

**Column for Business Mirror**

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**The Entrepreneur**

### **Facing up to China**

There is a misconception that our manufacturing industries will never be able to rise from the dead because of China's immense competitive advantage, especially its low wages.

I say dead not really because of China, but rather in the way we have implemented liberalization. We embraced liberalization as a "cure-all" to our development problems. It was supposed to level the playing field. Instead it killed the local players.

As an economist, Dr. Jose T.Yap, president of the Philippine Institute of Development Studies (PIDS) put it during a conference that I attended, liberalization did not bring the promised progress to our people.

In his paper titled "The Philippine economy in 2007," Dr. Yap said that compared to Indonesia, Malaysia, and Thailand, only the Philippines failed to increase the share of the manufacturing sector between 1980 and 2005.

"It is no coincidence that it had the lowest economic growth rate during this period. The employment shares of agriculture, industry, and services in the Philippines stood at 37, 15, and 48 percent, respectively, while manufacturing accounted for only 9 percent.

"Data from the Department of Labor and Employment show that employment in the manufacturing sector declined to 2.937 million in October 2009 from 3.07 million in April 2007. Fortunately, the sector recovered in April 2011, with an estimated 3.12 million workers, representing 55.6 percent of the total employment of 5.62 million in the industry sector.

"It is safe to assume that had the liberalization program been implemented with the proper safety nets for domestic manufacturers, we would have more workers in this sector."

Dr. Yap also said, "These data indicate problems not only with the size of the manufacturing sector but also with its weak ability to absorb labor from the agriculture sector since the share of industry has been stagnant for at least 25

years.”

Now, with poverty incidence affecting 27 percent of our population, 2.87 million jobless and 7.13 million underemployed (as of April 2011, per DOLE data), it is imperative that we help our manufacturing industry rise from the grave, given that it is a major employer.

As I mentioned in the beginning of this column, there is a misconception about China being the biggest obstacle to growing our manufacturing sector. We have always assumed that our manufacturers cannot compete globally because of China. That may have been true some time ago when China opened up its economy, with its cheap and huge labor pool as the biggest advantage.

However, the influx of investors raised the Chinese people’s standard of living, which requires higher wages. Chances are, as they grow wealthier, the Chinese workers will demand higher and higher wages. So in terms of pure labor cost, we cannot say that China will always be cheaper than us, especially when we improve our productivity.

Now, we cannot just claim that we can manufacture everything because China, despite the eroding wage advantage, will remain a major competitor, just like other neighboring countries.

The idea is to identify areas where we can stand against other manufacturers.

We can revive our manufacturing by looking at pockets of opportunities where we have competitive advantage, not necessarily in terms of wages. For instance, in my business, one of the most-used products is concrete hollow block. China will never be able to sell its concrete hollow blocks to us, so we are competitive in hollow block manufacturing.

Aside from the narrowing gap in wages, we can also exploit our transport advantage. Obviously, the cost of shipping goods from China to Manila is high, compared to the cost of transporting products from say, Laguna to Manila. On the other hand, we have a handicap in industries that are power-intensive because our power rates remain the highest in Asia.

There are two points that I want to stress in reviving our manufacturing sector: First, let’s forget the notion that we cannot compete with China. We can.

Second, we have to help our manufacturing industries back on their feet, because they are big employment generators.

Manufacturing is too big to ignore in our efforts to address unemployment and poverty.

The key, I reiterate, is selective boost, as strategic move to improve our manufacturing base.

I want to stress that reviving our manufacturing sector must be with the assistance of the government. One reason for the demise of manufacturing during the era of liberalization was because our manufacturers were thrown into the global free market and left on their own.

It was like taking the gauze from the newly- operated eyes of a patient in the glaring light of the sun. The attitude should not be compete or shut down because even the Chinese manufacturers would not have reached their present status in the global market without the support of their government.

Also, reviving manufacturing does not mean forgetting other sectors, like tourism and business process outsourcing, which are among the current stars in our economy.

I am not advocating an either-or strategy here. The more growth drivers we have, the more sources of employment for our people, and the more opportunity for them to get out of poverty.

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