

# COMPETITIVENESS OF PHILIPPINE INDUSTRIES



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# Is the Philippines competitive?

<b>COUNTRY</b>	<b>OVERALL</b>	<b>INFRA</b>	<b>GOV'T</b>	<b>BUSINESS</b>
			<b>EFFICIENCY</b>	<b>EFFICIENCY</b>
Singapore	5 (2)	7	1	11
Hong Kong	9 (6)	17	4	13
Taiwan	24 (18)	20	21	18
Korea	27 (28)	28	25	27
Japan	30 (26)	16	31	35
China	31 (33)	35	30	43
Thailand	34 (38)	38	27	38
Philippines	40 (40)	44	37	44
Indonesia	47 (49)	49	45	49

*Figures in brackets for the year 2001*

*Source: IMD World Competitiveness Yearbook*

# Outline

- **Competitive and Non-competitive industries: The Use of Trade-Based Measures**
- **Factors affecting competitiveness**
- **Roadmap to competitiveness**

# Top Exports for 2001

	in M US\$
1 Microelectronics	11,814
2 Food Products	895
3 Motor Vehicle Parts and Components	482
4 Home Furnishings	416
5 Marine Products	358
6 IT-enabled Services	350
7 Construction Materials	129
8 Wearables (excluding garments)	83
9 Holiday decors and giftwares	75
10 Organic and natural products	39
* Other electronics, garments and textiles	13,988
* Coconut, petroleum, resource-based commodities, cutflowers/ornamental plants	3,869

Source: DTI

<b>RCA Indices</b>	<b>Categories</b>	<b>Specific Industries</b>
Declining RCAs	Low Technology	Tobacco Textiles Wearing Apparel
Increasing RCAs	High Technology	Comm. & Eqp't Semiconductors Electrical machinery
	Low Technology	Leather Products Footwear Furniture and Fixtures

*Source: De Dios & Abrenica (1999)*

# Competitiveness of Exports, 1991-95

	<b>COMPETITIVE</b>	<b>NON-COMPETITIVE</b>
<b>Fast Growing markets</b>	Leather and leather products Paper and Products Drugs and Medicines Non-Ferrous Metals Electrical Machinery, nec	Tobacco Textiles Wearing Apparel Industrial Chemicals Chemical products, nec Rubber Products Plastic Products, nec Iron and Steel Office and Computing Machinery Radio, TV & Communication equipment
<b>Slow growing markets</b>	Food Footwear Furniture and fixtures Motor vehicles	Beverages Wood Products Printing and publishing Petroleum refineries Petroleum and Coal Products Pottery, China etc. Glass and Products Non-metallic Products, nec Metal products Machinery and equipment, nec Other Transport Equipment Professional Goods Other Manufacturing

*Source: De Dios & Abrenica (1999)*

## The services sector is a major source of economic growth...

- Higher share of national output: from 36% in 1980 to 45% in 45% in 2001
- Second largest employer (next to agriculture): almost 40% of total labor force
- The only sector (in the Philippines) to grow during the Asian financial crisis
- Highest growth rate of 3.5% in Southeast Asia during the crisis

- However, the Philippines has not yet developed a policy framework for the services sector and therefore has to address issues related to measurement and monitoring of activities and contributions, and productivity.

## Factor-Driven Industries

- Traditional resource base
- High labor intensity with relatively semi-skilled to highly skilled workers
- Existing technology base and stable or growing markets
  - Furniture*
  - Processed foods*
  - Processed wood*
  - Basketware and holiday décor*
  - Jewelry*
  - Tropical Fruits*

## Innovation-Driven Industries

- Utilize knowledge –intensive technologies
- High capital intensity, highly skilled labor
- Growing to new/emerging markets.
  - Professional services*
  - Film animation*
  - Information technology services*

## Investment-Driven Industries

- Utilize second-wave technologies
- Medium to highly labor intensity with relatively semi-skilled workers
- Stable or growing markets
  - Electronics*
  - *Automotive part*
  - *Footwear*
  - *Oleochemicals*
- *Mining and mineral products*  
*Metals and engineering*

## Trend-Opportunity-Driven

- Emerge following a trend and for which tremendous world demand is present
  - Hardware/software solutions for computer systems
  - Costume jewelry
  - Events driven opportunities

*Source: PEDP (1999-01)*

# Priority Sectors of the Arroyo Administration

- Agriculture
- Tourism
- ICT

# Tourism Comparison

	Share to GDP		Growth of Value-Added		Employment	
	\$ million	% of GDP	2000	2001	000	% of total
WORLD	3,497,070	10.1	3.9	-1.1	199,780	7.9
SE ASIA	56,611	10.8	8.7	-1.8	15,944	8.2
Cambodia	308	9.2	12.3	4.6	650	10.3
Indonesia	14,080	9.9	8.7	0.9	6,098	6.7
Laos PDR	174	9.7	2.4	-4.8	187	8.3
Malaysia	10,140	11.5	17.3	-3.1	906	9.4
Philippines	5,680	8	3.9	-4	2,835	10.3
Singapore	9,330	10.8	8.8	-5.4	197	9.7
Thailand	14,770	13	4.8	-0.8	3,223	10.1
Vietnam	2,120	6.7	6.2	1.5	1,847	5.3

*Source: World Travel and Tourism Council*

# ICT in the Philippines

- The Medium-Term Development Plan emphasizes the need to lay down the minimum physical infrastructure required for ICT development within the next 3-5 years
- Vision: Every business, govt agency, school and home to have access to ICT

# E-readiness ratings

Country	Connectivity	E-leadership	Information Security	Human Capital	E-Business Center
Bangladesh	3	3	3	3	3
China	3	2	3	2	2
India	3	2	2	2	2
Indonesia	3	3	3	3	3
Rep. Of Korea	1	1	2	1	2
Malaysia	3	2	2	2	2
Philippines	3	2	3	2	3
Taiwan	2	1	2	1	2
Thailand	3	2	3	3	3
Vietnam	3	2	3	3	3

**1- Majority of the conditions are suitable to the conduct of e-business and e-govt**  
**2- improvement needed in the conditions necessary to support e-business& e-govt**  
**3- Substantial improvement needed in the conditions necessary to support e-business& e-govt**  
*Source: McConnell International (presentation at the Asian Development Forum 2001)*

# Factors Affecting Competitiveness

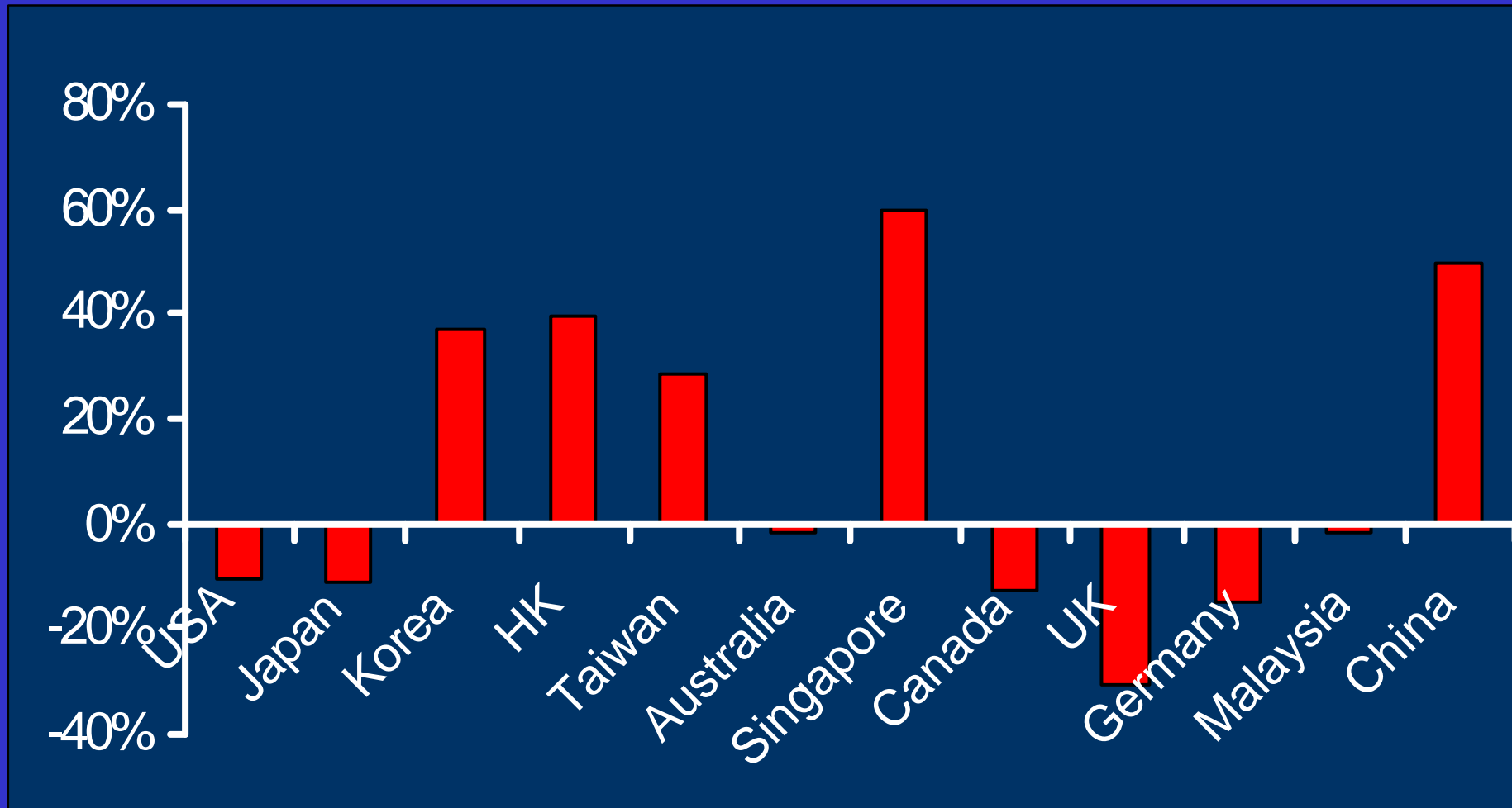
## Reasons for decline in competitiveness

- High poverty incidence
- Poor infrastructure
- Lower rate of savings
- Rampant bribing and corruption
- Ineffective bureaucracy
- Low agricultural productivity
- Low level of science and math proficiency of students

# Poor Infrastructure

- **Hard Infrastructure**
  - lack of farm to market roads
  - longer turnaround time for industries like garments
  - poor infostructure for ICT
  - Land transport has become cheaper than sea transport for goods over comparable distances (46% cargo handling costs)
  - lack of air access between the Philippines and its major tourism and trade markets

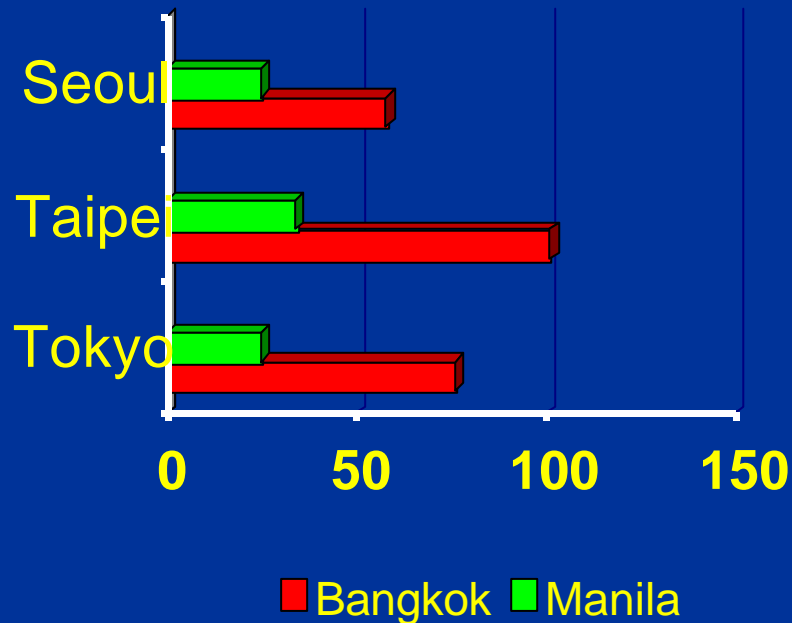
# The Northeast Asian market continues to grow...



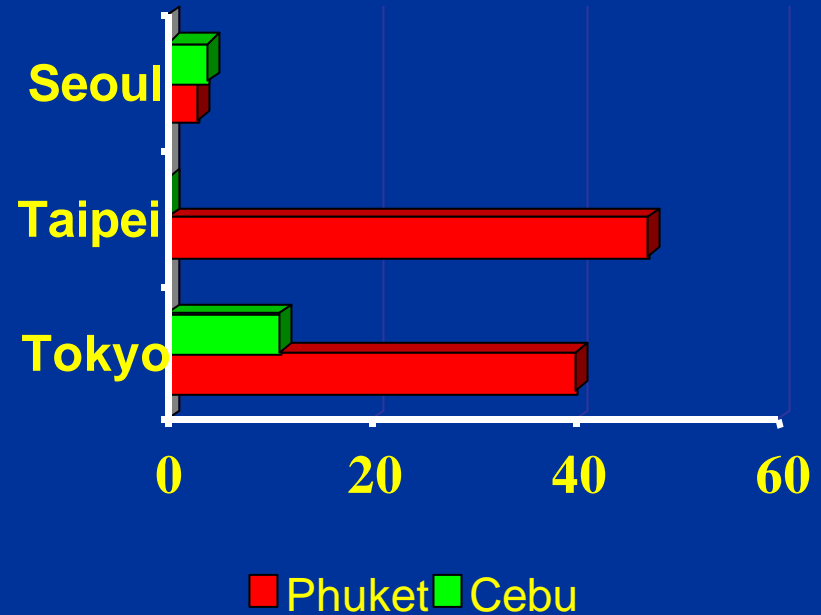
Source: Department of Tourism (Jan-May 2002)

# Lack of air access between Philippines and its Northeast Asian markets...

## Incoming Flights Per Week into Manila and Bangkok



## Incoming Flights Per Week into Cebu and Phuket



Source: Airports Authority of Thailand, OAG Guide

## Comparison of wage levels in major Asian cities (US\$/month)

	<b>Workers</b>	<b>Engineers</b>	<b>Middle Managers</b>
<b>Singapore</b>	398-528	1130-1495	1907-2419
<b>Malaysia (KL)</b>	329	668	1,407
<b>Thailand</b>	176	378	727
<b>Indonesia</b>			
<b>Jakarta</b>	44-83	139-242	236-1208
<b>Batam</b>	82	190	576
<b>Philippines</b>	37-319	255-433	417-824
<b>China</b>			
<b>Dailan</b>	48-152	85-230	58-386
<b>Chongqing</b>	79-123	85-207	166-286
<b>Myanmar</b>	26-43	83-111	145-313
<b>Vietnam</b>			
<b>Ho Chi Minh</b>	76-132	165-275	401-540
<b>Hanoi</b>	79-108	187-314	476-546

*Source: Tsusho Koho, JETRO (December 1999)*

# Labor competitive?

	Hourly labor costs in \$ (wages and benefits)
Philippines	0.76
Vietnam	0.22
China	0.69
South Korea	5.32
Sri Lanka	0.46
Indonesia	0.32
Bangladesh	0.30

*\*Comparison of wage rates for garments production*

**Source: Werner International**

# Human Resources

- Pool of skilled, trainable and fairly literate and English speaking labor force
- Ranked no.1 in availability of workers for knowledge jobs (engineers, IT workers, senior managers, enrollment at all levels of schooling)
- A leader in export of knowledge-based services.

## No room for complacency

- Most of the country's labor force remains unskilled
  - average productivity of Filipino workers increased by only 6% in a 12-year period

## No room for complacency

- Students have generally low level of proficiency in math and science
  - Mean performance scores of Grade 6 pupils in the National Elementary Achievement Test declined from 50.8 in 1997 to 50.1 in 1998
  - Filipino students rank 3rd from lowest among students from 37 other countries

## No room for complacency

- Low priority given to quality improvements of public education
  - 90% of education budget goes to personal services (salaries)
  - only 8.8% was earmarked for maintenance and operating expenses (training and acquisition of library books and materials)

# Strong Civil Society

- Managed to limit the serious damage that could have been inflicted by corrupt and inefficient government
- NGOs have emerged as a credible and major force in socio-economic development
- NGOs are certified by the Philippine Council for NGO Certification

# Areas of NGO participation

- Power of recall
- Monitoring of elections
- Local development councils
- Others: local school boards, local bids and awards committees

# Filipino Women in Nation-Building

<b>Country</b>	<b>1980</b>	<b>1999</b>
Japan	37.9	41.3
Singapore	34.6	39.1
Hong Kong	34.3	37.0
Korea, Rep.of	38.7	41.2
Malaysia	33.7	37.7
Thailand	47.4	46.3
Philippines	35.0	37.7
China	43.2	45.2
Vietnam	48.1	49.0
Indonesia	35.2	40.6
Myanmar	43.7	43.4

*\*% of labor force (female)*

*Source: 2001 World Development Indicators*

# Filipino women in nation-building

- 35%-40% contributions to GDP
- 42% of unorganized sector
- Active in services like retail, financing and insurance, real estate and business services
- 26%-34% of remittances from abroad
- 90% contribution in terms of unpaid hours of work

Source: Virola, Romulo and Sylvia de Perio, *Measuring the Contribution of Women to Development* paper presented during the National Statistics Convention, 1998

# Filipino women in nation-building

<b>Profession</b>	<b>Total No. of Men</b>	<b>Total No. of Women</b>
Professional teacher	58,402	315,510
Midwife	449	122,783
CPA	43,070	60,810
Physician	45,472	39,390
Nurse	37,685	28,867
Dentist	12,140	25,639
Civil Engineer	76,050	13,738
Social Worker	642	11,844
Chemical Engineer	11,215	11,797
Nutrition Dietitian	128	10,764
<b>TOTAL</b>	<b>701,650</b>	<b>619,374</b>

*Source: Professional Regulatory Commission (as of June 2001)*

# Summary

- While there has been a decline in competitiveness on the aggregate level, the Philippines can concentrate in industries where these disadvantages are least damaging
- Sources of competitive advantage include: human resources, strong civil society, role of Filipino women, large domestic markets and strategic location of the Philippines

# Summary

- Pillars of growth of the current administration: agriculture, ICT and tourism
- Constraints to Competitiveness need to be addressed and these include:
  - deteriorating quality of basic education (public)
  - poor infrastructure (hard and soft)
  - legislation
  - depletion of natural resources

# Roadmap to Competitiveness



Stable Macroeconomic  
Performance

**Improve Factor  
Conditions**

**Enhance Demand  
Conditions**

**Strengthen Supporting  
& Related Industries**

**Develop Structure &  
Rivalry**

**In Pursuit of  
Productivity &  
Global  
Competitiveness**

