

**BREAKOUT SESSION**

# **MANUFACTURING SECTOR**

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**Manufacturing Sector Workshop Outputs**

**The State, Problems and Prospects of Pro-human Development Trade in the  
Manufacturing and Garment Sector<sup>1</sup>**  
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The state and problems of the Philippine manufacturing and garments sectors of the industry is reflected in the summary of Chapter 2 of the Asia-Pacific Human Development report 2006 on "Trade and Human Development, The Asia-Pacific Experience" (p. 48):

"The share of manufacturing output and export of high tech, skill intensive products rose, while that of labor-intensive products declined ... Industries shifted towards greater capital intensity. Employment growth rate plummeted even in the presence of faster growth in output.

There was 'jobless growth' both in agriculture and manufacturing. The over-all unemployment rate increased, and labor market conditions probably deteriorated for unskilled workers. The rising gaps between urban and rural income, between capital and labor income and between the incomes of skilled and unskilled workers have led to sharp increases in inequality.

The failure of employment to rise and the growing income disparities imply that the 'trickle down' effect of fast trade and income growth on human development and poverty reduction is limited."

### **Globalization and Industrial Development**

The Philippine industrial sector has not performed well in the last three decades even after it has joined WTO in the last 10 years. With the lowering of tariffs, many small to medium sized manufacturing and agricultural enterprises closed down (Table 3) due to lack of preparations, safety nets and unfair playing field where smuggled goods abound in the market. Investments in long-term industrial projects were not encouraged and investors shifted to import or trading business for easier profits.

Since 1980, the share of manufacturing continued to decline (Table 1) unlike in other Asian countries (Chart 2). The manufacturing to employment ratio over the last two decades has not changed to about 4%. In 2005, employment in industry grew only at 0.05 percent due to the slack in manufacturing and construction (Labstat Updates 2006).

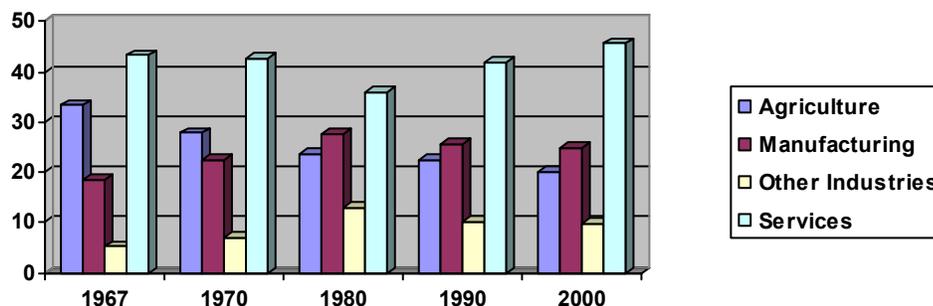
Agriculture's contribution to GDP continued to decline from 33.3 percent in 1967 to 20.0 percent in 2000. The service sector increased significantly from 36 percent in 1980 to 45.6 percent in 2000. Hence, the Philippine growth pattern was characterized by the increase in services with agricultural and industrial sectors declining<sup>i</sup>. As of 2000, more than half of the country's

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<sup>1</sup> Lead discussant, Round Table Discussion on "Trade on Human Terms: Makatao Pa Ba? (Making Trade Work for the Poor) based on the *2006 Asia-Pacific Regional Human Development Report*, August 17, 2006, Assembly Hall, UP National College of Public Administration and Governance (NCPAG), Quezon City, sponsored by UP NCPAG in cooperation with UP School of Economics, Fair Trade Alliance, NEDA and UNDP.

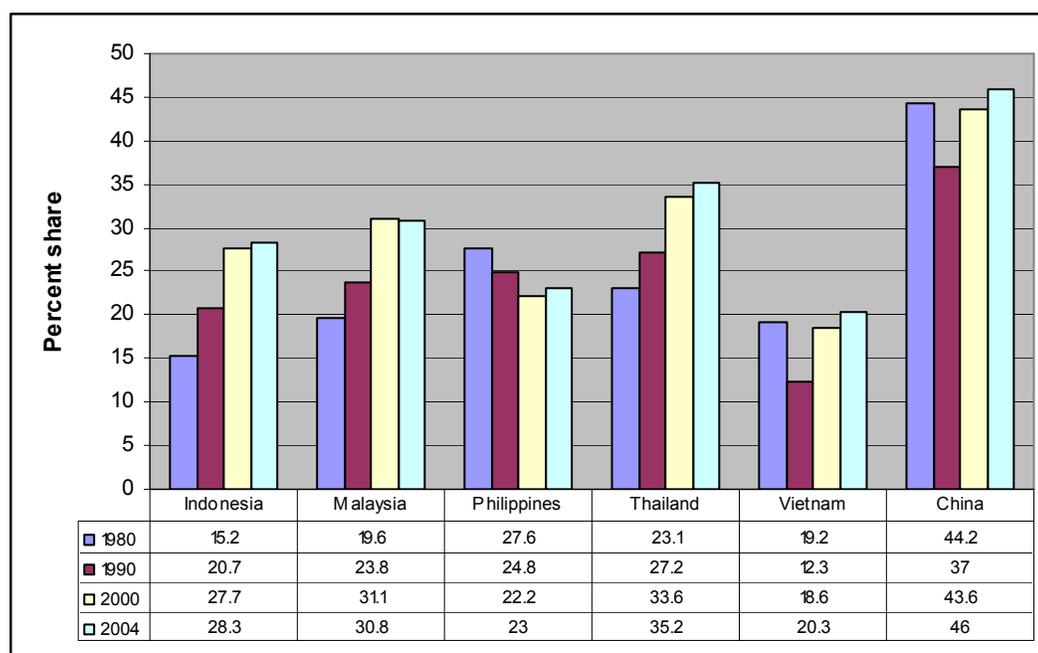
employed labor force that used to be in agriculture was absorbed by the service sector. Please refer to Table 2 and Chart 1 below.

**Chart 1. Percent Share of Agriculture, Manufacturing, Other Industries and Services to Gross Domestic Production, 1967, 1970, 1980, 1990, 2000**



These trends continued up to the present. Employment in 2005 grew by 2.2 percent. This was driven by the service sector at 2.8 percent and supported by agriculture at 2.2 percent (Labstat Updates 2006).

**Chart 2. Share of Manufacturing to Total Output (1980-2004)  
Select Asian Economies**



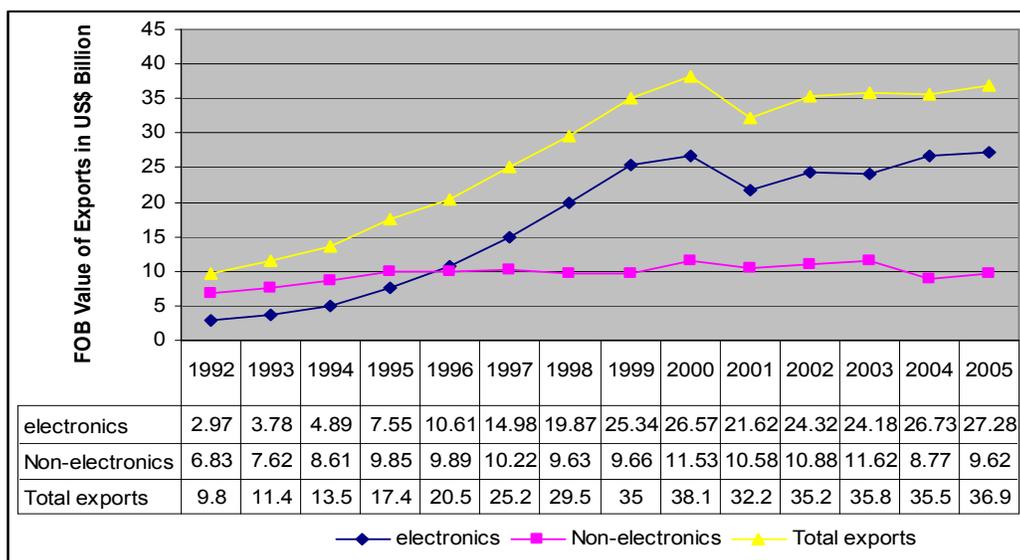
Source: ADB Key Indicators 2001, 2003, 2005.

Note: for China manufacturing also includes mining, electricity, gas and water

The country's export sector grew rapidly from 1980 led by electronics and garments sectors. Both industries were spurred by global supply chain demands of multinational retailers and producers as a result of increased trade liberalization. These enterprises especially electronics are import dependent. They have to increase their domestic value content (or climb the value chain) in order to sustain industrial growth (Ofreneo 2002, Lim and Montes 2004).

Lately, garments have gone down when quotas were phased out in 2004 and are losing to China and other cheaper garments producers<sup>ii</sup>. Electronics enterprises have slowed down in 2000 and some electronics companies have transferred part, if not whole, of their operations to China and Vietnam where power, infrastructure and labor are cheaper.

**Chart 3. Electronics vs. Non-electronics exports 1992-2005**

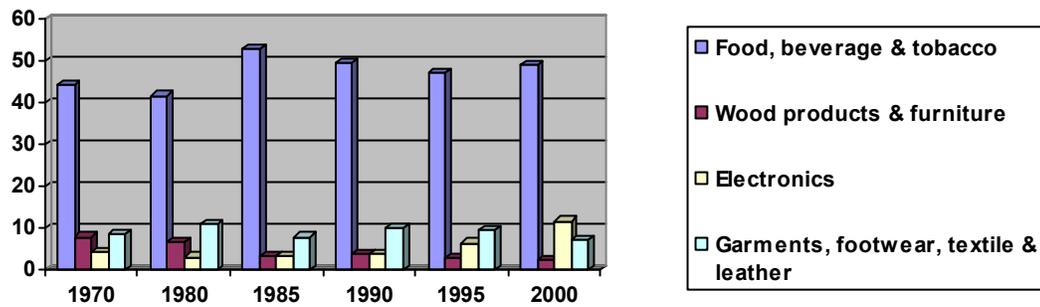


Source : Bureau of Export Trade Promotion

The share of manufactured exports increased from 60% in 1985 to 90% in 2000 despite the overall decline of manufacturing and other industries (Villamil and Hernandez 2005). This growth in the export sector is not enough to compensate for the setbacks of other enterprises that have been neglected and even discriminated by the lowering of tariffs for imports coming from countries that impose higher tariffs such as China and Thailand. In fact, the average applied tariffs of Thailand for industry and agriculture are three times those of the Philippines.

As shown in Chart 4, the contribution of electronics to the manufacturing value added increased from a low 4.4% in 1970 to 11.6% in 2000. Food, beverages and tobacco, garments, textiles and other traditional industries declined moderately. Wood products and furniture declined from 7.8% in 1970 to 2.4% in 2000. In the textile industry, which had 300 firms in the 1970s, only five integrated firms are still operating.

**Chart 4. Structure of Manufacturing Output, 1970-2000**  
(% of Total Manufacturing Value Added)



Source: Hill (2003)

Domestic producers are faced with higher cost of doing business in the country due to high power cost, inadequate infrastructure, government red tapes and corruption, and shaky peace and order situation while being exposed to a liberalized and globalized domestic market. In 1999, several drug and pharmaceutical multinationals transferred their manufacturing operations to Thailand and Indonesia and shifted to importation and distribution business. The Fair Trade Alliance on September 11, 2001 reported the negative effect on the following industries-- steel, rubber and tire, shoe, tiles, coal, medicines, cement, batteries and agricultural crops like sugar, corn, vegetables and rice.

### Jobless Growth

A consolation to the weakening industry and agriculture sectors in the country is the modest economic growth of 6% in 2004. This was described by the World Bank (2005) as the fastest in 16 years. Among the factors that contributed to this growth were: 1) the electronics industry and offshore business process services estimated at \$3.8 Billion in 2006; 2) inflow of earnings of overseas Filipino workers (OFWs) amounting to \$11.6 Billion in 2005<sup>iii</sup>; and 3) gross international reserves of \$20.58 Billion in 2006<sup>iv</sup>.

It was only in electronics and garments where employment increased from 1975 to 1994. The percent share of electronics to the total manufacturing employment increased from 4.2% in 1975 to 12.2% in 1994. Garments share increased from 6.4% in 1975 to 16.3% in 1994. All other industries' share in employment declined slightly with the exception of textile<sup>v</sup> and wood products whose employment shares declined by fifty percent from 14.2% to 7.1% and 10.6% to 5.4%, respectively.

ADB economist Felipe noted that the Philippine growth rate was driven by domestic demand and consumer spending unlike the Asian NICs where exports led the economic growth. According to the Economist.com (2005), the economy failed to "grow fast enough to provide jobs for them".<sup>vi</sup>

More than 8 million Filipinos (about 10% of the population, of which 3 million were permanent residents) work abroad in land and sea based jobs and remitted earnings equal to 8.8% of the gross national product (GNP) in 2003 or 10.5% of the GDP. This was augmented by local employment from offshore business processing jobs which is expected to generate more than \$2 billion in 2006.<sup>vii</sup>

With a \$10.7 billion OFW earnings in 2005 remitted through the banking system and an undetermined amount through informal channels, the country's consumption-led economic growth spurred urban growth in real estate, shopping malls and other services. It has at the same time contributed to the strengthening of the currency against the US dollar<sup>viii</sup>.

Majority of big enterprises benefited from increased consumer spending brought about by the increased earnings of OFWs, and employment in offshore business process services and non-traditional exports. San Miguel Corporation, Manila Electric Company, Bayan Telecommunications Inc., United Laboratories, SM Investments, and Jollibee Foods Corporation were among those that expanded operations locally and abroad, particularly in other Asian countries.

The small and micro enterprises that account for 99% of enterprises and 65% of local employment are constantly threatened by cheap imports that include those smuggled in the country. According to the Federation of Filipino Industries (FFI), the government loses P174 billion revenues a year from smuggling. The medium and big enterprises were adversely affected external factors since many of their inputs like raw materials, electricity and parts were dependent on imports.

### **The Problems Caused by Liberalization**

- The increase in unemployment and underemployment (Table 5) which exacerbates the problems of deficit fiscal spending, low delivery of social services, poor infrastructure, armed communist insurgents and Muslim separatists in the poorest areas of the country and political instability.
- The shift of employment from industry and agriculture to the services (majority in the low tech informal sector) (Table 7) contributed to the country's over-all low productivity performance which increased only at 1 % per year on the average in contrast with 4.4% average of neighboring countries (China, Indonesia, Korea, Malaysia, Singapore, Taiwan and Thailand) or 1.4% for all developing countries. For 4 decades, output per worker in the Philippines increased only by 50% while other East Asian countries increased by 450%.

The increasing income inequality among classes and among regions (Sibal 2002). A 2004 ADB study noted that 40% of Filipinos are living on \$2 or less a day<sup>x</sup>. The 2005 last quarter survey of the Social Weather Station (SWS) reported that the poverty situation worsened since it started surveying in mid-1998, with 17% "they had nothing to eat at least once over a 3 month period<sup>x</sup>." This is because of the failure to develop the agro-industrial base and not enough jobs were created to absorb the unemployed and the new entrants in the labor force (Tables 5 and 6). There was no trickle down effect to the poor.

The Economist (2005) noted the great disparities in ownership of assets, in income, in levels of technology in production and in the geographical concentration of activity. The National Capital Region (NCR) produced one-third of GDP. Being the richest region, income per head was nine times that in the poorest region in 2001. Disparity is evident between the richest and poorest households. In 2000, the richest 10% of the population had an income 23 times that of the poorest 10%. Those living in poverty were estimated at 39.4% of the population in the same

year, with the rate in rural areas put at 46.9%, whereas the poverty rate in the NCR was only 12.7%.

The World Bank however, reported a different trend and cited the decline of the incidence of poverty between 2000 and 2003. The number of poor declined from 25.4 million in 2000 to 23.5 million in 2003, or from 33% to 30.4% of the population. It however placed certain precaution on its report (World Bank Report 2005).

Viola<sup>xi</sup> (2006) observed the following based on statistics from the United Nations, Food and Agriculture Organization (FAO) and Philippine Statistical System (PSS):

1. On food availability, the Philippines was ahead of Thailand, Vietnam, Lao PDR and Cambodia in 1990-1992. By 2000-2002, Vietnam and Thailand caught up with the Philippines and Lao PDR is getting close.
2. The country's incidence of undernourishment was higher than the whole Asia and the Pacific.
3. The Philippines has shown modest improvement in addressing poverty and hunger but the Asian neighbors have succeeded at faster rates and overtaken the country's record.

#### General Strategies on the Problems of Industry

The UNDP Asia-Pacific Human Development Report of 2006 listed in Chapter 7 an Eight-Point Agenda in helping solve the problems of industry. These are summarized as follows:

1. Invest for competitiveness.
  - Align basic infrastructure with national needs to gain competitiveness in both the local and global markets.
  - Focus human development on healthy, well-educated, skilled and flexible workforce.
  - Increase investments in R & D that will address the needs of the poor people through public-private partnership.
2. Adopt strategic trade policies.
  - Undertake industry targeting through selective time-bound protection and enhance local competition to prevent local monopolies and crony capitalism.
3. Restore a focus on agriculture.
  - Restore national food security by protecting and assisting the farmer.
4. Combat jobless growth.
  - Focus on labor-intensive industries and scale the value chain [forward and backward linkaging.
  - Allow enterprises to choose the lowest cost option for production but not biased against labor. [Lower cost of doing business- power, infrastructure, government bureaucracy, peace and order, cost of living, etc.]

- Allow labor flexibility arrangements.
  - Strengthen state support to workers through health insurance, social security, retraining and redeployment.
5. Prepare a new tax regime.
    - Focus on new progressive taxes that will not hurt the poor. [This should be instituted before import liberalization. Much of the income taxes are levied on the wage and salaried workers in the formal sector.]
  6. Maintain stable exchange rates.
    - Maintain realistic exchange rate [by 'managing floating'] that will balance the producers and exporters' interests.
  7. Persist with multilateralism.
    - Tie-up trade agreements with human development goals with preference to multilateral trade relations.
  8. Cooperate with neighbors.
    - Focus more on regional trade pacts such as the ASEAN Free Trade Agreement.
    - Promote regional cooperation to accumulate foreign exchange reserves to protect the region from another Asian financial crisis.

Another set of recommended strategies were presented by the Fair Trade Alliance (FT A). The FT A is a multi-sectoral group of entrepreneurs, trade unions, non-government organizations and other peoples' organizations like farmers, youth, consumers, women, religious, informal workers, environmental advocates, etc. It presented a national road map encompassed in the Fair Trade's 5-Point Economic Program (or the Nationalist Development Agenda) as follows:

Adopt a coherent, balanced and pro-Filipino development compass.

- a. Junk the neo-liberal paradigm.
  - Develop both the export and domestic markets,
  - Rely on the contributions of both foreign and domestic investment,
  - Preserve and strengthen local industry and jobs amidst global and regional integration,
  - Promote greater value addition and employment in existing capacities through more value-adding and networking activities that give greater depth and breadth to the agro-industrial structure,
  - Depend less on foreign borrowings and advice,
  - Strengthen national sovereignty and independence, and
  - Promote global and regional integration in a calibrated and nuanced way and is sensitive to the level of development of existing industries and the development needs of the country.
- b. Foster coherence in trade and development policies and define the national interest in each trade agreement.

2. Rebuild the nation's fences.

- a. Recalibrate tariffs for locally-produced industrial and agricultural goods should be

- adjusted upward to their maximum WTO binding rates.
- b. Fortify the walls against smuggling.
  - c. Strengthen the safety net laws and the rules against unfair trade practices.
  - d. Promote genuine, not ruinous competition in a free economy.
3. Build up the nation's productive capacity.
- a. Resolve the fiscal and debt crisis now, but not at the expense of domestic industry.
  - b. Mobilize domestic investments for recovery, jobs and incomes.
  - c. Rebuild the nation's industrial base.
  - d. Rebuild the nation's agricultural base.
  - e. Strategize the development of the service sector.
  - f. Scale the value chain.
4. Unleash the peoples' productive capacity.
5. Develop a culture of industrialism, tangkilikan (patronage of locally-produced products), excellence and economic nationalism.

### Sustaining and Developing the Agro-Industrial Base

A final note of the FTA's Nationalist Development Agenda in sustaining and developing Philippine industry is quoted below:

"To sustain growth, an economy can not stand still. It must continue improving. The agro-industrial structure must develop its breadth, depth and sophistication which lead to economic dynamism and continuous growth.

We need to grow from industry to industry. We need to scale the chain, downstream or upstream or sidestream, in order to create values and jobs. We need to develop industrial capacity at deepening levels of sophistication. A good illustration of this is China. China joined the electronics assembly business only 20 years ago and yet is now already into its own original parts manufacture, production of basic materials (wafer fabrication), application of electronics into Chinese goods and doing R & D in electronics. In contrast, the Philippines, which started in electronics assembly 30 years ago is now still in the assembly work.

In the case of the call center and BPOs, why can the Philippines not adopt what the Indians have been doing - scaling the IT and ICT enabled services. From data encoding to customer service, the Indians have been offering all kinds of business solutions, including legal backups in insurance cases, and producing all kinds of IT programs and subprograms. This propensity of the Indians to scale the chain has spread to its domestic industry and agriculture, which are undergoing a

major modernization lift due to the application of IT.

The lack of agro-industrial linkages for many crops is a very good illustration of our failure to scale the chain and create the necessary technology to produce more values and jobs. In turn, this leads to a shallow and weak agro-industrial base.

Hence, we are proposing that a strategic industry-government partnership be forged solely on the issue of promoting these necessary linkages and value creations. DTI, DA, DOST, CHED and TESDA should be involved in this enterprise. Further, we should focus more on product development and move away from the use of cheap labor and subcontracting." (FTA 2006)

Tables:

**Table 1. Percent Share of Agriculture, Manufacturing, Other Industries and Services to Gross Domestic Production (GDP), 1967, 1970, 1980, 1990, 2000**

Sector	1967	1970	1980	1990	2000
Agriculture	33.3%	27.8%	23.5%	22.4%	20.0%
Industry-					
>Manufacturing	18.3	22.5	27.6	25.6	24.8
>Other Industries	5.2	7.1	12.9	10.0	9.6
Services	43.2	42.6	36.0	42.0	45.6

Source of Data: National Statistics Coordination Board, Philippine Statistical Yearbook. Other industries include mining and quarrying, construction, electricity, gas and water

**Table 2. Labor Absorption of Agriculture, Manufacturing and Services (in percentage)**

Sector	1971	1981	1991	2000
Agriculture	50.4	51.4	45.2	37.0
Manufacturing	12.0	10.5	11.0	10.3
Services	37.6	38.1	43.8	52.7
Totals	100.0	100.0	100.0	100.0

Reference: Phil. Statistical Yearbook, National Statistics Coordination Board

**Table 3. Establishments Resorting to Permanent Closure/Retrenchment Due to Economic reasons and Workers Displaced (2000-2003)**

	2000	2001	2002	2003
Establishments reporting a)	2,258	2,589	3,403	3,262
• Closure	494	617	762	577
• Reduction of workforce	1,788	2,276	2,702	2,710
Workers displaced	67,624	71,864	80,091	67,977
• Closure	21,367	25,468	25,240	24,638
• Reduction of workforce	46,257	46,396	54,851	43,339

a) Details may not add up due to multiple reporting

Source of Data: Department of Labor and Employment and published in Birdtalk, July] 5, 2004

**Table 4. Unemployment and Underemployment (5 year averages) 1975-2004**

	Unemployment (%)	Underemployment (%)
1975-1980	5.40	12.68
1981-1985	9.93	24.88
1985-1990	10.48	21.88
1991 - 1994	9.50	20.00
1995-1999	9.32	20.82
2000-2004	11.40	18.10
2004	11.00 (6.5- ILO)	17.50
2005	11.30 (7.3- ILO)	16.10

•1998 figures based on NSO April rounds statistics, 2004 based on BLES statistics

**Table 5. Addition to the Labor Force vs. Job Creation (OOOs) (1996-2004)**

Year	Addition to the Labor Force	Job Creation	Addition to Unemployment
1996	1,353	1,510	157
1997	621	530	(91)
1998	700	196	(504)
1999	(295)	(170)	(442)
2000	152	(290)	(442)
2001	1,903	1,704	(199)
2002	1,122	906	(216)
2003	635	566	(69)
2004	1,289	976	(313)
1996-2004	7,480	5,928	(1,552)

Source: Soriano, Rene (2005)

**Table 6. Employment Generated by Sector and Number of Unemployed**

Sector	Number	Percentage
Agriculture	6,039,000	41.0%
Services	5,501,000	37.3
Industry	3,196,000	21.7
[Includes manufacturing]	[1,142,000]	[ 7.7]
Total	14,736,000	100.0%
New Labor Entrants	17,705,000	
Unemployment	2,567,000	

Source: Felipe & Lanzona (2005)

**Table 7. Employment by Class of Workers 2003-2005 (Annual Averages) (in thousands except rates)**

INDUSTRY	Total Employed Persons			Growth Rate (%)		
	2003	2004	2005	2003	2004	2005
Year						
All Employed Persons	30,635	31,613	32,313	1.9	3.2	2.2
> Wage and salary workers	15,354	16,472	16,316	0.2	7.3	(0.9)
> Own-account workers	11,517	11,614	12,104	3.8	0.8	4.2
> Unpaid family workers	3,756	3,527	3,894	(23.0)	(6.3)	10.4

Source of Basic Data: NSO, Labor Force Survey, *Labstat Update*, January 2006, DOLE-BLES

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## Endnotes:

<sup>1</sup> Structural changes in the economy (or growth of industry and the decline in agriculture share to GDP) are also measures of economic development. The transformation of an economy from agricultural to industrial is an indication of a successful economic development.

<sup>ii</sup> The garments industry today is partly alive simply because the United States has retained restrictions on the imports of Chinese-sewn garments and textiles. But how long will this continue? (FT A 2006)

<sup>iii</sup> Remo, Michelle, "UN urges freer flow of workers", Philippine Daily Inquirer, April 12, 2006, p. B6. Remo cited economist George Manzano's report to the UN that the OFWs' remittances contributed 13.7% to the GDP. Other countries that benefited from overseas remittances in 2005 were India, \$21.7 Billion and China, \$21.3 Billion.

<sup>iv</sup> How long shall we be able to retain the electronics assembly industry? And the call center industry? In the electronics industry, we have seen the relocation of some companies to Vietnam and China. In the case of the call center industry, how shall we be able to retain this industry once a new generation of IT-savvy and English speaking Chinese, Vietnamese and other foreign graduates in developing countries join the global labor force? (FT A 2006)

<sup>v</sup> The textile industry was booming in the 1970s and 1980s and partly modernizing in response to an expanding market. The industry collapsed in the 1990s due to widespread smuggling of textiles, yarns, threads and other materials imported largely through the bonded warehousing facilities of some garments exporters. The collapse was further aided by government neglect, which did not bother to take a second look at the precarious situation of the textile industry and which did not have any ambition of developing an integrated textile-garments industry (FT A 2006).

<sup>vi</sup> The Economist (2005), "In Search of Elusive Domestic Demand", Bangkok: economist.com, October 13, 2005, [http://www.economist.com/PrinterFriendly.cfm?story\\_id=5025883](http://www.economist.com/PrinterFriendly.cfm?story_id=5025883), (opened 1.11.06-jvs)

<sup>vi</sup> Domingo, Ronnel, "Outsource industry seen growing", Philippine Daily Inquirer, February 17, 2006, p. B6

<sup>viii</sup> Dumlao, Doris, "OFW remittances surge 16.5% to P977 M", Philippine Daily Inquirer, March 16, 2006, p. B1.

<sup>ix</sup> Asian Development Bank (2004) study on the economic status of the country under the Arroyo administration ([www.adb.org](http://www.adb.org))

<sup>x</sup> Cabacungan Jr., Gil (2005), "Number of hungry Pinoys hits new high, says survey", Philippine Daily Inquirer, Jan. 7, 2005, pp. A1 & A4

<sup>xi</sup> Dr. Romulo Virola is the secretary general of the National Statistical Coordination Board (NSCB), chairman of the Statistical Research and Training Center (SRTC) and past president of the Philippine Statistical Association.

## **Mr. Meneleo Carlos**

Chairperson, Federation of Philippine Industries

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When trade enriches the rich and impoverishes the poor it means that there is no healthy balance in the economy. This afternoon I would like to present my comments on Chapter Seven – Trade for Human Development: An Eight-Point Agenda of the Asia Pacific Human Development Report 2006.

I believe the global market represents a global resource for progress. Like other countries, the Philippines need to tap the outside market to really grow. And we should seek being competitive if we are to play in the global market. However, trade liberalization in our country has been very disappointing. Factories of multinational companies, instead of relocating here, have been moving out. The soap and detergent factories and electronics industries are a few examples of these factories. This should have sent a message to our leaders. There is something wrong with the way we are globalizing.

### ***Invest for Competitiveness***

We should invest more in particular areas if only to develop our competitiveness. We should invest in our transport systems: build more roads and railways. We should build schools and training facilities, and support advanced education and training. We should promote private research and development (R&D) because it is market driven, and the results are directly introduced in the market. We should also promote R&D in the universities and take advantage of their linkages with the private sector through their consulting services. We should promote private R&D because government R&D has not been able to produce the expected results.

### ***Adopt Strategic Trade Policies***

In adopting a strategic trade policy, we should know and capitalize on the strengths of our industries, and liberalize mainly in areas where we are strong, not all over the place. On the other hand, we must protect and strengthen our weak industries by putting up tariffs, investing more capital, and developing technological know-how. We must remove tariffs on imported raw materials and, at the same time, apply tariffs on finished goods to support our local industries. More importantly, we must continue to eliminate bureaucratic pathologies and corruption because these weaken our global competitiveness.

### ***Restore Focus on Agriculture***

Restoring our focus on agriculture, fisheries and forestry is the single most important element that we should pay attention to. These industries provide a living for the poor people and the marginalized. Restoring our focus means providing the marginalized people with the basic capital resources. We must provide farmers with land, and we should open up our seas to fishermen so they can have access to the basic resources if we want to improve their well-being. I believe this is the only way we can provide the poor with the needed capital. The government has natural resources yet these are not being used with efficacy. These efforts coupled with rural electrification and communication will greatly improve the lives of many marginalized Filipinos.

We should maintain tariff support for these products and protect the local producers. We want the poor to be able to produce forest, marine and, agricultural products. If imports are necessary then mechanisms such as a tariff protection to benefit small but not big traders should be in place.

### ***Combat Jobless Growth***

We should liberalize the utilization of our land and marine resources, most especially for the poor. By doing so, we will provide a lot of Filipinos with jobs thus addressing in part poverty in the country. At present a lot of Filipinos are migrating abroad to find jobs. To support that activity the government must provide education and training. There is no doubt that Filipinos will have to migrate abroad, we really do not have any jobs available for them, and I do not blame them. That is why we have to provide them with education and training and craft a program where they will learn and bring home what they have learned abroad. Our OFWs (Overseas Filipino Workers) do not go abroad permanently since they just go there to work. We should also provide better diplomatic support for our overseas workers, and also extend health insurance and social security to them. Right now health benefits and social security are only for corporate employees but I am glad that PhilHealth and SSS are already beginning to look at this.

### ***Improve Tax Collection***

Our government only collects 16% to 17% of our GDP while Thailand and Malaysia collect about 25%. Poor tax collection efficiency is one of the causes of budget deficit. There is something wrong with our tax regime. Our government should raise more revenues not by collecting more from tax payers and increasing the value added tax (VAT) but by persecuting tax evaders. We should revert to our old VAT and income tax rates system. We should rationalize tax incentives but we must also continue to prosecute tax evasion cases and punish illegitimate practices. The bottom line is: tax evasion in our country disadvantages the legitimate tax payers.

We must also resolve two pertinent issues to improve our tax regime problems: (1) stop the worsening situation of smuggling and (2) protect local producers from the influx of fake, substandard goods and unfair trade practices. We must also strengthen our regulatory measures to protect consumers from substandard products.

### ***Maintain Stable Exchange Rates***

Our present exchange rates are fairly stable, yet the peso is really undervalued. The exchange rates are being managed discreetly to prevent disturbing fluctuations, yet the high exchange rates continue to punish the poor.

### ***Persist with Multilateralism***

I agree with the report that there is danger in entering into bilateral trade agreements with developed countries. I think when we band together as ASEAN (Association of Southeast Asian Nations) we become stronger in terms of our negotiating power. There is strength in numbers after all.

### ***Cooperate with Neighbors***

We should continue to strengthen our ASEAN relations in preparation for the resumption of the trade talks with the developed countries.

**Mr. Dave Diwa**  
National Confederation of Labor

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My task this afternoon is to point out issues just like what Mr. Meneleo “Mr. Manufacturer” Carlos did, and point out the facts just like what Dr. Sibal did, and to invite you to come to a discussion.

I’ll make three broad outlines in my presentation.

**Number one:** I would like to invite you to focus on the report itself because that is the main purpose of this forum. I would really want to impress upon all of us the framework that is being used. The primary focus of the entire report is a proposal to have a development strategy that links trade and poverty alleviation. So the question is: can it be done? I think the Asia Pacific Development Report is an incomplete one. Many things have yet to be done from which certain concrete policy directions can be crafted and perhaps adopted by industries or stakeholders, and the government. So it is incomplete in itself.

**Number two:** I think the report is a repetition and recapitulation of all the issues that have been going on for the last couple of years. The report itself is not feasible, particularly the funding aspect especially if the report is meant to address some big problems in the Asia Pacific Region. I think, as what happened in Africa and the Latin America with the United Nations, when there is no concrete provision for funding of programs, nothing will materialize.

**Number three:** I think to the extent that the report is founded on a neo-liberal view of the world of trade, nothing much can be expected from it. The problems identified are spawned by globalization and coming up with solutions that are part of the globalization process will not solve the problems of inequality, efficiency, and poverty.

Having said that, I think the report is part of the UN System – part of the global framework that is being done throughout the world on how precisely life on earth can be made more livable. So we have global institutions like the World Bank, the IMF, the GATT and the WTO. We also have the ILO at a certain point. I think the UNDP report is part of that entire process. Other global institutions would focus on the finance side, while other global institutions would focus on the trade negotiation side. This particular plank of the UNDP seeks to address some dimensions that are being left out so I would suppose that the poverty alleviation program is linked to the millennium development goals being undertaken by UNDP.

Why is the report on Asia and the Pacific? The answer is quite simple. The report has presented us a number of statistics and the main point is that if we have about six billion people in the world today, two billion of that are coming from Asia and the Pacific. China and India alone are huge countries. Cambodia, Vietnam, Sri Lanka, Pakistan, the Philippines, and other south pacific countries represent the so-called areas where reinvestment is going on and where more people are working. So the focus of the European Union will really be towards this region– the parts of the world that are not benefiting from globalization. Now, trade will be an important strategy for all of these countries to grow and to develop. For instance, in the Philippines, trade represents the way its economy will grow. Compared to China which has a trade vis-à-vis GDP moving towards 30%, the Philippines’ is pegged at 15% and still getting lower.

What is the relevance of the report to manufacturing? The link is that trade involves the transport of manufactured items. But as Prof. Sibal pointed out earlier, the Philippines is not in a very good situation as far as manufacturing is concerned, particularly in the textile and clothing industry. I think textile and clothing will be the biggest industry in the coming years. However, this

industry is pronounced dead in the Philippines. And if we continue to go into trade and manufacturing in this manner, the situation of this industry will remain the same. The textile and clothing industry will be the main industry in Cambodia and Vietnam; and it is now the industry in China. In another five years China will move into the electronics industry; inevitably, its textile and clothing industry will be transferred to another country. We used to be number one in the textile and clothing industry in the 1950's. Perhaps if we put our act together, we will regain the industry in our country.

We at the labor sector do not believe that our country is now reindustrializing. There is no such thing as reindustrialization because we never really industrialized in the degree that industrialized countries have industrialized. In fact what we had is non-industrialization. I think we really have to change our paradigm. We must have a self-reliant economic development strategy combined with trade so we can still take advantage of our local market.

## **SOME ADDITIONAL POINTS**

### **On the effects of imported surplus products and smuggled goods on the manufacturing sector**

Cheap imported products have penetrated the local market. The local manufacturing industries such as garments and clothing are at the losing end. Prof. Sibal noted that while consumers are able to buy cheaper clothes, shoes, and bags at the “ukay-ukay,” it is the informal workers in the local clothing, shoe, and leather industries, however, that are losing profits and, worst, their jobs. In addition, the continuous proliferation of smuggled goods is detrimental to the growth of the manufacturing sector. The influx of cheap imported surplus products, which compete with local products in the market, is a result of an unregulated liberalization and low tariff rates imposed on imports.

### **On the implementation of tariff rates to make local manufacturers more competitive**

The tariff rates set by the government have become detrimental to increase the competitiveness of the manufacturing sector in the country vis-à-vis other Asian countries. Mr. Vincent Castillo of the Cement Manufacturing Association of the Philippines pointed that the inappropriately low tariff rate and the rising costs of fuel and coal is making the overall costs of production in the Philippines higher compared to countries such as Malaysia. There is an immediate need to identify strategic industries subjected to high costs and to protect them by recalibrating the tariff rate. Mr. Castillo shared that local manufacturers have met with the policy-making government agencies. Unfortunately, tariff rates remain unresponsive to the economic situation.

### **On the financial system and high interest rates of bank borrowings**

The manufacturing sector relies mostly on borrowings for financing its operations. Unfortunately, the current interest rates applied to bank borrowings are higher compared to other Asian countries due to the cartels in the Philippine financial system. This problem prevents manufacturers from expanding their operations for the last decade.

### **On the government’s foresight in developing the Philippine economy and its policies regarding Call Centers and OFWs**

There is an unprecedented growth in the services sector, particularly with the increase in the number of Call Centers being established and the throng of Filipino workers working abroad. In this context, several questions were raised such as: Were NEDA and other government agencies able to project the probability of these industries at the onset? Were the policy makers and decision makers of our country informed of such projections? Has the government been responsive to the changes in the economy (e.g., setting up policies and guidelines to protect Filipino workers). These questions must be answered by the concerned government agencies. These agencies must conduct industry targeting and anticipate the effects of these new industries on the economy.

### **On building local capacity and training for the informal sector and women**

There is a need to upgrade the skills of the informal sector and women. These additional training and education will help develop their skills in a competitive economic environment. To accomplish this task, there must be networking between stakeholders and the concerned government agencies. There must also be a continuous effort on the part of the government to pursue an education and training program for the informal sector in the next five years.

## MANUFACTURING SECTOR WORKSHOP UTPUTS

Major Issues/ Challenges	Recommendations	Agenda for Action/ Next Step(s)			Agency/ Organization Responsible
		Within 2006	3 yrs	5 yrs	
Scaling the value chain	Backward and forward linkaging (techno park: academe, local industries, & technology agencies doing R&D for more competitive Filipino products)	Tap Gokongwei fund	Build infrastructure w/in the university (Commonwealth)	Come up with innovative products and processes	- UP & other state colleges and universities (SCUs) - Later: DOST, DTI, private sector
Need for more education & skills training, especially for informal sector	-Increase trainings for traditional skills for workers - Train women	Focus on networking of multi-stakeholders; Create training regulations; Rebuild infrastructure	Upgrade skills of workers	Placement of workers & creation of permanent laboratories for trainings (not classroom type); Scale up enterprises	- TESDA (already conducting trainings at present), DTI, DOLE, SCUs, private sector, etc.
High cost of doing business (fuel, energy, etc.)  Industrial integration	Identify strategic industries subjected to high costs and protect them by immediately recalibrating the tariff rate	Increase tariff rate; Consider alternative technologies that can lower the cost of power/energy/fuel; Strengthen price monitoring; Rationalize MFN tariffs and adjust CEPT tariffs (EO)	Review rates and adjust (lower) based on costs; Continue efforts; Craft and implement the dev't programs of the sectors	Review rates and adjust (lower) based on costs; Continue efforts; Craft liberalization schedule of the sectors	OP, Tariff commission, NEDA, DTI, DOF, legislative branch, BOI, NGOs, UNDP, FTA, NAPC

