture opportunities from India’s BPO market in the IT sub-sector.

Aside from labor resource, the country also needs to develop suitable locations to ensure that BPO investments and expansions can be accommodated. Physical and IT infrastructures are key solutions to address growth of the industry.

The National Capital Region dominantly houses majority of the BPO companies in the country. In 2009, the government and the private sector collaborated on a project dubbed as the “Next Wave Cities” wherein focus will be directed on locations with high-growth potential in the BPO services. Ten cities were identified namely: Davao; Santa Rosa, Laguna; Bacolod; Iloilo City; Metro Cavite (i.e. Bacoor, Dasmariñas, Imus); Lipa, Batangas; Cagayan de Oro; Malolos, Bulacan; Baguio City, and Dumaguete. In 2010, five cities are being eyed as BPO-potential destinations, namely: Dagupan, Legaspi, Metro Subic, Metro Naga, and General Santos.

Tourism

From 2004 to 2009, the average shares of tourism in GDP and in total employment were 6.12 percent and 9.68 percent, respectively. In the midst of global and national economic, political and social upheavals, the tourism sector remained resilient. Visitor arrivals in the past six years grew at an annual average of 8.21 percent from 2.29 million in 2004 to 3.01 million in 2009. The threat of terrorism and financial crisis has

Table 3.3 Percent Share of Tourism to GDP, Employment and Total Exports Vis-à-vis Visitor Arrivals Globally and in the Asia Pacific: 2004-2009

Year	Tourism Contribution		Visitor Arrivals			Tourism Receipts	
	% Share to GDP	% Share to National Employment	Growth Rate	% Share to Global Arrivals	% Share to Asia and the Pacific	Growth Rate	% Share to Total Exports
2004	6.17	9.62	20.1	0.30	1.61	30.7	4.25
2005	6.16	9.55	14.5	0.33	1.71	12.3	3.98
2006	6.15	9.54	8.4	0.34	1.71	23.1	5.18
2007	6.18	9.66	8.7	0.34	1.70	7.4	4.31
2008	6.05	9.77	1.5	0.34	1.71	-17.87	3.62
2009	6.03	9.96	- 3.9	0.34	1.67	- 7.9	4.09
Average	6.12	9.68	8.21	0.33	1.69	7.96	4.23

Sources: National Statistical Coordination Board, Department of Tourism and World Tourism Organization

not dampened the industry as it demonstrated moderate improvement in its market share to the global and Asia and the Pacific arrivals from 0.30 percent in 2004 to 0.34 percent in 2009 and from 1.61 percent in 2004 to 1.67 percent in 2009, respectively (Table 3.3).

Tourism receipts from inbound expenditure of foreign visitors from 2004 to 2009 also expanded at an average of 7.96 percent from US\$1.99 billion in 2004 to US\$2.23 billion in 2009. Consequently, the share of tourism receipts to total exports in the

economy grew at an annual average of 4.94 percent during the same period.

These receipts have driven private and foreign investments in the accommodation, transportation, recreation, entertainment and miscellaneous services sectors of the tourism industry. Tourism is regarded as the fourth largest contributor to foreign exchange receipts. The top three are electronics and semiconductors, overseas Filipino remittances, and BPO.

Outside Manila, the most frequented destinations visited by foreign tourists included: Boracay Island, Tagaytay,

Table 3.4 Visitor Arrivals to ASEAN Countries: 2004-2009 (in '000)

Countries	2009	2008	2007	2006	2005	2004
Malaysia	23,646	22,052	20,973	17,547	16,431	15,703
Thailand	14,146	14,584	14,464	13,822	11,567	11,737
Singapore	7,488	7,777	7,957	7,588	7,079	6,553
Indonesia	6,324	6,234	5,506	4,871	5,002	5,321
Vietnam	3,747	4,236	4,229	3,584	3,468	2,928
Philippines	3,017	3,139	3,092	2,843	2,623	2,291
Cambodia	2,046	2,001	1,872	1,591	1,333	987

Source: World Tourism Organization

Table 3.5 Philippines Travel and Tourism Competitiveness in comparison with selected ASEAN Countries, 2009

Country	Regulatory Framework				Business Environment and Infrastructure				
	Prevalence of Foreign Ownership	Property Rights	Time Required to Start a Business	Cost to Start a Business	Quality of Air Transport Infra	Number of Operating Airlines	International Air Transport Network	Quality of Roads	Quality of Ground Transport Network
Cambodia	75	118	124	124	87	75	86	80	116
Indonesia	24	117	122	114	75	37	57	105	51
Malaysia	67	38	33	73	20	27	33	17	21
Philippines	98	92	114	94	89	48	76	94	115
Singapore	3	4	4	8	1	28	2	3	4
Thailand	89	61	90	39	28	13	26	32	31
Vietnam	104	75	112	77	92	39	91	102	58

Source: World Economic Forum, and Travel and Tourism Competitiveness Report 2009

Cebu, Laguna, Batangas, Cavite, Bohol, Pampanga, Palawan and Davao. Among the activities undertaken by most tourists during their visit in the country were shopping for local crafts and delicacies; sightseeing, beach holiday, scuba diving, visiting friends and relatives, honeymoon; attending business meetings; and looking for investment opportunities. Many tourists also engaged in various cultural, nature and adventure experiences to complement, perhaps, their medical and health activities. In 2010, foreign tourists spent an average of US\$83.93 per day and stayed an average of eight nights during their visit.

However, the Philippines ranked only sixth in attracting foreign tourists vis-à-vis its ASEAN neighbors, whose market shares have rapidly grown, while that of the Philippines expanded modestly. Visitor arrivals in Malaysia in 2009 totaled 23 million; Thailand, 14 million; Singapore, 7.5 million; Indonesia, 6.3 million; and Vietnam, 3.7 million. (Table 3.4).

More work is needed to enhance the country's competitiveness as a tourist destination. The country's attractiveness hinges on the availability of support infrastructure (air, land and water), a healthy business environment, and transparent and proactive rules and regulations. The WEF 2009 Report ranked the Philippines lowest among comparable ASEAN neighbors in terms of the number of airlines with scheduled flights originating in the country and the availability of good air connections to overseas markets to provide access for more foreign visitors. The Philippines also lagged behind in terms of quality of roads and ground transportation network that offers efficient accessibility to major tourism centers and tourist attractions (Table 3.5).

Restrictions on foreign ownership of companies and property rights remained a handicap in attracting tourism investments, especially from

international chains and the network of accommodation operators. The time and cost needed to start a tourism enterprise also deserve attention.

The Philippines contributes actively to global policy-making as well as observes and promotes international agreed principles and norms in the domestic setting. As global and regional economies become more integrated, internal policy decisions will inevitably influence decisions and policies of other countries, and vice-versa. This reality enhances internal coordination and cooperation mechanisms and external country-team representation protocols among government instrumentalities and various stakeholders in society. An outward-looking orientation must be complemented by an alignment of laws and regulations that facilitate the expected benefits and lessen any adverse effects of interfacing closely with the world economy. Internal processes and legal framework must be strengthened to take advantage of opportunities presented by the global economic environment. At the same time, small and medium enterprises need to be informed of how these policies will benefit them in trading their goods in the international community.

Investment

Total approved local and foreign investments increased from 2004 to 2008 but declined in 2009. The top two sectors, i.e. manufacturing and

electricity, accounted for more than half of the total approved investment. The top four sectors (manufacturing, electricity, finance and real estate, and private services) account for 78 percent of the total (Table 3.6). In 2004, the mining

Table 3.6 Total Approved Investments of Foreign and Filipino Nationals by Industry: 2004 – 2010 (in million PhP)

Industry	2004	2005	2006	2007	2008	2009	2010
Agriculture	212	770	4,734	1,856	2,498	2,873	2,272
Communication	-	2,079	47,042	14,222	2,186	6	-
Construction	1,140	83	3,857	14,090	216	179	1,080
Electricity	8,564	21,659	45,403	139,078	131,923	32,296	189,920*
Finance & R. Estate	7,158	10,019	28,833	54,927	114,088	89,111	72,108
Gas	106,521	269	-	561	-	17	-
Manufacturing	54,330	150,161	151,984	94,677	75,518	106,300	215,153
Mining	1,512	8,294	16,147	13,776	48,269	2,019	8,108
Private Services	41,006	15,344	29,105	37,631	71,417	29,353	40,255
Storage	388	26	35	1,340	1,059	-	-
Trade	517	357	26,332	780	531	2,155	1,461
Transportation	467	22,172	3,530	10,329	16,516	3,830	12,248**
Water	-	-	-	2,537	-	45,975	-
Total	221,815	231,233	357,002	385,804	464,221	314,114	542,605

Source: National Statistical Coordination Board

*Data lumped for Electricity, Gas and Water

**Data lumped for Transportation, Storage and Communication

Table 3.7 BOI-PEZA Approved Investments: 2009-2010

	BOI			PEZA			TOTAL		
	2010	2009	% Change	2010 1/	2009/2	% Change	2010	2009	% Change
Project Cost (P)	302,100	124,171	143.29	204,395	175,365	16.55	506,494	299,537	69.09
Foreign (P)	22,329	10,397	114.76	142,167	103,421	37.46	164,496	113,818	44.53
Local (P)	279,771	113,775	145.90	62,227	71,944	(13.51)	341,998	185,719	84.15
No. of Projects	246	248	(0.81)	518	502	3.19	764	750	1.87
Employment	36,751	95,372	(61.47)	84,340	79,435	6.17	121,091	174,807	(30.73)

Source:

Board of Investments and Philippine Economic Zone Authority

1/ Locator investments - PhP 176.753billion; Developers - PhP 27.641 billion

2/ Locator investments - PhP 140.987billion; Developers - PhP 34.378billion

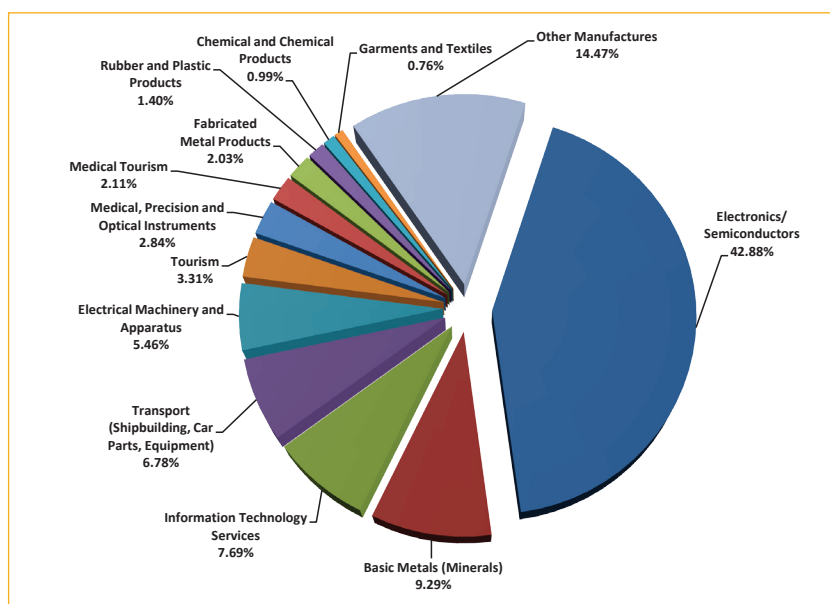
industry was revitalized as the Supreme Court ruled on the constitutionality of the Philippine Mining Act of 1995.

A review of share by sector/industry shows no trend in increase or decrease of particular sector, with approved

investments in most sectors fluctuating annually.

From 2004 to 2009, direct investments grew by 7.8 percent⁵, although 2009 saw investment flows decreasing by 32.3 percent, reflecting the effects

Figure 3.2 Investment by Industry Sector in PEZA Economic Zones: 1995-2010



Source: Philippine Economic Zone Authority

Table 3.8 Total Approved Foreign Direct Investments by Country of Investor: 2004 – 2010, (in million PhP)

Country	2004	2005	2006	2007	2008	2009	2010
Japan	26,596	27,539	20,066	38,587	16,116	70,737	58,333
USA	27,108	14,913	8,199	36,089	19,721	12,947	13,159
Korea	3,260	10,828	4,327	12,076	39,954	9,624	31,182
Netherlands	1,473	19,208	188	14,401	45,354	2,070	36,784
Singapore	1,524	889	396	44,246	6,565	3,468	7,283
UK	1,683	195	5,887	10,182	25,272	3,439	1,065
China (PROC)	127	195	7,935	1,822	2,307	2,392	5,657
Br. Virgin Islands	208	658	450	670	2,111	1,176	7,654
Others	111,916	21,382	18,432	56,010	25,281	15,963	48,098
Total	173,895	95,807	65,880	214,083	182,681	121,816	196,069

Source of basic data: National Statistical Coordination Board

⁵ Based on compounded annual growth rate

of the global crisis, there were hopeful signs of a rebound. In 2010, investment commitments from both foreigners and Filipinos increased to PhP542.6 billion compared to PhP314.1 billion in 2009. More than 60 percent of investments approved during the period came from Filipino investors with PhP346.5 billion worth of pledges.

Of the PhP542.6 billion worth of investment pledges of both foreigners and Filipinos in 2010, 39.7 percent or PhP215.2 billion are intended for projects in manufacturing. Electricity, gas and water garnered 35.0 percent share or PhP189.9 billion, and finance and real estate at 13.3 percent or PhP72.1 billion. These industries have been consistent recipients of investment commitments from foreign and Filipino investors. Potential investments in manufacturing as well as in electricity, gas and water increased significantly compared to finance and real estate, which dropped to PhP72.1 billion from PhP89.1 billion.

Total BOI-PEZA-approved investments for 2010 amounted to PhP506.5 billion, a 69 percent surge over approvals in 2009 (Table 3.7). This was brought about by resurgent investor confidence, which reached an all time

high in the second quarter of 2010. These approved investments generated 121,091 jobs.

By country of origin, the US and Japan have been the two top sources of FDI in the Philippines. In recent years investments from the Netherlands, the United Kingdom and South Korea have also increased (Table 3.8).

Investments with the Philippine Economic Zone Authority (PEZA) in 2009 posted an increase of 13.3 percent over the previous year despite the global financial crisis. Direct employment in PEZA zones also grew slightly (by 0.44 percent) notwithstanding layoffs in many business establishments in the country and worldwide during the same period.

From 1995 to 2010, investments in enterprises located inside PEZA-registered economic zones came mostly from the electronics/semiconductor industry. Locators from the electronics/semiconductor sector contributed 42.88 percent of total investments in the ecozones. Following this was the basic metal/mineral industry (9.29%); information technology services (7.69%); transport (shipbuilding, car part, equipment) (6.78%) and electrical machinery and apparatus (5.46%). These comprise the top five sectors garnering the largest number of investments over the past 15 years of PEZA's existence (Figure 3.2).

The Philippine MSME sector is a critical driver for the country's economic growth. However, the growth of the MSME sector has not been vigorous enough to propel the economy.

Table 3.9 PEZA Operating Economic Zones: 2004 – 2010

Operating Economic Zones	2004	2005	2006	2007	2008	2009	2010
Manufacturing	53	51	53	60	62	63	64
IT	16	28	37	88	112	127	148
Tourism		1	2	5	7	9	12
Medical Tourism Park				1	1	1	1
Medical Tourism Center					1	1	1
Agro-Industrial EZ						6	13
Total Operating	69	80	92	154	183	207	239
% of Growth Over Previous Year		16%	15%	67%	19%	13%	15%

Source: Philippine Economic Zone Authority

The majority of PEZA-registered enterprises are owned by foreign nationals. The Japanese, owning 25.97 percent of total PEZA-registered locator enterprises in 2010, top the list of foreign owners. These are followed, in order, by Koreans (10.62%), Americans (10.12%), Singaporeans (3.96%), British (2.99%), Taiwanese (2.23%), Dutch (2.15%), Chinese (1.77%), Australian (1.69%), Malaysian (1.39%), German (1.35%), and various other nationalities (7%).

In 2010, the economic zones operating under PEZA management totaled 239 (Table 3.9). In the next six years, initiatives will be pursued to enhance and increase the number of economic zones following the observed growth patterns. Efforts shall include exploration of new areas such as agro-industrial and tourism zones, opening to new markets such as the Middle East, Germany, Australia and New Zealand, and strengthening priority markets of Japan, USA and Korea.

Since ecozone applications are private sector initiated and market-driven, prospective locators may locate in certain areas for as long as they meet the criteria stipulated in Section 6 (Criteria for the Establishment of Other Ecozones) of The Special Economic Zone Act of 1995.

Opportunities for investments also are attributed to sound policies and reforms to attract investors. Policies for investments such as exhibiting sound incentives to distinct industry have been unstable.

Reforms are required to appropriately offer incentives to investments in sectors that will have high impact on employment as well as influx of reserves in the country. However, it is also important that sectors are reviewed and monitored to determine industry sectors that should be prioritized in providing incentives. Likewise, reforms are necessary to foster public and private partnerships in boosting investment areas, programs and projects.

Micro, Small and Medium Enterprises (MSMEs)

The Philippine MSME sector is a critical driver for the country's economic growth. The sector serves not only as potential supplier and subcontractor to large enterprises and exporters but is also a part of the support system for logistics services.

The MSME sector accounted for 99.6 percent of total establishments in the

Table 3.10 Micro, Small and Medium Enterprise Profile

	Total	Micro	Small	Medium	Large	MSMEs
2008 Number of Enterprises	761,409	697,077	58,292	3,067	2,973	758,436
% Distribution		91.6	7.7	0.4	0.4	99.6
2008 Employment	554,4590	1,663,382	1,314,065	418,058	2,149,085	3,395,505
% Distribution		30.0	23.7	7.5	38.8	61.2
2006 Value Added (in million pesos)	2,108,546	103,918	431,340	216,685	1,356,603	751,943
% Distribution	100	4.9	20.5	10.3	64.3	35.7
2006 Value added per worker (in pesos)	380,289	62,474	328,248	518,313	631,247	221,452
% of large enterprises		9.9	52.0	82.1		

Source: National Statistics Office

country, and contributed 61.2 percent of the country's total employment and 35.7 percent of total value-added. However, the growth of the MSME sector has not been vigorous enough to propel the economy (Table 3.10).

The size-distribution of firms has changed little in the past two decades, with the proportion accounted for by medium sized enterprises remaining small. As a result, the country's industry structure is often characterized by a missing or hollowed middle.

The performance of MSMEs was constrained by various factors. These include high cost of doing business, lack of access to finance and market information, and low productivity and competitiveness. Poor business conditions are a greater challenge for MSMEs given their limited resources. Many are unable to qualify for bank loans for lack of the necessary track record and collateral. The lack of credit information also makes it more difficult for banks to determine MSMEs' creditworthiness. With limited management and financial capabilities, many MSMEs are unable to respond dynamically to the domestic and export markets.

MSMEs have a low ability to meet the threat of local and global competition because of lack of information needed for market access and business environment; failure to attain scale economies needed to produce quality goods and services; and the sector's laid-back approach to seeking new markets and responding to market needs.

The low productivity of MSMEs can be attributed to the sector's lack of access to new technology, weak technological capabilities, and its failure to engage in innovation and research and development (R&D) activities. The result is wasteful

duplication and nonoptimal use of limited resources. Furthermore, lack of awareness for science and technology (S&T) and scarcity of S&T human resources are limits to production optimization.

While the value-system of workers and employees undoubtedly affects the total productivity of firms, low productivity in the industry and services sectors may also be due to their inflexible organizational set-up and processes. Firms cannot easily adjust to the fast-changing needs and demands of their clients, consequently affecting their level of productivity. In addition, the country's domestic manufacturing is not strongly linked with its exports manufacturing compared to its neighboring countries.

Employment

Rise in Employment in Industry and Services

In 2008 the number of employed persons increased from about 31.6 million in 2004 to around 34 million in 2008⁶. This meant almost three million persons joined the Philippine labor force over a period of four years.

The agricultural sector continues to play an important role in employment and in jobs creation as it has employed about 10.6 million Filipinos in 2008. In addition, the fishing sector employed about 1.42 million persons in 2008. Most Filipino workers therefore, are still in the agriculture and fishing sectors while the rest are in non-agricultural sectors such as industry and services.

Nonetheless, workers and employees in the industry and services sectors combined outnumber agricultural workers and comprise more than half of the employed from 2004 to 2008. The economic role of nonagricultural workers, especially those in the services sector, is therefore crucial, especially in the era of the knowledge- and skills-based economy,

⁶ 2009 Yearbook of Labor Statistics.

the most evident local manifestation is the booming outsourcing industry.

As of 2010, a total of 38.9 million were reported to be in the labor force from among the 60.7 million population over 15 years of age. Of the three sectors (i.e. Agriculture, Industry and Services), Services accounts for the biggest share of total employment (Table 3.11). The current Plan calls for total employment to grow by six million by 2016.

The MSME contribution to employment in 2008 totaled 3.4 million. Ranked by subsector, wholesale and retail trade contributed the bulk of employment at 35.1 percent, followed by manufacturing with 18.7 percent and hotels and restaurants with 12.46 percent (Figure 3.3).

Among microenterprises, wholesale and retail trade contributed 47 percent of total employment,

Table 3.11 Employment per Major Industry Group

Major Industry Group	2008	2009					2010				
		Ave	Jan	Apr	Jul	Oct	Ave	Jan	Apr	Jul p	Oct p
ALL INDUSTRIES	34,089	35,061	34,262	34,997	35,508	35,478	36,047	36,000	35,413	36,285	36,489
Agriculture	12,030	12,043	11,846	12,313	11,940	12,072	11,974	11,804	11,512	12,317	12,261
Agriculture, Hunting and Forestry	10,604	10,582	10,446	10,841	10,476	10,563	10,505	10,346	10,073	10,835	10,765
Fishing	1,426	1,461	1,400	1,472	1,464	1,509	1,469	1,458	1,439	1,482	1,496
Industry	5,048	5,093	4,856	5,088	5,273	5,154	5,394	5,323	5,487	5,391	5,373
Mining and Quarrying	158	166	152	166	177	169	199	193	212	193	197
Manufacturing	2,926	2,894	2,849	2,841	2,947	2,937	3,031	3,009	3,063	2,995	3,057
Electricity, Gas and Water Supply	130	142	134	130	145	160	150	157	137	140	164
Construction	1,834	1,891	1,721	1,951	2,004	1,888	2,014	1,964	2,075	2,062	1,955
Services	17,011	17,925	17,560	17,595	18,294	18,250	18,680	18,874	18,414	18,577	18,855
Wholesale & Retail Trade, Repair of Motor Vehicles, Motorcycles and Personal and Household Goods	6,446	6,736	6,635	6,681	6,725	6,901	7,040	7,063	6,885	7,050	7,161
Hotels and Restaurants	953	1,010	988	976	1,064	1,012	1,063	1,104	991	1,034	1,121
Transport, Storage and Communications	2,590	2,679	2,660	2,628	2,694	2,735	2,721	2,736	2,741	2,697	2,709
Financial Intermediation	368	369	337	389	376	375	399	384	383	419	411
Real Estate, Renting and Business Activities	953	1,064	1,044	1,023	1,090	1,100	1,147	1,120	1,061	1,164	1,243
Public Administration & Defense, Compulsory Social Security	1,676	1,749	1,659	1,794	1,772	1,771	1,846	1,823	1,959	1,831	1,771
Education	1,071	1,138	1,157	1,068	1,157	1,168	1,175	1,146	1,156	1,234	1,165
Health and Social Work	392	421	435	408	428	412	450	432	447	456	464
Other Community, Social and Personal Service Activities	833	877	857	907	876	868	913	950	984	862	855
Private Households with Employed Persons	1,729	1,880	1,785	1,718	2,110	1,908	1,925	2,114	1,804	1,829	1,954
Extra-Territorial Organizations & Bodies	1	2	3	3	2	-	2	2	3	1	1

Notes:

1. Details may not add up to totals due to rounding.

2. Based on past week reference period.

3. Industry classification is based on the 1994 Philippine Standard Industrial Classification

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Source of basic data: National Statistics Office, Labor Force Survey

followed by manufacturing with a 15 percent share, and hotels and restaurants with 13 percent. This is the same employment pattern for small enterprises with wholesale and retail trade accounting for 26 percent, followed by manufacturing and hotels and restaurants with contributions of 19 percent and 13 percent, respectively. The pattern is somewhat different for medium enterprises, where manufacturing makes the biggest contribution (31%) followed by wholesale and retail trade (14%) and real estate, renting and business activities (12%). This pattern is repeated for large enterprises, with manufacturing contributing almost 37 percent of employment, followed by real estate, renting and business activities (21%) and financial intermediation (10%).)

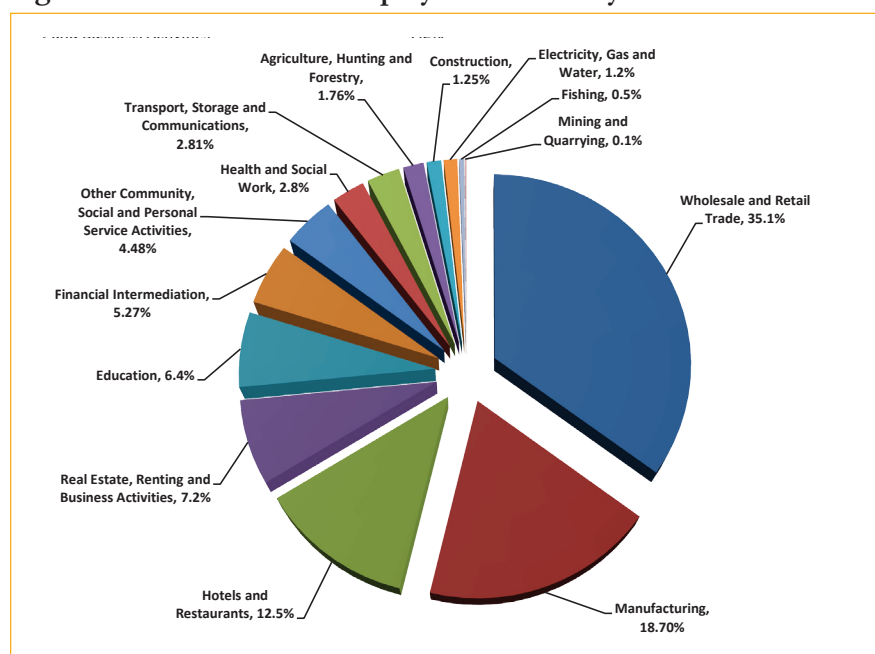
A survey by the Bureau of Labor and Employment Statistics reports that employers have difficulty filling up vacancies because of a shortage of applicants with the right job

competencies and qualifications, although two million Filipinos were unemployed. The 2006 National Manpower Summit emphasized that unemployment in the country arose mainly from a mismatch between skills needed for available jobs and skills possessed by job-seekers; and a geographic mismatch between locations of job opening and job seekers. While shortages of skills are evident in certain occupations and areas in the country, oversupply of other skills are likewise observed.

To date, there are reported shortages in medical and health services, as Filipino nurses are in high demand abroad. High turnover rates and low hiring rates meanwhile continue to worry stakeholders in the BPO industry. On the other hand, an oversupply of skills in certain occupations is also reported. For instance, the educational system continues to produce large numbers of liberal-arts graduates for whom the demand is either not encouraging or still to be identified.

Increasing the national awareness of consumer rights, responsibilities and options for redress encourages a vibrant sector that will demand better products and services.

Figure 3.3 MSME 2008 Employment Share by Sector



Source: National Statistics Office

In addition, the country's low labor productivity due to mismatched or deficient skills relative to available jobs contributes to the low productivity in output of goods and services. This also affects compensation, since some company owners are unable to raise wages and salaries owing to missed revenue opportunities which in turn are caused by low production.

Reports during the consultations for the DOLE Project Jobsfit 2020 also noted a concentration of hard-to-fill occupations in the high-end categories, such as accountants and engineering professionals. Hard-to-fill vacancies were also noted for associate professionals and clerks.

This “square pegs-round holes” phenomenon, which has affected efficiency in the labor market, may be aggravated by the fast-changing demand for skills in the global labor market.

Consumer Policy

Consumers have a vital role in the economy. When they are empowered, consumers can improve economic performance by helping drive competition, productivity and business innovation.(OECD Toolkit, 2010)

In the Philippines, emphasis is made on policies and programs that promote consumer welfare and protection. Republic Act (RA) 7394 or the Consumer Act of the Philippines states the policy of the State to protect the interest of the consumer, promote his/her general welfare and establish standards of conduct for business and industry. Thus, Government is mandated to pursue the following objectives:

- a. protection against hazards to health and safety;
- b. protection against deceptive, unfair and unconscionable sales acts and practices;

c. provision of information and education to facilitate sound choice and the proper exercise of rights by the consumer;

d. provision of adequate rights and means of redress; and

e. involvement of consumer representatives in the formulation of social and economic policies.

Empowered consumers are aware of their rights and are informed of fair trade laws. Product quality and safety standards have become effective stimuli for manufacturers to improve their products and consequently enhance competition among firms. Increasing the national awareness of consumer rights, responsibilities and options for redress encourages a vibrant sector that will demand better products and services.

In 2007, an Awareness, Knowledge, Attitude and Practice Study was commissioned by the Department of Trade and Industry (DTI) to determine the public's concern for their rights and responsibilities as consumers. The study showed that half of the respondents were aware of the programs for consumers and said these were satisfactory but needed improvement. The study recommended a more creative message development, coordination and closer partnerships with LGUs and consumer-advocates in each region, strengthening the role of the consumer welfare desk/customer service in addressing consumer complaints, and integration of consumerism in the schools and communities.

In 2010, consumer complaints received by Consumer Welfare Desks both in government field offices and in business establishments reached 75,000, majority of which were about consumer products and service

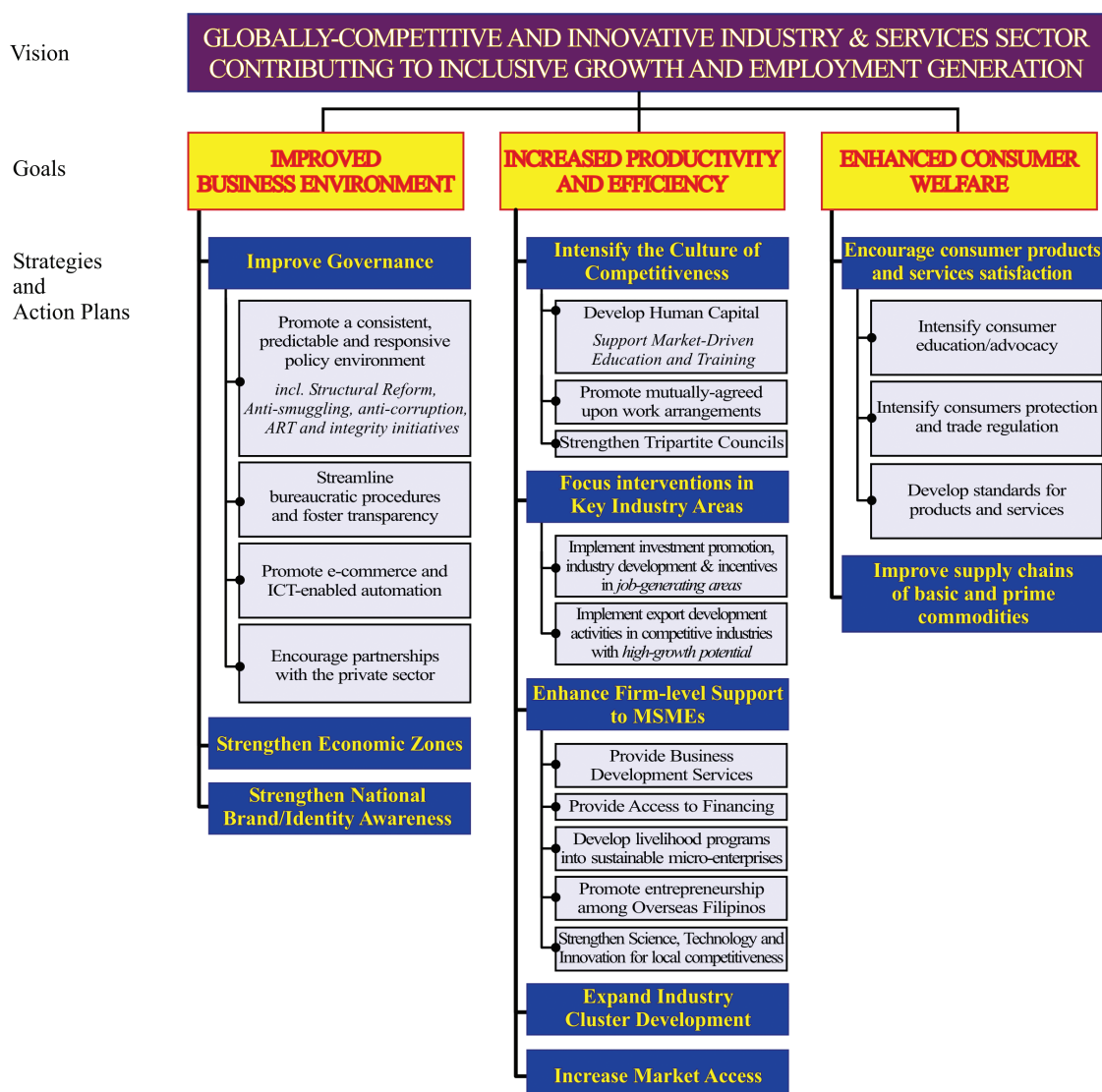
warranties, liabilities on products and services, and product quality and safety. While 99 percent of the complaints were eventually resolved, there is a clamor for a shorter resolution period.

Responsibility for developing and implementing consumer policy and programmes rests on the National Consumer Affairs Council composed of the DTI, DepED, DOH, DA, several consumer groups and business organizations, tasked to improve the management, coordination, and effectiveness of consumer programs.

Strategic Framework

The Plan seeks to enable the industry and services sectors to contribute significantly to economic growth and employment. This requires interventions that address the country's competitiveness by improving the business environment; increasing productivity and efficiency; and promoting a dynamic consumer sector that demand globally competitive/ quality goods and services offering best value for money.

Figure 3.4 Strategic Framework for Industry and Services



Vision

A globally-competitive and innovative industry and services sector that contributes significantly to inclusive growth and employment generation.

Ten-point Agenda

Clear and concrete strategies and action plans are necessary to achieve doable goals and targets.

Goal 1: Create a Better Business Environment

The government shall continuously work for an environment characterized by transparent and predictable public policies. Processes shall be streamlined, business procedures standardized; and quality of transactions ensured. This competitive advantage influences the decision to invest in the Philippines; as well as raises the capability to promote and channel local products and services in various global markets. Thus, to ensure a better business environment, the government shall aim to be in the upper third in the global competitiveness ranking (i.e. IFC/WB Doing Business Report).

Improve Governance

1. Streamline bureaucratic procedures and foster transparency

Improvements in the Business Registration/Permits and Licensing System (BPLS) shall be pursued both at the national and local government levels. The BPLS will help standardize the procedures for acquiring permits and licenses to operate new business. It will not only reduce the time to secure permits but also eliminate corruption by limiting face-to-face contacts between the applicant and regulator. The government will implement a customer-oriented approach to policies, rules and regulations on procedures. Public service quality standards for all frontline services of the government and international-based

management systems throughout the government shall be adopted. The National Government shall strengthen LGUs' capacity for good governance and LGU commitment in promoting a unified approach. To lower transaction costs and promote better transaction flows, Government shall enhance collaboration between the public and private sectors (Refer to Chapter 7: Governance).

2. Promote a consistent, coherent, cohesive, predictable, and responsive policy environment

To address investor confidence and retain existing investors, government shall give priority to key concerns, namely: labor, telecommunications, transport (aviation and domestic shipping), energy, peace and order, and disaster risk-reduction programs. Government shall address the facts and the reality behind the country's lagging competitiveness indices, particularly those pertaining to: (a) international investments; (b) basic infrastructure; (c) scientific infrastructure; (d) education; (e) business legislation; (f) energy; (g) exports; (h) ethics; (i) labor; and (j) barriers to entry and exit.

As the world recovers from the global economic crisis, competition for opportunities is bound to tighten. The Philippines is among nations vying for a strategic place in the global market. Considerable challenges confront the country's efforts to compete for tourists, capital, entrepreneurship, and links to global supply chains.

In the medium term, the following policy reforms shall be pursued:

- Amendments to Executive Order (EO) No. 226 or the Omnibus Investment Code of 1987- to strengthen the investment promotion and industrial development functions of the Board of Investment (BOI).

- Enactment of an Anti-Trust/ Competition Law - to level the business playing field by strengthening the legal and institutional framework to combat unfair trade practices, prohibit cartels and monopolies and sanction key officials of companies that violate fair competition.
- Amendments to the Export Development Act - to incorporate significant changes in the global trading environment as well as establish lasting solutions to recurring export development issues, with emphasis on sanctions, enforcement, and the privatization of export promotion functions.
- Reforms in the Aviation Sector- full implementation of EO 219 providing for an open and competitive international aviation sector that allows local and foreign air carriers to expand their operations, maintain a strong aviation industry, and ensure international connectivity.
- Land Use Plan - to provide a sound basis for the local tourism development, including the designation of tourism enterprise zones by the Tourism Infrastructure and Enterprise Zone Authority (TIEZA).
- Amendments to the Tariff and Customs Code of the Philippines- to support fair trade and oppose all unfair trade policies and practices, especially on smuggling and to be compliant to the international standards on customs procedures under the Revised Kyoto Convention to which the Philippines acceded.
- Amendments to the Local Government Code- to provide an environment conducive to business.
- Amendments to the Labor Code- to address labor-related issues, and harmonize and strengthen labor force and management and ensure that country's labor policies is aligned with international treaties and ratified International Labor Organization Convention.
- Reforms in public research and development (R&D) prioritization and funding system and full implementation of the Technology Transfer Act of 2009 (RA 10055)- to ensure social return on public R&D investments. Measures to be considered include a systematic national research inventory; a clearinghouse for new major research investments; and a systematic effort to translate outputs of completed research into actionable policy measures or into potential product developments or innovations.
- Reform of the R&D tax incentive under RA 8424- to encourage innovative and collaborative behavior among private firms.
- Amendments to the Intellectual Property Code- to serve the needs of the copyright-based industries as well as strengthen the enforcement capability of the Intellectual Property Office.
- Passage of the Data Privacy and Anti-Cybercrime Bills- to ensure the security, integrity, and dependability of the country's information and communications structure.
- Amendments to the Standardization Law- to strengthen the national standards body.
- Amendments to the "Barangay Micro Business Enterprises (BMBEs) Act- to support the growth and development of microenterprises.

- Amending and transferring the function and mandate of the Philippine Council on ASEAN and APEC Cooperation to the Philippine Council on Regional Cooperation.

Government shall formulate a comprehensive national industrial strategy that spells out opportunities, coordinates and promotes the growth of forward and backward linkages in priority areas and high-potential growth sectors as well as prepares other industries to attract investments and generate jobs. This plan entails a regular review of national investment incentives to examine their thrust, adequacy, and consistency with local regulations especially those pertaining to priority sectors i.e., mining, tourism, agribusiness and BPO-IT. The government shall include programs to implement disaster-mitigating measures, sustain socio-political stability, and create necessary conditions to ensure safe and peaceful business environment for investors.

Furthermore, government shall support policies and legislation that shall:

- a. promote a working balance between the interests of labor and capital as well as provide avenues for dialogue and cooperation based on mutual benefit;
- b. pursue anticorruption, anti-red tape, antismuggling and integrity initiatives;
- c. provide a fertile landscape for Philippine domestic and foreign investments (i.e. power regulation, cabotage principle, etc.). The problem of high cost energy must be addressed by achieving a price range comparable to energy costs among ASEAN peers (i.e., Indonesia, Vietnam and Malaysia); and
- d. mainstream Disaster Risk reduction (DRR) and Climate Change Adaptation (CCA) in industry and services sectors by:

- Establishing compliance mechanisms for business sector on DRR standards.

- Strengthening implementation of or reform existing laws on land-use and related laws such as building code for disaster-resilient industry and service sectors.

- Assessing the level of DRR awareness and activities among the private sector and disseminate information, education and campaign (IEC) materials on DRR to ensure their support, participation and cooperation

The following programs will also be pursued to support DRR and CCA:

- Develop and operate innovative financing schemes to secure sustainable financing for programs on climate change. This can take the form of payment for ecosystem services including collection of fees for water consumption by industries and fees from tour organizers, lodging and other tourist facilities for ecotourism.
- Design and implement DRR and CCA measures for mining companies. Areas suitable for mineral resources development shall be defined based on scientific information on climate change risks and vulnerability of ecosystems and communities.
- Develop synergy between small, medium and large-scale mining operations taking climate change and prudent mineral resources development into consideration.

The Philippines needs to be known as a country offering vast opportunities for trade and tourism and will be promoted as a conducive investment haven that is now open for business.

3. Promote e-commerce and ICT-enabled automation

Automation and computerization of government processes shall be pursued to reduce transaction costs and make public service more efficient. The e-Commerce Law shall be fully integrated in the policy environment for business.

4. Encourage Public-Private Partnership (PPP)

The government shall provide an enabling business environment for private sector investments and partnerships by pursuing a stable macroeconomy and sound public policies. Government shall recognize the essential role of the private sector as the engine of the country's growth and development. The government shall provide for the transparent bidding of PPP projects for the period 2011-2014. It shall also promote the Philippines as an ideal partner in PPP-infrastructure development; and closely monitor and ensure transparency in the management of PPP projects. Planning, implementation, financial accountability, and evaluation shall ensure that such investments are safeguarded.

Strengthen Economic Zones

The government shall continue the promotion of private sector-led development of economic investment promotion areas by both foreign and local investors. Moreover, government shall also provide the needed support in the setting up of investment locations.

Economic zones shall be promoted and special economic zones shall be strengthened. Experience has shown that facilitating economic zone development by the private sector is effective in attracting export enterprises to locate in said zones, given the support facilities, infrastructure and services available in

such areas. The development of economic zones generates employment and business opportunities by establishing linkages among industries in and around the economic zones.

In addition, the government shall pursue the issuance and full implementation of the rules and regulations for the designation of tourism enterprise zones, envisioned to expand the current room capacities and diversify products in tourist destinations.

Strengthen National Brand/Identity Awareness

Government will initiate and implement a national branding and marketing campaign to promote the Philippines not only as an investment site and tourist destination but as producer and supplier of quality world-class products and services. The Philippines needs to be known as a country offering vast opportunities for trade and tourism and will be promoted as a conducive investment haven, now open for business.

The Plan intends to pursue the development and promotion of "Brand Philippines". The aim is to achieve among global buyers a "Philippine First" mindset by creating a distinct "Philippines" brand widely accepted and recognized in the global export market connoting quality, value and reliability. Moreover, to be known as Asia's trendsetter in export products and services, and setting the highest standards of creativity, innovation and excellence.

A new tourism marketing campaign/branding shall be developed in consonance with the country's international image and trade promotion thrust, with emphasis given to our country's vast retirement potential and epicurean attractions.

Moreover, judicious selection and programming shall be undertaken in mounting a compelling and meaningful Philippine participation in various cultural, tourism, fairs and trade

The government shall pursue innovation as an essential factor in harnessing culture of competitiveness.

expositions worldwide with preference for those sanctioned by foreign governments, global associations and inter-government organizations.

Goal 2: Action Agenda to Improve Productivity and Efficiency

Higher productivity and efficiency of industry and services sector must be manifested in increased levels of exports, investments, tourism revenues, and entrepreneurship. By 2016, the following targets are laid down: (a) US\$91.5 billion in annual merchandise exports; (b) US\$28.9 billion in annual services exports; (c) PhP3,796.47 billion in cumulative approved investments (d) a doubling of annual visitor arrivals to six million by 2016; (e) US\$4.5 billion in annual tourist receipts by 2016; (f) a national goal of six million jobs cumulatively generated by 2016, about 4.6 million of which will come from industry and services. Of these, two million will come from MSMEs.

Intensify the Culture of Competitiveness

A culture of competitiveness pursues the development of a positive, innovative, and creative mindset through training, paving avenues for enhancements, reinforcement of shared values, and emphasis on linkages of skills and development as contributor to economic growth. It will make the fullest use of PPP wherein results directly impact on competitiveness. Efforts shall be pursued to instill a national consciousness that appreciates the significance of achieving competitiveness in process and quality.

Because the delivery of any product or service should respond above all to the needs of the customers, policies that foster a customer-centric business environment will be given close attention. An aggressive education and information campaign through productivity and quality-related training, seminars, and promotional materials, in print and mass media, are necessary. Development

of customer-service standards sets the norms. Incentives, recognition schemes and quality awards can serve as rewards and inducements to high-performing, customer-focused organizations.

In addition, the government shall pursue innovation as an essential factor in harnessing culture of competitiveness. Along these lines government shall: (a) review the role of higher education institutions in the country's innovative system; (b) review investments in science, technology and innovation (STI) human resources to directly link them with strategies in retaining the "best" and "brightest" Filipino STI talents; and (c) promote a culture of multi-disciplinary collaboration, knowledge sharing, open dialogue and cross-fertilization of ideas as extremely relevant and important in the emerging global competitiveness environment.

Government shall promote a national culture of competitiveness by instilling customer focus and a sense of pride in job well done. A culture of competitiveness is a national psyche toward achieving excellence in the delivery of products and services that respond to the needs of the customers. Embodying a culture of competitiveness requires the following initiatives:

1. Developing Human Resources

Government shall develop human resources that instill a national culture of excellence by developing and harnessing a broad range of vocational, clerical, technical, managerial and entrepreneurial skills, propagating firm-level productivity and boosting competitiveness awareness. Harnessing skills and human capital as asset, propagating firm-level productivity and competitiveness shall be promoted in line with full human development. Program interventions

With its limited resources, Government shall focus its interventions on key areas that are job generating, where the country enjoys comparative advantage, and with high growth potential.

shall be pursued to develop the core values for an entrepreneurial mindset.

Such a mindset is one that will bolster for an enterprising mindset and a proactive attitude will be pursued. This mindset leads to constant improvement and innovation, creativity in offerings and processes and therefore becoming competitive at all times. Individuals become self-driven, resourceful, always positive and optimistic, opportunities and solution-oriented.

To ensure market-responsive education and training, the supply side of the labor equation should be addressed through quality education/training and effective assessment and certification systems. The government shall undertake and maximize capacity-building programs with the support of foreign governments and intra-government organizations under the framework of various bilateral and multilateral engagements. Likewise, linkages among Filipino skilled workers and their business network, technical experts and Filipinos involved in epistemic communities abroad shall pursue various multi-stakeholder talent-sharing and brain-gain and skills enhancement initiatives (e.g. Science and Technology Advisory Council, the Balik-Scientist Program and ERDT).

In addition, “sunrise” industrial or service activities with global potential shall be identified by roadmaps that forecast and prepare initiatives for skills requirements on employment needs. From 2007 to 2010, four roadmaps were developed for such industries: (a) electronics; (b) BPO/IT enabled-services; (c) medical tourism; and (d) health and wellness (including the retirement) sectors. By 2016, roadmaps for the remaining sunrise industries namely agribusiness, ecomining, value chain materials,

and manufacturing, shall be developed to complement the employment requirements. In cooperation with higher education institutions and the private sector, niches shall be identified and matched with the employment needs and strategic positioning of local firms and industries.

2. Mutually agreed-upon working arrangements

Mutually agreed-upon working arrangements increase efficiency and streamline operation. Thus, they are essential for the competitiveness of enterprises. These must be consistent with the promotion of employment and protection of basic rights of workers accompanied by adequate social safety nets to protect the vulnerable workers. The government shall establish facilitation mechanisms and services accessible to workers and enterprises alike.

3. Strengthen existing Tripartite Industrial Peace Councils

In line with democratic institutions and traditions, policies should encourage the strengthening and reactivation or creation of more industry tripartite councils nationwide and firm-based dispute settlement schemes that are geared toward self-regulation governed by voluntary codes of good labor-management practices. In addition, the government will adopt conciliation-mediation and alternative dispute resolution mechanisms at different levels (LGU, industry, and national); implement a less than 30-day mandatory conciliation-mediation of all labor cases under the single-entry approach; and campaign for less industry-based voluntary code of good practices.

Focus Interventions To Increase Exports/ Investments/ Tourism

With its limited resources, Government shall focus its interventions on key areas that are job generating, where the country enjoys comparative advantage, and with high growth potential.

1. Investment promotion, industry development in job-generating areas

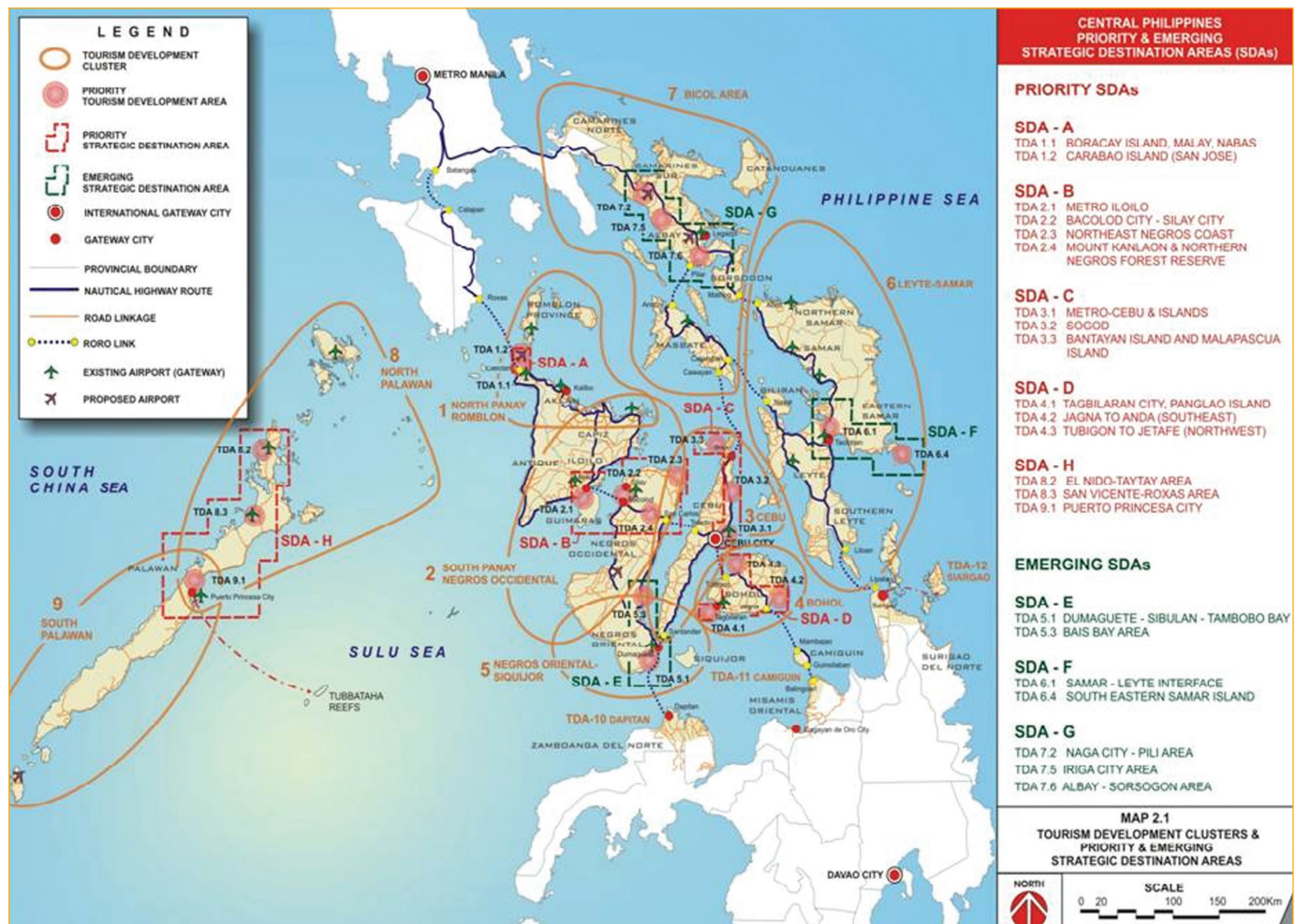
To increase exports and encourage foreign and domestic investments, the government shall pursue intensive promotion and industry development as well as offer a more focused incentives package to stimulate the economy and allow all development partners an opportunity to take advantage of the gains from increased economic activities. The Philippine Export Development Plan 2011-2013 and 2014-2016 shall provide detailed strategies to implement the over-arching strategy of Moving Up the Value Chain to Double Exports. With more investments pouring in and more revenues from exports and tourism,

consumption is boosted by higher purchasing power from a vibrant economy. With the fundamentals in place, this whole process becomes a cycle that leads to growth. To maximize the gains from targeted and holistic interventions, the following key areas will be pursued in the medium term:

a. Tourism

Tourism is a powerful driver for economic growth, infrastructure modernization, local area development, and employment generation. The increase in visitor expenditure and investment arising from tourism activities create livelihood and jobs in

Figure 3.5 Strategic Destination Area for Tourism



Source: Department of Tourism and Japan Bank for International Cooperation- Sustainable Management Plan for Central Philippines.

many local communities, which helps reduce poverty.

Tourism development will be pursued in a sustainable manner to continuously create jobs and livelihood for local communities and generate foreign exchange for the economy while ensuring a high level of visitor satisfaction. Adherence to sound and manageable environmental practices in the development and promotion of tourist destinations as well as enhancement of tourism products and services will serve as cornerstones for planning, product development, human resources development, and marketing. Aiming to make the Philippines a destination of choice for tourism in the Asia-Pacific region, the government shall take the following measures:

- Encourage the diversification of existing destinations, and creation of new tourism areas and products including the expansion in room capacities through the implementation of the rules and regulations for the designation of Tourism Enterprises Zones (TEZs).
- Mobilize the enormous capacity of the country's LGUs at the provincial, city and municipal levels by strengthening their capacity to plan, regulate and guide tourism development so that it is environmentally and socially sustainable as well as economically inclusive and viable. Moreover, increase the competitiveness of the country's tourism enterprises and products by implementing partnership with the LGUs and the private sector to implement a mandatory system for the accreditation of tourism enterprises, including the formulation of a national standards and certification program for tourism facilities and services to ensure the highest quality and

international comparability of the country's tourism products.

- Formulate a national tourism development plan (NTDP) as the framework for the identification of tourism destinations and products, domestic and international markets, marketing and promotion as well as prioritization of tourism infrastructure requirements by the Department of Public Works and Highways and the Department of Transportation and Communications, and designation of TEZs by the TIEZA. This will also provide the basis for LGUs to subsequently formulate their local tourism development plans (Figure 3.5).
- Encourage LGUs to develop tourism related-products and services using the community-based and ecotourism approaches as implemented by innovative and entrepreneurial local governments in Bohol, Palawan, and Bicol, and have contributed to poverty reduction, protection of the environment, and gender equality in local areas. To this end, LGUs can seek the assistance of capable public and private higher education institutions in their areas, whose academic, research and extension programs in tourism-relevant disciplines and technical expertise can be tapped for local tourism/culture planning, tour guide services, standards-setting and quality assurance for the hospitality sector, site and institutional development, and the showcasing of cultural heritage.
- Undertake a focused and sustained international and domestic tourism promotion campaign and programs using both traditional and the new social networking media targeting existing and new markets as well as OFs.
- Launch focused and sustained international and domestic tourism

programs using the new media with the support of OFs. Likewise, the support and cooperation mechanism for private sector and nongovernment organizations participation shall be enhanced. Efficient intra-government coordination system shall be put into practice in tourism promotional and planning activities. These shall involve the Tourism Promotions Board (as mandated by the Tourism Act of 2009) and the respective tourism related promotional units of the Department of Foreign Affairs (DFA), Department of Health (DOH), Philippine Retirement Authority (PRA), BOI, DTI, Department of Environment and Natural Resources (DENR), National Commission for Culture and the Arts (NCCA), and the various agencies and councils supporting culture and the arts (i.e. CCA, FDCP, and so forth). The entry of tourists under thematic programs (e.g. health and wellness and employment generation) shall be further facilitated in coordination with the DFA, Department of Justice (DOJ) and the BOI. Such a multi-dimensional stakeholder approach shall maximize the promotion of medical tourism; retirement; meetings, incentives, conventions and exhibitions (MICE); adventure and ecotourism; film production, and Philippine cultural and culinary diversity.

- Develop and implement a new tourism marketing campaign/branding in consonance with the country's international image and trade promotion thrust.

- Promote public-private-sector partnerships both in infrastructure development and capacity expansion and modernization in the accommodation and recreation sectors, among others. The private sector will be engaged in extensive consultation to identify gaps, policy reforms and programs that will assist

the tourism sector achieve its goals and objectives in the medium term. The Tourism Coordinating Council shall be the vehicle to strengthen such partnerships.

b. Business Process Outsourcing

The Philippines is now the second-largest destination for outsourcing and is soon expected to lead the global industry in terms of revenue earnings in voice/call center operations. The Philippines is projected by foreign analysts to lead in all aspect of BPO operations worldwide in the next five years. Thus, it is imperative to build the right value proposition to sustain both prevailing and prospective global positions.

- BPO, IT and IT related services comprise both voice (e.g., call centers) and nonvoice (e.g., back office/knowledge process outsourcing (KPO), IT outsourcing, Engineering Services Outsourcing (ESO) and design process delivery, transcription, animation, and game development. Even as the Philippines takes the top position in the contact-center segment of the BPO industry, there is a need to nurture the growth in the KPO segment of the BPO industry, further enhance wage and work conditions, and strengthen the multi-stakeholder support framework. Thus, an average annual export growth of 20 percent shall be achieved from the following strategies: (a) development of a sustained data collection system for the services sector; (b) implementation of a comprehensive export branding program; and (c) legislation for data privacy and against cybercrime in order to reduce risk perception of Philippine

BPO services as well as pursue legislation of the Magna Carta for Call Centers Workers.

- In addition to BPO, Services and Creative Industries shall be promoted and enhanced. This will include other services such as accounting (professional services and outsourcing), education, engineering, franchising, interactive media with focus on animation, and gaming, health and wellness, and shipcrewing/ship management.

To support the industry, there is a need to nurture the talent pool, develop the infrastructure and regulatory support, and improve the socioeconomic environment. To this end, government shall:

- Enhance investment promotion and industry development strategies by synergizing initiatives and programs of the government and private sector to maximize resources;
- Harmonize the educational system with the changing needs of the industry;
- Advocate talent development through training and opportunity building, creating awareness that BPO provides high-paying jobs/careers, and focusing on expanding the talent pool;
- Sustain government commitment thru fiscal and nonfiscal incentives and facilitate the conduct of industry-focused road shows overseas;
- Improve the long-term risk perception and overall business environment; and

- Expand the development of “Next Wave Cities” in partnership with private sector.

c. Electronics

The electronics sector is a major driving force of the Philippine economy and has consistently been a source of high-value, high-impact investments preferred Original Design Manufacturer (ODM) and Original Equipment Manufacturer (OEM). Likewise, the country also houses some of the world’s top electronic companies. There are two major players in the electronic components sector: the third-party subcontractors, which are mainly Filipino-owned, and the multinational plants which cater to the requirements of their parent companies.

The electronics industry will continue to be the driver of growth of Philippine merchandise exports. Shipments are foreseen to exceed US\$30 billion by 2010. At an annual growth rate of 10 percent, electronics exports are expected to hit more than US\$50 billion by 2016.

The priority sub-sectors for promotion for electronics are: (a) components/devices (semiconductors); (b) electronic data processing; (c) automotive electronics; and (d) solar power or photovoltaic cells.

To show the reliability of Philippine electronics and increase exports, country image branding and investment are significant. Likewise, this would entail aggressive promotion by: targeting emerging markets; conduct of high-level investment missions; integration of the electronics industry; establishment of human competencies throughout the value chain such as continuously growing talent pools in MS and PhD levels as long term strategy; and attract new players in potentially competitive subindustries such as solar cells, growing capacity in IC design and the country’s collaboration with Taiwan.

d. Mining

The Philippines is situated along a well-defined belt of volcanoes called the Circum-Pacific Rim of Fire making it one of the most mineralized countries in the world.

The Mines and Geosciences Bureau (MGB) estimates that some nine million hectares of the Philippine total land area of 30 million hectares are geologically prospective for metallic minerals. Some of these areas may be developed further, particularly large ore bodies and linked with downstream processing industries. The operation of processing plants and value-adding activities which have a demand-pull effect on primary production will serve as a catalyst for the development of other industries and sectors generating economic activities. The multiplier effects of these industries will foster the growth of the mining industry throughout the country.

The Philippine Mining Act is regarded as among the first worldwide to mandate corporate social responsibility in mining projects and activities.

The current export oriented mining industry should aim at producing manufactured goods and industrial products based on an industrialization framework and supported by a strong R&D program on efficient and state of the art technologies. For instance, copper production should be linked with smelting and refining operations down to the manufacture of cable wires and other high value finished products. The Iron and Steel Industry should be rationalized to address not only the local requirements but should also compete in the export market.

Generation of more investments in mining and mineral processing and mineral based manufacturing industries is the key to doubling exports by the sector by 2016. Policies, goals, objectives, strategies and programs of both national and local government entities need to be

in sync and focused on promoting mining and mineral processing to establish industrial zones in identified areas with substantial mineral deposits.

In the short term, investment promotion activities of the BOI, DFA (and its Foreign Service Posts), and DTI (and its Foreign Trade Service Corp) may focus on preidentified mining projects determined by both the BOI and the MGB as “problem-free” in terms of mining permits, in collaboration with the LGUs, and in consultation with local community. Other recommendations to further increase the sector’s competitiveness and contribution to economic development are the following:

- Develop the framework for the industrialization of the Philippine Mining/Mineral Industry to support the country’s export activities and vertical integration to stimulate downstream and upstream industries and encourage domestic processing of minerals for the export markets;
- Strictly enforce compliance with environmental and social development commitments;
- Cleanse inactive mining applications and nonperforming mining contracts;
- Continue public information campaigns and increase dialogues with concerned groups. Inform the public about responsible mining that minimizes environmental impact;
- Harmonize national and local government policies, goals, objectives, strategies and programs; and

- Ensure international linkages to relevant global sustainable extractive industry standards and best practices and benchmarks (e.g. Extractive Industries Transparency Initiative or EITI).

e. Housing

Investing in mass and socialized housing will enable investors to enjoy incentives, as the government seeks to address the housing gap of 5.8 million units from 2010 to 2016 or about 800,000 units per year. The government has also increased the target number of housing loans from 75,000 to 150,000 housing units. This is in line with the government's thrust of facilitating access to a variety of housing options that are decent, affordable, and responsive to the diverse and changing needs of the people by providing incentives to low-cost mass housing developers.

f. Agribusiness/Forest-based Industries

As one of the identified priority areas, market-driven and competitiveness-led agribusiness/forest-based and livestock industries shall be continuously promoted in both inbound and outbound investment missions, and shall be included in promotional activities such as business matching and investment briefings.

To further raise investment in agrobased industries, the government shall provide incentives as well as identify lands that are adequate for certain agricultural products. These lands should have already been covered by agrarian reform and the agrobased industries will respect the security of tenure of the agrarian reform beneficiaries (ARBs) and will work to improve the income and livelihood of the ARBs. The domestic economy shall be strengthened through asset reforms, development of agriculture and promotion of industrialization. (See Chapter 4: *Competitive and Sustainable Agriculture and Fisheries*)

Among agro-based products exported by the Philippines, the exports of fresh and processed foods are seen growing at 10 percent annually, a performance that will come mainly from fresh fruits such as banana, pineapple, mango, papaya, and okra; preserved fruits; beverages; and processed marine products (e.g. tuna, shrimps, etc.). Markets of these products shall be expanded and diversified through international promotional events, inbound business matching and addressing the market access issues resulting from new requirements of target and growth markets. Government shall strengthen the certification system for Good Manufacturing Practices (GMP), Hazard Analysis Critical Control Point (HACPP), and ISO 22000 as well as *halal* and kosher food standards and certifications. The DOST and DTI shall assist food processors in improving the packaging of food products.

The DA shall ensure the production of specific varieties required by the market and other agriproducts which are raw materials for processed food, e.g. allocation of sugar. Moreover, new Free Trade Agreements (FTAs) will be utilized to increase Philippine agricultural exports.

Coconut, which is widely available in the country, is an immense source for food and nonfood products. Nonfood-based products such as coconut oil account for a significant portion of Philippine exports of coconut products with crude coconut oil accounting for most of coconut oil exports. To double exports of coconut products by 2016, value-added products such as refined coco oil, coco biodiesel and oleochemicals shall be promoted. Technology shall be developed to collect coconut water from the production of coconut oil. It is also imperative that supply of coconut should be available to processors.

Refined coco oil is used for both food and industrial/external applications. To promote the use of refined, bleached and deodorized (RBD) coco oil in the international food processing market, the government shall help in information campaigns to counter the negative publicity about coco oil (allegedly perpetuated by producers of competing products), and create an awareness of coconut oil's health benefits.

The Philippines already figures prominently in almost all categories and products of the worldwide coconut industry, but efforts shall be undertaken to further develop the coco-coir and coco-peat segments to export higher value products such as geotextile for soil erosion control or green architecture projects, rubberized coir products for car seats, mats, bed mattresses, air filters, among others. Investments in technology shall be promoted and issues concerning material supply aggregation and consolidation shall be addressed.

Through a trilateral undertaking, the DA, DFA and the DTI, shall continue to source breeders for cattle and water buffalo in order to enhance the supply of beef and milk products in the market.

g. Logistics

The Philippines' international logistics activity is relatively small compared to nearby countries. Together with the growing MSMEs potentials and global supply chain relations, this low base indicates a potential for high growth for logistics and supply chain activities.

To expand the sector, the government shall encourage investments in the development and expansion of logistics infrastructure in the international market. It will also promote other existing ports such as those located in Batangas and Subic not only to decongest the Manila port but also to open opportunities to worldwide shipping in the new areas.

Furthermore, the government shall review and develop/reform policies and rules, such as customs practices; transshipment of cargoes in various modes (i.e. air-air, sea-air, and air-sea); and foreign shipping services along the entire multimodal transportation chain.

h. Shipbuilding

The Philippine shipbuilding sector, which now ranks fifth in the industry, covers building, ship repair and shipbreaking, and accounts for two percent of the total world market. By 2014, investments are expected to grow by PhP93 billion. Investment growth will be focused on serving identified markets, such as South Korea and Japan, although other markets opportunities will also be considered.

In addition, support for shipbuilding shall also come from promoting the country's human capital and continuously providing enhancement programs.

The export market, which is dominated by three foreign shipbuilders, accounts for more than 98 percent of the total turnover, with the number expected to increase. Under good management and with skilled human resources matched by capital, technology and global market opportunities, the industry is moving forward to make the Philippines the fourth largest shipbuilding nation in the world in the next five to ten years.

i. Infrastructure

Infrastructure plays a vital part in the country's economic development and growth. Investment shall be directed towards the development of air and sea ports; roads; agricultural support facilities such as irrigation systems and systems for water supply; commercial infrastructure for trade and exposition; waste management systems (i.e. solid and liquid waste); and energy

source facilities for power supply. (Refer to Chapter 5: Accelerating Infrastructure Development).

j. Other High-potential Industries

While there are priority areas that will be focused on, the government will also be vigilant in nurturing industries that post potential in (a) domestic and export market demand; (b) job generation; (c) utilization of local talents and creativity; and (d) maximization of the total value chain. Prospective areas perceived as high-growth potential include: homestyle products; wearables; motor vehicle parts and components; garments; and construction and related materials, among others.

Homestyle Products. Annual growth of 7 percent is targeted in the design-driven homestyle products, which includes furniture and furnishings, holiday décor, houseware and ceramics, woodcraft, giftware (excluding toys), shellcraft, and basketwork. The booming outdoor market in China and India and non-traditional markets such as South America (Brazil), Eastern Europe and the Middle East shall be the target markets. Aggressive export promotion through international trade fairs shall be pursued. The strong design capability of exporters, capitalizing on the mixed-media furniture, shall be continuously developed and sustained.

Wearables. Fine jewelry is the major export product of this industry. It also covers costume jewelry, fashion accessories such as headgear, scarves, gloves, belts and bags. To attain the 10 percent annual growth target, the government shall help the industry gain international exposure through trade fairs and shall put in place uncomplicated export and import policies and regulations.

Motor Vehicle Parts and Components. This industry targets an average annual export growth of 12 percent for parts and components and up to 5 percent for completely-built up (CBU) exports. Wiring harness exports, driven by rising global market demand, are expected to grow in volume by 97 percent through more efficient operations, or almost US\$ 24 million in additional annual export earnings. Earnings are also expected beginning 2012-2013 from projects with the US, Korea, Thailand, UK and Australia.

To attain the targets for CBU exports, government and the private sector shall aggressively encourage global car manufacturers to assign specific car models to be supplied by Philippine original equipment automotive parts manufacturers/exporters.

The Replacement Parts Market will be tapped in addition to the original equipment parts market. Products with high potential are: electric fuel system parts; substrates for catalytic converters, antilock brake system, leafsprings, radiators, exhaust system and mufflers, automotive rubber parts, alternators, automotive carpets, tempered safety glass, windscreen, weather-strips, automotive plastic parts, nuts and bolts, and aluminum alloy wheels.

Subcontracting for customized orders of various automotive metal and plastic fabrications such as casting, forging, stamping, machining, and tooling will be pursued.

Garments. The garments industry is one of the country's foreign exchange earners, exporting a total of US\$1.67 billion in 2009. Top export markets include the US, Japan, Great Britain, Germany and Canada. For 2011, exports are estimated to increase by as much as US\$2 billion. Employment in the industry, currently at 150,000 workers, is foreseen to increase considerably over the next five years.

The government shall continue to implement the national innovation strategy called *Filipinnovation*.

Construction and Related Materials. The construction sector consists of (a) wood-based products (e.g. doors, windows, plywood and veneer, joineries/moldings); (b) metal-based products such as iron and steel, aluminum and copper products; (c) nonmetal-based products (except marble); and (d) chemical-based products (e.g. PVC plastic, vinyl, paints and varnish). By 2013, the construction industry is expected to reach a total of US\$1.37 billion in export sales, with a 12 percent annual growth.

The formulation of a Construction Industry Strategic Plan for the 21st Century or CI21 is intended to provide a framework for the industry's accelerated growth.

2. Development and implementation of programs that will enhance productivity and efficiency through green programs and sustainable consumption and production patterns.

Programs will include PPP initiatives; projects in the countryside such as ecoefficiency and ecodesign programs (i.e. Bayong Development, Bamboo and coconut, among others); advocacy programs that will be enhanced through LGU, community, and media partnerships; and funding of projects and programs through international grants shall be explored. Domestic efforts shall include the granting of incentives (i.e. through the BOI Investments Priorities Plan or IPP) to green projects and programs.

3. Development and implementation of technology development projects in various priority areas/sectors to boost its innovativeness and competitiveness (i.e. the design of an ICT-based English language learning to increase the human resource uptake of call centers).

4. Review indicators on the number of new technology-based firms created.

5. An integrated high-impact export promotion program that will enhance country branding will be adopted and

implemented at the initiative of the DFA, DTI, DOT, DA, pooling their resources with other relevant stakeholders.

6. Industry and services shall be induced to ascend the value chain to develop higher local value-added products and services through a well-conceived and comprehensive industrial strategy.

Market diversification shall be achieved by: targeting high-economic growth markets such as China and India, participating in global supply chains with ASEAN; maximizing the benefits existing Free Trade Agreements; and strengthening our international trade policy negotiation structures.

Provide Firm-Level Support To Potential, New, And Existing Micro, Small And Medium Enterprises.

1. Facilitate access to BDS

Government shall create a favorable environment for MSMEs to thrive and ease their access to financing, facilitate their entry to larger markets and increase their productivity and efficiency. Almost half of MSMEs are engaged in wholesale and retail trade. Given this large number, government shall carry out programs to maximize their participation in supply and distribution systems within value chains for identified industry clusters. Business development services (BDS), including enhancements needed to boost productivity, will be provided for promising MSMEs. The government shall also build on existing programs, specifically the One Town, One Product (OTOP) Program, information campaigns, provincial caravans, and SME Centers.

In addition, government shall encourage the formation of new MSMEs. LGUs shall facilitate business registration, provide enabling environment in support of enterprise

development, and fully implement MSME-related laws (e.g. Magna Carta for MSMEs, BMBE Law).

To complement the existing strategies identified under the SME development plan, four thematic areas shall be adopted: corporate social responsibility, climate change, gender, and migration. This approach shall also foster economic activity in the countryside. Government shall also assist in the development of programs that will encourage MSMEs to produce green products, and use environment-friendly processes. Business development services will maximize the use of local and sustainable sources such as waterlily, bamboo, coconut among others, and utilize materials in producing and marketing domestic and exportable products from these resources. Likewise, BDS will also educate MSMEs in processes that are non-threatening to the environment.

2. Improve access to financing

Government Financial Institutions such as the People's Credit and Finance Corporation, Land Bank of the Philippines, and the Small Business Corporation — the main wholesale finance institutions catering to microfinance institutions (MFIs) — shall collaborate with DTI, DOT and viable MFIs in developing innovative market-based financing schemes to support microenterprises. Government will collaborate with MFIs to use microfinance as a tool for inclusive growth by expanding access by microenterprises and poor households to credit, savings, and other financial services.

3. Develop livelihood programs for sustainable micro-enterprise

Government shall support the transformation of livelihood activities of the poor into sustainable microenterprises. To this end, DTI and DSWD shall collaborate in

providing business development and productivity enhancement services to existing livelihood projects. With closer collaboration between DTI and DOT, community-based and ecotourism projects will be implemented to provide alternative and supplemental livelihood for local communities as well as help in poverty reduction, raise family income, and promote a better quality of life in the rural and far-flung areas, which are considered desirable tourism destinations.

4. Promote Entrepreneurship among OFs

A more aggressive campaign to tap OFs as sources of capital shall be pursued. Government shall utilize media and various forums, including presidential and official trips, in encouraging entrepreneurship among OFs and/or their dependents. DTI and DOLE shall review and strengthen existing programs and consider ways to maximize the brain gain derived by OFs from foreign deployment. The DFA, DOLE, DOF, Commission on Filipinos Overseas, and the Bangko Sentral shall conduct financial literacy campaign overseas to educate and orient OFs regarding their investment and remittance options which may include special bond issuances and related financial instruments.

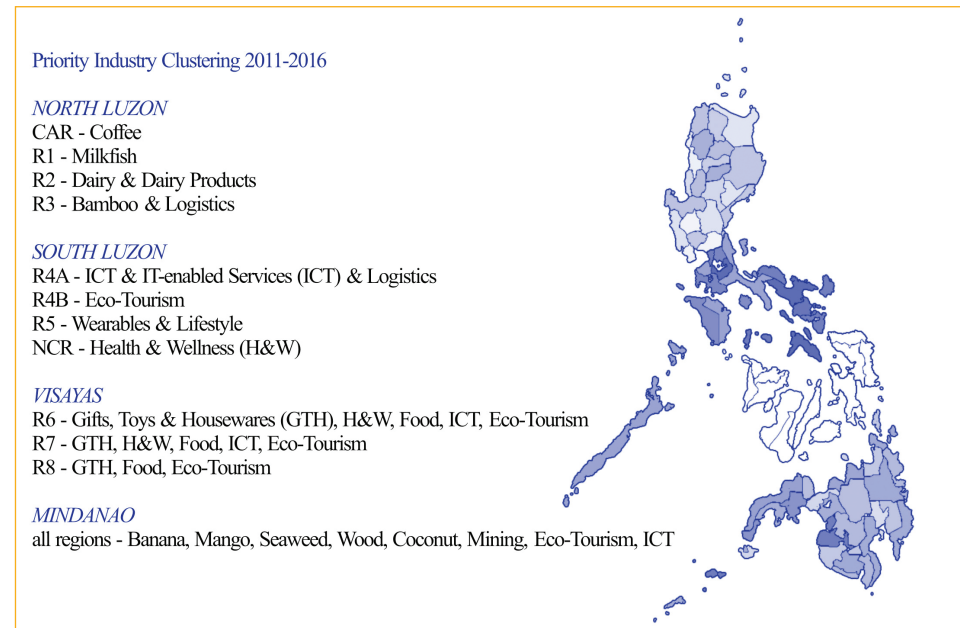
5. Advancing through Science, Technology and Innovation (STI)

A “whole-of-government” approach will be pursued to achieve competitiveness. Thus, the government will strengthen vital factors that highly contribute to the advancement, distinction, satisfaction and demands in the domestic and international markets “Science, Technology and Innovation” (STI), and “Quality”.

- a. The government shall continue to implement the national innovation strategy called Filipinnovation. This will enable the country to achieve (a) a competitive and multidisciplinary work force competent in producing value-added knowledge-based services of global standards; (b) competitive

The industry clustering strategy is vital for linking manufacturing with other sectors.

Figure 3.6 Industry Cluster Map



The government shall pursue market access through effective bilateral, multilateral and regional engagements and representation, and maximize opportunities offered by existing trade agreements.

local firms driven by or borne out of constant innovations brought about by increased R&D; and (c) a public policy environment that ensures continuous innovation not only through executive, legislative and judicial initiatives but through local government programs. It will promote the usage of Information and Communications Technology (ICT) in enterprises. Filipinnovation focuses on: (a) strengthening human capital investments for STI; (b) stimulating STI; (c) enhancing management of the STI system; and (d) upgrading the Filipino mindset in S&T. Since the strategy/policy imperatives are interconnected, it shall be coordinated and harmonized to create necessary conditions to deepen and consolidate STI capacity.

b. The government shall set up a National Quality Infrastructure to integrate and coordinate series of activities involving metrology, standardization, testing, and accreditation and certification. It will provide procedural landscape for products and services of enterprises, particularly SMEs, to meet quality requirements. It will guarantee competitiveness in the national and

international markets through quality certification.

c. STI, a crucial factor for productivity, competitiveness, job creation, sustainable development and poverty alleviation will also pursue R&D initiatives:

- Address opportunities for STI professionals;
- Address structural gaps in the STI and R&D sectors such as inefficiencies in the structure of incentives and allocation of R&D resources that are obstacles to new programs and activities which could help attain STI and R&D goals;
- Facilitate new STI policies needed to boost productivity, economic growth and job creation through increased knowledge-intensive economic activities while maintaining social cohesion;
- Foster tie-ups between industry and the higher education institutions to

strengthen the effective transfer of appropriate technology and advanced skills needed by the industry and for the production of higher value goods and services;

- Facilitate and utilize sufficient information on the scientific and technological experiences and know-how of other countries;
- Establish e-centers to enhance access to knowledge and technology, particularly in rural and remote areas;
- Implement programs and tools to support and respond to climate change and disaster risks incidents especially for fishers and agri/marine farmers; and
- Policy backup and enforcement mechanisms for existing laws require bolstering and institutionalizing in close collaboration with neighborhoods.

Cluster Development

In developing identified industries, government shall pursue an industry cluster program to foster inter-enterprise linkages among MSMEs and strengthen collaborative networks.

Industry Clusters are geographic concentrations of competing, collaborating and interdependent businesses, working on a similar regional infrastructure and creating wealth of regions through exports. It fosters the transfer and adoption of new technologies, creates risk capital, and attracts foreign investment

It breaks down organizational, geographical and sector boundaries, all needed for creating a cycle of

sustainable economic growth. The industry clustering strategy is vital for linking manufacturing with other sectors (e.g. mining, agriculture, tourism, construction, etc.), particularly as these affect raw material needs of manufacturing and the manufactured-product requirements of other sectors (Figure 3.6).

Industry clusters provide benefits such as:

- Maximizes capacity through shared hard and soft infrastructure, human resources, R&D and safety standards;
- Provides access to all players, attracting expertise and local suppliers;
- Ensures that top export products or revenue streams are sustained through the development of its value chains down to the provinces and municipalities;
- Offers a focus to attract new investments, encourage local expansion and stimulate start-up of new companies;
- Promotes horizontal collaboration and strategic partnership;
- Enhances productivity by providing firms access to specialized inputs and skills, as well as unique information, knowledge and technology; and
- Promotes product complementation that enables longer visitor stay and higher expenditure in tourism destinations.

The government shall maximize PPP as a strategy in industry clustering. On a larger scale, growth centers or regional hubs shall be identified to synchronize the mobilization of public and private resources. These hubs shall unlock

Proactive measures to empower consumers, promote competition, and enforce trade regulations shall be pursued.

The entire supply chain shall be improved to reduce production and distribution cost of basic and prime commodities

productive capacity in the countryside by providing a critical mass of resources in support of private businesses even outside the capital. The integrated international air and sea connectivity of Clark-Subic, Cebu, Cagayan de Oro (with the upcoming PPP project for the Laguindingan airport), and Davao shall be highlighted to enhance the profile of these growth centers among foreign and local investors.

For IT-enabled clusters such as technology business incubators, technology parks and clusters of knowledge-based industries, the creation of shared infrastructure and the provision of business support services for innovators and developing entrepreneurs shall be promoted. The establishment of technology business incubators across the country will be pursued, taking into consideration commercial sustainability, careful matching of target markets with the strengths and ambitions of potential firms, and proximity and linkages to research institutes and universities. The provision of business support services shall be private sector-led and demand-driven. The clustering of knowledge-based industries through science and technology parks shall be stimulated

Global And Regional Integration (Increase Market Access)

The government shall pursue market access through effective bilateral, multilateral and regional engagements and representation, and maximize opportunities offered by existing trade agreements. The government commits to engage all possible stakeholders in undertaking proactive participation in international engagements geared at keeping the country in the radar screen of international business. This initiative will particularly benefit and maximize trading potential of MSMEs.

Preferential Trade Agreements (PTAs) contribute to the competitiveness of Philippine export products and services. The low utilization rate of these agreements in the country shows the need to conduct the orientation and capacity-building workshops for manufacturers, enterprises, and service providers to enhance their capability to avail themselves of the benefits of these PTAs. The government shall therefore initiate the following programs and activities:

• *International trade strategy*

The government shall pursue the following programs to complement its international trade strategies and provide more opportunities for market access: (a) National Single Window will be opened to improve trade facilitations and logistics; (b) support shall be afforded to infrastructure and quality of trade facilitations to improve the efficiency of logistics services; (c) to further assist MSMEs integrate into global production networks, government shall formulate and implement an industrial strategy, as well as enhance SMEs' capabilities; and (d) the negotiation process shall be reviewed and enhanced through reforms of trade policies, the formulation of a negotiation process, and capacity building of the Committee on Tariff and Related Matters, and trade-negotiators. Best-practice models shall be adopted for trade analysis to get more robust cost-benefit analyses of proposed measures and reforms.

• *Economic diplomacy and consular commercial and economic representation overseas*

The coming years will see the redefinition of globalization, as the global economic system continues to integrate with the domestic economy.

The government will therefore: (a) maintain and safeguard economic security in multilateral, regional, and bilateral economic engagements; (b) maintain and safeguard national and economic security through strategic partnerships within the Asian region to ensure that Philippine foreign policy decisions are taken in the context of Asian Regionalism and Asian Community; (c) continuously evaluate multilateralism and the stability of international organizations; and (d) work to attain the Millennium Development Goals (MDG) targets by 2015 and reduce poverty through intensified international cooperation.

In line with the ASEAN Tourism Strategic Plan and the Multilateral Agreement on Full Implementation of Passenger Air Services, greater collaboration will be undertaken to realize the potential of the ASEAN region as a source market for tourism. In addition, tour programs shall be developed through twinning and dual destination with other ASEAN countries, attracting more international tourists and foreign direct investments in tourism.

To inform the public including private industries/firms engaged and/or potentially capable to trade outside the country, the government will continue its information, education and communication campaigns on PTAs. The information campaign sessions will be conducted in 12 key cities nationwide to cover discussions of the benefits of the agreements as well as administrative procedures for availment. The sessions will also feature businesses, which have so far benefited from a PTA to entice and encourage others to leverage said agreements to their advantage. Using mass and digital media as a tool, each information session will be supported by campaigns such as press releases and radio and television coverage.

Goal 3: Action agenda to enhance consumer welfare

A consumer sector that is vibrant and dynamic demand better products and services and encourages the production of high quality products and services that are globally competitive. It shall be a key strategy under the Plan to raise consumers' consciousness of their rights and responsibilities, and their options for redress. The objective is to intensify consumer education, starting from the young. Hence by 2016, the Plan envisions 100 percent integration of consumer welfare in the education curriculum; and resolution period of consumer complaints reduced by half.

Encourage Consumer Products And Services Satisfaction.

To encourage the production of competitive products and services, government shall encourage a consumer sector that is vibrant and dynamic and demands better products and services.

1. Intensive consumer education and advocacy

An informed consumer is an empowered consumer; hence, government shall intensify its consumer advocacy efforts through a more aggressive awareness and information campaign. The government shall pursue consumer education by integrating product quality and safety based on internationally accepted standards in the high school curricula as well as in alternative learning systems. Likewise, the government shall expand its links with media and utilize available media channels such as radio, print, television, and out-of-home advertising and tools, as well as actively network with various organizations. Also, it will advocate consumer programs that will merit public and private satisfaction.

2. Consumer protection and trade regulation

The government shall help maintain reasonable prices and availability of supply of basic and prime commodities. To achieve this, the government will intensify and expand programs that will address affordability of basic necessities

and prime commodities. To address consumer concerns, a sustained mechanism for speedy resolutions of complaints will be implemented in collaboration with the private sector. The government shall work at the development of a national comprehensive competition policy, pursue the legislative agenda on competition law, product liability and other consumer related laws.

3. Development of products and services standards

The government shall encourage the manufacture of products to conform to internationally accepted standards. By 2016, an additional 2,000 Philippine National Standards will be developed, adopted and harmonized, while 100-percent compliance by companies on standards that are developed for mandatory certification will be enforced.

Improve Supply Chains Of Basic And Prime Commodities

The Price Act of the Philippines declares the policy of the State to ensure the availability of basic necessities and price commodities at reasonable prices at all times without denying legitimate business a fair return on investment. It is also a declared policy of the State to provide effective and sufficient protection to consumers against hoarding, profiteering and cartels with respect to the supply, distribution, marketing and pricing of said goods, especially during periods of calamity, emergency, widespread illegal price manipulation and other similar situations. In this regard, government is mandated to: (a) develop, adopt and promulgate measures to promote productivity in basic necessities and prime commodities; (b) develop an improved and efficient transport and distribution system; and (c) develop, adopt and promulgate measures to stabilize prices at reasonable levels.

Under the Plan, government will intensify and expand programs that will maintain the affordability of basic necessities and prime commodities. A review of the supply chain will be implemented to determine effective points of interventions to make enhancements and eliminate deficiencies. This requires infrastructure support and logistics mechanisms that shall result in lowering of price with the elimination of middlemen and other barriers to bring the goods and services to the market. Producers, manufacturers, traders, retailers, and consumer organizations shall be consulted so that the supply chains of basic goods and services may be improved, reducing costs in production and distribution and thereby checking rise in prices.