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Expanding Economic
Opportunities in
Industry and Services
through *Trabaho at
Negosyo*

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Expanding economic opportunities in industry and services (I&S) is critical to laying down the foundation for inclusive growth, high-trust society, and a globally competitive and resilient knowledge economy. Accordingly, increased access to economic opportunities for micro, small, and medium enterprises (MSMEs), cooperatives, and overseas Filipinos (OFs) is also crucial if more business activities are to be created to reduce inequality and poverty. This also takes into consideration factors related to the current and potential comparative advantage, environmental protection and biodiversity conservation, low carbon growth, disaster and climate resilient industries, and gender equality.

Assessment and Challenges

Remaining issues on logistics bottlenecks, mining, and natural disasters may inhibit the growth of domestic production and trade. Climate-resilient and reliable infrastructure, such as roads, bridges, railways, airports, seaports, stable power supply, and internet connectivity, continue to be inadequate. Mining activities are still concentrated in low-value adding activities. Economic activity and investments remain concentrated in the National Capital Region (NCR) and adjacent regions and has led to unequal development across regions. CALABARZON (Region 4A) had the highest share in total industry output, accounting for 32 percent from 2013 to 2015. The NCR registered the biggest share in total services output at 52 percent for the same period. The Autonomous Region

in Muslim Mindanao (ARMM) had the smallest share in both sectors at 4 percent and 0.1 percent, respectively.¹

Restrictive economic provisions of the Constitution, as well as pertinent laws, rules, and regulations limit foreign participation in certain sectors. Restrictions on foreign participation limit competition, investments, and trade in the country. Despite significant increases over the last six years, a comparison of net foreign direct investments (FDI) vis-à-vis selected ASEAN countries would show that, except for Thailand (USD4.8 billion), net FDI inflows to the country (USD5.7 billion) were lower compared with Singapore (USD65.3 billion), Indonesia (USD18.7 billion), and Malaysia (USD9.8 billion) in 2015².

¹ Philippine Statistics Authority. Various years. *Gross Regional Domestic Product Data and Charts*. Retrieved from: <http://nap.psa.gov.ph/grdp/datacharts.asp>

² Association of Southeast Asian Nations. *Foreign Direct Investment Statistics*. Retrieved from http://asean.org/?static_post=foreign-direct-investment-statistics

The cost of doing business remains high and reforms are yet to be fully implemented.

Many of these involve cumbersome regulatory or licensing requirements and procedures. Business registration and licensing in some municipalities still need to be streamlined. Requirements for permits of national and local governments (e.g. numerous signatures needed to put up a power generation company), among others, need to be drastically cut (*see also Chapter 5*). The Philippines jumped 41 places to 103rd out of 189 countries from 144th out of 183 countries in 2010 in the Doing Business Report 2015-2016 of the World Bank–International Finance Corporation.³ The country's ranking in dealing with construction permits improved to 99 from 124. However, the country's ranking dropped in other indicators such as starting a business, trading across borders, and enforcing contracts.

Improving the competitiveness of the sectors to reduce vulnerability to uncertainties in the global market also continues to be a challenge.

The slowdown in the global economy, including the Philippines' top trading partners Japan, European Union, United States (US), and China, may affect the performance of industry and services including trade. Exports are concentrated in few products and markets. Domestic firms are lagging behind in terms of technology and innovation processes (*see also Chapter 14*). The opportunity for establishing domestic economic zones is currently underutilized. Such zones are important in integrating existing economic and freeport zone activities within the domestic economy. Most firms remain vulnerable to natural hazards and are unable to proactively manage the adverse effects.

Many consumers, especially in rural areas, still lack awareness of their rights to safety, information, and prices. In 2015, 23 percent of consumers surveyed said that they were unaware of these rights.⁴

The mismatch between the technical and practical skills of the labor force and the human capital needs of the sectors remains.

This contributes to the slow absorption of available labor, and the out-migration of young technically-skilled and educated Filipinos. Industry accounted for 16.3 percent of total employment from 2013 to 2016, with manufacturing absorbing an average of 8 percent of its total. On the other hand, services accounted for 54.5 percent of total employment from 2013 to 2016. Wholesale and retail trade, specifically repair of motor vehicles, accounted for 19 percent of the total.⁵

Statistics on I&S, including those for MSMEs, are inadequate. These are needed to track the performance of the sectors, and the information is to be used as basis for strategic planning.

Political and security issues remain important considerations for investors.

Investments in public and private construction in the next six years are likely to boost the growth of industry and services. With the government increasing expenditure on public infrastructure to at least 5 percent of GDP annually, demand for construction-related manufactures such as basic metals, fabricated metal products, and transport equipment, among others, is expected to grow. Manufacturing resurgence is also seen to drive industry growth in the medium term.

³ The World Bank and International Finance Corporation. *Doing Business Reports*. Retrieved from <http://www.doingbusiness.org/reports>

⁴ Department of Trade and Industry. 2016. *Geared for Global Opportunities - 2015 Annual Report*. Retrieved from <http://www.dti.gov.ph/resources/publications>

⁵ *Philippine Statistics Authority – Labor and Employment*. Various years. *Current Labor Statistics*. Retrieved from <http://psa.gov.ph/current-labor-statistics/statistical-tables>

Investments in public infrastructure attract investments in private construction such as housing projects. The logistics subsector will benefit in the form of increased demand for transport and other related services, thus reducing time and cost of moving or transporting goods and labor. Improved connectivity is also expected to facilitate movement of products and people, including tourists, within the country.

The growing global interest in Asia provides an opportunity to attract investors to locate in the country. Increased investments

will expand production and trade, not only for export but also for the growing domestic market. The country's strong macroeconomic fundamentals, growing middle income class, political stability, and rising consumer and business confidence make it an attractive investment destination. Worldwide tourist arrivals have also been increasing continuously. Among ASEAN members states, however, the Philippines trails behind Malaysia, Thailand, Singapore, Indonesia, and Vietnam in attracting tourists.

Strategic Framework

Reducing inequality in economic opportunities will require strategies that will expand these opportunities for in industry and services, and increase the access particularly of MSMEs, cooperatives, and OFs.

The creation of globally-competitive I&S will be pursued by integrating these sectors to strengthen forward and backward linkages toward more efficient supply and value chains. Developing globally competitive and innovative I&S products where the country's comparative advantage lies would depend heavily not only on the availability

of raw materials, labor, and technology but also on the presence of adequate soft and hard infrastructure.

Targets

The following table presents the medium-term targets for industry and services (I&S). Gross value-added (GVA) in services and industry (particularly manufacturing) will be improved. Employment generation in these sectors will be increased. The targets correspond to the subsector outcomes outlined below.

Table 9.1 Plan Targets to Expand Economic Opportunities in I&S, 2017 – 2022

INDICATORS	BASELINE		END OF PLAN TARGET
	YEAR	VALUE	2022
Sector Outcome A: Economic opportunities in I&S expanded			
GVA in the industry sector improved (%)	2016	8.0	8.1-9.1
GVA in the services sector improved (%)	2016	7.5	6.9-7.9
Manufacturing GVA as a proportion of GDP increased (%) ⁶	2016	23.2	to be determined
Employment generated from the industry increased annually (in thousands)**	2016	508	2,319 (2017-2022)
Employment generated from the services sector increased**	2016	1,179	3,515 (2017-2022)
Manufacturing employment as a proportion of total employment (%) ⁷	2016	8.3	11.8
Subsector Outcome: Local and foreign investments increased			
Total approved investments increased (in million pesos)	2016	685,952.5	to be determined
Net foreign direct investment (in million dollars)*	2016	US\$ 6,217.04	to be determined
Subsector Outcome: Competitiveness, innovativeness, and resilience increased			
Philippine overall ranking in the WB-IFC Doing Business Report improved	2017	99/190	to be determined
Subsector Outcome: Market access improved (refer to External Trade section of Chapter 15 – Sound Macroeconomic Policy)			
Subsector Outcome: Consumer access to safe and quality goods and services ensured			
Level of consumer awareness increased (%)			to be determined
Sector Outcome B: Access to economic opportunities in I&S for MSMEs, cooperatives, and OFs increased			
Proportion of small-scale industries (enterprises) in total industry value added increased ⁸			to be determined
Subsector Outcome: Access to production networks improved			
Number of MSMEs participating in global value chains increased			to be determined
Subsector Outcome: Access to finance improved			
Proportion of small-scale industries (enterprises) with a loan or line of credit increased ⁹	to be determined	to be determined	to be determined
Subsector Outcome: Productivity, efficiency, and resilience improved			
Number of barangay micro business enterprises registered increased			to be determined

**Baseline data is as of Q1 2016

*Baseline data is from Q1-Q3 of 2016

⁶ SDG Indicator 9.2.1

⁷ SDG indicator 9.2.2

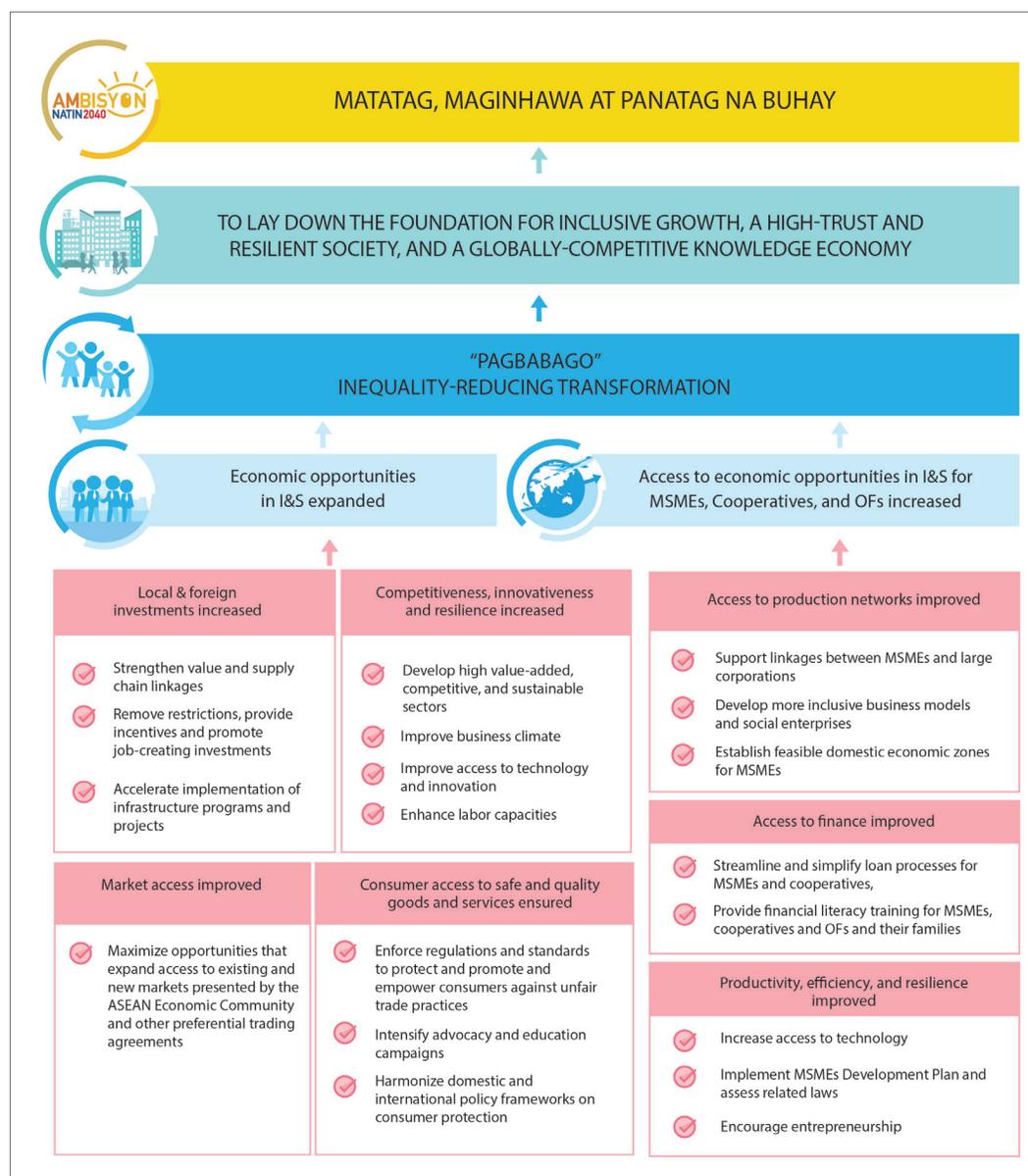
⁸ SDG indicator 9.3.1

⁹ SDG indicator 9.3.2

Strategies

As part of reducing inequality, the PDP 2017-2022 aims to expand economic opportunities in the industry and services sectors. It also seeks to increase the access of MSMEs, cooperatives, and overseas Filipinos to economic opportunities in industry and services. Through *trabaho at negosyo*, entrepreneurs will be encouraged to hire and pay for labor, thus contributing to employment generation and enabling enterprises to move the scale and gain efficiency.

Figure 9.1 Strategic Framework to Expand Economic Opportunities in I&S, 2017 – 2022



To achieve sector and subsector outcomes as well as targets, the following strategies will be implemented:

Sector Outcome A: "Trabaho": Economic opportunities in I&S expanded

Subsector Outcome 1: Local and foreign direct investments increased

Strengthen value and supply chain linkages

- *Implement the comprehensive national industrial strategy aimed at upgrading industry, particularly manufacturing, agriculture, and services, while strengthening their linkages to domestic and global value chains. This will develop globally-competitive industries and services with strong forward and backward linkages, especially for MSMEs in regional and global production networks and global value chains.*
- *Adopt a holistic market-driven perspective in promoting and developing a high value and more profitable agribusiness sector. Farming technologies and techniques, supply chains, infrastructure, and a reliable property rights regime will be important in modernizing agricultural practices to improve productivity in agriculture (see also Chapter 8).*
- *Improve backbone services, such as financial, telecommunications, distribution, transport, and logistics services to facilitate the movement of people, goods, services, knowledge, and ideas as well as link firms, especially MSMEs, to domestic and global markets. Investments in infrastructure and logistics will also boost competitiveness, improve connectivity, and reduce costs.*

- *Enhance business services such as legal and accounting, research and development, and packaging to support manufacturing; and strengthen other sectors such as agriculture, fisheries, and other services.*
- *Implement the new medium-term National Tourism Development Plan which is anchored on improving competitiveness, enhancing development, and pursuing sustainable and inclusive growth, and convergence.*

Remove restrictions, provide incentives, and promote job-creating investments

- *Amend restrictive economic provisions in the Constitution; repeal or amend as appropriate relevant laws, rules, and regulations that impose restrictions on foreign participation in certain economic activities; and enhance the competitiveness of the industry and services sector by ensuring that regulations promote fair competition (see also Chapter 16).*
- *Modernize the incentive system to remove nationality and export biases and make it more relevant to investors and more competitive with other ASEAN member states. With this, incentives will be simple, targeted, performance-based, and time-bound.*
- *Implement aggressive investment promotion programs to attract more FDIs, especially those that can bring in new technologies and competition, particularly in key public utilities.*
- *Address cross-cutting issues that impede the country's competitiveness such as high power cost (see also Chapter 19).*
- *Support the development of the services subsectors outside value and supply chains such as social services¹⁰.*

¹⁰ Based on UN Central Product Classification, covers welfare services delivered to old persons and the handicapped; child daycare services including daycare services for the handicapped; guidance and marriage counselling services, among others (CPC (932))

Accelerate the implementation of infrastructure programs and projects

- Ramp up spending on infrastructure to at least 5 percent of annual GDP to improve the country’s economic and social environment. Aside from physical infrastructure, the development of the information and communications technology (ICT) sector is essential to strengthen the value chain linkages in I&S (see also Chapter 19).

Subsector Outcome 2: Competitiveness, innovativeness, and resilience of industries and services increased

Develop high-value added, competitive, and sustainable sectors

- Improve the competitiveness of I&S to transform the economy and achieve broad-based growth. This entails, among others, ensuring openness of services markets; promoting good regulatory practices and sound competition policy

framework and institutions; fostering dynamic, competitive, and effective ICT policies; and improving people-to-people, physical, and institutional connectivity.

- Adopt a cluster-based industrial approach to promote inter-firm cooperation and agglomeration and build a strong and competitive regional economy (see Table 9.2).¹¹
- Provide incentives for green manufacturing to encourage companies to shift to energy efficient technologies.
- Fully implement the Green Jobs Act to promote green growth, blue economy (see also Chapter 8), and innovation, among others.
- Focus attention on boosting services exports by moving up the global value chain of the IT-BPM industry and increasing the country’s market share in international tourism, including health and education services; promoting creative industries that cover both

Table 9.2 Priority Sectors by Region

REGION	PRIORITY SECTOR ¹¹
I	coffee, cacao, processed fruits, processed meat, tourism
II	processed fruits, processed meat, coffee, furniture, cacao, agribusiness
III	bamboo, furniture, aerospace, processed meat, shipbuilding, aerospace
CALABARZON	auto, electronics, petrochemical, Information Technology and Business Process Management (IT-BPM), chemicals, aerospace
MIMAROPA	seaweed, cacao, rubber, coco coir, tourism
V	metal casting, coco coir, health care, agribusiness
VI	processed meat, processed shrimp, tourism
VII	seaweed/carrageenan, dried mangoes, furniture, IT-BPM, shipbuilding, tourism
VIII	processed meat, copper, processed marine, processed fruits, natural health products, agribusiness
IX	rubber, cacao, processed fruits (mango), coconut, agribusiness
X	rubber, bamboo, cacao, coco coir, coffee, agribusiness, tourism
XI	processed meat, seaweed/carrageenan, cacao, agribusiness, tourism
XII	rubber, palm oil, processed fish/aquamarine, tourism, agribusiness
Caraga	processed marine, palm oil, rubber, agribusiness
CAR	coffee, processed vegetables, aerospace, electronics, tourism
ARMM	coffee, rubber, cacao, palm oil, agribusiness

¹¹ Based on the national industry roadmap localization and consultation conducted by the DTI-BOI

tangible products and intangible services¹²; and developing the potential of the Philippines in digital trade and e-commerce. To support these priorities, services-related statistics will be developed to support plan implementation and monitoring.

Improve the business climate

- *Implement structural reforms to create more open, well-functioning, transparent, and competitive markets.* These include creating a competent national body for multimodal transport; formulating and implementing a national broadband plan (see also Chapter 19); institutionalizing a Quality Regulatory Management System (see also Chapter 16); and removing unnecessary regulatory burden through Project Repeal (see also Chapter 5).
- *Simplify the rules and regulations on business registration and licensing, entry and exit, paying taxes, and access to finance* to encourage the rapid growth of businesses of all sizes and the movement of small firms to the formal sector. Harmonizing and streamlining procedures among national government agencies and local government units will minimize, if not eliminate, redundancies and overlaps. Full implementation of the Philippine Business Registry and the Business Permit Licensing System will also facilitate start-ups and help reduce transaction costs.

Improve access to technology and innovation

- *Establish the National Quality Infrastructure* to harmonize the country's strategies on metrology,

standards, and accreditation, where accreditation includes certification, inspection, and testing.

- *Establish an Inclusive Innovation Center* to support the development of the country's innovation system and facilitate inter-firm and academe-industry collaboration in high-technology activities (see also Chapter 14).
- *Encourage innovation and adoption of new technologies* to spur the development of new services (see also Chapter 14).

Enhance labor capacities

- *Invest in human capital development* based on the transformation of jobs, facilities, processes, and future skills needs (see also Chapter 11).
- *Strengthen industry-academe linkages* to help meet labor market needs and reduce future jobs-skills mismatches. This will also increase opportunities for lifelong learning (see also Chapter 11).

Subsector Outcome 3: Market access improved (see Chapter 15)

Subsector Outcome: Consumer access to safe and quality goods and services ensured

Heighten consumer vigilance on product safety, value for money and access to quality goods and services. Quality consciousness among consumers will be promoted while enforcing strict compliance with technical regulations by manufacturers/suppliers. Awareness on consumer rights will be increased through intensified advocacy and education campaigns, particularly in the secondary and tertiary schools. Campaigns on value for money, safety, and quality of goods and services will maximize the use of multimedia.

¹² The UNCTAD classification of creative industries covers heritage (traditional cultural expressions and cultural sites), arts (visual and performing arts), media (publishing and printed media & audiovisuals) and functional creations (design, new media, and creative services including advertising and architecture) (UNCTAD 2010, p. 8-9).

Build stronger linkages and partnerships with private sectors and professional associations to strengthen consumer redress mechanisms. Redress mechanisms for speedy resolution of consumer complaints will be made available through partnership with professional associations while advocacies for consumer concerns are channeled through reputable consumer organizations in all provinces.

Harmonize domestic and international policy framework on consumer protection. Consumer protection policies will be modernized and aligned with international policies to become adaptable to changes brought about by globalization and technological advancement.

Promote consumer protection. Standards and regulations will be enforced to protect and empower consumers against unfair trade practices. Policies against fraudulent business schemes will be strengthened, and enforcement activities intensified.

Sector Outcome B: "Negosyo": Access to economic opportunities in I&S for MSMEs, cooperatives, and OFs increased

Subsector Outcome 1: Access to production networks improved

This entails supporting the linkage between MSMEs and large corporations to facilitate increased participation of the former in global value chains; developing more inclusive business models and social enterprises; and establishing feasible domestic economic zones for MSMEs in accordance with relevant laws.

Subsector Outcome 2: Access to finance improved

Increase access to finance. Loan processes for MSMEs, cooperatives, and OFs need

to be streamlined and simplified. A more comprehensive credit information system needs to be established to help cooperatives and financial institutions better assess credit risk and make more informed lending decisions.

A policy for alternative collaterals for borrowers also needs to be developed. Appropriate financial products, services, and support programs for MSMEs (especially start-ups and those operating in the countryside) and cooperatives need further development.

Enhance financial literacy. Financial literacy trainings for MSMEs, cooperatives, and OFs and their families to help them understand and access financial products will likewise be provided. (*see also Chapter 15*)

Assess MSME-related laws. Assess the implementation of, and compliance with, the Microfinance NGOs Act and Credit Surety Fund Cooperative Act, and determine if and where remedial legislation is needed.

Subsector Outcome 3: Productivity, efficiency, and resilience enhanced

Increase access to technology. Expand the Small Enterprise Technology Upgrading Program and Shared Service Facilities to areas where the poor reside. The upgrade of existing testing, calibration, and quality assurance services will broaden the access of MSMEs to innovative, appropriate, and cost-effective technologies.

Implement MSME development plan and assess MSME-related laws. Implement the MSME Development Plan particularly the productivity and efficiency portfolio, taking into account the 2017-2022 Livelihood Agenda, which aims to foster the convergence of different livelihood and entrepreneurship programs of government agencies.

The government also needs to assess the implementation of, and compliance with, MSME laws (i.e., Go Negosyo Act, Magna Carta for MSMEs, and the Barangay Micro Business Enterprises Act) and determine if and where remedial legislation is needed.

Encourage entrepreneurship. Households receiving OF remittances need to be encouraged to put these to more productive use and invest cash transfers from abroad in business activities in the country. A broader base for MSME development will thus be created.

Legislative Agenda

To strengthen the effectiveness of the strategies, legislative action is needed on the following:

Table 9.3 Legislative Agenda to Expand Economic Opportunities in I&S, 2017-2022

LEGISLATIVE AGENDA	RATIONALE
Sector Outcome A: Economic opportunities in I&S expanded	
Subsector Outcome: Local and foreign investments increased	
Amend certain economic provisions of the Constitution	Relax restrictive foreign ownership provisions of the Constitution to attract more FDI.
Pass the Ease of Doing Business Act	Enhance market competition through improving ease of doing business. This legislation will sustain the intention of Project Repeal to review existing policies, statutes, and regulations, and eventually repeal unnecessary issuances.
Amend the Public Service Act	Define "public utility".
Amend the Retail Trade Liberalization Act	Align guidelines for foreign investments with the Foreign Investment Act and lower capital requirements for foreign enterprises and harmonize with those observed in Asian countries.
Repeal or amend the Flag Law (Commonwealth Act 138)	Create a level playing field for foreign firms in bidding for government procurement.
Adopt an open access policy	Adopt and enforce open access in various segments of the telecommunications market (e.g. backhaul and backbone facilities) on a non-discriminatory basis and publicize prices in order to introduce effective competition in the broadband or telecom market.
Subsector Outcome: Competitiveness, innovativeness, and resilience increased	
Set up a National Quality Infrastructure system	Integrate and coordinate standardization, metrology, testing analysis, quality management, certification, and accreditation.
Subsector Outcome: Consumer access to safe and quality goods and services ensured	
Amend the Consumer Act	Increase protection of consumers and harmonize existing law with current and future technological advancements.
Sector Outcome B: Access to economic opportunities in I&S for MSMEs, cooperatives, and OFs increased	
Subsector Outcome: Access to production networks improved	
Institutionalize the industry cluster approach	Pursue local economic development through inter-local cooperation among LGUs and strengthen people participation in community development.
Inclusive Business Bill	Provide for the establishment of a national strategy for the promotion of Inclusive Businesses to be implemented by the Inclusive Business Center. This also provides policies for accreditation, support, and incentives.
Social Enterprise Bill	Provide framework for the planning and implementation of a National Poverty Reduction Through Social Entrepreneurship Program. This also promotes social enterprises as a tool in the government's poverty reduction program.