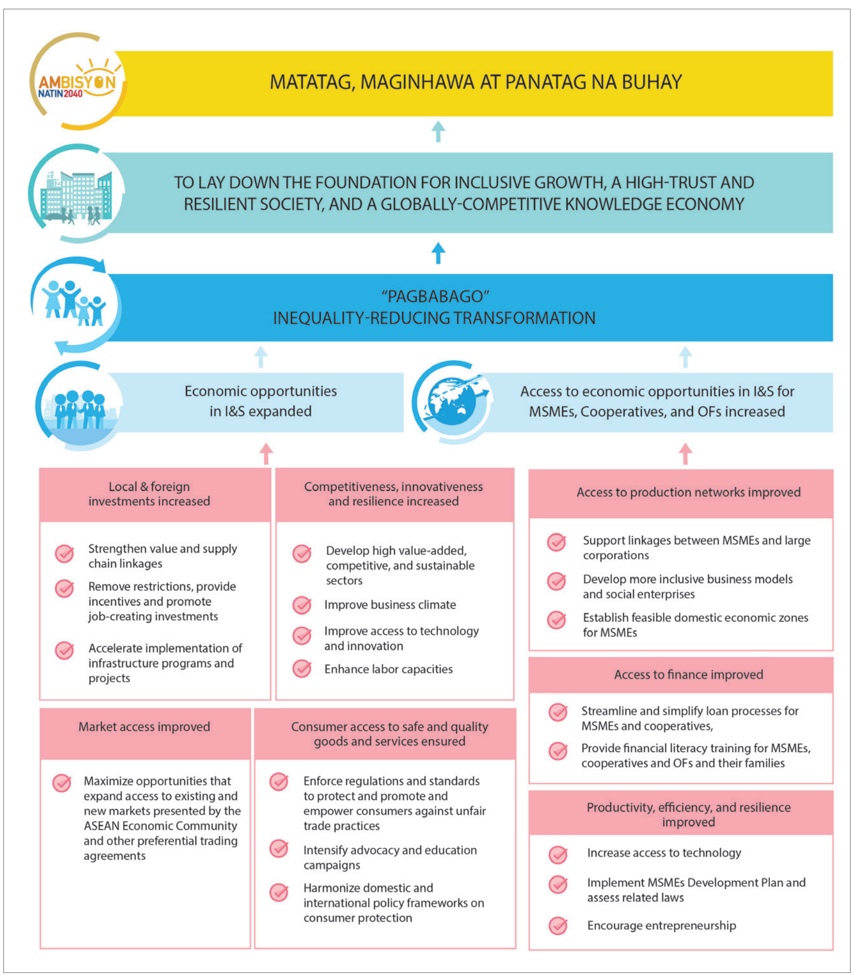
09 Expanding Economic Opportunities in Industry and Services through *Trabaho at Negosyo*

Chapter 9

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

Industry and services (I&S) continued to drive the growth of the Philippine economy at 7.2 and 6.7 percent, respectively, reaching the low-end 6.7 percent target growth range for both sectors. For this to continue, there is a need to spur and foster innovation and improve ease of doing business. Foremost, this will ensure that the country remains competitive in the global market and that challenges of disruptive technologies are addressed. These are also crucial for micro, small, and medium enterprises (MSMEs), cooperatives, and overseas Filipinos (OFs) to have an increased access to economic opportunities. This will allow the country to achieve inclusive growth in the medium term; and in the long term, a society where no one is poor, as shown in Figure 9.1.

Figure 9.1 Strategic Framework to Expand Economic Opportunities in Industry and Services



Accomplishments

Manufacturing led the 7.2 percent growth of industry, albeit lower than the 8.4 percent increase in the previous year. Manufacturing gross value added (GVA), which accounts for 69 percent of total industry GVA, was supported by expansions in basic metals, non-metallic mineral products, fabricated metal products, and electronics subsectors. Higher export receipts in these subsectors could be attributed to the recovery in the global market, as well as higher spending in public construction. Proportion of manufacturing GVA to gross domestic product was 23.6 percent and manufacturing GVA per capita grew by ₱1,244.3 compared to the same period in 2016.

Industry generated an average of 211,965 additional employment, accounting for only 54.1 percent of the 2017 plan target of 392,000. Additional employment generated resulted from increased construction and manufacturing activities. Proportion of manufacturing employment to total employment also slightly increased to 8.6 percent. Meanwhile, mining and quarrying, as well as electricity, gas, and steam and air conditioning supply recorded large employment losses.

Expansions in financial intermediation, public administration and defense, and compulsory social security drove services growth at 6.7 percent, although lower than the 7.4 percent increase in 2016. Financial inclusion initiatives and the entry of foreign banks in the country as a result of the liberalization of the financial institutions, contributed to the growth of financial intermediation.

Services sector registered a net loss of 72,130 in employment year-on-year in 2017. Wholesale and retail trade, repair of motor vehicles and motorcycles, and education services recorded large employment losses. The reduction in employment in the education sector may be partly attributed to the implementation of the K to 12 program with job losses likely to continue until AY 2020-2021, although in a decreasing trend. Despite the decline, more than half of total employment in the country remained to be accounted for by services in 2017.

Total approved investments grew by 32.5 percent, amounting to ₱908,667.2 million in 2017 despite the declines in some sectors. Subsectors that posted an increase in approved investments were: (a) financial and insurance activities; (b) real estate activities; (c) electricity, gas, and steam and air conditioning supply; (d) transportation and storage; (e) wholesale and retail trade; repair of motor vehicles and motorcycles; (f) manufacturing; (g) information and communication; and (h) accommodation and food service activities.

Approved investments of Filipino nationals increased to ₱805,652.0 million in 2017 from ₱466,913.9 million during the same period in 2016. Most of these will go to electricity, gas, and steam and air conditioning supply (39.7%), real estate activities (27.3%), transportation and storage (17.6%), and manufacturing (11.8%). These will be located in CALABARZON (40.7%), Central Luzon (21.3%), and National Capital Region (13.8%). Other areas that posted increases in approved investments of Filipino nationals were Caraga, Ilocos, Cagayan Valley, CALABARZON, SOCCSKSARGEN, ARMM, Central Luzon, and Central Visayas.

Approved foreign investments declined by 51.8 percent from ₱219,038.6 million in 2016 to ₱105,638.7 million in the same period in 2017. This was driven by the decline in manufacturing (42.7%) which accounts for more than half of the total approved investments. CALABARZON (45.8%), NCR (16.5%), Central Luzon (10.0%), Ilocos (9.6 %), and Western Visayas (6.5%) accounted for the bulk of approved foreign investments in 2017. Approved foreign investments also increased in Ilocos (66.0%) and Northern Mindanao (36.9 %), during the same period. Top sources of investment pledges were Taiwan and China followed by Japan, Hong Kong, and the United Kingdom.

Net flows of foreign direct investments (FDI) amounted to US$8.7 billion in the first 11 months of 2017 from US$7.3 billion during the same period in 2016. This was mainly due to the expansion in non-residents' net placements in debt instruments issued by local affiliates, as well as the increase in net equity capital inflows. Equity capital infusions came mostly from Singapore, Hong Kong, Luxembourg, China, and the United States. These were invested mainly in electricity, gas, steam and air conditioning supply activities, manufacturing, real estate, construction, and wholesale and retail trade activities.

The World Investment Report 2017 identified the Philippines as 9th among the top 15 prospective host economies for multinational enterprises for 2017-2019. Closer economic integration in the ASEAN region and positive investment outlook of multinational companies toward the country would open up new sources of capital and markets.

Visitor arrivals in the country reached 6 million from January to November 2017, 11.5 percent higher than the same period in the previous year. Korea continues to be the biggest market for tourism with 24.3 percent share of total arrivals, followed by China (14.8%), United States (14.3 %), and Japan (8.9%).

In terms of programs and projects, a total of 27 shared service facilities (SSF) were established from January to December 2017. Some 123,401 MSMEs benefited from both newly established and existing SSF in 2017. To date, there are a total of 2,227 SSF all over the country serving 215,628 beneficiaries.

The Small Enterprise Technology Upgrading Program (SETUP) of the Department of Science and Technology also reported a total of 769 beneficiaries which was higher than the 2017 target.

Moving Forward

Expanding economic opportunities in I&S

Fully implement the Inclusive Innovation Industrial Strategy. This will accelerate the growth of I&S by strengthening the linkages among agriculture, industry, and services through innovation. Government initiatives will be focused on the following sectors towards the achievement of the *AmBisyon Natin 2040*: (a) manufacturing, particularly electronics and electrical, automotive and auto parts, aerospace parts, chemicals, garments, textiles, and furniture, as well as iron and steel and tool and die; (b) agribusiness which include food production and agricultural biotechnology, among others to enable the agriculture sector to support the growth of manufacturing; (c) construction to support housing and urban development; (d) shipbuilding, as well as infrastructure and logistics, to increase connectivity; (e) tourism and allied services to spur the growth of local economies outside urban centers and; (f) information technology-business process management (IT-BPM), particularly knowledge process outsourcing and e-commerce.

Create an inclusive innovation ecosystem involving all relevant stakeholders. This will identify and implement appropriate measures to encourage development and adoption of technology and innovative solutions, as well as mitigate the negative impacts on traditional business processes. Expenditure in research and development (R&D) and education will be increased. Appropriate R&D incentives and shared facilities for prototyping and demonstration will be provided to encourage and support market-oriented research in the academe. Incubator and accelerator facilities will be established to provide venues for start-ups and potential investors to form linkages at the regional and local levels. These facilities will be upgraded regularly to match the continuous changes in the way goods and services are produced and traded *(Refer to Chapter 14).*

Strengthen backward linkages of economic zone locators to the domestic economy. Domestic industries are still largely characterized by gaps in supply and value chains. Limited participation of local industries in global value chains is attributed to lack of support industries and locally available parts and components that meet the quality, scale, and cost requirements of the global production networks and markets. Hence, capacity of local firms will be enhanced to enable them to meet international requirements. Additionally, agroindustry-specific capital formation will be encouraged to develop a high-value agribusiness sector.

Local and foreign investment increased

Implement the enhanced Next Wave Cities program to ensure inclusive growth in the IT-BPM sector. The program aims to provide investors with comprehensive information about cities and markets for potential IT-BPM locations. Promotion of the Philippines as the best destination for the IT-BPM will be continued, highlighting more complex non-voice services; knowledge process outsourcing in medical, financial, and legal services; game development; engineering services outsourcing; and software development, among others.

Continue strategies to improve backbone services such as logistics, telecommunications, and finance, among others. Emphasis will be on strategies aimed at reducing transaction costs and facilitating movement of goods and services. These include the implementation of the ASEAN Framework Agreement on Multimodal Transport which aims to have a single national competent body for the registration of multimodal transport operators. Government will also push for the enactment of the amendment of the Public Service Act which defines public utilities and the Open Data Access to increase competition in the data transmission sector. In addition, strategies to promote safe and secured online banking and payment services will also be pursued.

Promote utilization of e-commerce by pursuing strategies identified in the Philippine E-commerce Roadmap 2016-2022. Amendments to the Consumer Act of the Philippines will be advocated. In particular, e-commerce-related provisions of the Tax Reform for Acceleration and Inclusion (TRAIN) need to be included. A single online platform needs to be established to handle dispute resolution between merchant and consumer complaints, especially those in remote areas. This will build confidence in doing e-commerce. Regulations and guidelines on e-banking and e-payments will also be updated to ensure secure, reliable, and efficient electronic transfer of funds. Fast, reliable, and affordable internet and courier services will be made available to facilitate online transactions and distribution of goods, especially in rural areas.

Pursue reforms that ease restrictions on economic activities in I&S to attract more local and foreign investments. The review and amendment of restrictive legislation and economic provisions in the Constitution will be pursued. For instance, the amendment of the Corporation Code to permit single-person corporations, as well as the Retail Trade Liberalization Act of 2000, to reduce the minimum paid-up capital requirement for foreign retailers will also be supported. Foreign participation in investment areas or activities that have current restrictions will be eased or lifted, in accordance with Memorandum Order No. 16.

Implement targeted and efficient investment promotion activities. This will be done through innovative marketing and other methods such as social media to attract more investments, especially those that bring new technologies.

Fast-track the implementation of projects under the Build, Build, Build program to support the development of logistics and infrastructure needed by I&S (*Refer to Chapter 19*). Opening publicly funded construction contracts to foreign-owned firms will support the implementation of the administration's Build, Build, Build Program *(See Box Article 9.1)*.

Competitiveness, innovativeness, and resilience increased

Link services activities such as design, research and development, engineering, and after-sales with manufacturing to increase the services value added in other sectors. Strategies to maximize the opportunities from the growth of the global value chains will be implemented. Government focus will be in manufacturing where embedded and embodied services form part of the global value chain**.**

Accelerate reforms to improve ease of doing business. Reforms need to be implemented at a much faster pace, especially in the areas of starting a business, enforcing contracts, and protecting minority investors. The initiative of the National Competitiveness Council, Project Repeal, which seeks to eliminate burdensome laws and regulations on businesses, will also be continued. Full operationalization of the National Single Window nationwide and its linkage to the ASEAN Single Window will also contribute to reducing the cost of doing business in the country.

Promote the Meetings, Incentives, Conferences, and Exhibitions, and cruise tourism to increase the sector's contribution to growth. Key products include sun and beach tourism, and culture tourism. Standards, skills, and competencies of tourism facilities and service providers will also be improved and upgraded to be competitive with other tourist destinations in the ASEAN region. Cities may also avail of the Local Government Support Fund-Assistance to Cities to establish or improve parks, especially in historical sites to promote tourism.[1] In addition, strategies to develop creative industries will also be pursued.

Support policies that improve health and education services to develop human capital and a highly skilled workforce. International collaboration, student exchange programs, and information sharing on educational standards, among others, shall be promoted to support the development of education services. Information and expertise exchange shall also be promoted through mutual recognition arrangements. These will foster best practices and international standards among professional services. In addition, knowledge transfer shall be pursued to enhance higher level skills of the labor market in line with the ASEAN Community 2025. These will ensure that our workforce will have access to the best knowledge and resources *(Refer to Chapter 10).*

Revise education curricula in coordination with the industry, government, and academe to strengthen science, technology, engineering, agriculture, and mathematics programs. It is important to align these programs such that they inculcate 21st century skills, competencies and character qualities that are important for current and future needs of I&S. Upgrading and updating of the skills set of those employed in traditional jobs to include design, technical, and vocational skills will be pursued. The objective is to maintain demand for Filipino labor even with the introduction of advanced machines and automation *(Refer to Chapter 10)*.

Market access improved (*Refer to Chapter 15*)

Consumer access to safe and quality goods and services ensured

The establishment of the National Quality Infrastructure (NQI) System will be strongly advocated. A unified NQI system will enhance access of MSMEs and cooperatives to quality testing, calibration, and quality assurance services needed to produce safe and quality goods for the local and international market.

[1] Local Budget Circular 116 issued on January 29, 2018. Retrieved from: https://www.dbm.gov.ph/index.php/205-latest-issuances/local-budget-circular/2018/505-local-budget-circular-no-116

Increasing access to economic opportunities in I&S for MSMEs, cooperatives, and OFs

Develop MSMEs by boosting their productivity and profitability. Government will focus on the 7M's – mindset, mastery, mentoring, money, machine, market, and models.

Access to production network increased

Capacity of MSMEs to produce at larger scales and in accordance with international product standards, such as *halal* standards, will be enhanced. The ability of MSMEs to deliver the necessary quantity at the right cost is crucial to be able to engage in long-term relationships with large domestic and multinational enterprises. These relationships will not only improve access to new markets but also expand access to advanced technology and increase exposure to innovative practices.

Access to finance improved

Operationalize a comprehensive credit information system, develop a policy for alternative collaterals (secured transactions framework), and establish an effective credit guarantee system. These will improve access of MSMEs to finance. The credit information system shall be integrated with the national ID system *(Refer to Chapter 15)*.

Productivity, efficiency, and resilience improved

Small Enterprise Technology Upgrading Program and Shared Service Facilities will be expanded. This will provide MSMEs with access to needed technology, with an aim of increasing their scale of production and improve efficiency of production processes. These will be strategically located where they are accessible to potential users.

Ongoing and planned programs and projects that are deemed responsive to the goals of expanding economic opportunities in I&S, as well as increasing access of MSMEs, cooperatives, and OFs to these opportunities, are in Chapter 9 of the Public Investment Program 2017-2022.

Recommendations

The succeeding table reflects the challenges identified based on the assessment of the sectors' performance, as well as recommended strategies to address them.

Table 9.1 Supplemental Strategies to Expand Economic Opportunities in Industry and Services

CHALLENGES	RECOMMENDED STRATEGIES	IMPLEMENTING AGENCIES
Expanding economic opportunities in I&S		
Local and foreign investment increased		
• Limitations or restrictions of foreign participation in certain sectors limit the entry of foreign investments	• Pursue initiatives to lift or ease existing restrictions on investment areas/activities where foreign participation is limited, in accordance with Memorandum Order No. 16, s. 2017.	NEDA Board Member Agencies
• Government incentives provided to export-oriented multinational enterprises in economic zones did not result in strong linkages between locators and domestic industries	• Conduct policy and regulatory analyses, and develop and adopt appropriate policy and regulatory framework to strengthen linkages between ecozone locators and domestic industries.	DTI
• Decline in approved foreign investments due to lower investment pledges in manufacturing	• Pursue initiatives to reduce the cost of doing business and provide targeted and time-bound incentives to strategic sectors that will contribute to advancing technology and innovation. • Design more online platform systems for business transactions with government.	DTI
Competitiveness, innovativeness, and resilience increased		
• Limited utilization of e-commerce remains due to low consumer confidence. Consumer complaints require appearance of parties at the DTI which poses difficulty for consumers located in remote areas.	• Establish a single online platform to handle merchant and consumer complaints.	DTI
Market access improved *(Refer to Chapter 15)*		
Consumer access to safe and quality goods and services ensured		
• Fragmented components of the existing quality infrastructure	• Advocate for the establishment of a National Quality Infrastructure System. This will enable MSMEs to produce goods that meet quality and safety requirements, as well as market standards.	DTI
Increasing access to economic opportunities in I&S for MSMEs, cooperatives, and OFs		
Access to production network increased		
• Limited participation of MSMEs in global and production networks remains despite information dissemination initiatives of the government	• Conduct an assessment of the effectiveness of the Doing Business in Free Trade Areas to determine impact, if any, and provide recommendations for improvement or alternative strategies. • Develop statistics for MSMEs, particularly those needed to measure participation in the global market.	PIDS, Monitoring and Evaluation Staff of NEDA DTI, PSA
• Certification-related issues hindering local producers of *halal* products to maximize the growing *halal* market	• Resolve governance issues surrounding *halal* multiple certifying bodies.	DTI
Access to finance improved		
• Lack of access of MSMEs to formal financing limits the scale of their production.	• Integrate the credit information system with the national ID system.	SEC, PSA
Productivity, efficiency, and resilience improved		
• Capacity of MSMEs and cooperatives to meet scale and quality requirements are not at par with the needs of global and regional production networks/ markets	• Evaluate the SSF and the SETUP. These should ensure that these programs are responsive to the needs of their target beneficiaries. If needed, measures to improve them must be identified.	PIDS, Monitoring and Evaluation Staff of NEDA

Box Article 9.1 Relaxing restrictions on foreign participation in certain investment areas/activities

The Philippines is lagging behind the rest of the five original ASEAN Member States as well as Viet Nam in attracting foreign direct investments or FDI. In 2016, a total of US$7,912 million of FDI entered the Philippines while US$61,597 million went to Singapore and US$12,600 million was invested in Viet Nam. The country's share to total ASEAN FDI was only 7.8 percent, lagging behind Singapore (60.9%), Malaysia (9.8%), and Viet Nam (12.5%). Of the total global FDI inflows, only 0.5 percent entered the Philippines in 2016.[1]

Among the major barriers to the inflow of foreign capital to the country are restrictions on foreign equity participation in investment areas/activities. These restrictions are categorized as follows: (a) those that do not require legislative action to ease or lift restrictions; (b) those that require legislative action; and (c) those that require Constitutional amendments.

Memorandum Order No. 16 issued on November 21, 2017[2] identifies investment areas/activities where restrictions on foreign participation are to be lifted or eased. These include, among others, practice of particular professions where allowing foreign participation will benefit the public; public services that are not covered by the definition of public utilities; and contracts for the construction and repair of locally funded public works.

Specific laws on professions that need to be amended include those that define teaching as practice of profession. Such definition poses difficulties for higher education institutions to tap the expertise and advanced knowledge and skills of foreign professionals (e.g., engineers) including former Filipino citizens. The lifting or easing of the 40 percent limitation on foreign equity participation in educational institutions provided in the Constitution could also pave the way for local schools to invest in improved facilities (e.g., laboratories) and/or more classrooms. Improvements in the education sector are seen as necessary if the country is to become competitive in a rapidly changing world.

Increased FDI in public services, such as telecommunication and transport services, and entry of foreign service providers are expected to increase competition, encourage innovation, drive down prices, and raise the quality of such services in the domestic market.

Opening publicly funded construction contracts to foreign-owned firms could also bring in new and advanced technologies and introduce competition resulting in improved infrastructure facilities, such as roads and bridges.[3]

Sources:
[1] Flows of Inward Foreign Direct Investment (FDI) by Host Country and Economic Sectors. ASEAN.org. Retrieved from https://data.aseanstats.org/
[2] Memorandum Order No. 16, s. 2017: Directing the National Economic and Development Authority (NEDA) Board and its Member Agencies to Exert Utmost Efforts to Lift or Ease Restrictions on Certain Investment Areas or Activities with Limited Foreign Participation. Retrieved from http://www.officialgazette.gov.ph/downloads/2017/11nov/20171121-MO-16-RRD.pdf
[3] Philippine Competition Commission. Anti-Competitive Effects of Regulatory Restrictions: The Case of the Construction Sector. Policy Note No. 1, s. 2017