

**STRENGTHENING COMPETITIVENESS,
FACILITATING INDUSTRIAL UPGRADING**

**KEY ELEMENTS & PROCESSES
IN CRAFTING
A STRATEGIC INDUSTRY
ROADMAP**

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OUTLINE

- **Why the need to craft a services roadmap?**
 - **Role of Government**
- **New Approach**
 - **Competition, Innovation, Productivity Framework**
 - **Guidelines & Fundamental Steps**
 - **Bottom-up Process: coordination & facilitation is crucial**
- **Application: Services Roadmap**

PART 1: STRUCTURAL TRANSFORMATION & INDUSTRY UPGRADING → INCLUSIVE GROWTH

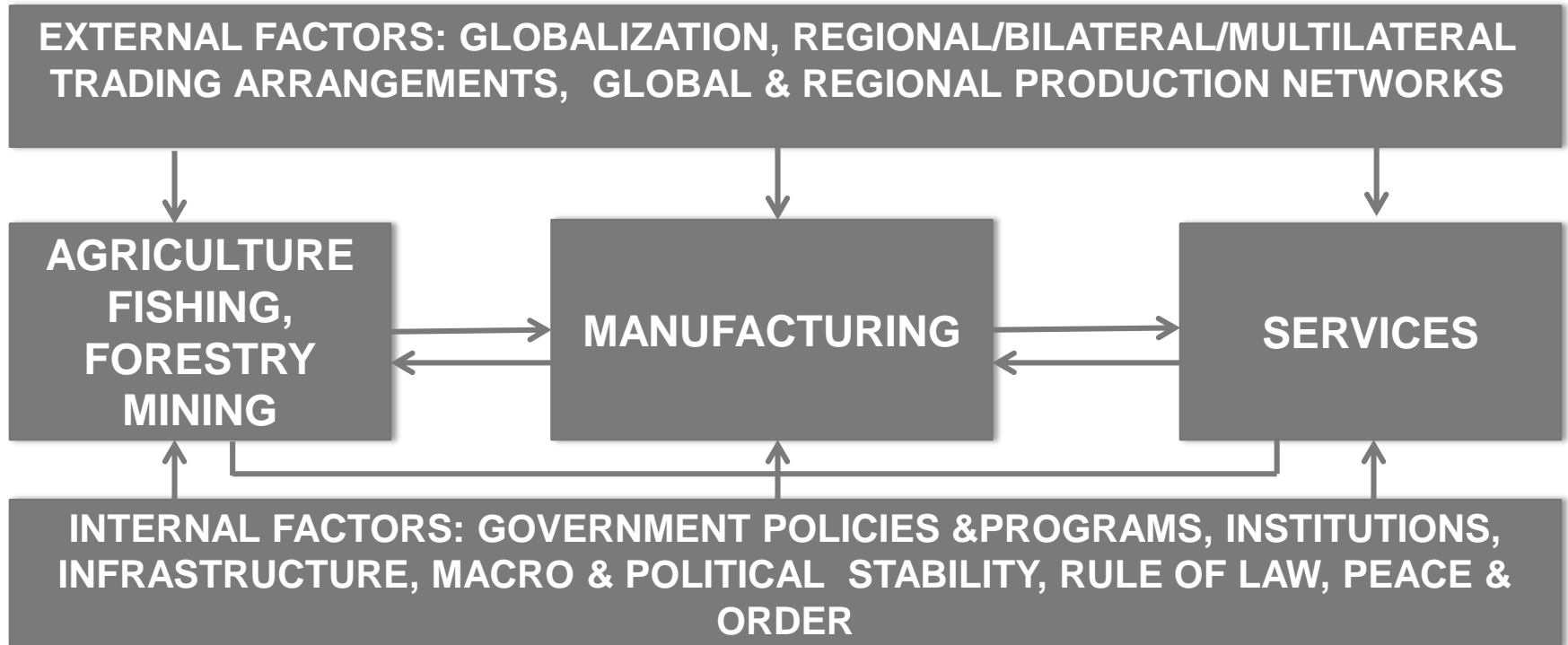
	Value Added						Employment		
	average growth			average share			average share		
	80s	90s	20s	80s	90s	20s	80s	90s	20s
GDP	1.7	3.0	4.7	100	100	100	100	100	100
AGRI	1.1	1.8	3.0	23.9	20.8	18.9	49.6	43.2	36.1
IND	0.3	3.0	4.2	38.0	34.1	33.1	14.5	16.0	15.1
MFG	0.9	2.5	4.1	26.3	24.3	23.7	9.9	10.0	9.1
SER	3.3	3.6	5.8	40.4	42.4	48.0	35.9	40.9	48.8

❑ Need structural transformation, industry upgrading

- 800K new entrants/year; 3M unemployed; 7.3M underemployed
- Services cannot provide all the needed jobs
- Manufacturing can employ skilled, semi-skilled, unskilled

❑ To attract investments, new industrial policy

COMPREHENSIVE NATIONAL INDUSTRY STRATEGY (CNIS) FRAMEWORK



- **3 Main Channels: Competition, Innovation, Productivity**
- **Structural Transformation, move up the value chain → inclusive growth & job creation**
- **Globally competitive industries, strong domestic & global linkages**

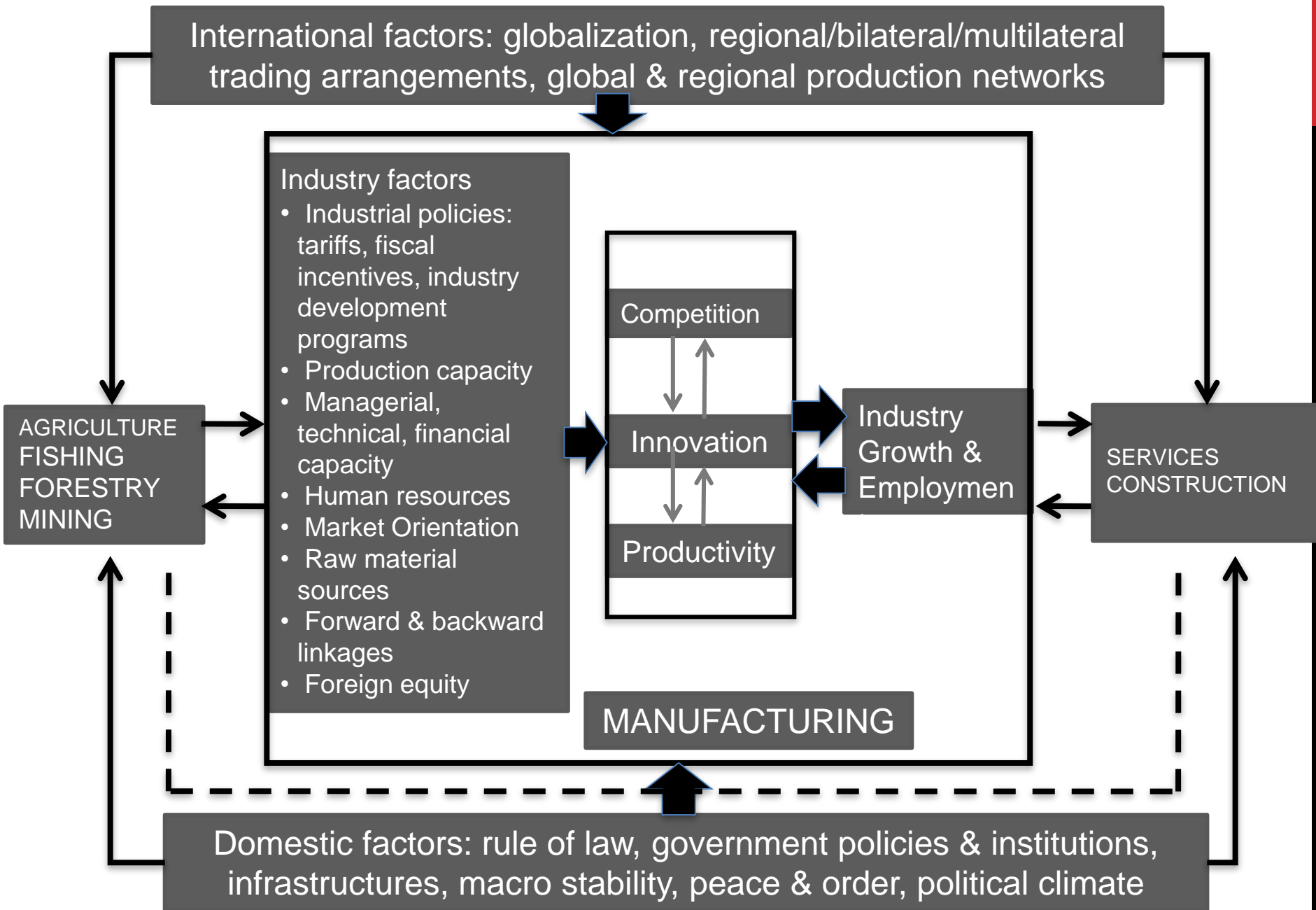
ROADMAP FOR FASTER, MORE INCLUSIVE GROWTH: ROLE OF GOVERNMENT

- **Growth oriented action to upgrade industries, promote diversification, facilitate transformation**
- **Pro active, facilitating government**
 - encourage producers to take risks, address market & government failures, changes in institutions & policies
- **Where to devote government's energies & resources, strategy, priorities**
- **Government: not proximate cause of growth, but private sector, investment & entrepreneurship**
- **Political will, effective, stable, honest government**

STRATEGIC ELEMENTS IN FACILITATING TRANSFORMATION & DEVELOPING INDUSTRIES

- **Maintain a competitive market system**
- **Follow comparative advantage**
- **Target sectors that conform to the economy's latent comparative advantage**
- **Focus on supply & value chains**
- **Upgrade endowments: capital, labor, natural resources; hard & soft infrastructure
→ income growth**

PART 2: COMPETITION, INNOVATION, PRODUCTIVITY



STEPS IN ROADMAP FORMULATION

What are the existing & future growth potentials of the industry in both domestic and export markets?

- 1. Identify dynamically growing tradable industries; watch out for self-discovery by firms**
 - Benchmarking: fast growing countries with similar endowment structure & with 100% higher per capita income & identify high industries that have grown well for the last 20 years**
 - Product space by Hausman (Usui 2012)**
 - Revealed comparative advantage measures**
- 2. See if private sector is already in these industries; are there existing or nascent activities? if none, seek FDI**

STEPS IN ROADMAP FORMULATION (CONT'D)

What are the obstacles preventing the firms from upgrading the quality of their products? Entry of new firms?

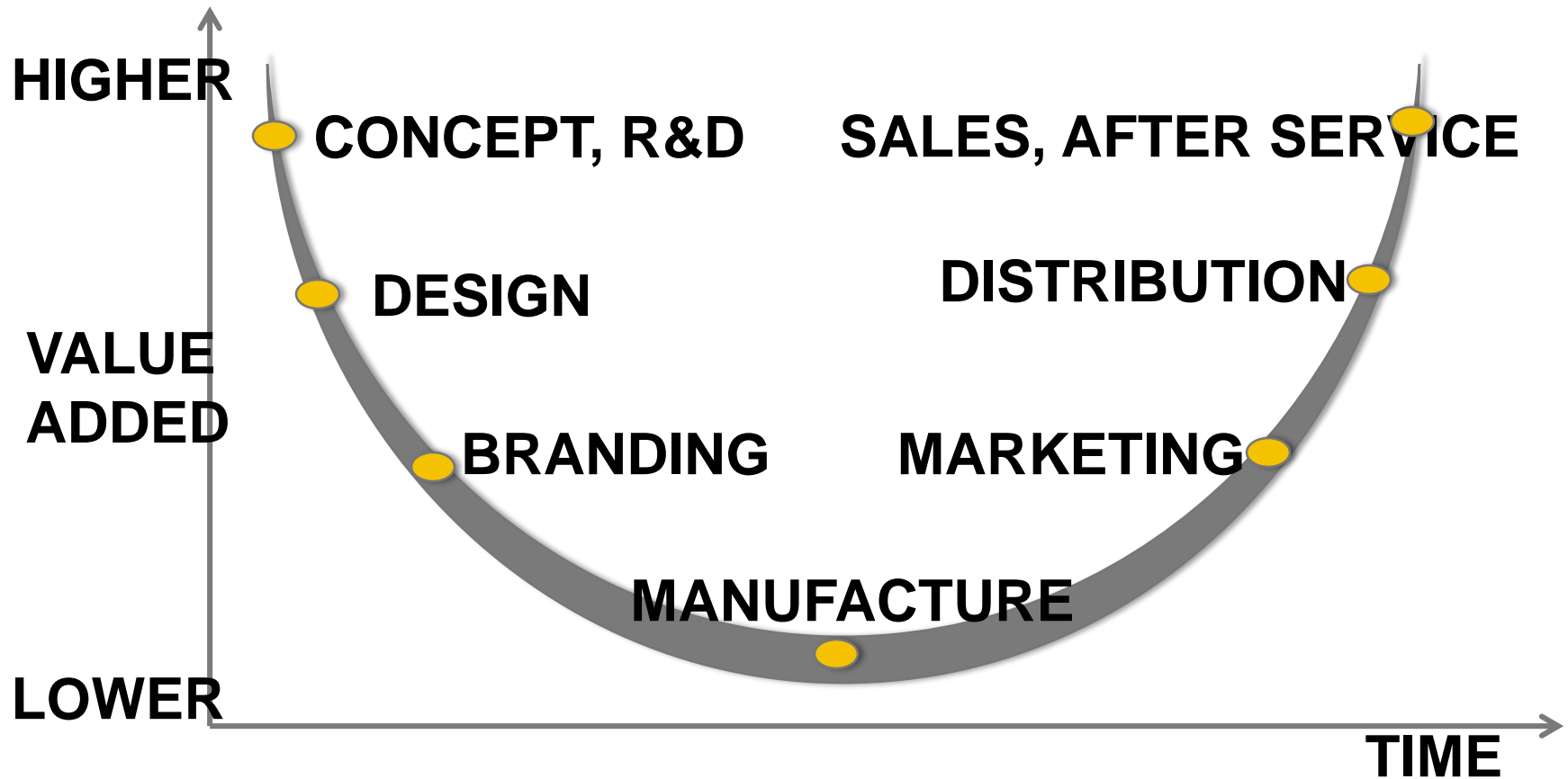
Identify constraints to upgrading & firm entry

- **Value/Supply Chain analysis**
- **Growth Diagnostics by Hausman, Rodrik & Velasco (2005)**
- **Dialogues & consultations with private sector**

Cross-cutting constraints: power, other utilities, domestic shipping costs, bureaucracy, smuggling, etc

Industry specific constraints: high cost & lack of raw materials, absence of upstream/downstream industries

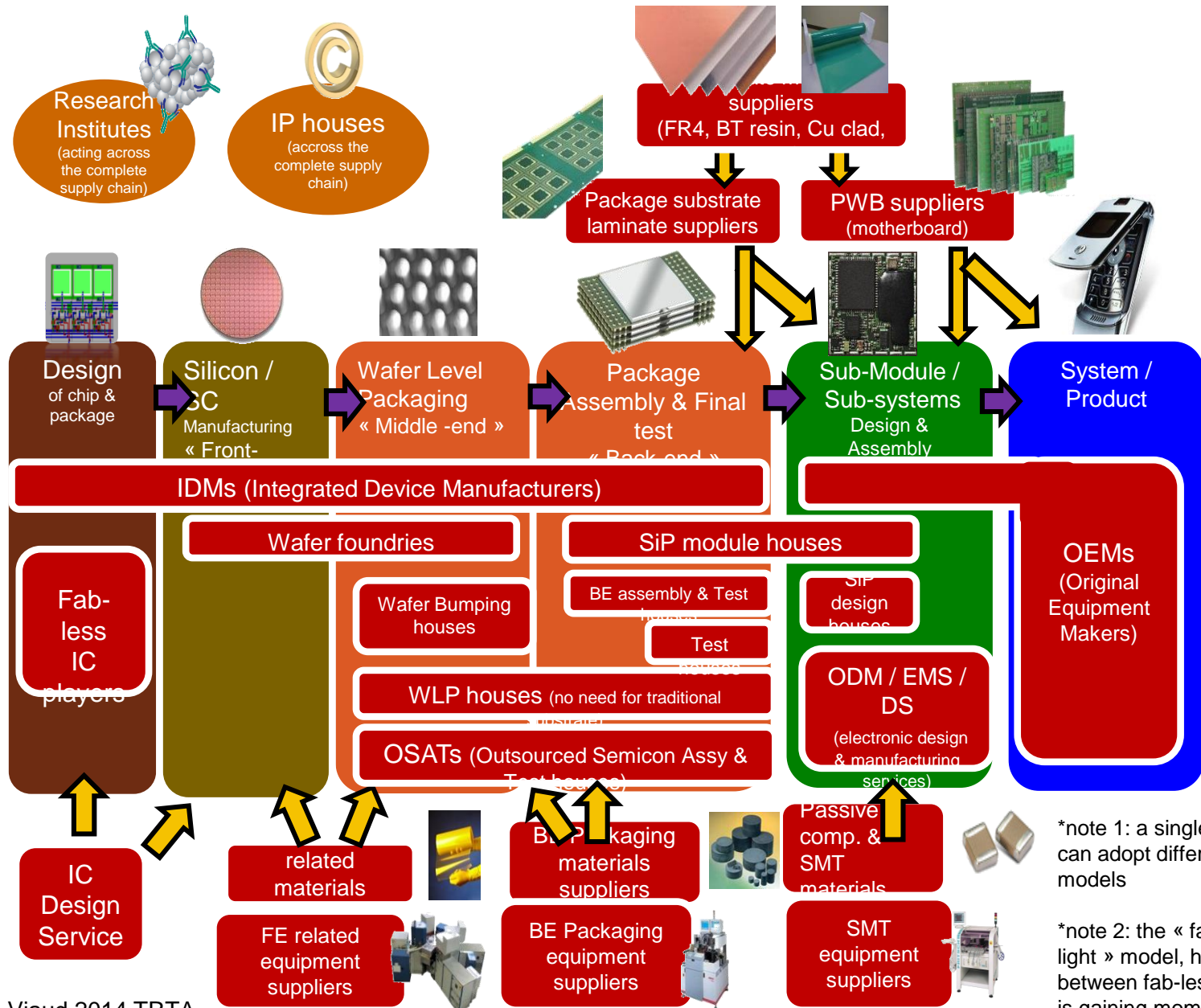
STAN SHIH'S SMILE CURVE



Opportunities for upgrading & diversification in both upstream & downstream in goods & services

Strategic positioning in the GVC

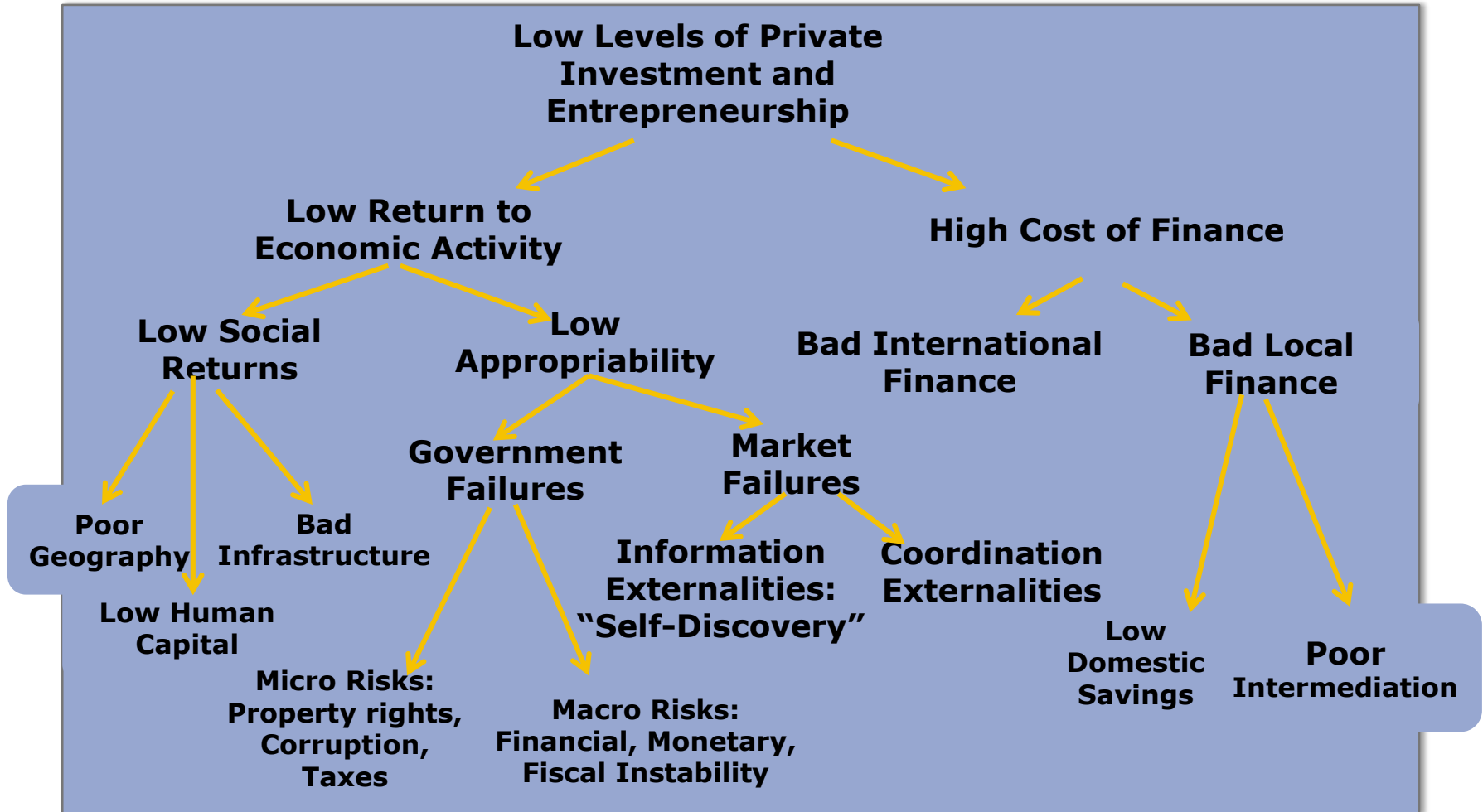
GLOBAL INTEGRATED CIRCUIT SUPPLY CHAIN



*note 1: a single company can adopt different business models

*note 2: the « fab-light » model, half way between fab-less and IDM, is gaining momentum

HRV Framework: identify most binding constraints



Source: Hausmann, R., D. Rodrik, and A. Velasco 2005. Growth Diagnostics.

Develop growth strategies based on opportunities & constraints; growth diagnostics → policy priorities

Address constraints that have the greatest impact on growth

STEPS IN ROADMAP FORMULATION (CONT'D)

4. **Take action to remove constraints:** latch on to regional production networks, increase capacity to export; enable domestic firms especially SMEs to increase their chances of survival
 - **Horizontal interventions:** protection of property rights, improvement of overall business & investment environment, R&D, industrial clusters, economic zones
 - **Vertical interventions:** incentive measures to address market failure such as tax incentives for a limited time, direct credits, access to raw materials & capital equipment
 - **Coordination mechanisms:** industry councils to serve as venues for deliberation and coordination between the government & private sector

PART 3: STRATEGIC SERVICES ROADMAP

- ❑ Globalization/regional economic integration AEC 2015**
 - Global/Regional Production Networks
 - Productivity/competitiveness crucial
- ❑ To attract investments, new industrial policy**
 - Remove obstacles to growth
 - Efficient use of existing capacity & expansion
 - Deepen participation in regional production networks
 - Innovation & Technology Upgrading
- ❑ New Industrial policy: coordination/facilitation, creation of proper environment for private sector development**

AREAS OF COMPARATIVE ADVANTAGE

- Pool of skilled, semi-skilled, highly-skilled workers are our main source of strength, drivers of services exports

Comparative advantage

- ❑ Current comparative advantage
 - IT-BPM, business services
- ❑ Potential comparative advantage
 - Creative/knowledge-based services
 - Medical tourism, Tourism & travel related
 - Educational, recreational, cultural & sport
 - Aircraft MRO, ship repair
 - Distribution (retail, franchising)
 - Construction & engineering
 - Transport support



HORIZONTAL CONSTRAINTS

Major Area	Main Issues & Constraints
Infrastructure & Logistics	<ul style="list-style-type: none">• High cost & unpredictability of power• High cost of domestic shipping & logistics
Governance & Regulation	<ul style="list-style-type: none">• Smuggling, corruption, bureaucracy/red tape• Lack of streamlining/automation of interrelated business procedures /Lack of transparency• Permits issued by LGUs, national agencies (DENR's ECC, BI visa, BFAD regulations, BIR registration)• 60-40% Foreign Equity Rule• Weak competition & regulation

VERTICAL CONSTRAINTS

Area	Main Issues & Constraints
Supply/value chain gaps	<ul style="list-style-type: none">• Absence of raw materials (upstream); weak parts & components sector (mid-stream); downstream
SME	<ul style="list-style-type: none">• Access to finance, technology upgrade, inability to comply with product standard regulations
HRD	<ul style="list-style-type: none">• Lack of skilled workers, engineers, trainings
Innovation	<ul style="list-style-type: none">• Industry-academe linkages new product development, R&D facilities

SERVICES STRATEGIES

Vision: globally competitive services sector to create quality jobs, move up value chain & enable structural transformation

Increase investments in infrastructure services

- Logistics , Telecommunications, Finance, Energy, Water
- Crucial for competitiveness improvement, production networks & GVCs

Move up to high value added services in GVCs

- R&D, design, logistics, financial, marketing, distribution, after-sales services
- Support industries

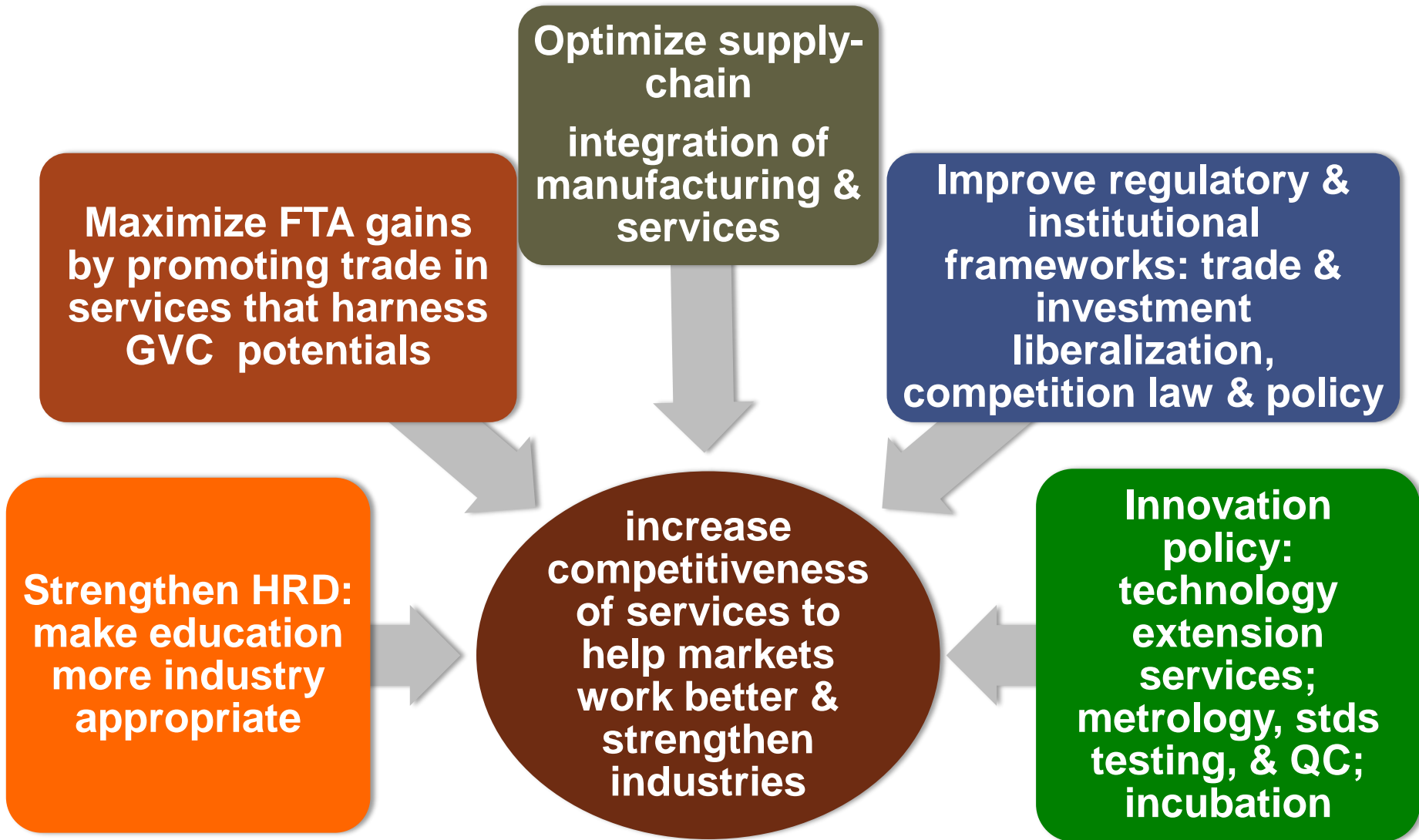
Increase use of services in manufacturing

- Input side: high quality services like design, marketing
- Output side: manufacturing firms engaging in ancillary services

POTENTIAL SERVICES SECTORS

- Business Services
- IC Design
- Creative industries/knowledge-based services:
animation, software development, game development,
health information systems
- Ship repair
- Maintenance, repair, & overhaul of aircraft
- Infrastructure Services
- Energy
- Public infrastructure & logistics: airports, seaports;
air, land & water transport, water treatment & supply
- PPP projects
- Tourism, Construction

STRATEGIC ACTIONS



ROADMAP SPECIFIC ELEMENTS

- ❑ **Analysis of the State of the Industry: structure, economic performance, contribution**
- ❑ **Government Policies & Programs to Develop the Industry**
- ❑ **Impact of AEC 2015 & other FTAs: performance, competition, adjustment measures, investment**
- ❑ **Supply/Value chain analysis: gaps & potential growth areas; growth trajectories, where to position PH in GVC**
- ❑ **Most binding constraints preventing firms from upgrading & new entrants from coming in: raw materials/inputs, technology, labor, regulatory environment**
- ❑ **SWOT Analysis**
- ❑ **Vision, Goals, Targets, and Timeline**
- ❑ **Strategic Actions and Policy Recommendations to Attain Industry Growth Trajectory**

THANK YOU!