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The Entrepreneur

Reversing 'Re-Industrialization'

Conclusion

ANOTHER official of the Asian Development Bank (ADB) has stressed that the long-term growth prospects of the Philippines will depend on how it addresses its persistent problems, such as unemployment, inadequate infrastructure, environmental degradation and governance.

ADB Vice President Stephen G. Groff, in a speech at a recent forum organized by the Foreign Correspondents Association of the Philippines, noted that the business-process outsourcing (BPO) industry had made a significant contribution to job generation, but it employed only skilled or highly educated workers who represent about 1 percent of the total labor force.

Groff suggested that the government rethink its employment strategy. "For the growing millions with lesser skills and fewer prospects, what's needed is a stronger industrial base that allows the economy to 'walk on two legs'—both services and manufacturing," he said.

As I said once before, our overzealousness in following Western trends, particularly liberalization, which totally opened our market without installing safety nets to protect domestic industries, killed our manufacturing sector.

On the other hand, the entry of service industries led by BPO, opened job opportunities for college-educated workers and lulled us into complacency toward our manufacturing industries.

The new mindset, biased toward the BPOs, is that it is cheaper to buy imported goods rather than make it here. However, our mentor on liberalization, the United States, is now waking up to a new reality. It, too, neglected its manufacturing industries because it was cheaper to operate factories in countries where wages are low, particularly China.

The price is the loss of jobs. Recent news reports cited data from the US Department of Commerce showing that US multinationals cut more than 800,000 jobs in the United States from 2000 to 2009 while adding 2.9 million jobs overseas during the same period.

Neglecting industrial growth also affects the economy, according to a study prepared by two economists from the Philippine Institute for Development Studies (PIDS): Josef T. Yap and Fatima Lourdes E. del Prado.

The study was titled "Can the services sector be an engine of economic growth for the Philippines?" and the authors answered the question in the negative. They called the phenomenon "de-industrialization," characterized by the massive transition of labor and output share from manufacturing to the services sector.

The study, which compared the Philippines with neighbors Indonesia, Malaysia and Thailand, found that only the Philippines failed to increase the share of the manufacturing sector between 1980 and 2005. "It is no coincidence that the Philippines had the lowest economic-growth rate during this period," the authors said.

In 1980, the share of manufacturing to total GDP (gross domestic product) was highest in the Philippines at 27.6 percent, compared with 15.2 percent in Indonesia, 19.6

percent in Malaysia and 23.1 percent in Thailand. However, in 2005 the share of manufacturing to GDP in the Philippines dropped to 23.4 percent. In contrast, it went up to 28.1 percent in Indonesia, 29.4 percent in Malaysia and 34.7 percent in Thailand.

During the period 1988 to 2005, average GDP growth was lowest for the Philippines at 3.6 percent, compared with 4.9 percent for Indonesia, 6.5 percent for Malaysia and 5.4 percent for Thailand. The share of the industry sector to GDP in the Philippines declined from 34.76 percent in 2001 to 32.82 percent in 2006. During the same period, the share of services to GDP increased from 45.32 percent to 48.34 percent.

The performance of the economy in 2011 further reflected the continuing deterioration of the industry sector, which grew (constant 2000 prices) by 1.9 percent compared with 2.6 percent for both the services and agriculture, hunting, fishery and forestry sectors.

The China fear factor worked against us as it did against the US. We have believed that we cannot compete with China because its wages are too low compared with us.

As early as last year, I said that the China fear factor was no longer the reality—wages were rising in China so it was losing its wage advantage.

US President Barack Obama's recent statements basically confirmed my view. In a meeting with business leaders at the White House, the president was quoted as having said "labor costs are going up in places like China" while US workers were becoming more productive.

Hal Sirkin of Boston Consulting Group, a participant in the forum, told reporters that not only were US workers more productive than Chinese workers, wages in countries such as China are rising at rapid rates.

If the US can believe that it can compete with China's wage advantage, I firmly believe the Philippines can, too.

We just have to wake up, like the US, to the new reality. We have to rebuild our industries.

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