Philippine Export Development Plan 1999-2001

PHILEXPORT

PHILIPPINE EXPORTERS CONFEDERATION, INC.

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Philippine Export Development Plan 1999-2001

Approved by President Joseph Ejercito Estrada on May 7, 1999 at His Quarterly Meeting with the Export Development Council as mandated by Republic Act No. 7844

Prepared by the
Export Development Council
and the Department of Trade and Industry

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ABBREVIATIONS AND ACRONYMS

AFTA	ASEAN Free Trade Area
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BOC	Bureau of Customs
BOI	Board of Investments
BSP	Bangko Sentral ng Pilipinas
CARP	Comprehensive Agrarian Reform Program
CHED	Commission for Higher Education
DA	Department of Agriculture
DECS	Department of Education, Culture and Sports
DENR	Department of Environment and Natural Resources
DFA	Department of Foreign Affairs
DILG	Department of Interior and Local Government
DOF	Department of Finance
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DTI	Department of Trade and Industry
E-commerce	Electronic Commerce
EDA	Export Development Act of 1994
EDC	Export Development Council
EDI	Electronic Data Interchange
EPG	Eminent Persons Group
EU	European Union
FAPs	Foreign-assisted Projects
FDI	Foreign Direct Investment
FTSC	Foreign Trade Service Corps
GATS	General Agreement on Trade in Services
GFI	Government Financial Institution
HITR	Honorary Investment and Trade Representative
IRR	Implementing Rules and Regulations
IT	Information Technology
LGC	Local Government Code
LGU	Local Government Unit
MFA	Multi-fiber Agreement
MTPDP	Medium Term Philippine Development Plan
NEDA	National Economic and Development Authority
NOLCO	Net Operating Loss Carryover
PEDP	Philippine Export Development Plan
PEZA	Philippine Economic Zone Authority
PHILEXPORT	Philippine Exporters Confederation, Inc.
SBGFC	Small Business Guarantee and Finance Corporation
SME	Small and Medium Enterprise/Exporter
TAPS	Trade and Investment Policy Analysis and Advocacy Support Project
TRIMS	Trade-Related Investment Measures
WEF	World Economic Forum
WTO	World Trade Organization

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PHILIPPINE EXPORT DEVELOPMENT PLAN 1999-2001

EXECUTIVE SUMMARY

INTRODUCTION

The Philippine Export Development Plan (PEDP) 1999 to 2001 provides the guide for boosting export performance in the next three years and lays the groundwork for developing a sustainable and globally competitive export industry well beyond. It puts emphasis on the synergy and complementation among the various programs and initiatives that have either been started or thought of before, to create a unified and cohesive agenda. The Plan builds on the gains generated by previous export development programs but also goes beyond the previous PEDP as it defines roles and commitments of both Government and the private sector. Further, the Plan emphasizes the need to implement what have remained, for some time now, mostly on paper, and to evaluate such efforts with clear bottomlines. The Export Development Council (EDC) oversees the implementation of the Plan.

The Plan is divided into the following parts:

PART 1 revisits the medium-term framework within which the Plan is based.

PART 2 provides an overview of Philippine exports by sector and presents prospects, projections and performance targets for 1999 to 2001.

PART 3 presents the Export Policy Agenda of the Plan.

PART 4 discusses industry development as a basic support to export development. Industry clustering is proposed as the core strategy to promote a strong and coordinated domestic base for globally competitive industries.

PART 5 identifies the roles of various institutions. It spells out the necessary commitments of Government and the private sector in terms of programs and other bold initiatives in support of the Plan and of the export development thrust in general.

PART 6 provides the framework for a National Communication Plan for Export Promotion, a critical support program to the PEDP.

PART 7, the concluding section, prescribes the programs, systems and succeeding steps that will help ensure the Plan's effective implementation. It defines specific performance indicators for the Plan.

FRAMEWORK

The overall direction under the medium-term framework for export development is the pursuit of global competitiveness. This direction recognizes that the effort to develop the capacity to compete globally is not limited to export industries alone but extends to domestic market-oriented industries and support services. Therefore, it emphasizes the need to increase the value added in export industries, undertake diversification strategies in terms of products and markets, and develop a strong local base and domestic linkages for the export industry that are firmly rooted in various regions of the country.

In developing global competitiveness, the macroeconomic environment and policy framework that will support an export development agenda are emphasized. Beyond this, the microeconomic factors that will sustain real competitiveness must also be addressed.

OBJECTIVES

The Plan provides the direction for achieving an export performance of US$34 billion for 1999[1] and maintaining an average annual export growth rates of 15% over years 2000 and 2001. Towards these ends, the necessary policy environment, strategies and programs, institutional support and performance milestones are prescribed and outlined in the Plan.

The Plan also aims to go beyond short-term objectives and to lay the foundation for developing a sustainable and globally competitive export industry. More importantly, it puts in context the export development thrust as a national development strategy in itself to achieve the bigger goals of employment generation, countryside development, and upgrading of living standards -- the key development thrusts of the Estrada Administration.

THE PLAN: HOW TO ACHIEVE THE TARGETS SET

A. MACROECONOMIC ENVIRONMENT

Fundamental to an export-led agenda is a macroeconomic framework which promotes competitiveness, efficiency, innovation and entrepreneurship. Government needs to be

[1] Performance target for merchandise exports set in the Philippine Medium-Term Development Plan to support the overall GNP growth target of 3.0% to 3.7% for 1999.

clear and open about its monetary policy targets and the way by which they are implemented. The maintenance of a low and stable domestic inflation rate should, nonetheless, be supportive of key economic growth targets.

The exchange rate policy needs to be addressed as fundamental to trade and industrial policy. A competitive exchange rate must be maintained to support the country's export development agenda. The interest rate policy should be explicit in favor of market-determined but globally competitive exchange rates, consistent with the objective of promoting access to credit and growth of investments without sacrificing the objective of reducing inflation rates over the medium term.

B. IMPROVING MARKET ACCESS AND MARKET PRESENCE

1. POLICY LEVEL

a) WTO/ASEAN/APEC COMMITMENTS

The Philippines has committed to opening up its markets by acceding to various multilateral agreements such as the ASEAN Free Trade Area (AFTA), Asia Pacific Economic Cooperation (APEC), and the World Trade Organization (WTO). To maximize the opportunities presented by the global market, the Philippines must likewise push vigorously for the opening up of international markets, which remain inaccessible to its products and services. The Department of Trade and Industry (DTI) and the Department of Foreign Affairs (DFA) must be vigilant in monitoring international trade activity and in its advocacy to derive maximum benefit from its accession to trade agreements.

The participation of the country in these economic agreements also places it in a good position to exploit various opportunities to attract export-oriented Foreign Direct Investment (FDI). The Philippines needs to be more aggressive in seeking and seizing opportunities presented by such programs as: the brand-to-brand complementation scheme which promotes the development of globally integrated production networks within the ASEAN economic area; and the ASEAN Investment Agreement (AIA) which prescribes national treatments for ASEAN investors for a given period.

b) PRIVATIZATION OF EXPORT PROMOTION FUNCTIONS

The Export Development Council (EDC) shall start the long-delayed review of the privatization of trade promotion functions of Government, which was provided for under the Export Development Act of 1994 (EDA). A privatization study was completed several years back but no action has been taken.

2. INSTITUTIONAL SUPPORT

a) DEPARTMENT OF TRADE AND INDUSTRY

The focus of DTI's foreign commercial representation policy is to improve market access and market presence of Philippine goods and services. To achieve this, DTI will aggressively undertake the following tasks:

- *EFFECTIVE REPRESENTATION AND NEGOTIATION*

In dealing with trade partners and in enforcing bilateral and multilateral trade agreements to which the Philippines is a signatory, the DTI, in coordination with the DFA, will: focus on effective representation and negotiation to improve market access; obtain preferential treatments and similar concessions for Philippine exports where opportunities for these exist; improve opportunities to enter new or expand existing markets; and ensure that specific rules or initiatives by trade partners are not prejudicial to the interests of Philippine exporters. Technical assistance from key trade partners, in matters relating to compliance with standards and technical barriers to trade, will be actively sought.

- *COMMERCIAL INTELLIGENCE*

In addition to identifying market opportunities for Philippine exports, the commercial intelligence activities of DTI, through its Foreign Trade Service Corps (FTSC), will also focus on identifying potential and existing barriers to Philippine exports and the means to overcome these. Practical information for exporters such as performance of major competitors in the given market will also form part of the commercial intelligence initiatives.

- *PROMOTION AND MARKETING*

The DTI will designate Honorary Investment and Trade Representatives (HITRs) to complement the existing FTSC. The HITR program is an international network of Philippine advocates, whose members will be drawn from a roster of overseas Filipinos, former officials of multilateral and bilateral agencies, and former chief operating officers (CEOs) and officers of multinational companies operating in the country. These advocates will undertake trade and investment promotion activities for the Philippines

The activities of HITRs must be based on clear objectives and expectations, and must be aligned with the efforts of the FTSC and other promotions programs of Government and the private sector, in terms of direction and targets. An Executive Order and/or Memorandum of Agreement with the DFA may be necessary to institutionalize the program and give it official recognition.

DTI must also organize high-powered, high-level, and personalized missions and campaigns overseas to promote trade and investments, in the same way that royalties or heads of state promote their respective countries' industries.

b) PRIVATE TRADE AND INVESTMENT PROMOTION CORPORATE ENTITY

A corporate entity, which is private in character, adequately funded, and organized with the support of the EDC, will be given the mandate to undertake high-level Philippine trade and investment promotion activities. Further, it will be given the responsibility to implement the National Communication Plan for Export Promotion, under the direction of the EDC, with the support of, and in coordination with DTI. It is believed that the private corporate entity will have a better chance of making a rapid and swift response to the target publics' responses to the communications strategy that will be followed. This will be in line with the Government's moves to privatize the export promotion function.

c) INDUSTRY ASSOCIATIONS

A potent and dynamic private sector is a crucial partner of Government in ensuring the success of the export development plan and of the overall development thrust. The private sector needs to commit themselves to respond to the demands of the new environment, strengthen their capability to represent private sector interests vis-à-vis Government and other relevant players, and induce changes in the environment through better cooperation and networking with both public and private institutions.

The Philippine Exporters Confederation, Inc. (PHILEXPORT), as the EDC-accredited exporters organization for the duration of this Plan, will take the lead in undertaking the private sector commitments to the Plan.

Industry associations need to be better equipped to respond to the needs of exporters for efficient services and effective representation. Industry associations need to be visible and as much as possible, of top-of-mind recall among various publics where it concerns the sector they represent. In this age of information technology, industry associations also need to develop electronic link-ups with their member to facilitate exchange of information and delivery of services.

PHILEXPORT, as the accredited umbrella organization of Philippine exporters, has the primary responsibility to promote the development of strong and professional industry associations. PHILEXPORT will need to continue and intensify its cooperative undertakings with industry associations not only in policy advocacy and promotions programs but also in organizational development efforts. Assistance in fund sourcing to support programs of associations should also be provided by PHILEXPORT.

3. PROGRAMS

a) National Communication Plan for Export Promotion

The National Communication Plan for Export Promotion is the core program for the delivery of information to target markets. It will project a strong, coherent, and more positive image of Philippine export products and of the Philippines as a preferred source of globally competitive products and services. At the local level, it serves as a vehicle for educating special target markets (youth, entrepreneurs, labor) on global competitiveness and the role of exports in national development. This will be the vehicle for developing the national orientation towards export promotion.

b) Electronic Commerce

The PEDP emphasizes the need to prepare Philippine firms for electronic commerce. As a start, e-commerce must be exploited as a strategy to expand market presence through the electronic media in pre-transaction activities such as website development, preparation of electronic catalogues and organization of virtual exhibitions.

c) Countertrade and South-South trade

DTI must not hesitate to use countertrade as a tool for export expansion. A counter-trade strategy would be relevant in expanding trade with the new entrants to the ASEAN — Vietnam, Laos, Cambodia, and Myanmar — which are short of hard currency. It will also open new or expand opportunities for trade with emerging economies of Asia and thus, facilitate South-South trade.[2]

More creative and sophisticated countertrade mechanisms may also be a good response to expanding trade within the region in the light of the ASEAN currency crisis.

d) Bilateral and Multilateral Programs for Market Access

One important means to supplement available resources for export promotion is through bilateral/multilateral technical cooperation programs and foreign-assisted projects (FAPS). International development agencies, foreign counterpart trade promotion offices, both government and private, and even private associations are a potential source of programs and funds necessary to extend the export development initiative beyond what national budgets can cover.

Both DTI and industry associations, as a matter of policy, should take a more active role in seeking partner organizations for bilateral cooperation and in churning out project

[2] Trade among developing and least developed countries

proposals for foreign funding. Within DTI, the unit to handle project development and search for FAPs should be reactivated. Bilateral cooperation programs, undertaken with an organization in the target market, are an important means to undertake integrated and market-focused approaches to promoting exports.

C. DEVELOPING A COMPETITIVE EXPORT BASE

1. POLICY LEVEL

Public policy must support the drive towards global competitiveness. It must be geared towards enabling Philippine firms to enter new markets, develop and exploit new technological and organizational advantages and reduce risks and costs within the global economic environment.

Along with promoting FDI, the adoption of export-oriented strategies is the path taken by the more progressive developing economies to achieve growth and maximize the benefits of integration into the larger global economy. To realize such benefits, it is important that the right policies are in place and that the right responses to changes in the environment are adopted.

The PEDP presents a comprehensive Export Policy Agenda and outlines specific policy directions and initiatives necessary to support the export drive.

The policy agenda is presented under the following headings:

- Financing
- Investments and Incentives
- Cost of Doing Business
- Agricultural Policies
- Technology Agenda
- Education and Training
- Employment Policy, Labor and Productivity
- Competition Policy, Liberalization, and International Commitments
- Institutional Framework

2. INSTITUTIONAL SUPPORT

a) EXPORT DEVELOPMENT COUNCIL

The EDC provides the forum for participatory governance. Tasked with overseeing the country's export development effort, the EDC's role is both as a coordinator and an advocate as it undertakes the following functions:

- Oversee the implementation of the PEDP.
- Adopt and advocate the policy agenda of the Plan.
- Coordinate the involvement of relevant Government agencies in the export development program.

According to a World Bank study,[3] the EDC could serve as a vital instrument for promoting Philippine competitiveness if it were properly equipped and financed to carry out the tasks that have been assigned to it. It needs to have the capability to devise effective strategies and the authority to coordinate and implement them across the many different agencies and departments involved. The skills, information and resources needed for the EDC to function properly require considerable commitment from the government and private agencies involved. It would therefore be useful to conduct a thorough review of its structure, management and effectiveness at this stage and make any necessary improvements.

Following this, the allocation of adequate resources to the EDC under the General Appropriations Act shall be considered.

b) DEPARTMENT OF TRADE AND INDUSTRY

The DTI will be the primary agency responsible for the implementation of the Plan. In undertaking this task, it will need to work on the basis of clear bottomlines and performance measures to assess the effectiveness of its programs and ensure their continued relevance. Its key responsibilities are as follows:

- Be the lead agency in the implementation of the Plan.
- Provide information, counseling and export-assistance services.
- Undertake aggressive market penetration programs.
- Undertake complementary programs to promote continuing competitiveness of Philippine products and services.
- Lead the effort to spread the gains of exports to the countryside.

Further, in localizing the export development process as required by the industry cluster approach, DTI regional and provincial offices will take the lead in linking LGUs, other government agencies, industry, educational/training institutions and other service providers in developing the industry clusters.

In order to create awareness and build confidence in the export development policy and program of the country, DTI, together with the private sector, will provide operational support to EDC in communicating the Plan and its various components to Congress,

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[3] Report No. 17024-PH, *Philippines: Managing Global Integration*, a two-volume report, World Bank, 17 November 1997

other relevant government agencies, local government units, the private sector, the media and the general public.

c) EMINENT PERSONS GROUP

On matters of policy and new initiatives, DTI will draw sound advice from the Eminent Persons Group (EPG), a top-level committee composed of respected and accomplished Filipino experts. The EPG is tasked to:

- Study factors that affect competitiveness.
- Identify industries strategic to the country and which therefore need to be supported and nurtured.
- Review the situation of current export performers and determine how they can maintain or enhance their competitiveness.

d) GOVERNMENT AGENCIES INVOLVED IN EXPORT DEVELOPMENT

The involvement of the government agencies in the export development will be coordinated by the EDC as stated in its functions. It is the EDC's responsibility to: (1) mandate specific departments and agencies to attend to identified bottlenecks and problems and report the progress of actions taken regarding these; and (2) impose sanctions on any government agency, officer or employee thereof, or private sector entity that impedes efficient exportation of Philippine goods.[4] While it has not done so in the past, the EDC must now assert this prerogative under the law. Implementing rules and regulations to define this mandate shall be immediately formulated. Defining and implementing this mandate at this stage will render it more effective in ensuring commitments from other agencies involved in the implementation of the Plan.

To be effective in its coordinative role, EDC will practice top-level intra-government advocacy in ensuring that:

- Each agency is clear on its role in the export development process and cognizant of its responsibility to communicate such role and commitment to its local (provincial) offices and to provide specific policy and implementing guidelines to the latter.

- Each agency will continually evaluate the impact of its actions (or in some cases, inaction) on exports and undertake initiatives to reconcile its principal mandate with the export development thrust.

The various Government agencies undertake their respective roles and the support programs they can in the export development process are discussed in the Plan. Common to all of these agencies are the need to: provide easy access to timely and

[4] Art. 2, Sec. 7(d) and 7(f) of the Export Development Act of 1994 (R.A. 7844)

relevant information; adhere to good governance and anti-graft initiatives; and simplify regulatory requirements and procedures.

Besides DTI, the agencies covered are as follows:

- Department of Foreign Affairs (DFA)
- Department of Finance (DOF)
- Department of Agriculture (DA)
- Department of Labor and Employment (DOLE)
- Department of Science and Technology (DOST)
- Department of Education, Culture and Sports (DECS)
- Department of Environment and Natural Resources (DENR)
- Department of Interior and Local Government (DILG) and the Local Government Units (LGUs)

e) PRIVATE SECTOR/INDUSTRY ASSOCIATIONS

In the country's export development thrust, the involvement of the private sector, through the industry associations, encompasses all aspects from defining policy and direction to implementing programs. This level of participation, which is characteristic of the participative form of governance necessary in today's competitive global environment, places greater responsibility on the private sector in shaping the environment that will support the growth of exports and industry.

PHILEXPORT, will ensure that the private sector fulfill their commitments the Plan. It shall:

- Professionalize industry associations.
- Expand the policy research and advocacy program.
- Promote interaction with support institutions.
- Promote programs to develop "global" companies.

Industry associations need to be better equipped to respond to the needs of exporters for efficient services and effective representation. Organizational development programs must be undertaken to make sure that associations: are managed by a lean staff of competent and committed professionals; have the necessary capabilities to effectively represent the interests of its members and deliver relevant programs and services to them; can generate the resources necessary to support their operations; and are able to prevent politics and self-interests from impairing the continuity and relevance of the association.

f) PERMANENT COMMITTEE ON TRADE FACILITATION

To synchronize the trade facilitation initiatives of Government, the creation of a Permanent Committee on Trade Facilitation under the EDC shall be considered. This Committee, similar in principle to the former Commission on Export Procedures (CEP), will be tasked with streamlining procedures and requirements related to export, imports for re-export and business registration. The committee will oversee the zero-based approach to the simplification of procedure should the latter be adopted as a bold measure. New documentary and procedural requirements imposed by the various agencies of Government will have to go through this committee for approval prior to their implementation.

3. PROGRAMS

a) CLUSTERING OF INDUSTRIES: CORE PROGRAM FOR INDUSTRY DEVELOPMENT

The framework for the PEDP put forward the arguments for the clustering of industries. This is a takeoff from the program started by the EDC and the DTI, sometime in 1997, under the Committee on Productivity. This program led to the creation of a Subcommittee on Industry Clustering, and an initial identification of industry priorities by each region in April 1998.

Industry clustering is the key medium-term strategy for industrial development. This recognizes that for export development, promotion and expansion to be successful, the growth of industries must be fostered at the same time that market promotion and marketing are being sustained. Clustering also fully supports the regional development initiatives of the Government, recognizing the differing roles each region plays in the national export effort. Further, industry clustering will allow smoother inter- and intra-regional business linkages in the private sector.

Clustering of competitive industries in an economy is a natural result of the interaction of national attributes that shape the environment in which local industries compete.

Annexed to the Plan are sample development plans for four (4) industry clusters:

- Home Furnishings cluster in Cebu
- Electronics cluster in CALABARZON
- Multimedia Content Development cluster in the National Capital Region
- Agri-based cluster in Northern Mindanao

b) Formulating a Policy Framework for Services Exports

Services exporters have expressed the need for government support particularly in the light of the General Agreement on Trade in Services (GATS). To provide support, Government will need a comprehensive picture of the industry and its state. For this reason, it is critical to put some structure into the sector through an appropriate policy and infrastructure framework. This will also encourage investments in the sector and support its growth.

The GATS provides rules for the services trade where none existed before, but this does not strongly constrain policy choices of individual governments, except in the case of sectors entered in their GATS schedules.

As an initial step to develop the framework for services trade in the country, the Philippines can avail of the technical assistance package offered by the WTO for 1999, the first year of the PEDP.

c) Developing Backward Linkages for Exports

The most important objective of the export development thrust is to maximize the contribution of exports to job creation and countryside development. An important feature of the industry cluster approach is its emphasis on domestic linkages and a localized approach to industry and export development. This ensures that the Philippine export industry simultaneously takes root around the country and that its gains are spread to a greater number people, in a greater number of roles.

To accelerate this dispersal, the DTI will aggressively undertake the following complementary programs.

- *Developing Rural Industries and Village Enterprises (DRIVE)*

The DTI-initiated DRIVE Program should be intensified to create more jobs. Its focus on the expansion of countryside projects and creation of linkages between small sub-contractors/suppliers and large firms is also expected to reinforce the cluster approach to industry development.

- *"Unlad-Buhay" Program*

"Unlad-buhay" is a skills-building program under the umbrella of DRIVE. "Unlad-buhay" focuses on grassroots development of competitiveness and enterprise. It aims to provide valuable training, using a hands-on approach, on value formation and on management, marketing and entrepreneurial skills.

- *SUPPLIER SEARCH FAIRS*

Supplier search fairs feature large local companies or contractors exhibiting parts and component requirements, which are presently imported but which can potentially be sourced from local suppliers. This program is intended to provide new opportunities for Small and Medium Enterprises (SMEs), particularly through linkages in growth sectors. Such linkages provide added opportunities for upgrading SME operations through technology transfer, acquisition of new skills and information, and development of management skills.

d) PROMOTION OF "GLOBAL" COMPANIES: COMPETITIVENESS UPGRADING

To respond to the demands of global competition, firms must undertake continuous innovation both internally and in conjunction with their immediate environments. PHILEXPORT, together with other industry associations, shall lead a nationwide program aimed at inciting firms to develop themselves to be globally competitive. The program shall emphasize all aspects from educating firms on the demands of a global environment, to providing continuing information on international best practices, benchmarks and new approaches, to undertaking extension services to guide firms in the process. The industry clusters provide the perfect venue for disseminating such a program given the interdependencies between firms and their support systems.

e) PRODUCT SEARCH PROGRAM

The DTI Trade Group (DTI-TG) will lead efforts to undertake continuing research on new and potential export products and services for development, with particular emphasis on the early identification of new growth sectors. The Bureau of Export Trade Promotion (BETP) and the FTSC will lead the market scan activities to identify emerging products and corresponding growth markets. The DTI-TG will work with industry experts, foreign designers and product consultants and other resource persons, including the DOST, in product development. They will also strengthen linkages with Filipino designers, inventors and technical experts to develop capabilities to produce and market new world-class and competitive products.

f) PROMOTION OF STANDARDS

The Plan advocates the management of technology and adherence to standards such as the ISO 9000 and 14000 series as an important step towards developing world-class businesses and products, and improving the image of Philippine exports.

g) INFORMATION MANAGEMENT

A parallel effort to promote the effective and deliberate management of information among Philippine firms must be undertaken. While relying on their buyers, suppliers,

industry associations and DTI for their information needs, exporters must also develop the capability to access and exploit the vast electronic information resource, which is literally at their fingertips. While individual personal computers (PCs) should be the norm for exporters, industry associations can also adopt the "INTERNET café" concept in providing trade information services and make available the means and facilities to encourage and expand the use of this medium. Industry associations themselves should be adept at this method of information search so they can provide valuable leads to useful sites and guide their members in their initial attempts at "mining the web." A good resource is the International Trade Centre (ITC/UNCTAD/WTO), which has generated useful tools and guides on trade-relevant websites.

h) Bilateral and Multilateral Programs

International development agencies, foreign counterpart trade promotion offices, both government and private, and even private associations are a potential source of programs and funds necessary to extend the export development initiative beyond what national budgets can cover.

Both DTI and industry associations, as a matter of policy, shall seek partner organizations for more actively bilateral cooperation and develop project proposals for foreign funding. The DTI unit handling project development and search for FAPs should be reactivated. The FTSC and HITRs should take more active part in carrying out on this mandate as their presence in overseas posts allows them greater access to potential partner organizations and fund sources. Industry associations, on the other hand, should develop internal competencies for project development and strengthen their organizational efficiencies to become credible and attractive partners or grantees. Technical assistance programs for compliance of standards and transfer of technology are best undertaken under a bilateral initiative.

i) Investment Promotion

The DTI, primarily through the Board of Investments (BOI), and other agencies such as the Philippine Economic Zone Authority (PEZA), Subic Bay Metropolitan Authority (SBMA) and the Clark Development Corporation (CDC), have been very aggressive in their drives to attract investors and locators into the country. To complement their efforts and the overall strategy for investment promotion, three other important features are emphasized:

- Strong research and information complement
- Localized investment promotion drives
- After-investment programs and facilitation services

j) MATERIALS SUPPORT CLUSTERS

To make Philippine industries commercially viable, the availability of and access to inputs shall be guaranteed. The food sector, for example, will depend on such industries as sugar, fertilizers and packaging materials. For clothing, materials such as textiles, leather and chemicals shall be made available. Shelter relies on such industries as iron and steel, cement, wood, metalworking, petrochemicals and glass. All these materials are critical inputs to the major export products of the country.

Materials support clusters are thus necessary foundations to the new industrial policy. The production of these inputs should be supported by adequate and competitively priced utilities, transportation systems, and the needed infrastructure network. DTI's framework for intervention will encompass technical, production, marketing and financial support. Direct support for research and development, human resource development, and training will be priority considerations. So, too, will be the identification of areas in the country where locational advantages for these clusters are present.

D. INFORMATION AS CORE TRADE DEVELOPMENT SERVICE

Initiatives to improve market access and market presence, and to develop a competitive export base are all dependent on a reliable and up-to-date information support.

Information will be the core institutional service of DTI to support export growth and development. To make its information service more responsive to the needs of its clients, in-house capacities for research, information gathering and processing will be strengthened; closer links will be established with information sources, both local and foreign; and modern technologies will be exploited to improve both content and delivery of the service.

The primary focal points for delivering information services related to exports are the Philippine Trade Information and Network System (PHILTINS) and the One-Stop Export Information Assistance Center (EXPONET). The more specialized Trade Documentation Centres and reference libraries within the different units of the DTI, led by the Trade and Industry Information Center (TIIC), will provide added complement to both facilities.

Beyond improving their content and packaging, DTI must also focus on ensuring wide public access to its information services and to trade information in general. On a physical level, the TIIC will serve as the front desk for information services within the different offices of DTI, housing the union catalogue. On a virtual level, it will provide digital services and serve as the portal to the information collections within the DTI system.

DTI will set up EXPONET offices in its regional or provincial offices, and electronically link up all DTI offices around the country and commercial posts around the world to facilitate information exchange and access to PHILTINS by these offices' respective clients, DTI will also promote the use of electronic media by exporters in accessing trade information services. The use of the INTERNET to monitor markets, competition and trade-related developments around the world will be advocated by DTI.

E. MILLENNIUM TARGET OF US$50B

The Plan proposes a second set of high-growth targets which will bring Philippine exports to the level of US$50 billion by the end of Year 2001 — the start of the new millennium and the final year of this Plan. This will enable the Philippines to catch up with its export-oriented neighbors in Asia. Specific short-term strategies to achieve this level of growth are prescribed. It is emphasized, however, that these are incremental quick response initiatives and that the policy environment, strategies, programs and institutional support prescribed in the Plan must be simultaneously put in place.

The sectors discussed here are identified as the potential sources of incremental growth to achieve the US$50 billion target for 2001. Their potential to achieve higher growth is based on the following:

- Product is competitive: Product's export growth rate is much higher than the market growth rate (for both growth and declining markets).
- Product is underperforming: Product's export growth is lower than market growth rate or industry capacities are under-optimized.
- There is high and increasing world market demand for product.

1. GARMENTS

Particular focus is on Philippine exports of men's and women's clothing, which have managed to grow at higher than market rates for the past six years. This implies some level of competitiveness for these specific products, which has translated into higher market shares. Other quota categories could be given special attention, especially those which are not being performed or where performance is low.

Export of garments can grow higher through the following:

- Quota optimization

While the Multi-fiber Agreement MFA is still in place, it shall be optimized to the country's advantage. DTI shall identify non-performed and substantially under-utilized quota allocations. Investors and locators will then be invited to avail of these quotas.

Particular emphasis shall be given to those which can bring in new technologies to upgrade and diversify production.

- Upgrading of plant facilities and skills

Both DTI and industry shall promote the upgrading of plant facilities and skills to improve quality and productivity. This shall be accompanied by assistance in sourcing funds. The thrust of upgrading the industry and establishing more sustainable bases for competitiveness will be a strategy to attract investors and keep them beyond the MFA.

- Aggressive promotion of Philippine designer clothes

DTI and industry associations shall initiate and promote Philippine designer clothes in men's and women's fashion. Initiatives such as the Fashion Design Institute developed with the Philippine Trade Training Center (PTTC), Natori and Philippine fashion designers must be expanded and intensified. The "gurus" of international fashion shall be sought to look into the Philippine fashion landscape to identify potentials and strengths. This had been done for furniture where world famous designers were brought in under a Product Specialist Program.

- Promotion of industrial peace and more pragmatic work schedules

The implementation of the New Social Accord[5] must be intensified in the garments sector. Moreover, the introduction of more pragmatic work schedules, such as flexitime, without violating the 48-hour week, could bring about higher productivity.

An average annual growth rate of 5% for 2000 and 2001 for garments is targeted to achieve the millenium target.

2. FASHION ACCESSORIES AND LEATHERGOODS

In this product grouping, the two main sources of incremental growth are travel goods and fine jewelry.

The country's travel goods exports have been growing about four times the growth rate of world demand. As in the case of garments, locators and investors must be directed towards this opportunity. However, the sector must be motivated to optimize the quota yield through the production of higher-value items.

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[5] Social Accord to Sustain Employment and Promote Industrial Harmony and Stability, signed by employers, business associations and labor organizations in November 1998, builds on the previous Social Accord and provides the direction to maintain industrial peace and harmony especially in times of economic crisis.

Fine jewelry exports can grow significantly with the following initiatives:

- Immediately apply the Implementing Rules and Regulations (IRR) of the Jewelry Act to promote growth in the sector and to encourage reporting of exports. The recording of actual exports alone should already register growth movements.
- Accredit assay offices for gold and silver through the Bangko Sentral ng Pilipinas (BSP) to gain the confidence of buyers into sourcing from the Phiilippines.
- Identify strategic partners for the sourcing of raw stones and technology and develop local lapidaries. DTI and industry must take advantage of the entry of Myanmar into the ASEAN to develop joint ventures with raw stone suppliers from Myanmar. Where possible, transactions can be vehicles for countertrade arrangements to enable the Philippines to sell Philippine goods to Myanmar.

An average annual growth rate of 10% for fashion accessories and leathergoods will help achieve the millennium target.

3. FURNITURE

To achieve annual growth rates of 15% for 2000 and 2001, the following interventions are necessary:

- Access to raw material inputs

The shortage of wood and other raw materials in the country and the difficulty in importing these requirements hamper the growth potential of the furniture industry. The liberalization and facilitation of raw material imports must be ensured to enable Philippine furniture exporters to reclaim and expand market shares, and convert the "Milan of Asia" fame into cash.

- Targeted promotion

Beyond the high end market, the DTI and the industry associations need to coordinate in identifying new sources of growth. Examples are the construction of new hotels, resort facilities or convention centers around the world which provide the opportunity for contract or institutional sales of furniture. Active commercial intelligence and promotion must also be done in countries where there have been shifts in housing policies or growth in the housing market.

- Investments in growth areas

The rapid development of communication technology which is prompting the growth of mobile and home-based offices, and the trend towards smaller living spaces, are contributing to the growth of the small offices/home offices furniture. DTI and industry

need to study this subsector to identify strategic alliances for bringing in technology and marketing support to enable Philippine firms to ride this growth wave.

- Access to financing

There shall be active coordination with banks and government financial and guarantee institutions to disseminate information aggressively on new and existing finance packages and programs.

4. COCONUT OIL AND OTHER VEGETABLE FATS/OIL

The leadership position of the Philippines in coconut oil exports is being eroded by problems of supply, primarily low productivity of coconut plantations. The country must preserve and recover its world market share even if it means having to import copra over the medium term, while the replanting program is still in gestation. Existing coconut mills must be utilized to full crushing capacity. The same access to raw materials must be ensured for other exports of vegetable fats and oil.

An average annual growth rate of 11% of coconut oil exports from 1999 to 2001 must be ensured to maintain world market share.

5. GIFTS, TOYS AND HOUSEWARE

The potential sources of incremental growth are toys and gift items. The performance of toys exports can be significantly improved with effective representation in the annual International Conference on the Toys Industry (ICTI)[6]. Government and industry need to organize a strong lobby group to represent the industry in the conference and ensure that the country will have a significant share of the market. Bilateral programs with target markets must also be sought in undertaking integrated assistance programs. Importation of necessary raw materials must also be facilitated.

Souvenir items to commemorate the Year 2000 must be immediately developed. While the whole world is a market for this event, particular focus can be made on neighboring countries, such as New Zealand and Australia, where a bigger influx of "Year 2000 tourists" is expected. The institutional approach, for example a consortium of small exporters tying up with big institutional buyers, may be effective in maximizing this high volume, short-life cycle opportunity.

Research on similar events-driven products and dissemination of information on the opportunities they present must be promoted.

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[6] Annual conference in global toys industry where bloc buying of toys is negotiated. The buyers are divided into three major blocs: Europe, United States and Asia (Japan).

An average annual export growth rate of 5% for 2000 and 2001 for the gifts, toys and houseware sector is needed to contribute to the millennium target.

6. ELECTRONICS

Specific high-growth subsectors are parts of office machinery, computer equipment, transistors, circuit equipment, telecommunications equipment, distribution equipment, and software. The service nature of the electronics sector in the country must be aggressively developed to maintain the high growth of the sector. Continuous upgrading of capabilities and manpower skills must be pursued in order to position the country as a prime location for production facilities. DTI and industry need to coordinate in undertaking a survey of capabilities to provide the basis for aggressively promoting and pursuing an international subcontracting program.

Annual growth rates of 23.75 for 1999 and 25% for 2000 and 2001 must be achieved to reach the millennium target.

7. MACHINERY AND TRANSPORT EQUIPMENT

To achieve the average annual export target of 15% for 2000 and 2001, the Philippines needs to intensify its participation in the ASEAN regional complementation program, undertake an aggressive International subcontracting program, and continue promoting foreign direct investments among big players in the industry.

8. EMERGING PRODUCTS

The development of exports in emerging growth industries must also be pursued in order to achieve the millennium target and provide new sources of export growth. These are:

- Pollution control equipment and other environmental products
- Emerging food products
- Medical and home health care equipment and devices

F. THE PEDP MANAGEMENT COMMITTEE

The EDC will reconstitute the PEDP Management Committee to monitor and assess the Plan's implementation periodically and ensure its continued relevance and effectiveness. The responsibilities of the PEDP Management Committee are outlined in the Plan. The composition of the committee is as follows:

- DTI Secretary or his designated Undersecretary (Chairperson)
- EDC Vice Chairperson

- Team leader for Cluster Management Team
- Team leader for Product Strategy Team
- Team leader for Market Strategy Team
- Secretariat support: EDC secretariat with staff seconded from DTI agencies

The committee will be supported by three Operating Teams organized according to the focus of the strategy: Cluster Management, Product Strategy and Market Strategy. It is emphasized that each team does not operate in isolation but will coordinate actively among themselves to develop complementing strategies.

G. NEXT STEPS

The following steps have to be immediately undertaken:

1. Develop work program for Year 1 of PEDP.
2. Identify the resource requirements of the PEDP and make corresponding allocations in the budgets of the EDC, DTI and other institutions, including the private sector. To supplement internal budgets, terms of reference (TORs) and project proposals which can be presented for funding under bilateral/multilateral programs, must be developed.
3. Establish the network of champions which will act as advocates for exports in general as well as for specific components of the Plan (e.g. policy agenda, standards and technology upgrading, clustering, and specific product sectors).
4. **UNDERTAKE A NATIONWIDE ADVOCACY PROGRAM FOR THE ADOPTION OF THE PEDP.**

PHILIPPINE EXPORT DEVELOPMENT PLAN 1999-2001

INTRODUCTION

For the past several years, the country has been recording significant growth in exports, averaging about 21% annually from 1993 to 1998. However, a closer look at the makeup of Philippine exports shows a significant dependence on electronics exports,[7] primarily semi-conductors and components assembly, as the source of growth. The second largest export sector is garments, which is principally a subcontracting industry, highly driven by quota allocations from its major markets. In 1998, these two sectors made up about 74% of the country's total exports.

The trend of globalization and the realities of the Philippine situation call for an urgent reexamination of the direction and strategies pursued by the country in its export development thrust. Questions need to be asked about the long-term sustainability of the country's export growth and of the export industry itself. *How competitive are Philippine export industries within the context of a global market? Is the basis for competitiveness deeply rooted in our industries or is it dependent on short-term opportunities that are slowly but certainly being eroded by the liberalized trade order? Is export development in the country supported rather than hindered by public policy and institutional initiatives? Are Government and private sector working towards a clear and singular vision for exports?*

The Philippine Export Development Plan (PEDP), as the export development component of the Medium-Term Philippine Development Plan (MTPDP), provides the opportunity to reassess and redirect the country's export development thrust, to respond to changes in the global and local environments. Formulated in three-year cycles, as mandated by the Export Development Act of 1994 (EDA), the

[7] The share of electronics exports to total Philippine exports has grown from 31% in 1993 to 67% in 1998.

PEDP gives the broad direction, specific strategies, programs and performance targets for the export sector over the short to medium term. The Export Development Council (EDC), which put together the ideas and concerns of the various sectors, government agencies and private institutions to come up with this document, also supervises the implementation of the Plan.

The PEDP 1999 to 2001 provides the guide for boosting export performance for the next three years and lays the groundwork for developing a sustainable and globally competitive export industry well beyond. It shall enable the country to take advantage of growing opportunities in the world market and translate them into the creation of jobs and the development of the countryside, the key development thrusts of the Estrada Administration.

PART 1 of this report revisits the medium-term framework within which the Plan is based. The framework has mapped out a strategy development process based on the identification of global and local developments, trends and other factors, and their implications on Government and private sector initiatives in promoting export growth. The framework focuses on global competitiveness as the overall direction of the export development agenda. It emphasizes the need to develop globally competitive domestic industries and provide a sustainable industrial base for exports that is firmly rooted in the various regions of the country.

PART 2 provides an overview of Philippine exports by sector. Prospects, projections and performance targets for 1999 to 2001 are presented. Initial strategies on a sectoral basis are also discussed and annexed to this report.

PART 3 presents the Export Policy Agenda of the Plan. It provides a discussion of the macroeconomic framework needed to stimulate export growth in the country. It also prescribes policy directions and specific policy initiatives needed to create the environment that will support the country's export development agenda.

PART 4 discusses industry development as a basic support to export development. Industry clustering is proposed as the core strategy to promote a strong and coordinated domestic base for globally competitive industries. The components of a cluster development program are discussed along with the process for their integration. Model plans for four pilot industry clusters are also presented as annexes to this report. Notes on clustering in the Philippine context are contained in the supplementary document attached to this report.

PART 5 identifies the roles of various institutions, led by the EDC, in the export development agenda. It spells out the necessary commitments of Government and of the private sector in terms of programs and other bold initiatives supporting the Plan and the export development thrust in general. It also discusses other programs necessary to promote the growth of a globally competitive Philippine export industry.

PART 6 provides the framework for a National Communication Plan for Export Promotion. This communication plan, as a critical support program to the PEDP, is meant to inform, educate and communicate to various publics, both local and international, the idea of the Philippines as an important source of globally competitive products and services. A proposal for the establishment of an adequately funded corporate entity, which is private in character, to implement the communication plan is included.

PART 7, the concluding section, prescribes the programs, systems and succeeding steps that will help ensure the Plan's effective implementation. It also defines specific performance indicators for the Plan. The advocacy program for the adoption of this Plan is also introduced in the section.

The preceding parts are contained in Volume 1 of the Plan, the Main Report. Volume 2 contains the Annexes to the Report.

Many of the ideas presented in this Plan are not necessarily new. The emphasis is not so much on generating new ways of doing things but on creating synergy and complementation among the various programs and initiatives that have either been started or thought of before, to create a unified and cohesive agenda. This Plan intends to build on the gains generated by previous export development programs. It also goes beyond the previous PEDP in the sense that it defines roles and commitments of both Government and the private sector. More importantly, this Plan emphasizes the need to implement what have remained, for some time now, mostly on paper, and to evaluate such efforts with clear bottomlines.

OBJECTIVES AND METHODOLOGY

The formulation and updating of the PEDP in three-year cycles aim to ensure the continuity of reforms and initiatives that support open markets and global competitiveness. This Plan intends to concretize the country's export development agenda and put in context the various initiatives that will link it to the Government's overall economic development agenda.

The Plan provides the direction for achieving an export performance of US$34 billion for 1999[8] and maintaining average annual export growth rates of 15% over years 2000 and 2001. Towards this end, the necessary policy environment, strategies and programs, institutional support and performance milestones are prescribed and outlined in the Plan.

The Plan proposes a second set of high-growth targets which will bring Philippine exports to the level of US$50 billion by the end of Year 2001 — the start of the new millennium and the final year of this Plan. Specific short-term strategies to achieve this level of growth are prescribed. It is emphasized, however, that these are incremental quick response initiatives and that the policy environment, strategies, programs and institutional support prescribed in the Plan must be simultaneously put in place.

The Plan also aims to go beyond short-term objectives and lays the foundation for developing a sustainable and globally competitive export industry. More importantly, it puts in context the export development thrust as a national development strategy in itself to achieve the bigger goals of employment generation, countryside development, and upgrading of living standards — the key development thrusts of the Estrada Administration.

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[8] Performance target for merchandise exports set in the Medium Term Philippine Development Plan (MTPDP) to support the overall GNP growth target of 3.0% to 3.7% for 1999

This Plan was formulated within the Policy Framework approved by the EDC in August 1998. The directions of the framework were developed on the basis of plans, priorities and objectives defined by the EDC, the Department of Trade and Industry (DTI) and the private sector at the start of the planning process.

Targets were initially arrived at through projections based on statistical trending analysis, scan of market prospects and industry situationers. Figures derived from this exercise became the basis for working targets, which were then validated through consultations within the DTI, including its regional offices, the private sector and other industry leaders.

The policy agenda and programs were developed on the basis of interviews and informal discussions with government officials, industry leaders and other experts. An important source was the consultations organized by the EDC and the Philippine Exporters Confederation, Inc. (PHILEXPORT) in Metro Manila and in the regions. Results of previously conducted workshops and policy fora were also used as reference. A scan of various relevant studies, including those of international best practices, in print form and through the Internet, was also undertaken. Information from EDC reports, various studies and news items in both the local and international media were also used.

The formulation of the PEDP 1999 to 2001 was led by the EDC, through the DTI and PHILEXPORT, with funding support from the latter's Trade and Investment Policy Analysis and Advocacy Support Project (TAPS).[9] Consultancy services in

[9] TAPS is a joint undertaking of PHILEXPORT and the United States Agency for International Development (USAID).

the development and preparation of the Plan were provided by the Trade Development Consultants - Philippines, Inc. (TDC-Philippines).[10]

[10] The Study Team was composed by Atty. Maria Rosario Q. Franco (Team Leader), Ms. Brenda A. Orosco, Ms. Ana Rosalie V. Tejano and Ms. Michelle Fatima S. Sanchez

PART 1: THE FRAMEWORK

The overall direction under the medium-term framework for export development is the pursuit of global competitiveness. For the purposes of this Plan, the following definition of competitiveness[11] is adopted:

> "...the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets, while simultaneously maintaining and expanding real incomes of its people over the long term."

This direction is further enhanced by putting it in the context of sustainable development and imbibing ecologically sound practices and environment-friendly solutions on the path towards global competitiveness.

This direction recognizes that the effort to develop the capacity to compete globally is not limited to export industries alone but extends to domestic market-oriented industries and support services. After all, under a global trade regime, even the domestic market takes on the character of a global market with the entry of foreign competition.

In developing global competitiveness, the macroeconomic environment and policy framework that will support an export development agenda is emphasized.

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[11] This definition, based on the Report of the US Presidential Commission on Industrial Competitiveness and elaborated in 1985, adding the target of ecological sustainability as defined by the World Business Council for Sustainable Development, was first used by the GDI.

Beyond this, the microeconomic factors that will sustain real competitiveness must also be addressed. According to Michael Porter,[12]

> "...a stable political context and sound macroeconomic policies are necessary but not sufficient to ensure a prosperous economy. As important, or even more so, are the microeconomic foundations of economic development, rooted in firm operating practices and strategies as well as in the business inputs, infrastructure, institutions and policies that constitute the environment in which a nation's firms compete. Unless there is appropriate improvement at the microeconomic level, political and macroeconomic reform will not bear fruit." (underscore supplied)

The medium-term framework of this Plan seeks to develop a sustainable and globally competitive export sector in the Philippines. Therefore, it emphasizes the need to increase the value added in export industries, to undertake diversification strategies in terms of products and markets, and to develop a strong local base and domestic linkages for the export industry that are firmly rooted in various regions of the country.

While maintaining the growth of the export sector through the current Asian economic crisis by strengthening marketing efforts and improving access to financing, simultaneous efforts to lay the foundation for the above-mentioned objectives are also emphasized.

The framework consists of:

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[12] Michael Porter developed a new feature -- the microeconomic competitiveness index (MICI) -- to evaluate national competitiveness for the Global Competitiveness Report of 1998.

A model for participatory governance which broadens the ownership of and spreads the responsibility for the national export development program;

A macroeconomic framework which supports a competitive exchange rate policy matched by a competitive interest rate policy focused on bringing down the cost of funds to stimulate the growth of business;

Policies and institutions that support a national orientation towards global competitiveness, adopt market-oriented reforms, reduce the cost of doing business, improve access to inputs for exports, and upgrade the skills and technology base of the industry;

An industry development strategy that promotes the simultaneous development of competitive industrial foundations for export in various regions of the country and formalizes the involvement of local governments, support institutions and other ancillary agencies in the export development process;

Specific programs that focus on the development of backward linkages, promoting local integration of industries, changing mind-sets of all participants towards global competitiveness, upgrading human resources, improving access to and adoption of new technology, managing and using information, and promoting access and presence of Philippine exports in key markets.

A National Export Communication Plan that promotes a national orientation and commitment towards exports, and projects the image of the Philippines as a preferred source of globally competitive products and services;

A set of performance measures that will tie the Plan to a clear bottomline and ensure the continued relevance and effectiveness of initiatives undertaken; and

A continuing system of consultation and review that will ensure the widest possible consensus in the formulation of directions, objectives and strategies.

The Plan, formulated in the context of this framework, sets out an agenda for consideration and action by the various players in the export development effort. The Plan describes the link between different policy areas, the interaction among the different institutions, and how the trends emerging in the global economy define the options and the opportunities for the Philippine export industry.

The Plan further emphasizes that in the context of a changing global economy, there must be vigilance to ensure that the strategies being pursued by the Philippines remain relevant. Its emphasis on participatory governance and continuing consultations is meant to highlight the dynamic nature of every strategy as an ongoing process where export development is concerned.

> In the end, the challenge facing the country is not only to continue selling its products and services to the world but to ensure that within its borders, employment opportunities, real incomes and standards of living for its people continue to rise.

PART 2: PHILIPPINE EXPORTS PROSPECTS AND PERFORMANCE TARGETS FOR 1999 TO 2001

A. ATTENTION TO THE IMMEDIATE PROBLEM

Even before aspiring for growth and sustainability in the medium to long term, steps have to be taken to ensure that the export base that now exists is maintained, remains stable and continues to perform. This will guarantee the base level of performance over which continued growth can be targeted.

This involves ensuring that existing companies survive the current Asian economic crisis and are able to continue with their businesses. Therefore, steps have to be taken to provide these companies continued access to resources they need to run their businesses and ensure their continued contribution to the economy.

The various consultations conducted in the process of formulating this Plan revealed that the most pervasive problem facing exporters, cutting across all areas and industries, is access to and cost of financing. It has become an incentive to disinvest, foregoing all business risks and problems by simply closing shop and keeping money in government securities. The problem is made worse by the increasing incidence of bad loans.

To address this immediate problem, Government needs to help make funds available, accessible and affordable for both rehabilitation purposes and operational financing. Moreover, all alternative sources of capital, including venture capital, must now be explored by businessmen. More importantly, entrepreneurs must learn to pace the speed of operations and expansion so as not to strain their financial resources. Just like Government, entrepreneurs must

now exercise tight budgetary policies to maintain cost structures at competitive levels.

More intensive trade and investment promotion efforts must also be undertaken by both Government and the private sector. Representation in key markets overseas must be intensified.

It is also incumbent upon Government to ensure the immediate and appropriate implementation of export-supportive laws and policies that have already been passed. Foremost is the EDA, which contains very specific provisions that benefit the sector, but which, to date, have yet to be implemented.

B. PHILIPPINE MERCHANDISE EXPORTS

In 1998, the Philippines exported US$29.49 billion worth of goods to overseas markets. Contributing 67%, electronics led this performance, as in previous years. This was brought about by increased foreign investments in the sector, which find in the Philippines the comparative advantage in assembly operations and low-end manufacturing, given its large, skilled, highly trainable, English-speaking and relatively low-cost labor force. Export of electronics is still on an uptrend. Total value-added share of the sector, however, is only about 30%.

The second major export product is garments, contributing 7.6% of 1998 exports, and consisting primarily of subcontracting operations for international brands. Over the last few years, the growth of garments exports has been marginal and its contribution to total exports on a decline. The garments sector is driven primarily by quota allocations from major markets and a relatively lower cost of labor. Compared to other subcontractor countries in Asia, however, wages in the Philippines have gone up and continue to rise. This and the gradual phase out of the Multi-fiber Agreement (MFA) until 2005 will erode whatever comparative advantage the Philippines has established vis-a-vis its competitors.

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Of the remaining sectors representing the last 26% of total export performance in 1998, the main performers are automotive wiring harnesses, coconut oil, food and furniture. Food exports, however, have slowed down over the recent years. Furniture exports, while still maintaining good prospects for growth, contribute only a little over 1% of total exports.

At the moment, therefore, the main contributors to Philippine export growth rely very little on domestic inputs and linkages and much more on unsustainable bases for comparative advantage – low wages and potentially footloose investments. Here lies the vulnerability of the country's export base.

On the other hand, the country has dipped a foot into growth sectors and technology-based industries through its industrial manufactures, led by electronics and automotive parts. The present low value-added contribution of these exports points to an opportunity for backward linkages and the development of components and ancillary industries in the country. These industries depend less on low wages and more on skills and aptitude. The fact that these sectors are built on foreign direct investments from big multinational companies increases the opportunities for transfer of technology and upgrading of local industry.

The transition from being a low-cost labor production base to the development of high value-added exports is a necessary step to ensuring sustainable competitiveness for the Philippine export industry. This should be supported with programs that focus on increasing the productivity and technological capabilities of firms and human resources as an important factor for competitiveness.

Individual product groups, their current prospects for growth, performance targets and recommendations on specific strategies are presented in Annex A, Volume 2 of the Plan.

RECOMMENDED CROSSCUTTING STRATEGIES

1. Continued aggressive promotion of investments in higher-value and high-technology industries
2. Increased domestic linkages of export operations to enhance industry clustering and strengthen export base
3. Intensified promotion efforts and effective overseas representation in key markets
4. Improved management of information resources to identify and exploit opportunities and build comparative advantages
5. Preparation of firms for electronic commerce — beginning with pre-transaction activities such as website development, preparation of electronic catalogues and organization of virtual exhibitions — in order to expand market presence
6. Management of technology and adherence to standards such as the ISO 9000 and 14000 series as an important step towards developing world-class businesses and products

C. SERVICES EXPORTS

While the country has acceded to the General Agreement on Trade in Services (GATS) under the World Trade Organization (WTO), there is still little awareness of the opportunities in services exports. There is very little data on the sector especially since performance statistics are not reflected in the same way as those for merchandise exports but are reported as invisibles. The same is true for world data. There is currently no international nomenclature for traded services that covers the different modes of supply.

The GATS covers all international trade services defined in four ways:

- ***Cross-border supply*** or services supplied from one country to another (e.g., international telephone calls)
- ***Consumption abroad*** or consumers/firms making use of services in another country, officially known as "consumption abroad" (e.g., tourism)
- ***Commercial presence*** or a foreign company setting up subsidiaries or branches to provide services in another country (e.g., foreign banks setting up operations in another country)
- ***Presence of natural persons*** or individuals travelling from their own country to supply services in another (e.g., artists, consultants)

GATS CLASSIFICATIONS OF COMMERCIAL SERVICES

Construction
Motor vehicle repair
Wholesale trade
Retail trade
Hotels/Restaurants
Land transport
Water transport
Air transport
Auxiliary transport
Postal services
Basic telecom
Value-added telecom
Financial services
Real estate services
Rental services
Computer-related
R&D services
Business services
Refuse disposal
Education
Health and social services
Recreation/Culture

Services exports of the Philippines, for which there is some data at DTI, fall into the following categories:

- Information technology
- Construction services
- Professional services
  - Accounting
  - Engineering
  - Management consulting
- Film animation

Information technology was identified as one of the export winners under the previous PEDP but no real development program for it was formulated. Export performance, if reported, was based on estimates of industry associations. Not enough data exists on the industry, which is also the case for other services exports. At the moment, therefore, it is difficult to set performance targets for these sectors, much less monitor their performance.

The profile of these four industry groups and recommendations on initial strategies are presented in Annex A, Volume 2 of the Plan.

The growing liberalization and internationalization of the services sector is providing new opportunities for industries. According to the estimates of the National Economic and Development Authority (NEDA), the sector accounted for the biggest number of new jobs created in 1997. Services are also expected to continue to pace the growth of the overall economy. The Philippines exhibits a strong potential to be competitive in the services sector. However, its human resources need to be properly harnessed.

Services exporters have expressed the need for government support particularly in the light of GATS. To provide support, Government will need a comprehensive picture of the industry and its state. For this reason, it is critical to put some

structure into the sector through the appropriate policy and infrastructure framework. This will also encourage investments in the sector and support its growth.

The GATS provides rules for the services trade where none existed before, but this does not strongly constrain policy choices of individual governments, except in the case of sectors entered in their GATS schedules.

As an initial step to develop the framework for services trade in the country, the Philippines can avail of technical assistance from the WTO during the first year of the PEDP.

The WTO's technical cooperation activities in 1999 will focus on equipping developing countries to participate more effectively in the next round of comprehensive service negotiations due to begin no later than the year 2000. Ongoing negotiations cover key areas like subsidies, government procurement and standards. The negotiations also cover domestic regulations, such as qualification requirements, technical standards and licensing requirements, to ensure that these do not constitute unnecessary barriers to trade in services.

The WTO Secretariat will assist developing countries in three areas:

- The information exchange program
- Assessment of trade in services in overall terms and on a sectoral basis
- Establishment of negotiating guidelines and procedures

The Philippines shall take advantage of the opportunity presented by GATS to shape its own policy framework and undertake the domestic reform process necessary to prepare the country's services sector for global competitiveness.

D. EXPORT PERFORMANCE TARGETS AND PROJECTIONS FOR 1999 - 2001

The export performance targets for 1999 were arrived at using a three-step approach. First, the projections were made using statistical trending, specifically running linear and log-linear trends on exports from 1991 to 1998. The resulting figures, on a product line basis, were then proportionately adjusted to meet the total export target of US$34 billion for 1999 set by the NEDA and EDC. This first exercise yielded export performance projections for 1999, 2000 and 2001.

Second, the 1999 projections were evaluated against assessments of market prospects, competitiveness indices, industry capacities and other relevant developments within the industry. Necessary adjustments were then made based on these qualitative data.

Third, the adjusted projections were presented to industry leaders, DTI officers, and other experts in various consultative fora for validation as initial working targets. Additional adjustments were made accordingly, taking into account industry capacities, market and other relevant considerations. Adjustments made at this point were upwards of the original figures.

The figures for 1999 were set as targets while the figures for the years 2000 and 2001 have decidedly remained projections, given the recognized fluidity of market conditions at this point. The latter figures will be subjected to the same review and validation process six months before they are adopted as targets. This process will have to coincide with the review and updating of the components and programs identified in the Plan in order to tie in the targets closely with the means to achieve them.

TABLE 1: US$34 BILLION TARGET FOR 1999 AND PROJECTIONS FOR 2000 AND 2001

BY MAJOR PRODUCT GROUPS (FOB VALUE IN US$ MILLION)

PRODUCT GROUPS	1998 ACTUAL	1999 TARGET	% Change	2000 Projection	% Change	2001 Projection	% Change
TOTAL PHILIPPINES	**29,496**	**34,000**	**15.27**	**39,197**	**15.29**	**44,884**	**14.51**
CONSUMER MANUFACTURES	***3,716***	***3,844***	***3.46***	***3,962***	***3.07***	***4,051***	***2.26***
GARMENTS	2,260	2,314	2.39	2,357	1.84	2,379	0.94
GIFTS, TOYS AND HOUSEWARE	449	461	2.66	471	2.16	476	1.19
FASHION ACCESSORIES AND LEATHERGOODS	348	358	2.91	367	2.38	371	1.17
FURNITURE	323	361	11.66	404	11.93	450	11.43
FOOTWEAR	147	148	1.20	149	0.62	149	0.02
OTHER CONSUMER MANUFACTURES	188	201	6.93	214	6.34	225	5.13
FOOD AND FOOD PREPARATIONS	***1,274***	***1,279***	***0.39***	***1,280***	***0.13***	***1,277***	***(0.23)***
PROCESSED FOOD	573	578	0.84	581	0.59	584	0.46
FRESH FOOD	700	701	0.01	699	(0.24)	693	(0.81)
RESOURCE-BASED PRODUCTS	***1,328***	***1,385***	***4.31***	***1,442***	***4.11***	***1,488***	***3.19***
COCONUT PRODUCTS	546	586	7.22	624	6.59	657	5.19
MINERAL PRODUCTS	287	289	0.44	290	0.37	290	0.24
FOREST PRODUCTS	23	20	(14.16)	19	(4.53)	20	1.50
TOBACCO	30	29	(3.63)	28	(4.20)	26	(5.45)
OTHER RESOURCE-BASED COMMODITIES	441	462	4.74	481	4.19	495	2.93
INDUSTRIAL MANUFACTURES	***22,045***	***26,187***	***18.79***	***31,031***	***18.50***	***36,408***	***17.33***
ELECTRONICS	19,873	23,881	20.16	28,583	19.69	33,834	18.37
CONSTRUCTION MATERIALS	97	97	0.11	97	0.10	97	0.08
METAL MANUFACTURES	334	337	0.74	339	0.54	339	0.08
CHEMICALS	340	344	1.13	346	0.55	344	(0.64)
MACHINERY & TRANSPORT EQUIPMENT	852	944	10.79	1,041	10.26	1,134	8.92
TEXTILE YARNS AND FABRICS	196	215	9.59	236	9.59	255	8.15
NONMETALLIC MINERAL MANUFACTURES	20	19	(1.03)	19	(1.03)	19	(2.34)
PETROLEUM PRODUCTS	158	157	(0.53)	156	(0.53)	153	(1.84)

E. MILLENNIUM EXPORT TARGET: US$50 BILLION IN 2001 [13]

Despite the high export growth rates of the Philippines for the past few years, the country lags behind among the ASEAN 5 in terms of absolute value of merchandise exports.

1997	Rank	Value (US$B)
Singapore	13	125
Malaysia	18	78.4
Thailand	23	57.4
Indonesia	24	53.5
Philippines	36	25.3

Source: World Trade Organization, *Leading Exporters and Importers in World Merchandise Trade*, 1997

A window of opportunity exists for the Philippines to catch up with its neighbors.

In 1997, while world merchandise trade grew by only 3% in value and Asian trade by 5%, the Philippines registered a 23% export growth. In 1998, while the rest of the export-active countries in Asia experienced negative growth rates, the Philippines managed to achieve growth by almost 17%. This performance means growing market shares for Philippine exports.

According to the World Bank,[14] while slow growth in world trade is projected for 1999, there should be significant acceleration into 2000, with the geographic distribution of demand likely to shift in Asia's favor.

[13] This section proposes a second set of export performance targets beyond the US$34 billion target for 1999 and US$44.8 billion projection by the end of the Plan, presented in the previous section.

[14] Global Development Finance 1999

This should be an opportune time for the Philippines to catch up. This will require accelerating export growth within the three years of the PEDP to bring exports to the level of US$50 billion by the end of 2001. Growth rates of specific products should ensure that market shares achieved over the past three years are protected and expanded.

SOURCES OF GROWTH

The following sectors are identified as the potential sources of incremental growth to achieve the US$50 billion target for 2001. Their potential for achieving higher growth is based on the following:

- Product is competitive: Product's export growth rate is much higher than the market growth rate (for both growth and declining markets).
- Product is underperforming: Product's export growth is lower than market growth rate or industry capacities are under-optimized.
- There is high and increasing world market demand for product.

Targets are determined on the basis of world trends, the product's growth trend and estimates of industry capacities.

a) GARMENTS

Particular focus is on Philippine exports of men's and women's clothing, which have managed to grow at higher than market rates for the past six years. This implies some level of competitiveness for these specific products, which has translated into higher market shares. Other quota categories, moreover, could be given special attention, especially those which are not being performed or where performance is low.

Export of garments can grow higher through the following:

- Quota optimization

While the Multi-fiber Agreement (MFA) is still in place, it should be optimized to the country's advantage. DTI shall identify non-performed and substantially under-utilized quota allocations. Investors and locators will then be invited to avail of these quotas. Particular emphasis shall be given to those which can bring in new technologies to upgrade and diversify production.

- Upgrading of plant facilities and skills

As the country is no longer competitive on the basis of labor costs, garment exporters shall establish their competitiveness in terms of quality and productivity in higher-value goods. Both DTI and industry shall promote the upgrading of plant facilities and skills to improve quality and productivity. This must be accompanied by assistance in sourcing funds. The thrust of upgrading the industry and establishing more sustainable bases for competitiveness shall also be a strategy to attract investors and keep them beyond the MFA.

- Aggressive promotion of Philippine designer clothes

DTI and industry associations shall initiate and promote Philippine designer clothes in men's and women's fashion. Initiatives such as the Fashion Design Institute developed with the Philippine Trade Training Center, Natori and Philippine fashion designers shall be expanded and intensified. The "gurus" of international fashion will be asked to look into the Philippine fashion landscape and identify potentials and strengths. This had been done for furniture where world famous designers were brought in under a Product Specialist Program. The same shall be done for garments.

- Promotion of industrial peace and more pragmatic work schedules

The implementation of the New Social Accord[15] must be intensified in the garments sector. Moreover, the introduction of more pragmatic work schedules, such as flexitime, without violating the 48-hour week, could bring about higher productivity. This move is particularly relevant given the predominantly female workforce, whose time must be shared between work and family responsibilities. These areas have to be considered seriously not just by Government but by management and labor as well.

An average annual growth rate of 5% for 2000 and 2001 for garments is targeted to achieve the millenium target.

b) FASHION ACCESSORIES AND LEATHERGOODS

In this product grouping, the two main sources of incremental growth are travel goods and fine jewelry.

The country's travel goods exports have been growing about four times the growth rate of world demand. The main attraction in the country is still the quota allocation. As in the case of garments, locators and investors must be directed towards this opportunity. However, the sector must be motivated to optimize the quota yield through the production of higher-value items.

Fine jewelry exports can grow significantly with the following initiatives:

- Immediately apply the Implementing Rules and Regulations (IRR) of the Jewelry Act to promote growth in the sector and to encourage reporting of exports. The recording of actual exports alone should already register growth movements.

[15] Social Accord to Sustain Employment and Promote Industrial Harmony and Stability, signed by employers, business associations and labor organizations on November 1998, builds on the previous Social Accord and provides the direction to maintain industrial peace and harmony especially in times of economic crisis.

- Accredit assay offices for gold and silver through the Bangko Sentral ng Pilipinas (BSP) to gain the confidence of buyers into sourcing from the Phiilippines.
- Identify strategic partners for the sourcing of raw stones and technology and develop local lapidaries. DTI and industry must take advantage of the entry of Myanmar into the ASEAN to develop joint ventures with raw stone suppliers from Myanmar, a reputed source for precious and semi-precious raw stones in the region. Where possible, transactions can be vehicles for countertrade arrangements to enable the Philippines to sell Philippine goods to Myanmar.

An average annual growth rate of 10% for fashion accessories and leathergoods will help achieve the millennium target.

c) FURNITURE

Philippine furniture exports are back on the growth trend. However, there is much room for improvement in performance as the average annual growth over the past six years was only one percentage point higher than world trend. Considered the "Milan of Asia" because of its world-acclaimed furniture designs, the Philippines shall undertake a more aggressive marketing effort to bring high performance yields.

To achieve annual growth rates of 15% for 2000 and 2001, the following interventions will be:

- Access to raw material inputs

The shortage of wood and other raw materials in the country and the difficulty in importing these requirements hamper the growth potential of the furniture industry. The liberalization and facilitation of raw material imports must be ensured to enable Philippine furniture exporters to reclaim and expand market shares, and convert the "Milan of Asia" fame into cash.

- Targeted promotion

Beyond the high end market, the DTI and the industry associations shall coordinate in identifying new sources of growth. Examples are the constructions of new hotels, resort facilities or convention centers around the world which provide the opportunity for contract or institutional sales of furniture. Active commercial intelligence and promotion must also be done in countries where there have been shifts in housing policies or growth in the housing market.

- Investments in growth areas

The rapid development of communication technology which is encouraging the growth of mobile and home-based offices, and the trend towards smaller living spaces, are contributing to the growth of the small offices/home offices furniture. DTI and industry need to study this subsector to identify strategic alliances for bringing in technology and marketing support to enable Philippine firms to ride this growth wave.

- Access to financing

Given the structure of the furniture sector in the country, which is composed mostly of small and medium enterprises (SMEs), assistance is needed to improve access to financing and enable firms to take full advantage of the sector's growth trend. Towards this end, there must be active coordination with banks and government financial and guarantee institutions to aggressively disseminate information on existing programs and newly developed packages.

d) COCONUT OIL AND OTHER VEGETABLE FATS/OIL

The leadership position of the Philippines in coconut oil exports is being eroded by problems of supply, primarily low productivity of coconut plantations. The

country must preserve and recover its world market share even if it means having to import copra over the medium term, while the replanting program is still in gestation. Existing coconut mills must be utilized to full crushing capacity. The same access to raw materials must be ensured for other exports of vegetable fats and oil.

An average annual growth rate of 11% of coconut oil exports from 1999 to 2001 shall be ensured to maintain world market share.

e) GIFTS, TOYS AND HOUSEWARE

The potential sources of incremental growth are toys and gift items.

The performance of toys exports can be significantly improved with effective representation in the annual International Conference on the Toys Industry (ICTI)[16]. Government and industry shall organize a strong lobby group to represent the industry in the conference and ensure that the country will have a significant share of the market. Through this marketing strategy, the currently idle capacities in the industry and the high potential for growth can be optimized. Bilateral programs with target markets shall also be sought in undertaking integrated assistance programs. Importation of necessary raw materials shall also be facilitated.

The Year 2000 provides a new source of growth for exporters of gift items and novelty products. Souvenir items to commemorate the new millennium must be immediately developed. Emphasis can be on religious articles, including amulets and the Year 2000 logo. While the whole world is a market for this event, particular focus can be made on neighboring countries, such as New Zealand and Australia, where a bigger influx of "Year 2000 tourists" is expected. The institutional approach, for example a consortium of small exporters tying up with

[16] Annual conference in global toys industry where bloc buying of toys is negotiated. The buyers are divided into three major blocs: Europe, United States and Asia (Japan).

big institutional buyers, may be effective in maximizing this high-volume, short-life cycle opportunity.

The identification of similar events-driven products, such as those for the Sydney 2000 Olympics and World Expo 2002, and the dissemination of information on the export opportunities they present shall be promoted. The employment generation impact of this product group can not be overemphasized, if properly managed and organized.

An average annual export growth rate of 5% for 2000 and 2001 for the gifts, toys and houseware sector is needed to contribute to the millennium target.

f) ELECTRONICS

Specific high-growth subsectors are parts of office machinery, computer equipment, transistors, circuit equipment, telecoms equipment, distribution equipment, and software.

The Philippine electronics sector is still growing significantly faster than the world trend. Even at this rate, the sector shows potential for higher growth.

The European Union telecommunications terminal equipment market is growing between 12% to 23% annually. Personal computers in the EU remain a growth market with online subscribers expected to grow from 7% to 13% of the population by 2001. In Germany, prospects remain high for computer software, computer peripherals and equipment, electronic components (expected growth for 1999 is 13.9% with future growth projected in data processing at 20% and automotive electronics at 15.6%), computer services and telecommunications equipment. Malaysia's computer software market is expected to grow by 20% through the year 2000. Hongkong shows high growth prospects for telecommunications equipment, computers and peripherals and computer software. Despite the economic slowdown in Japan, electronic components are

expected to grow by 15% through 1999, computers and peripherals by 15% through 1999, computer software by 12-15% annually through 2002 and telecommunications equipment by about 12% in 1999.

The service nature of the electronics sector in the country shall be aggressively developed to maintain the high growth of the sector. Continuous upgrading of capabilities and manpower skills shall be pursued in order to position the country as a prime location for production facilities. DTI and industry need to coordinate in undertaking a survey of capabilities to provide the basis for aggressively promoting and pursuing an international subcontracting program.

Annual growth rates of 23.75% for 1999 and 25% for 2000 and 2001 must be achieved to reach the millennium target.

g) MACHINERY AND TRANSPORT EQUIPMENT

Automotive and vehicle parts are a potential source of incremental exports. In 1998, while total US imports of electrical machinery fell by 0.6%, its imports of machinery and transport equipment from the Philippines rose by 21%.[17] ITC data classify Philippine exports of vehicle parts as achievers in adversity given the industry's 37% growth rate[18] versus a declining world trend (10% average growth). Global demand, however, appears to be on the uptrend again. The US, Germany and Japan, in particular, show good growth prospects for the sector for 1999. There is no reason to lose momentum.

To achieve the average annual export target of 15% for 2000 and 2001, the Philippines shall intensify its participation in the ASEAN regional complementation program, undertake an aggressive International subcontracting

[17] World Bank estimates, January to September 1998 data

[18] 1993 to 1997 trend

program, and continue promoting foreign direct investments (FDIs) among big players in the industry.

h) EMERGING PRODUCTS

The development of exports within the following emerging growth industries shall also be pursued in order to achieve the millenium target and provide new sources of export growth.

- Pollution control equipment and other environmental products

A scan of the ten major markets of the Philippines shows growing demand for products related to pollution control and environment. The European Union expects the percentage of gross domestic product (GDP) spent on the environment to grow 5.5% annually. In Malaysia, the market for pollution control equipment is expected to grow from 15-20% through 2000. Japan also shows high growth prospects for pollution control equipment and service. Investments, particularly FDI, to bring in technology and production facilities for this sector shall be aggressively promoted. Big guns in the industry shall be identified and "courted" to locate in the country.

- Emerging food products

Philippine food exporters need to cash in on the worldwide trend for health, convenience and organic foods, as well as the growing acceptance of non-traditional foods. This can provide the impetus to reverse the downward trend of Philippine food exports. Pet food represents another high-growth alternative to the traditional food exports of the country.

- Medical and home health care equipment and devices

Products in these industries are expected to experience strong growth due to the aging of developed countries' population, pace of technological innovation, and an increased sense of health awareness globally. In the European Union, regulatory harmonization contributes to the market growth for these products.

TABLE 2: MILLENIUM EXPORT TARGET: US$50B IN 2001

BY MAJOR PRODUCT GROUPS (FOB VALUE IN US$ MILLION)

PRODUCT GROUPS	1998 ACTUAL	1999	% Change	2000	% Change	2001	% Change
TOTAL PHILIPPINES	**29,496**	**34,982**	**18.60**	**41,813**	**19.53**	**50,000**	**19.58**
CONSUMER MANUFACTURES	***3,716***	***3,844***	***3.46***	***4,086***	***6.30***	***4,345***	***6.32***
GARMENTS	2,260	2,314	2.39	2,430	5.00	2,551	5.00
GIFTS, TOYS AND HOUSEWARE	449	461	2.66	484	5.00	508	5.00
FASHION ACCESSORIES AND LEATHERGOODS	348	358	2.91	394	10.00	433	10.00
FURNITURE	323	361	11.66	415	15.00	478	15.00
FOOTWEAR	147	148	1.20	149	0.62	149	0.02
OTHER CONSUMER MANUFACTURES	188	201	6.93	214	6.34	225	5.13
FOOD AND FOOD PREPARATIONS	***1,274***	***1,279***	***0.43***	***1,290***	***0.82***	***1,303***	***1.03***
PROCESSED FOOD	573	578	0.84	581	0.59	584	0.46
FRESH FOOD	700	701	0.10	708	1.00	719	1.50
RESOURCE-BASED PRODUCTS	***1,328***	***1,406***	***5.86***	***1,491***	***6.04***	***1,578***	***5.87***
COCONUT PRODUCTS	546	606	11.00	673	11.00	747	11.00
MINERAL PRODUCTS	287	289	0.44	290	0.37	290	0.24
FOREST PRODUCTS	23	20	(14.16)	19	(4.53)	20	1.50
TOBACCO	30	29	(3.63)	28	(4.20)	26	(5.45)
OTHER RESOURCE-BASED COMMODITIES	441	462	4.74	481	4.19	495	2.93
INDUSTRIAL MANUFACTURES	***22,045***	***27,148***	***23.15***	***33,465***	***23.27***	***41,115***	***22.86***
ELECTRONICS	19,873	24,842	25.00	30,973	24.68	38,426.20	24.07
CONSTRUCTION MATERIALS	97	97	0.11	97	0.10	97	0.08
METAL MANUFACTURES	334	337	0.74	339	0.54	339	0.08
CHEMICALS	340	344	1.13	346	0.55	344	(0.64)
MACHINERY & TRANSPORT EQUIPMENT	852	944	10.79	1,086	15.00	1,248	15.00
TEXTILE YARNS AND FABRICS	196	215	9.59	236	9.59	255	8.15
NON-METALLIC MINERAL MANUFACTURES	20	19	(1.03)	19	(1.03)	19	(2.34)
PETROLEUM PRODUCTS	158	157	(0.53)	156	(0.53)	153	(1.84)
OTHER INDUSTRIAL MANUFACTURES	174	194	11.12	214	10.59	234	9.26
SPECIAL TRANSACTIONS	***1,135***	***1,305***	***15.00***	***1,482***	***13.57***	***1,659***	***11.94***

PART 3: EXPORT POLICY AGENDA

Public policy shall support the drive towards global competitiveness. It will be geared towards enabling Philippine firms to enter new markets, develop and exploit new technological and organizational advantages and reduce risks and costs within the global economic environment.

Along with promoting FDI, the adoption of export-oriented strategies is the path taken by the more progressive developing economies to achieve growth and maximize the benefits of integration into the larger global economy. To realize such benefits, it is important that the right policies are in place and that the right responses to changes in the environment are adopted.

A. MACROECONOMIC FRAMEWORK

Fundamental to an export-led agenda is a macroeconomic framework which promotes competitiveness, efficiency, innovation and entrepreneurship. At the foundation of this is a macroeconomic thrust which ties up a competitive exchange rate policy with an interest rate policy aimed at bringing down cost of funds to stimulate growth and promote competitiveness.

The integration of the Philippine economy into the global arena is expected to yield economic benefits through a larger market for Philippine products, access to newer technology, and bigger financial resources. However, as evidenced by the Asian crisis, there are inherent risks and costs to integration.

In the formulation and implementation of monetary policy, the main considerations shall be: stability of policy, the transparency of the process, acceptance of accountability, and the timing of policy.[19]

Monetary policy shall be directed towards ensuring macroeconomic stability. Given that the focus is on the maintenance of a low and stable domestic inflation rate, this will nonetheless be supportive of key economic growth targets.

The exchange rate policy shall be addressed as fundamental to trade and industrial policy. A competitive exchange rate shall be maintained to support the country's export development agenda. This will allow resources to flow towards high-return products and will aid in the diversification and growth of exports.

The interest rate policy shall be explicit in favor of market-determined but globally competitive exchange rates. It must be consistent with the objective of promoting access to credit and growth of investments without sacrificing the objective of reducing inflation rates over the medium term.

To increase the degree of transparency and accountability, the government shall institutionalize a reporting system that will regularly inform the public of objectives and policy options particularly the policymaking bodies like the Bangko Sentral ng Pilipinas (BSP), National Economic and Development Authority (NEDA), Department of Finance (DOF), Department of Budget Management (DBM) and the DTI.

On the fiscal front, the challenges are: (1) to raise sustainable and sufficient revenues that will enable the government to finance a pro-growth and pro-poor budget without losing track of the need for fiscal prudence; (2) to reform the expenditure framework to make it more efficient, equitable, and pro-poor;

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[19] Tan, Jose Antonio III, Policy Gaps and Economic Reform: Prescriptions for Sustained Growth, 1998, Philippine Exporters Confederation, Inc.

and (3) to pursue an optimal financing mix of the deficit in order to lessen the pressure on domestic interest rates and the total budget.[20]

B. FINANCING

The two main issues in financing are access and cost. The first has to do with the sourcing of funds while the second when the first obstacle is successfully hurdled has to do with the costs incurred, interest and access-related expenses.

For as long as government incurs deficits financed by competing with the private sector for scarce local funds, financing will remain costly and difficult to access. Hence, Government shall improve the efficiency of its revenue-collecting efforts and prudently manage public finances.

The perennially difficult access to credit was aggravated by the Asian currency crisis when banks, concerned about increasing ratios of nonperforming loans (NPLs), became even more conservative in their lending activities. The credit crunch slowed business activities, especially for the SMEs, preventing them from meeting export orders. As a stop-gap measure, Government shall seriously consider providing emergency loan guarantees to induce banks to actively lend again.

Special credit facilities, including developmental financing programs, shall also be provided to SMEs. Initiatives similar to those already initiated by President Estrada[21] shall be expanded to make a real impact on economic activities of SMEs. Additional specific measures to improve access to credit include:

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[20] from the Medium-Term Philippine Development Plan (MTPDP), Chapter 7

[21] Early this year, President Estrada instructed the Government Service Insurance System (GSIS) and the Social Security System (SSS) to review their guidelines on the P5 billion special financing program to make it more affordable and accessible to SMEs. He also instructed DTI, the Development Bank of the Philippines, the Trade and Investment Development Corporation

opening up of special emergency loan windows in government financial institutions (GFIs) for SMEs; finalization of guidelines for the Enterprise Stabilization Guarantee Fund (ESGF) to accelerate its implementation; use of government guarantee institutions (GGIs) as conduit for BSP's export dollar facility; revival and improvement of Tulong sa Exporters Program (TSEP) with increased allotment from Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP); venture capital cooperatives among SMEs; and development of a new formula for acceptance of agricultural land as collateral for bank loan (without compromising the government's implementation of the Comprehensive Agrarian Reform Program.

Banks shall be encouraged to have a bigger stake in the export development agenda. Industry associations must coordinate closely with banks in developing new financing programs for export enterprises and in disseminating information on these.

To address the high cost of financing, there shall be sustained efforts to reduce interest rates in order to spur new investments. DOF shall finalize the new tax reform package, including the scrapping of gross receipts tax (GRT), for immediate submission to Congress as an urgent measure.

Even with these stop-gap measures to ease the financing problems of SMEs, credit programs shall be rationalized by phasing out direct credit programs of government non-financial institutions (GNFIs) and government-owned and controlled corporations (GOCCs). Cooperative banks must be promoted to help spur growth and increase income in the countryside. Improved regulatory and prudential standards shall then be enforced through the Cooperative Development Authority in the case of cooperatives, and the BSP for private and government financial institutions.

(TIDCORP) and the Guarantee Fund for SMEs to pursue lending programs that will help in the rehabilitation of distressed industries and companies.

The Foreign Bank Entry Law of 1994 (Republic Act 7721) expired. Although there are some unclear areas of benefit from this, there are also advantages that have accrued to the economy, in terms of product diversity and new ways to mitigate risks in a more complicated global environment. In the face of the Asian financial crisis and the overall long-term reform of the economy, the law should be renewed and improved further.

Another measure is the development of capital market for SMEs. The government is already set to list the first 50 SMEs at the Philippine Stock Exchange (PSE) with initial guarantee facilities from the Small Business Guarantee and Finance Corporation (SBGFC). These guarantee facilities will enhance the capital market for SMEs as they will provide additional incentive to prospective buyers of SME stocks, thereby securing SME loans in cases of default or non-payment.

Moreover, some policies of the Banko Sentral ng Pilipinas that compel the banks to be very prudent shall be reviewed for possible repeal or amendment.

C. INVESTMENTS AND INCENTIVES

1. INVESTMENTS

Direct investments are critical in expanding the industrial base of the export sector. FDIs are particularly important conduits for technology transfer and overall industrial upgrading. They also provide direct links to important overseas markets. The phenomenal growth in the electronics sector can in no small measure be attributed to FDIs.

The complementarity of trade and FDI flows in a globalized environment is evident. The country's adoption of open market policies, supported by its active participation in international multilateral and bilateral agreements, provides a

good starting point to attracting FDI flows. However, just as stiff and growing competition for trade exists, so does competition for FDI in a global economic environment.

The following policy options can facilitate the development of a broader strategy for increasing investments in the country.

INTERNAL POLICY INITIATIVES

Since trade liberalization began in 1986, the industrial sector has experienced a sharp decline in protection measured in terms of nominal tariff and effective protection rates. This was accompanied by a liberalized investment regime which opened more sectors to foreign participation. The overall thrust of opening up the economy shall be consistently reflected by such concerted liberalization.

Market openness shall also be accompanied by focused and unified support from all sectors of the economy, particularly all agencies and arms of government. Policy initiatives or decisions made by Government in support of investment promotion shall be consistently applied, rather than reversed, by its agencies.

Institutional, physical, and social infrastructure support is essential to promoting a conducive environment for investments. This includes a more facilitative bureaucracy, availability of and access to critical infrastructure, and a large pool of educated, highly skilled or highly trainable human resources. The maintenance of peace and order and reforms in the judicial system shall also be undertaken to improve the environment for business.

Foreign direct investments also seek opportunities to participate more in world trade. Thus, the implementation of programs and policy reforms that support the country's competitiveness and openness to international trade shall be pursued.

Ecozones shall be aggressively promoted as they can be an effective vehicle for the industry clustering strategy. If properly designed and efficiently managed, they encourage the agglomeration of the infrastructure required for exports, the administration of tariff and other fiscal measures, and the provision of training and various support services.

EXTERNAL POLICY INITIATIVES

The Philippines' accession to the WTO commits it to liberalization measures beyond tariff reductions. The government shall act on its commitments to a shift in the customs valuation method, the tariffication of non-tariff measures, and the liberalization of trade in services. It shall also consistently reinforce its commitment to a liberalized investment regime following the national treatment principle of the WTO Agreement on Trade-Related Investment Measures (TRIMS).

Similar commitments to an open economy are reinforced by the country's participation in the Asia Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN). Initiatives such as promoting trade and investment facilitation, liberalization of financial services and harmonization of investment codes are among the policy measures the Philippines incorporates in its own policy agenda.

The participation of the country in these economic agreements places it in a good position to exploit various opportunities to attract export-oriented FDI. The Philippines shall be more aggressive in seeking and seizing opportunities presented by such programs. Among these are the brand-to-brand complementation scheme which promotes the development of globally integrated production networks within the ASEAN economic area, and the ASEAN Investment Agreement (AIA) which prescribes national treatments for ASEAN investors for a given period.

2. INCENTIVES

The provision of incentives shall be based on three requirements:

- Budgeted. Specific allocations shall be provided as much as possible, and their source identified.
- Time-bound. Exporters shall not be made dependent on incentives to remain profitable. Incentives shall be provided within as fixed and limited a period as necessary.
- Compensatory. The incentives are provided to compensate for a loss which is beyond the control of exporters and which is a function of abnormal developments within the macro environment.

CONDITIONS FOR INCENTIVES

Budgeted
Time-bound
Compensatory

In the long run, what should attract Filipinos to go into the export business are the returns realized in terms of profits, rewards, new learning acquired through exposure to the international market, skills harnessed and innovations developed from responding to the challenges of global competition, and the realization of their contribution to the country's overall development. These, and not the tax credits, income tax holidays, subsidized promotion efforts or other incentives that government will award them, should lure them into the business of exporting. Government resources are better spent on initiatives with longer-term effects and which will improve the overall environment for business.

a) INCENTIVES UNDER THE EXPORT DEVELOPMENT ACT

The IRRs of important provisions under the Export Development Act (EDA) must be finalized and implemented immediately. One such provision is the granting of tax credits for use of import substitutions of non-traditional products and for incremental export revenue.

It must be noted, however, that the delay in the implementation of these incentives has rendered them vulnerable to WTO sanction. Therefore, Government shall find acceptable alternatives to replace these benefits to exporters.

b) INVESTMENT INCENTIVES

The consistent and fair provision of investment incentives must be adequately addressed by the proposed Fiscal Incentives Reform Measure currently pending in Congress.

Efforts of the Board of Investments (BOI) and the Philippine Economic Zone Authority (PEZA) in investment promotion and provision of incentives shall be properly coordinated to ensure consistent application of laws and clear direction and thrust in investment promotion.

The following possible amendments to the existing incentives package must be considered:

- A maximum 12-year income tax holiday for investments of at least $500 million in high technology industries to match the income tax holidays offered by neighboring countries (Taiwan and Singapore);
- Allowing indirect exporters to locate in ecozones and avail of similar incentives granted to direct exporters;
- Policies and programs that facilitate subcontracting between ecozone and non-ecozone firms in order to expand and upgrade the supplier base, and establish downstream linkage;
- Amendments to the 1987 Omnibus Investments Code (EO 226) to make the incentive laws consistent with the government's sectoral approach to industrial development, and competitive with the incentive regimes of our neighboring countries, without sacrificing the revenue implications on

Government. Among those to be included are accelerated depreciation and net-operating loss carry-over (NOLCO);

- Review of tax exemptions on capital equipment and spare parts;
- Investment tax allowance; and
- Tax and duty-free exemption on consumables coursed through bonded warehouses.

c) Non-Fiscal Incentives

Investment decisions look at the promise of profitability on the basis of market conditions. Therefore, fiscal incentives are only icing on the cake and are not the primary motivating factors considered by investors. Incentives will be an important differentiator of country attractiveness if all conditions were equal. But since countries compete even on the basis of incentives, government cannot do away with them.

Nonfiscal incentives shall therefore be considered too. Many nonfiscal incentives are under the control of local governments and regional agencies. These can be useful tools for the localities to attract more business activities in their area.

Examples of relevant nonfiscal incentives are: elimination of bureaucracy; allied industry linkage and upgrade program; true "one stop" service center for investors; upgraded educational system covering technology and management; skills and productivity upgrading programs for labor; common service facilities set up by local government units and eventually turned over to the private sector; trade and investment assistance programs; and training and technical assistance programs designed to upgrade capabilities.

D. COST OF DOING BUSINESS

1. BUREAUCRACY AND RED TAPE

A major contributing factor to increasing business costs is bureaucracy. The costs of bureaucracy would include: actual costs incurred from dealing with government agencies; costs resulting from procedures and other government regulations; or delays and other opportunities lost due to efforts to comply with such rules. These costs are often enough to make any industry uncompetitive. Laws, rules and regulations of all government entities superimpose on each other leading to complicated procedures. Often, these also lead to inconsistent implementation due to misinterpretation of rules or abuse of discretion on the part of the implementors.

To reduce the cost of doing business, the procedural requirements of government in the registration of business permits and in export and import transactions shall be rationalized and streamlined. A strategy that can be adopted is the zero-base approach—abolish all rules, examine the core principle of the requirement, develop the simplest way possible to satisfy the requirement, and computerize the procedure.

An integral part of reducing bureaucracy and red tape is the Customs Modernization Act which provides the basis for the computerization of operations, including such measures as audit trails and unique identifiers. It will also reduce bond requirements from 150% to 100% of duties/taxes and other charges, particularly conditionally free importation.

Electronic data interchange (EDI) shall be encouraged as a norm in transacting with government agencies. The legal framework which will recognize electronic transactions, starting with export and import documentation and procedures, shall be set up.

To synchronize the trade facilitation initiatives of Government, the creation of a Permanent Committee on Trade Facilitation under the EDC shall be considered. This committee, will be tasked with streamlining procedures and requirements related to export, imports for reexport and business registration. The committee will also oversee the zero-based approach to simplification of procedure should the latter be adopted as a bold measure. New documentary and procedural requirements imposed by the various agencies of government will have to go through the committee for approval prior to their implementation. It is imperative, however, that the powers of the EDC to sanction government officials and agencies that impede the efficient flow of exports, as provided for by Export Development Act, be extended to the Permanent Committee to ensure its effectiveness.

2. INFRASTRUCTURE

Inadequate infrastructure is one of the major hindrances to industrial and export growth. In addition to the measures recommended below, Build-Operate-Transfer (BOT) and similar programs shall be intensified and directed towards the regions where they will help realize optimum economic yield. They must also be prioritized and focused in certain areas where infrastructure can significantly enhance trade development. As a parallel effort, the absorptive capacities of these localities must be developed, as well as the capabilities of local government officials to identify and package BOT projects.

a) POWER AND ENERGY

To address the problems on energy, the enactment into law of the following measures is recommended:

- The Omnibus Electric Power Bill/Omnibus Power Industry Bill which seeks to ensure quality, reliability, security and affordability of power to the end-users. The bill provides for the unbundling of the core functions of the

power sector, and the optimal participation of the private sector in power generation, transmission and distribution toward the total energizing of the industry (privatization of NPC and the rationalization of the distribution sector).

- The Indigenous Energy Resources Bill which seeks to achieve energy self-reliance through the exploration of renewable energy sources, and to establish an institutional infrastructure to develop capabilities in the use of non-renewable energy.

In addition, energy distribution costs must be reduced by allowing direct connection of industries, allowing bulk power purchase for industries, and expansion and extension of the one-day power sale scheme to cover power-intensive, distressed and export-oriented enterprises.

b) TRANSPORT AND SHIPPING

In the shipping subsector, liberalization and deregulation must be extended and completed. Measures shall be taken to relax the Cabotage Rule to enable foreign vessels to transport goods within Philippine waters to meet the demands in undertonnaged routes. However, such measures should take into consideration the national interest issues being raised against this proposal.

The Public Service Act must be amended to encourage private sector involvement in the provision of transport services by further liberalizing the entry, exit, allocation of routes or areas of operation and fare-setting.

c) TELECOMMUNICATIONS

Universal access, which would enable users to avail of telecommunications no matter where the location is or what facility/system is being used, should be provided to improve efficiency and service and make telecom rates competitive with those in other countries. Universal access facilitates investment.

The development of the Philippine information infrastructure must be accelerated in order to develop a more efficient and robust network for global-competitiveness. Telecommunications policy must also recognize the importance of access to and use of information technology to promote business growth and competitiveness. Initiatives, such as the proposed electronic commerce law and the promotion of the use of electronic data interchange (EDI) for trade transactions, must be supported by the appropriate legal framework and telecommunications policy and infrastructure. The growth of trade in the information technology sectors, such as software and multimedia content development, is to a certain extent dependent on these initiatives.

3. LOCAL GOVERNMENT AND TAXATION

Local government units (LGUs) impose the maximum tax rates allowed by the Local Government Code (LGC) because they need the revenue to cover the cost of devolved functions. However, in their effort to maximize revenue through higher taxes, many local officials fail to consider the impact of high tax rates on the business sector as well as on the consuming public. High tax rates could adversely affect the economic development of their respective areas.

It is generally recognized that high tax rates affect savings, investment, production, employment, and growth of the economy. Therefore, in the formulation of a reasonable but effective local tax structure, local officials shall consider a wide array of factors such as: the locality's revenue needs following a development-oriented expenditure policy, the taxpayers' ability to pay; the disincentive effect of certain taxes on local business and potential investors; and economic conditions prevailing in the community. Taxation policies must consider the potentially negative effects on the overall interest of the community. The principle of enlightened self-interest should be followed—the long-term development of the community, which could be brought about by increased economic activities, should not be sacrificed for short-term revenue gains.

Government shall continue its efforts toward greater decentralization and devolution of functions. Revenue generating capabilities of LGUs shall also be enhanced to support the devolution process. National government must, for instance, provide technical assistance to local officials on improving tax administration. A system to reduce vested interests in local taxation must also be set up at the national level but implemented at the local level. For example, the valuation of real estate for tax purposes should be handled by credible entities and not left to the discretion of local politicians.

As a priority measure, National Government must provide programs that will promote capacity-building at the local level to enable LGUs to undertake and manage economic development planning. This capability is critical in building the country's industrial and export base through the development of locally based industry clusters.

E. AGRICULTURAL POLICIES

Agricultural policy in support of the export development agenda shall be directed towards providing exporters access to inputs at quantities that are internationally competitive in price and quality.

The implementation of reforms under the Agriculture and Fisheries Modernization Act (RA 8435) must be fast-tracked. Regarded as a milestone piece of legislation for agriculture and fisheries, the delay in its implementation due partly to budgetary constraints is compounding the effects of the long-term neglect of the sector.

A review of the remaining subsidies in agriculture shall be undertaken. Among other things, direct subsidies have prevented the domestic economy from making the necessary adjustments to make the agricultural sector more competitive.

However, the process of liberalization must also be coupled with continuous provision of safety nets for farmers to help them cope with increased competition and trade liberalization under the WTO. The passage of the bill on Competitive Enhancement Fund will contribute greatly to this effort. Safety nets must also cover the effective provision of agricultural extension services.

A comprehensive land use policy must be put in place. The National Land Use Act which provides the overall framework for the rational allocation, disposition, sustainable utilization and management of land resources for a variety of ecological and economic uses, and which seeks to prevent premature conversion of agricultural land into other uses, is yet to be passed into law. In the meantime, existing land use plans at the local level must be actively disseminated in order to create economic activities and properly direct investment opportunities. The formulation of the Regional Investment Priorities Plan for 1999 can also draw from such local plans.

However, efforts to promote the competitiveness of the Philippine agricultural sector will remain half-baked if the issue of the Comprehensive Agrarian Reform Program (CARP) remains unresolved. The continued implementation of the CARP by Government is seen to be one of the major hindrances to the flow of investments in the sector.

F. TECHNOLOGY

There is very little investment in technology from both Government and the private sector and there are no distinct programs to stimulate technological activity in industry.

The Department of Science and Technology (DOST) shall coordinate with the business sector, technology and research and development (R&D) institutions and the academe in evaluating the most pressing technological needs of the

industry. This can provide a better understanding of the implications of technological change and the need to gear up to meet changing needs effectively. This would also promote a market-based orientation in technology development and aid in the commercialization of technologies developed.

According to a World Bank study,[22] the technology infrastructure in the country is not able to provide effective support to private industry. Salary structures and management are not conducive to actively seeking out and helping enterprises with technical problems. Neither do they encourage technology upgrading. There is too much attention to routine testing and laboratory services, which could be done by the private sector, and not enough to true public services like basic or contract research, information collection and dissemination, and extension services to SMEs. Other programs that will be put in place include technology business incubators, management of technology, multimedia training and information programs, productivity improvement and enhancement programs using international benchmarks, and technology finance programs. Investments in R&D need to be intensified and intellectual property rights shall be strictly implemented to encourage industries to invest in R&D.

A thorough analysis of DOST's functions, structure and management needs to be done . Multiplicity and duplicity of existing institutions point to the need for rationalization and restructuring. Adequate funding must also be provided.

The focus of policy shall not just be on liberalizing technology-transfer legislation relating to contractual aspects of transfers but more importantly, on improving industry's capacity to absorb and use new technologies. Foreign direct investments shall also be promoted as conduits to technology transfer and upgrading.

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[22] Report No. 18895-PH, *Philippines: The Challenge of Economic Recovery*, 26 February 1999

G. EDUCATION AND TRAINING

While the large base of literate manpower is the Philippines' most valuable resource, sweeping improvements at all stages of the education and training system still have to be undertaken. There is need to bring into the system, from beginning to end, a mind-set, which recognizes the value of competitiveness as a behavioral imperative. Bringing the quality, relevance, completion rates and length of schooling in line with international norms remain valid issues, but the value of global competitiveness shall be made a common denominator.

Educational institutions at the tertiary level lack consistency in quality. Teaching standards and facilities are found wanting of the required qualities to produce high-level technical and management skills necessary for competitiveness.

The technical training system needs more funding. School curricula shall be reoriented to industry needs; existing ones do not properly meet specific skills needed by industries. They shall be made relevant and responsive to economic activity in order to improve absorption of new technology.

Employee training is undertaken mainly by large firms, but smaller firms invest little in upgrading workers' skills. All these are resource intensive. An intensification of distance learning programs using a multimedia approach will help achieve wider and deeper reach at less cost over time.

H. EMPLOYMENT POLICY, LABOR AND PRODUCTIVITY

As the country increasingly integrates into the international market where productivity and high-quality outputs are prerequisites for competitiveness, the issues on labor-management relations become critical. An industrial policy focused on increasing the productivity and technological capabilities of labor should be advocated within the context of global competition.

The main policy agenda under employment policy, labor and productivity is the amendment of the Labor Code to address the following concerns:

- Labor-management cooperation
- Productivity initiatives, including wage setting
- Labor flexibility

1. LABOR-MANAGEMENT COOPERATION

A key to making products and services competitive is cooperation between labor and management at the work place. Without industrial harmony and readiness of the industrial partners to cooperate with each other, no productivity program, no product improvement program, and no quality program will succeed. The intervention of the Department of Labor and Employment (DOLE) is crucial in changing mind-sets within the workplace to do away with the adversarial and divisive nature of Philippine industrial relations. To succeed at this, the DOLE itself would have to shift from being an arbiter with a labor bias to being an educator and advocate of industrial adjustments towards competitiveness.

The promotion of labor-management cooperation programs at appropriate levels of the enterprise is incorporated in the Labor Code of the Philippines. This is to ensure industrial peace and the improvement of productivity, working conditions, and the quality of working life. But to make these work, there is a need to examine laws, rules and practices related to union representation, collective bargaining, conciliation-mediation, assumption orders, voluntary arbitration and the multi-layered system of appeals. Such examination should focus on the strengths and weaknesses of the present framework of labor relations, and how legalism in particular can be reduced. This also entails a thorough review of jurisdictional lines, roles of agencies involved in the various types of disputes, and power to hear of non-judicial or quasi-judicial bodies.

The New Social Accord, concluded in November 1998, shall be strengthened and expanded. Its objectives shall be translated into clear measures of performance and target outcomes, which all parties to the accord must commit to. An intensive national awareness and education campaign to ensure wide adoption of the principles and objectives of the Social Accord shall be implemented.

2. PRODUCTIVITY INITIATIVES

Government and private sector initiatives on productivity shall be based on investing in people through skills upgrading and improvement of working conditions as well as on adoption of new and innovative technologies. Without investment in the labor force, the economy will be seriously handicapped in its efforts to sustain economic growth in an increasingly competitive and integrated world. Education shall provide the knowledge and skill base to develop technological capability for economic growth. Greater participation of industry in this regard is necessary.

A balance between wages and productivity as determined by the market is a key factor in sustaining economic growth. The minimum wage needs to be distinguished from productivity-based pay. It must clearly be the lowest wage a worker receives regardless of skill, education and experience to enable him to meet daily minimum household requirements. It must be at the poverty threshold and indexed only to inflation. Legislating wages above the market norm worsens unemployment. A high minimum wage means less jobs will be created.

Workers, unions and management need to appreciate the strategic importance, in fact the essentiality, of matching wage increases above the minimum wage with productivity increases. Productivity, or the efficiency, with which work is done, plays a critical role in maintaining a country's, and a company's, competitiveness. It must be a major factor in wage setting and collective bargaining.

3. LABOR FLEXIBILITY

Labor flexibility, as a policy, does not mean the casualization of labor to reduce labor costs. Rather, it translates to higher productivity and quality of labor through multi-skilled development, professionalization, and increased motivation and job satisfaction. The following modes of labor flexibility shall be advocated:

a) INTERNAL LABOR MARKET FLEXIBILITY

Various human resource development (HRD) approaches can be used to make workers multi-skilled, versatile and more adoptive to changing work processes. This concept of labor flexibility commits the company to the general development of its regular workers and improves the likelihood of promotions-from-within should vacancies in higher positions occur. This provides workers a sense of being valuable stakeholders to the firm and promotes stronger ties and loyalties to the firm and its objectives.

b) PROFESSIONALIZATION OF SUBCONTRACTING

The development of subcontracting in the Philippines as a tool for industrial development is hindered by a number of policy issues and problems: (1) poor quality control and inability of many subcontractors to fully meet specification requirements; (2) low business/management skills of the subcontractor and weak production organization; (3) high turnover of workers; (4) unethical subcontractors and contractors; (5) lack of transparency in the contractor-subcontractor relations; (6) non-extension of export incentives to institution doing subcontracting work for the exporters; (7) lack of access to credit; (8) poor quality and high cost of materials; (9) seasonality of the market; (10) slow advancement of subcontractors up the business ladder; and (11) labor problems associated with subcontracting.

To address these issues significantly, subcontracting must be professionalized. Towards this end, the following shall be instituted: (1) development of an up-to-

date data bank and information exchange on subcontracting; (2) standard setting in subcontracting; (3) entrepreneurship, business management, skills development and credit assistance; and (4) formation of an industry association for subcontractors.

c) ADOPTION OF FLEXITIME PRACTICES

The adoption of flexitime practices must be considered. For example, work schedules can be based on a weekly reckoning, requiring a worker, for instance, to put in 40 to 48 hours of work per week. Workers and management can then devise a weekly schedule which may mean longer hours on some days to compensate for an additional day-off. Aside from the benefits it affords the worker and the company, this scheme, if applied by a significant number of firms, can also help decongest urban traffic. It must be noted, however, that adopting this scheme would require a translation of the minimum wage into hourly rates.

I. COMPETITION POLICY, LIBERALIZATION AND INTERNATIONAL COMMITMENTS

Broadly, competition policy refers to government policies, laws and regulations (anti-trust or anti-monopoly) aimed at establishing and maintaining open competition. It covers diverse issues including, but not limited to, policies addressing monopolies, oligopolies, cartels, mergers, restrictive and anti-competitive trade practices, entry barriers, liberalization, deregulation, privatization, employment, and consumer protection.[23]

In the international scene, the Philippines has already committed itself to opening up its market by acceding to various multilateral and bilateral agreements to establish trading blocs or common markets: AFTA, APEC, and WTO. To

[23] Promoting the Competitiveness of Philippine Industries through Competition Policy, Foundation for Economic Freedom, Inc., 1998

maximize the opportunities presented by international competition, the Philippines shall likewise push vigorously for the opening up of international markets hitherto closed to its products and services. The Philippines shall be vigilant in monitoring international trade activity and in seeking benefits from the ratification of the WTO and its provisions on anti-dumping, subsidies and countervailing measures, the General Agreement on Trade in Services (GATS), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), and the Agreement on Trade-Related Investment Measures (TRIMs).

In the domestic scene, many existing laws and policies still favor protection and discourage competition in many vital economic sectors. These sectors, in turn, provide the majority of inputs to export industries, and the high cost of input prices borne of this lack of competition has adversely affected their levels of competitiveness. For the export sector to be competitive, its input sectors shall likewise be subject to vigorous competition.

Laws bearing on competition are numerous and varied. However, there remains a need to enact an overall law on competition, particularly a comprehensive anti-trust legislation.

The first important step in developing a comprehensive Philippine competition policy is to recognize the inadequacies of existing legislation on competition and economic analysis, and their enforcement. From this, assessment of gaps must be made to identify the areas for change and improvement.

Both the domestic and international markets shall be considered in the formulation of competition policy. Competing and surviving in the international arena, however, is largely dependent upon how open, strong, and integrated the domestic market is.

J. INSTITUTIONAL FRAMEWORK

The EDC is tasked to "strengthen and institutionalize the national export drive and supporting policy framework, with the purpose of overseeing the implementation of the Philippine Export Development Plan and coordinating the formulation and implementation of policy reforms to support the Plan".

A World Bank study,[24] says that the EDC if properly equipped and financed could serve as a vital instrument for promoting Philippine competitiveness. The EDC needs to have the capability to devise effective strategies. As it is at present, the EDC still lacks a comprehensive analytical framework for carrying out market intelligence analysis and competitiveness studies. It also lacks effectiveness in identifying and, more importantly, remedying constraints facing exporters. It is not very clear how its sanction powers are to be used. The skills, information and resources needed for the EDC to function properly require considerable commitment from the government and private agencies involved.

Therefore, a review of its structure, resources and capabilities shall be done to identify and effect necessary improvements.

Following this, the allocation of adequate resources to the EDC under the General Appropriations Act shall be considered.

In the meantime, the EDC shall immediately formulate the Implementing Rules and Regulations to define its powers to administer sanctions to government agencies which create obstacles to export growth and development. Defining and implementing this mandate at this stage will render it more effective in ensuring commitments from other agencies involved in the implementation of the Plan.

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[24] Report No. 17024-PH, *Philippines: Managing Global Integration*, a two-volume report, World Bank, 17 November 1997

Part 5 of this Plan discusses the roles of various government agencies in export development. The current initiative to reorganize the bureaucracy, as provided in the government reorganization bill filed in early March 1999, should make the export development thrust an important consideration in defining the roles and priorities of the various units of government. However, it must first be clarified whether the reorganization is being proposed to streamline the bureaucracy or to respond to the global environment. The bill must be assessed in terms of its impact on the economy. In any case, the EDC shall take an active role in this initiative in order to push the export development agenda in the various agencies of government.

The EDC shall also review the privatization of trade promotion functions of government. A privatization study was completed several years back but no action has yet been taken.

The SME Development Council must provide a stronger support infrastructure for SMEs in terms of policies and programs. Possible areas for new initiatives will include the development of industrial extension services by DTI or other government agencies at the local level.

PART 4: INDUSTRY DEVELOPMENT THROUGH CLUSTERING

A. INTRODUCTION/RATIONALE

The framework for the present update of the PEDP has put forward the arguments for the clustering of industries. This is a takeoff from the program started by the EDC and the DTI, sometime in 1997, under the Networking Committee on Productivity. The initiative led to the creation of a Sub-Committee on Industry Clustering, and an initial identification of industry priorities by each region in April 1998.

The framework for the PEDP identified industry clustering as a key medium-term strategy for export promotion. This recognizes that for export development, promotion and expansion to be successful, the growth of industries must be fostered at the same time that market promotion and marketing are being sustained. At the same time, clustering fully supports the regional development initiatives of Government, recognizing the differing roles each region plays in the national export effort. Industry clustering will also allow smoother inter- and intra-regional business linkages in the private sector.

Clustering is defined as the grouping of firms and companies existing in an industry; the allied businesses which support the industry through the provision of such goods, services, machinery or equipment, and specialized inputs (e.g., knowledge); and the buyers (both domestic and foreign) – all operating under an environment shaped by Government, the physical and cultural heritage, and available infrastructure (soft and hard).

The clustering of competitive industries in an economy is a natural result of the interaction of national attributes that shape the environment in which local industries compete.

Industry clusters will be the key to boosting the systemic competitiveness of specific industry sectors. Systemic competitiveness strives to capture both the political and economic variables which affect the success of industrial development. The Supplemental Report to Industry Clustering, presented as Annex B, Volume 2 of this Plan, gives an expanded discussion of the analytical framework for determining national competitive advantage, clustering, and systematic competitiveness.

Given the preceding definition, industrial development in the Philippines is expected to succeed under conditions where the key ingredients are present. These ingredients must be found in four levels: the **metalevel** refers to the national character and the values which support economic development through national consensus and implement strategies to pursue an internationally competitive industrialization policy. The **macrolevel** refers to the national macroeconomic, political and juridical framework that stimulates local industry. The **mesolevel** refers to regional or provincial policies and programs which aim to create or sustain competitive advantage. The **microlevel** refers to individual firms or cooperatives of firms which are committed to the survival and continuous improvement of their businesses.

In the Philippine setting, the **metalevel** refers to our national culture; our vision of industrialization embodied in the Constitution and fleshed out by the NEDA's short-, medium- and long-term plans; and the increasing cooperation between government, the Church and the private sector to jointly formulate strategies and implement policies covering broad areas in Philippine society.

The **macrolevel** has been discussed in Part 3 of this Plan.

The **mesolevel** refers generally to the regional or provincial institutions and policies or regulations affecting firms in their specific locations. This is recognized in the PEDP framework, (along with natural endowments, infrastructure, and environment) as:

- The devolution of powers to the LGUs provided in the Local Government Code of 1991 (RA 7190) and its amendments;
- The autonomy granted by the Department of Education Culture and Sports (DECS) and Commission for Higher Education (CHED) to local centers of excellence;
- The differing endowments and states of development of regional or provincial economies; and
- The existence of a core group of industrialists/exporters (small, medium, large) in enclaves around the nation.

The role of both government and non-government organizations (NGOs) at the regional or provincial level cannot be overemphasized. Their specialization, selectivity, networking ability, technical orientation and efficiency determine the level of service they can render to the industry clusters in terms of technology, education/training, financing, infrastructure, exports, environment, etc.

The **microlevel** refers to the individual small, medium and large firms operating in the clusters. All are affected by the preceding levels. Each firm also reacts differently to any change in the macroeconomic environment, and to the rapidly changing demands on organizations made by technical and social innovations. These innovations, among others, include the increasing use of telecommunications, the spread of worldwide networks, the advent of e-commerce, the rise of mass customization in manufacturing, the intensification of environmental concerns of end-users, and the rising incidence of buyer inspection of manufacturers' facilities for adherence to labor laws and regulations (especially regarding child labor).

B. PROCESS/METHODOLOGY

A discussion of the measurement of competitive advantage at both the location level and firm level is necessary before going into cluster development.

Later in this section, the general steps in cluster development will be discussed together with the justification for selecting the four pilot clusters in this Plan.

1. MEASURING COMPETITIVE ADVANTAGE

At the firm level, competitiveness is indicated by such performance measures as increased market share, profitability and long-term survival.

On the other hand, area competitiveness can be measured in many ways[25]. Among the most common are increasing market share, increasing investment levels, high growth in foreign direct investments, increasing literacy and skills of the population, and increasing labor productivity. Table 1 shows a suggested analytical framework for reviewing the competitiveness of regions or areas. The framework has been adjusted to reflect what is measurable or has clear indicators at the provincial level.

Table 1. Suggested Analytical Framework for Competitiveness Review

Key Factors	Performance Measures
Provincial Economy	
• Value Added	1. Gross Provincial Domestic Product (GPDP) 2. GPDP per capita 3. Real GPDP growth 4. Underground economy
• Investments	1. Total gross domestic investment 2. Gross domestic investment real growth

[25] Professor Paul Krugman disagrees with the term national competitiveness, since firms, not areas compete.

Key Factors	Performance Measures
• Savings	1. Gross domestic savings 2. Gross domestic savings real growth
• Final Consumption	1. Private final consumption expenditures 2. Private final consumption expenditures real growth 3. Government final consumption expenditures 4. Government final consumption expenditures real growth
• Economic Sectors Performance	1. Economic sectors 2. Real growth-agriculture 3. Real growth-manufacturing 4. Real growth-services 5. Retail sales 6. Real growth-retail sales
• Cost of Living	1. Consumer price inflation 2. Cost-of-living comparison
Internationalization	
• Current Account Balance	1. Balance of trade 2. Balance of trade services 3. Current account balance
• Exports of Goods and Services	1. Exports value 2. Growth in export value 3. Exports breakdown by economic sector 4. Market share 5. Export market diversification 6. Tourism receipts
• Imports of Goods and Services	1. Imports value 2. Growth in imports 3. Imports breakdown by economic sector 4. Tendency to import
• Exchange Rate	Terms of trade index
• Portfolio Investments	1. Portfolio investments assets 2. Portfolio investments liabilities
• Foreign Direct Investments	1. Direct investment flows outward 2. Direct investment stocks abroad 3. Growth in direct investment stocks abroad 4. Direct investment flows inward 5. Direct investment stocks inward 6. Growth in direct investment stocks abroad
• Protectionism	1. Foreign investors 2. Public sector contracts 3. Cross-border ventures 4. Investment protection schemes 5. Incentives for investment
• Openness	1. Integration into regional trade blocs 2. Trade to GPDP ratio 3. Local culture 4. Image of province outside

Key Factors	Performance Measures
Government	
• Provincial Debt	1. Provincial government domestic debt 2. Provincial government foreign debt 3. Provincial government budget surplus/deficit 4. Management of public finance 5. Total reserves
• Government Expenditure	1. Government employment 2. General government expenditure
• Fiscal Policies	1. Collected total tax revenue 2. Collected personal income tax 3. Collected employee's social security contribution 4. Collected corporate taxes 5. Collected employer's social security contribution 6. Collected capital and property taxes 7. Collected indirect tax revenue 8. Tax evasion
• Provincial State Efficiency	1. Government economic policies 2. Legal framework 3. Transparency 4. Bureaucracy 5. Government decisions 6. Customs administration 7. Improper practices
• State Involvement	1. Product liability 2. Price controls 3. Government subsidies 4. Environment 5. Labor regulations
• Justice and Security	1. Justice 2. Serious crime 3. Security
Finance	
• Cost of Capital	1. Real short-term interest rate 2. Cost of capital 3. Provincial credit rating
• Availability of Capital	Value/Growth of: 1. Credit 2. Access to local capital markets 3. Access to foreign capital markets 4. Foreign financial institutions 5. Factoring 6. Stock markets 7. Venture capital 8. Investment lending

Key Factors	Performance Measures
• Stock Market Dynamism	1. Stock market capitalization 2. Value traded on stock markets 3. Listed domestic companies 4. Insider trading
• Banking Sector Efficiency	1. Size of banks 2. Banking sector assets 3. Interest rate spread 4. Legal regulation of financial institutions
Infrastructure	
• Basic Infrastructure Installed Capacity 1. Infrastructure maintenance and development 2. Arable area 3. Urbanization	Costs/Range of Services 1. Warehousing/Distribution systems 2. Roads 3. Air transportation 4. Water transportation 5. Electricity for industrial clients 6. Water for industrial clients
• Technological Infrastructure	1. Investment in telecommunications 2. Computers in use 3. Computers per capital 4. Connections to the Internet 5. New information technology 6. Telephone lines 7. Cellular mobile telephone subscribers 8. International telephone costs
• Energy Self-Sufficiency	1. Energy consumption as % of GPDP 2. Energy intensity 3. Total indigenous energy production 4. Energy imports vs. merchandise exports 5. Self-sufficiency in non-energy raw material
• Environment	1. Paper and cardboard recycling rate 2. Waste water treatment plants 3. Greenhouse index 4. Carbon dioxide emissions
Management	
• Productivity	1. Overall productivity 2. Overall productivity growth 3. Labor productivity 4. Agricultural productivity 5. Productivity in industry 6. Productivity in services
• Labor Costs	1. Compensation levels 2. Unit labor costs in the manufacturing sector 3. Unit labor costs in the business sector 4. Yearly wages in services professions 5. Remuneration of management

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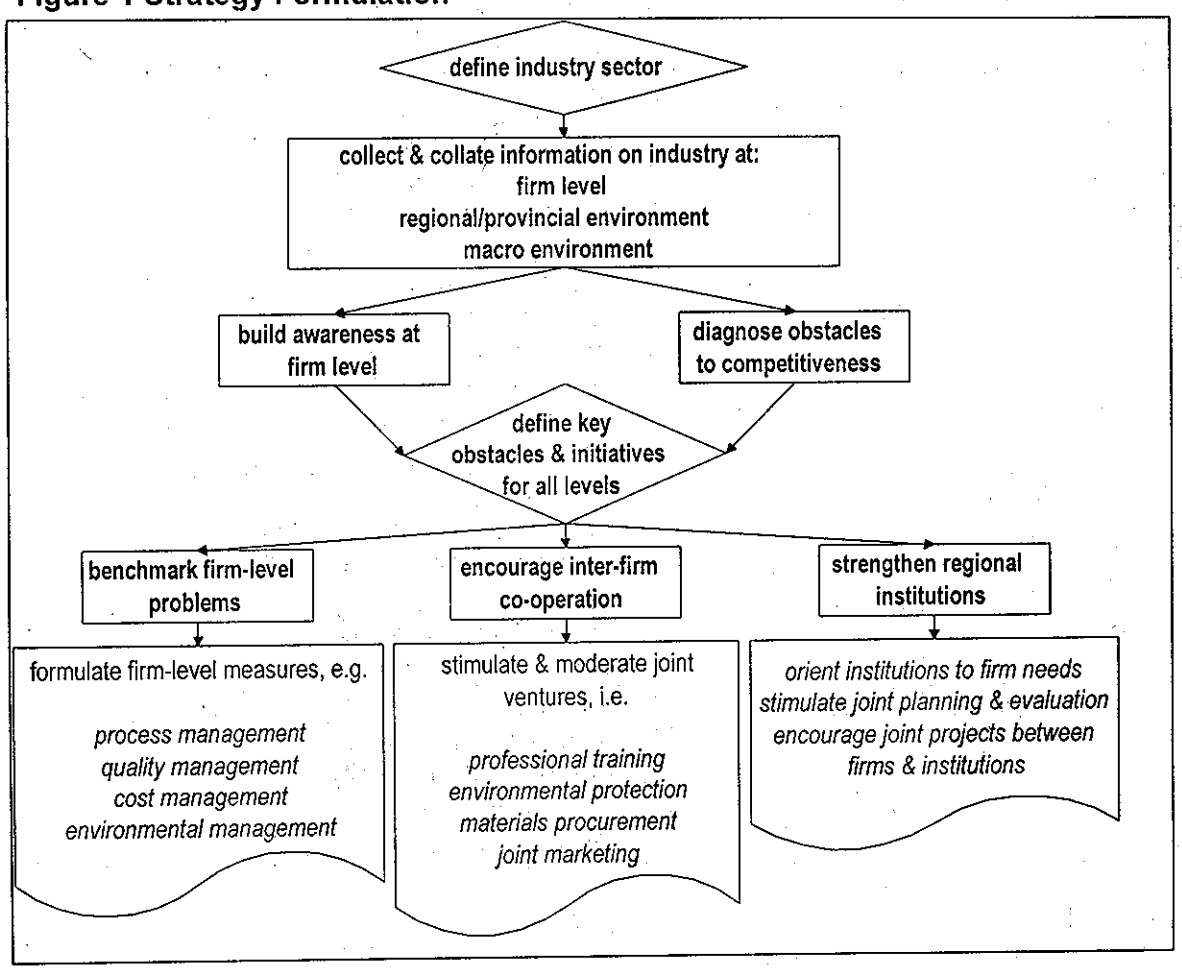
Key Factors	Performance Measures
• Corporate Performance	1. Size of companies 2. Price/quality ratio 3. Advertising expenditure 4. Corporate credibility 5. Corporate boards
• Management Efficiency	1. Competence of senior managers 2. Creation of firms 3. International experience and management 4. Shareholder value 5. Industrial disputes 6. Industrial relations 7. Worker motivation
• Corporate/Business Culture	1. Total quality management 2. Customer orientation 3. Marketing culture 4. Entrepreneurship 5. Social responsibility
Science and Technology	
• R&D Expenditures	1. Total expenditures on R&D 2. Total expenditures on R&D 3. Business expenditure on R&D
• R&D Personnel	1. Total R&D personnel 2. Total R&D personnel in business enterprise 3. Qualified engineers
• Technology Management	1. Technological cooperation 2. Research cooperation 3. Financial resources 4. Development and application of technology
• Scientific Environment	1. Basic research 2. Centers of excellence in science and engineering education 3. Student population in science and engineering
• Intellectual Property	1. Patents granted to residents 2. Change in patents granted to residents 3. Securing patents abroad 4. Number of patents in force 5. Intellectual property

Key Factors	Performance Measures
People	
• Population Characteristics	1. Population 2. Population under 15 3. Population over 65 4. Dependency ratio 5. Life expectancy at birth
• Labor Force Characteristics	1. Labor force 2. Labor force participation 3. Growth in labor force 4. Female labor force 5. Skilled labor 6. Brain drain
• Employment	1. Employment by sector 2. Employment 3. Employment prospects 4. Growth in employment 5. Working hours
• Unemployment	1. Unemployment by sector 2. Youth unemployment
• Educational Structures	1. The educational system 2. Secondary school enrolment 3. Higher education enrolment 4. Educational achievement 5. Pupil-teacher ratio (1st level) 6. Pupil-teacher ratio (2nd level) 7. Public expenditure on education 8. Illiteracy 9. Newspaper circulation 10. Economic literacy 11. Non formal skills training 12. In-company training
• Quality of Life	1. Urban population 2. Income distribution (lowest 20%) 3. Income distribution (highest 20%) 4. Access to property 5. Human development index 6. Medical assistance
• Attitudes and Values	1. Alcohol and drug abuse 2. Harassment and violence 3. Flexibility and adaptability 4. Equal opportunity 5. Values of the society

2. STRATEGY FORMULATION

The process is summarized in the chart below. As a first step, information on the target industries are gathered. Care should be taken that the target industries are not functioning in isolation in the area. They should be linked to other industries either through buyer-supplier relationships or through having common buyers/consumers/customers, common technology or production techniques, common marketing or distribution channels, common information sources, common design and trend considerations, etc. Information should include the manufacturers, the buyers, the suppliers, and the substitutes or potential substitutes. It should also include potential new entrants into the industry.

Figure 1 Strategy Formulation



Issues and problems at the firm level should also be gathered, so that those that can be handled at the local level can be addressed immediately. Next, the institutions at the local level that impact the industry should be identified, including their services and their capability to render the same. These institutions and their concerns are listed in the following table.

Table 2. Mesolevel Institutions

Technology *(specialization, selectivity, networking)*	♦ Contract research ♦ Technology extension ♦ Consultancy ♦ Measuring ♦ Standards ♦ Testing ♦ Quality control ♦ Quality assurance ♦ Universities
Education and Training, Formal and Informal *(technical orientation and specialization)*	♦ Public institutions ♦ Private institutions
Finance *(risk-friendly disposition, patience, community orientation)*	♦ Investment credit ♦ Working capital ♦ Equity, Venture capital ♦ Insurance ♦ Export finance
Trade (exports, imports, local retail) *(specialization, close links to business sector)*	♦ Foreign market information ♦ Design trends ♦ Trade insurance ♦ Trading companies ♦ Buying agents
Environment *(pressure and support)*	♦ Supervision and regulation ♦ Environment-friendly technologies dissemination
Business support services (government and non government) *(specialization, orientation)*	♦ Industrial extension ♦ Advisory services ♦ Business cooperation networks ♦ Policy networks ♦ Non fiscal incentives ♦ Specialized services

The local infrastructure which supports or hinders the development of the cluster will also be identified, and assessed for their costs, speed and/or efficiency. This will include infrastructure such as roads, water transport, air transport, harbors, airports, telecommunications, power, water, railways, internet service providers, and mobile telephone services.

In addition, provincial/local culture or attributes which are particularly friendly to business shall also be considered. The national macroeconomic, political and juridical framework as it affects the cluster should be included in the analysis. Information like domestic and international market trends and opportunities, technology developments, and forecast of government actions, shall be included to complete the gaps analysis and formulate the cluster development plan.

Data on the size and growth of the industries in the cluster, the evolution of the industries, and an assessment of the strength and potency of the forces shaping industry structure will also be included.

3. POTENTIAL TARGET INDUSTRIES

a) INITIAL LIST

The initial list used in selecting the clusters for this study was based on the industry priorities selected per region[26] by the Subcommittee on Industry Clustering[27]. The decision was made based on the fact that the EDC/DTI has a selection criteria which already included such national considerations as regional dispersal, increased value added, product diversification and improved productivity. The regions identified potential target industries from a universe of industries that:

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[26] EDC Memorandum dated 17 April 1998 signed by Regional Director Oliver B. Butalid

[27] In the Specialized Consultancy Course on Industry Clustering conducted 15-16 December 1997 by Dr. Ceferino L. Follosco, modes of clustering included material-based, labor-based, product-based, technology-based, and physical clustering.

p 1

- are existing in the area;
- are resource-based;
- will use available human resources in the area;
- are unique; or
- are non-existent but where trade and investment flows are expected to flow.

Table 3 shows the selection by region. Note that the regional selections are industries which are either major export industries in the specific regions, or are inputs to industries (export and domestic) within the region or in nearby regions.

b) ADJUSTMENTS TO THE LIST

This initial list was increased with the addition of the service industries, which, while not included in the computation for the national export targets, present future opportunities in terms of skilled employment, essential business support for export, and use of the improving infrastructure in telecommunications. These service industries, mostly based in the National Capital Region, include:

- Professional services
- Construction services
- Film animation
- Data conversion
- Software development
- Multimedia content development

c) MARKET COMPETITIVENESS

The International Trade Centre/UNCTAD/WTO annual report on country-specific export products (1993-1997) performs product mapping for the 20 major export

products (at the three-digit level of SITC Revision 3) per country. Figure 2 presents the ITC results for the top export products of the Philippines.

Table 3. Regional Priority Industries for Clustering

INDUSTRY	NCR	CAR	R1	R 2	R3	R 4	R5	R 6	R7	R 8	R9	R 10	R14	R 12	CARAGA	ARMM
Electronic Industry	✓					✓										
Garments and Textiles	✓					✓										
Automotive Parts & Components	✓					✓			✓							
Equipment Parts									✓							
Metals & Engineering												✓				
Secondary & Downstream Iron & Steel	✓															
Processed Food	✓					✓			✓			✓				
Mango													✓			
Durian													✓			
Fish Processing											✓					
Squid/Cuttlefish/Octopus																
Aquaculture/ Aquamarine												✓		✓		
Prawns											✓					
Seaweeds											✓					
Furniture	✓				✓				✓							
Wood		✓	✓	✓												
Bamboo		✓	✓													
Fruits								✓								✓
Mango											✓				✓	
Pineapple																
Banana																
Fruits & Vegetables												✓				
Footwear & Leathergoods	✓															
Intermediate & Finished Copper Prods	✓															
Fine Jewelry		✓			✓		✓		✓				✓			
Costume Jewelry									✓							
Decorative Crafts																
Basketworks		✓						✓								
Ceramics	✓						✓	✓	✓	✓						
Holiday Decors	✓	✓						✓								
Décor & Novelty items									✓							
Abaca							✓			✓						
Bamboo										✓						
Coconut										✓					✓	
Construction Services/Materials												✓		✓		
Cutflowers												✓				

INDUSTRY	NCR	CAR	R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10	R 11	R 12	CARAGA	ARMM
Marble					✓						✓					
Mining/Mineral Products															✓	
Oleochemicals												✓				
Plastics														✓		
Poultry												✓				
Pulp & Paper															✓	
Rubber											✓				✓	

The size of the bubbles on the chart indicates the export value of the product sector, with each product plotted according to the Philippine growth rate (horizontal axis) and the international demand growth (vertical axis). The horizontal line across the chart is the average growth rate of total world imports (10 percent in 1993-1997).

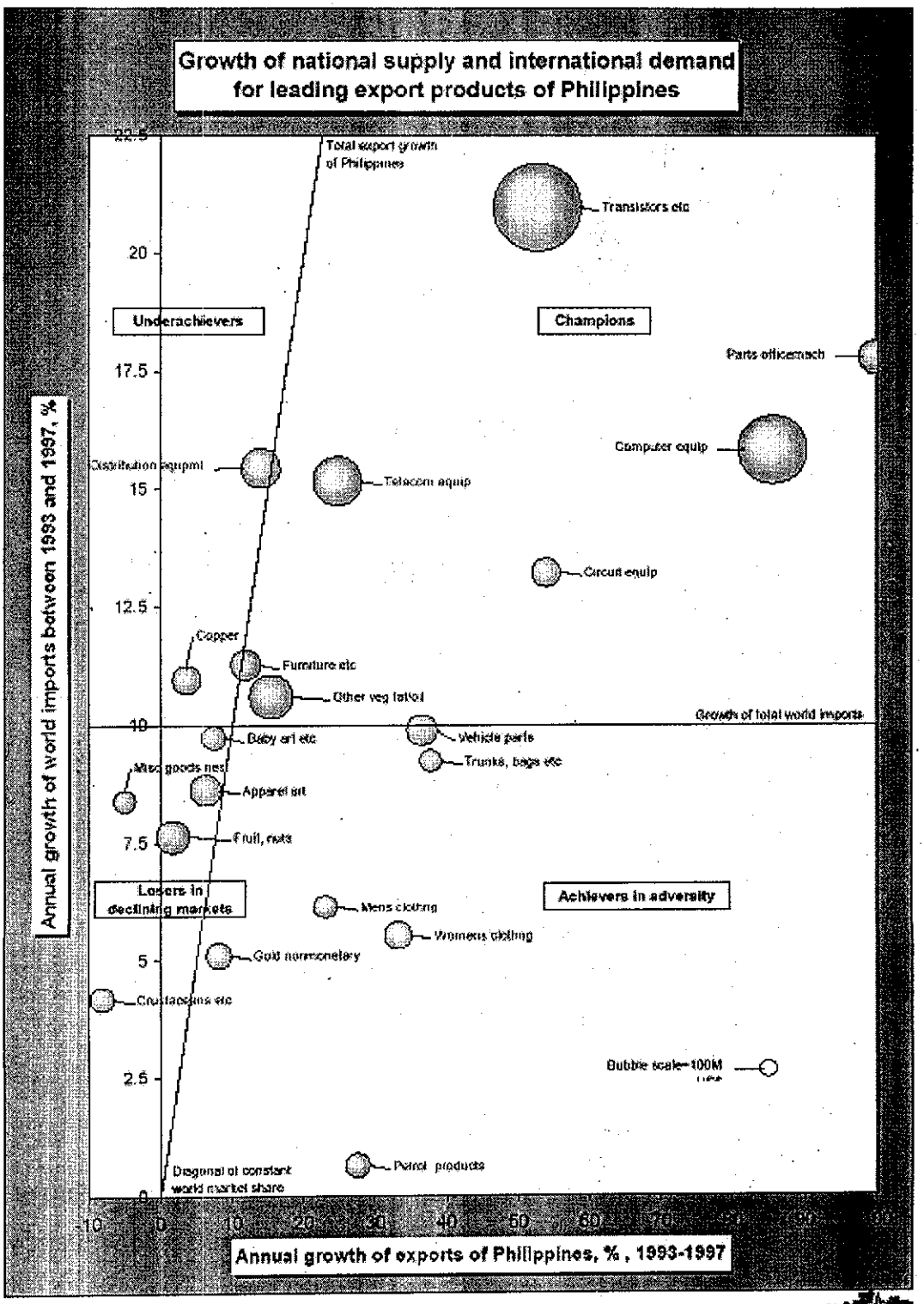
The diagonal line represents constant world market share. Products to the right of the line have increased their market share, those to the left have decreased their market share. Based on product share and market trend, each product can then be classified into one of four categories: Champions (increasing share in increasing market); Underachievers (decreasing share in increasing market); Losers (decreasing share in decreasing market) ; or Achievers in adversity (increasing share in declining market).

Champions are the most dynamic products-trade promotion efforts can concentrate on increasing supply capacity. Underachievers are laggards in a rising market, the obstacles to Philippine growth must be identified and corrected. Losers are in bleak markets detailed analysis of subsectors must be made to prepare the proper response, in terms of trade development. Note that any decision to abandon the product must be made with full knowledge of how such a strategy will affect areas like poverty alleviation and employment. Achievers in adversity need programs that will identify and strengthen the market niches in which performance is being recorded.

Figure 3 shows how the analysis can be applied to the next 20 Philippine export sectors.

Overall, the charts are only starting points. Since exporters sell products and not sectors, detailed breakdown and analysis by market will give more interesting information. Specific trade strategies can only be formulated when the product supply capacity and its contribution to other goals like poverty alleviation and employment are known.

Figure 2 Philippine Product Map 1993-1997



Note: the area of the circles corresponds to the export value of the product group for Philippines. See explanatory sheet for details.
Source: ITC calculations based on COMTRADE statistics.

While the total of all Philippine products garnered 0.5% of total world imports for 1997, specific products reflect more significant shares, led by "other vegetable fat/oil" at 8.6 % of the world market.

Based on the above ITC data, Figure 4 shows the cluster chart for the Philippines.

d) LINKAGES

The "ripple effect" of an industry refers to the impact on industry has on other industry sectors. This is especially true for basic materials, packaging, transport and logistics, professional services and information technology (software development and multimedia content development). The increasing acceptance of electronic commerce in international retail trade and banking points to the need for the providers of such services in the Philippines to be world class and competitive from the very beginning. The government is now seriously studying how electronic commerce can be instituted through the E-Commerce Promotion Council attached to the DTI. The electronic age and the rising appreciation for multimedia have also given exporters a new weapon in their arsenal of trade promotion tools. In fact, forward looking exporters are already putting up their own web pages to register their digital presence. The DTI has put up its own web through the PHILTINS and indeed has used interactive CD-ROMs to help promote the Philippines as an investment destination.

4. CLUSTER FEATURES

Modes of clustering shall include material-based, labor-based, product-based, technology-based, and physical clustering. Clustering, then, is a tool to analyze the performance or structure of industries. In

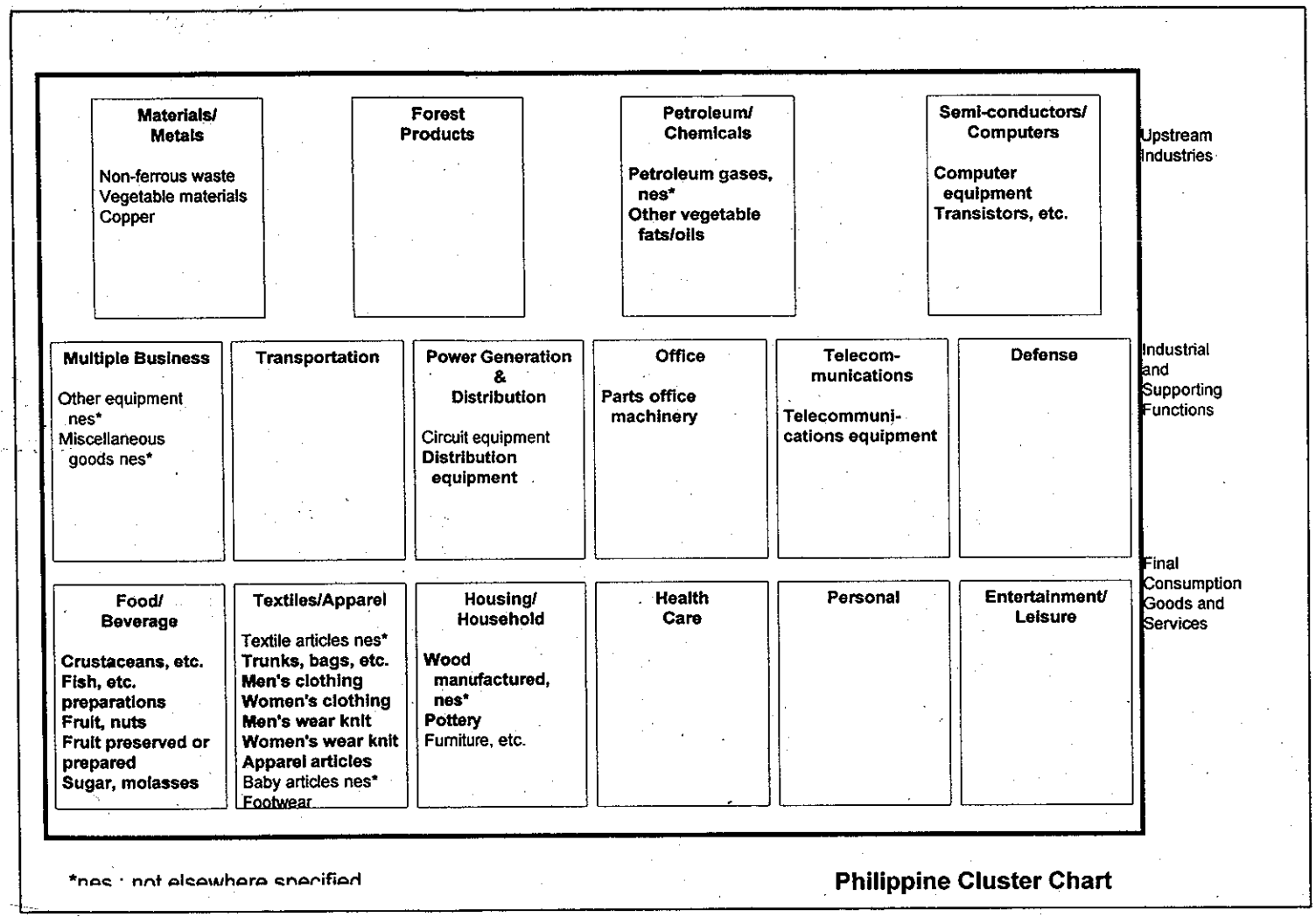


Figure 4 Cluster Chart Based on ITC Data

5. CRITERIA FOR SELECTING PILOT CLUSTERS

For purposes of strategizing, the clusters will be subsumed under four general groups. These are:

- Factor-Driven Industries;
- Investment-Driven Industries;
- Innovation-Driven Industries; and
- Trend/Opportunity-Driven Industries

The succeeding box show how the regional priority industries can be classified under the four strategizing groups.

Group 1

FACTOR-DRIVEN INDUSTRIES with a traditional resource base, high labor intensity with relatively semi-skilled to highly skilled workers, existing technology base, and stable or growing markets.

By region, these are:

NCR : processed foods, decorative crafts of ceramics & holiday decors, garments;
CAR : furniture of wood and bamboo, decorative crafts of basketworks & holiday decors;
Region 1: furniture of wood & bamboo;
Region 2 : furniture of wood;
Region 3 : furniture, fine jewelry, marble;
Region 4 : processed food, garments;
Region 5 : abaca, ceramics, fine jewelry;
Region 6 : fruits, decorative crafts of ceramics, basketware & holiday décor;
Region 7 : furniture, processed food, decorative crafts of ceramic, décor & novelty items, fine jewelry;
Region 8 : coconut, abaca, bamboo, ceramics;
Region 9 : fish processing of squid, cuttlefish & octopus, seaweeds, aquaculture of prawns, marble, rubber & mango;
Region 10 : processed food, fruits & vegetables, cutflowers, aquamarine, construction & construction materials, poultry;
Region 11: coconut, processed mango & durian, fine jewelry;
Region 12 : aquaculture, construction & construction materials;
CARAGA : coconut, mango, pulp and paper, mining & mineral products, natural rubber; and
ARMM : tropical fruits.

Group 2

INVESTMENT-DRIVEN INDUSTRIES utilizing second-wave technologies, medium to high-labor intensity with relatively semi-skilled to skilled workers, and stable or growing markets.

By Region, these are:

NCR : electronics industry, automotive parts & components, footwear;

Region 4 : electronics, automotive parts;

Region 7 : automotive parts, equipment parts;

Region 10 : oleochemicals, metals & engineering;

CARAGA : mining & mineral products

Group 3

INNOVATION-DRIVEN INDUSTRIES utilize knowledge-intensive technologies, high capital intensity, highly skilled labor, and growing to new/emerging markets.

These are services based mainly in the NCR, e.g., professional services, film animation and information technology services (data conversion contracts, software development, multimedia content development).

Group 4

A fourth group is added to cover the so-called **"TREND/OPPORTUNITY-DRIVEN INDUSTRIES"** which emerge following a trend and for which tremendous world demand is present. Most firms shift to the production of such products to take advantage of the huge and growing demand. An example of this is the "nata-de-coco" industry of the eighties.

Industries that can be considered for this group are the hardware/software solutions to the Year 2000 (Y2k) problem of older computer systems, the natural line of the costume jewelry industry in Cebu (as the subcontracting system and the component supplier system can easily gear up to mass production once a design becomes popular and in demand), and events driven opportunities (e.g., memorabilia for the Philippine Centennial celebration, memorabilia for the millennium change).

As was discussed in the PEDP Framework, the industry and cluster selection is based on the relative stages of development of the industry and its requirements for development. Individual products can then emerge or disappear from each cluster, but the programs will ensure the development and sustainability of the competitiveness in each sector.

C. PILOT CLUSTERS

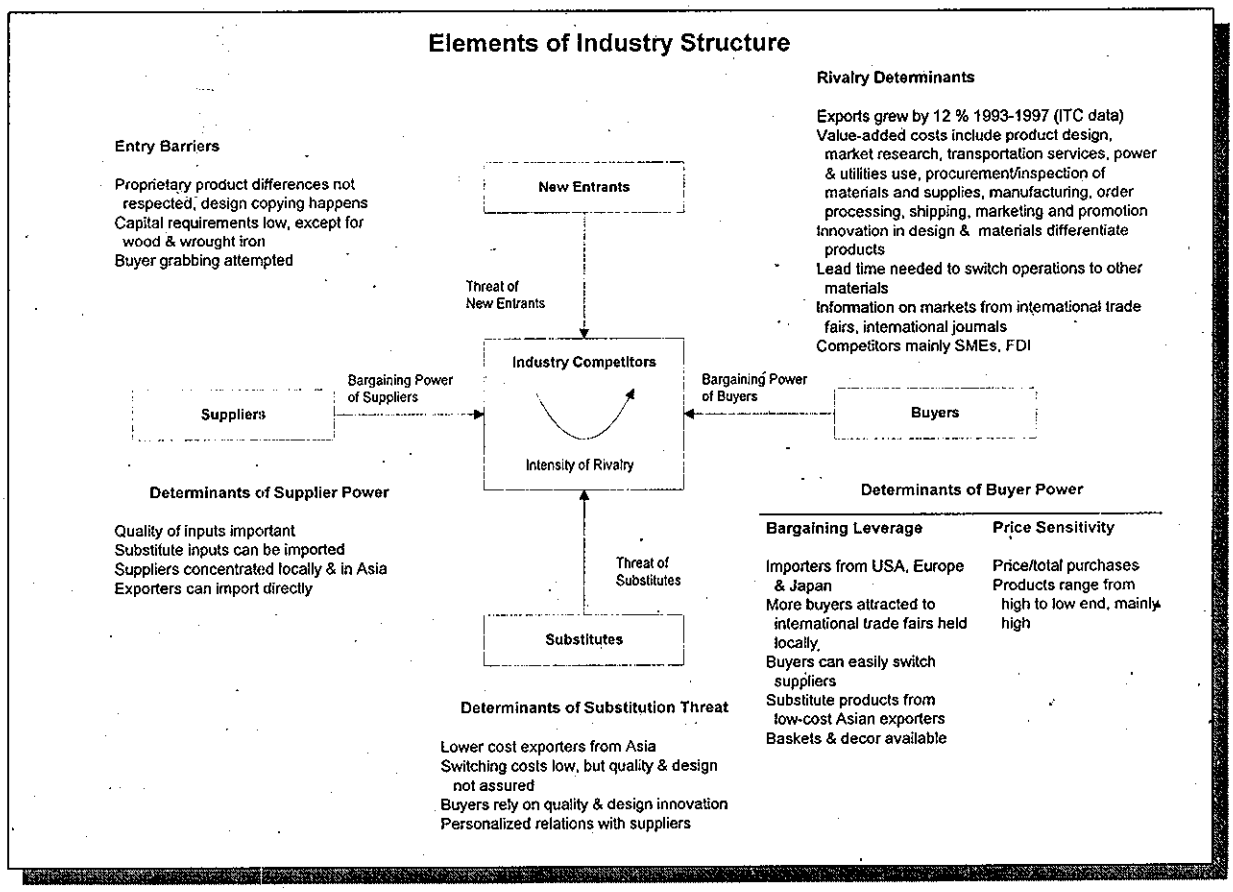
The following pilot clusters are illustrated:

1. HOME FURNISHINGS CLUSTER IN CEBU

The cluster subsumes the furniture and decorative crafts sub sectors. Furniture is one of the few products with a positive growth rate in 1998, and Cebu accounts for 49% of total Philippine furniture exports from 1993 to 1997 (46% in 1993; 36% in 1994; 41% in1995; 58% in 1996; and 61% in 1997). Decorative crafts will complement furniture, and expand the choice of goods available to buyers of Cebu-based exporters. The subsectors share the same color and fashion in decorating trends, and set off each other admirably during trade fairs and promotional shoots.

The cluster is established and expanding. As such, cluster development programs focus on marketing support, assuring the availability of qualified and skilled workers, assuring supply of raw materials, accessing trends in product and market development, and strengthening the local support institutions. Local expansion of the industry opens chances for upholstery companies (using materials specified or supplied by the importers). Long-term sustainable development of the industry needs the successful reforestation of forests or the development of industrial tree plantations for rattan, wood and the home décor needs (baskets, etc.). The diagram below gives a short description of the cluster in Cebu.

Figure 5. Home Furnishings Industry Structure



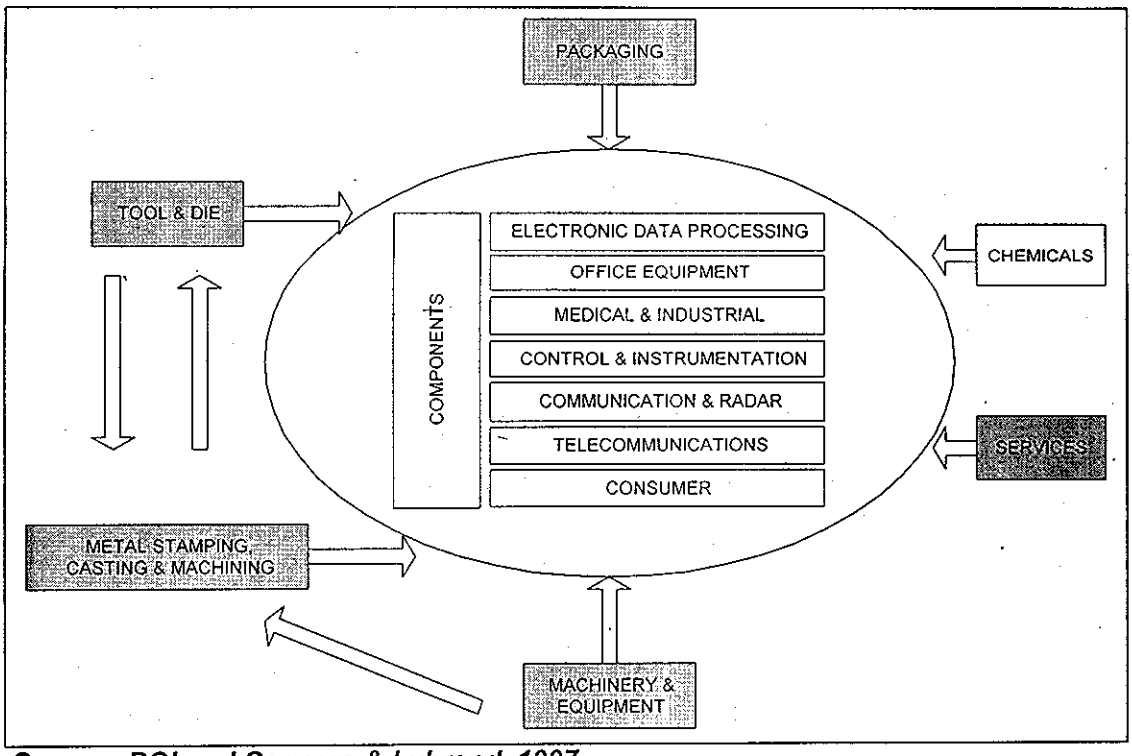
2. ELECTRONICS CLUSTER IN CALABARZON

The fact alone that electronics exports accounted for 61% of Philippine exports in 1998 is enough to justify such selection. Such dependence also points to a need to maximize its linkages to the Philippine economy, such that value added will come not just from labor and utilities but also from raw materials, packaging, design and engineering, etc. To reach the short-term target of US$50 billion in the year 2001, dependence on the electronics industry will have to remain, as no other industry can be identified to take its place within the next two years.

Cluster programs have been clearly defined by the private sector association, assuring that all actors identified in that roadmap are aware of their respective roles and will perform them well. Priority has been given to the development of

support industries, so that the electronics exporters do not remain in industrial enclaves, but rather become more integrated into the Philippine industrial sector. Figure 6 shows the shape of the Philippine electronics industry, as described by the Roadmap for Electronics & Allied Industries prepared by Coopers & Lybrand. The gray areas are what the present study team feels are missing from the local industry's support to the sector.

Figure 6 The Electronics Sector



Source: ***BOI and Coopers & Lybrand, 1997***

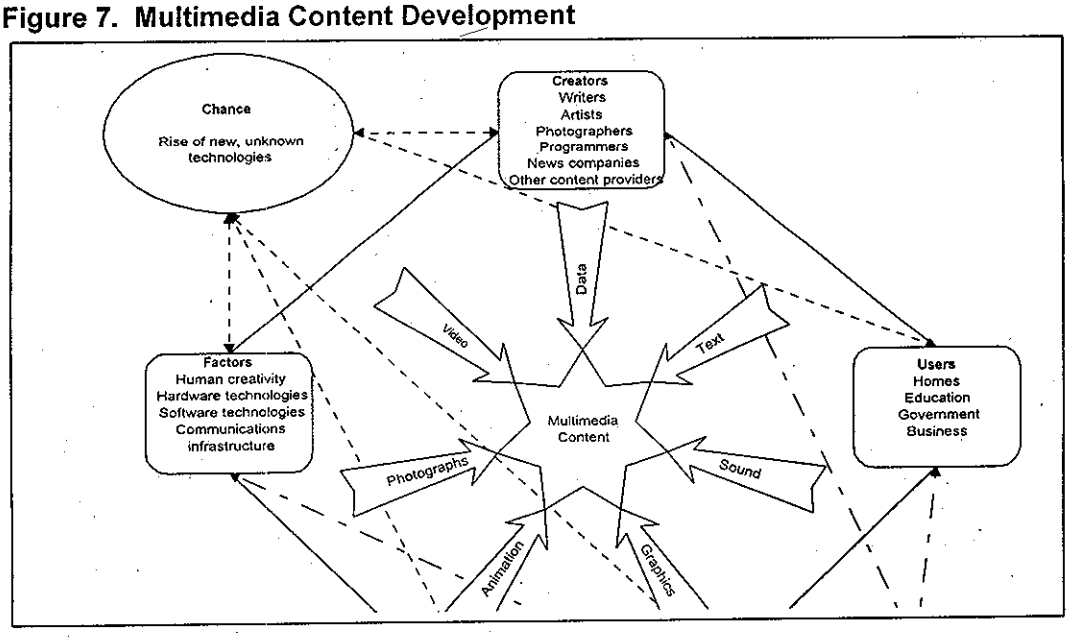
3. MULTIMEDIA CONTENT DEVELOPMENT CLUSTER IN THE NATIONAL CAPITAL REGION

Filipinos are creative, with distinctly strong links with western cultures that could be an advantage considering the target markets. Existing enterprises have strong domestic capabilities in film, advertising, print and broadcast publications.

Information from all sources need to be processed and presented in new forms. Europe has estimated that the market of multimedia reached 15 billion euro[28], with a large potential for expansion. Furthermore, with local moves and initiatives toward e-commerce, distance education and corporate presence in the Internet and the World Wide Web, the cluster shall be defined and made capable of delivering competitive service to both domestic and international buyers. Multimedia content is defined as combinations of data, text, sound, graphics, animation, still and moving images stored in digital form and interactively accessible. The sector was selected as support to both local and export businesses; and on the expectation that real opportunities for the industry exist.

The industry has many players, but a lot of work needs to be done to establish them as a cluster. Cluster development programs focus on defining the cluster, assessing capacities, insuring availability of skilled staff, accessing technology (hardware and software) and building awareness of capability in the domestic and international market.

Figure 7. Multimedia Content Development



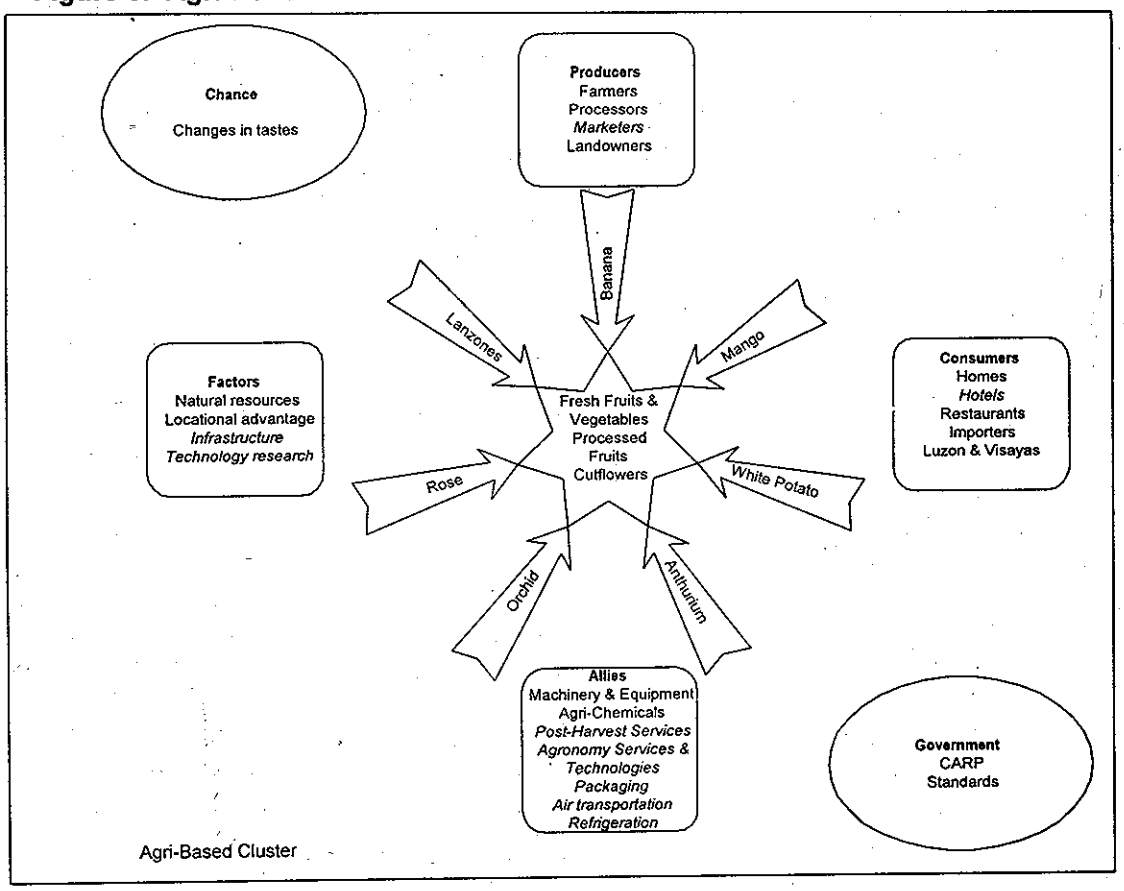
[28] Dr. Paul Rubig, Equal Opportunities for All in the Information Society – an Asset for Europe Beyond the Millenium, speech at Info2000 Conference, 29 November 1998, Vienna

4. AGRI-BASED CLUSTER IN NORTHERN MINDANAO

Northern Mindanao boasts of vast agricultural lands, good road network, typhoon, free zone, access to the southern Philippine trading center that is Cebu, and regular shipments to Taiwan. Product diversification from pineapples produced by Del Monte Philippines is a priority, with many producers turning to cutflower production when opportunities for this industry were revealed.

Information on market demand; access to culturing, post-harvest, and shipping/handling technologies, as well as market linkages, are crucial for this sector.

Figure 8. Agri-Based Cluster



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The development plans for each of the four clusters above are presented as Annex C, Volume 2 of the Plan. As these four pilot clusters should serve as models for the other industries, EDC/DTI will build on the expertise of those already trained to do such among the regional staff of the DTI. The other cluster development plans can be finished within 1999, based on the initial list given in Table 3 and the initiatives already undertaken by the regional offices.

D. GENERIC CLUSTER PROGRAMS

The major strategies for each of the four cluster groups are:

- Strengthening existing firms (those who have been identified as being willing to change and recreate themselves in the name of competition). This involves the provision of expert advice and regular industrial extension services, so that firms can apply methodologies like value chain analysis to maximize their margins.
- Stimulating the emergence of new firms (starting with the design of market-driven supplier or subcontractor development programs).
- Attracting foreign or domestic investors who are able to upgrade local suppliers and subcontractors or who have sophisticated buyers or who can become industry leaders.

In all these, reliable and timely information on each cluster is a must. Information shall be regularly collected, collated and disseminated to interested parties (government and private sector) to enable them to make knowledgeable decisions regarding their own responsibilities to cluster development.

The National Communication Plan for Export Promotion will be the main vehicle for the dissemination of information specific to targeted investments promotion, and to both broad and market-specific, product-specific product promotion.

1. CLUSTER-SPECIFIC SUPPORT PROGRAMS

The following programs shall be implemented by local business associations, government agencies, or any private entity. Whoever implements any program will have to be sure of the economic viability of the activity, or make sure that cost recovery is achieved. Note that implementation of some of these programs have already been started, under the previous PEDP (production centers) and are now ongoing Productivity Enhancement Programs are also being implemented.

a) INFORMATION SERVICES

Ideally, free flow of information will naturally allow buyers and suppliers, investors and partners, etc. to meet. However, in reality, mechanisms will have to be put in place to assist this information flow. Information systems must be able to take advantage of the "network revolution" to improve access to and dissemination of information. The information service can function as the central information repository of the particular industry or cluster, as a one-stop center for the information needs of different publics.

b) MATCHING PROGRAMS

Information services can be expanded to include a central database of contractors and their needs and of subcontractors and their capabilities, which interested parties can access. The matching program can be started off with a so-called "reverse trade fair" where the buyer-manufacturers display the parts or components for which they need suppliers. This was previously done by the DTI Cebu Provincial office for metal parts and components needed by the Mactan Export Processing Zone firms and other foreign investors in the area. The Semiconductor and Electronics Industries of the Philippines, Inc. (SEIPI) plans to conduct this type of fair later in 1999. Another program can be the matching up of local companies looking for joint venture partners or additional investments with potential partners, both foreign and local.

c) Common Procurement System

A bulk buying system for office supplies or common raw materials can be operated by the industry association or another private firm in order to lower the cost of inventory for cluster members. Use of common bonded trading warehouses can be explored for imported materials.

d) Common Financing Facilities

An example of this is the credit cooperative, where the members contribute their own money to raise the seed capital for a lending program. Business associations can also operate as lending investors to their members. Their advantage is familiarity with their own members. There is also the possibility of initiating linkages with venture capital operations, or conducting information drives regarding use of the stock exchange as a source of additional funds.

e) Common Manufacturing/Service facilities

This is applicable to specialized, expensive or large-scale equipment which may not be fully utilized by only one firm. For a fee, interested firms can use the equipment in their own premises or in an accessible (preferably central) location. Proper scheduling and maintenance has to be done to maximize use of such equipment.

f) Common Quality Control Systems

It is expected that ISO 9000 certification will be increasingly in demand, and that the system, which is at present only voluntary, may become obligatory in about five years. Companies should now prepare for such an eventuality. For instance, the business association can start assisting companies to install the quality control and assurance systems that would qualify them for such certification.

g) Productivity Improvement Measures

Initiatives for productivity improvement have started, programs like quality circles and the DOLE-WISE (Work Improvement for Small Enterprises) are now in place. These programs are already focused on the target industries of the regions, but they must be sustained and upgraded. Best practices of other companies, both international and local, may be compiled and disseminated to interested companies. These practices can be applied by firms in similar or dissimilar businesses, as there are common business processes relevant to all organizations.

h) Technology Procurement and Adoption Programs

These programs lessen the costs of technology assessment, acquisition and adjustment to a group of firms, especially SMEs. Training of staff in the use of technologies can be coordinated.

i) Common Training Facilities

Common training facilities can also provide specialized training programs specified by firms for their staff and personnel. These trainings can be on production skills, use of computers or Internet research.

j) Joint Promotion Strategy

The best example of this is the annual Cebu International Furniture Fair handled by the Cebu Furniture Industries Federation (CFIF). Another is the way that the WOODTAG[29] participates in local and international trade fairs – they exhibit as a group, with booths having a coordinated look, despite differences in their product lines.

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[29] Wood Gifts and Accessories Manufacturers Association, Inc.

k) Joint Marketing Arrangement

This is the type of program implemented by the Pampanga-based furniture group, where an order that may be too large by one producer is farmed out to firms capable of meeting the quality, costs and delivery commitment for the order. Other industries which may benefit from such an arrangement are the processed food producers.

2. FIRM-LEVEL SUPPORT PROGRAMS

a) Industrial Extension Services

Targeted initially at the SMEs, industrial extension services will allow the firms access to advisory and consultancy services to help them improve their operations. Services can cover inventory management, production planning, work improvement, productivity improvement, product development and design, preparation of business and marketing plans, trade fair exhibit set-up. Universities, government institutions, and non government institutions may be the source of these services. The service providers must be prepared and their skills and knowledge base constantly updated to render effective services.

b) Technology Extension Services

The objective of these services is to upgrade the technological capability of clients, especially SMEs. The service will also guide the DOST and other research institutions on which areas are most needed by Philippine business. It will assist these institutions in marketing and commercializing technologies. Technology extension can encompass such areas as technology adaptation, compliance with standards and environmental laws and regulations; management of technology, and technology search and evaluation, among others. To deliver such a service effectively there shall be constant training and exposure of extension workers to new and improved technologies, contact with successful

commercial operations, and effective coordination among businesses, research and development institutes and extension workers.

PART 5: SUPPORT TO THE NATIONAL EXPORT DEVELOPMENT PROGRAM

A successful export development program requires deliberate action by both the Government and the private sector to stimulate and support firms in their endeavor to create comparative advantages and become globally competitive.

To guide export development better to overcome the short-term challenges and provide a longer-term perspective to the effort, the roles of the various institutions involved in export development are presented in this section. The necessary support programs to complement the overall export thrust are also discussed.

A. INSTITUTIONAL COMMITMENTS

1. THE ROLE OF THE EXPORT DEVELOPMENT COUNCIL

Even under a free market regime, export development remains partly an outcome of effective governance. Continuing developments in the world economy, however, draw attention to the changing nature of Government's role where business is concerned. As opposed to the interventionism of the past, the governance of development today is based on a participatory model where the private sector interacts with Government in defining policies, strategies and programs.

The Export Development Council (EDC) provides the forum for such participatory governance. Tasked with overseeing the country's export development effort, the EDC's role is both as a

ROLES OF THE EXPORT DEVELOPMENT COUNCIL

- Oversee the implementation of the PEDP
- Adopt and advocate the policy agenda of the Plan
- Coordinate the involvement of relevant government agencies in the export development program

coordinator and an advocate as it undertakes the following functions.

a) OVERSEE THE IMPLEMENTATION OF THE PEDP

The EDC approves the various components of the PEDP and ensures their implementation by the different agencies, institutions and organizations involved. In performing this function, the EDC will institute measures and standard procedures to periodically monitor and assess the Plan's implementation and ensure its continued relevance and effectiveness.

For this purpose, the EDC will reconstitute the PEDP Management Committee, which will perform the following tasks:

- Disseminate initial (and provide continuing) information on the PEDP and its programs to the relevant public and private sector groups all over the country — essentially, those who will be responsible for or who will be directly affected by the Plan's implementation.
- Set up a feedback mechanism to assess the effectiveness and continued relevance of the programs prescribed in the Plan.
- Periodically review and assess the country's export performance and prospects and identify the main bottlenecks and problem areas affecting export growth.
- Recommend specific product market strategies and appropriate responses for adoption by the concerned implementing agencies of DTI.
- Raise relevant issues and recommend initiatives to be adopted by the EDC and which will form the agenda of the EDC's Networking Committees.
- Recommend and justify necessary adjustments to export performance targets.

The details on the PEDP Management Committee and how it will operate will be discussed in Part 7 of this Plan under the section on "Monitoring Systems and Continuity Provisions."

b) ADOPT AND ADVOCATE THE POLICY AGENDA OF THE PLAN

A principal role of the EDC is to formulate and recommend policy reforms to support export development in the country. The policy agenda presented in this Plan will be adopted by the EDC. This agenda will be the basis for policy recommendations that the EDC will advocate and pursue.

Policy reforms and recommendations will be addressed at the Networking Committees (NCs) of the EDC. Each NC is issue-focused. It is composed of a chairman coming from the private sector, an expert on the issue, business leaders and representatives from relevant government agencies. Existing committees are as follows: Foreign Exchange, Financing Costs, Trade Policies and Procedures Simplification, Agricultural Policies, Material Supply Chain, Productivity, and Local Government Units.

The output of each NC will be concrete recommendations on policy initiatives (executive or legislative action) or implementation guidelines on existing policies where advocates, sponsors and implementors have reached some level of consensus.

c) COORDINATE THE INVOLVEMENT OF RELEVANT GOVERNMENT AGENCIES IN THE EXPORT DEVELOPMENT PROGRAM

The development and promotion of exports is principally a function of the DTI. The other government departments and agencies which play critical roles in export development, whether or not members of the EDC, focus on different issues to fulfill their respective mandates. Trade promotion is a minor concern, if at all. But since export development requires deliberate participation from these

agencies, the EDC coordinates their involvement and ensures their consistent application of these policies that support export development.

The EDC is given the responsibility to: (1) mandate specific departments and agencies to attend to identified bottlenecks and problems and report the progress of actions taken regarding these; and (2) impose sanctions on any government agency, officer or employee thereof, or private sector entity that impedes efficient exportation of Philippine goods.[30] While it has not done so in the past, it shall now assert this prerogative under the law. Implementing rules and regulations to define this mandate must be immediately formulated.

To be effective in its coordinative role, EDC will practice top-level intra-government advocacy to ensure that:

- Each agency is clear on its role in the export development process and cognizant of its responsibility to communicate such role and commitment and provide specific policy and implementing guidelines to its local (provincial) offices. Of particular importance is the role of the local offices in the effective implementation of the industry cluster approach to industry development, which is a key strategy adopted in this Plan.

- Each agency will continually evaluate the impact of its actions (or in some cases, inaction) on exports, and undertake initiatives to reconcile its principal mandate with the export development thrust.

The various government agencies, their respective roles and the support programs they can undertake in the export development process are discussed below. Common to all of these agencies are the need to: provide easy access to timely and relevant information; adhere to good governance and anti-graft initiatives; and simplify regulatory requirements and procedures.

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[30] Art. 2, Sec. 7(d) and 7(f) of the Export Development Act of 1994 (R.A. 7844)

- *DEPARTMENT OF FOREIGN AFFAIRS*

The Department of Foreign Affairs (DFA) and its embassies around the world are critical in the economic diplomacy thrust. They shall be valuable generators of information given their larger and deeper perspectives on political and economic matters in their respective posts. In an era of non-tariff barriers, the DFA shall provide relevant support in negotiating for better market access, filling information gaps on technical and other requirements of overseas markets to promote compliance by exporters, and in securing critical bilateral cooperation agreements to provide foreign technical assistance to Philippine exporters. The officers of the diplomatic corps and the Foreign Trade Service Corps (FTSC) are important allies of the DTI in advocacy for Philippine trade, in negotiating economic agreements and market access and in pursuing market opportunities. In countries where the DTI has no commercial representation, the embassy officials shall represent the interests of Philippine business.

Given this interdependence, the DFA and DTI shall continue to pursue programs of cross-training, information exchange (particularly through electronic media) and immersion to instill the perspectives of both trade promotion and diplomacy among their respective foreign (trade) service officers. Programs shall be developed and implemented jointly by the Foreign Service Institute (FSI) and the Philippine Trade Training Center (PTTC), with participation from relevant private sector organizations.

Philippine embassies, which host foreign government officials and industry leaders on various occasions can also provide important venues for promoting Philippine products. Events organized by the Philippine diplomatic mission should always be viewed as opportunities to showcase not just Philippine culture but products and services as well. Joint promotion programs along these lines shall be pursued by the DFA, the DTI and the private sector.

- *DEPARTMENT OF FINANCE*

Of fundamental importance to the export development effort is the Department of Finance's (DOF's) role in promoting, through prudent governance, a macroeconomic financial environment, that allows exporters access to competitively priced financing. The DOF can also support the expansion of the export base through the promotion of microfinance and of savings mobilization programs, and by encouraging government financial institutions (GFIs) to develop supervised credit programs for SMEs. The DOF can also secure foreign development funds to be channeled to more innovative financing facilities for exporters.

Beyond this, partnership with the DOF is also critical in the implementation of incentives granted to exporters under the EDA and other incentive policy initiatives. The DOF can effectively and promptly reconcile prudent financial management and its safeguarding of fiscal revenues with the need to translate incentives already granted into actual benefits to exporters.

One important aspect of this is the need to review the operations of the One Stop Inter-Agency Tax Credit and Duty-Drawback Center. A review of the procedures and documentary requirements imposed by the Center may be necessary to determine whether these are still consistent with the fast-track, streamlined and simplified nature of one-stop centers. The review agenda should cover the following: simplification of the use of tax credit certificates; the need to have clear-cut policies on the standardization of conversion formulas (whether as an option or a rule); proposals for green lanes should standard formulas of conversion be the option; possible automation of processes; and the need for personnel training to ensure consistent and competent application of rules. Transparency and the efficient dissemination of rules and procedures must also be ensured.

The mandate of the DOF over the Bureau of Customs (BOC), strengthened by EO 47,[31] reinforces the critical role it plays in export development. The political will necessary to undertake sweeping reforms in the BOC should be provided by the DOF and the BOC leadership. There is need to ensure that the revenue-generating mandate is not impaired by graft and corruption. Neither should it penalize the export sector with bureaucratic procedures and other added costs. The reform agenda should cover the following:

- Further simplification of procedures for both export and import for re-export transactions;
- Transparency in the conduct of business by the BOC and in the implementation of prescribed rules and regulations to prevent abuses of discretion;
- Codification of Customs rules and regulations, circulars, memoranda, orders, and similar issuances;
- The continuation of the process of automation, computerization, and over-all modernization of customs administration;
- Promotion of good governance and anti-graft practices; and
- Commitment to nonreversal of export-supportive policies.

The Customs Commissioner and other officials of the Bureau should reactivate the Customs-Industry Consultative Council and hold regular dialogues with industry to give the BOC a better appreciation of business concerns and the private sector a better understanding of the rules and procedures necessary to fulfill the BOC's mandate.

Over the medium term, a fundamental reorientation of the BOC is necessary to respond to declining tariffs (which diminish its revenue collection work), and the shift to the transactions value for import valuation (which lessens its monitoring function). Without abdicating or minimizing its revenue collection mandate, and

[31] Executive Order No. 47, Broadening the Powers of the Secretary of Finance over the Bureau of

with higher vigilance against smuggling and other such activities, the BOC should place equal emphasis on a service orientation and the facilitation of the movement of goods in their jurisdiction, to cut costs for the businessmen. Improving, streamlining and modernizing BOC services in the medium term can put Philippine ports in a competitive position to serve as regional hubs for trade-related services. This can make up for revenue losses from declining tariffs.

- *DEPARTMENT OF AGRICULTURE*

The partnership with the Department of Agriculture (DA) is crucial in the promotion and creation of a favorable environment — through effective policies, programs, and their implementation — that will develop the agricultural sector as a reliable supplier of inputs to Philippine exports at competitive quantities, quality and prices. Foremost in the agriculture agenda is the immediate and aggressive implementation of the Agriculture and Fisheries Modernization Act.

Specific programs should address the need to create a productive and efficient agricultural sector. One way to improve agricultural productivity is through research and extension programs whose primary objective is to help farmers produce more by teaching them about improved farming practices, new techniques, and more productive technologies and processes.

A comprehensive extension system goes further to: provide assistance in marketing and in supplying farm inputs; promote the adoption of best industry practices; enhance institutional support in the form of product development and standardization; develop and upgrade an information generation and dissemination system; help farmers form cooperative organizations; and communicate the technical problems and needs of farmers to agricultural research organizations.

Customs, 08 December 1998

The production side agenda should address the need for a production information base identifying production areas, level of productivity and new plantations. It should also promote continuing research on and maintenance of disease control systems and quarantine practices. Program production of seasonal fruits must be undertaken to maximize land use and ensure year-round business for farmers. Agricultural production should also be diversified to include high-value products with export potential. A concrete example is the *lanzones*, which is grown in abundance in the Philippines and in only a few other countries. The fruit is currently being developed as a potential dollar earner for Northern Mindanao, primarily Camiguin and Bukidnon. To enhance and improve indigenous produce and introduce better varieties of crops, the importation of seeds, new breeds, planting materials and other farm inputs should be facilitated.

The market side agenda should provide for the necessary infrastructure and program support to link up agriculture with industry. In particular the processors and exporters which will be the main market for agricultural products, and with which possibilities for contract growing can be explored, should be developed. Continuing market research and market information monitoring networks should be undertaken in concert with the DTI and the processors and exporters.

However, it is one thing for these programs to be available and quite another for farmers to take advantage of and benefit from them. The former requires deliberate action from the different players involved, led by the DA. The latter requires a level of education sufficient to make farmers understand the proposed methods and programs fully. At the very least, there should be a basic level of literacy.

To coordinate these programs better and to institutionalize the support systems, the creation of agricultural development clusters complementing industry development clusters shall be supported. The cluster approach can be piloted through the identification of individual model farms as zones of high productivity and diversification. The organization of cooperatives and farmer organizations

should be encouraged by making these the focus of extension and other programs.

DA and DTI shall also collaborate in an international promotion program to build up and project the image of Philippine food and agricultural products. Fundamental to this is the DA's role in helping agricultural producers comply with phytosanitary regulations and health standards in target markets. The DA, DFA and DTI shall coordinate to improve access to markets by ensuring that the standards are made more reasonable and fair, and less onerous for Philippine exporters.

- *DEPARTMENT OF LABOR AND EMPLOYMENT*

The success of the export development thrust and the industry clustering approach is highly dependent on harmonious industrial relations and a productive and competitive human resource. Adapting to the changing global environment requires a new mind-set on the part of management, workers, employer organizations and unions towards a greater openness to partnership and operational flexibility. Without such flexibility and a shared vision of the future between management and workers at the level of individual enterprises, significant employment opportunities will be lost.

Beyond addressing the proposed amendments to the Labor Code, the Department of Labor and Employment (DOLE) can take the lead in promoting practices and programs that will bring together labor and management. This would help ensure the survival and renewed competitiveness of industry. Fundamental to this role is a reorientation of the DOLE towards education and training for regulation and arbitration. Just as important is an image development program that will emphasize its objectivity rather than a labor bias.

A major setback to achieving labor-management cooperation is the adversarial nature of and excessive legalism involved in settling industrial disputes. To

complement its policies promoting collective bargaining and voluntary modes to dispute settlement, DOLE should undertake programs aimed at changing labor-management attitudes from confrontation and distrust to compromise and conciliation. Fundamental to this is a massive education and value promotion campaign focusing on the new realities of competition in the global environment. DOLE should encourage ways to achieve mutual gains and sustain industry within such environment. It could reinforce this new mind-set by setting as models companies and industries which have succeeded in transforming their industrial relations.

DOLE officials who come into contact with labor and management or those directly consulted by parties to labor cases can take the opportunity to orient the parties on sound labor-management practices and how disputes can be minimized. DOLE could institutionalize this role of a labor educator among its officers and employees.

Other means to promote such practices can be developed and adopted by DOLE in close coordination with industry.

Deliberate responses to raise labor productivity and competitiveness are necessary given the heightened competition facing Philippine industries today. On one hand, Philippine industries lose out to low labor cost producers. On the other hand, Philippine firms also have to contend with foreign competitors which have access to technology and skills to upgrade and enhance labor's contribution to production. In either case, the competitors are able to bring their costs down and raise their level of productivity.

Policy adjustments to support productivity initiatives should be addressed (including pegging wages and incentive schemes to productivity). The amendatroy bill to RA 6971 which institutionalizes productivity-based wages shall be pursued. Further, programs to enhance the comparative advantage of Philippine labor shall be explored. Upgrading of technical skills and continuing

education programs should be developed in concert with industry in order to develop practical approaches to filling the productivity gaps.

The changing nature of global trade has also brought social issues to the fore. Greater social consciousness and activism, particularly among consumers and governments in developed countries, has resulted in the inclusion of social concerns such as human (workers') rights violations, child labor and sweat shop labor conditions in trade negotiations, market access concessions, and even consumers' buying decisions. While these are concerns of Government as a whole, DOLE could also take initiatives to curb such practices in local industries not only because of their implications to trade but more importantly, because they are contrary to the country's own social agenda.

- *DEPARTMENT OF SCIENCE AND TECHNOLOGY*

The Philippines' competitiveness needs to shift its manufacturing upstream to higher value-added categories for world markets because its competitiveness in goods and services produced by unskilled and low-skilled labor has been eroded. To upgrade quality standards and product ranges, and this remain competitive, firms must improve technological performance and management of technology. To upgrade quality standards and product ranges and thus to remain competitive. Much greater effort and expertise must go to developing or acquiring new ideas and developing and launching new products. This will require skills, facilities, technological services and financial resources.

The partnership with the Department of Science and Technology (DOST) is critical in upgrading the technological capability of Philippine business to compete globally. The focus of policy should not be just on liberalizing technology transfer legislation relating to contractual aspects of transfers but more importantly, on improving industry's capacity to absorb and use new technologies. DOST programs must be developed in close coordination with the private sector.

The DOST is expected to provide for the effective transfer, assimilation, and commercialization of technologies needed by local industries. Individual firms groups of firms or industry associations should define their research and technology needs and communicate them to the academic sector and the DOST at different levels. While a strong orientation towards applied research is essential at this stage of industry's development, emphasis must also be given to basic research and its contribution to industry development. This should be reflected in a balanced allocation of available science and technology resources by both industry and Government.

Fundamental to upgrading technological capability is a strong national R&D and technology program supported by a higher education system that can produce well-trained and qualified scientists and technicians.

Science programs should already be instituted at the primary level, supported by an emphasis on basic computer training. At the secondary level, graduates should have achieved at least a basic understanding of science and technology through a combination of teaching, curriculum development, external contacts and work experience. Scientific and technological education at the tertiary level should maintain and improve standards and link curriculum development, course designs and research endeavors with the identified needs of business.

Government programs to upgrade the overall business capability and performance of firms must encompass a strong R&D element. Particular emphasis should be given to firms which have no R&D capability at present. The aim should be to encourage more firms to develop permanent R&D capability as part of the general upgrading of competitiveness, and to support R&D designed specifically as part of a business plan, to bring about a significant change in a company's market position.

Government shall continue to strengthen support for research in tertiary education, including basic research. Likewise, it shall help the commercialization

of research results, in order to develop and maintain a hub of research capability and expertise which industry can draw from. This can be supported by developing capabilities to access on-line sources and the internet for technology-related information.

Responding to the needs of industry will further require having a national innovation agenda to attract foreign direct investments. FDIs are important conduits for technology transfer and are crucial in supporting technology-based growth and industrialization. The capability to modify imported technologies is fundamental in the creation of new bases of comparative advantage. Increased industrial R&D and technological innovation may not be critical in the production and export of low value-added, low-technology goods, but it becomes vital as the industrial structure becomes more complex and production shifts to higher value-added goods. Scientists and technicians play a major role in undertaking R&D and adapting imported technologies.

As a basic principle, a national innovation agenda shall work towards the creation of an overall environment conducive to the transfer of technology. This can be achieved by building the institutional bases to develop skills, rewarding innovation and enterprise, and promoting a dependable system for intellectual property rights (IPR) protection so that technology can be diffused legitimately. As the country's pursuit of technology advances, the promotion of strategic linkages among various partners and opportunities for technology diffusion should be promoted. These include partnerships among foreign affiliates, local firms, laboratories, research centers and other R&D institutions, universities and Government. Diffusion and skills transfer can also be achieved through workforce mobility, subcontracting and consultancy services. Science and technology parks, which are a good strategy to pool and concentrate scarce science and technology, financial and institutional resources in specific sectors, will become important support institutions to industry clusters.

- *DEPARTMENT OF EDUCATION, CULTURE AND SPORTS*

The development of the individual, which is at the core of all educational policies, is consistent with the creation of a skilled and innovative workforce which meets the requirements of a competitive, knowledge-driven industry sector. In a global trading environment where more and more inputs and technology used in production are traded freely and with low-skill jobs moving to countries with lower labor costs, Philippine competitiveness will increasingly depend on the skills and creativity of its human resources. Thus, the development of human resources should be a priority for both industry and Government. Fundamental to this, the promotion of a mindset of global competitiveness as a behavioral imperative must be ingrained at all levels of the country's educational system.

The Department of Education Culture and Sports (DECS) and the Commission for Higher Education (CHED) shall lead education and training institutions towards a more client-focused perspective. The educational system shall prepare for the new competitive environment and the changes in the pattern of skills and knowledge required by industry. Thus, closer interaction with industry shall be promoted particularly through identified centers of learning all over the country. Industry can provide practical help and advice to secondary and tertiary level institutions, and work with higher institutions in research and development.

To support the country's export development thrust, areas which will require priority development at the tertiary level are information technology, design, entrepreneurship, business subjects combined with other disciplines like international business perpective and foreign languages, biomedical engineering and applied bioscience and programmes combining engineering/technician qualifications with operations management and product development management.

The educational system shall also support the need for continuing education and lifelong learning. This would require more programs providing part-time

education and home study programs. Distance learning programs shall also be encouraged as well as strategic alliances with foreign educational institutions to help modernize both curriculum and method. DECS shall also respond to the need to develop and promote other and more flexible channels for education such as mass media and electronic media. Initiatives to promote high levels of public access particularly to electronic media shall be pursued in order to encourage lifelong learning.

To encourage and assist firms in decisions to invest more heavily in human resource development, educational institutions can provide significant information support by undertaking research into best practice management approaches to human resource development.

- *DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES*

The principle of sustainable development lies at the center of environmental and development policies in the Philippines. Based on this principle, the traditional adversarial approach that presents industrial development and environmental protection as opposites shall be reversed towards a new approach that simultaneously maintains high environmental quality and promotes a competitive industry sector. Environmental quality shall be maintained in a way that encourages companies to raise productivity and respond to environmental regulations and the new markets being created by them, in an innovative way. This will require far greater coordination between industry groups, the DTI and the Department of Environment and Natural Resources (DENR) and its local agencies.

The DENR should strongly pursue a role beyond regulation alone. Greater focus should be given to its role in advising, guiding and working closely with industry, the DTI and the DOST on environmental issues, particularly in creating a balance between optimal usage of natural resources and regulations to preserve the sustained availability of the same. Another area where industry requires

extensive advice is on the most cost-effective means to meet environmental rules.

Participatory governance in environmental management is needed to ensure wider adoption of the principles and practices of industrial ecology. Joint programs on environmental management should be developed as part of a partnership approach among DENR, DTI, DOST, industry, and local authorities.

Where new standards are introduced, a program following a progressive process should be adopted. This will begin with an aggressive and systematic environmental information campaign to increase the awareness of industry and, particularly, of smaller firms, to the requirements for achieving the necessary environmental standards. Industry associations and DENR shall take a lead role in such an initiative but the DTI, the DOST and the LGUs shall be active participants. To support the information dissemination drive, succcessive and complementary programs shall also be undertaken. These include promoting the clean technologies, supporting demonstration projects and projection of role models, encouraging self-regulation by the industry, and promoting integrated solutions that a company can implement. The implementation of new rules and regulations can then follow.

Given growing concerns for the environment particularly in major markets for Philippine products, the DENR will play a critical role in helping strengthen the environmental credentials of Philippine products and promoting the Philippines' green image in order to boost market acceptance.

- *DEPARTMENT OF INTERIOR AND LOCAL GOVERNMENT AND THE LOCAL GOVERNMENT UNITS*

The partnership with the Department of Interior and Local Government (DILG) and the LGUs is critical in ensuring that the laws, regulations and policies

promulgated by the LGUs are consistent with the export development thrusts and policies of the national government.

As firms face growing pressures due to globalization, their demands on their local environment increase. Consequently, where traditionally, industry-related policy-making was the prerogative of national government, policies to support the efforts of firms now have to be formulated at the regional/local level as well. If national policies are to be both effective and efficient they must fully take into account the existing geographical distribution of resources at the regional, provincial and local levels. A local policy should be formulated by local officials and local players, tailoring it to the strengths and weaknesses of the given region or province. It will often be easier to mobilize locally the know-how for diagnosing strengths and weaknesses of firms and their environment, and to formulate measures to address these.

The form of participative governance promoted at the national level may even be achieved better at the local level. The private sector can then define more clearly what they expect from local government in terms of infrastructure provision, public transport, environmental issues, technology, education and support services. For services that need to be planned and developed at a subnational level for reasons of efficiency and effectiveness (e.g., education, power, water, roads, etc.), regional coordination arrangements can be put in place. These, however, should be extended to encompass as many services as possible rather than establishing separate coordinating structures for different services.

DILG shall take the lead in promoting business-friendly policies and programs among local governments. These can include trade and investment promotion initiatives and services, institutionalizing planning at the LGU and community levels, environmental scanning and resource-mapping activities, better coordination across a host of publicly administered services and local offices of national agencies, standardizing local business permits and licenses, and streamlining procedures and processing at the local level. For the last one, an

aggressive campaign to promote good governance and anti-graft practices would also have to be undertaken in cooperation with the leagues of provincial governors and mayors.

A registry of local resources, such as infrastructure, education, demographic and natural resources, should be compiled as part of a regional database, by the responsible bodies, and made widely available for enterprise promotion and development purposes. Local voluntary development organizations should be widely and strongly encouraged and promoted to initiate local development and enterprise support initiatives with the least possible public sector involvement.

The role of local governments in export development is made more critical given the industry clustering approach adopted by this Plan. The approach places strong emphasis on localizing the development process and building a sustainable export base by providing firm foundations for industries and their support system in a given area.

The EDC Networking Committee on Local Government Units will take a more active role given the focus of the Plan. The DILG is represented in this committee. Local government executives, through the League of Provincial Governors or League of Mayors, particularly those from export-active areas, will be enjoined to participate in this committee as well. A clear agenda based on the above-cited principles should be developed by the networking committee. Local development policy to support the export development thrust will then be directed towards encouraging the diffusion of enterprises by creating and enhancing locational advantages.

2. THE ROLE OF THE DEPARTMENT OF TRADE AND INDUSTRY

In implementing the Plan, the Department of Trade and Industry (DTI) adopts an approach that is both pragmatic and participative. The DTI recognizes that the necessary know-how, expertise, resources and implementation capacities are

spread across a variety of government, private and intermediary agencies. Thus, it will support concerted action in working out joint medium and long-term visions that can serve as points of reference for government policies and action as well as private initiatives. It will, however, be the primary government agency responsible for the implementation of the PEDP.

DTI will act as a coordinator, moderator and communicator in policy networks to heighten the legitimacy of government initiatives. It will strengthen its capability to collect, process and disseminate relevant and timely information required by industry to ensure a higher degree of information availability. It will provide effective representation of Philippine business interests in international markets to improve market access and presence. It will mobilize creativity among government and private sector players by involving them and their respective problem-solving capacities in strategy formulation and program development. The DTI will also ensure to the greatest extent possible that the programs and initiatives it pursues (be they for export, industry, domestic trade or SME development), are complementary and mutually reinforcing and would redound to its ultimate goals of countryside development and job creation.

Roles of the Department of Trade and Industry

- Be the Lead agency in the implementation of the Plan.
- Provide information, counseling and export assistance services.
- Undertake aggressive market penetration programs.
- Undertake complementary programs to promote continuing competitiveness of Philippine products and services.
- Lead the effort to spread the gains of exports to the countryside.

In all these efforts, DTI will work on the basis of clear bottomlines and performance measures to assess the effectiveness of its programs and ensure their continued relevance.

a) Be the Lead Agency in the Implementation of the Plan

The DTI holds the responsibility for the direct implementation of the Plan. Within the framework of the EDC, it will lead all efforts relating to the Plan's implementation including the coordination with other government agencies, private sector groups and other institutions whose participation is crucial to the success of the Plan. DTI will provide, or be responsible for sourcing the manpower, institutional and financial resources necessary to implement the Plan. It will provide management and technical support to the various committees and task forces that will be created under EDC in support of the Plan. Further, in localizing the export development process as required by the industry cluster approach, DTI regional and provincial offices will take the lead in linking LGUs, other government agencies, industry, educational/training institutions and other service providers in developing the industry clusters.

In order to create awareness and build confidence in the export development policy and program of the country, DTI will provide the operational support to EDC in communicating the Plan and its various components to Congress, other relevant government agencies, local government units, the private sector, the media and the general public.

b) Provide Information, Counseling and Export Assistance Services

Information will be the core institutional service of DTI to support export growth and development. To make its information service more responsive to the needs of its clients, in-house capacities for research, information gathering and processing will be strengthened. Closer links will be established with information sources, both local and foreign. Modern technologies will also be exploited to improve both content and delivery of the service.

The DTI, primarily through the Trade Group, will develop and strengthen its information, counseling and export assistance services within the following framework:

- *FOCAL POINTS FOR INFORMATION DELIVERY*

The primary focal points for delivering export-related information services are the Philippine Trade Information and Network System (PHILTINS) and the One Stop Export Information Assistance Center (EXPONET). The more specialized Trade Documentation Centres and reference libraries within the different units of the DTI, led by the Trade and Industry Information Center (TIIC), will provide added complement to both facilities.

Philippine Trade Information and Network System (PHILTINS)

The PHILTINS will be positioned as the main repository of all export-related information in electronic format. It will be reached through all the local offices and overseas posts of DTI, the various trade documentation centers and specialized libraries of DTI, as well as through the INTERNET. As such, it is intended to become the most accessed trade reference system in the country. A full review of the system is currently being undertaken to identify gaps and necessary improvements. The DTI Trade Group will undertake a comprehensive upgrading of the system, enhancing its content and improving its user-friendliness, within the first year of the Plan. A user feedback system will also be installed to assess the value and usefulness of PHILTINS to its clients.

PHILTINS will also provide the most comprehensive database of Philippine exporters. A program to develop such database will be undertaken by the Trade Group in cooperation with industry associations. A standard company profile form will be developed for this purpose.

PHILTINS MENU OF INFORMATION

- Export Programs Guide (guide to export assistance services provided by Government)
- Collaterals Used for the National Export Communication Plan
- General Export Information and Frequently Asked Questions (drawn primarily from EXPONET)
- Product Profiles
- Online Catalogues and Virtual Exhibits
- Industry Sector Analysis
- Market Commercial Guides
- Trade Fairs, Exhibitions and Promotional Events
- Training and Technical Assistance Programs
- Export Financing Information
- News and Current Events
- Trade Leads/Trade Opportunity Reports
- Trade Statistics
- Export Assistance by e-mail
- Directories
- Links to DTI Websites and Various Trade Information Services

One-Stop Export Information Assistance Center (EXPONET)

The new EXPONET is the DTI's main frontliner in providing export information, counseling and assistance services. As such, it is intended to be the most visible and accessible "office" as far as the DTI Trade Group is concerned. The EXPONET's success is also largely dependent on the dynamism of its network of govenrment agencies, private sector organizations and other service providers, and their level of cooperation. Thus, efforts to keep EXPONET visible and relevant will be directed not just to its clients but to the network members as well.

EXPONET SERVICES

- General Export Counseling and Assistance
- Industry-Specific Counseling and Assistance
- Market-specific Counseling and Assistance
- Buyer-Seller Referral Services
- Advisory Services on Financing, Grants and Incentives
- Advisory services on Market Access, Standards, Technical Requirements and Quality Control
- Export-related Licenses and Clearances
- Facilitation and Referral Services
- Trouble-shooting and Problem-solving
- Trade Complaints

Beyond being a service package, EXPONET exists as a network of persons and institutions, and as a physical facility. Thus, its services can be availed of through various means: walk-in, mail, electronic mail, fax and phone. In terms of resource persons, EXPONET clients can count on the following: 1) EXPONET staff, who are the frontliners and the generalists; 2) other DTI staff, should the assistance required be of a more specialized nature; and 3) network members, should the assistance required be outside of DTI's functions. To promote a quick-response mode of service delivery, EXPONET will start to link up its network members electronically. It will also use PHILTINS as a primary information resource in the delivery of its services.

- *MAINTENANCE AND MANAGEMENT OF THE INFORMATION SERVICE*

Content Development

The responsibility for supplying and maintaining the content and information resources of both PHILTINS and the EXPONET is spread across the various agencies within DTI, primarily the Trade Group. The Bureau of Export Trade Promotion (BETP), as the primary agency for research and strategy, takes the lead role in generating and packaging product and market information, as well as providing expert analysis of products and markets as the basis for advisory

services. The Foreign Trade Service Corps (FTSC) is a primary source of commercial intelligence reports, trade leads, market access information, practical guides on specific countries, and other market-related information. Other agencies such as the Center for International Trade Expositions and Missions (CITEM), Product Development and Design Center of the Philippines (PDDCP) and the Philippine Trade Training Center (PTTC) are key sources of information on relevant events and various promotion, training and assistance programs for exporters. Other agencies within and outside of the DTI are also valuable contributors to building the content and information resource of PHILTINS and EXPONET.

Systems Management

To ensure the smooth delivery of the information services, the EDP Division of BETP takes responsibility for the maintenance of the hardware and software components needed to ensure easy upkeep and updating of content and to keep the system user-friendly.

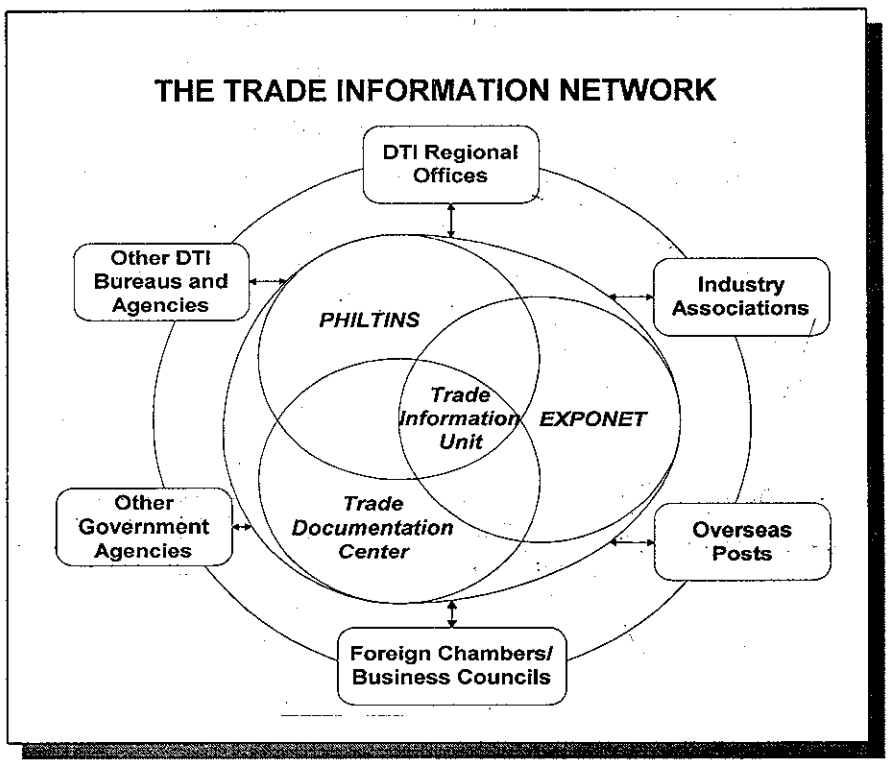
Overall Management of Information Service

A Trade Information Unit (TIU) within the Trade Group will be organized to manage the supply and collection of information and ensure its availability. The TIU is responsible for developing and providing the models, formats and schedules to facilitate and standardize the supply of content by the other operating units of DTI. The TIU is also responsible for sourcing other relevant information outside of DTI. It will ensure that the content of PHILTINS and the information resources of EXPONET are always complete and up-to-date.

- *ENSURING EASY BROAD-BASED ACCESS TO INFORMATION SERVICES*

DTI shall ensure wide public access to its information services and to trade information in general.

The Trade and Industry Information Center (TIIC) will consolidate the collection catalogues of all DTI trade documentation and information centers and specialized libraries. On a physical level, it will serve as the front desk for information services within DTI, housing the union catalogue. On a virtual level, it will provide digital services and serve as the portal to the other information collections within the DTI system.



DTI will set up EXPONET in its regional or provincial offices, and electronically link up all DTI offices around the country with commercial posts around the world to facilitate information exchange and access to PHILTINS by local clients. DTI will also promote the use of electronic media by exporters in accessing trade information services. The use of the INTERNET to monitor markets, competition and trade-related developments around the world will be advocated by DTI.

c) Undertake Aggressive Market Penetration Programs

The object of DTI's foreign commercial representation policy is to improve market access and market presence of Philippine goods and services. To achieve this, DTI will concentrate on the following tasks:

- *EFFECTIVE REPRESENTATION AND NEGOTIATION*

The DTI, in coordination with the DFA, will seek on effective representation and negotiation in dealing with trade partners and in enforcing bilateral and multilateral trade agreements to which the Philippines is a signatory. This will enable it to: improve market access; obtain preferential treatments and similar concessions for Philippine exports where opportunities for these exist; improve opportunities to enter new or expand existing markets; and ensure that specific rules or initiatives by trade partners are not prejudicial to the interests of Philippine exporters.

Vigilance in monitoring the implementation of trade agreements by the country and its trade partners will be exercised in order to ensure that these are advantegeous to Philippine exporters. Technical assistance from key trade partners, on matters relating to compliance with standards and technical barriers to trade will be actively sought. The DTI, together with the DFA, will undertake aggressive government to government advocacy in promoting the overall interests of Philippine exporters in overseas markets. Proper consultations with the private sector will be conducted before finalizing Philippine positions on specific agreements.

- *COMMERCIAL INTELLIGENCE*

In addition to identifying market opportunities for Philippine exports, the commercial intelligence activities of DTI, through FTSC, will also focus on identifying potential and existing barriers to Philippine exports and the means to overcome these. Practical information for exporters, such as performance of major competitors in the given market, will also form part of the commercial intelligence initiatives.

- *PROMOTION AND MARKETING*

In view of the growing competition for trade and investments, the DTI needs to intensify its marketing and promotions efforts overseas. This would require expanding its current complement of overseas posts. However, given funding and other resource constraints in Government, the DTI will rely on the Honorary Investment and Trade Representatives (HITRs) to complement its existing FTSC. The HITR program organizes an international network of Philippine advocates, whose members will be drawn from an elite roster of overseas Filipinos, former officials of multilateral and bilateral agencies, and former CEOs and officers of multinational companies operating in the country, to undertake trade and investment promotion activities for the Philippines. Since HITRs provide their services and expertise for a token compensation of only P1.00 per year, DTI will be able to launch a more aggressive trade and investment promotions and marketing campaign without straining Government resources.

The HITR Program shall be clearly defined in the context of the overall promotion efforts of Government and the private sector. The activities of HITRs shall be based on clear objectives and expectations, and aligned with the efforts of the FTSC and other promotions programs of Government and the private sector, in terms of direction and targets. An Executive Order and/or Memorandum of Agreement with the DFA will be necessary to institutionalize the program and give it official recognition.

A high-level, high-powered and personalized campaign to promote Philippine products may be undertaken in much the same way that royalties promote European industries. International celebrity endorsements may also be sought discreetly, particularly for fashion products.

- *COUNTERTRADE PROGRAMS*

A countertrade strategy is relevant in expanding trade with the new entrants to the ASEAN — Vietnam, Laos, Myanmar and Cambodia — which are short of hard currency. It will also open new or expand opportunities for trade with emerging economies of Asia and thus, facilitate South-South trade.[32]

More creative and sophisticated countertrade mechanisms may also be a good response to expanding trade within the region in the light of the ASEAN currency crisis.

d) UNDERTAKE COMPLEMENTARY PROGRAMS TO PROMOTE CONTINUING COMPETITIVENESS OF PHILIPPINE PRODUCTS AND SERVICES

To complement the industry clustering approach presented in the Plan, DTI will give attention to the following initiatives. These will promote the continuing competitiveness of Philippine industries, products and services.

- *EMINENT PERSONS GROUP*

At the policy level and as basis for new initiatives, DTI will draw sound advice from the Eminent Persons Group (EPG), a top level committee composed of respected and accomplished Filipino experts. The EPG is tasked to:

- Study factors that affect competitiveness;
- Identify industries strategic to the country and which, therefore, need to be supported and nurtured; and
- Review the situation of current export performers and determine how they can maintain or enhance their competitiveness.

[32] Trade among developing and least developed countries.

- *PRODUCT SEARCH PROGRAM*

At the operations level, the DTI Trade Group (DTI-TG) will lead efforts to undertake continuing research on new and potential export products and services for development, with particular emphasis on the early identification of new growth sectors. The Bureau of Export Trade Promotion (BETP) and the FTSC will lead the market scan activities to identify emerging products and corresponding growth markets. The DTI-TG will work with industry experts, foreign designers, product consultants and other resource persons, including the DOST, in product development. They will also strengthen linkages with Filipino designers, inventors and technical experts to develop capabilities to produce and market new world-class and competitive products.

e) LEAD THE EFFORT TO SPREAD THE GAINS OF EXPORTS TO THE COUNTRYSIDE

The most important objective of the export development thrust is to maximize the contribution of exports to job creation and countryside development. An important feature of the industry cluster approach is its emphasis on domestic linkages and a localized approach to industry and export development. This ensures that the Philippine export industry simultaneously takes root around the country and that its gains are spread to a greater number people, in a greater number of roles.

To accelerate this dispersal, the DTI will aggressively undertake the following complementary programs:

- *DEVELOPING RURAL INDUSTRIES AND VILLAGE ENTERPRISES (DRIVE)*

The DTI intends to create more jobs through the implementation of the DRIVE program, which is focused on the expansion of countryside projects and the creation of linkages between small subcontractors/suppliers and large firms. In line with the centerpiece pro-poor, pro-countryside, pro-SME program of

government, DRIVE is DTI's response to the challenge of providing greater opportunities for investments, business and livelihood, jobs and self-employment at the grassroots level.

DRIVE links up big producers or assemblers with suppliers or subcontractors through production, marketing and product enhancement activities. Thus, the program not only promotes the growth of enterprise but also develops and expands the domestic base for export production. DRIVE thus presents a good complement to the overall export development thrust.

- *UNLAD-BUHAY PROGRAM*

Unlad-buhay is a skills-building program under the umbrella of DRIVE. It encourages the growth of home-based industries like garments, toys and decors, food processing, and weaving. Its target beneficiaries range from housewives, students, out-of-school-youth, vendors, the unemployed and other members of the marginalized sector, especially in the urban areas.

Unlad-buhay focuses on grassroots development of competitiveness and enterprise. It aims to provide valuable training, using a hands-on approach, on value formation, and management, marketing and entrepreneurial skills.

- *SUPPLIER SEARCH FAIRS*

Supplier search fairs are a form of reverse trade fairs where the exhibitors are the buyers. The fairs feature large local companies or contractors exhibiting or presenting parts and components requirements for their production which are at present imported but which can potentially be sourced from local suppliers. The first such fair that was organized involved the automotive industry, and featured the four big names in the automotive assembly industry -- Ford, Honda, Mitsubishi and Toyota. The next industry to be featured is the electronics and semi-conductor industry.

This program is intended to provide new opportunities for SMEs, particularly through linkages in growth sectors. Such linkages provide added opportunities for upgrading SME operations through technology transfer, acquisition of new skills and information, and development of management skills. For the country's export thrust, this will translate to increased value-added for export products and increased production capacity of producers and manufacturers, and therefore, expansion of market shares.

3. THE ROLE OF THE PRIVATE SECTOR AND INDUSTRY ASSOCIATIONS

In the country's export development thrust, the involvement of the private sector, through the industry associations encompasses all — aspects from defining policy and direction to implementing programs. This level of participation, which is characteristic of the participative form of governance necessary in today's competitive global environment, places greater responsibility on the private sector in shaping the environment that will support the growth of exports and industry.

A potent and dynamic private sector is a crucial partner of Government in ensuring the success of the export development plan and of the overall development thrust. Towards this end, the private sector must be committed to respond to the demands of the new environment; to strengthen their capability to represent private sector interests vis-à-vis Government and other relevant players; and to induce changes in the environment through better cooperation and networking with both public and private institutions.

The Philippine Exporters Confederation, Inc. (PHILEXPORT), as the EDC-accredited exporters organization for the duration of this Plan, will take the lead in undertaking the commitment of the private sector to this Plan.

ROLES OF THE PRIVATE SECTOR

- Professionalize industry associations.
- Expand policy research and advocacy program.
- Promote interaction with support institutions.
- Promote programs to develop "global" companies .

a) PROFESSIONALIZE INDUSTRY ASSOCIATIONS

Industry associations need to be better equipped to respond to the needs of exporters for efficient services and effective representation. Organizational development programs must be undertaken to produce associations that: are managed by a lean staff of competent and committed professionals; can develop the necessary capabilities to effectively represent the interests of its members and deliver relevant programs and services to them; that can generate the resources necessary to support their operations; and are able to prevent politics and self-interests from impairing the continuity and relevance of the association.

Industry associations need to be visible and, as much as possible, of top-of-mind recall among various publics in the sectors they represent. Given the age of information technology, industry associations also need to develop electronic link-ups with their members to facilitate exchange of information and delivery of services.

PHILEXPORT, as the accredited umbrella organization of Philippine exporters, has the primary responsibility to promote the development of strong and professional industry associations. PHILEXPORT will continue and intensify its cooperative undertakings with industry associations, not only in policy advocacy and promotion programs, but also in organizational development. Assistance in sourcing fund to support programs of associations shall also be provided by PHILEXPORT.

b) EXPAND POLICY RESEARCH AND ADVOCACY PROGRAM

Over the past few years, the private sector, through PHILEXPORT, has been very aggressive in its policy research and advocacy efforts either through the EDC or its other affiliates. PHILEXPORT shall sustain these efforts. To be more effective, PHILEXPORT will undertake an aggressive "technology transfer" program to develop policy research and advocacy capabilities within other

industry associations, especially those based in the regions. While PHILEXPORT or any other umbrella organization is effective in representing national issues and in advocating cross-cutting initiatives, the new thrust of localizing the export development process and developing a solid export base through industry clusters requires such capability to be present in local and sectoral industry associations as well.

c) PROMOTE INTERACTION WITH SUPPORT INSTITUTIONS

The increasing challenges to firms create increasing demands on their support structures. It is no longer just the individual firms that compete with each other. Industrial clusters or networks of firms, whose dynamic development depends on the potential of their particular environment, compete as well. This potential is shaped by continuous and close contact with R&D facilities, technology formation and dissemination institutions, universities, training institutions, financial services, trade information providers, and many other entities in their location. Firms need to reorient their external relations perspectives towards initiating and maintaining more effective networking and interaction with other firms and supporting institutions, particularly those engaged in training and technology. Industry associations should do likewise and ensure visible and participatory representation in Government-led bodies and consultative groups.

d) PROMOTE PROGRAMS TO DEVELOP "GLOBAL" COMPANIES

In today's global environment, sustaining competitiveness requires the simultaneous achievement of several objectives: right product quality, timely supply, competitive prices, sufficiently diversified products to meet differentiated demands, and capability to respond quickly to changes in demand patterns.

To respond to the demands of competition, firms must undertake continuous innovation both internally and in conjunction with their immediate environments. PHILEXPORT, together with other industry associations, can lead a nationwide program aimed at inciting firms to develop themselves to be globally competitive. The program should place emphasis on all aspects, from educating firms on the demands of a global environment, providing continuing information on international best practices, benchmarks and new approaches, to undertaking extension services to guide firms in the process. The industry clusters provide the perfect venue for disseminating such a program, given the interdependencies between firms and their support systems.

The globalization framework, that can apply to assessing Philippine firms and identifying where gaps exist are shown in the Box.

GLOBALIZATION FRAMEWORK FOR PHILIPPINE EXPORTERS

- **Governance and Responsibility**
  - Management and technical capabilities of officers
  - Adherence to ethical business practices
  - Cognizance of social and environmental responsibilities
- **Strategy and Planning**
  - Global vision and strategy
  - Planning
  - Development of partnerships and networks
- **Marketing and Service**
  - Market research and strategy
  - Market leadership
  - Market-oriented product development
  - Customer service
- **Operations and Technology**
  - Organization of value chain
  - Organization of production
  - Cost efficiency
  - Technology integration
  - Accreditation with international standards and audit bodies
- **Research and Development**
  - Management of innovation
  - R&D and technology partnerships
  - Innovative capacity
  - Use of information technology
- **Organization and Human Resource Management**
  - Corporate culture
  - Investments in skills development and overall HRM
  - Leadership development

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To support firm-level reengineering based on these parameters, a seventh capability is added:

- **Management of Information**

A parallel effort to promote effective and deliberate management of information among Philippine firms should likewise be undertaken. While relying on their buyers, suppliers, industry associations and DTI for their information needs, exporters should also develop the capability to access and exploit the vast electronic information resource, which is literally at their fingertips. The biggest advantage of the INTERNET is that it is open world-wide, 24 hours a day and that the access barriers to traditional information sourcing do not exist. While individual PCs should be the norm for exporters, industry associations can also adopt the "INTERNET café" concept in providing trade information services and make available the means and facilities to encourage and expand the use of this medium. Industry associations themselves should be adept at this method of information search so they can provide valuable leads to useful sites and guide their members in their initial attempts at "mining the web." A good resource is the International Trade Centre (ITC/UNCTAD/WTO), which has generated useful tools and guides on trade-relevant websites.

B. SUPPORT PROGRAMS

In defining the roles of the various institutions and interest groups involved in the export development process, the preceding section specified recommendations on export-oriented support programs which each of these institutions can undertake. The next discussion will focus on additional support programs which are relevant to export development because they are critical to expanding the export base, providing firm foundations for industrial growth, augmenting national resources for trade development and defining and projecting the image of the Philippine export industry to both local and foreign publics.

OTHER SUPPORT PROGRAMS

- Promotion of direct investments
- Development of materials support clusters
- Promotion of bilateral/multilateral programs and foreign-assisted projects (FAPs)

1. PROMOTION OF DIRECT INVESTMENTS

Direct investments are crucial in building the industrial base that will support the Philippines' export drive. Apart from being sources of fresh capital, investments, particularly export-oriented foreign direct investments, create opportunities for industrial upgrading, facilitate product diversification and improve contact with foreign markets.

To complement these efforts and the overall strategy for investment promotion, three other important features are emphasized.

a) STRONG RESEARCH AND INFORMATION COMPLEMENT

At this point in the country's development, the quality and nature of investments that are coming in are critical, and should not be overshadowed by the short-term quest for numbers. Given the limited resources for investment promotion, efforts

should be properly directed where they will contribute most to the country's development objectives.

Investment promotion, to be effective in supporting export growth, needs to be properly focused. Significant gaps still exist within industries' value chains and their infrastructure support. New investments should be promoted and directed towards these areas. These gaps present specific opportunities for both foreign and local investors and such should be communicated well in the investment promotion process.

To achieve the desired focus, the necessary information base must be developed and made accessible to both potential investors and investment promotion officers. This requires strengthened, continuing and in-depth industry-specific research activities within the DTI and local entities, in collaboration with industry, to identify specific gaps and pinpoint opportunities.

b) LOCALIZED INVESTMENT PROMOTION DRIVES

Given the country's geographic makeup, deliberate and simultaneous action is needed to accelerate the dispersal of development across the country as widely as possible. Previous efforts of government towards regional dispersal have focused mainly on providing incentives to investors to locate away from the capital to provincial areas being targeted for development. However, the recent trends of FDI in Asia show that most investors do not rely mainly on incentives in deciding to locate outside of the capitals. Many welcome the greater mobility afforded by less congested areas. Other considerations are cost-based advantages, such as lower property prices and relatively lower operating costs. The increasing focus on regional development and the promotion of industry clusters seek to present fresh opportunities, which include the presence of complementary industries, high supply of trainable workers with good basic skills and availability of critical support services. The greater personalized service accorded a "big fish in a small pond" is also a clear advantage.

An important implication of these is that more than fiscal incentives, information on and promotion of what opportunities exist in the regions and provinces is necessary in promoting the regional dispersal of investments.

In order to encourage and fast-track more investments in the countryside, DTI is formulating a region-based Investments Priorities Plan (IPP) for 1999. The 1999 IPP will identify preferred sectors in specific regions to guide investors towards the most appropriate regional destination for an economic activity. Investment areas to be promoted under this initiative will cover exports, SME development, agricultural modernization, infrastructure/support facilities for agro-industrial countryside development, environmental management, science and technology and R&D projects.

To implement this initiative successfully, the role of local governments in opening their areas to investments must be emphasized. The development of competitive industrial clusters is focused at the local level. Local governments, relevant agencies and the private sector need to undertake serious assessments of and identify the investment gaps, potentials and opportunities in their respective areas. Thereafter, they should undertake aggressive promotional efforts. Depending on their vision for their areas of governance, local government units may be more willing to grant nonfiscal incentives, including assurance of peace and order and industrial peace, to attract locators. Placing control over these programs at the local level raises the commitment of all stakeholders — investor, host and industry -- and increases the chance for success. This also ensures that infrastructure projects of local governments get focused on developing the area to make it suitable for the kind of industries they wish to develop within their regions.

Given all these initiatives, nonetheless, it remains necessary to have a clear national framework for investment promotion which will be the basis for localized investment promotion programs.

c) AFTER-INVESTMENT PROGRAMS AND FACILITATION SERVICES

The investment is not the end in itself. Rather, it is a means to achieve the more fundamental goal of sustainable development. The bigger responsibility is to manage the trickle down effects of investments not only in terms of generating jobs but also in giving rise to complementary industries, satellite operations and components suppliers.

To support this, the more basic task would be to sustain the business-friendly environment and keep the present investors happy. Aside from the fact that satisfied investors are a potential source of subsequent investments, they can be a valuable spokesperson for the country as an investment site because they are actual proof of what the country claims in its investment promotion drives. Reinvestments or testimonies from existing investors serves as positive demonstrations for potential investors to see and to believe.

Thus, emphasis on after-investment hand-holding and facilitation services for locators is crucial. Investors who leave should be a cause for concern and should be taken into consideration in policy and program reviews.

2. DEVELOPMENT OF MATERIAL SUPPORT CLUSTERS

Attaining sustainable competitiveness in today's global environment requires a paradigm shift in industrial policy. The DTI, with the support of the Eminent Persons Group (EPG), is undertaking a back-to-basics review of the country's industrial policy. The task is to look at the foundations of industrial growth and identify industries which are not only strategic to the country but which can attain regional, if not global, competitiveness in the long run. These will revolve around the end objective of providing Filipinos guaranteed access to basic needs —food, clothing and shelter -- at the best quality and least cost possible. Downstream and upstream industries responding to these needs will be developed. To support the development of these fundamental industries, the necessary policy

interventions to make them competitive within the ambit of the WTO, APEC and ASEAN, will be pursued.

To make these industries commercially viable, however, the availability of and access to inputs must be guaranteed. The food sector, for example, would depend on such industries as sugar, fertilizers and packaging materials. For the clothing sector, textiles, leather and chemicals should be available. For shelter, such industries as iron and steel, cement, wood, metalworking, petrochemicals and glass are vital. All these materials are likewise critical inputs to the major export products of the country.

Material support clusters are thus necessary foundations to the new industrial policy. The production of these inputs should be supported by adequate and competitively priced utilities, transportation systems, and the needed infrastructure network. DTI's framework for intervention will encompass technical, production, marketing and financial support. Direct support for research and development, human resource development, and training will be priority considerations. So, too, will be the identification of areas in the country where locational advantages for these clusters are present. Towards this end, DTI regional and provincial offices, in cooperation with other agencies and the private sector in their localities, have begun the process of identifying particular material support clusters that can be developed in their areas.

3. PROMOTION OF BILATERAL/MULTILATERAL PROGRAMS AND FOREIGN-ASSISTED PROJECTS (FAPS)

In practice, the DTI budget alone does not cover all the requirements of a comprehensive export development thrust. Trade promotion spending cuts across several budget lines of various agencies, even extending to the private sector.

One important way to supplement available resources for export development is through bilateral/multilateral technical cooperation programs and foreign-assisted projects. International development agencies, foreign counterpart trade promotion offices, both government and private, and even private associations are a potential source of programs and funds necessary to extend the export development initiative beyond what national budgets can cover.

Both DTI and industry associations, as a matter of policy, shall take a more active role in seeking partner organizations for bilateral cooperation and in churning out project proposals for foreign funding. Within DTI, the unit handling project development and search for FAPs should be reactivated. The FTSC and HITRs should also put added emphasis on this mandate as their presence in overseas posts allows them greater access to potential partner organizations and fund sources. Industry associations, on the other hand, should develop internal competencies for project development and strengthen their organizational efficiencies to become credible and attractive partners or grantees. Bilateral cooperation programs, undertaken with an organization in the target market, are an important means to undertaking integrated and market-focused approaches to export promotion. Further, technical cooperation for compliance to standards and transfer of technology are also best undertaken under a bilateral initiative.

PART 6: NATIONAL COMMUNICATION PLAN FOR EXPORT PROMOTION

The PEDP framework identifies the National Communication Plan as the focal point for the delivery of information to the target markets, projecting a strong, coherent, and more positive image of Philippine export products and of the Philippines as a supplier nation. At the same time, it serves as a vehicle to educate special target markets (youth, entrepreneurs, labor) on global competitiveness and the role of exports in national development. This means a national orientation towards export promotion.

The National Communication Plan goes beyond image projection. It also emphasizes the need for follow through by living up to the image being projected in order to maintain credibility. The important considerations are a stable political environment, value of human resources, skills and knowledge, efficient bureaucracy and administrative institutions, and sensitivity and adherence to social issues such as human rights and the environment.

Among the important components of this program are: research-based targeted promotion; focused promotion by local governments; testimonials from satisfied trade partners; and the efficient flow and distribution of information.

A. TARGET PUBLICS

The following types of target markets, or any group with potential interest and impact on an organization, are defined in a generic concept of marketing:

1. INPUT MARKETS: SUPPORTERS, EMPLOYEES, SUPPLIERS

In this context, the input markets include the national and regional institutions which render support and services to the export sector – technology contract

researchers; consultants; industry associations; colleges, universities, vocational and skills training centers; banks, lending investors and other financial institutions; transport operators; telecommunication operators; power and water providers; cargo handlers and forwarders; libraries and trade information centers; insurance brokers and providers; design houses and designers; and environmental watchdogs. Employees include also their labor unions and leaders. Suppliers include trading companies and bonded warehouse operators, aside from direct suppliers.

2. OUTPUT MARKETS: AGENTS, CONSUMERS

Counted among the output markets are: foreign buying agents and their associations; foreign buyers and their organizations; importers and their organizations; foreign trade representatives; and other marketing agents. Consumers depend on the specific products; these can be end users/retailers for consumer goods, manufacturers for components and parts, or users/clients for service providers.

3. SANCTIONING MARKETS: GOVERNMENT, COMPETITORS, SPECIAL PUBLICS, GENERAL PUBLIC

The government as a public goes beyond the DTI. It includes other agencies, whether executive, legislative or judicial. Of special interest shall be the agencies whose regulatory functions have a great impact on exports, like the Bureau of Customs, Bangko Sentral ng Pilipinas, the DENR, the DOLE, the DA, the BFAR, the BFAD, the local government units and even the judiciary. Competitors refer to other foreign suppliers of the output publics, but other Filipino exporters. Special publics can include the youth who are the future workers, entrepreneurs and consumers. The general public is included to give them a deeper understanding of the role of exports in the national development effort.

B. KEY MESSAGES

Key messages refer to what the National Communication Plan will convey to each of the target publics.

1. PRIMARY PUBLIC

Competitiveness is key to survival in the international market. Only sustained competitiveness can assure the employment levels which will support poverty alleviation for the country and the level of the quality of life of the population.

2. SECONDARY PUBLIC

Competitive Philippines is ***the preferred source*** for quality, reliable, timely, on-time, trendy products and services.

3. INTERNAL PUBLIC

Competitiveness is key to sustained national development.

C. DESCRIPTION OF OVERALL STRATEGY

The general strategy is to sustain awareness of the Philippines as supplier/partner of target buyers and target investors. This is done through:

- Image building, with a clear, concise message contained in collaterals, presentation materials, news service, and supplements.
- Sales generation activities, primarily through mailers, missions, exhibitions, and special events.
- Export servicing, with effective networking, data banking, and Internet web page.

- Creation of national-level policies which will enhance Philippine advantages, and local policies which will cement the forward and backward linkages between the export sector and domestic suppliers, and inspire healthy competition among the area-based exporters.

D. PROMOTION PROGRAM

Among the important components of this program are: research-based targeted promotion; focused promotion by local governments; testimonials from satisfied trade partners; testimonials from successful foreign investors; and the efficient flow and distribution of information. The promotion program shall be clearly defined, time-bound, and have measurable targets. Research-based targeted promotion goes beyond focused trade fairs and missions. It also covers: direct invitations to target buyers and investors; a regular news service which aims for multimedia publication including trade journals (distributed primarily in the target market); and programmed advertisements or supplements in such journals and magazines. The product group of the BETP has already started research into which journals have the widest reach in terms of circulation to the target buyers. These articles and supplements can be cited in the DTI web page, with the added information on contacts and sources of further information.

In this information age, it follows that the promotion program must be based on updated facts and information, presented in as many ways as needed by the target publics. This means that an information gathering, analysis and dissemination system must be put in place, sustained, maintained and updated as frequently as possible. Commercial intelligence must be made available to exporters, their buyers and the investing public. Extent of access to the data banks will be determined by the type of user – whether an exporter; or a member of the primary, secondary, or internal public.

E. BASIC COMMUNICATION PROJECTS

These include the databank, the promotional collaterals, presentation materials, and the monitoring and evaluation system.

♦

1. DATABANK

Information in the databank must be as current as possible. Information should not be just on the Philippines and its regions, provinces and cities, but also on the specific products being promoted. Moreover, it must contain intelligence – not unprocessed raw data – regarding the niches in the target markets, their trends, quality standards, trade barriers, and contact information on other possible sources of commercial intelligence. This goes beyond the usual demographic, geographic and weather statistics. On the Philippine side, the databank must include a reliable directory with contact information and product lines of exporters.

2. COLLATERALS

This is the set of basic readings on the Philippines as trade partner and supplier. These readings are not limited to the printed variety. They can be in the form of multimedia publications, either in CD-ROM, diskettes or in digital Internet materials.

3. PRESENTATION MATERIALS

Audience-specific, these are constantly updated to suit the needs of the public in attendance. These can be in the form of:

- A transparency set.
- A compugraphic presentation, preferably multimedia to be more informative and interesting, provided the equipment and the proper outlets are available.

- A video presentation, which can take the audience on a visual tour of what the presentor would otherwise just be talking about.

For all forms, handouts must be released to the audience to assist recall and serve as reference materials after the presentation.

4. MONITORING AND EVALUATION

The effectiveness of various promotional activities must be continuously evaluated. Results of such evaluation will serve as basis for adjusting and refining the projects, not just at the end of the program, but even midstream or sooner. A regular sample survey of community perceptions and, budget allowing, of foreign perceptions, should be conducted to give feedback on whether the objectives of the program are being achieved.

F. FOCUSED COMMUNICATION PROJECTS

The next level of projects are more narrowly focused on clearly identified target buyers, marketing agents and investors.

1. NETWORKING

Networking refers to the establishment of an export promotion network, identifying those who must be invited to join the network as champions of the Philippines. Network members will not just be successful exporters (whether Filipino or Philippine-based foreign companies) but also long-term regular volume buyers of Philippine goods and services. They will be asked to give testimonials for the Philippines as an export source, especially to other importers or potential investors. In the target markets, the Philippine ambassador or the trade representative will support and sustain the network, based on activities which are coordinated with the DTI and the DFA.

2. MAILERS

Regular communication will be maintained with buyers, starting from CITEM's listing of buyers who attend Philippine trade fairs, visitors to booths of Philippine exporters in foreign trade fairs, those met at trade missions or those referred by Philippine trade representatives and embassies. This can be done through their inclusion in product-differentiated mailing lists for product or industry-specific newsletters, Inquiry/Reply service or Selective Dissemination of Information (SDI). Note that these materials need not be printed, especially if such buyers already have e-mail accounts or fax facilities. Information in these materials must be accurate, up-to-date and concise. Exporters may also be invited to send these materials to their buyers who are not included in the DTI mailing lists.

3. MISSIONS

Despite advances in telecommunications and digital networks, the personal touch is still important. The role of the Philippine trade representatives and embassies in the conduct of outgoing missions cannot be overemphasized. High-powered and high-level missions must also be undertaken, in the same way that heads of state or royalties promote their respective countries' industries. Advance information on who are the most influential contacts should be given to the planners, and efforts must be made to allow the Philippine delegation to meet these contacts. Leads may also be requested from the foreign companies with operations in the Philippines or from the target market's trade representative or embassy in the Philippines. Focus is still the key, with participants coming from the same industry cluster. And as much as possible, participants should be able to shoulder full the cost of their participation.

For incoming missions, close coordination with the foreign office and the DTI must be done. DTI can supply information on which industry sectors are of greatest interest to exporters in each target market, allowing the foreign office to

organize missions through the chambers of commerce or the industry associations in the foreign market. Accurate information on the interests of mission members must be given to the local office, to improve matching with the local businessmen.

4. EXHIBITIONS

International trade fairs in the Philippines can be promoted in the target market jointly with the Department of Tourism to attract more buyers and business tourists.

With declining budgets, CITEM must strive for cost recovery of participation in international trade fairs. To give exporters more choice, CITEM can evaluate or assess the effectiveness of international trade fairs and allow exporters to participate on their own in the more desirable fairs. Individual Philippine participants should be requested to distribute Philippine collaterals or handouts in their booths.

Virtual exhibits should be explored, given the facilities already with the DTI PHILTINS project. Such virtual exhibit should have the facility to show products from different angles, include a system for maintenance, schedule private on-line chat between interested buyers and the exporters, and provide inquiry forms which can be sent through e-mail.

G. MASS COMMUNICATIONS PROJECTS

While budget constraints may limit mass communication projects to the local market, strict selection of target markets and media may enable the Philippines to penetrate at least one foreign channel.

1. NEWS SERVICE

Advertorials, where newsworthy items regarding Philippine exports may merit publication, should be prepared on a regular basis. This has been done by the BETP before through the *EXPONET News and Features* and recently through the *Trade Pulse.* The reach of these news services has been the local media; Foreign news media shall be tapped to expand the reach of these information.

2. SUPPLEMENT

Supplements or Special Projects from the viewpoint of the local print media have been utilized by corporations and organizations. The Philippine government has occasionally done this as special advertising sections or supplements in international publications like Time Magazine. Again, prioritization of industries and publications should be done to reach at least one channel once a year.

3. SPECIAL EVENTS

An example of this is the Olympics 2000 scheduled for Sydney, Australia. The Philippines may be featured as a supplier of software, souvenirs or other items.

4. INTERNET

DTI facilities should be fully utilized to maximize exposure of exports through the World Wide Web. Inquiry forms that can be automatically mailed (e-mail or snail mail) or faxed to appropriate offices should be included. This should also serve as a showcase of capability in multimedia content development.

H. IMPLEMENTING MECHANISMS

This National Communication Plan framework, its components and subcomponents can be assigned to specific agencies or contracted to outside parties for implementation. At the core of the implementation effort should be the network of Philippine export advocates orchestrated by a DTI core support group of front desk and back office staff, and which would be complemented by the FTSC and the DFA.

It must be emphasized that for a communication plan to be successful, its implementation must be sustained. Previous attempts to implement communication plans stopped after the initial period covered by the initial project. To ensure the success of this plan, an adequately funded corporate entity, which is private in character, and whose mandate is high-level Philippine trade and investment promotion, shall be considered to implement the communication plan, under the direction of the EDC. This will be in line with the Government's moves to privatize export promotion.

I. THE PHILIPPINE BRAND PROGRAM

Government shall initially undertake a Brand Promotion Program that promotes awareness on the value of brand development, in terms of the premium a brand contributes to gaining market share, and the competitive motivation (or even pressure) it exerts on companies to continue upgrading in order to maintain the value expected of the brand. Such program could be tied up with efforts to promote upgrading of quality and compliance with world-class standards. Government's country promotion can then project established Philippine brands and high-quality products in its promotional campaigns.

PART 7: CONCLUDING SECTION

Up to this point, the Plan has: (1) outlined the measures and the policy areas where action is needed, (2) pointed to new possibilities for growth and development that are within the country's reach given efficient use of resources, (3) prescribed specific core and support programs to be undertaken by various government and private institutions to pursue the export development thrust, and (4) outlined the consultative process and participatory approach that will ensure that the Plan is well-understood and widely accepted as the blueprint for the country's export development thrust.

This final section will prescribe programs, systems and succeeding steps that will help ensure the efficient and effective implementation of the Plan so it contributes to the growth of Philippine exports.

A. MONITORING AND CONTINUITY PROVISIONS

Semestral reviews of the accomplishments of the PEDP are to be made, and the individual programs and initiatives reviewed as often as necessary. This regular monitoring and evaluation should not only focus on the bottomline target on exports, but also on the individual contributions (or lack of them) of different players (government, private sector organizations, businesses and specific industry sectors) in order to identify and address problems before they overwhelm the players.

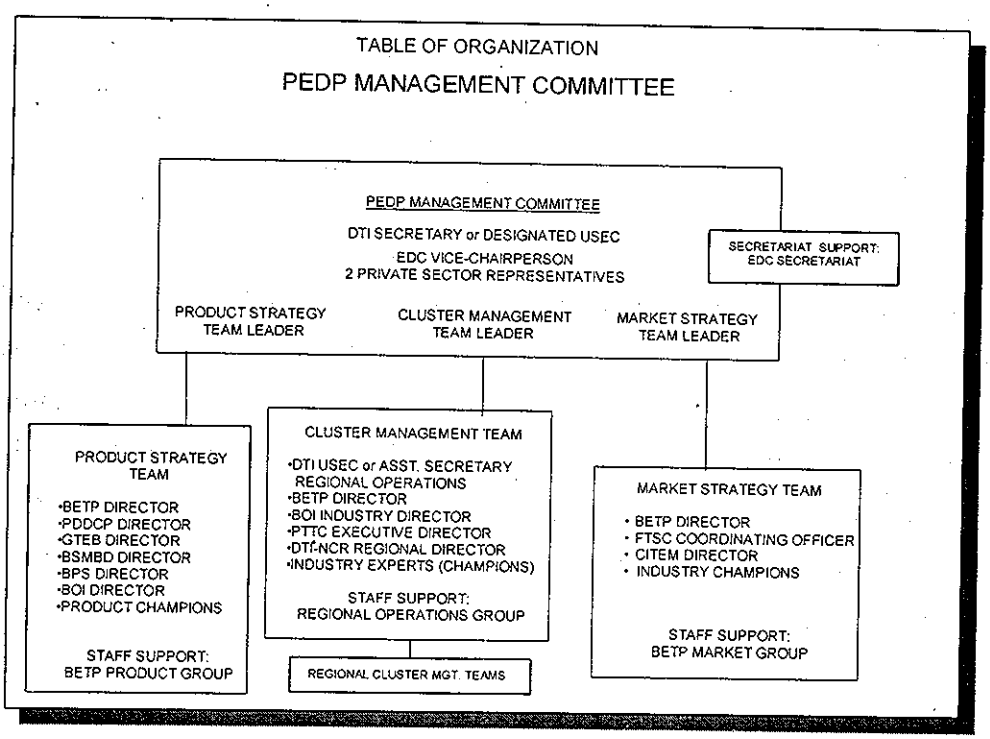
1. THE PEDP MANAGEMENT COMMITTEE

The EDC will reconstitute the PEDP Management Committee to periodically monitor and assess the Plan's implementation and ensure its continued relevance and effectiveness. In PART 5, Section A.1 of the Plan, the responsibilities of the PEDP Management Committee were outlined. In order to

meet these responsibilities, the following operating system and structure are prescribed:

a) Composition of the PEDP Management Committee

- DTI Secretary or his designated Undersecretary (Chairperson)
- EDC Vice Chairperson
- 2 industry leaders or private sector experts designated by the EDC
- Team Leader for Product Strategy Team
- Team Leader for Market Strategy Team
- Team leader for Cluster Management Team
- Secretariat Support: EDC secretariat with staff seconded from DTI agencies



b) Operating Teams of the PEDP Management Committee

The committee will be supported by three Operating Teams organized according to the focus of the strategy: Cluster Management, Product Strategy and Market

Strategy. It is emphasized that each team does not operate in isolation but will coordinate actively among themselves to develop complementing strategies. The leader for each team, who will sit as a member of the PEDP Management Committee, will be selected by the team members from among themselves. The terms of reference for each team are briefly discussed below.

- *NATIONAL CLUSTER MANAGEMENT TEAM*

While previously a subcommittee of the EDC Networking Committee on Productivity, cluster management, being the core development strategy of the Plan, will now be a component of the PEDP Management Committee.

Composition:
- DTI Undersecretary or Assistant Secretary for Regional Operations
- BOI Industry Director
- BETP Director
- PTTC Director
- DTI-NCR Regional Director
- Industry Experts
- Staff Support from Regional Operations Group

Officers of the League of Provincial Governors, officials of DILG and other relevant government agencies, members of the academe and R&D institutions and other experts may also be invited to join the meetings and assist the National Cluster Management Team in achieving its objectives.

To achieve the simultaneous development of industry clusters all over the country, Regional Cluster Teams will be also organized for each region of the country. Depending on the situation in the region, particularly on the locus of decision making, the composition of each regional team and its leadership may vary. However, the management teams should ideally be composed of the local government officials, regional directors of relevant government agencies in the

area, industry leaders, and officers of identified centers of learning, among others. In any case, the DTI regional offices will provide the technical and secretariat support to their respective teams. Unless they are contrary to the overall national export development thrust, the decision on which clusters to develop will be made by the Regional Cluster Teams.

TASKS OF THE REGIONAL CLUSTER TEAMS

- Identify industry clusters which have a strong potential for development in their region.
- Submit to the National Cluster Management Team initial studies on these clusters and specific commitments from each of the key players in the locality on their respective initiatives to support the emergence and growth of the cluster.
- Identify priorities in their cluster development program.
- Communicate to the National Cluster Management Team the problems and bottlenecks encountered in the development of the clusters which may require specific interventions from the EDC.

TASKS OF THE NATIONAL CLUSTER MANAGEMENT TEAM

- Provide training and technical support in the preparation of the Cluster Development Plans.
- Communicate to the EDC the necessary interventions required by the different clusters for appropriate action.
- Facilitate the exchange of information between and among Regional Cluster Teams.
- Provide the forum (electronic newsgroups or "chat rooms") within which the Regional Teams can exchange insights and experiences, share problems and recommend solutions, and in general, increase multiplier effects and complementation among themselves.
- Disseminate quarterly updates on nationwide cluster development efforts to the Regional Teams through the DTI Regional Offices.
- Prepare and submit monthly progress reports to the PEDP Management Committee.

- *PRODUCT STRATEGY TEAM*

Composition : BETP Director
PDDCP Director
GTEB Director
BSMBD Director
BPS Director
BOI Director
Product/Industry Champions
Staff Support from BETP Product Group

TASKS OF THE PRODUCT STRATEGY TEAM

- Monitor and analyze the sectoral performance of Philippine exports.
- Systematically monitor and, to the extent possible, anticipate changes and developments within specific sectors -- changes in industry capacities, emergence of growth sectors, declining demands and new product trends.
- Identify and provide sound analyses of significant export performance trends.
- Identify necessary policy responses and programs to support the competitiveness of the sector in the face of global and local developments.
- Recommend product-specific strategies to improve competitiveness of Philippine products in key markets and, in coordination with the Market Strategy Team, develop specific product-market strategies.
- In coordination with DTI product specialists and Product/Industry Champions, conduct a continuing product search to identify new and emerging export products with strong potential.
- Coordinate and monitor the activities of Product/Industry Champions, who will be designated by the EDC Chairman on the basis of nominations from the relevant industry association.
- Recommend and justify adjustments in performance targets.
- Prepare and submit monthly progress reports to the PEDP Management Committee.

Other industry experts and representatives from DOST or relevant R&D institutions shall also be invited to participate in the meetings and initiatives of the Product Strategy Team.

- *MARKET STRATEGY TEAM*

Composition	BETP Director
	FTSC Coordinating Officer
	CITEM Director
	BITR Director
	Industry Leaders
	Staff Support from BETP Market Group

TASKS OF THE MARKET STRATEGY TEAM

- Systematically monitor and anticipate significant developments in the major markets in which the Philippines competes.
- Identify opportunities, demand patterns, particularly as to which products have the best prospects in specific markets, existing and potential trade barriers, and other relevant developments in the market which can have an impact on Philippine exports.
- Identify market-specific trade policy issues which require specific interventions.
- Monitor the performance of key products in major markets and assess their competitiveness, based on growth in market share.
- Recommend market-specific strategies and necessary measures to maintain or increase market competitiveness, and, in coordination with the Product Strategy Team, develop specific product-market strategies.
- Prepare and submit monthly progress reports to the PEDP Management Committee.

Representatives of relevant Business Councils, foreign chambers of commerce, Philippine-based foreign trade offices and the DFA may be invited to participate in the meetings and initiatives of the Market Strategy Team.

The information generated by the Market and Product Teams will provide the basis for the annual updates on market and product profiles prepared by BETP and made available through PHILTINS.

c) REPORTING SYSTEM

- *MONTHLY AND QUARTERLY REPORTS*

The EDC Secretariat will consolidate the monthly reports of the three Teams for the PEDP Management Committee, which shall review the same. The PEDP Management Committee, through the secretariat, will provide standard report formats to guide the operating teams in the submission of their respective monthly progress reports.

On the basis of these reports and actions subsequently taken, the PEDP Management Committee will prepare quarterly reports, which will be submitted and presented to the EDC Executive Committee. These reports may contain the following information:

- Export performance reports: overall, by product, by market and by region
- Detailed analyses of the export performance, highlighting substantial increases and decreases in performance
- New export opportunities identified in major markets or in new emerging export products
- Priority policy issues to be reviewed by the EDC's Networking Committees

- Recommendations on initiatives for EDC or other agencies in the areas of policy and market access negotiations and representation, should these be called for
- Progress reports on the cluster development program and other programs initiated under the Plan
- New product-market strategies to support the competitiveness of Philippine exports

♦ *SEMESTRAL VALIDATION*

The Export Development Act of 1994 provides for the semestral review, updating and validation of the Plan. The PEDP Management Committee will prepare a semestral performance report, which will cover export performance for the past six months vis-à-vis targets, status of programs under the Plan and accomplishments made. The committee will recommend and justify adjustments in the export targets, as necessary. The bases for this report and these recommendations shall be the monthly and quarterly monitoring reports and the sectoral consultations held within the quarter prior to the semestral validation.

Adjustments approved by the EDC will be appended to the original Plan and communicated to all relevant agencies, institutions and private sector groups.

2. PERFORMANCE MEASURES

It is recognized that the results of the PEDP can be influenced by a number of factors that are beyond the control of the EDC. Further, different players share responsibilities for various areas of the Plan, which affect the outcome of programs and projects. However, to the extent possible, it is necessary to apply specific performance indicators to this Plan in order to gauge its relevance and effectiveness. Factors adversely affecting the performance of the sector and the Plan that are beyond EDC's control will be so reflected in its annual performance reports.

a) GLOBAL COMPETITIVENESS

- *NATIONAL LEVEL*

The thrust of the PEDP is developing global competitiveness. On an annual basis, the EDC shall track the competitiveness of the Philippine export industry across a range of factors and their underlying parameters. The focus would be to establish a set of key competitiveness indicators and evaluate the Philippines relative to the performance of key competitors. This kind of evaluation provides some perspective of how national initiatives impact on the global standing of the country. Beyond conducting the competitiveness analysis, particular actions to improve performance in the context of these evaluations should be identified and reflected in the revalidation of the Plan. A specific rank or global competitiveness rating can then be targeted as part of the success indicators of this Plan.

- *INDUSTRY LEVEL*

Annual competitiveness assessments can also be made at the industry sector level. The Competitiveness Index used by the International Trade Centre in Geneva can provide a model for this level of assessment. Export growths of specific Philippine products in specific markets can be compared with the growth of total imports for the specific product of that particular market. The FTSC, HITRs and Philippine embassies can be requested to generate the required data for selected markets and products on an annual basis.

b) CONTRIBUTION TO NATIONAL DEVELOPMENT OBJECTIVES

The export development thrust is intended to contribute to the larger goal of national development. Thus, the following performance indicators should also be applied to the Plan:

- National export performance
- Percentage contribution of exports to GNP
- Contribution of exports to new jobs created
- Export growth in the regions

c) Contribution to the Growth of Enterprise and Expansion of Export Base

The policy initiatives, strategies and programs prescribed in the Plan are likewise intended to promote the growth of enterprises, particularly in the countryside, and to lead to an overall expansion of the country's industrial base. To assess the relevance of the Plan to these objectives, the following performance indicators need to be applied:

- Industry clusters formalized/established
- Growth in added value of major export products
- Net increase in number of exporters
- Increase in number of export subcontractors and component suppliers
- New export products developed and successfully launched

d) Accomplishment of Initiatives Identified in Work Program

The targets and success indicators discussed above are intended to assess the export development thrust as contained in the PEDP. Successes or shortcomings, based on these parameters, can only be attributed to the PEDP if the policy initiatives, strategies and programs prescribed by the Plan are actually pursued, adopted and implemented. Therefore, it is necessary to adopt a fourth set of targets and performance indicators which will prompt the adoption and implementation of the Plan, as intended.

- Policy reforms achieved
- Programs and services launched
- Joint projects undertaken with other agencies

- Bilateral/Multilateral technical cooperation programmes and FAPs implemented
- Export-oriented livelihood programs launched

3. PREPARING FOR THE PEDP 2002-2004

The Export Development Act of 1994 provides for a three-year rolling Plan. By the 2nd quarter on the third and last year of this Plan, the process of formulating the next three-year cycle of the Plan should already commence. New developments in global trade and in the Philippine situation and their expected impact on Philippine exports will then be reflected in the new Plan. However, to ensure continuity in the export development thrust, the succeeding Plan will also be based on the same strategic medium-term framework, with relevant updates, as this current Plan. The succeeding Plan will continue the industry cluster approach and will similarly be directed towards developing globally competitive industries and firms. Conscious effort should be taken to ensure that the succeeding Plan will build on, rather than diverge from, the gains realized from the implementation of PEDP 1999 to 2001.

B. NEXT STEPS

The following steps have to be immediately undertaken:

1. FORMULATE THE WORK PROGRAM FOR YEAR 1 OF THE PLAN

The PEDP provides clear directions and identifies specific initiatives and programs that will help achieve the objectives of the export thrust and meet the export performance targets set. Based on this, the EDC shall formulate a work program for the first year of the Plan, 1999, which will define and detail the following: the priorities and focus for the year; the specific objectives based on the overall goals stated in the Plan; the programs and initiatives that will be

pursued for the year; the assignment of responsibilities among the various agencies, institutions, and private sector groups involved; the key result areas to be monitored; the specific targets against which performance will be measured; and the resource requirements to implement the activities outlined. Based on this master work program, the various players in the export development effort, primarily DTI and PHILEXPORT, will incorporate into their respective annual work programs, the components assigned them.

NEXT STEPS

- Formulate the work program for year 1 of the Plan.
- Identify the resource requirements of the plan and the sources for these.
- Organize the network of export champions.
- Implement a Nationwide Advocacy Program for the adoption of the Plan.

2. IDENTIFY THE RESOURCE REQUIREMENTS OF THE PLAN AND THE SOURCES FOR THESE

The implementation of the PEDP will require substantial resources, which may cut across several budget lines of various agencies, even extending to the private sector. A huge part of the expenditures, however, are to be covered by the DTI budget. Therefore, it is necessary to put in detail the resource requirements of the Plan early on. Following this, allocations shall be made by the DTI from its own budget. Fund sources, either from Government or the private sector, shall then be identified for specific expenditure items not covered by DTI.

The Plan discussed the possibility of supplementing available resources for export development through bilateral and multilateral technical cooperation programs and foreign-assisted projects. International development agencies, foreign counterpart trade promotion offices, both Government and private, and even private associations are a potential source of programs and funds

necessary to extend the export development initiative beyond what national budgets can cover.

Thus, DTI and the private sector shall coordinate in formulating the terms of reference and preparing the project proposals for specific components of the Plan. These will be submitted to potential donors, sponsors and cooperators for funding.

3. ORGANIZE THE NETWORK OF EXPORT CHAMPIONS

A network of Export Champions will be organized by the EDC to advocate the export agenda and the various components of the PEDP. The EDC Chairman will designate the champions based on their leadership status in the industry, expertise in areas relevant to the export development agenda, and strength of image and credibility before various publics. Several export champions will be identified to handle different areas of responsibility, among which are: nationwide advocacy of exports before various special interest groups; leadership in the promotion of specific product sectors and in the development of product-market strategies; promotion of and provision of technical expertise in the development of industry clusters nationwide; leadership in policy advocacy efforts; and implementation of the National Communication Plan for Export Promotion.

4. IMPLEMENT A NATIONWIDE ADVOCACY PROGRAM FOR THE ADOPTION OF THE PLAN

The key objective of advocacy exercise is to develop the widest possible consensus regarding the overall export development program, its objectives and the actions proposed to achieve them, as contained in the Plan. This will require consultation among a wide constituency of interests at both national and regional levels in

> In this way, the ambitious social and economic objectives outlined in the Plan can be achieved, with both credit for and benefit of success shared by a greater majority of Filipinos.

order to ensure that: the steps outlined in the Plan are well understood; they will be widely accepted; and they will be put into effect within a higher degree of cooperation and exigency.

ANNEX A

INDUSTRY PROFILES

The following industry profiles and strategies are based on the assessment, projections of and prospects faced by each product sector. What is needed is to develop a dynamic and continuing process of strategic thinking among the various players who will be implementing the Philippine Export Development Plan (PEDP). Then, the strategies can be developed in response to the emerging needs of the sector and even in anticipation of new events or changes.

1. GARMENTS

The Philippine garment industry is the second largest export industry generating export sales of $2.26 billion in 1998, which is 7.6% of total exports.

The garment sector consists primarily of subcontracting operations for international brands. Over the last few years, the growth of garment export has been marginal and its contribution to total exports has been on a decline. The sector is driven primarily by low-cost labor and quota allocations from major markets (75% of garment export go to quota countries – USA, Europe and Canada).

While Philippine garment export has grown faster than the world average, its growth is slower than those from ASEAN and South Asian countries. Relative to other subcontractor countries in Asia, wages in the Philippines have gone up and continue to rise. The gradual phase-out of the Multifiber Agreement (MFA) until 2005 will erode whatever comparative advantage the Philippines has established vis-à-vis its competitors. The future of the garment industry will depend mainly on quality and value upgrading.

The industry is largely reliant on imported fabrics because of limited textile production, especially fine woven fabrics. While local value added has increased to almost 50%, majority of the garment exporters, especially Small and medium enterprises (SMEs), still operate on CMT arrangements, thereby reducing their response flexibility.

STRATEGIES

With the abolition of the quota restriction on garment imports by 2005, the Philippines should start building up the infrastructure to maintain the garment industry's rank as one of its major export industries. It should lay the groundwork for both market and product diversification, i.e., towards increased export to

non-quota markets and higher-value added products. In order to achieve these objectives, the following strategies must be adopted:

- ✓ Manage the raw material supply chain by liberalizing the importation of materials, by encouraging investments in dyeing, finishing and printing, and by developing the use of indigenous materials such as tropical fabrics into fashion and basic garment items. Over time, liberalization will continue to weaken the position of the garment industry due to lack of integration with the upstream local textile industry. A restructuring and upgrading of the textile sector will therefore greatly help the competitive position of garment exporters.

- ✓ Upgrade quality by using of new technologies, and harnessing design capability and skills. There is a need to improve training facilities for garment design, pattern making, draping and other advanced skills. Likewise benchmarking of technical efficiency should be launched at the firm level.

- ✓ Initiate and promote Philippine designer clothes in men's and women's fashion. Initiatives such as the Fashion Design Institute developed with the Philippine Trade Training Center, Natori and Philippine fashion designers must be expanded and intensified. The "gurus" of international fashion could be sought to look into the Philippine fashion landscape to identify potentials and strengths.

- ✓ Allow the entry of foreign investors who are mainly interested in our quota allocations. In the long run, we can benefit not only from the technology they have brought in but also from the management, marketing and design capabilities and skills that they have developed, as well as the other resources and infrastructure they have established in the country.

EXPORT TARGETS

Garment export is targeted to increase to $2.31 billion in 1999, and projected at $2.36 billion in 2000 and $2.38 billion in 2001.

2. GIFTS, TOYS AND HOUSEWARE

Export of gifts, toys and houseware reached $449 million in 1998.

The major export products under this sector include basketwork, holiday decors, decorative ceramics and toys.

A. BASKETS

The Philippines is the second largest supplier of basket products in the world, next only to China. Export for 1998 amounted to $84 million which is about 10% of the world market, while China accounts for almost 66%. World demand grew only at an average of 0.5% while Philippine export has been on a decline (average rate of negative 7.47%) since 1994. Our top export markets are USA, Japan, United Kingdom, Germany and Italy.

The basket industry is very labor-intensive, relying heavily on the skills and inherent artistry of the Filipino workforce. Majority of the basket exporters are traders sourcing products from a network of subcontractors. Industry estimates place the number of basket manufacturers at more than 5,000 with direct employment of 40,000 and indirect employment of almost 1,000,000 workers. Of the 5,000 manufacturers, 150 are large-scale operations, while the remaining firms are cottage and small-scale.

Basket products are basically handcrafted and Philippine export of baskets owes its phenomenal growth to the rich variety of indigenous materials available: rattan (cane), buri midrib (from palm trees), bamboo, bakbak (from a sturdy banana variety), tikiw and nito (species of vine), reeds, grasses and twigs. The privileges enjoyed by the Philippines under the Generalized System of Preferences (GSP) has helped our basket exporters established their presence in the USA and European Union markets.

The basket industry faces major concerns affecting its sustained growth in the export market. Among these are: limited sources and high cost of financing to service export orders, expand and modernize facilities; relatively small base of efficient and export-conscious subcontractors; lack of efficient technologies from gathering of raw materials to end-product finishing; and undeveloped ancillary industries to provide the accessories as add-on to our baskets.

B. HOLIDAY DECORS

Export of holiday decors amounted to $95 million in 1998 with the Philippines ranking 6th among the world's suppliers and accounting for 6% of total world market. However, the Philippines growth rate of almost 10% is still below the world's growth trend of 11.5%. The country's major markets are USA, Germany, Japan, Netherlands and Italy.

The country has gained a distinct image as a supplier of artistic, innovative and high-quality decors. Philippine exporters are currently doing business with major international buyers such as Silvestri and Kurt S. Adler, Inc. As with the basket industry, the holiday décor industry's competitive advantage lies in the creativity, ingenuity and craftsmanship of the Filipino and the availability of a wide range of indigenous raw materials which are environment-friendly. Similarly, most of the firms within the industry are cottage and small-scale firms operating on

subcontracting basis. The volume of orders, variety of items and the seasonality of the product often dictate their levels of operation.

C. DECORATIVE CERAMICS

Export of decorative ceramics grew by an average rate of almost 10% from 1992 to 1997 in 1998 it amounted to $59 million. The top five markets are USA, Germany, UK, Japan and France. Together, they account for 73% of total export.

The major ceramic categories available from the Philippines are dinnerware, servingware, bathroom accessories, garden and indoor terra cotta pieces. Philippine ceramic manufacturers are currently doing business with famous names in the industry such as Villeroy & Boch, Goebel, Royal Doulton, Fitz and Floyd and Dansk, and famous retail outlets such as Marks & Spencer, Hallmark, Debenhams and the Metropolitan Museum of New York. This is indicative of the high quality and distinctive designs of Philippine ceramic items.

The ceramic industry has gradually increased its production capacity and technological capability owing to the assistance provided by foreign-funded technical programs (mostly European Commission-funded programs). The entry of foreign designers and consultants fast-tracked the growth of the industry, training key persons in the production process, model and figure making, kiln and firing technology and glaze and décor painting.

Although most of the raw materials required by the ceramic industry are locally available, exporters prefer to import them because of the poor quality of local materials, especially clay. While there are rich deposits of clay in the Philippines, most have remained untapped because the country lacks beneficiation plants to develop and improve the quality of local clay. Aside from the imported raw materials, all other inputs such as design, labor and packing materials are considered local value added. The industry has an estimated local value added of 68%.

Overall, the ceramic industry boasts of an improved production infrastructure, competent core of managers, and highly talented and skilled workers particularly in hand painting. The recent establishment of the Ceramic Training Center in Bicutan is expected to enhance the skills further and improve the productivity of Filipino workers.

D. TOYS

Export of toys amounted to $34 million in 1998 and has been on a decline since 1996.

There are three types of toy exports classified according to materials used. These are stuffed/plush, plastic and wooden toys. There are about 117 firms engaged in toy manufacture with about 150-200 workers per firm. Of these 117

firms, 48 are registered with the Board of Investments (BOI). Their total investments are placed at PhP227 million from 1990 to 1998.

The APEC economies are the major markets of the country's toy export. Our market share has been declining due to the improved technology, particularly in design and pattern making that our Asian competitors are now producing their traditional toys. Philippine toy makers still use the traditional mode of production.

The degree of mechanization of the industry varies across sub-sectors. For example the stuffed toys subsector is highly labor-intensive while the wooden toy subsector is more capital-intensive. The toy industry posted an average local value added of 66.78% and local content of 62.24%.

STRATEGIES

- ✓ Undertake active commercial intelligence and aggressive promotion campaign emphasizing the Philippines' design and craftsmanship advantage. Strengthen marketing assistance programs through more active and more frequent trade fair participation and increased development of promotional materials. Take advantage of the bilateral integrated assistance programs with target markets and the use of electronic commerce to expand market presence.

- ✓ Export of toys can be significantly improved with effective representation in the annual International Conference on the Toys Industry (ICTI). Government and industry need a strong lobby group to represent the industry in the conference and ensure that the country will have a significant share of the market.

- ✓ Establish more common service facilities and training centers to continually improve product quality, production technology and workers' skills.

- ✓ Develop sustainable programs for sufficient supply of raw materials. At the same time, liberalize and facilitate raw material imports including supplies, consumables and packaging materials.

- ✓ Develop souvenir items to commemorate the new millennium as the year 2000 provides a new source of growth for exporters of gift items and novelty products. While the whole world is a market for this event, particular focus can be made on neighboring countries, such as New Zealand and Australia, where a bigger influx of "Year 2000 tourists" is expected. The institutional approach, for example a consortium of small exporters tying up with big institutional buyers, may be effective in maximizing this high-volume, short-life cycle opportunity. Research on similar events-driven products and dissemination of information on the new opportunities they present must be promoted.

3. FASHION ACCESSORIES AND LEATHERGOODS

Total exports of fashion accessories and leathergoods reached $348 million in 1998.

A. LEATHERGOODS

The leathergoods industry covers handbags and belts, travelgoods and gloves, not necessarily of leather, and consists of more than 1,000 companies employing roughly 40,000 workers.

The industry has developed and greatly improved its quality and craftsmanship and Philippine products have now found their way into the international market. The combination of leather with indigenous materials created distinct Philippine products, which are now in demand in the world market. Our major markets are the USA, Japan, Canada, Hongkong and Australia.

Among the products covered, travelgoods account for the biggest export share and have shown consistent growth over the past five years. Our export is growing about four times the growth rate of world demand. Our underutilized quota allocation under the MultiFiber Agreement has been the major attraction for foreign investments, particularly those coming from Taiwan, Hongkong and Korea.

Overall, the leathergoods industry suffers from the inadequate supply and poor quality of leather, and lack of support industries such as metal accessories manufacturing and leather finishing. The raw materials therefore, which go into the exported products principally come from imports.

B. COSTUME JEWELRY

The Philippine costume jewelry industry is now over 20 years old. At present, it is estimated that about 140 firms are directly and indirectly engaged in the export of costume jewelry employing about 10,000 workers. Many engage subcontractors.

The country's export products are made mostly from natural materials such as shells, corals, wood and stone. They are produced in Cebu, which accounts for 90% of our total costume jewelry export.

Because costume jewelry is regarded as a fashion accessory, it is subject to continuous changes in design, raw material content and colors that complement developments in the clothing fashion. The product requires fast turnover; otherwise it could remain unsold for the rest of the year.

The Philippines ranked 20th among the world's exporters of costume jewelry, accounting for 1% of total world exports in 1996. Between 1992 and 1996,

however, world import has been decreasing at an average rate of 4% due to global fashion trends in minimalism, meaning wearing less, in fashion. Likewise, due to the shift in market preference from natural-based materials to metal-based, the Philippine costume jewelry industry has experienced a slump in export since 1994, in all its major markets (USA, Germany and Japan).

As the Philippine costume jewelry's strength remains mainly in handmade items using natural materials and coloring schemes, competition from China and Korea in the use of synthetic materials and low-priced metals have greatly affected our export, forcing some of our exporters to shift to the manufacture of gifts and houseware.

After four years of sluggish business, the Philippine costume jewelry industry hopes that the recent establishment of the Costume Jewelry Center in Cebu will help boost to the industry and it enable to resume its strength in the export market. The center aims to guide and assist the manufacturers and exporters in design, technology, training, marketing and information gathering through its common service facilities, library, selling missions, trade fair participation, and its own website address.

C. FINE JEWELRY

The Philippine fine jewelry industry is primarily engaged in the production of two major product categories: precious metal jewelry, and pearls, precious and semi-precious stones.

There are only about 25 regular exporters of fine jewelry from a base of about 7,000 firms, mostly small and cottage-type operations. The industry is basically domestic-oriented.

In fine jewelry export, high opportunity lies in the middle and lower-end segments. Likewise, there is much opportunity in jewelry pieces made using a combination of mechanized casting and handcrafting which rely on the Philippines' built-in advantage in the availability of a large pool of skilled and creative workers. With the Philippines' abundant supply of gold, silver and pearls, export of Philippine fine jewelry grew at an average annual rate of about 15% for the last five years, reaching $17 million in 1998. Sixty-seven percent of export is composed of loose pearls; silver jewelry accounts for 19% and precious metals account for 10%. Philippine export of South Sea pearls has been increasing due to the low production of Indonesia, the second largest exporter in the world. The Philippines ranked 9th in the world export of pearls with Japan, Switzerland and Hongkong as the top markets.

STRATEGIES

- ✓ Liberalize and facilitate the importation of raw materials, supplies and accessories of our leathergoods exporters.
- ✓ Encourage investments for the modernization of our tanning factories and other support industries.
- ✓ For travelgoods, where direct foreign investments come in for our quota allocation, encourage producers to optimize the quota yield through the production of higher-value items.
- ✓ Improve access to market information to exploit opportunities and build comparative advantage. Prepare firms for electronic commerce especially in pre-sale activities such as website development, preparation of market catalogues and organization of virtual exhibitions, to expand market presence.
- ✓ Improve competitiveness through product development and design, conformity to international product standards, and skills training and development.
- ✓ Immediately carry out the implementing rules and regulations (IRR) of the Jewelry Development Act. Promoting technology upgrading through the zero tariff on machinery and equipment provided in the Act will help promote growth in the jewelry sector and thereby, also encourage reporting of export performance.
- ✓ Accredit assay offices for gold and silver through the Bangko Sentral ng Pilipinas (BSP) to gain the confidence of buyers in sourcing from the Philippines.
- ✓ Identify strategic partners for sourcing of raw stones and technology in stone-cutting, and encourage tie-up with local lapidaries. The entry of Myanmar into the ASEAN should open for Philippine companies possible joint ventures with raw stones sources/suppliers. Transactions can be vehicles for countertrade arrangements to enable the Philippines to sell Philippine goods to Myanmar, which is short on hard currency.
- ✓ Establish more centers for technology and training, similar to the Cebu Costume Jewelry Center, probably in Bulacan and Baguio City.

EXPORT TARGETS

Exports of fashion accessories and leathergoods are targeted at $358 million in 1999 and projected to increase to $367 million in 2000 and $371 million in 2001.

4. FURNITURE

Export of furniture for 1998 amounted to $323 million.

The Philippines has gained the reputation of being a source of high-quality, well-designed and fine-crafted furniture. This is because of our skilled labor whose fine craftsmanship and flair for design allow flexibility to adapt easily to the changing requirements of the international market.

The top five destinations of our furniture are USA, Japan, France, Australia and UK. World imports for furniture grew by 11% with the Philippines accounting for 0.9% of market share.

There are three major furniture-making areas in the country namely, Cebu, Metro Manila and Pampanga. Industry estimates show that there are 15,000 furniture firms directly employing 500,000 workers. Another 300,000 are indirectly employed as subcontracting units.

In the face of severe raw material supply constraints, our furniture products have branched from rattan, wicker and buri to wood, metal, bamboo, stone, leather and even mixed media. While we used to ship only sanded items and parts, we have now penetrated the international market with finished wooden furniture showcasing the Philippines' strength in carving, marquetry, inlaying and gilding. Some companies have likewise expanded to the production of contract furniture, becoming preferred sources of furniture for hotels, restaurants, offices and other public institutions.

Production capacities have increased gradually and in fact, majority have reported unutilized capacities which can accommodate overseas requirements. Several companies have similarly established a network of subcontractors who can fill the demand during peak season.

Approximately 60% of the industry's expenses are devoted to the purchase of raw materials, reflecting the supply constraints facing the sector. A great bulk of these materials is sourced from abroad, e.g., from New Zealand, Australia, Indonesia and Taiwan. Labor expenses account for 32% of cost forcing some firms to subcontract a part of their operations to smaller firms. Investments on capital equipment and other fixed assets constitute only 3.5% of total expenses, with the industry relying mainly on manual technology and simple woodworking machines.

STRATEGIES

Philippine furniture export is back on the growth trend. However, there is much room for improvement in performance as the average annual growth rate over the past six years was only one percentage point higher than world trend. The following strategies must be adopted:

- ✓ Ensure the liberalization and facilitation of raw material imports (including supplies and consumables) enable Philippine furniture exporters to reclaim and expand market shares and convert the "Milan of Asia" fame into cash.

- ✓ Develop a strategic marketing and promotion plan to expand markets. Examples are the construction of new hotels, resort facilities or convention centers around the world, which provide the opportunity for contract or institutional sales of furniture. Active commercial intelligence and promotion must also be done in countries where there have been shifts in housing policies or growth in the housing market.

- ✓ The rapid development of communications technology which has lead to the growth of mobile and home-based offices. This, and the trend towards smaller living spaces, contribute to the growth of the small office/home office furniture. DTI and industry shall study this sub-sector to identify strategic alliances for bringing in technology and marketing support which should enable Philippine firms to ride this growth wave.

- ✓ Given the structure of the furniture sector, which is composed mostly of SMEs, financing must be made accessible so that firms can to take full advantage of the sector's growth trend. Towards this end, there must be active coordination with banks and government financial and guarantee institutions to aggressively disseminate information on existing programs and newly developed financing packages.

- ✓ As a long-term measure, promote investments and link up with industrial tree plantation or community forest projects to assure steady supply of wood species suitable for the industry's needs.

EXPORT TARGETS

Furniture export is targeted to grow by 11.66% at $361 million for 1999, and projected to increase by 11.93% at $404 million in 2000, and increase by 11.43% at $450 million in 2001.

5. FOOTWEAR

Export of footwear amounted to $47 million in 1998.

Over the period of 1993-1997, the country's footwear export grew by an average of 3% vis-à-vis the world trend of 8%. The Philippines has only 0.5% of total world market. The top five destinations of our footwear products are Belgium, Singapore, Hongkong, Spain and USA.

The entire footwear industry consists of about 3,000 manufacturers generating an estimated 60,000 employment. However, only a few companies venture into export because of a more lucrative domestic market.

The Filipino's craftsmanship, superior design capabilities and creativity give us an edge over our competitors. The Philippines has proven its capability to manufacture leather footwear for the medium-end market and exhibits strong potential for the high-end market. However, the industry's growth is hampered by the inadequate supply and poor quality of local leather; low level of technology; lack of support industries for shoelasts, shoe lace making, mold making and leather accessories; and difficulty to access financing, especially for the small and medium exporters.

Performance is registered principally in rubber footwear which could be expanded if we can bring in more investors, especially in the branded product category. We have lost earlier locators in this group due to labor difficulties.

STRATEGIES

In order for the Philippines to benefit from the relocation of some footwear plants into the ASEAN region and the strategic shift by South Korea and Taiwan into the high-end market, the following strategies must be adopted:

- ✓ Liberalize and facilitate the importation of raw materials, supplies and accessories to enable our footwear exporters to become competitive and to increase their market shares. In the medium term, encourage investments for the modernization of our tanning factories and for other support industries as well as investments from manufacturers of foreign-branded products.

- ✓ Improve production technology and manpower training. The setting up of a Productivity Center at CITC to serve as a common service facility will help develop our small and medium-sized companies. In addition, we should upgrade our design facilities to produce fashionable product designs which would allow us to target niche market for more sophisticated and higher-priced items.

- ✓ Adopt standards for footwear to force our local manufacturers to improve quality and enhance productivity.
- ✓ Enhance the environment for industrial peace.

EXPORT TARGETS

Export of footwear is targeted at $148 million in 1999. It is expected to steadily increase for the succeeding years.

6. PROCESSED FOOD

Export of processed food amounted to $573 million in 1998.

The Philippines' processed food export consists mainly of processed fruits and vegetables, processed marine products, cereals and cereal products, confectionery, cocoa products and beverages. The top five export markets are USA, Japan and Hongkong, Australia and Canada.

A. PROCESSED FRUITS

The multinational companies, Dole Philippines, Inc. and Del Monte Philippines, Inc., dominate the processed fruit industry. Other processors of preserved fruits, dried fruits, fruit juices, purees and concentrates are SME firms.

The industry's value added is estimated at 60%.Major imported raw materials are sugar and packaging materials. While both fresh fruits and sugar are available locally, production efficiency, post-harvest losses and transport costs increase the costs of inputs. Thus, it becomes cheaper for the exporter to import sugar than source locally. Moreover, the seasonal availability of fruits dictates the production schedule of processing plants, which are idle during lean season.

Quality awareness is increasing among food exporters as evidenced by the reduced cases of detention of Philippine products. Greater awareness on food safety requirements and understanding of the application of food safety principles by government and industry have been achieved. Continuous information dissemination through seminars and trainings on the requirements and regulations of importing countries on Good Manufacturing Practice (GMP) and Hazard Analysis Critical Control Point (HACCP) are being undertaken jointly by the government and the private sector.

Efforts have already been initiated to harmonize all food inspection and certification policies and procedures of government. A more uniform process for determining food safety and level of sanitation in food plants has been developed.

B. SUGAR AND SUGAR PREPARATIONS

Sugar used to be one of our traditional exports but local production is not even enough to meet domestic demand. Government, therefore, resorts to importing sugar from other countries to meet local demand while exporting our own sugar to fill our quota commitment to the USA.

Locally manufactured sugar preparations include centrifugal sugar, cane molasses, muscovado, panocha, sugar syrup and confectionery (both hard and soft candies). A major export under this group is cane molasses which accounts for 93% of total sugar export.

C. CEREALS AND CEREAL PREPARATIONS

Export of cereal products registered a huge growth of 55.84% from $4.83 million in 1993 to $28.5 million in 1997. It decreased however, in 1998 because of the slowdown in demand for breakfast cereals and biscuits. These products represent 92% of our total cereal exports.

D. COCOA, TEA AND SPICES

Exports of cocoa, tea and spices amounted to $21 million in 1998. The bulk of our exports went to Australia, USA, Korea, Thailand, Japan and New Zealand.

Our cocoa butter is mainly exported and used by buyers to manufacture chocolate confectioneries. Cocoa butter export accounts for 60% of our total export in this sector.

E. BEVERAGES

Export of beverages reached $12 million in 1998.

Whisky and beer account for the bulk of our export. Other major exports include coconut water, softdrinks, rum and rice wine. Philippine export of softdrinks is largely dependent on agreements between mother companies such as Coca Cola and Pepsi Cola on one hand, and Philippine franchise holders on the other hand. The major export markets of beverages are Taiwan, Japan and Hongkong.

STRATEGIES

- ✓ Strongly encourage and provide financing assistance to export firms to help them build a quality image by working towards ISO accreditation.
- ✓ Promote the export of tropical and exotic products and pet foods.

- ✓ Encourage exporters to adapt their products with health and convenience trends and develop specialty products for the aging population, especially of developed countries.
- ✓ Liberalize and facilitate the importation of raw materials, especially sugar and packaging materials.

EXPORT TARGETS

Export of processed food is targeted at $578 million in 1999 and projected to increase to $581 million in 2000 and $584 million in 2001.

7. FRESH FOOD

Export of fresh food amounted to $700 million in 1998. Fresh food export consists mainly of fresh fruits and vegetables and marine products.

A. FRESH FRUITS

Fresh fruits exports includes banana, mango, papaya and pineapple. The industry is measured in terms of the area planted and volume of production. Except for mango, fruits for export are concentrated in Mindanao. Mangoes for export are harvested mainly from Zambales, Bulacan, Guimaras and Cebu.

The industry generates huge employment in the countryside and provides huge opportunities for beneficiaries of the Comprehensive Agrarian Reform Law who have gone into contract growing arrangements with big commercial farms.

Traditionally, Japan is the main market for Philippine fruits, accounting for almost 60% of our export. Recently, China has emerged as the second biggest importer, especially of bananas. World market demand increased by an average of 8% over the last five years, but Philippine export grew only by 1%.

The Philippines figures prominently as one of the top exporters of mango, pineapple and banana in the world market. Our proximity with the major importing countries gives us the advantage over other producing countries in terms of lower transport cost.

Financing is one of the problems of the industry. Normally, crops like mangoes are long-gestating in nature; thus the need for long-term loans.

For bananas, LOI 790, which limits the area for banana plantation restricts the ability of the industry to respond to changes in the market.

La Niña is expected to boost the production of banana, pineapple and papaya. This has been severely affected by drought due to the El Niño phenomenon. The floods in Honduras will cause a decline in its banana production. This will tighten supply and affect prices. However, mango production is expected to go down due to the La Niña which will affect flowering and fruiting.

STRATEGIES

- ✓ Actively promote the expansion of the current market and opening of new markets. Promote tropical and exotic fruits. Introduce new fruits and new varieties, e.g., lakatan in the case of banana. This indirectly dilutes the market share of our competitors.

- ✓ Establish market information monitoring networks to make producers and exporters aware of significant changes in the market. This would allow them to react faster when changes in strategies in pricing and distribution are needed.

- ✓ Address trade-related barriers to increase our access to foreign markets. These include: quarantine requirement in South Korea for our mangoes; alternative fumigation or phytosanitary treatment for mangoes to replace EDB treatment which will soon be banned for use with our plants; and the lifting of the quota allocation on bananas in Europe in favor of their former colonies to allow us to regain our lost market share in Japan, which was taken by the Latin American bananas.

- ✓ Undertake extensive information dissemination on appropriate technologies like fruit thinning, bagging, pest management, fertilization, quarantine practices, and post harvest technologies like hot water dipping treatment.

- ✓ Increase R&D on improving shipping and packaging methods like modified and controlled atmospheres to increase shelf life to enable us to penetrate farther markets like the US and Europe at lower costs.

- ✓ Work for the resolution of the CARP issue. No short-term marketing strategy will be effective unless this issue is resolved.

8. MARINE PRODUCTS

Export of marine products consists of shrimps and prawns, tuna, tropical fish and other marine products. Major importers are Japan, USA, Korea and Hongkong.

While total export slightly increased in 1998, export of shrimps showed a decreasing trend. This was due to production shortage caused by prawn diseases, e.g., luminous bacteria and Monodon Baculo virus caused by poor

water and waste disposal management and unclean environment. The production slump has caused banks to declare a moratorium on loans for all prawn business ventures. Financing, if available, is limited to extensive and traditional culture systems as these are more sustainable.

There is also at present unstable supply of fish for processing due to natural calamities, overfishing, pollution and diseases.

STRATEGIES

- ✓ Encourage foreign direct investments to develop idle and underutilized prawn ponds and to modernize and upgrade fishing vessels.
- ✓ Fast-track programs to eradicate prawn diseases.
- ✓ Fast-track compliance with health standards such as the HACCP accreditation program for the US market.
- ✓ Apply biological technology approaches to improve productivity and upgrade quality.
- ✓ Provide access to financing to prawn growers and commercial fishery.

EXPORT TARGETS

Export of fresh food will experience minimal growth in the next three years.

9. COCONUT PRODUCTS

Export of coconut products amounted to $546 million in 1998.

The Philippines is considered the second biggest coconut oil producer and the largest coconut-exporting country in the world, supplying approximately 70% of coconut products, including 50% of the coconut oil requirement of the world market. Coconut oil ranks third in the list of non-soft oils. The Philippines supplies 8.6% of the world market requirement for non-soft oil which has grown by 11% over the last five years. Our major markets are the USA, Netherlands and Indonesia.

The growing concern for environmental protection and the increasing world population have correspondingly increased the demand for coconut oil and other coconut products. Coconut oil has become a strong threat to some oil substitutes and is expected to increase its utilization in industries worldwide, replacing synthetic materials.

While the government is committed to the development of the coconut industry's competitive posture in both the local and world market, the following problems, nonetheless, affect the projection of a high export growth rate in the coming years: low farm productivity, unwarranted cutting of coconut trees, lack of farmers' training, low and unstable farmgate prices, lack of coconut development funds, and lack of infrastructure support.

STRATEGIES

- ✓ Strengthen the coconut replanting and fertilization program of the government. With government's commitment to a 3 million cocal area, coconut production (in copra terms) is expected to reach 3.5 million metric tons by 2005. Side by side with this, government must increase its effort in the enforcement of the "Coconut Tree Preservation Act" against illegal cutters of coconut trees.

- ✓ Improve the supply and quality of coconut oil through the education and skills training of coconut farmers in agricultural productivity including information on high-yielding coconut varieties and copra quality improvement programs. R&D activities on better oil extraction technologies should likewise be conducted.

- ✓ Preserve our market share even if it will require importing the raw materials. This will at the same time maximize our crushing and milling capacities, especially with the latest milling plant set up by Lu Do Lu Ym in Cebu.

EXPORT TARGETS

Export of coconut products is targeted at $586 million in 1999 and projected to increase to $624 million in 2000 and $657 million 2001.

10. MINERAL PRODUCTS

Export of mineral products amounted to $287 million in 1998.

Export of mineral products consists mainly of gold, copper concentrates, nickel and nickel concentrates, and chrome ores.

A. COPPER ORES AND CONCENTRATES

The Philippines has vast copper reserves, accounting for 3% of the world copper reserves, and making it the biggest producer of refined copper in Asia.

As of 1997, the 33 companies that comprise the entire copper industry employed a total of 20,000 direct and indirect labor of which 13,000 or 65% are in the primary sector particularly mining.

At present, however, three of the seven producers of primary copper products are not operating. There was a decrease of 28% in the industry's export partly due also to the financial crisis experienced by the Philippines' major export markets: Japan, Korea and Thailand.

B. CHROMIUM ORE

The Philippines is considered one of the top ten producers of chromite because of its extensive deposits of chromium ore.

Our major markets of chromium ores and concentrates are Japan, Brazil, China, Germany, USA, Peru, Canada, Chile, Netherlands, Korea and Taiwan. Exports, however, have been on a decline since 1996.

Chrome ore, being a specialized metal, is not highly affected by inflationary/recessionary economic situations. However, the level of demand for chrome is roughly determined by the capacity of a country to produce cars, appliances, and specialized equipment for research and exploration.

Our ores and concentrates have become expensive compared to our competitor countries because of the outdated equipment used in exploration and processing.

STRATEGIES

- ✓ Implement the Mining Act to allow investments to come in.
- ✓ Conduct an aggressive promotion campaign to encourage foreign direct investments in mining and processing.
- ✓ Identify sources of cheaper funds for technology acquisition for existing operators in the industry.

EXPORT TARGETS

Export of mineral products is targeted at $289 million in 1999 and is expected to increase in the succeeding years.

11. FOREST PRODUCTS

Export of forest products amounted to $23 million in 1998, a decrease of 49% from 1997 export.

Exports, which include lumber, plywood and veneer, have been decreasing because of the low supply of wood brought about by our dwindling forest reserves. In order to protect our market share, the industry should be assisted in the entry of its raw material imports, including of chemicals and consumables.

12. *OTHER RESOURCE-BASED PRODUCTS*

Exports of other resource-based products amounted to $441 million in 1998.

This product group consists of natural oils, fats and waxes, abaca fibers, rubber, seaweeds, marble, cutflowers and others.

A. SEAWEEDS & CARRAGEENAN

The Philippines produces about 466,000 metric tons of seaweeds or about 22,000 metric tons of carrageenan annually, generating employment for about 200,000 farmers and 12,000 workers in the processing plants.

The country is the world's leading producer of eucheuma seaweed, accounting for 80% of world supply. Our low production cost for Philippine Natural Grade (PNG) carrageenan, developed using local production technology, but with the same quality and applications as refined carrageenan, has made the Philippines the no. 2 exporter of PNG and refined carrageenan. Combined, the two products take up about 20.4% market share. However, export has not grown at the same rate as world demand which is expected to grow by 9% annually starting 1999.

The El Niño and La Niña phenomena affected the country's seaweeds harvest and caused a decline in the production of carageenan. Moreover, the currency crisis that began in 1997 seriously affected the operations of carrageenan processors because of the suspension of their credit lines, thus impairing their working capital.

The ratification by the European Parliament accepting the export of our PNG or processed eucheuma seaweed for food grade to the European Union has increased the usage of PNG in the processed food sector in the EU and other markets such as Eastern Europe. In 1996, the Philippines became the worldwide supplier of carrageenan for Colgate.

STRATEGIES

- ✓ Target promotion to institutional buyers and develop new markets especially where there is high demand for processed meat products.

- ✓ Complete the establishment of the Seaweed Center in Tawi-Tawi to develop the farmers and increase their productivity.
- ✓ Encourage seaweed farming in other suitable areas and provide ample supply of seedlings.
- ✓ Continue R&D on genetic improvement and disease control. Develop new applications for the product.
- ✓ Protect marine environment from pollution and other destructive activities.
- ✓ Provide developmental and recovery financing programs for distressed firms and seaweeds farmers.

B. MARBLE

Export of marble amounted to $9 million in 1998, which is 3% lower than 1997 performance. The Philippines' market share decreased considerably to less than the 1% registered in 1992.

Philippine marble products have already gained entry and recognition in the international market. With the Philippines' rich marble deposits of about 6.6 billion tons, and the huge and growing world market, growth prospects for the export of marble are bright.

Major concerns, however, constrain the growth of the sector. The quarry permits issued by local government units are only good for one year, renewable every year for five years. This discourages investments in serious marble quarrying. Moreover, the bureaucracy and red tape in the processing of permits particularly at the local government level delay and hamper the development of quarries.

STRATEGIES

- ✓ Local government should grant longer-term permits to allow investors to recover their investment; strictly monitor claim sitting by operators, and facilitate processing of necessary permits.
- ✓ Encourage investments to develop new quarries and improve productivity of existing quarries. Set up modern processing plants. Develop new marble products for export.
- ✓ Establish more common service facilities for processing and training to improve productivity and upgrade the quality of marble products.
- ✓ Conduct aggressive promotion of Philippine marble through participation in trade fairs and development of promotional materials.

- ✓ Provide full support, through our Philippine diplomatic and commercial posts, in aggressively searching and bidding supply of marble requirements of overseas construction projects.

EXPORT TARGETS

Total export of other resource-based products is targeted at $462 million in 1999. It is projected to reach $481 million in 2000 and $495 million in 2001.

13. ELECTRONICS

Total electronics export grew by 33% in 1998 reaching $19.873 billion and accounting for 67% of total Philippine exports.

Electronics export is dominated by semiconductor devices, which comprise 79% of total electronics export for 1998. Other sub sectors include electronic data processing equipment, telecommunications apparatus, electrical machinery, sound and video apparatus, and consumer electronics.

The growth of the country's electronics export is driven primarily by increased foreign investments in the sector, which find in the Philippines some comparative advantage in assembly operations and low-end manufacturing because of its large, skilled, highly-trainable, English-speaking and relatively low-cost labor force.

Investments in the electronics industry grew significantly in 1994 ($1.29 B) and 1995 ($2.16 B) but dropped in 1996 ($1.08 B) and 1998 ($671 M) as the industry experienced a worldwide softening in terms of growth. As of end-1998, the Philippines was home to 435 electronic firms, 29% of which are Japanese-owned and 31% are locally owned. Most of these leading electronics firms use state-of-the-art processing technologies, latest organizational techniques like just-in-time inventory and total quality management, and have been certified for ISO 9000 quality management. As the industry is engaged in labor-intensive assembly and manufacturing, it has also become an important source of employment, employing about 170,000 people in 1997.

Despite its phenomenal growth, the Philippine electronics export sector suffers from structural weaknesses arising from the high concentration on semiconductors, the low technological level of local manufacturing activity, and the low local value added and design content. Although the industry estimates the value-added content to have risen to almost 30%, the level has not increased significantly over the past two decades.

One of the major drivers for the growth of the electronics industry is the convergence trend. The trend of convergence in telecommunications and

computing technologies with media applications will drive semiconductor demand with world market estimated to grow at 20% a year to $300 billion by 2000. Moreover, with the country's large supply of English-speaking skilled workers compared to its neighboring countries, most of whom are experiencing skilled-labor shortages and rising costs, it is reasonable to expect that more production capacities will move out of Malaysia and Thailand into the Philippines. This is further supported by Malaysia's move to produce higher value-added electronic products through its wafer factories, vacating products for the Philippines.

STRATEGIES

Sustaining the growth of electronics export requires joint effort between the government and private sector to address the low value-added production and low design content plaguing the industry. Following strategies must be adopted:

- ✓ Intensify and diversify foreign direct investments to upgrade and increase current production facilities. There is a need for a more focused country marketing and investment promotion strategy. As discussed above, the Philippines should be able to attract a number of industries that will be migrating from Malaysia, Thailand and Singapore due to the changing environment in these countries.

  The current investment targets can be directly related to the export growth targets, with a 12-month time delay built in to allow for building of facilities, staff recruitment and training, and production ramp up. For electronics, a tried and tested rule of thumb is that every dollar of investment produces two dollars of exports.

- ✓ Expand the base of domestic suppliers and subcontractors. This will generate significant value added and provide a powerful base from which the final product manufacturers can thrive. The conduct of a reverse trade fair will present both foreign and local suppliers the growth opportunities in the electronics sector.

- ✓ The long-term growth of the electronics sector can only be sustained if it moves on the next level of technology for higher value-added and higher design content products. Increase the capability of Philippine firms to undertake original equipment manufacture (OEM) for export, where a local firm makes a complete product to specifications supplied by a foreign manufacturer, which then sells it under its own brand.

- ✓ Continue to upgrade the skills of the labor force and provide an environment conducive to innovation, both in the production line and in the drawing board, in order to attract investments for electronic products.

EXPORT TARGETS

Export of electronics is targeted to reach $23.88 billion in 1999 and projected at $28.58 billion in 2000 and $33.83 billion in 2001.

14. CONSTRUCTION MATERIALS

Export of construction materials amounted to $97 million in 1998.

Among the big exporters are National Steel Corporation, Mindanao Steel Corporation, Alsons Cement Corporation and Mabuhay Vinyl Corporation.

Expectations for growth in the export of construction materials are not so good because many of our manufacturers, particularly of steel products, are not improving the quality standards of their products. Thus, they are unable to meet international standards and requirements. This may be due to the high cost of new technology and of financing the acquisition of new technology. Consequently, our construction materials are not internationally price-competitive. With trade liberalization, a lot of imported materials have already found their way into the local market, which consumers prefer because these are cheaper and of better quality.

Majority of our manufacturers and processors still use outdated equipment and there is lack of design and engineering centers, state-of-the-art laboratory and testing facilities especially for wood, metals and concrete products. Infrastructure and other support services need improvement.

Despite the Asian economic crisis, demand for infrastructure projects and construction materials remain high. There is a huge opportunity existing in the BIMP- EAGA region especially since most of the major players are located in Mindanao.

STRATEGIES

- ✓ Address the urgent need for technology upgrading and modernization and the enhancement of productivity and improvement of quality through the promotion of the ISO 9000 series, PNS/product standardization, and other productivity and quality improvement programs at the plant level. With technology upgrading, training of workers becomes critical.

- ✓ Strengthen the linkage between the overseas construction service industry and the construction materials industry. Encourage the promotion of Philippine-made construction materials hand-in-hand with the promotion of our construction services. Negotiate for the supply of local materials for overseas projects and other local construction projects which are foreign-

funded, under BOT or BOO arrangements or under international aids or grants.

✓ Encourage investments in the sector.

EXPORT TARGETS

Export of construction materials will experience minimal growth for the next three years.

15. METAL MANUFACTURES

Total export of metal manufactures amounted to $334 million in 1998.

This product group is composed of iron and steel, copper, iron agglomerates and other metal manufactures. Copper accounts for 56% of Philippine export of metal manufactures.

A. COPPER PRODUCTS

This sector covers the intermediate and finished forms of copper such as copper cathodes, copper rods and wires.

There are about 26 companies operating under this sector, employing about 7,000 workers. The Philippine Associated Smelting & Refining Corporation (PASAR) is considered the biggest of these and the only copper cathode producer in the country with an annual production capacity of 172,000 metric tons. When financially rehabilitated, PASAR is expected to become the main focus of the strategy to develop the Philippine copper industry.

The top export markets of copper cathodes are Japan (32.6%), Singapore (20.6%), Taiwan (18.3%), Korea (13.8%) and China (8.7%). Main import sources on the other hand are Taiwan (62%), Japan (29%) and Singapore (9%).

Because of its strong backward and forward linkages and the tariff liberalization of some of its raw material inputs, copper products have become more competitive, thus improving their export potential.

The Philippines has been recognized as a supplier of copper products in the world market because of the local companies' ability to produce according to internationally accepted standards and the country's proximity to the world's major markets.

STRATEGIES

The Philippines should be able to capitalize on its available copper resources and the expected substantial growth in regional demand for copper products by encouraging investments in the manufacture of as many types of finished products as possible. To increase export the following strategies must be adopted:

- ✓ Speed up the financial rehabilitation of PASAR to make it a financially strong core of the copper industry. This will be the key to the development of a world-class copper industry. With PASAR's rehabilitation, it should eventually be able to provide a price-competitive source of quality copper cathodes to the local fabricators and manufacturers.

- ✓ Encourage foreign direct investments and local companies to enter into joint ventures to expand, modernize and integrate their operations and go into high value-added products.

- ✓ Strengthen product standards implementation and promote a proactive testing system through the establishment of more testing facilities. An endorsement system for products conforming to established standards and a strong sanction mechanism for non-standard conformance should be implemented.

- ✓ Continue the tariff liberalization program for the other raw material inputs in order to address also the issue of technical smuggling.

B. IRON AND STEEL PRODUCTS

The product coverage of the iron and steel industry includes ingots, slabs, blooms and billets, hot-rolled and cold-rolled coils and strips, bars, plates and sheets, pipes and tubes, bolts and nuts, galvanized and other coated sheets, tin cans and crown, welding electrodes, and other specialty products.

There are about five new BOI-registered steel projects with some already in commercial operation. This means the entry of modern technology used in the manufacture of these steel products.

Product standards exist but compliance is generally poor. Quality is recognized as important, especially if export markets are to be developed, but the domestic market is still driven largely by price.

While the Philippines offers a set of incentive packages competitive with those of its ASEAN neighbors, its existing power rates are high which place the local steel industries at a significant disadvantage. The limited port and handling facilities

and lack of access to cheap development funds further impair the growth of the local firms.

STRATEGIES

In order to enhance the competitive position of the Philippines in the export of iron and steel products, the following strategies are recommended:

- ✓ Bridge the modernization gap not only in the area of manufacturing but also in the areas of information technology, systems management, materials sourcing, productivity and research development. Encourage modernization as a regular activity to ensure continuous upgrading and avoid traumatic leaps in the modernization process.
- ✓ Implement product standards and quality and productivity improvement programs strictly. This move, together with the continued tariff liberalization, will deter competition from both substandard local and imported products, and minimize if not eliminate technical smuggling.
- ✓ Align Philippine power costs with competitors.

EXPORT TARGETS

Total export of metal manufactures is targeted at $337 million in 1999 and projected at $339 million in 2000.

16. CHEMICALS

Export of chemicals for 1998 reached $ 340 million.

The chemical industry consists of organic chemicals (e.g., oleochemicals and cocochemicals), inorganic chemicals, fertilizers, resins and plastic materials, activated carbon, and other industrial and consumer chemicals.

There are now over 300 companies in the Philippines that are engaged in the manufacture of chemical products, with more than one third included among the top 1,000 corporations.

Exports of oleochemicals and cocochemicals accounted for about 14% of total chemical export. There are 12 existing firms in the country and the major players are United Coconut Chemicals, Inc. and Pilipinas Kao, Inc. The increasing demand for environment-friendly products such as oleochemicals and the expanding applications of cocochemicals provide growth opportunities both in the domestic and export markets. Industry, however, should watch out for the increasing competition from synthetic-based fatty acid, fatty alcohol, glycerine

and derivatives sold at cheaper prices due to the lower cost of ethylene compared to coconut oil.

Fertilizer is also considered one of the main exports of the chemical industry. Actual export performance for 1998 is $88 million with Philippine Phosphate Fertilizer Corporation. accounting for the biggest share. Vietnam has been the main export market accounting for 85% of total export revenues. Other markets are Taiwan, China and Indonesia.

World imports of fertilizer grew by 11% while Philippine exports grew by only 3% accounting for 0.2% market share. The international fertilizer industry, particularly in the Asian region, is heading towards severe competition within the next two years with the putting up of new phosphate fertilizer plants especially in the ASEAN region.

STRATEGIES

- ✓ For oleochemicals, encourage additional investments and improve the supply and quality of coconut oil through the conduct of R&D activities on better oil extraction technologies. These should enable the country to produce oleochemicals at qualities competitive worldwide.
- ✓ For fertilizer, encourage investments in fertilizer manufacturing and the production of intermediate fertilizer products such as diammonium phosphate, phosphoric acid and muriate of potash. There is increasing demand for these products in the export markets.

A. PETROCHEMICALS

Export of petrochemical products amounted to $54 million in 1998.

Petrochemical products include olefins, aromatics, resins, ethylene and propylene derivatives, and fabricated products like plastics, coatings, adhesives and fibers.

Because of the potentially large domestic consumption, there are a number of petrochemical projects starting up and available investors willing to finance petrochemical projects in the country. Being a new industry, petrochemicals enjoy the distinct opportunity to use the latest state-of-the-art technology.

There are, however, rapid build-up capacities in petrochemicals in the ASEAN, notably in Indonesia, Thailand and Malaysia. There are huge capacities already in place in more developed economies. Most of these countries enjoy strong government support and local availability of cracker feedstock.

STRATEGIES

- ✓ Encourage foreign direct investments to develop both backward and forward integration via the establishment of naphtha cracker plants and the use of other crackers to add value to the present product mix.
- ✓ Conduct productivity/quality enhancement initiatives to reduce costs and encourage extensive R&D activities to develop new products from available materials.

EXPORT TARGETS

Total export of chemicals is targeted at $344 million in 1999 and projected at $346 million in 2000.

17. MACHINERY AND TRANSPORT EQUIPMENT

Total export of machinery and transport equipment reached $852 million in 1998. The country's major exports under this category include wiring harness (accounting for about 70%), automotive transmission, road wheels, radiators, batteries, and other parts and accessories.

Major markets for Philippine metal products are Japan and USA which when combined account for 80% of total exports. Other major market destinations are Germany, Thailand, Australia, Indonesia and Taiwan.

There are about 300 companies engaged in automotive parts manufacturing employing about 45,000 workers; the automotive assembly plants employ about 25,000 workers. The present workforce is recognized to be highly skilled and trainable. The manufacturers themselves have contributed to the growth of the industry through the continuing education and training of workers in vocational schools with the assistance of agencies like the Technical Education and Skills Development Authority (TESDA).

With the advent of the Asian crisis, the industry saw unutilized existing capacities of about 40% in assembly operations and 30% in parts manufacturing. Moreover, the advanced phase of liberalization of the Philippines compared to its ASEAN competitors and the eventual phase-out of the local content and foreign exchange requirement by year 2000 compound the present difficulties experienced by the sector.

STRATEGIES

- ✓ Aggressively promote brand-to-brand complementation under the ASEAN Industrial Cooperation (AICO) Scheme and aggressively encourage joint

ventures and strategic alliances between local and foreign parts makers and car manufacturers.

- ✓ Start a "localization" plan to build supply linkages with local companies for certain components which are normally imported. This can be done through a reverse trade fair to provide our local firms an array of supply prospects. Then, develop and train our SMEs to become world-class suppliers.

EXPORT TARGETS

The export of machinery and transport equipment is targeted to grow at 10.79% in 1999 with a total value of $944 million, at $1.041 billion in 2000, and $1.134 billion in 2001.

18. TEXTILE YARNS AND FABRICS

Export of textile yarns and fabrics amounted to $196 million in 1998. It experienced a sharp decline from the 1997 performance of $253 million.

Philippine export, however, has grown faster than the world trend from 1993 to 1997. There have been registered new foreign investments in the yarn and woven fabrics sector particularly from Taiwan and we expect performance to improve.

A restructuring and upgrading of the textile sector is long overdue to greatly help the competitive position of Philippine garment exporters.

STRATEGIES

- ✓ Encourage foreign direct investments in spinning, dyeing, finishing and printing.
- ✓ Invite investors to avail of underutilized quotas especially those who can bring in new technologies to upgrade and diversify production.

EXPORT TARGETS

Exports of textile yarns and fabrics are targeted to reach $215 million in 1999 and projected at $236 million in 2000 and $255 million in 2001.

19. INFORMATION TECHNOLOGY

The Philippines is now recognized as the second largest exporter in the information technology (IT) industry in Asia, second to India. Export attributed to the sector has grown rapidly from about $60 million in 1993 to about $345 million in 1998. The US is the major market for IT services, accounting for more than 80% of total exports. Canada, Australia and the European Union are good secondary markets.

The information technology industry in the country consists of software development, data encoding and conversion, systems integration and customization. The world market for such exports is immense and growing tremendously, and there are likely significant first mover advantages that the country can reap.

Majority of the IT companies are Filipino-owned. The Philippines has some 200 software firms employing about 30,000 IT professionals. Filipino IT professionals are recognized among the most highly trained and skilled in the world. Because of their relatively low wages and high skills, however, their employment abroad has created a vacuum of qualified manpower among local software firms.

Aside from internal skill shortage, the virtual absence of financing for technology, expansion and overseas marketing, and the lack of efficient telecommunication facilities constrain entry and growth.

Export growth for IT will be spurred by a number of emerging situations: a) the global trend towards electronic commerce as the world continues to embrace the web; b) the pressing problem posed by the Year 2000; and, c) the increasing need for offshore applications software development and maintenance by many large corporations forced to continually update their information systems because of rapid developments in information technology.

STRATEGIES

In order to maximize the industry's benefits from these opportunities, the following strategies must be adopted:

- ✓ Intensify the education of more IT professionals to overcome the brain drain problem. In addition to the need to set up training institutions to ensure availability of IT workers to support the expansion of Philippine software houses, educational institutions need to enhance their curricula, and training centers need to address specific emerging skills needed in the market. At the same time, consider and intensify distance learning programs for IT trainees.

- ✓ With the world market for traditional text and record conversion becoming less profitable, the Philippine IT industry should redirect its efforts towards more

centers need to address specific emerging skills needed in the market. At the same time, consider and intensify distance learning programs for IT trainees.

- ✓ With the world market for traditional text and record conversion becoming less profitable, the Philippine IT industry should redirect its efforts towards more value-added services such as electronic publishing, imaging, medical and legal transcribing and electronic mapping for intelligent buildings.
- ✓ Strengthen marketing efforts through continuing participation in export development missions and fairs. Organize high-level missions to establish strategic business alliances with foreign partners like the establishment of multinational headquarters in the country.

EXPORT TARGETS

Export of IT services is targeted to reach $480 million in 1999 and projected at $675 million in 2000.

20. FILM ANIMATION

Philippine export of animated products registered a steady growth from $6.83 million in 1993 to $23.32 million in 1996. However in 1997, export dropped to $5.44 million partly due to the Asian financial crisis. Japan, which imported $9.01 million in 1996 bought practically nothing in 1997 ($0.04 million). The decrease was also caused by stiff competition from other emerging exporters like Korea, Vietnam, India and Hongkong. Our major markets are USA (55%) and United Kingdom (24%).

There are about 10 major animation studios in the Philippines; they are mostly affiliated with foreign companies. There are only a few players in the industry because of the big capitalization needed to put up an animation studio.

The Philippine film animation industry managed to make a remarkable entry into the international market. The great artistic talent of Filipinos is the key to the international recognition we have gained in the animation world. Many famous animation characters in most parts of the world are actually creations of Filipinos.

The strong demand for animated films for movie and television worldwide offers attractive export opportunities for our Philippine animation studios.

STRATEGIES

To fully exploit the export opportunities offered to us by the international market, we need to address basic strategic concerns facing the animation industry. Among these are:

- ✓ Develop and put up adequate and appropriate training programs with state-of-the-art training facilities to assure a steady and increasing supply of highly trained animators
- ✓ Encourage tie-ups among key players in the industry to bag special contracts abroad which could further enhance the country's reputation as a good source of animated products.
- ✓ Target high-level personal contacts with international moguls of the industry, e.g., Disney, to establish animation studios in the Philippines.

21. PROFESSIONAL CONSULTING SERVICES

For export purposes, professional consulting services focus on two main areas: engineering consulting services and management consulting services.

Philippine export of engineering services has steadily grown from $12.23 million in 1993 to $28.35 million in 1997. However, the decline in infrastructure projects as a result of the Asian financial crisis brought down export earnings to $9.78 million in 1998.

Export of management services, on the other hand, did not show steady growth. From $11.78 million in 1993, exports amounted to only $12.27 million in 1997. (No data available for 1998.)

Many Philippine professional consulting firms have developed a sufficiently large domestic base and a favorable reputation that enabled them to handle consulting assignments abroad. The sector's inherent strengths contributed to the development of a sufficient track record and capability. The industry boasts of the capabilities of its professionals in the use of modern technology in the detailed conceptualization, execution and delivery of projects to their clients; familiarity with all international standards; fluency in English; and most of all, low billing rates.

STRATEGIES

To maximize the market opportunities for professional consulting services, the following strategies must be adopted:

- ✓ Government should continue to work under GATS towards the liberalization of the professional practice in countries with strict/closed regimes and work for more Mutual Recognition Agreements

- ✓ Where practical, encourage the formation of consortiums among local firms to reduce risks, combine expertise, and increase bargaining power.
- ✓ Conduct matchmaking missions to identify which Philippine capabilities will be needed in which country. Marketing missions should be conducted to promote our consulting services abroad and forge strategic alliances with counterpart firms in target markets.
- ✓ To maintain and enhance competitiveness, continuously upgrade the professional skills of Filipino consultants through appropriate training programs.

22. OVERSEAS CONSTRUCTION SERVICES

Foreign exchange remittance for the first three quarters of 1998 reached $23 million compared to total export of $26 million in 1997. The industry attained its highest level of export performance in 1983 when it brought in $232 million of foreign exchange earnings. Since then, the industry experienced a downtrend in remittances.

Coinciding with this trend is the level of manpower deployment. In 1997, Philippine construction companies deployed a total of 4,546 workers on site. This was a 44% decrease from the 1993 manpower deployment level of 8,107 workers.

The work experience of Philippine overseas contractors is varied and individual companies have their own specialization. These companies can undertake projects involving high-rise or low-rise buildings, electro-mechanical works, industrial plants, steel fabrication and assembly, electronic and communication engineering, power transmission and distribution, ports, piers and harbors, roads, dams, bridges and irrigation systems, quarrying, site development, project management and consultancy.

While the industry boasts of a wide export base for contracting services with 8,790 licensed contractors in 1998, the number of contractors registered to engage in overseas work decreased considerably. Philippine contractors are faced with restrictive policies of host countries, strong competition from established foreign contractors, lack of government financial support and lack of exposure to modern technology. Given these limitations, Philippine contractors are more in a position to participate in manpower service arrangements and subcontracts especially in the areas of electro-mechanical works and fabrication.

The Middle East and the Asia Pacific Region (ASPAC) are the main regions of opportunity for Philippine contractors. Saudi Arabia is still a major market

although Asia as a whole has overtaken it recently because of protectionist policies favoring local contractors and manpower in the former.

The ASPAC Region is a bright prospect for construction services because of its requirement for additional infrastructure, lack of skilled manpower, and proximity to the Philippines. Based on a World Bank assessment, Asia's demand for infrastructure will remain high despite the region's current economic crisis. Infrastructure investment in the region is needed to fuel economic growth and Asia's infrastructure investment requirement is estimated to range from $1.6 trillion to $2.0 trillion.

STRATEGIES

Promotional efforts should concentrate on new construction service packages (fabricating, architecture, interior design, etc.) and specialty contractors. Direction should be towards forging working arrangements with established foreign contractors with projects in the Middle East and Asia. Since the high cost of labor has rendered the Philippines less competitive, the industry should venture more in other specialized fields such as fabrication, surveying, engineering works, etc.

- ✓ Maximize benefits from foreign investments, including foreign-funded government projects, by encouraging project proponents to engage the services of Philippine contractors. This at the same time hones the expertise of Filipino contractors to better prepare them for overseas contracts. At present, there are a number of foreign contractors operating in the Philippines, easing out local contractors even in the local market.

- ✓ Provide full support, through our Philippine diplomatic and commercial posts, to Filipino bids for contracts overseas, not excluding countries like South America, where a Philippine company managed to get a contract for the construction of port and arrastre facilities.

EXPORT TARGETS

Export of construction services is targeted at $30 million in 1999 and projected at $35 million in 2000, and $40 million in 2001.

ANNEX B

THE CONCEPT OF INDUSTRY CLUSTERING

A. INTRODUCTION

Professor Michael E. Porter first described the analytical framework for determining national competitive advantage in his book, *The Competitive Advantage of Nations* (1990). Now known as Porter's diamond, the framework specifies the determinants of national competitive advantage, and describes the role of various players in a particular industry, including that of government and chance. In short, national competitiveness arises from the presence of capable firms, an exacting domestic market, effective supporting industries, and supporting institutions. Porter's main contention is that **competitive clusters of firms** rather than the presence of mere individual competitive firms, have more to do with national development.

The interplay among the determinants reinforces the creation or loss of competitive advantage, as firms in industries are linked, either vertically or horizontally. Thus, innovative suppliers will fuel and abet novelty of the firms, poor infrastructure will inhibit firm growth (but may also lead firms to explore alternative ways to get such service), rapidly changing local rivals will urge firms to keep or lose buyers, restive labor unions may drive firms to mechanize and automate, etc. At the root of national competitiveness are competitive industry clusters, made up of competitive firms. At the firm level, competitiveness is indicated by measures such as increased market share, profitability and long-term survival.

This supplemental plan aims to explain the basic concepts of Porter's work and how it has evolved into the framework which has been adopted by various nations to analyze and enhance their own national competitiveness. It starts with the firm-level framework before it moves on into the national competitiveness diamond.

It also includes a discussion of **systemic competitiveness,** as expounded by Jörg Meyer-Stamer and his colleagues at the German Development Institute in Berlin in 1996, which goes beyond Porter to present a systematic analytical framework on the factors which promote or block industrial development. Locational considerations figure highly in this model.

B. INDUSTRY STRUCTURE

The diamond is preceded by Porter's works on competitive strategy and competitive advantage (at the firm level). *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (1980) focused on industry structure and competitor analysis. Industry structure determines how individual firms can become profitable given differing structural settings (fragmented industries, emerging industries, transition industries, declining industries and global industries), utilizing business strategies as vertical integration, capacity expansion and entry decisions.

Five forces determine the competitive drivers affecting any industry, whether producing goods or services. These forces are the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry among existing competitors. The potency of these forces vary, lies between industries and can change as the firms and the industry itself evolves. Strategic decisions of individual firms can also change the dynamics of the five forces. The economic and technological characteristics of each industry define the structure, as shown in Figure 1.

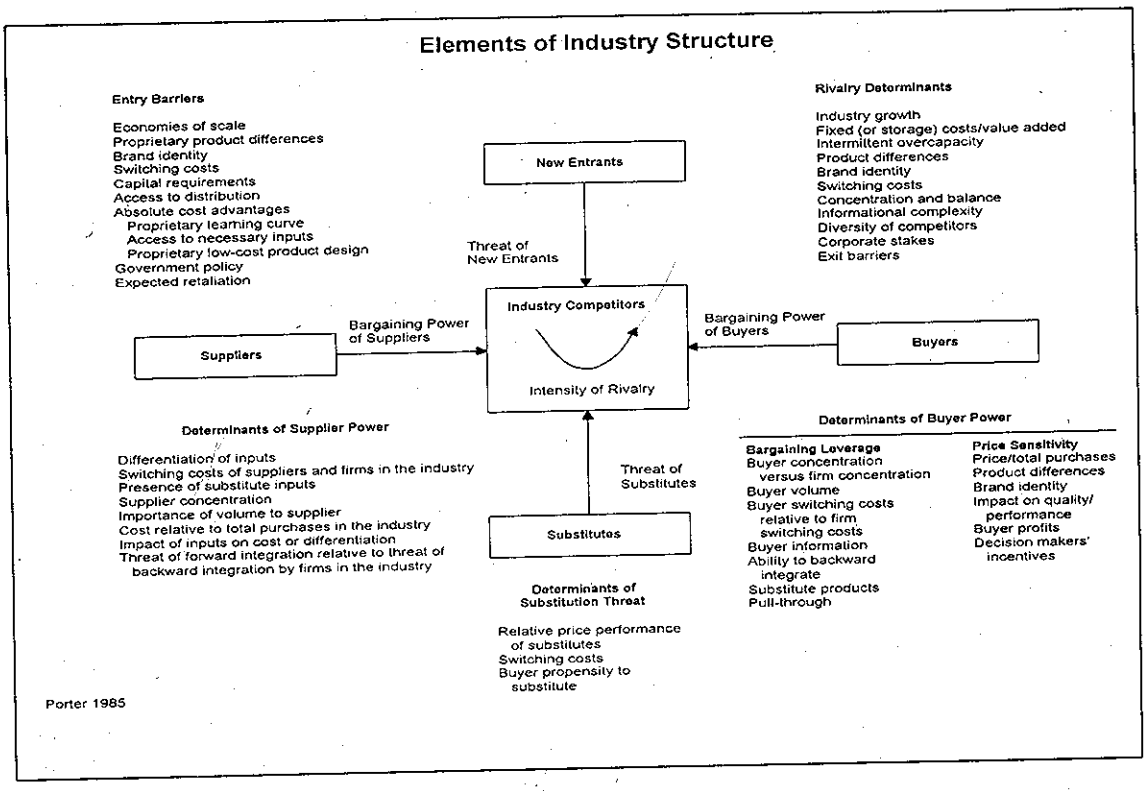


Figure 1. Porter's Five Forces

C. PORTER'S VALUE CHAIN

The second work, *Competitive Advantage: Creating and Sustaining Superior Performance* (1985) introduced the value chain, analysis of which allows the manager to separate the firm's primary and support activities in pursuit of designing, producing, marketing, delivering and supporting its product. The firms' competitive advantage in the industry arises from performing these strategic primary and support activities in the more efficient way or at lesser cost or better than its competitors.

How these activities are performed is a function of the firm and the circumstances surrounding it – its history, its own vision and strategies, how these strategies are implemented, and the economics of the activities themselves.

The value chain, then, is the way each firm organizes and performs the activities which create value for its buyers. To gain competitive advantage, firms, then, must either lower costs for comparative products versus their competitors, or charge a premium for products differentiated from that of their competitors. Value is defined as the amount buyers are willing to pay for what firms provide them, measured as total revenue of each firm. Porter's value chain is shown in following diagram.

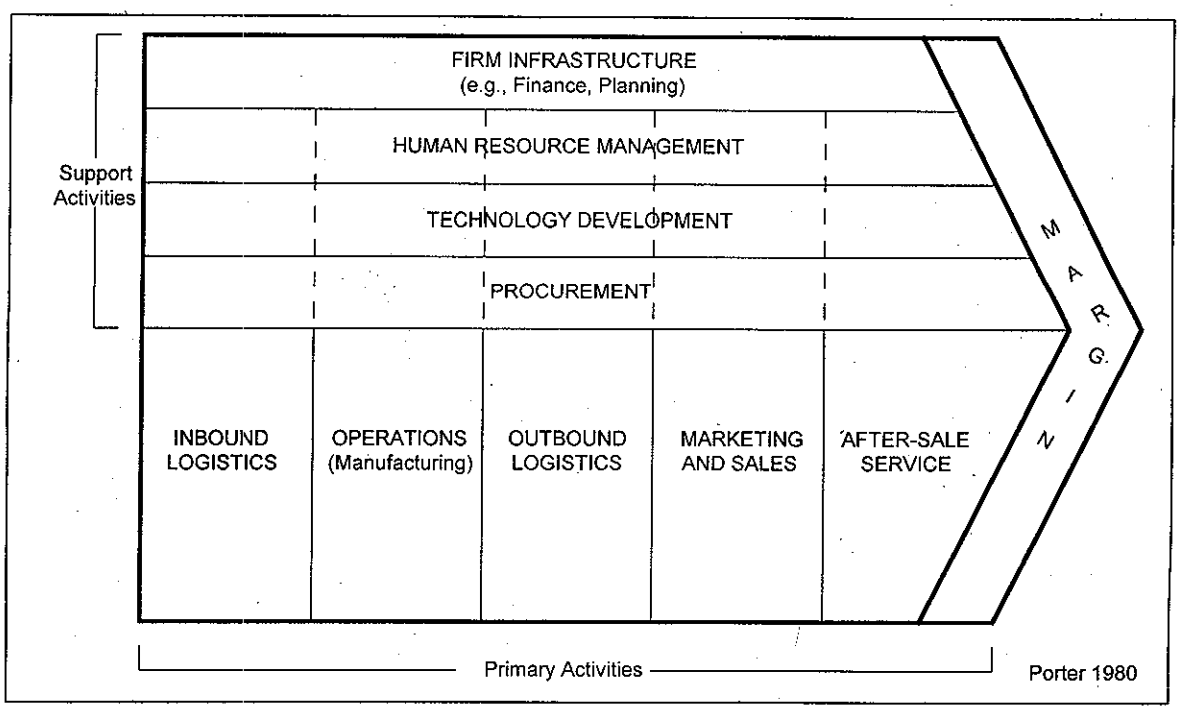


Figure 2. The Value Chain

Total value can be divided into two main components: value activities and margin. Margin is the residual between total value and the aggregated costs of performing the value activities. Firms must strive to make sure that buyers perceive that the value its products provide (through the market price mechanism) is higher than collective costs associated with the completion of its value activities.

D. THE VALUE SYSTEM

Firms do not operate in isolation, neither do their value chains. The firm has its own set of suppliers, channels or distributors and buyers. Each of these groups have their own value chains, and these chains become part of the buyer's value chain through the products bought by the buyer. All these chains form the system which underpin the competitiveness of the industry cluster.

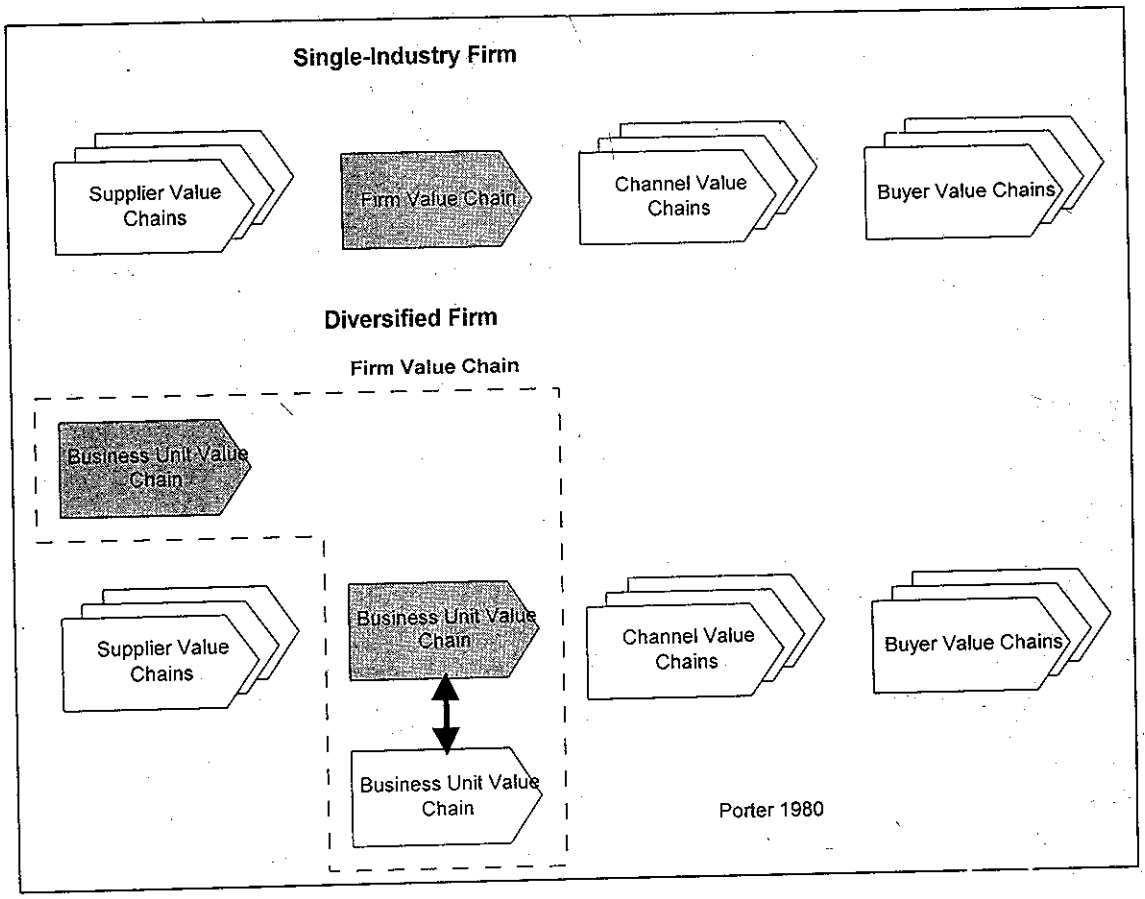


Figure 3. Value System

E. PORTER'S DIAMOND

The Competitive Advantage of Nations (1990) brought all the seeds of Porter's model beyond the firm and into the realm of the nation. The four factors defining the sides of the diamond are mutually reinforcing, for good or for bad:

1. Firm Strategy, Structure and Rivalry denotes the rivalry among the firms or companies in the same industry, and includes how the firms are created, how they grow, how they are managed and organized;

2. Demand Conditions refer to the home consumers, who are the first to react to the local industries, products. Difficulties in pleasing this market get producers used to dealing with differing characteristics of import countries.

3. Related and Supporting Industries refer to the supplier and ancillary industries, who must also be internationally competitive. This is to make sure that inputs to the industries are competitive from the very beginning of the manufacturing or service process.

4. Factor Conditions refer to the factors of production, be they natural resources, skilled or unskilled labor, infrastructure, and utilities.

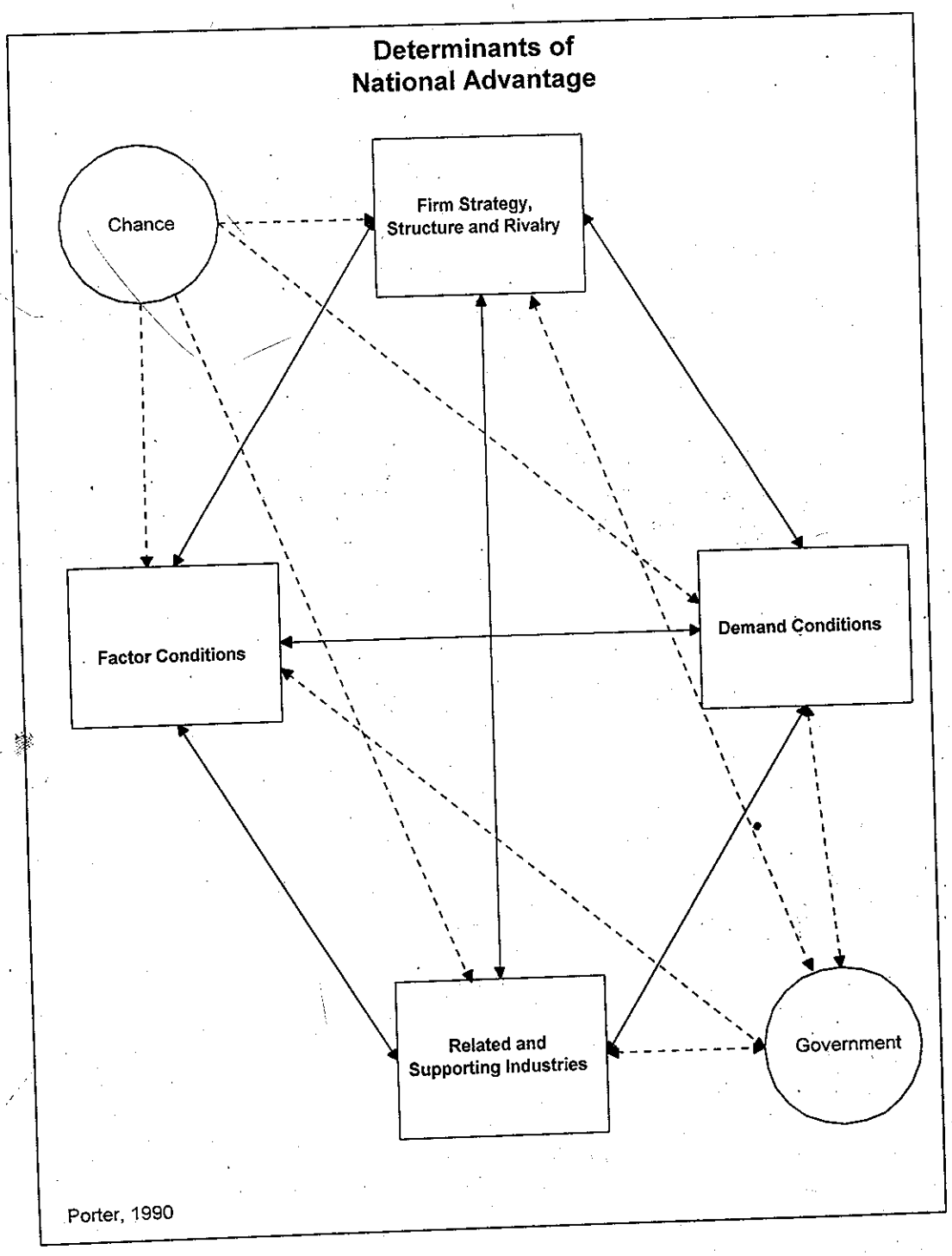
To complete the system, the all-important role of government and chance are included. These two define the general environment of business in an area. Government is expected to be facilitative, have a stable political system, and to have long-term commitment to economic development in the international arena.

Chance refers to sudden developments which can change the structure of industries or the environment in which they operate. Examples include the finding of new technologies which change production processes or the way goods and services can be delivered to target consumers. Shifts in demand patterns are also classified here. The diamond is given in Figure 4.

For the countries discussed in Porter's book, cluster charts were prepared for the competitive industries. These export industries are those which, for the data year of the *United Nations International Trade Statistics Yearbook,* recorded a market share of world imports bigger than or equal to the nation's market share of total world imports. The chart (Figure 5) classifies products by end-use applications, and divided into broad categories.

The top row are primary products termed upstream sectors, the second row are products with industrial or supporting functions such as transportation and energy, and the lowest level are final consumption goods. Each broad category also specifies the primary goods used in production, the machinery used for production, the specialized inputs and the services needed to produce the products.

Figure 4. Porter's Diamond



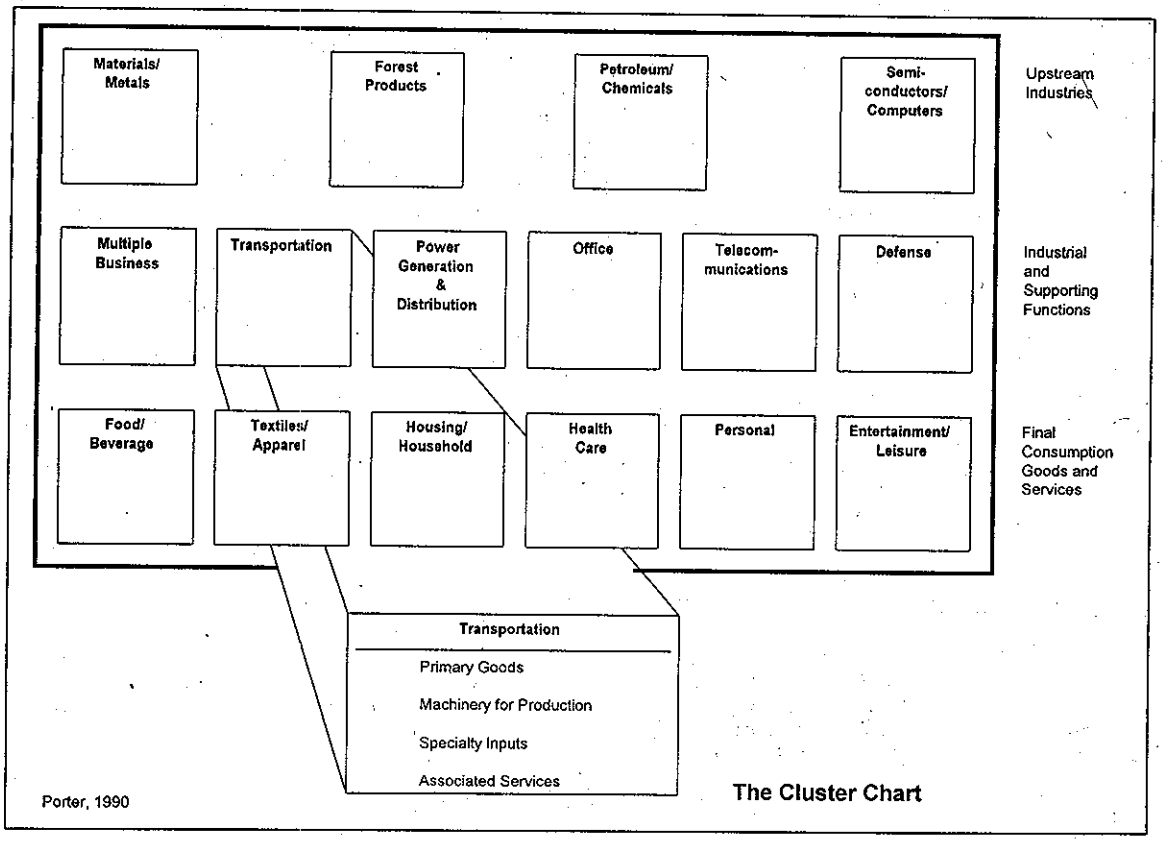


Figure 5. Cluster Chart

F. SYSTEMIC COMPETITIVENESS

Taken beyond Porter's diamond, industry clusters will be the key to boosting the systemic competitiveness of specific industry sectors. Systemic competitiveness, striving to capture both the political and economic variables which affect the success of industrial development, is defined as:

> "... a pattern in which state and social actors create the conditions needed to develop systemic competitiveness. The concept distinguishes between four levels: the micro level of the firm and inter-firm networks, the mesolevel of specific policies and institutions, the macrolevel of generic economic conditions, and the metalevel of slow variables like sociocultural structures, the basic order and orientation of the economy, and the capacity of social actors to formulate strategies.[1]

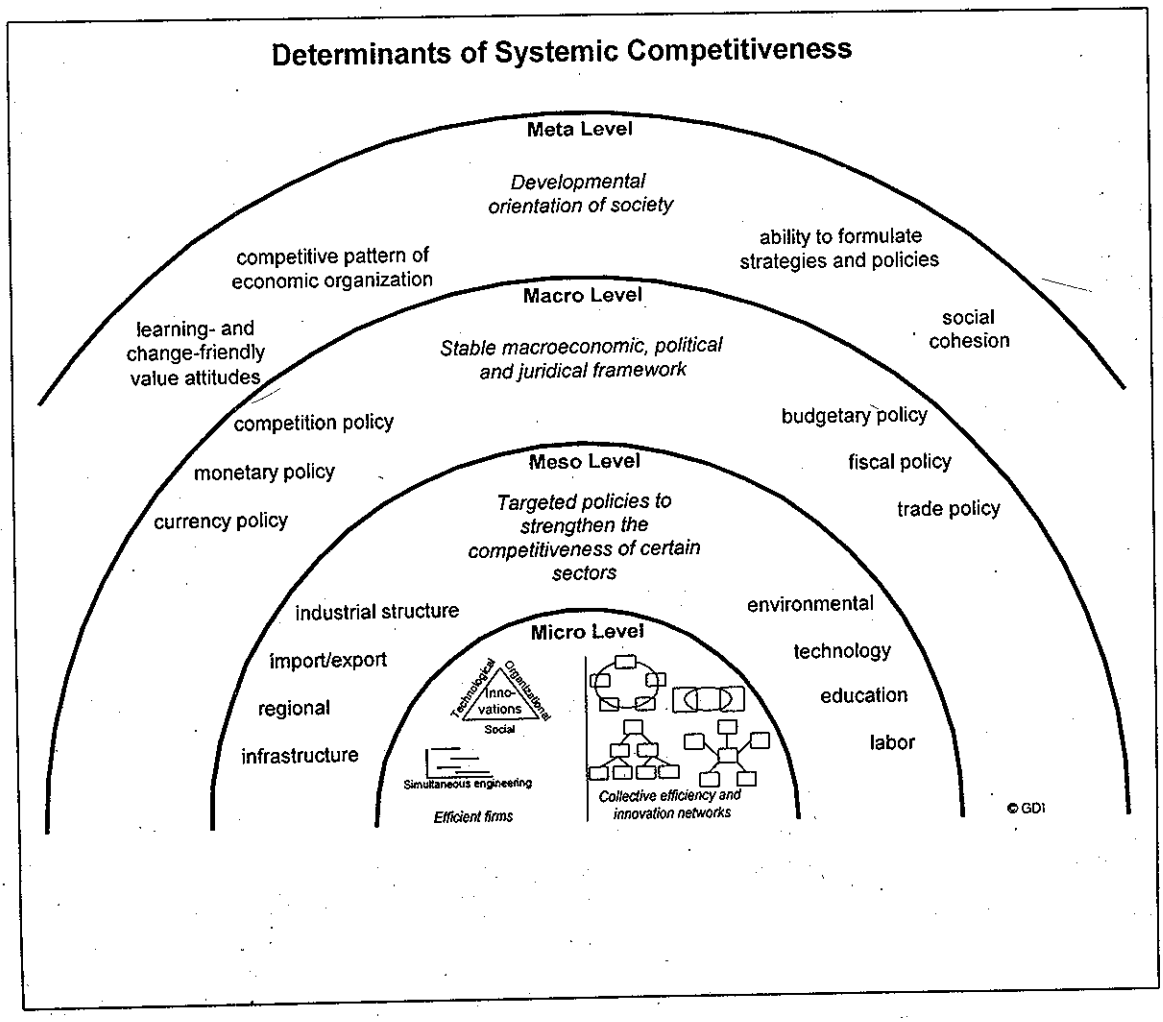
[1] Tilman Altenburg, Wolfgang Hillebrand, and Jörg Meyer-Stamer, *Building Systemic Competitiveness: Concept and Case Studies from Mexico, Brazil, Paraguay, Korea and Thailand*, Berlin: German Development Institute, March 1998.

Figure 6 shows the complete framework. Given the preceding definition, industrial development in the Philippines is expected to succeed under conditions where key ingredients are present.

The metalevel refers to the national character and values which support economic development through national consensus and implement strategies in pursuit of an internationally competitive industrialization policy. The macrolevel refers to the national macroeconomic, political and juridical framework that stimulates local industry.

The mesolevel refers to those regional or provincial policies and programs which aim to create or sustain competitive advantage. The microlevel refers to individual firms or cooperatives of firms which are committed to survival and continuous improvement of their businesses.

Figure 6. Systemic Competitiveness



While the plan accepts the concepts previously discussed, it also accepts that there are limitations to their usefulness to the Philippine setting. Porter's concept of a national base for competitiveness is called into question by those organizations who have spread production globally, such that the product cannot be claimed to have been manufactured in a country, but can only be labeled as assembled in a place from components manufactured in various other countries.

The rise of interactive systems can also be said to change the concept of value chains into "value webs"[2]. Even without interactivity, the feedback mechanisms which must exist throughout a firm or an industry favor the web-like network rather than the linear structure.

Even the determinants of systemic competitiveness can be drawn as a web, with each of the four levels interacting with the all three to hinder or enhance the way each moves forward or backward through economic development.

[2] Gemini Consulting, *Content and Commerce Driven Strategies in Global Networks: Building the Network Economy in Europe*, Frankfurt, Info2000, 1998.

ANNEX C

PILOT INDUSTRY CLUSTERS

These four pilot industry clusters are meant as examples. The main plan emphasized that the different export-oriented regions should prepare their own cluster development plans. The sectors have in fact been chosen by the Sub-Committee on Industry Clustering. The Cluster Management Committee that will be organized by the PEDP Management Committee is free to change these suggested clusters, and the programs proposed herein.

A. HOME FURNISHING CLUSTER IN CEBU

The cluster is composed of two main industries, the furniture industry and the decorative crafts industry. The bigger industry is furniture, which produces finished furniture and furniture parts from rattan, wrought iron, wood, buri and stone inlays mainly for the export markets of the US, Europe, and Japan. Raw materials come from other provinces and international sources. The decorative crafts industry (also known as gifts, toys and houseware) produces for the same markets, and gets their raw materials from the same sources. Other materials used by decorative crafts are shell, clay, textiles and coconut materials.

Machinery and tools are imported, especially for use by the wood furniture makers. Some simple tools and equipment can be bought or ordered from local machine shops. There are also some companies who can design proprietary specialized tools and equipment and produced them in-house. Fittings are imported or bought from local hardware stores; so are adhesives, nails, abrasives, paints and finishing materials.

There are private bonded warehouses and a common bonded trading warehouse. Cargo consolidators, international shipping lines, and freight forwarders offer services to the industry. The association conducts the annual Cebu International Furniture Fair; the local DTI provides industrial extension services. Workers who leave the foreign firm in the MEPZ carry new skills useful to the industry.

The industry identifies discontinuities arising from the lack of necessary basic skills of new workers, basic skills needed by the industry, as most learn on the job. There are also occasions of shortage of local raw materials, and delays in release of imported materials. Pricing and quality of materials are also persistent issues. The international trade fair can benefit from sustained publicity in the major trade magazines in the target markets, and additional resources to expand the size and scope of the fair itself. More technical assistance from international

and local experts is needed by both industries in areas like technology extension, production improvement, quality control and qualification for ISO 9000.

1. COMPETITIVE FACTORS

The tendency of domestic consumers to favor imported goods works in favor of exporters who are willing to sell to the domestic market. However, bigger firms find that volumes are small in the domestic market, so that only export overruns can be offered to the buyers. Even this effort is hampered by the absence of upholstery operations in some firms, so that the buyer has to look for someone else to do this service. Decorative crafts are more available locally, but buyers complain that they do not have access to the new designs being produced. Figure 1 details the furniture industry structure.

Entrepreneurs are fiercely competitive, cooperating within the association for trade promotion programs but acting as adversaries in the market. Both the furniture and decorative crafts industries have their own industry associations, with services ranging from organizing short seminars, conducting consultative meetings with government, to holding an international trade fair annually. The furniture association is considered as one of the strongest in the locality; with a vision defined by the members, and a clear yearly work program.

Local governments are generally friendly to industry and try to attract firms to locate in their municipalities or cities. The majority of government-related issues identified are those which come from the national regulatory line agencies, especially on inspection and documentation procedure.

Individual firms implement productivity improvement programs, constantly develop new designs, link with local schools and universities to expose students to actual work in a trade a fair, expose their people (including association staff), to the international market are aware of which international fairs count, are aware of environmental concerns of markets and communities, and recognize the need for good subcontractors who can supply competitive services at affordable prices.

2. SUGGESTED PROGRAMS TO SUSTAIN COMPETITIVENESS

a) METALEVEL

1) STRATEGY FORMULATION

Prepare a strategic plan for the industry, involving the academe and vocational institutions, the science community, local government and national line agencies, subcontractors, exporters, financing institutions, and labor. The plan should be turned into a work program and project plans complete with budgets, time period,

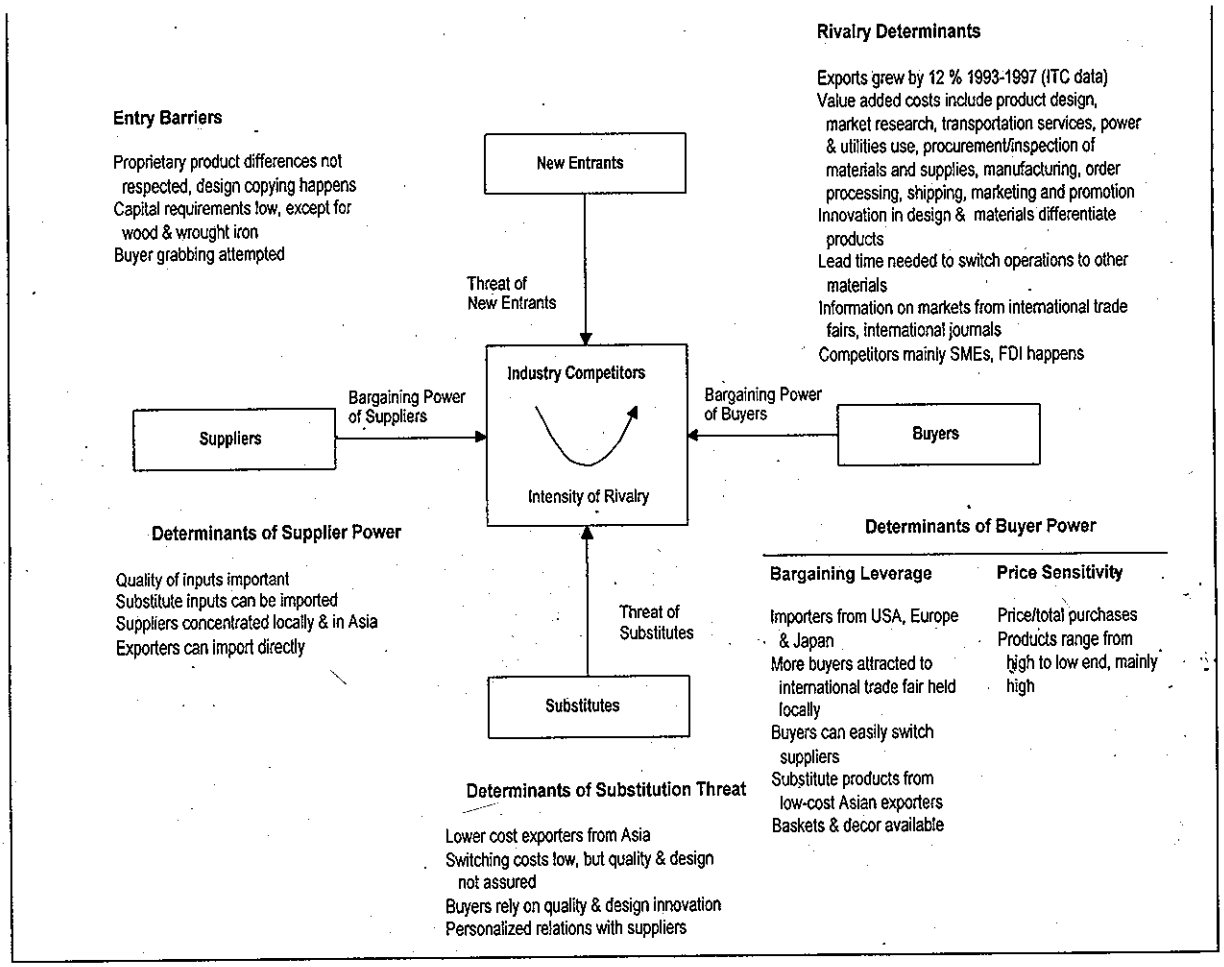


Figure 1. Furniture Industry Structure

bottomline targets, monitoring mechanisms. If resources are inadequate (after total costs and cost-sharing schemes), then the associations and the DTI can use the program documentation to solicit additional resources for successful program implementation.

2) RECOGNITION OF COMPETITORS

While local rivalry exists among the Philippine manufacturers of furniture and home decor, the firms in the cluster should also recognize that the bigger threat comes from the producers based in other markets. Whatever lessons are learned from the fierceness of the local competition should be applied in the international arena, in order to gain market share from the other suppliers.

b) MACROLEVEL

1) ESTABLISHMENT OF A POLICY NETWORK

Encourage firms to keep pressing for reforms in the macro area-exchange rate policies, procedural reform, etc. – through training in advocacy.

2) MARKETING SUPPORT

Support for the International Trade Fair: The fair should be promoted as part of the National Communication Plan for Export and Investment Promotion.

Market Information: In their target markets, the FTSC, the HTIRs and the Philippine embassies should gather information on the planned construction of hotels, convention centers, restaurants and furnished apartments. This list should be compiled to identify the owners or contractors, and help exporters to make offers for contract furniture.

3) BUDGETARY SUPPORT

The national agencies, which have budgetary resources to support the cluster, should, as much as possible, allocate these resources to the regional or provincial level. This is one of the best ways to strengthen the local support institutions in Cebu.

4) SIMPLIFICATION OF EXPORT AND IMPORT PROCEDURES

Although exporters recognize that there have been some improvements in the documentation procedures, they also believe that the number of signatures required on the export documents are still too much (about 30). They also get surprises in terms of the inspection requirements for their imported materials. A case in point is the fumigation/inspection needed at the source port for MDF, and the repeat fumigation/inspection needed upon arrival in Cebu. Both these issues should be addressed through the zero-based simplification of procedures recommended in Volume 1 of this plan.

c) MESOLEVEL

1) ESTABLISHMENT OF AN INFORMATION CENTER

The programs are all dependent on the availability of information on the cluster, both about the industries and their markets. The private sector association will be the center, with a duplicate system in the local DTI. The information system (both manual and digital) should be aligned with the information systems of

individual firms, to ease data collection. A generic information system applicable to individual firms can be designed for easy adoption by the firms.

The information center should regularly publish and distribute reports on the industry, to encourage suppliers, subcontractors and new entrants to consider the cluster. The publication can give information on commonly used supplies and fittings to encourage investment in producing competitive furniture hardware locally. Information on labor and skills needs of industry can be supplied to training and vocational institutions, to guide students on opportunities.

2) INDUSTRY-ACADEME LINKAGE

Industry-academe linkage is meant to improve the quality of graduates and the teachers in the local schools and vocational training institutions. It should include: exposure of faculty/trainers in vocational institutions to firm operations; the donation of equipment and machinery to vocational schools with good crafts-related programs; and the continuation of the opportunity given to design, fine arts, and architecture students to practice their skills at local trade fairs.

3) STRENGTHENING OF THE INDUSTRY ASSOCIATION

Strengthen industry associations to enable their staff to give more services. This could be done through: the identification and initial contacting of industry consultants for technology, design, processes and techniques; the implementation of industry marketing plans; the operation of the information center; and the planning and maintenance of a cluster communication plan. The associations should also be empowered to police the ranks of members, to avoid free riders and other "undesirables" who may hinder the competitiveness of the cluster.

4) INCREASED PARTICIPATION OF LOCAL MARKET

Programs that allow locals to buy products should increase local consumer awareness of international standards in quality design, in cooperation with local upholstery firms. This awareness and exposure improve the mind-set and values of the locality (from where workers, managers and entrepreneurs will eventually rise) and raise the consciousness of all publics on the importance of competitiveness in the market. Local expansion of the industry will also open opportunities for upholstery companies and interior designers to eventually enter the export market (using materials specified or supplied by the buyers).

5) UPGRADING OF INDUSTRIAL AND TECHNOLOGY EXTENSION SERVICES

Extension workers should have access to new developments in their fields, especially best practices[1] in business processes. Technology extension workers should be aware of what technological changes will affect the industry most, and assist firms to prepare for such changes.

d) MICROLEVEL

1) BETTER INDUSTRIAL RELATIONS

Aside from the preparation of a social accord between labor and management, other ways to increase the commitment of both labor and management to their business endeavors should be explored. This includes: consideration for a profit-sharing scheme; allowing personnel and workers to own stocks in the company; and frequent dialogue on the state of the firm between owner/managers and their workers. The WISE program of the DOLE should also be implemented as a starting point to improve the working conditions in the factories. All these decisions, however, are individual choices by the companies, and not meant to cover every firm. The companies should see the value of these measures over the long term.

2) PREPARATION FOR ISO 9000 AND 14000

Certification for ISO 9000 and 14000 is now an acceptable marketing tool. Although it may not be that easy for the SMEs to get the certification, initiatives should be made to enable firms to evaluate the costs and benefits of certification. Technical assistance should be available for firms to achieve this certification.

3) ASSISTANCE TO SUBCONTRACTORS

This refers to technical assistance in terms of: implementing a WISE plan for subcontractors; increasing the technological capability of subcontractors; and easing the entry of subcontractors into the cluster. It must be emphasized that from the beginning, subcontractors must be market competitive, in terms of pricing, timing, quality and consistency of services.

[1] While there have been comments that innovation may stultify if everyone follows Best Practices, awareness or knowledge of best practices will also stimulate workers and firms to improve on such practices, without having to "re-invent the wheel" by themselves.

B. ELECTRONICS CLUSTER IN CALABARZON

The electronics industry has a Roadmap for the Electronics and Allied Industries[2] prepared by the BOI in conjunction with the Coopers & Lybrand Consultants. Finished in 1997, the roadmap does not mean that all parties involved in the cluster should follow it; it is only meant to give a general direction for the industry and what government can do to facilitate entry into the industry. What is needed now is implementation of the agreed parts of the roadmap, and to continue the initiatives already started by the industry association to strengthen the cluster. Figure 2 shows the shape of the Philippine electronics industry, as described by the roadmap. The gray areas are what the EDC finds missing from the local industry's support to the sector.

1. THE INDUSTRY ASSOCIATION

The industry has an association known as Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI). It is considered the main source of information regarding the industry. It has professional staff who prepare and implement projects in pursuit of its mission to *"to make the Philippines a globally competitive environment for electronics business."*

SEIPI sees its role[3] as:

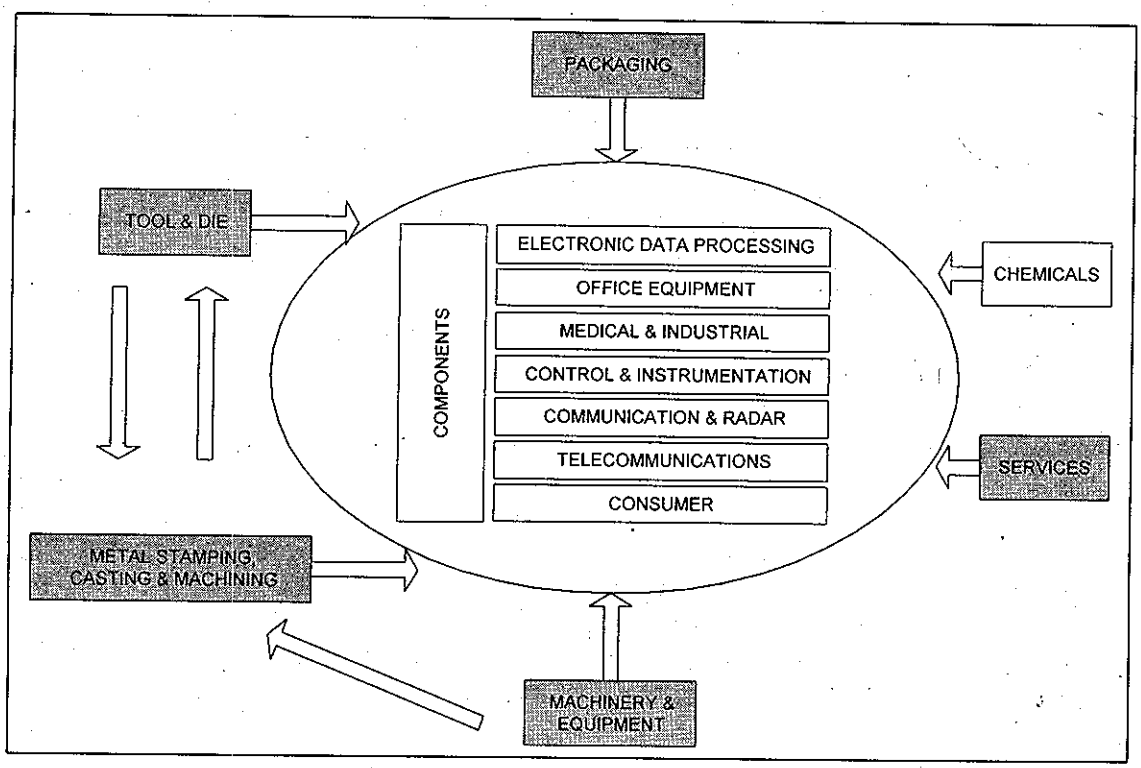
- ✓ Advocate of productivity and quality
- ✓ Partner of the government
- ✓ Source of encouragement for the industry
- ✓ Promoter of the Philippines as the smart choice for investments
- ✓ Representative body for links with other organizations
- ✓ Forum and definitive source of industry information
- ✓ Proponent of technical core competence
- ✓ Partaker in social and community activities

Such commitment should push the other support institutions to render services that will ease the entry of other domestic firms into the industry as suppliers to the exporters.

[2] About a year and a half after final submission, a validation of the Roadmap was conducted to make sure the recommendations are still relevant to the industry. This was held on 08 April 1999 in Makati City.

[3] Quoted from SEIPI presentation as given by Director Ernie Santiago

Figure 2. The Electronics Sector



2. PROGRAMS

a) METALEVEL

Like the other clusters, the quality of graduates who enter the work force is beginning to concern the industry. This refers not just to the line workers, but also to engineers and managers. Closer links between industry and the academe should alleviate this worry, allowing firms to indicate to schools and universities the academic quality and technical skills expected from graduates. The long-term value formation, however, must be addressed by our educational system starting at the primary and elementary levels. This must be started now, so the next generation can grow with an understanding of the values of hard work, of productivity and adding value, and of self-motivation and how all these affect Philippine competitiveness in the market place.

b) MACROLEVEL

1) INTENSIFY ATTRACTION OF FOREIGN DIRECT INVESTMENTS

With the increasing number of foreign electronics firms in the country, it is now possible to hold up the most successful ones as testimonials to the profitability of

locating operations in the Philippines. This scheme should be included in the National Communication Plan for this PEDP. The personal approach to invite investors is credited with the rise of FDI in the industry, and should be continued by the Secretary of Trade and Industry. Regular visits to target investors can be done by the Philippine trade representatives or, in their absence, by the Philippine ambassadors or consuls in the target market. But more than this, special visits by top-level, high-powered missions must be made to targetted global "movers and shakers" of the industry to entice them to locate in the Philippines. This is on top of the incentive reforms which will be embodied in the 1999 Investments Promotion Plan.

2) SUPPORT FROM THE LOCAL MARKET

Considering the range of components already produced in the Philippines, the government may be able to encourage private firms to produce the Philippine computer. While this machine may not be at the level of the leading edge of the industry, it can be priced at levels affordable to public elementary schools. This will expose more students to the technology, and help build up the next generation source of managers, technicians and entrepreneurs. It is emphasized, however, that this Philippine product must be market competitive, and able to compete with other "clones" in terms of quality and pricing.

c) MESOLEVEL

1) INCREASE DOMESTIC LINKAGES

SEIPI, the industry association, is planning to hold a reverse trade fair where the industry can showcase the components or services for which they need competitive suppliers. The association can maintain a database that will push the association as "the source" of industry data, statistics, and other information that can help an entrepreneur make the business decision to enter the industry, either as a direct exporter or as a supplier to the existing firms. This will be the "matchmaking" service of the association.

2) EASE ENTRY INTO THE INDUSTRY

Beyond the match making service of the association, the regional support institutions must be prepared to assist the domestic firms. This means that project financing should be made available, either from the regular banks and financial institutions or from venture capital organizations. Technology extension must be made available to firms on the matter of complying with environmental laws (especially on waste disposal). The bigger companies should also commit to transfer technology to their local suppliers or subcontractors.

As most of the existing exporters are FDIs located in export zones and industrial parks, rules on how small suppliers and service providers can establish their operations physically near to the buyer (inside the zone if possible) must be clarified. This *physical clustering* is a natural consequence of the industry's practice of just-in-time (JIT) inventory management, and must be considered by potential suppliers in deciding whether or not to enter the industry.

3) INDUSTRY-ACADEME LINKAGE

According to SEIPI, typical firms in the industry are ISO certified; they practice JIT, TQM, 5S, PIC and other best practice management techniques. These techniques require well-matched physical and human management systems and processes; and industry managers may find it fruitful to invest in the next generation of human resources by making time to give lectures to high schools and colleges on the use and implications of such techniques.

d) MICROLEVEL

The roadmap of the industry found that while firms are willing to comply with the environmental laws of their respective areas of operation, there is no service that will remove the treated waste from their premises. This and other opportunities for service providers should be disseminated to other business sectors, to encourage existing providers or potential providers to contact the individual firms.

C. MULTIMEDIA CONTENT DEVELOPMENT CLUSTER IN THE NATIONAL CAPITAL REGION

The choice and inclusion of this cluster among the pilot clusters defined in this plan was principally intended to make a statement. The Multimedia in the Philippines has a strong capability to be competitive in the service exports. While level of competitiveness may not be as visible as that of the electronics industry yet, a little push may be needed to bring it to the forefront.

Since the plan aims to mark the start of government recognition for the multimedia content development industry, it will concentrate on web page development and CD-ROM authoring. Government can add more areas of specialization as familiarity with the service increases.

Traditional content development in the Philippines is focused on the print and broadcast media. The rise of computers, telecommunications and networking gives content developers a new medium with its attendant features and peculiarities. Multimedia content is defined as combinations of data, text, sound, graphics, animation, still and moving images stored in digital form and interactively accessible.[4] The sector was selected as support to both local and export businesses; and on the belief that real opportunities for the industry exist.

Traditional publishers, writers, artists, photographers and other content creators and providers are considered potential participants in the industry. This is recognizing that the changes are mainly in the medium used and how content is organized, not in content itself. This medium, moreover, can be classified as part of a broader definition of the electronics industry (software sector).

1. PHILIPPINE CAPABILITY

Indications of Philippine capability in this "new" industry are: the CD-ROMs produced for the Philippine government by local contractors; the websites of local broadcast firms (e.g., ABS-CBN) and newspapers (e.g. Philippine Star, Manila Bulletin); the websites of local companies as San Miguel Corporation (which allows on-line ordering of and payment for beer in kegs), Philippine Long Distance Telephone Company, and Globe Telecommunications; and the websites of schools, universities and government institutions. Figure 7 shows the major participants in the industry, and the present environment as shaped by the Philippine government.

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[4] Council of the European Union, Council Decision of adopting a Multiannual Community Programme to stimulate the development of a European multimedia content industry and to encourage the use of multimedia content in the emerging information society, 1996.

D. AGRI-BASED CLUSTER IN NORTHERN MINDANAO

Northern Mindanao has an economy that is a mix of large industrial firms and small, medium and large agricultural companies. Its biggest export product is pineapples in syrup and iron sinter; it also supplies the domestic market with steel, coconut oil, flour, cement, various vegetables, hogs, beef and chicken. These industries are found mainly in the Cagayan de Oro-Iligan Corridor, and the outlying provinces around these two main centers.

The agricultural sector is traditional in the area, with the factor conditions sheltering farmers and producers from the typhoons that regularly distress or destroy crops in other areas. The area is, therefore, ideally suited to high-value crops that can increase the incomes of farmers and meet market needs in both the domestic and international markets.

1. INDUSTRY STRUCTURE

Figure 8 outlines the agri-based cluster in Northern Mindanao. Note that the institutions, services and allied industries that appear to be missing from the area have been set in italics. In the box of producers, marketers are identified as a gap. This refers to those who will consolidate the volume of harvests and bring them to the international market. In the consumers box, it is recognized that there are still few local hotels. The larger hotels in the Visayas and Mindanao can be tapped as additional market for the products. The italics in the allied industries box refer mainly to the technology providers who can render services to the small farmers and producers, as the latter cannot afford to operate their own refrigeration services, for example. Air transport, another gap, is related to the factor conditions. The international airport is not finished yet, and the old airport cannot accommodate the bigger cargo airplanes. The airport becomes important for fresh products that must reach the market in the shortest possible time.

2. PROGRAMS

a) METALEVEL

All new endeavors carry an element of risk, more so in agriculture. Risk comes from the use of new technologies (as opposed to traditional techniques), from the decision to change crops, and from the choice of new markets. It must be recognized, however, that such risks are inherent in any industry, and must be minimized or overcome in order to move the industry forward into the realm envisioned by the government and private sector. Demonstration farms may lessen the resistance to change; results of their operations must be made known to the target farmers.

be paid competitive rates, and intense marketing efforts must be implemented to sell Philippine capability.

b) MACROLEVEL

1) BROADBAND TELECOMMUNICATIONS

Little or no physical product (except maybe the disks – either floppies, high-capacity disks, compact disks or data video disks – which contain the finished work) is shipped out; the finished product can be sent to the target market via telecommunications. Broadband communications must be available at internationally competitive rates to the developers in the country, to allow them fast delivery to the market.

Access to such services (also at affordable rates) will allow the domestic market greater access to such multimedia materials, via the Internet, and spur demand for the service. This is expected when more firms and institutes establish and maintain their web presence.

2) CONVERGENCE POLICY

In the Philippine setting, franchises are granted separately to broadcast and communications firms. Technological changes and developments are blurring the distinctions between these two functions; the legal system should now recognize this. Government must review this separation policy, to maximize use of new technologies in satellite communications, interactive TV, networking and others.

3) E-COMMERCE

Initiatives in e-commerce have started. Speed is imperative, if the Philippines must to take advantage of riding the first wave and not wait for technology and business opportunities to bypass the country. It is expected that as more companies establish their digital presence, electronic business transactions will rise, even at its less sophisticated system, e.g. using credit cards. Digital storefronts will then be a marketing tool to attract buyers and this will, again, increase demand for multimedia content development services.

c) MESOLEVEL

1) INDUSTRY PROFILE

As a first step to promoting the industry, profiles of the existing firms in the industry should be prepared. The profiles will also be used to assess individual capacity, and problems and issues that need to be addressed to push the industry forward.

2) Human Resources

Students and the youth must be exposed to opportunities in the industry, to guide them in making career choices. Training in the arts, writing, research and photography should now include the use of the new electronic media. Software programming of the new multimedia development tools should also be encouraged.

d) Microlevel

1) Access to Markets

Individual firms should be linked to markets, both domestic and international, through awareness-building activities. Projects of government agencies and educational institutions needing multimedia content services should be publicized, to increase awareness of the local industry on the size of the Philippine market. Instead of engaging the services of companies from abroad, e.g., Hongkong, Singapore, etc., the services of local companies should be engaged.

2) Access to Hardware and Software

Incentives can be granted for the acquisition of specialized hardware and software (usually imported).

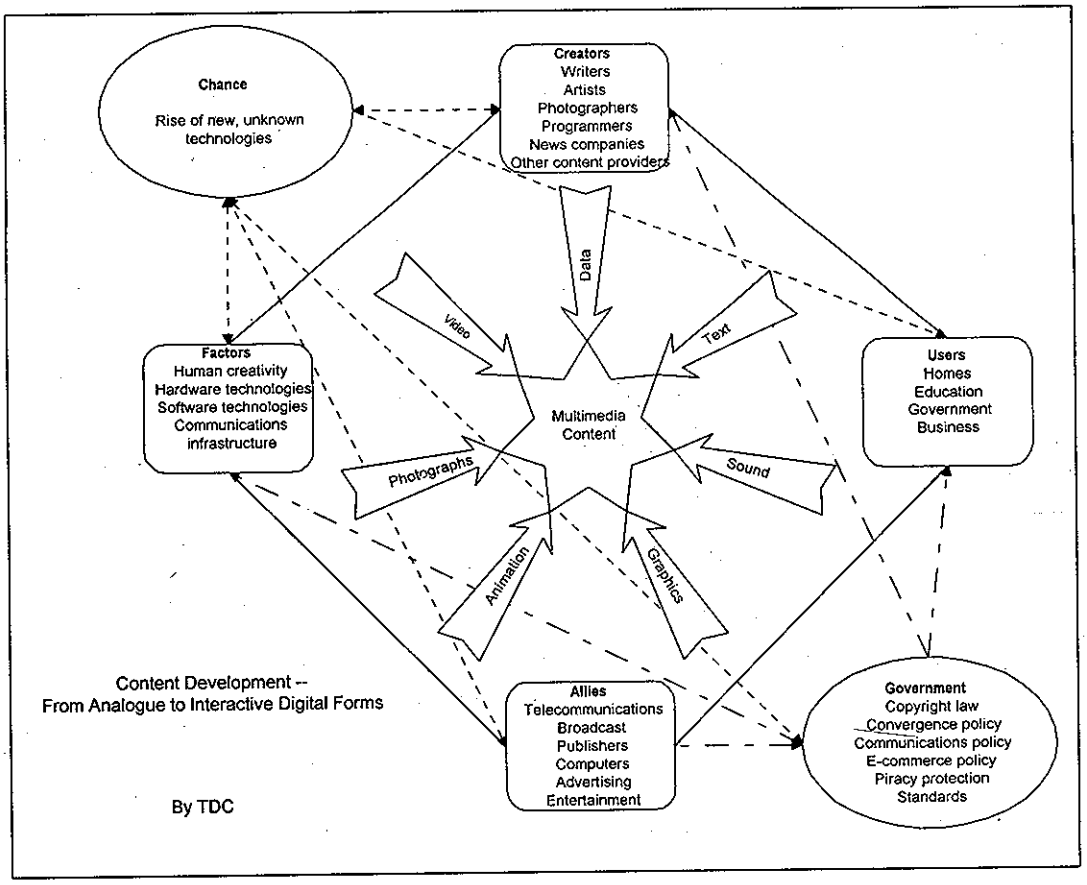
3) Awareness of Standards

While they are at the infant stage, the firms must be made aware of the ISO 9000 series, to enable the interested firms to get certification as service firms. This certification will be used as a marketing tool in the international market (and the domestic market).

However, while the Philippines is considered by potential electronics and semiconductors investors as a possible location for manufacturing facilities (hardware), it is not considered for multimedia-type of developments. As stated in the roadmap of the electronics industry, the reason is that the Philippines has not made a statement about its commitment to the subsector.

This statement of capability, then, is the first step. Commitment will be made manifest when government and industry decide to allocate resources to promote this service sub-sector.

Figure 7. Multimedia Content Development

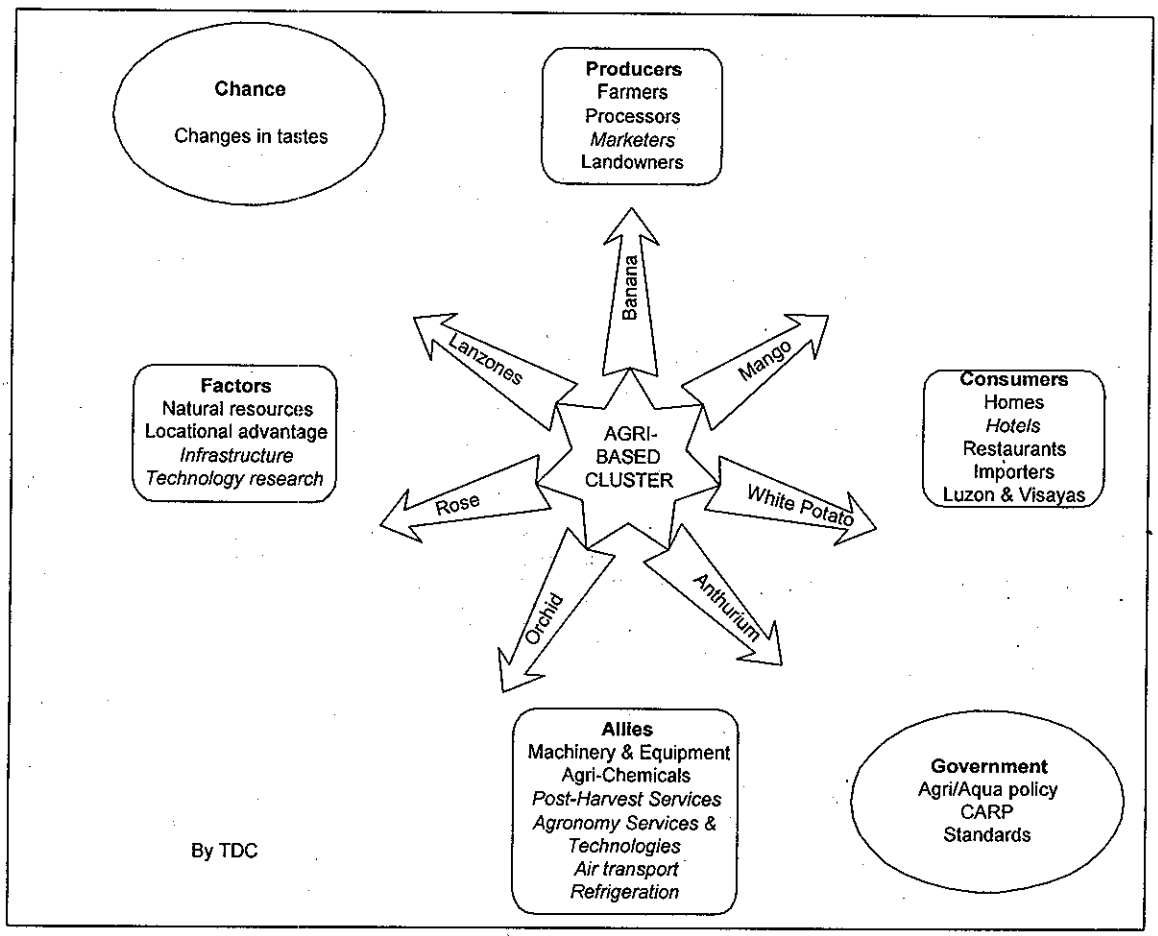


2. PROGRAMS

a) METALEVEL

Being creative, as a people, is a boon and a bane for Filipinos. The effort needed to specialize and turn talent into skill is barely recognized, and little reward is forthcoming to those who pursue such specialization. This must change, if we are to pursue the development of the multimedia content industry. Creators must

Figure 8. Agri-Based Cluster (with Sample Produce)



In fruits, local tastes generally favor more sweetness than say, the Japanese market does. Catering to the target market's tastes must recognize that such differences will render the produce unsaleable if standards of the market, not just in taste, but also in quality (in terms of variety, size, shape, weight, color, freshness, packaging, and others) are not met or satisfied.

b) MACROLEVEL

Agriculture must be promoted as another business endeavor, one that could benefit greatly from the application of scientific methods along the business process: soil analysis, selection of certified planting materials, pest and weed management, other cultural practices, post-harvest procedures, processing, waste utilization, packaging, handling and shipment.

c) MESOLEVEL

1) *FRUIT DEVELOPMENT COUNCIL*

Northern Mindanao can implement a local version of the Philippine Fruit Development Council that was planned at the national level. The Northern Mindanao Council can go beyond fruits to include other crops; it can be a venue for the planters, processors, marketing people, and agronomists and agriculturists to plan harvest targets, and domestic and export targets. These projections will in turn be used to plan equipment, technology needs, and other inputs. The council does not have to be government funded; members can plan ways to raise resources that they can allocate for research, productivity improvement, and other industry needs.

The council can function as a professionally run industry association, and lead in strategic planning for the cluster. The strategic plan should have inputs from the market, the farmers, the processors, the academe, the research and development institutions, government and the market promotion people. The plan will be the basis for a work program which is time-bound, with specific performance measures and resources identified.

2) *MARKET INFORMATION*

The decision on what to produce must be based on what the market needs. One source of such information is the International Trade Centre/UNCTAD/WTO, through its website on the Internet. Other on-line sources of information (free or fee-based) should be identified and assessed for usefulness. The capability of the industry association or the DTI to conduct this search must be built up. The information should be disseminated to the players in the cluster. International prices of selected agricultural products are also available from the wire services or the Internet, especially for the major agricultural commodities.

3) *MARKET LINKAGES*

Even as farmers are waiting for harvest, buyers should be identified. They can be invited to visit the farms to assure them that quality standards are being followed. It is emphasized that this buyer search must be done before harvest. This lead-time will minimize crop spoilage and allow optimization of prices and revenues for the farmers.

d) MICROLEVEL

1) *AGRICULTURAL EXTENSION SERVICES*

Universities and agricultural colleges should be tapped as sources of extension services, so that not all of those services are relied on the Department of Agriculture to provide. Producers can group themselves together to hire expert agronomists specialized in their specific crops of interest. This expert must also know the needs of the target market and how to meet its standards.

2) *PRODUCTIVITY AND QUALITY*

Farmers should gather the equivalent best practices or good manufacturing practices and apply these to their operations. Efforts to meet quality are aimed at complying with market specifications; productivity improvement efforts are aimed at achieving profitability and long-term survival.