

## **Managing issues towards higher competitiveness**

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Our special guest and resource speakers who will be properly introduced later, fellow members of the Board of Trustees, PHILEXPORT members, other guests, ladies and gentlemen:

Our General Membership Meeting provide a venue for us to look at very focused macro issues facing the industry, as we also get the opportunity to exchange ideas on how we can handle them. We are able to do this with the help of selected resource persons, in addition to PHILEXPORT insights and views.

Allow me then to start my report today with the most current issue that the business community presently faces – the wage hike issue..

### **The wage hike issue**

Labor day is just two days from now. As you may have caught on print and broadcast media, the labor sector has been clamoring for an across-the-board increase in salaries and wages. The demand has been a wage hike ranging from P80 to P150 per day, depending on which labor federation is making the press statement.

As head of both PHILEXPORT and the Employers Confederation of the Philippines, time and again, we have been sought by media to react on the growing clamor for wage and salary increases.

We have made clear our stand on the issue. We, in the formal segment of the economy, are one with other sectors, in wanting to help our workers and employees cope with the increased cost of living.

But we vehemently oppose legislated wages. Experience has taught us that legislated wages are not based on reality. These are often politicized, emotional and knee-jerk reactions to the labor situation. An example is the almost successful attempt by the 13<sup>th</sup> Congress to enact a P125 across-the-board wage increase.

We expect that some legislators in the Senate and the House of Representatives have already re-filed their respective bills seeking to legislate wage increases, among others, as there are at least 130 perceived to be popular bills filed mostly by party list representatives which we battle with Congress every year.

What we favor is for the Regional Wage Boards to review and implement wage-adjustments. The tripartite bodies made up of representatives from government, business and labor, are empowered by the law to fix new wage standards in each of the administrative and autonomous regions of the country.

The wage boards may not have perfect systems in arriving at their decisions. But they are rooted on the ground. They know the cost of living in their areas and the level of incomes that suffice to keep the family of a worker from starving. More than Congress, they are in a better position to come out with a more objective basis at balancing the needs of workers' families to survive without pushing enterprises to close shop.

What we have reminded leaders in government about the fact that legislated wages do not really solve the problems of our poorest countrymen. This we have done in a series of dialogues Malacanang called in the past few weeks.

We told them that wage increases, whether enacted into law by Congress, or arrived at by the wage boards, do not cover workers in the informal sector or the underground economy. Jeepney, tricycle, and *padyak* drivers, including our sewers and carpenters at subcontracting sites, are not within the ambit of labor laws. So are workers in small market stalls, barbers, sidewalk and itinerant vendors, micro-enterprises like sari-sari stores, family-owned small businesses and a wide range of miscellaneous services.

They make up eight out of every ten people with jobs and often earn even less than the minimum wages set by law. They are hit hardest by price increases of *pan-de-sal*, noodles and rice. Wage increases passed into law have no meaning to them.

We have urged decision-makers in the executive and legislative branches to specifically focus any and all social, economic, and job placement programs to this segment of our society. It is those 84 percent of our work force that need the safety nets of cheaper rice,

cheaper noodles, and cheaper *pan-de-sal*. It is they who need cheap if not entirely free medical care. It is they who need better-paying jobs, free education for their children and other social safety nets.

With Labor Day coming, we can only cross our fingers that the President and especially Congress have listened to our side of the pay hike issue. We hope that many in Congress are reasonable people.

### **The strong peso**

Another challenge, one that occupied us and hurt most of you last year, is the strong peso. Although the peso-dollar exchange rate remains at a level below our comfort zone, the good news is that, it has stabilized at a few centavos below P42 to one US dollar in the past couple of weeks.

During our past two GMMs, we have outlined to you the courses of action we have taken and the suggestions we presented to government to stop the peso from getting too strong to kill most of our indigenous exports. Industry leaders arrived at the conclusion that help from that end came too little to late.

At this point, things do not look so bad. Pressed to buy 2.2 million tons of rice from abroad at a price that may reach \$1,000 a ton, the National Food Authority has created a demand for about \$2.2 billion from the domestic exchange market at least for this year.

By creating a new demand for dollars, the NFA has done the exporters some good in keeping the exchange rate more stable where the Bangko Sentral ng Pilipinas and others have failed. Until the Philippines attains a comfortable level of rice self-sufficiency, huge importation of rice is bound to help keep the peso-dollar rate at an even keel.

At the least, we need not fear for the rest of the year the trending often resorted to by portfolio investment operators trying to coax the peso to an even stronger level will happen. I think the speculation they created has been broken.

### **Legislative Reforms**

On updates on our legislative agenda: I am pleased to report that the re-invigorated Magna Carta for SME that now covers micro enterprises, has been approved by the Senate and the House and is awaiting the signature of President Arroyo.

Last week, Senator Miriam Santiago has reported out of her Foreign Affairs Committee a conditional ratification of the Japan-Philippines Economic Partnership Agreement better known as the JPEPA. Simply told, the conditions set by the Senate for ratification may look many. But this redound to a demand that the treaty does not violate the Philippine Constitution. A proud nation like Japan, sensitive to its historical misadventures in the Asian region, would be more than willing to accept those conditions.

As the procedures for the ratification are finalized, we strongly encourage our exporters to prepare as well for the market access opportunities that will be opened via the JPEPA. This is especially true for the agriculture, motor vehicles, and other sector-beneficiaries of this Agreement. As you are aware, the market openings are good only if there are takers. Any future review of this Agreement for better concessions will depend on the performance that the Philippines can muster during the implementation stage.

Another landmark legislation, our accession to the Revised Kyoto Convention or RKC, already in the table of Senator Santiago, also has a very high chance of getting ratified. Because it has not elicited vicious opposition, the global rules on simple and harmonized customs procedures and practices will bind our Bureau of Customs into adopting and living up to the demands of those rules. We hope that with our accession to RKC, the long-awaited comprehensive reforms in the Bureau of Customs will finally happen.

We have also taken a stand in favor of putting together our compartmentalized and fragmented trade negotiations units into a permanent Philippine Trade Representative Office. We are one with other groups in the private sector in the clamor at institutionalizing the consultation process in any and all trade negotiations the government involves itself in.

We needed this Office long time ago and we need it now that our government negotiators are into a lot of bilateral, regional and global trade and investment talks. The demands of these times are such that we must have a professional, regular, and full-time trade and investment negotiating team with a support staff.

Meanwhile, the Customs Brokers Act has been passed at Congress. We hope that Senate will start calling hearings soon so that we can finally address the issue of document signature by exporters and importers.

## **Helping ourselves**

What have been reported so far were the decisions and policy reforms we have sought from government, some with favorable results.

Allow me now to report on what we have been doing not only for our mutual survival, but for export growth to become more sustainable and not at the mercy of local and foreign adverse events and trends.

The making of the 2008-2010 Philippine Export Development Plan or PEDP is at its final leg. A team has been tasked to put in one cohesive whole the various plans, suggestions, revisions, and other inputs submitted by industry groups, regional chapters of PHILEXPORT, consultants and our partners in government gathered in over a year of consultations, working sessions and conferences.

Our last export plan had three major features: industry clustering as our central strategy, expansion of our relatively newly rediscovered market, the Asian region, and deepening of our market intelligence.

In the course of the consultations, conferences and workshops, we have determined that we need to expand and deepen our industry and site clusters, continue expanding our intra-Asian trade specially with the operationalization of several FTAs in the area, and be more serious in our market intelligence to include learning what our competitors are doing.

The new export plan has a few new features. One very important feature is the determination of the weak links or gaps in our value chain from sourcing of raw materials and packages to efficient transport to marketing to correct those defects. To many of the industries, a steady supply of raw materials is one of the weakest links.

There will also be special chapters on dealing with the strong peso and addressing the high cost of doing business in the Philippines, especially the high cost of electricity, one of the strongest reasons why new investors are avoiding our country and a few of our big investors relocating to places where costs are much lower.

In a month or less, we may be ready with the final draft, already scrutinized by the Export Development Council, and ready for approval by the President. Your chapters or industry associations will get your copies soon after.

Already a dynamic component of the Export Plan is the use of the P280 million Export Promotions Fund (EPF). The latest report of the EDC on availment showed that over P40 million worth of projects proposed by industry groups and field chapters of PHILEXPORT have been approved with over P10 million already released.

Some proposals have been approved in principle, with just the submission of some documents to comply with the Commission on Audit requirements, while others are going through an evaluation process based on guidelines distributed to member-groups. Thus so far, not even half of EPF has been committed to actual projects. We need to commit the P200 million contributed by DTI and the DBM until December this year.

If you have pet projects that will benefit your group but lack the money to implement them, then you should tap the EPF and submit proposals to the EDC soonest. Get a copy of the guideline on what type of projects qualify for funding and all the documentary requirements needed so there will be no processing delays later. The guidelines are downloadable from the PHILEXPORT website, [www.philexport.ph](http://www.philexport.ph).

Meanwhile, there are two other new developments where you are involved. Through our Vice Chairman, Ambassador Donald G. Dee, PHILEXPORT has embarked on a project to match the skills that the schools are offering with the needs of the export sector. Called School to Office Response to Employment or SORE, the program is designed mainly to address jobs and skills mismatch. SORE is among the priority programs of the Presidential Coordinating Task Force on Education or PCTFE created last August to assess, plan and set the policy direction in reforming the country's educational system. Ambassador Dee is a member of the Task Force representing the industry sector.

The first step is to find out what types of skilled and professional workers do the different industries need. We have sent out the survey forms to each of PHILEXPORT members. The result taken from the ground will be the basis in redirecting the type of vocational and professional courses and curricula the schools will adopt. Once and for all, we must end the mismatch between skills and education on one hand, and the needs of the economy on the other hand.

Lastly, we are into re-engineering the services at the One-Stop Export Documentation Center in Manila as a pilot case for the other OSEDCs in

other parts of the country to replicate. This will complement the computerization of many of the processes at the Bureau of Customs in preparation for adopting global customs rules under the World Customs Organization and as part of the trade facilitation strategies that PHILEXPORT is advocating for.

### **Prospects for the year**

Our reading is that the worst of the exchange rate typhoon that devastated quite a few in our ranks last year won't be so bad, at least up to the third quarter of 2008. But we should not be too complacent, as there is a danger for the peso to regain strength when the US economy recovers and portfolio investments that fled our stock market start coming back. This may happen as early as the fourth quarter this year.

However, despite the peso woes and the looming recession in the US, our over-all export performance for the first two months of 2008 showed a decent growth.

The coconut oil, furniture and gold exporters have managed to stay in the list of top 10 exports. We hope that with better prices of food in the international market, the food sector may stage a rebound. New opportunities are getting opened in Japan for them, as there are already clear indications that the JPEPA will pass Senate ratification, as there are also more opportunities in China and South Korea for tropical fruits and vegetables.

We urge the other indigenous exporters to act as an organization in building their own sustainable raw material source bases by tying up with suppliers in long-term programs including the establishment and expansion of commercial-grade plantations for renewable raw materials. It is their best bet to keep on growing.

On your own initiatives, find out the import needs of our free trade area partners in East Asia, and those we are negotiating with countries like Australia, New Zealand and India so that when an agreement is reached, you already have a foothold in those markets. We hope that you can also be more actively involved as PHILEXPORT develops position papers and participates in deliberations on these agreements.

PHILEXPORT and the DTI are closing ranks to deliver fresh and timely market information to help keep the industry more competitive. Our speakers will later give us additional insights and educated inputs on

how we can position ourselves amidst all these national and global dynamics.

There are and certainly be disruptions in our plans, turmoil in the economic and political fronts, both here and abroad. Again, let me reiterate our call for solidarity and focus in our mission. After all, exporting is one area where we can excel and through which we can help build the bedrocks of a truly strong economy.

*Salamat po at mabuhay tayong lahat!*