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PROGRAM ON ESCAPING THE MIDDLE-INCOME TRAP: CHAINS FOR CHANGE

Balancing Acts

A Strategic Industrial Policy Framework for the Philippine Tatak Pinoy Act

E. Annette Balaoing-Pelkmans, Ph.D.

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Economic and Social Upgrading in Global Value Chains: Insights from Philippine Manufacturing Firms

Adrian R. Mendoza

Abstract

This study explores results of the 2012 Survey on Adjustments of Establishments to Globalization (SAEG) to analyze the economic and social upgrading experience of Philippine manufacturers within global value chains (GVCs). Three broad patterns emerge from the data. First, firms with stronger GVC linkages tend to have better labor indicators than purely domestic producers. Second, the majority of manufacturers either experienced or missed economic and social upgrading simultaneously. Lastly, almost all social upgrading is accompanied by economic upgrading but economic upgrading may take place without a social component. Against this background, this study uses bivariate probit regression to model the joint determination of the two separate but interconnected upgrading outcomes. The results indicate that the covariates in the model can be categorized based on their statistical significance: purely economic (i.e., employment size, unit labor cost, high skill intensity, and the Kaitz dummy), purely social (i.e., training, female intensity, and foreign equity), and both (i.e., contractualization, and process and product innovations).

These results have several important implications. First, GVC firms' notion of social upgrading is closer to the softer components of working conditions than to traditional measurable indicators such as employment, wages, and efficiency.

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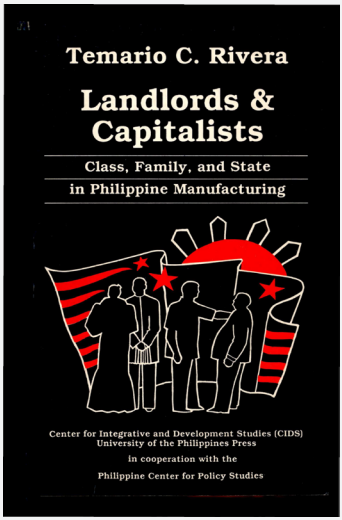

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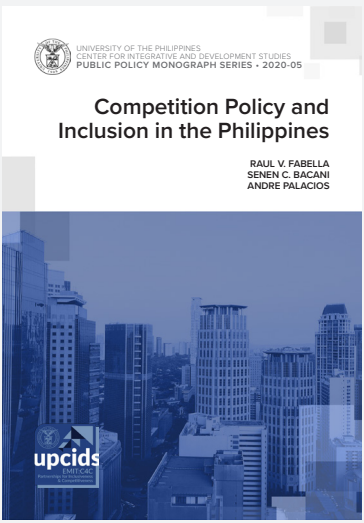

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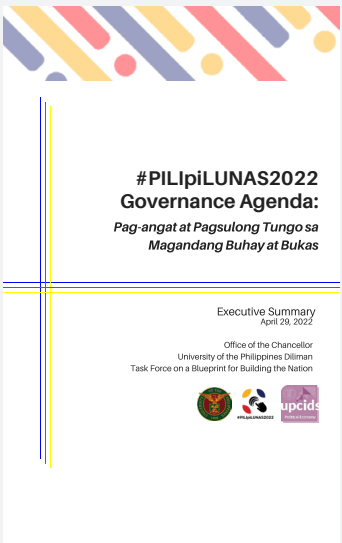

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BALANCING ACTS

A Strategic Industrial Policy Framework for the Philippine Tatak Pinoy Act

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HIGHLIGHTS

- This paper examines the increasing importance of industrial policy in addressing persistent market failures and structural disadvantages in developing economies, with a particular focus on the Philippines.

- It introduces an analytical framework that distinguishes between horizontal and vertical industrial policies, offering policymakers a tool to assess the effectiveness of these strategies in real-world settings.

- Applying this framework, the paper evaluates the Tatak Pinoy Act, a key initiative designed to revitalize the Philippine industrial sector, and explores its potential to tackle challenges such as externalities, information asymmetries, coordination failures, and limited access to credit.

- The paper argues for the necessity of strategic government interventions to overcome these barriers and promote industrial growth, while recognizing the risks posed by weak governance, policy capture, and inefficiencies.

- It emphasizes the importance of a balanced approach in designing and implementing targeted policies that foster sustainable development without exacerbating vulnerabilities or misallocating resources.

INTRODUCTION

For decades, the term "industrial policy" was regarded as almost taboo in development circles—often dismissed as synonymous with government overreach and inefficiency. The prevailing paradigm of the time urged governments to prioritize economic liberalization and deregulation, with the expectation that local industries would thrive organically under "market-friendly" conditions. Yet, persistent market failures and the inability of many developing nations to climb the value chain have shifted this perspective. A growing consensus now recognizes that industrial policy is not just relevant but essential for addressing deep-rooted structural disadvantages. In countries like the Philippines, where industries face formidable obstacles, the debate is no longer about whether industrial policy is necessary but how to design and implement it effectively in the context of current economic realities and the institutional limitations of government.

This paper is specifically targeted at policymakers, industry leaders, and entrepreneurs from small and medium-sized enterprises (SMEs), offering them a practical analytical framework based on the concepts of horizontal and vertical industrial policies. It applies this framework to analyze the *Tatak Pinoy Act*[1]—an ambitious initiative aimed at revitalizing the Philippine industrial sector—and evaluates its potential to address the country's economic challenges.

INDUSTRIAL POLICY: PROMISE, POTENTIAL, PROBLEMS

Industrial policy holds the promise of addressing structural barriers to economic development, but its implementation is fraught with challenges. To address these complexities, this paper introduces a framework that distinguishes between horizontal and vertical policies, emphasizing their varying degrees of application and impact. By focusing on real-world contexts rather than theoretical

[1] The Tatak Pinoy (Proudly Filipino) Act, or Republic Act No. 11981, is a Philippine law enacted on 26 February 2024. It aims to enhance collaboration between the government and private sector to promote the production of high-value and sophisticated goods and services by Philippine industries. For complete text, see: https://legacy.senate.gov.ph/lisdata/4255238719!.pdf

abstractions, the framework offers a pragmatic approach to evaluating policy mixes and their capacity to foster sustainable industrial growth.

To effectively apply this framework, it is useful to first grasp the significance of industrial policy, especially in addressing the persistent market failures that characterize many developing economies. These failures occur when free markets struggle to direct resources toward their most productive and beneficial uses, resulting in missed opportunities for growth and development. They manifest in various forms, including externalities, information gaps, coordination breakdowns, scale inefficiencies, inadequate provision of public goods, and limited access to credit—each presenting unique challenges to industrial progress. In such circumstances, relying solely on a laissez-faire approach—where the government avoids intervention and allows markets to function unchecked—often exacerbates the economic disadvantages faced by local industries.

Externalities occur when the actions of individuals, businesses, or governments unintentionally affect others—either positively or negatively—without these impacts being reflected in market prices. For example, pollution from factories is a classic example of a negative externality. It harms the environment and public health, yet these costs are not included in the price of goods produced, leading to excessive pollution. Conversely, some activities, such as investing in new technologies or industries, generate long-term societal benefits, as Ha-Joon Chang highlights in *Kicking Away the Ladder* (2003). However, positive externalities—particularly those associated with knowledge creation—could also pose significant challenges in industrial policy. Knowledge spillovers often benefit society broadly, but local firms typically cannot capture the full rewards, resulting in an underinvestment in innovation. This limits the ability of firms to upgrade and compete against more efficient global competitors. Without intervention, these externalities can perpetuate both overproduction in harmful areas, such as pollution, and underproduction in critical areas, such as technological advancement and innovation.

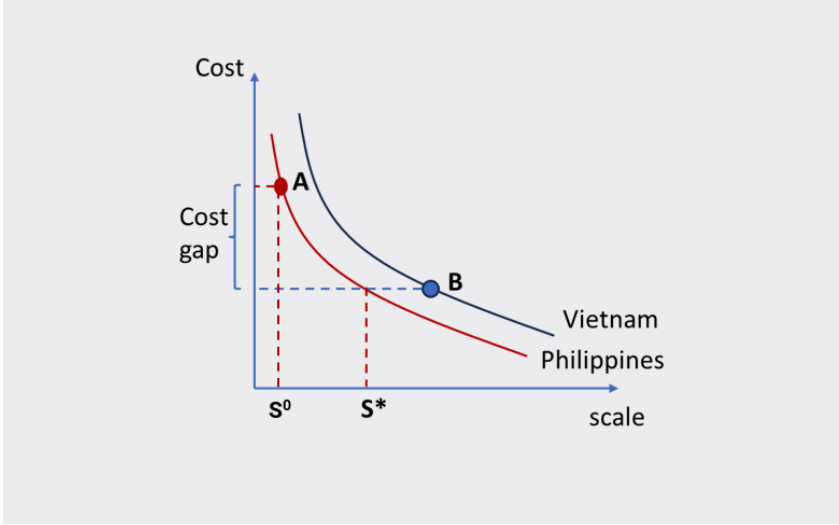
Markets are typically expected to function optimally when all participants have access to full and accurate information, enabling informed decisions and efficient resource. However, in practice, this assumption breaks down, particularly in developing countries, where businesses frequently operate with limited knowledge of new technologies, market trends, or improved

production methods. As Joseph Stiglitz explains in *Globalization and Its Discontents* (2002), markets cannot address these information gaps on their own. When some players possess more or better information than others—a situation known as ***asymmetric information***—markets fail to operate fairly or efficiently. This leaves businesses in developing countries at a competitive disadvantage, struggling to keep pace with global competition. Furthermore, this knowledge gap deepens inequality as better-informed and more resource-rich firms, often from developed nations, can exploit these disparities to their benefit.

Another significant challenge is what economists refer to as ***coordination failures***. Achieving significant progress often requires simultaneous investments in areas like infrastructure, technology, and workforce development. However, markets alone struggle to accomplish this because individual firms naturally prioritize their short-term needs over the larger, long-term benefits of coordinated action. For instance, a manufacturing firm may hesitate to expand if there is no reliable transportation of energy supply, while infrastructure projects may stall due to a lack of perceived industrial demand to justify the public investment. These disconnects highlight the limitations of market-driven strategies in fostering industrial growth and the need for strategic interventions to align efforts across sectors.

Dani Rodrik (2004), in *Industrial Policy for the Twenty-First Century*, highlights the essential role governments play in overcoming these coordination failures. By aligning investments across sectors, governments can create the conditions needed for industries to thrive. This ensures that investments in one area—such as infrastructure—are complemented by growth in other sectors, like manufacturing or services, amplifying their overall impact.

Some industries also require substantial upfront investments to achieve ***economies of scale***. Without government support, businesses may struggle to grow or compete internationally, especially when rival firms from other countries have already established themselves in key, expanding sectors.



■ Figure 1. The Catch-Up Challenge: Critical Mass and First-Mover Advantage

For instance, consider a situation where the Philippines holds a potential cost advantage over Vietnam in a particular industry. If Vietnam gains a head start—by scaling up production—it can lower its costs and dominate the market. Filipino firms entering the market later would face higher initial costs due to lower production scale, making it tough to compete. As shown in Figure 1, Filipino firms would need to scale up production from S0 to a critical level (S*) to bring down costs and close the gap. Without some form of industrial policy to facilitate this scaling, they may never reach that threshold and could remain stuck at a disadvantage.

One of the most prevalent forms of market failure is the ***underprovision of public goods***. These refer to resources that benefit everyone but often fail to attract private investment, as businesses cannot directly profit from them. As a result, public goods—such as clean air, national defense, and essential infrastructure like roads—are frequently underprovided or absent in the market. This shortage can severely limit economic growth and hinder industrial development. Governments must step in to ensure these resources are adequately provided, creating a conducive environment for business growth and sustainable progress.

Another key market failure is ***limited access to credit***, which is particularly prevalent in many developing economies where SMEs, in particular, struggle to secure the financing needed for growth. Financial institutions may hesitate to lend due to perceived risks, lack of collateral, or insufficient information about potential borrowers. This credit gap stifles innovation, limits business expansion, and hampers industrial development. Governments often play a critical role in facilitating access to credit, ensuring that businesses, especially startups, can access the resources necessary for continued growth.

Strategic government policies are essential to bridging these gaps, enabling industries to grow, compete, and thrive in the global market. A laissez-faire approach that relies on market forces alone often overlooks these structural challenges, further marginalizing disadvantaged industries and increasing reliance on imports.

However, while industrial policy can address market failures, its effectiveness is often compromised in environments with weak governance. One key risk is ***policy capture***, where powerful interest groups manipulate policies for their own benefit rather than for the broader economy. Economist Paul Krugman (1987) noted that, while strategic trade policies can outperform laissez-faire approaches in theory, poor governance—marked by corruption, inefficiency, and political favoritism—often results in policies that do more harm than good. In such cases, it may be preferable for the government to avoid direct intervention.

Dani Rodrik, in *The Globalization Paradox* (2011), explains that governments often ***lack the necessary information*** to determine which industries to support. Predicting which sectors will thrive requires accurate and up-to-date data on market trends, technological changes, and global competition. Without this, governments risk backing the wrong industries or missing out on those with real potential. Even well-intentioned policies can lead to costly mistakes, wasting resources, and creating missed opportunities.

Research shows that these challenges are common. Through a 2013 OECD study, Warwick found that industrial policies often fail when governments ***lack the institutional capacity*** to implement them effectively. Aiginger and Rodrik (2020) also highlight that industrial policy struggles to keep up with the fast-paced changes in global markets, where innovation and technology

cycles outpace policy responses. Krueger (1974), in her seminal work on rent-seeking, underlined how industrial policies are vulnerable to special interest influence, leading to inefficiency and wasted public resources. This risk is particularly acute in developing countries, where weak institutions can exacerbate these governance challenges.

The pros and cons of industrial policy place policymakers in a difficult position, creating a "damned if you do, doomed if you don't" scenario. On one hand, failing to intervene leaves market failures unchecked, potentially locking a country into low-value industries and limiting its ability to compete globally. On the other hand, intervention carries significant risks—such as policy capture, resources misallocation, and governance failures—that can undermine the intended benefits and exacerbate existing problems.

Thus, industrial policy requires a delicate balance. The key lies in acknowledging the risks, taking calculated steps to mitigate them, and ensuring that interventions strengthen economic fundamentals—such as infrastructure, education, and regulatory frameworks—that benefit all firms, not just those in targeted sectors. Policymakers must also recognize that addressing market failures through targeted industrial or competitiveness policies, when executed properly, can drive long-term growth. While no one-size-fits-all solution exists, successful policies are those that focus on strategic, well-informed interventions that address market failures while creating an environment where markets can function effectively and competitively.

BUILDING COMPETITIVENESS: AN ANALYTICAL FRAMEWORK FOCUSED ON HORIZONTAL AND VERTICAL POLICIES

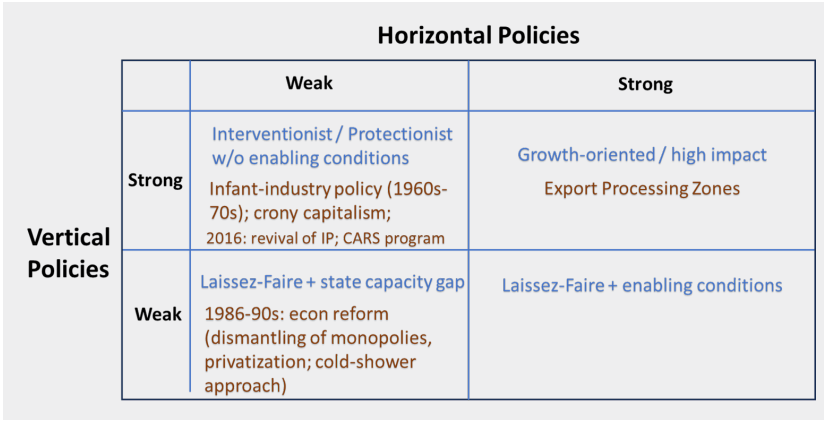
To address these challenges effectively, a clear analytical framework is essential to guide policymakers in crafting industrial strategies. This framework should emphasize the interaction between horizontal and vertical policies, illustrating how their integration can enhance competitiveness. By distinguishing between these policy types and their respective impacts, we can structure interventions that not only address tackle market failures but also lay a strong foundation for sustainable economic growth.

In this context, horizontal policies consist of broad measures that enhance the overall business environment, including improvements in infrastructure, education, and regulatory systems that benefit all sectors. In contrast, vertical policies are targeted interventions aimed at specific industries or sectors, often involving subsidies, direct assistance, or strategic investments. Recognizing the difference between these approaches is essential for crafting an effective industrial policy.

As Aiginger and Rodrik (2020) note, a balanced mix of these policies is essential for fostering sustainable industrial growth. Horizontal policies create the foundation for a competitive market, while vertical policies can address sector-specific challenges and opportunities.

Analytical Framework: Quadrants of Policy Mix

This framework categorizes approaches into four quadrants based on their intensity levels, providing a lens through which to analyze the phases of Philippine industrial policy. These quadrants illustrate how the country has balanced horizontal and vertical strategies over time.



■ Figure 2. Balancing Horizontal and Vertical Industrial Policies: An Analytical Framework

Strong Vertical, Weak Horizontal Policies (Upper Quadrant 1)

In this scenario, the government targets specific industries with interventions, but these industries struggle to survive competition due to insufficient horizontal support. For instance, a government might target a particular sector, but if infrastructure is poor (thereby increasing cost of doing business) or there is a lack of skilled labor (thus limiting the scope for going up the value chain), these firms will still face significant challenges.

The Philippine industrial policy from the 1960s to the 1980s exemplifies this quadrant. During the period of import substitution industrialization (ISI), the government implemented vertical policies aimed at nurturing infant industries. These measures included high tariff barriers, quantitative restrictions, import controls, investment incentives, and direct involvement in key sectors (Aldaba 2013). However, these policies resulted in low output, limited employment growth, and a weak manufacturing sector (Dohner and Intal 1989).[2] These outcomes were

[2] Examples of major industrial projects in 1979 include the copper smelter project in Leyte, aluminum (do you mean aluminum?) smelter project (a joint venture agreement between the Philippine National Development Corporation and Reynolds Metals Company, US), and a petrochemical complex approved by the Board of Investments in 1979 (see: https://www.csmonitor.com/1980/0919/091972.html).

partly due to a lack of effective horizontal policies, such as investment in human capital, support for SME development, technology upgrading, and improvement in logistics, transportation, and utilities (Aldaba 2014; Balaoing and Mendoza 2021).

Moreover, crony capitalism emerged as a significant issue during this era. Economic policies often favored well-connected businesses, resulting in rent-seeking behavior and the misallocation of resources (Hutchcroft 1991). Rather than promoting competitive and innovative industries, protectionist measures entrenched inefficiencies and allowed unproductive firms to survive (Bautista and Tecson 2003). The absence of mechanisms to incentivize upgrading and innovation further compounded the problem, leaving many industries ill-prepared to compete when trade liberalization pressures increased in subsequent decades (Aldaba, 2008).

Despite the introduction of the *Comprehensive National Industrial Strategy* (CNIS) in 2016, which aimed to enhance productivity and foster a strong industrial base, it struggled to address persistent challenges such as poor infrastructure, a lack of skilled labor, bureaucratic red tape, and the presence of smuggled products that undermined domestic industries (Aldaba 2024). The openness of the Philippine economy to imports, as well as the lack of strong domestic suppliers, also hindered local firms from advancing up the value chain. There were some attempts to introduce vertical policies in the form of the *Comprehensive Automotive Resurgence Strategy* (CARS), but its success was hindered by the combination of adverse policy impacts (e.g., Tax Reform for Acceleration and Inclusion (TRAIN) Law), inability of manufacturers to meet production targets, and overall challenges in creating a competitive manufacturing hub. All these underscored the need for both horizontal and vertical policy coherence.

Aiginger and Rodrik (2020) argue that targeted policies require a conducive environment to succeed. In the case of the Philippines, the lack of robust horizontal policies left protected industries struggling to achieve long-term competitiveness. The period highlights the risks of relying heavily on vertical interventions without addressing the foundational public goods needed to support sustainable industrial growth.

Weak Vertical, Weak Horizontal Policies (Lower Quadrant 2)

This quadrant represents the "cold-shower approach," where the government exposes local firms to foreign competition without providing sufficient support. An open trading regime might be implemented with the hope that competition will spur local firms to improve. However, without strong horizontal investments in public goods, such as infrastructure and education, this strategy often leads to decreased competitiveness and the potential loss and exit of domestic firms.

The 1990s liberalization phase, characterized by the policies of Presidents Benigno Aquino III and Fidel Ramos, fits within this quadrant. During this period, the Philippine government adopted a more market-oriented approach, reducing protectionist measures, dismantling monopolies, and opening the economy to foreign competition. The belief was that exposing local firms to international competition would stimulate efficiency, innovation, and growth.

However, this period lacked strong vertical policies targeting specific industries and sufficient horizontal support to foster the competitiveness of local firms. Public investments in infrastructure and human capital remained inadequate. Despite efforts to privatize and liberalize, many domestic industries struggled to compete with more advanced foreign firms due to the lack of foundational public goods in the areas of education, infrastructure, and technological support.

As a result, local firms found themselves vulnerable to international competition without the necessary tools to upgrade their capacities. The failure to implement coherent horizontal policies to support economic restructuring left many industries unable to adapt to the demands of the global market.

Weak Vertical, Strong Horizontal Policies (Lower Quadrant 3)

In this quadrant, the government invests in creating a favourable business environment through horizontal policies but lacks targeted

support for specific sectors. This situation often occurs in countries where the public sector has sufficiently fostered conditions that allow local firms to thrive even without direct intervention.

The period following the 1990s liberalization, particularly in the 2000s and 2010s, presents an example that loosely aligns with this third quadrant. During this time, there was a semblance of focus on horizontal policies, as evidenced by the surge in economic growth and efforts to improve infrastructure, education, and the overall business environment. The Philippine industrial strategy, under frameworks like the Comprehensive National Industrial Strategy (CNIS) and the Inclusive Innovation Industrial Strategy (i3S), highlighted infrastructure as a priority. Still, issues such as high energy costs and weak sectoral linkages limited broader industrialization efforts. While some manufacturing sectors, particularly electronics, experienced growth driven by skilled labor and export demand, these gains did not substantially uplift labor-intensive or low-value-added industries. Much of the industrial expansion benefited from horizontal measures but fell short of comprehensive structural transformation due to the absence of strong vertical interventions, such as research and development (R&D) incentives or advanced supply chain integration.[3]

Warwick (2013) illustrates how a strong foundation of horizontal policies can enable businesses to compete more effectively. However, without complementary targeted support, Philippine industries struggled to move up the value chain. While foreign investments increased during this period, much of the domestic industrial base remained concentrated on low-value-added activities, unable to capitalize on opportunities for industrial upgrading that a more strategic mix of horizontal and vertical policies could have provided.

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[3] To know more, see: https://oxfordbusinessgroup.com/reports/philippines/2019-report/economy/gears-in-motion-manufacturing-is-to-benefit-from-infrastructure-development-and-the-diversification-of-production-bases

Strong Vertical, Strong Horizontal Policies (Upper Quadrant 4)

This quadrant represents the ideal policy mix, where both vertical and horizontal supports are robust. In such a context, targeted industry support is complemented by a strong overall business ecosystem, including infrastructure, skilled labor, and innovation incentives. This synergy is particularly crucial in sectors where knowledge creation and technological innovation produce positive externalities, as emphasized by Rodrik (2011). In the context of energy transitions, where driving technological progress and implementing climate change measures are critical, effective vertical policies are essential to stimulate the necessary advancements.

"Lukewarm Bath" Approach

As previously discussed, the "cold-shower" approach occurs when the government exposes local firms to foreign competition without sufficient support, leading to weak horizontal and vertical policies that leave firms unprepared to compete. In contrast, a "lukewarm bath" approach arises when vertical policies, such as trade protection, are applied in isolation. While this may provide temporary relief, it does not address the underlying challenges hindering firm competitiveness. The key flaw of this approach lies in the assumption that trade policy alone can stimulate local firms to take on measures such as investing in technology and product upgrading in order to be competitive. For vertical policies to effectively foster sustainable competitiveness, they must be part of a comprehensive support package that includes access to financing, R&D assistance, and marketing support. Without these complementary measures, vertical interventions will fall short of achieving long-term industrial growth.

TATAK PINOY ACT AND THE PURSUIT OF POLICY SYNERGIES

The Tatak Pinoy Act can be seen as a strategic move to emphasize the need for a more focused approach to industrial development, aiming to rally both policy and popular support for a cohesive industrial policy framework. The Act outlines broad policy objectives and general guidelines, including the promotion of more sophisticated Philippine products and services, support for domestic enterprises, and strengthened collaboration between the public and private sectors, as well as between the academia and the industry. It also identifies foundational pillars such as human resources, infrastructure, innovation, investments, and financial management, assigning the ***Tatak Pinoy Council (TP Council)*** the responsibility of formulating specific strategies, objectives, and actions. These strategies will be crafted through evidence-based, consultative processes involving technical clusters and working groups.

While the Act establishes these essential elements, it stops short of specifying detailed policies, action plans, or implementation mechanisms. Instead, these are left to be formulated through subsequent processes, allowing flexibility for adaptation and alignment with evolving economic contexts.

To better understand the potential impact of the Act, **Table 1** categorizes its provisions into horizontal and vertical industrial policies and maps them to the market failures they are designed to address. This framework differentiates between economy-wide improvements (horizontal policies) and sector-specific interventions (vertical policies). By linking these policies to market failures such as public goods provision, coordination failures, externalities, and sector-specific inefficiencies, the framework provides a structured approach to assess how effectively the Act tackles key economic challenges.

In terms of **public goods provision**, the Tatak Pinoy Act primarily focuses on horizontal policies, such as infrastructure development and human resource enhancement. Public goods, which benefit multiple sectors, are addressed by plans to expand critical infrastructure and facilities to support the development of key industries such as agro-processing, manufacturing, and the creative sectors. The Act also emphasizes improving digital infrastructure, including broadband connectivity, to support e-commerce and

technology-driven sectors.[4] Moreover, the Act seeks to scale up R&D efforts to foster technological adoption and innovation, ensuring industries can stay competitive in a rapidly evolving global economy.

Regarding **externalities**—such as learning externalities and technological gaps—the Tatak Pinoy Act incorporates horizontal policies aimed at enhancing technology and innovation. These policies focus on expanding the technological capabilities of industries by promoting R&D, technological adoption, and innovation across sectors.

A key element of these efforts is the **PRISTINE** (Promoting Research and Innovation to Strengthen Transformation of Industries and Enterprises) project, which plays a crucial role in advancing the Tatak Pinoy Act's goal of fostering industrial innovation. While PRISTINE contributes to the broader technology and innovation landscape, it also serves a more targeted, sector-specific function that aligns with the objectives of vertical policy. The project focuses on specific industries, promoting the commercialization of research and development initiatives, particularly those originating from academic institutions. In doing so, PRISTINE bridges the gap between academic research and practical, market-driven applications, ensuring that technological advancements are directly utilized to enhance the competitiveness of select industries. By addressing the unique needs of these sectors, PRISTINE not only supports the broader aims of the Tatak Pinoy Act but also strengthens industry-specific technological capabilities and innovation capacity.[5]

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[4] To know more, see: https://developingtelecoms.com/telecom-technology/optical-fixed-networks/16923-philippines-authority-approves-major-broadband-connectivity-project.html; https://www.dti.gov.ph/archives/news-archives/dti-issues-implementing-rules-regulations-irr-tatak-pinoy-act/

[5] Under the PRISTINE project, several types of innovation infrastructure are planned to be developed, particularly through the establishment of Knowledge, Innovation, Science, and Technology (KIST) Parks.

TABLE 1. ADDRESSING MARKET FAILURES THROUGH HORIZONTAL AND VERTICAL POLICIES

MARKET FAILURES	HORIZONTAL POLICIES	VERTICAL POLICIES
Public Goods Provision	**Infrastructure Development**: The TPS (Tatak Pinoy Strategy) includes plans for infrastructure and facilities to support target industries. It will ensure equitable spread of public expenditures to support domestic enterprises in underserved areas, such as fourth- to sixth-class municipalities, and promoting inclusivity for marginalized groups. **Human Resource Development**: The act emphasizes skills development, creativity, and innovation among Filipino workers, craftsmen, laborers, entrepreneurs, and professionals.	
Externalities ■ Learning externalities ■ Technological gaps	**Technology and Innovation Support**: Emphasizing scientific and technological innovation through improved education, better technology transfer, R&D, and bridging the gap between innovation and market-ready solutions	
Information Asymmetries	**Market Access Facilitation**: The act aims to improve access to both domestic and international markets. This addresses information asymmetries by helping firms navigate complex market entry processes.	It will aim to define business models, sectors, market segments, and product opportunities in which domestic enterprises can gain a comparative advantage. This includes strategies aligned with economic theories and complexity indices.

MARKET FAILURES	HORIZONTAL POLICIES	VERTICAL POLICIES
Information Asymmetries *(cont.)*		**Export Development Focus**: The act aims to use Tatak Pinoy to deliver on the Philippine Export Development Plan (PEDP). This suggests targeted support to help export-oriented industries overcome information barriers in international markets.
Coordination	**Creation of the Tatak Pinoy Council (TPC)**: This council serves as a coordinating body to align government, industry, and academia efforts. It will aim to harmonize policies, development plans, and programs of government agencies and local government units to ensure synergy and to avoid overlaps. Developing and implementing a nationwide strategy for supporting domestic enterprises in partnership with the private sector, academe, and civil society	**Identification of Priority Sectors**: The TPC outlines target sectors for development. This allows for focused coordination efforts in strategic industries. **Green Lanes for Priority Projects**: Expedited permitting and licensing for specific projects addresses coordination failures in high-priority sectors.
Credit Market Access	Ensuring availability of credit for domestic enterprises through innovative financing mechanisms, including low-interest or flexible-term loan programs and credit guarantee programs	
Scale Economies	**Domestic Preference Mandate**: Promoting domestically produced and manufactured products, materials, and supplies in government procurement activities, while adhering to domestic preference rules	

To address information asymmetries, the horizontal policy of market access facilitation plays a critical role. This policy aims to support businesses by improving their access to both domestic and international markets, simplifying complex market entry processes. By ensuring businesses are well-informed, this horizontal policy addresses the information gaps that can impede industrial development. On the vertical policy side, the Tatak Pinoy Act extends targeted support to export-oriented industries through export development initiatives. In alignment with the Philippine Export Development Plan (PEDP), this vertical policy helps these industries overcome barriers in international markets, boosting their global competitiveness.

To tackle coordination failures, the Tatak Pinoy Act establishes the ***Tatak Pinoy Council (TPC)***, a horizontal policy that serves as a coordinating body to align efforts across government, industry, and academia. This council fosters collaboration across sectors, ensuring that investments in infrastructure, workforce development, and technology align with the needs of targeted industries. Additionally, the Act introduces the identification of priority sectors for development as a vertical policy. This policy focuses efforts on sectors that have the greatest potential for growth and competitiveness. Complementing these efforts, the policy of green lanes for priority projects streamlines permitting and licensing processes for projects in high-priority sectors, reducing delays that have historically hindered industrial development.

In addressing economies of scale, the Act explicitly promotes a genuine local preference policy that mandates the government procurement of locally made goods for a period of ten years. This preference, in line with the Tatak Pinoy brand, ensures a steady demand for domestic industries. By fostering such demand, the policy helps industries to achieve economies of scale, lower costs, and improve productivity, which are key components for long-term sustainability and global competitiveness.

Table 1 highlights that the vertical policy cells remain largely unfilled or less developed, indicating the challenges in formulating vertical policies and addressing the daunting array of market failures. While horizontal policies are well-defined and address systemic needs, vertical policies require deeper elaboration. Their complexity stems from the need to tailor interventions to specific sectors or groups, requiring intensive dialogue and collaboration among policymakers, the private sector, and knowledge institutions.

Unlike horizontal policies that offer broad-based solutions, vertical policies necessitate a deeper understanding of the unique characteristics, needs, and dynamics of individual sectors or industries, making their design and implementation far more intricate.

This need for detailed planning underscores the importance of the Tatak Pinoy Council's role in leading consultative processes to flesh out these policies. The Council's collaborative efforts are pivotal in transforming these challenges into opportunities, ensuring that targeted interventions elevate the competitiveness of Philippine industries while promoting inclusivity and sustainability.

One of the primary challenges is **identifying which sectors to prioritize**. This requires complex criteria, such as assessing economic potential, comparative advantage, employment generation, and global market trends. The selection process can also be subjective and contentious, often attracting vested interests, which may lead to inefficiencies and the allocation of resources to politically-favored rather than high-potential sectors. Moreover, reliable data on sectoral performance and market opportunities is often limited, particularly in developing economies, further complicating the decision-making process. The rapidly evolving global economic environment also adds uncertainty to predictions about which sectors will yield long-term benefits.

Stakeholder coordination is another critical hurdle. Policymakers must balance the diverse and often conflicting interests and perspectives of government agencies, private sector actors, and knowledge institutions. Effective public-private collaboration is vital for successful vertical policies, but building trust and accountability among these groups takes time. Furthermore, the design of such policies often requires specialized industry expertise, which policymakers may lack, necessitating reliance on insights from private sector stakeholders and academic institutions.

Tailoring interventions to the specific needs of different sectors adds another layer of complexity. Each industry faces unique constraints that demand customized approaches. For instance, agro-processing may require infrastructure and supply chain improvements, while creative industries might benefit more from stronger intellectual property protections and marketing support. A "one-size-fits-all" approach risks undermining the effectiveness

of interventions, emphasizing the importance of tailoring solutions to the specific contexts of each sector.

Implementation and monitoring also pose significant challenges. Many government agencies may lack the technical expertise or institutional capacity to execute complex, sector-specific strategies. Additionally, evaluating the success of vertical policies is inherently more difficult than horizontal ones, as their outcomes are deeply influenced by sectoral dynamics and may take longer to materialize.

Flexibility and commitment must be carefully balanced. Vertical policies need to remain adaptable to changing economic conditions while maintaining long-term consistency to instil industry confidence. Frequent policy reversals, often due to political transitions or external pressures, can disrupt investments and erode trust in the process. Poorly designed vertical policies also risk distorting markets by misallocating resources, protecting uncompetitive industries, or fostering dependency on government aid, thereby stifling innovation and competitiveness.

Inclusivity presents another significant challenge. Vertical policies, if not carefully managed, can exacerbate regional disparities and social inequalities by favoring specific regions or industries. Targeting interventions to benefit marginalized groups, such as smallholder farmers or micro-entrepreneurs, adds further layers of complexity to policy design and execution.

Finally, overcoming **political economy constraints** remains a persistent issue. Incumbent industries or influential elites may resist changes that threaten their dominance, limiting the scope for transformative interventions. Building consensus on sectoral priorities and the corresponding interventions is particularly challenging in democracies with diverse stakeholders, where achieving alignment on long-term objectives can be fraught with political contention.

While vertical policies are indispensable for addressing sector-specific challenges and opportunities, their formulation and implementation demand a high degree of precision, collaboration, and adaptability. These challenges highlight the importance of fostering continuous dialogue among policymakers, the private sector, and knowledge institutions to craft evidence-based, impactful interventions that advance the broader goals of industrial development.

ADDRESSING INSTITUTIONAL AND IMPLEMENTATION CHALLENGES

The Tatak Pinoy Act represents a crucial opportunity to transform Philippine industrial policy by addressing the persistent barriers to inclusive and sustainable economic growth. By emphasizing agriculture-manufacturing linkages, micro, small, and medium enterprise (MSME) development, integration into regional and global production networks, human resource development, and innovation, the Act aligns with the best practices of modern industrial strategy. It lays out essential measures to strengthen industrial policy capability, such as providing training, workshops, and advisory support; employing evidence-based tools, such as economic complexity analysis and product space visualization, to guide sectoral diversification; harmonizing national and local policies to eliminate redundancies; conducting inventories of existing policies to identify gaps; and recommending legislative or procedural reforms to bolster industry competitiveness.

While these measures are sound and informed by stakeholder input, they underscore persistent challenges that must be confronted to drive meaningful change. The continued existence of these challenges points to deep-rooted systemic barriers that have prevented progress despite repeated calls for reform. The task now is not only to identify these issues but also to devise concrete solutions to decisively disrupt the status quo, which continues to stand in the way of real transformation.

Externally, the pace of technological disruption and the unpredictability of global economic trends exert immense pressure on local industries. Rapid advancements in technology and shifting global market demands continuously alter the competitive environment, creating an urgency to adapt policies and strategies to remain relevant. Despite calls for evidence-based approaches, the ability to act on insights generated by tools like economic complexity analysis often falters in the face of bureaucratic inertia and weak institutional capacity. Without concerted efforts to translate these insights into action, industries risk falling behind, undermining even the most well-meaning reforms.

Internally, institutional weaknesses within the government remain a major obstacle. Despite the Act's emphasis on training and workshops, the civil service continues to struggle with insufficient technical expertise to address

the complexities of industrial policy. This results in overreliance on donor-funded consultants, perpetuating a cycle where institutional knowledge is neither developed nor retained. Similarly, while policy harmonization and inter-agency coordination are mandated, the persistence of silos, overlapping mandates, and fragmented efforts dilute the effectiveness of government programs. These challenges reflect deeper issues of accountability and governance that require more than procedural fixes; they demand a shift in organizational culture toward collaboration and shared responsibility.

The lack of a strong culture of evaluation further exacerbates these issues. While the Act mandates inventories of existing policies and programs to identify gaps, these efforts often stop at compliance, with little emphasis on actionable insights or continuous improvement. The absence of independent, transparent evaluation mechanisms limits the ability to adapt policies to emerging challenges and opportunities, keeping the government reactive rather than proactive.

Additionally, aligning national strategies with local implementation continues to be a critical hurdle. While the Act recognizes the need for harmonization between national and local government efforts, LGUs often operate independently, driven by parochial concerns rather than national priorities. This disconnect undermines the grassroots impact of industrial policies, particularly in regions where economic activity and development opportunities are most needed.

To overcome these barriers and truly deliver on the promise of the Tatak Pinoy Act, it is essential to confront the systemic inertia that has long impeded progress. The government must prioritize transformative steps to address these entrenched challenges.

First, building technical expertise within the civil service is essential. While training programs are already stipulated in the Act, these need to be scaled up and institutionalized to ensure sustained capacity-building across government agencies. Civil servants must be equipped not only with technical skills but also with the ability to analyze complex global trends and anticipate their implications for local industries. This requires moving beyond reliance on consultants and fostering a culture of lifelong learning within the bureaucracy.

Second, breaking down silos demands a more aggressive approach to inter-agency collaboration. Harmonizing policies and programs cannot remain a procedural exercise but must involve creating unified operational frameworks and incentivizing cross-departmental cooperation. LGUs, in particular, need to be brought into the fold through targeted capacity-building initiatives and mechanisms that align local development plans with national priorities.

Third, embedding adaptive policymaking into the system is critical. The inventories and gap analyses mandated by the Act must be supplemented by robust, transparent evaluation practices that go beyond documentation to inform strategic adjustments. Independent evaluation units within government agencies can help institutionalize this culture, ensuring that policies evolve in response to changing realities.

Addressing resistance to change within government institutions is essential. Shifting the status quo requires strong leadership, clear accountability mechanisms, and a commitment to fostering a culture of innovation and collaboration. This includes creating incentives for government agencies and stakeholders to work together toward shared goals, and ensuring that legislative or procedural amendments are not only recommended but actively pursued and implemented.

Ultimately, the burden of designing and implementing an industrial policy lies with the government—not only due to its control over resources but also because of its agenda-setting power, which directs the energy and resources of other stakeholders toward a shared vision. Achieving these steps demand strong leadership across key national agencies and local government units—a challenging but necessary feat.

While the leadership of other stakeholders, such as business and academe, is equally essential, collective leadership requires careful orchestration and a clear articulation of a common vision. The government must act as a unifying force, fostering collaboration and aligning diverse interests to ensure the effective design and execution of industrial policies. In this regard, the articulation of an industrial policy law in the form of the *Tatak Pinoy Act* represents a meaningful step forward, providing a foundational framework to coordinate efforts across sectors and driving the collective momentum needed for industrial transformation.

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