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## THE MANUFACTURING SECTOR IN THE PHILIPPINES

### INTRODUCTION

A very essential contribution of the manufacturing sector to the Philippine economy is the creation of employment opportunities. The 2009 Annual Survey of Philippine Business and Industry attributed 38.5% of total employment in the industrial arena, to the manufacturing sector. The semiconductor devices and other electronic components sectors have the largest number of workers (NSO, 2012). However, certain constraints hinder the maximization of the manufacturing sector, as manifested in the decline of its total value added vis-a-vis those of other countries' in the region over the past decades (Felipe & Estrada, 2008).

In a research commissioned by the Department of Labor and Employment, Conchada and See (2012) came up with an overview of the manufacturing sector, its performance, and contribution to economic growth, as well as its job outlook and prospects. The career guide highlights the importance of the sector and how it could be improved in order to achieve higher total added value.

With regard to job outlook and prospects, the manufacturing sector is still deemed important in supporting economic growth despite the rapid expansion of the services sector. The constant demand from developed countries continues to fuel industries to produce more. These nations also outsource some of their production tasks to developing countries. Moreover, the Philippine economy remains robust and has in fact displayed impressive economic growth rates in the last two quarters.

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## **OUTLOOK FOR THE MANUFACTURING INDUSTRY FOR THE NEXT FIVE TO TEN YEARS**

The latest report of the Asian Development Outlook (2012) highlights the Philippines' position in the middle of the chain in the global production network. It remains strong by specializing in processing intermediate goods. This could be affected, however, by external factors such as a slowdown in the economy of developed countries.

There is optimism that the Philippine manufacturing sector will continue to contribute to growth and employment as investments and capital flow into the country. The Department of Trade and Industry Secretary Greg Domingo stressed that the "Philippines is still very much in the running as a manufacturing hub of Southeast Asia" (Villegas, 2012). This is due to the stellar performance of many subsectors such as the electronics and automotive fields.

Some of the growth potentials of the manufacturing sector are found in certain subsectors such as the automotive and electronics areas. They continuously attract investors. The quality of our workforce, such as, their adaptability and willingness to learn are factors that foreign investors value.

## **GROWTH POTENTIALS OF THE MANUFACTURING SECTOR**

An opportunity that our manufacturing sector could capture is the reorganization and relocation of China's manufacturing sector. A growing educated workforce brought about an increase in wage rates in China. This prompted some investors to reconsider transferring to other countries with lower wage cost. Hence, the Philippines could position itself as a recipient of China's manufacturing sector investments. Therefore, there is a need to train the Philippine workforce to make them more globally competitive.

The National Telecommunication Commission plans to promote network interconnection between Globe Telecom and the Philippine Long Distance Telephone, Co. in Regions I, III, and CAR. This will allow increased productivity in various industries, and an improved capacity to fully leverage information and communication technologies in the production process (Global Competitiveness Report, 2012).

To facilitate a faster investment flow, and increase the competitiveness of the manufacturing sector, government regulations should be more favourable. The Fiscal Incentives Bills aims to rationalize and simplify the administration of fiscal and non-fiscal incentives to promote domestic and foreign investment in the country (PCCI, 2012). The Senate is currently deliberating on a bill advocated by the Philippine Chamber of Commerce and Industry. If this is passed into law, tax breaks will be granted to export-oriented enterprises which export 70% of what they produce.

## **EMPLOYMENT PROSPECTS**

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### **Internal Employment Prospects**

The implementation of the fiscal incentives bill, alongside infrastructure improvement, will help in attracting foreign investors in the country. Such may lead to the establishment of additional manufacturing companies. Additionally, the government's program on private-public partnership, together with preparations for an integrated manufacturing industry roadmap will also help create employment opportunities.

## External Employment Opportunities

Though employment in the international market remains weak due to the sluggish recovery of the US economy and the sovereign debt crisis in Europe, the continuous efforts of the national government to upgrade workers' skills and training via the Technical Skills and Development Authority has strengthened the position of Filipino workers.

## ISSUES AND CHALLENGES FACED BY THE MANUFACTURING SECTOR

The abovementioned U.S and European crises could affect the demand for manufactured goods, especially those coming from said countries. The Philippine manufacturing sector may be vulnerable to such shocks. However, the demand from other trading partners such as Japan, China, and Republic of Korea could offset the negative effects.

The Department of Trade and Industry in its DTI Roadmap 2011-2013 (DTI, 2012) identified possible external threats:

- One is the possible spill over of the geopolitical conflict between China and the Philippines.
- Second, our ASEAN neighbors are becoming more competitive in terms of investment incentives. They also have streamlined investments policies and relatively better infrastructure.
- Thirdly, the strong peso is hurting our exports. (DTI, 2012).

### High Power Rates

There is an increase cost of power in regions such as Bicol and Central Luzon. Despite its being a major geothermal energy supplier in the country, the Bicol region continues to experience high power rates (Bangko Sentral ng Pilipinas (2012).

In addition, the power shortage problem in the Mindanao region caused by inadequate supply coming from hydroelectric power plants is also a concern.

### Strikes and other mass actions

Investors are wary about activities that could disrupt the productive activities of firms, thus, leading to higher costs or loss in output.

### High corporate tax

The Philippines' corporate tax is relatively higher compared to its ASEAN neighbors'. It has to be reviewed and reduced at a more competitive level. The Philippines has the highest corporate income tax at 32%. Hong Kong's low corporate income tax, coupled with a more open market is one of the countries with the most number of investments. Other countries such as Indonesia, Thailand, and Singapore have lower corporate income tax as well.

## POLICY RECOMMENDATIONS

The Philippine manufacturing sector is a dynamic and growing industry. It has to be supported with sound fiscal and monetary policies, infrastructure, and information & communication technology. This goes without saying that the political environment should be favourable to foreign investors. Moreover, regional development should be prioritized, to render the growth of the manufacturing sector more inclusive. The following are recommendations for the improvement of the sector.

- Speed up the Private-Public Partnership Program of the government. This will lead to the improvement of infrastructure, particularly those, pertaining to the quality of port and air transport, and roads linking the cities to nearby provinces. Though several

projects have been lined up, the implementation and completion of these projects have yet to commence. If successful, this would send a positive signal to foreign investors. (e.g. The north rail project that plans to link Metro Manila to nearby provinces such as Bulacan and Pampanga).

- Enact the Fiscal Incentives Rationalization bill. The House Bill 4935, better known as the Fiscal Incentives Rationalization bill, will help boost investor confidence and increase revenue for projects that will help improve the manufacturing sector.

- Improve the quality and relevance of post-secondary technical and vocational education to address the needs of the manufacturing sector. In the study of di Gropello (2010), problems such as the quality of facilities, curriculum alignment with industry needs, and links with industry are considered (di Gropello, 2010).

- Strengthen life skills in the curricula of all education and training levels. This was suggested by di Gropello (2010), and we believe that such will be very effective in shaping work habits of individuals, through various pedagogical approaches.

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