

Phl eyes industrialization with China's help

By **RICHMOND MERCURIO**

The Philippines is shifting to high gear as the government pushes its industrialization plans to catch up with its more industrialized neighbors in the region.

Expected to play a key role in this development under the current administration is new ally China, the world's second largest economy and a nation no stranger to industrialization.

With previously damaged political ties of the two countries mended, China is now seen as an important player in attaining the Philippines' much longed-for industrialization.

"Industrialization is a priority of the administration, it is an important element of our inclusive growth strategy to ensure that growth would be broad-based, generate more and better jobs, eliminate poverty, and result in shared prosperity for all," Trade Secretary Ramon Lopez told **The STAR**.

"We should continue to strengthen our trade and investment cooperation with China, especially now that China is already moving towards a services-oriented economy and as its manu-

facturing investments shift to other countries. We should be ready to serve as an alternative investment destination for these manufacturing activities being relocated to relatively low-cost countries, as well as in deepening our participation in global value chain activities where China plays an important role," Lopez said.

Philippine Economic Zone Authority (PEZA) director general Charito Plaza agrees that forging closer economic and diplomatic ties with China would be beneficial in realizing the Philippines' industrialization dreams, given China's status as the number one global producer of goods.

"On the economic front, this will allow for increased trade and investments between the two countries and, at the same time, promote greater industrialization as more Chinese companies will participate in the country's Build Build Build program and relocate their manufacturing operations from China to the Philippines," she said.

PEZA, the biggest investment promotion agency in the country, has received many inquiries from Chinese

manufacturers wanting to set up their facilities in the economic zones and make the Philippines as their production and logistics hub.

Investments pledges from China with PEZA saw a significant jump of 134.3 percent last year to P1.03 billion from P440 million the previous year. This was the second highest amount of investment approval from China in PEZA's history, next only to the P1.16 billion recorded in 2012.

"This will be a big boost to our drive to generate more investments, employment and exports, including transfer of technology, particularly from the operations of Chinese companies in the country's ecozones. The Chinese government has much to offer to the Philippines to facilitate its leapfrog to high industrialization and middle-income economy status," Plaza said.

Paving the road to Phl industrialization

To be an industrialized country, the Philippines' trade and investment chief said one has to undergo structural transformation that would shift economic activities from agriculture to manufacturing, then services.

He said a strong and modern industrial sector is needed to lead the country's growth. This would require the development of basic industries like iron and steel, and chemicals that serve as inputs to a lot of other industries.

Unfortunately, this is a level far from where the Philippines is at present.

Compared with nations like Thailand, China, and Malaysia, the share of manufacturing to the Philippine economy is quite small, according to Lopez.

However, he said market opportunities to expand production in the country, as well as the rising costs in countries like China puts the Philippines in a strong position to substantially increase its manufacturing share.

"Many would say that we are now experiencing a manufacturing resurgence characterized by the strong growth that manufacturing has been experiencing over the last six years. For as long as we are able to sustain this high level growth, we will get there, hopefully by 2030 or earlier, especially if we are able to sustain a double-digit growth in manufacturing," Lopez said.

Turn to B3

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PHL EYES INDUSTRIALIZATION WITH CHINA'S HELP

Phi...From B1

Data from the Department of Trade and Industry (DTI) shows manufacturing growth exhibited substantial increases over the last two decades, particularly in terms of growth of value added which rose from an average of four percent during the period 2000 to 2011, to 7.5 percent from 2012 to 2017.

The contribution of manufacturing to the economy likewise grew from 21 percent in 2010, to 23.6 percent in 2017. At the same time, manufacturing was able to hike its contribution to total employment from eight percent in 2011 to 8.6 percent last year.

"Note that in the past, the Philippines did not experience structural transformation of the economy from agriculture to manufacturing. There was no rapid industrial growth led by manufacturing, instead, what we observed was a rise in the services sector and a declining and stagnant manufacturing industry. This was in stark contrast to the substantial increases in manufacturing that neighboring countries like Thailand, Indonesia, Malaysia, and China experienced during the same period," Lopez said.

"Now, there is a good chance that if the country's high level growth could be sustained until 2030, we could hit a manufacturing share of 30 percent of gross domestic product, especially if manufacturing would continue to grow double digit," he said.

A new industrial policy

For any country to become a highly industrialized economy, its government should have a clear national industrialization policy.

For the Philippines, this policy is known as inclusive innovation industrial strategy or i3S, launched by the DTI last year.

The i3S prioritizes the growth and development of 12 major industries including manufacturing sectors like auto and auto parts, aerospace

parts, electronics, chemicals, shipbuilding, garments, iron and steel, and agribusiness along with tourism, IT-business process management, particularly knowledge process outsourcing, construction and infrastructure and logistics.

The i3S aims to grow and become globally competitive with innovative manufacturing, agriculture and services, while strengthening linkages to domestic and global value chains industries.

Through the program, accompanying measures to improve the capacity of firms to sell to both domestic and export markets are being implemented through more strategic and aggressive investment promotion and trade policies, along with focused, performance-based, and time-bound incentives.

"The strategy puts innovation at the core of industrial policies and programs. Innovation is crucial in improving industry productivity and competitiveness, as well as in moving up the global value chain and addressing the challenges from automation, robotics, artificial intelligence and other disruptive technologies," Lopez said.

"The government continues to be relentless in its efforts to revive factories, expand production, generate employment, and enable the industry to provide the catalyst that will build the seamless link between a productive agriculture and a strong services sector," he said.

With its 105 million consumer market, rising middle class, and young English speaking workers, the DTI said opportunities abound for the Philippines to transform and upgrade its industries, generate more jobs, and attract more investments.

Considered as a services-oriented economy for the past few years, the Philippines is now looking to transform itself to become globally renowned as a manufacturing powerhouse.

"The country's industrialization level may be lagging behind our competitors in the region, but the current administration is determined to elevate the Philippines' status as a middle-income economy before the end of President Duterte's term. This will surely put the country back on the industrialization track and with bright prospects of it overtaking some of our competitors in the region in terms of attracting foreign direct investments and industry output," Plaza said.

On PEZA's part, Plaza said her agency is complementing the national industrialization strategy by promoting investments in economic zones and facilitating the establishment of more industrial parks in the regions' less-developed areas.

The economic zones, which will host the operations of mainly manufacturing and agro-processing companies, will play a key role in the dispersal of industries and the creation of jobs towards accelerating country-side development, she said.

"There has been a significant change and high-impact development with the country's industrialization program compared to 10 or 20 years ago. In terms of ecozone development, we have seen the growth of evolving ecozone models from the traditional industrial estates and export processing zones to high-tech parks and agro-industrial ecozones. This paved the way for our transition from low technology and low value processing of goods, to higher value chain and more sophisticated manufacturing of computers, electronic devices, cars, ships, among others, as multinational companies set up their export-oriented facilities in the country's ecozones," Plaza said.

According to PEZA, industrial zones are being put up more aggressively at present, with P72 billion-worth of economic zone projects up for development on top of P38-

billion worth of new manufacturing, agro-industrial, and information technology centers and parks already proclaimed under the current administration.

Moving forward, Plaza said the government could do so much more to spur industrialization by sustaining GDP growth rate, at a minimum of seven percent to achieve a double digit growth rate.

"This will entail attracting the strategic, pioneering and high technology investments into the country and positioning the Philippines as a hub for regional and global distribution of goods. This will pose a huge challenge on the government's ability to provide the infrastructure support and to enhance ease of doing business to attract more FDI into the country," Plaza said.