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Reimagining Philippine Manufacturing

Toward a Progressive Industrial Policy

Antoinette R. Raquiza



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"Workers make calculators at New Kinpo Group's factory in the Philippine province of Batangas."

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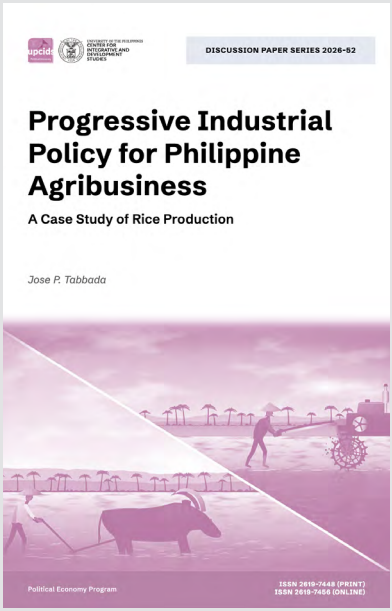
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DISCUSSION PAPER

Progressive Industrial Policy for Philippine Agribusiness: A Case Study of Rice Production



POLICY BRIEF

Progressive Industrial Policy – Now!: Advancing a Transformative Industrial Development Framework

Reimagining Philippine Manufacturing

Toward a Progressive Industrial Policy

Antoinette R. Raquiza



Key Highlights

- The Philippines faces a fundamental development challenge: translating economic growth into structural transformation, higher productivity, and broadly shared prosperity. While the economy has expanded through services, household consumption, overseas employment, and remittances, these sources of growth have not sufficiently strengthened domestic productive capacity, technological capabilities, or the creation of quality employment. A services-led growth model alone cannot deliver the depth of transformation the country needs.

- This paper argues that manufacturing must be restored to the center of Philippine development strategy as a driver of productivity, technological learning, economic diversification, and stronger linkages across sectors. The goal is not to return to an earlier model of industrialization, but to pursue a progressive industrial policy that builds domestic capabilities and enables Philippine firms to capture greater value from their participation in the global economy.

- Manufacturing's contribution to GDP declined from 24.3 percent in 2005 to 15.7 percent in 2024. Yet the sector remains significant, generating over 1.2 million jobs and PHP 7.36 trillion in revenue in 2022. Its potential, however, is constrained by a dual industrial structure: globally integrated export industries coexist with domestic producers characterized by low productivity and limited technological capabilities. Weak domestic supply chains, dependence on imported inputs, inconsistent policies, inadequate research and development, skills gaps, and financing constraints further limit industrial upgrading and local value addition.

- A progressive industrial policy must therefore move beyond trade liberalization and investment attraction to actively strengthen domestic productive capabilities. This requires six complementary priorities:

    - Deepen cross-sectoral linkages by connecting manufacturing with agriculture and services through stronger domestic value chains.
    - Upgrade MSMEs through manufacturing hubs and partnerships that improve access to technology, financing, infrastructure, skills, and markets.
    - Develop domestic champions in strategic industries, moving beyond established activities such as semiconductor assembly, testing, and packaging toward higher-value production.

- Mobilize public policy and procurement to support domestic producers, pioneer industries, and strategically important enterprises.
- Broaden innovation to include adapting and improving existing technologies, particularly for smaller firms.
- Invest in technological and social foundations, strengthening STEM education and research infrastructure while advancing a Philippine Social Wage Framework covering healthcare, education, housing, transportation, and childcare.

- Implementing this agenda requires whole-of-government coordination, sustained political commitment, stronger collaboration among economic and science agencies, and greater public investment in manufacturing and research. Innovative financing, including mobilizing a portion of overseas Filipino remittances as venture capital for MSMEs, could also help address investment gaps.

- Ultimately, rebuilding Philippine manufacturing is about rebuilding the country's capacity to produce, innovate, and shape its own development. A progressive industrial policy should be measured not simply by output and exports, but by its contribution to domestic capabilities, productive employment, economic resilience, and more inclusive prosperity.

Introduction

The past decade has seen the revival of industrial policy in the global development agenda. Previously shunted aside due to its statist development strategy, industrial policy has regained its lost sheen because free market policies such as deregulation, liberalization, and privatization have failed to deliver on sustainable and inclusive development (Krogstad 2007; Stiglitz 2016). Moreover, because of today's intensifying geostrategic competition among global powers, disruptive technology, and rapidly changing demography, developing countries' pursuit of economic takeoff and developed countries' drive to stay ahead of the curve have come to mean, more and more, bringing the state back in. Broadly defined, industrial policy refers to strategic government interventions in specific industries aimed at achieving high economic growth, competitiveness, and poverty reduction.

It is noteworthy that the mainstreaming of industrial policy was facilitated by broadening the definition of the concept. While industrial policy had historically been closely associated with manufacturing, today it has rightly expanded to cover agriculture and services. This blurring of lines reflects the closer integration of economic sectors brought about by the combination of technological advances and the changing configuration of the global economy, such as the rise of global value chains (Morris and Staritz 2019; Gereffi et al. 2025; UNIDO 2026). This trend, however, risks conceptual stretching to the point that industrial policy becomes less about industrial development than about government action. The World Bank, for instance, has broadly defined industrial policy as "government action expected to increase strategic business activity" such as producing goods and "performing tasks" (Fernandes and Reed 2026, 1). Consequently, any economic activity deemed strategic by the state—including tourism and commercial services—falls within the purview of industrial policy.

While the present study recognizes the need to broaden industrial policy to more accurately reflect new production processes and practices, it also seeks to bring back into focus manufacturing's place in industrial policy that is distinct from the other sectors. The paper takes off from the argument of manufacturing as the engine of growth (Kaldor 1967; Lautier 2024) and then tests this thesis on the Philippines, a developing country that recently graduated to upper middle-income status even without a robust manufacturing sector. The case study asks: does the Philippines present an emerging service-led development path or the exception that proves the indispensability of manufacturing for inclusive and sustainable economic growth?

The study examines the sectoral and industrial foundations of Philippine economic growth and discusses the specific characteristics and challenges confronting the country's manufacturing sector. The second half of the paper presents a set of policy recommendations, with a brief discussion on the bases and context for each. The paper argues for a reimagined Philippine manufacturing in order to unlock its full potential and drive sustainable and broad-based economic growth.

Manufacturing's Place in Industrial Policy

Until the start of the 21st century, the role of manufacturing as the engine of economic growth was widely accepted by economists and development planners. Defined as the process of physically or chemically transforming raw materials into new products and combining human labor with the use of raw materials or components and technology to create value, manufacturing generally takes place in factories or other production facilities in accordance with production processes, depending on the inputs (e.g., types of resources, human capital, tools, and machines) and outputs (i.e., finished products). These technological and economic factors as well as the cross-sector linkages involved in the production and distribution of goods made manufacturing the standard path for developing countries seeking to catch up with advanced countries (Szirmai 2012; Rocha 2018).

To summarize the causal mechanisms linking manufacturing and economic growth:

1. Manufacturing jobs raise labor productivity and incomes, especially in developing countries and among low to medium-skilled workers (McMillan et al. 2014; AlKathiri 2022);

2. The sector drives technological innovation, economies of scale, and capital accumulation (Szirmai 2012; Hauge and Chang 2019);

3. Manufacturing goods are demand elastic, i.e., the volume of output, especially those from the basic industries, is not dependent solely on consumer demand since the output can also serve as inputs to other industries (Pacheco-López and Thirlwall 2013; Felipe 2018); and

4. The sector serves as a market for products from and a supplier of inputs to other industries and sectors, thereby generating backward and forward linkages, technology transfer, and positive externalities (Lavopa and Riccio 2024).

That said, the consensus on the leading role of manufacturing in economic development has come under question with the advent of digital transformation. Since the mid-2000s, this shift has so revolutionized services that the sector is increasingly viewed as an alternative engine for economic growth (Park and Shin 2013, Noland et al. 2013). One argument for service-led growth is the increased tradability of services because information can now be digitally codified, stored and shared (Jensen 2013). Another is the transition to a knowledge-based economy that prioritizes high-value services over traditional manufacturing (Mohan et al. 2025; Maqnas and Shaheen 2025).

The present paper examines how the debate on manufacturing and services plays out in the Philippines. The next section disaggregates the country's growth to understand how the two sectors fare in relation to each other.

Philippine Economic Growth: The Exception that Proves the Rule?

The Philippine growth economy presents an empirical puzzle to the widely-accepted argument in development economics that a robust manufacturing sector is critical for a country to achieve high and rapid economic growth. Yet, in early July of this year, the Philippines' gross national income (GNI) per capita reached USD 4,850 – exceeding the World Bank-prescribed minimum GNI per capita threshold of USD 4,636 for countries to attain upper middle-income status (Tabile 2026). Noteworthy, the Philippines made the transition from a low middle-income to high middle-income country, despite the decline of the manufacturing sector's contribution to economic growth from 24.3 percent in 2005 to 15.7 percent in 2024 (World Bank 2026).

In fact, the country's rapid growth until recently had largely been due to its trade in services. For about two decades since the mid-2000s when the government went full-throttle to promote export labor and the business process outsourcing, the Philippine economy had grown annually by six percent – making it among the fastest growing economies in the region (Raquiza 2017, 2024). In this light, many have presented the Philippines as a prime example of the service sector driving rapid economic growth (Lagare 2025).

At the same time, some have attributed the decrease in manufacturing's share of GDP to 15 percent in 2025 to the lingering impact of the COVID-19 pandemic. A closer look at manufacturing's performance during and

immediately after the crisis, however, would tell a different story. During the period from 2019 when the COVID-19 pandemic broke to the massive rollout of the vaccines in 2021, manufacturing's share declined by less than one percentage point: from 18.5 to 17.6 percent. The experience of neighboring countries further bears out that the global health crisis and ensuing economic recession had minimal impact on manufacturing's performance. During the same period, manufacturing decreased by less than one percent in Indonesia (from 19.7 to 19 percent) while it grew from 21.4 to 23.4 percent in Malaysia and from 23.8 to 24.4 in Vietnam. (See Table 1 for details.) Thus, contrary to the dominant narrative, how manufacturing fared in the Philippines and neighboring countries during the pandemic suggests the sector's resilience and capacity to bound back even during the direst of times.

Table 1. Growth Rate of Economy and Manufacturing GVA, by country (2000-2024)

Country	2000	2005	2010	2015	2019	2020	2021	2024
Philippines								
GDP	4.4	4.9	7.3	6.3	6.1	-9.5	5.7	5.69
Mftg/GDP*	25.3	24.3	21.9	19.9	18.5	17.6	17.6	15.7
Malaysia								
GDP	8.8	5.3	7.4	5.1	4.4	-5.4	3.3	5.1
Mftg/GDP*	30.9	27.5	23.4	22.3	21.4	22.2	23.4	22.5
Indonesia								
GDP	4.9	5.7	6.2	4.9	5	-2.1	3.7	5
Mftg/GDP*	22.65	27.4	22	21	19.7	20	19.2	19
Vietnam								
GDP	6.8	7.5	6.4	7	7.4	2.9	2.55	7.1
Mftg/GDP*	-	18.8	17	21	23.8	23.9	24.4	24.4

Source of data: World Bank, World Development Report, 2026
*Mftg/GDP – manufacturing gross value added to GDP

Why has the Philippine economy not regained its pre-pandemic economic momentum? The answer to this question would likely be found in the domestic economy's structure, particularly, its dominant form of work. A Brookings Institute paper, for instance, suggests that industries worst hit by the pandemic would be those relying heavily on face-to-face interactions (e.g.,

retail, accommodation, and food services), while those that can easily shift to digital platforms or remote arrangements would be least affected, leaving agriculture and manufacturing somewhere in between because their onsite work requires less face-to-face interaction (Avdiu and Nayyar 2020). This analysis holds true in the Philippine context where more than 60 percent of formal economy workers in face-to-face services—such as retail sales, vehicle repairs, tourism, and personal services—saw their livelihoods disrupted by the COVID-19 pandemic, while many of the estimated 21 million in the informal economy who eked out a living on the streets were left completely vulnerable to lockdowns (Raquiza 2020).

Similar to the assessment of external shocks, analyzing Philippine policies through a sectoral lens offers a clearer understanding of their uneven structural effects.

Structure of Philippine economy

The Philippines is a developing country that has risen to upper middle-income status, despite the decline of its manufacturing sector – thereby, apparently breaking out of the traditional path to prosperity through industrialization. Instead, the Philippines' development has been fueled by services on the supply side and private consumption on the demand side (Ferrolino 2019). A closer examination of the government figures, however, suggests the contrary.

Like many developing countries, the Philippine formal economy consists almost entirely of micro, small, and medium enterprises (MSMEs). In 2023, MSMEs made up 99.6 percent of all business establishments in the country. Of this, 1.2 million or 90.4 percent were micro enterprises while only 4,640 and 4,763 were large and medium sized firms, respectively (Cacnio 2025). In terms of sectoral distribution: 85 percent of MSMEs were in services; 11 percent were in manufacturing while 0.8 percent were in agriculture, forestry, and fisheries (ibid.). That services dominated businesses would partly explain the sector's huge contribution to economic growth. Nevertheless, a closer look at the services industries reveals that they primarily consist of establishments in wholesale and retail trade, vehicle repairs, and personal services – industries characterized by low productivity and largely low-value activities.

Equally significant, the 2022 final results of the Annual Survey of Philippine Business and Industry, covering 281,826 enterprises, revealed that in terms of job creation and revenues, manufacturing enterprises, totaling a mere 23,571,

employed more than 1.2 million or 19 percent of the total work force and earned a total of PhP7.36 trillion (PSA 2026a). More, despite manufacturing firms' small numbers, they hired more employees and generated a higher total revenue than the three major high-skilled, high-value service industries combined (i.e., information and communication; financial and insurance; and professional, scientific and technical activities). Totaling 50,087 enterprises, these industries hired a total of about 694 thousand employees and generated PhP3.26 trillion in total revenue.

Table 2. Select Indicators per Industry, 2022

Industry	**Number of Establishments**	**Number of Workers** (in thousands)	**Total Revenue** (in trillion pesos)	**Ave. Annual Compensation per Paid Employee** (in thousand pesos)
Agriculture, Forestry and Fishing	3,187	160.05	0.25	203.74
Mining and Quarrying	303	36.58	0.29	434.22
Manufacturing	23,571	1,202.03	7.36	327.21
Electricity, Gas, Steam and Air Conditioning Supply	384	56.46	1.57	972.81
Water Supply; Sewerage, Waste Management and Remediation Activities	1,200	43.39	0.14	436.03
Construction	2,239	286.85	0.64	243.80
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	125,257	1,211.34	6.88	241.37
Transportation and Storage	3,066	221.49	0.66	352.55

Industry	**Number of Establishments**	**Number of Workers** (in thousands)	**Total Revenue** (in trillion pesos)	**Ave. Annual Compensation per Paid Employee** (in thousand pesos)
Accommodation and Food Service Activities	30,861	363.97	0.62	188.25
Information and Communication	2,256	169.33	0.81	974.10
Financial and Insurance Activities	42,686	384.89	2.19	692.59
Real Estate Activities	5,294	104.10	0.87	460.52
Professional, Scientific and Technical Activities	5,145	139.73	0.26	561.33
Administrative and Support Service Activities	6,182	1,364.70	0.79	334.52
Education	9,969	298.37	0.16	261.40
Human Health and Social Work Activities	7,348	215.73	0.27	281.86
Arts, Entertainment and Recreation	2,943	56.86	0.23	417.48
Other Service Activities	9,942	68.77	0.027	107.05

Source: Philippine Statistics Authority 2026a

More recent data consistently show that manufacturing remains a major source of formal employment: in 2024, manufacturing establishments with 10 or more workers employed 1.13 million people, or 18.5 percent of the workforce of this group, making the sector the country's second-largest employer among formal firms of that size (PSA 2026b). Equally noteworthy, in 2022, while the bulk of workers in services sector were engaged in low-value industries, those in manufacturing were in medium-high productivity industries (BOI n.d.).

Some like the semiconductor and electronics, chemical as well as motor parts and accessories industries are also highly integrated in global value chains.

In this light, the "weak" depiction of Philippine manufacturing needs to be qualified. Despite the decline of its contribution to overall economic growth, manufacturing has contributed to job creation and high revenues. In 2022, it outperformed the services industries – both at the low-end and high-end of the spectrum. While there were only a few manufacturing firms in the country, taken as a sector they bring in the numbers in terms of employment and revenue. In fact, revenues from electronics and semiconductor exports are even bigger than the remittances coming from overseas workers. In 2025, for instance, revenues from electronics and semiconductor exports reached USD 49.64 billion (SEIPI n.d.) while overseas remittances through formal channels totaled USD 35.634 billion (Magsaysay 2026).

These findings suggest that Philippine manufacturing is not a spent force in relation to services. Nevertheless, there is a need to examine more closely what ails the manufacturing sector to harness its full potential and propel the economy forward.

Challenges of Philippine Manufacturing

To gain a clearer understanding of the challenges confronting Philippine manufacturing, the paper goes into a granular analysis of two of its biggest performers: food manufacturing, which dominates the domestic market, and the electronics and semiconductor industry that dominates Philippine exports. In 2022, food manufacturing had the biggest number of establishments at 7,195 (or 30.5 percent of the total), and employed 126,397 (10.5 percent) workers. In contrast, the electronics industry had only 166 establishments, yet employed the highest number of workers in the manufacturing sector at 153,766 workers (12.6 percent of the 1.2 million working in manufacturing). See Table 3.

Table 3. Performance of Food Manufacturing and Electronics/Semiconductor Industries, 2022

Industry	Food Manufacturing	Electronics and Semiconductor
No. of Establishment	7,195	166
No. of Employees	126,397	153,766
Manufacturing GVA	56.8%	8.9%

Industry	Food Manufacturing	Electronics and Semiconductor
Revenue (in)	468.67 billion	869.67 billion

Main source: PSA 2026c

The nature and performance of these two top industries highlight three characteristics of Philippine manufacturing: (1) dual structure, (2) import dependence, and (3) low productivity.

First, the Philippines has long been characterized as having a dual structure, referring to the division of industries into a modern, technology-driven section that is tied to the global economy and a traditional, low-productivity section that largely caters to the domestic market. Within the manufacturing sector, the divide between the electronics and semiconductor industry, which accounts for about 60 percent of total merchandise export revenues, and food manufacturing, which sells 90 percent of its output locally, highlights the dual nature of the economy. As per the latest government figures, in 2022, revenues from the manufacture of electronics (notably, semiconductors) totaled PhP 829.25 billion while food manufacturing generated PhP 468.67 billion (PSA 2026c). Nevertheless, even as the electronics industry earned more than the food manufacturing, its gross value added to the domestic economy is way below to that of food manufacturing. In 2025, for instance, within the manufacturing sector's total gross value added, the food industry accounted for 51.6 percent, while the computer, electronics, and optical industries stood at 10.5 percent (PSA 2026d, p. 69). Drawing on this, Philippine manufacturing's bifurcation constrains interaction and thus synergy between production for export and that for the domestic market.

Second, the country's top manufacturing industries have had little impact on or ties to the domestic economy mainly because of their dependency on imported raw materials, semi-process goods, and technology. For the electronics and semiconductor industry, about 80 percent of its imports consist of raw materials and components, mainly from China, South Korea, Japan, Taiwan, and the United States (SEIPI 2025). In 2024 alone, importation of such products cost USD 27.38 billion, almost half of what the industry earned in revenues that year (PSA 2026e). Noteworthy too is the high import dependency of the food manufacturing industry largely on account of the dramatic contraction of agriculture, as indicated by the drop of its gross value added to economic growth from 22 percent in 1980 to 9 percent in 2024 (World Bank 2026). The Philippines surpassed China as the world's biggest rice importer in 2023 and

imports 99 percent of dairy milk and all the wheat used in noodles, biscuits, and other food stuff. In 2024, rice imports amounted to USD 2.52 billion (World Bank n.d.) of the total USD 19,461 billion agricultural imports (PSA 2026f).

Third, Philippine manufacturing, as with the rest of the economy, continues to be weighed down by low productivity. That this is the case even with the country's top performing industries merely stresses the point. Both the electronics and semiconductor and food manufacturing industries are located at the low-end of the value chain. Despite the country being in the electronics and semiconductor industry for some forty years, it has yet to go beyond the assembly, testing, and packaging (ATP) phase. Meanwhile, food manufacturing is classified as a light industry because it uses relatively simple machinery and technology to process raw materials and semi-process goods and transform these into consumer goods (Del Prado et al. 2017).

These three characteristics of the manufacturing sector have long been symptoms of — rather than factors for — the sector's declining contribution to economic growth. Why can't Philippine manufacturing break through the constraints that have held it back since the 1980s? Below are some of the proximate and structural factors.

1. Economic sectors react differently to distinct policy settings. Partly this difference is due to the distinct nature of the work in the sector and the institutional settings it needs to turn a profit. In this sense, while policy continuity and predictability are important to any business, such a policy environment would be more critical for long-gestating manufacturing investments than commercial concerns that thrive on a quick turnover of inventory (Raquiza 2012).

   In the Philippines, fragmented, constantly changing, and inconsistent policymaking works to discourage investments in manufacturing. For instance, development plans are vulnerable to political cycles and partisan politics largely due to the practice of the ruling political elite to use the state to sanction potential challengers (Hutchcroft 1998). In the Philippines, there were two historical periods when the change of form of political rule occasioned the almost wholesale disruption of the domestic industries due to the country's proprietary polity, defined as the merging of class rule and political power (Raquiza 2012). The declaration of martial law by President Ferdinand Marcos Sr. in 1972 saw the banishment of the traditional ruling elites who dominated Congress and benefited from the post-war import-

substitution industrialization period while the people power revolution in 1986 that restored competitive elections in the country saw the scuttling of Marcos' industrial projects by President Corazon Aquino purportedly to dispense with "crony capitalism." These episodes have led to the loss of massive resources sank in industrial projects, many largely funded with foreign loans.

2. Since the mid-2000s the Philippines has more aggressively pursued a development pattern that ties the country's workforce to global labor markets. In the past two decades, the country has turned to export labor and the business process outsourcing industries as major sources of foreign currency and stability to its otherwise boom or bust economy. In fact, inflows of foreign currency from overseas remittances began to surpass that from foreign direct investment in 2007.

   While trade in services has worked to grow the Filipino consumers' purchasing power and the domestic market, it has had a differential impact on sectoral development. First, the massive influx of overseas workers' remittances in foreign currency has been called a "Dutch disease" as it has worked to drive up the value of the peso, thus making tradable goods from manufacturing and agriculture globally uncompetitive (Pernia 2008; Williamson and De Dios 2014). Second, the billions of dollars in remittances that go directly to households to meet their basic needs such as housing, food, education, and health have influenced investment patterns of domestic capitalists, away from manufacturing and toward commercial ventures such as banks that serve as conduits for remittances and businesses that line up with these households' consumption patterns (Raquiza 2014). Third, the government's facilitation of export labor has also intensified the brain drain among technical-industrial workers. For instance, the country's metal casting industry, which is a critical segment of the manufacturing sector, has been plagued for decades by the migration of thousands of technical-industrial workers, needed by the country to grow the number of local foundries (Herrera n.d.).

3. The limited support for research and development (R&D) in the country weighs against developing the competitiveness of manufacturing industries that, in turn, has made the country highly dependent on foreign technology. This inadequate support may be seen in the small amount allocated in the national budget for research and development as well as human capital build-up. Until fairly recently, the country's expenditure in R&D had been a mere 0.1 percent of its gross development product (GDP); starting in 2018,

the budget was increased to about 0.3 percent (TGE n.d.). Nevertheless, this increase is still way below what other emerging economies in the region are investing in R&D. See Table 4.

Table 4. Research and Development Spending per GDP per Middle Income Country, 2024-25

Country	Budget (% of GDP)	Actual Amount (USD)
Thailand	1.1	15.1 billion
Malaysia	1.0	11.9 billion
Vietnam	0.5	10.2 billion
Indonesia	0.3	12.4 billion
Philippines	0.3	0.8 billion

Source: ASEAN Skyline Rising

Moreover, the PhP 28.99 billion (about the equivalent of USD 504.44 million, using the 2025 exchange rate of PhP 57.49 to the dollar) budget of the Department of Science and Technology (DOST), the country's lead science, technology and innovation agency, is indicative of the low priority given to the sector, especially when compared to industrializing countries in the region. The DOST allocation represented just 0.46 percent of the PHP 6.326 trillion 2025 Philippine national budget (CPBRD 2025).

The country's low productivity is also due to the lack or shortage of scientists, engineers, and other high-skilled workers in the country who could move innovation forward. Noteworthy, the Philippines ranks last among Southeast Asia's emerging economies in the number of researchers doing R&D. According to the website Our World in Data (2026), in terms of the number of researchers per one million in 2024, the Philippines had 320; Thailand, 1,592; Malaysia, 1218; Vietnam, 836; and Indonesia, 395.

4. The budget allocation of the government for manufacturing as well as the development financing for MSMEs has been grossly inadequate. With the country leaning heavily on the private sector for economic development, as mandated by the 1987 Philippine Constitution, government support for industrial development has declined in priority. This shift is evident in the consistently small budget allocations given to the Department of Trade and Industry (DTI), which is the primary implementing agency responsible for driving industrial progress. From 2023 to 2026, for instance, the DTI annual budget averaged about a mere 0.15 percent of the national budget.

For fiscal year 2025, the DTI received only PHP 10.599 billion or 0.167 percent of the national government's PHP 6.352 trillion total expenditure program (CPBRD 2025).

In line with its market-led development orientation, the government in the late 1990s also began to turn over the main responsibility of providing credit to MSMEs to commercial banks and other private lending institutions. To facilitate this process, the Magna Carta for Micro, Small, and Medium Enterprises of 2008 (Republic Act No. 9501) required all lending institutions to allot eight percent and two percent of their total loan portfolio to micro/small and medium enterprises, respectively, for a period of 10 years (SBCorp 2026a). When the quota system expired in June 2018, 7.97 percent of the banking system total loan portfolio went to MSMEs (Agcaoili 2018). Notably, although this figure fell short of the 10 percent quota, the percentage of the loans to MSMEs went even lower in the post-quota period, despite the use of alternative policy tools such as improving credit risk assessment, promoting digitalization, and shortening the loan application process. In a 2025 report, the Bangko Sentral ng Pilipinas (BSP) reported that only 4.45 percent of the banking system's PhP12.5 trillion total loan portfolio went to MSMEs (Ta-Asan 2025). For the breakdown of loan disbursement, see Table 5.

Table 5. Bank loan disbursement to MSMEs Per Type of Bank (in %), 2025

Type of Bank	Micro/Small	%	Medium	%	Total Loan
Universal/ Commercial	158.57 billion	1.44	253.35 billion	2.31	10.98 trillion
Thrift	31.64 billion	3.68	37.23 billion	4.33	859 billion
Rural/ Cooperative	34.31 billion	20.4	20.69 billion	12.3	168 billion

Source: Bangko Sentral ng Pilipinas in Ta-Asan 2025

5. Philippine capitalism is characterized by the dominance of foreign capital and commercial business interests, and by structural economic inequality. Based on a Business Climate Scanning (BCS) exercise conducted with 258 respondents by BSP in 2024, foreigners owned 58 percent of businesses in the country, with only 28.9 percent of these in manufacturing while Filipinos owned 34.1 percent with only 10.9 percent in manufacturing (Cacnio 2025). Equally noteworthy, large corporations, making up the one percent, owned 57.4 percent of total assets, while micro enterprises,

making up about 90 percent of total establishments in 2023 owned only 8.5 percent. See Table 6.

Table 6. Distribution of Establishments per Sector and Asset Size (in %)

Size	Manufacturing	Non-Manufacturing	Total
Large	23.3	34.1	57.4
Medium	9.7	12	21.7
Small	5.8	6.6	12.4
Micro	2.7	5.8	8.5

Source: BSP in Cacnio 2025

In the country's economic structure, less than one percent of the country's businesses (the richest conglomerates) dominates the capital-intensive, commercial service sectors like telecommunications, banking, and utilities while over 99 percent of registered establishments are MSMEs that are the country's main source of employment and revenues but weighed down by low productivity.

This configuration of wide economic disparity means that there the economy lacks a robust base of mid-sized firms to act as a bridge between the giant conglomerates and small mom-and-pop shops. This prevents robust supply chain linkages where small enterprises can easily scale up to become direct partners of or suppliers to the major corporations.

More critical is the worsening state of informality of the country's labor force, with about 21 million workers affected in 2023 (Marañon 2023). With the decline of the agricultural and manufacturing sectors, many displaced workers, especially from the rural areas, move to the services sector, notably, street vending, household and personal service, and other low-paying jobs.

Analysis and Recommendations

The above sectoral analysis of the Philippine economy shows that while manufacturing's share of GDP has declined drastically since the 1980s, its contribution to the economy remains substantial in terms of quality job creation and revenue generation. If manufacturing has not stepped up to drive

economic growth, it is due to the lack of a policy environment and government support that would allow it to grow at full capacity and flex its muscles.

The curious thing about the Philippine experience is that, despite the enactment of policies aimed at strengthening the manufacturing industries, these have had limited traction among the country's business conglomerates that, in contrast, have poured billions of pesos in the government's public-private partnership (PPP) in infrastructure projects and the privatization of utilities (Raquiza 2026). As noted earlier, the trend in private sector investments has been the movement away from manufacturing activities partly due to a highly politicized policy environment as well as an incentive structure in the market that skews investments toward commercial businesses. Thus, despite the revitalization of Philippine industrial policy in the mid-2010s, critics argue that the country has struggled to move up the value chain, failing to produce highly visible, home-grown products that command significant global market share.

Toward making industrial policy work to raise manufacturing's impact on the economy and society, the paper's recommendations are as follows:

1. Strengthen domestic manufacturing through tighter coordination with agriculture and services. Ensuring a robust and resilient manufacturing sector requires a modern and highly organized agricultural sector to provide raw materials in the quantity and quality of inputs needed to achieve economies of scale. At the same time, to raise the value of manufactured products, knowledge-based services must be embedded across the value chain, from the pre-production stages to downstream marketing activities. Toward this end:

    a. Undertake strategic industry-based planning through an end-to-end ecosystem and value-chain mapping. This would cover the entire value chain from raw material and finance sourcing, R&D, and production to branding, distribution and logistics as well as sales. Disaggregate production activities to locate where MSMEs come into and may have most to contribute in the value chain. Set up an institutional interagency mechanism with government, industry practitioners, and university researchers for the follow-through.

    b. Organize agro-industrial activities along food supply chains that connect upstream activities, notably, R&D (e.g., creating new varieties of crops or innovating farm inputs and methods) and downstream activities such as processing and retail (Aida 2023). Support MSME consolidators

that bring local community products to retail consumers and wholesale buyers. Partner with industry associations to set up mechanisms that would consolidate industry production outputs for export. With the local governments, establish a network of municipal-provincial public markets to facilitate local transactions between direct producers and consumers.

c. Promote and strengthen producers' and industry manufacturers' associations as principal innovation partners. The country's default setting in terms of its relations with industry has been to work with individual firms for the testing or adoption of government-funded innovations or high-profile program launch. Government grants, for instance, are awarded to stand-alone local projects with little or no link to a national development strategy to build the country's industries or to individual firms with limited ties to industry. As such, government grants have had no or limited multiplier effect at the industry level.

d. The Philippine government can learn from other developing countries, where government support proved instrumental in the development of robust industry associations as partners in the planning and implementation of industry programs. This is true, for instance, with the Thai government's relationship with the powerful Federation of Thai Industries and the Indonesian government's corporatist approach to industry relations.

2. Strengthen programs aimed at assisting MSMEs to gain competitiveness and sustainability. The MSME sector is the main source of livelihood and income for most Filipinos. It covers more than 99 percent of enterprises in the formal economy and employs more than 60 percent of the country's labor force. In the Philippines, manufacturing MSMEs largely produce finished goods for the consumer market. They also play an important role in building manufacturing supply chains. In this arrangement, SMEs can connect both ends of the supply chain, working with local producers to ensure that their outputs meet the specifications of manufacturers and to consolidate their outputs to lower logistical and transportation costs for market delivery. Moreover, a strong MSME sector presents a path toward labor formalization as they transition workers into formal contracts with social security and legal protections. In this light, strengthening manufacturing MSMEs promotes inclusive development and economic connectivity at the local, national, and global levels. Steps include:

a. Pilot test ecosystem manufacturing hubs, focusing on a high impact, resource-based industry at the provincial or regional level (depending on feasibility). Prioritizing a resource-based industry would ensure that manufacturing is anchored in the local economy, would involve local producers and communities, and could develop the local economy's competitive advantage. Provincial-level coordination encourages municipalities to pool resources, driving economies of scale and greater multiplier effects.

b. Incentivize manufacturing among MSMEs. That industrial policy experienced a resurgence in the country has been partly due to the expansion of the domestic market that could support local manufacturing. However, with the passage of the Retail Trade Liberalization Act of 2021 (Republic Act No. 11595) that lowered capital entry barriers from USD 2.5 million to about USD 500,000 , Philippine MSMEs now compete with foreign medium-sized retailers and foreign brands that sell cheap imported goods. To help Philippine MSMEs stay competitive, the government must expand its incentives programs for Philippine firms producing finished products for the domestic market. Incentives should include tax breaks to offset high energy costs, manufacturing subsidies, and research and development grants.

c. Rightsize existing technology for the use of small producers and MSMEs. Rightsizing means simplifying, scaling down, or customizing the technology to make it affordable, easier to operate and repair, and a more appropriate fit for small-scale, community-based production processes. The Political Economy Program of the Center for Integrative Development Studies (PEP-CIDS) at the University of the Philippines, for instance, works with university scientists and engineers to help make their innovations accessible to local manufacturers and end-users. Toward this end, the PEP has rolled out policy research projects on the following: multi-purpose 12-horsepower single-cylinder engines for various small rural machinery to respond to the need for scale economies (Del Rosario et al. 2024), production of probiotic carabao milk cheese for possible adoption of smallholder dairy farmers (Ibana et al. 2025; Bisenio 2025), waste heat recovery and energy efficiency for small and medium power users (Berana 2022), and air monitor sensors for LGUs and other small establishments (Lustro forthcoming).

d. Provide reliable microcredit and other forms of financing to raise the competitiveness of manufacturing MSMEs and producers'

cooperatives. Key areas for support include product diversification, quality improvement, production scaling, cooperative strengthening, and packaging. In this connection, the government should strengthen the DTI's financing arm, Small Business Corporation (SBCorp), and the Land Bank of the Philippines' Innovative Financing Thrust Towards Inclusive National Growth (LIFTING) MSMEs Lending Program. For commercial banks, pass the bill amending the Magna Carta for MSMEs. The proposed amendments seek to broaden financial access by tailoring regulatory requirements to distinct MSME categories and, more importantly, reinstating the mandatory 10 percent bank loan portfolio allocation for MSMEs.

e. Institutionalize industry-university-government linkages, composed of industry associations, universities, and industry technical institutes toward improving product design, addressing technology gaps, as well as business, financial, and digital literacy. Among the key issues that require a multistakeholder approach to problem-solving include: antiquated product design; high barrier to market entry for new MSMEs driven mainly by the dominance of foreign brands; and high production costs and subsequent high price points of legacy and niche products.

3. Support domestic champions in strategic manufacturing industries. The present paper's examination of sectoral performance found that, despite the decline and weakening of Philippine manufacturing, the sector can play a more important role than the services sector in job and revenue generation at this stage of Philippine development. Manufacturing has declined over time not because it is losing its relevance. Rather, this trend is largely due to its high capital and technology requirements: huge upfront investment; skilled workers, machines and tools; constant technology upgrade to remain competitive; and established networks with direct producers, buyers, and other market players. More, manufacturing is characterized by sunk costs and a slow return on investment (ROI). All told, manufacturing entails high risks, especially in the Philippine settings where there is no policy continuity.

   Building and strengthening the Philippines manufacturing sector thus requires a coordinated and high-level push—one that matches government efforts to rev up trade in services in the mid-2000s and current drive to fast track public-private infrastructure partnership and the privatization of utilities. While these initiatives require more study, for this paper, suffice it to say that government helping industry is nothing new to the Philippines. To lift manufacturing would require nothing less than a razor-sharp

commitment from the Philippine government, the kind that has propelled industrializing Southeast Asian countries – Malaysia, Thailand, Indonesia, and Vietnam – forward.

a. Set up the country's first commercial wafer fabrication facility. The semiconductor industry, which had been the country's top export industry since 1981, has more than proved its worth to the Philippine economy. If nothing else, the fact that it is today among the world's leading semiconductor manufacturing hubs shows that Filipinos have excelled and can do much more in the industry. Unfortunately, the industry has not been able to transition from the backend stage of assembly, testing, and packaging (ATP) to the frontend high-value wafer fabrication. Apparently, this is largely due to the lack of private investors for a fabrication facility in the industry's more than 40 years in the business. While there may be many factors contributing to the lack of foreign investors willing to go into domestic wafer fabrication, one comparative study on the global IT industry highlights a shift in their preferences. Unlike transnational corporations in the past that sought out relatively weak and compliant domestic partners, modern TNCs looking into manufacturing are likely to seek out robust local counterparts that have hands-on knowledge and are deeply embedded in the industry (Evans 1995). Today, Taiwan reaps the benefits of its government's forward-looking industrial policy, which laid the groundwork for its modern chip industry with the launch of its pioneer semiconductor company, United Microelectronics Corporation, in 1980 and the world's first commercial semiconductor foundry, Taiwan Semiconductor Manufacturing Company, in 1987 (see Depante and Dedase 2026). Attempting to duplicate this front-end success, Malaysia followed a similar trajectory in 1995 by establishing its own national wafer fabrication project, SilTerra. In January 2026, Vietnam's military-run telecommunication company, Viettel, began constructing the country's first chip fabrication plant.

   Clearly, the government needs to already invest in a wafer fabrication facility, which generally will take three to five years to set up and start operations and so will also provide some time to start building the ecosystem to support it. Given its relatively stable foundation in the country and reach globally, the semiconductor industry could be in the best position among the country's industries to break into high-end manufacturing. Immediately, the Philippine industry can capitalize on its established linkages across both domestic and global value chains.

In truth, failure to move up the value chain may threaten the country's semiconductor industry. As governments worldwide race to secure positions in artificial intelligence and the digital economy, they are doubling down on domestic semiconductor production. This strategy will undoubtedly create a multiplier effect for their upstream industries. Without a single fabrication facility to manufacture its own microchips, the Philippines may lose its competitive advantage, falling into the classic middle-income trap.

4. Allocate a definite and substantive budget aimed at getting Filipino innovators and entrepreneurs into manufacturing, especially in import-substituting and pioneer industries. If the goal is to build basic industries and lessen the country's crippling import dependence, the government must provide assistance to mitigate the risks of introducing domestic products into a market dominated by foreign brands. In fact, manufacturing also has to contend with an internal market incentive architecture that heavily leans toward the services sector. As such, it is imperative that the state exercises strategic thinking and action to influence Philippine business' calculations. History is replete with examples of how high-income countries got to where they are today: in these cases, the state used a combination of policy tools, notably, public investments (Gerschenkron 1962; Amsden 1989), high protective tariffs (Chang 2003), and allocative planning (Johnson 1982; Woo-Cummings 1999; Nem Singh and Ovadia 2019) to jumpstart industrial development.

    a. Toward this end, strengthen the use of government procurement to grow domestic manufacturing. In many developing countries where the domestic market cannot yet support the production of strategic goods and services, the state steps up as their single largest buyer (Pierson 2011). The growth of the Malaysian and Indonesian shipbuilding industries, for instance, was led by the state-owned or -led Boustead Naval Shipyard and PT PAL, respectively, that build ships for the Navy, Coast Guard, and other government agencies in contract-based joint ventures with foreign shipbuilders while the Royal Malaysian Navy and Indonesian Navy (TNI-AL) ensure that technology transfer takes place from these joint ventures; the government, particularly the Navy, also places work orders with local shipbuilders (Raquiza 2019). More recently, the use of strategic government spending to meet sustainable development goals has gained momentum due to the COVID-19 pandemic so much so that, according to UNCTAD (2020), public procurement accounts for an average of 12 percent of GDP across the Organisation for Economic

Co-operation and Development (OECD) countries, rising to as much as 30 percent in developing countries.

In this same light, there is the need to stress the developmental role that Philippine procurement policies can play. This trend is reflected with the passage of the Tatak Pinoy Act (Republic Act No. 11981). Enacted in February 2024, this landmark legislation mandates that the government procurement process at all levels prioritizes local goods and services covered by the Tatak Strategy for 10 years, or until 2034. This legislation was followed by the New Government Procurement Act of 2024 (Republic Act No. 12009) that requires the government unit to award a contract to a local bidder if the bid is not higher than 25 percent of the lowest foreign bid. For the science and technology community, there is Section 37 of the New Government Procurement Act that can be tapped to help advance its work.

Equally noteworthy are the special funds, established using a substantial portion of tariff revenues from the importation of raw, semi-processed, and finished goods to develop, modernize, and ultimately promote the self-reliance of the concerned local industries. This presents an opportunity for government to serve as a market for local machinery and tools. Among the objectives of the Rice Competitiveness Enhancement Fund (RCEF), for instance, is to promote mechanization through procurement (Tabiola 2026). The RCEF, which was established by Republic Act No. 11203 or the Rice Tariffication Law in 2019 and was set to end in 2024, was extended until 2031 by R.A. No 12078, with the fund for farm mechanization scaled up from PhP 5 billion to PhP 9 billion. RCEF's clear and steady funding ensures its viability. However, fund managers should balance traditional value-for-money efficiency and long-term strategic development goals to effectively leverage public spending to stimulate rural manufacturing and industrial resilience.

b. Include investments in manufacturing in strategic industries in the government's public-private partnership program (PPP), currently limited to infrastructure development. While there are questions on the recently passed Public Private Partnership Code of 2023 (Republic Act No. 11966), the Code is worth noting here to highlight how targeted state intervention is currently being used to get foreign and domestic big businesses to participate in the government's "Build Better, More" infrastructure drive. With the expressed goal of addressing market failures, the Public Private Partnership Code mandates the partner government

implementing agency to provide its private sector partners the following guarantees: take on market demand risks to the project (or "guarantee on demand"), repay the debt "indirectly incurred" by the private sector from doing the project in the event of loan default (or "guarantee on debt"), and, provide a "predetermined rate of return" on its partner's investment (or "guarantee on return of private sector investment"). Priority infrastructure projects can also avail of government subsidies in cash or in kind, amounting to as much as 50 percent of the project cost (Republic Act No. 11966). Noteworthy, all the instances of market failures in infrastructure development that the PPP seeks to address likewise apply to manufacturing, especially those that venture into basic and heavy industries.

c. Take aggressive and direct action to prevent the collapse of beleaguered manufacturing companies involved in capital-intensive basic and heavy industries and distressed labor-intensive manufacturing industries. As mentioned above, the Philippines has seen industrial giants fall during historic moments when the combined political and economic crises led to change in the form of political rule. Factors cited for the failure of these manufacturing heavyweights such as the fabled National Steel Corporation, once among the biggest in Southeast Asia, and the dramatic decline of once vibrant industries (for instance, the garment and textile industry) include mismanagement, corruption, indebtedness, external shocks, and domestic turmoil. Nevertheless, regardless of the factors leading to the firms' or industries' distress, other countries have been known to extend a lifeline to critical businesses so that they would live to see another day. A case in point: in the wake of the 1997 Asian financial crisis, state officials in Thailand, where the crisis broke out, declined the World Bank "market failure" narrative that would have facilitated foreign companies' acquisition of bankrupt domestic firms. Instead, they stressed "state failure," referring to the government's decision to liberalize the domestic financial system without instituting prudential regulations, and began a process of debt restructuring (Raquiza 2012, 44-50; Dreyer 2021). Noteworthy, despite the Thai economy contracting by as much as 7.6 percent in 1998, manufacturing during this period continued to grow, from 25.7 percent in 1996 to 28.2 percent in 1999.

   In the Philippines, given the gaping hole that the demise of a manufacturing company in heavy industry would likely create in the domestic economy, there is policy space for the government to infuse

emergency capital in the firm or put it under receivership until it gets back on its feet. There are also constitutional provisions allowing for the orderly nationalization of beleaguered manufacturing firms.

5. Broaden the official concept of innovation to cover the development of second-generation technology. There are many pathways to innovation. One path is to directly work on emerging technologies and skip having to go through existing technology (Lee 2016). Nevertheless, many late developing countries have also successfully built their industries through technology transfer. In such instances, governments or the private sector did not wait for foreign investors to share their technology with local industries. Instead, they themselves identified, studied, adopted, and localized advanced technologies from industrialized countries to meet their domestic development needs. Japan provided the template for this path to rapid industrial development; only after building their own home industries by studying and localizing available technology in industrialized countries, and largely through learning by doing did Japan create original innovations, enabling it to offer products that raised global standards (Morris-Suzuki 1994; Kim 1997; Pempel 1998). Needless to say, China is the most recent, successful example of the importance of supporting R&D on second-generation technology (Hanna and Tatlow 2020; Bin 2023). Recommendations to promote this path include the following:

    a. Incentivize the research on and development of second-generation technology, and formally recognize this work as part of the government innovation program. Given the heavy financial investment, extended period of trial and error, and high risk that go with original research, developing countries and firms generally start by innovating on the existing technology - identifying and addressing gaps, improving the project design, adding new features, etc. – toward creating a new product. Those who use this strategy are able to gain from the "latecomer advantage;" second-generation innovators face lower risks since they are working with a proven technology and building on an existing market. The evolution and scaling of computers and biofuels are examples of this strategy (see Pelkey and Pouzin 2019 and Sims et al. 2010, respectively). Using this strategy, the Philippines' leading pharmaceutical company, United Laboratories, Inc. (Unilab), was able to introduce to the market the muscle pain reliever, Alaxan, by combining ibuprofen, paracetamol, and other ingredients, as per Joey Ochave, Unilab Foundation executive director. Along this line, but at a smaller scale, is PEP's policy search project on retrofitting traditional fishing boats, the bancas, with hybrid

electric propulsion engines in order to bring small fisherfolk literally and gradually on board an affordable, environmentally-friendly alternative to the fossil fuel-powered engines (Rodgers et al. 2022).

b. Democratize innovation by converting expired patents into open-source public resources. Once a patent expires, the technology enters the public domain where it can be freely accessed, studied, modified, produced, and sold by anyone (given a few restrictions pertaining to trademarks and trade secrets) (WIPO 2020). In an interview, Ochave stressed that due to the high costs of doing original research, innovation need not be limited to discovering new technologies, but may be accomplished by working and experimenting with what's already out there, in particular, expired patents. With expired patents, innovation comes with updating a 20-year old technology that has yet to be market tested and introducing modifications or new features to create a new affordable technology. The democratization of technology provides small and medium-sized manufacturers access to innovations that may be used to modernize their production processes and raise the quality of their products. One way to ensure the accessibility of technology in the public domain is to set up a government-university-industry digital platform listing down expiring and expired patents. An example of such a platform is patentsunset.com. Furthermore, the platform can incorporate an institutional framework that facilitates the involvement of original innovators in subsequent product development.

6. Build a solid and comprehensive science, technology, engineering, and mathematics (STEM) infrastructure. This foundation requires accessible, high-quality, interdisciplinary STEM academic programs, robust support for problem-solving, evidence-based multidisciplinary R&D, and the creation of more stable, high-quality jobs in STEM fields (Nemenzo 2022). There is a symbiotic relationship between the manufacturing sector and the domestic STEM community. High human capital build-up is necessary to scale Philippine manufacturing up the value chain, while a robust manufacturing sector contributes to the development of a thriving STEM community and culture.

   a. Strengthen foundational mathematics and science through basic education (Nemenzo 2022). Early exposure to mathematics and science fosters an inquisitive, analytical mind in young people and introduces them to the basics of the scientific method—both of which drive innovation. Enhance STEM teachers' mastery of math, science, and

pedagogy, equipping them with the tools to integrate experimentation and enrich classroom learning.

b. Link STEM development with industrial upgrading; STEM education must be tied to developing Philippine industries that could absorb graduates, practitioners, and researchers. There is no better incentive than the promise of a productive and stable career in the Philippines to expand the country's science and technology student population and community.

c. Invest in human capital – specifically, engineers, scientists, mathematicians, computer scientists, technicians, and applied scientists – based on the country's strategic industrial needs such as semiconductors, electronics, advanced manufacturing, agrotechnology, energy, biotechnology, artificial intelligence and digital technologies (Nemenzo 2022).

d. Increase public investment in research and development to meet the global standard of at least one percent of gross domestic product for developing countries. For the country to be competitive, it needs to match what other developing countries are investing in STEM education and R&D programs.

e. Institutionalize collaborative R&D networks between university researchers and MSMES to address critical operational and technological gaps in production and distribution. Here, the scope of the DOST's Small Enterprise Technology Upgrading Program (SETUP) could be expanded to provide the necessary platform to operationalize these collaborative networks. University researchers and technical experts could also help manufacturers and direct producers mobilize technologies in the public domain. Due to the dearth of venture capitalists in the private sector, universities should also facilitate the setting up of viable spin-offs and start-ups by university innovators committed to translating their research output into viable products to benefit society.

f. Forge institutional networks and linkages among industry-based specialists, technical institutes, universities, and professional associations for information-sharing and joint problem-solving. Develop a database of the country's institutional knowledge, expertise, and resources within key industries, while establishing industry-based digital platforms for research and project collaboration. Aligned with institution-building, support the University of the Philippines College of Engineering

Diliman's proposal to establish the National Institutes of Engineering, a national network composed of UP constituent colleges and other state universities and colleges to develop STEM faculty and graduate programs and set up shared laboratories and digital classrooms, among other objectives.

7. Deepen and leverage the social wage to promote labor welfare and enhance MSME competitiveness.

   The government and private sector often cite the Philippines' high labor costs—including having the region's highest minimum wage (Tabile 2025)—as a primary reason for its low foreign investments relative to other countries in the region. However, comparative analyses of labor compensation within Southeast Asia's middle income economies often omit a critical variable: the social wage. The social wage refers to the public services and benefits workers get from the government—like free or accessible healthcare, subsidized public education, and low-cost housing. When the government provides these services, families do not have to rely entirely on their paychecks to survive (McCarthy 2015). The provision of public services lowers the cost of living, thereby reducing the minimum wage threshold required for workers to sustain their families.

   The integration of the social wage also lessens the small business vs. labor rhetoric when it comes to negotiations for higher wages. Through the robust provision of public services, the government can simultaneously foster MSME resilience and guarantee equitable labor standards. By subsidizing public education, healthcare, and mass housing, the government reduces workers' out-of-pocket living costs, thereby easing upward pressure on wages and helping contain labor costs for employers. This structural adjustment generates the fiscal headroom necessary for MSMEs to reinvest capital into capacity building and technology adoption. Finally, enhancing the social wage expands domestic demand that, when combined with robust local supply chains, benefits domestic manufacturers and the broader workforce. To operationalize this strategy, the following policy interventions are recommended:

   a. Develop and adopt a Philippine Social Wage Framework. Set up an interagency task force, led by the Department of Labor and Employment (DOLE), to define concretely what basic public services and financial support every worker's family needs to live securely. The established metrics would serve as a benchmark to complement traditional minimum wage-setting mechanisms.

b. Forge tripartite social contracts defining the rights, entitlements, and responsibilities of government, business, and labor in their respective industries. Factory owners and workers have a symbiotic relationship; one cannot exist without the other. Therefore, even during conflicts over how production benefits are distributed, negotiation is possible to ensure industry survival. Ultimately, government provision of public services serves to ease wage-related tensions.

c. Provide affordable housing, reliable public transit, health clinics, and childcare centers directly inside or adjacent to major manufacturing areas to save workers time and money. In this effort, the Philippine Economic Zone Authority (PEZA) and concerned local governments play critical roles.

d. Launch a targeted subsidy to help micro and small enterprises cover mandatory social security and healthcare contributions. By absorbing these overhead costs, the program helps small businesses absorb minimum wage increases without jeopardizing their financial viability. Additionally, expanding the social wage lowers the financial barriers to formalization for informal businesses.

8. Strengthen government capacity to undertake a "whole-of-government" yet targeted approach to systematically develop an inclusive, innovation-driven manufacturing base. Secure development financing for manufacturing projects by leveraging diverse platforms and mobilizing public and private resources.

   Elevate industrial development, notably, manufacturing as well as science and technology as pillars of the country's national development agenda. Concretely, this will mean listing both items as priorities in the annual National Expenditure Plan that is formulated and managed by Department of Budget and Management (DBM). (For a cursory overview of the national government's annual priority list, see DBM's "Budget at a Glance" briefers, available online.)

   a. Increase the budgets of the DTI and DOST toward strengthening their programs and attached agencies that directly work with stakeholders in the manufacturing sector. The two agencies play indispensable roles in advancing the viability and competitiveness of domestic industries, both in policy and in field operations.

      For the DTI, there is a need to further strengthen the Small Business Corporation that provides development financing directly to MSMEs.

Other core responsibilities that need strengthening include: the full implementation of the Tatak Pinoy Program to scale domestic productive capacity; institutionalization of the Shared Service Facilities (SSF) Program, which provides modern machinery and technology at the community level for the collective use of local producers, by passing the proposed amendments to the Magna Carta for MSMEs; and effective enforcement of the Safeguard Measures Act (RA 8800) to shield local jobs and domestic markets from surges in industrial and non-agricultural imports. The DTI's Board of Investments (BOI) also plays a critical role. As an incentive-granting agency, its mandate focuses on priority industries, unlike the Philippine Economic Zone Authority (PEZA), whose jurisdiction is tied to specific geographic locations (Raquiza 2012). Because the BOI can grant incentives to key activities across a nationwide value chain, it is uniquely positioned to resolve coordination failures among industry players across the country.

For its part, the DOST's Filipinnovation initiatives have given rise to various programs aimed at building robust ecosystems around regional innovation hubs across the country. Among these programs is the setting up of the Regional Innovation Hubs such as the Cordillera Administrative Region iHub in Northern Luzon, Climate-Smart Agricultural Hub in SOCCSKSARGEN (Region 12), and Advanced Manufacturing Center in Cagayan de Oro, Northern Mindanao. It also established HeaRTNovation Hubs with its sectoral council, the Philippine Council for Health Research and Development, and launched, in partnership with the Philippine Chamber of Commerce and Industry (PCCI), DOST-PCCI Technology, Business, and Innovation Hub (or the Promoting Research and Outcomes to Provide Livelihood or PROPEL Business Hub and Exhibit Center) in Taguig City, Metro Manila, and, with PEZA, the Knowledge, Innovation, Science, and Technology (KIST) Parks.

Raising the budgets of the DTI and the DOST need not require additional massive resources. Rather, crucial to this initiative is the promotion of inter-agency mechanisms, led by the DTI or DOST, that consolidate public services for specific manufacturing industries or area-based innovation hubs, respectively. Effective governance thus ensures that social safety nets (such as cash-in-aid) serve as a pipeline to economic livelihood programs, and that urban planning centered on infrastructure development integrates growing and deepening production and distribution networks.

Conclusion: Recentering Manufacturing in Industrial Policy

This paper examines the Philippine growth pattern within the context of the current manufacturing vs. services debate. As mentioned from the outset, the Philippines has experienced rapid growth for more than a decade and recently crossed past the World Bank threshold for upper middle income countries, despite the lack of a robust manufacturing sector. Consequently, the Philippine development pattern has raised a critical question: does its service-led growth affirm the argument that services can replace manufacturing as the main driver of growth in developing countries, and what are the implications for manufacturing writ large?

From a technical perspective, the Philippine' specific development pattern, anchored in trade in services, seems to support the narrative that services present an alternative path to economic growth, narrowly defined as high GDP growth rates and rising per capita income. Nevertheless, a closer examination of the structure of the Philippine economy shows the limits of this development pattern. Despite more than a decade of rapid growth, the country's economic performance in terms of labor productivity, broad-based income distribution, and competitiveness has remained low when compared to the region's industrializing countries (i.e., Malaysia, Thailand, Indonesia, and Vietnam).

In the Philippines, the mechanism that links its service-led development to rapid economic growth is the rise in household consumption rather than productive investment. The country has not seen what has been described in other studies as "service-led growth," where services are presented as pulling up manufacturing. This shortfall is a direct consequence of a dominant low-value services sector and missing intersectoral linkages. In this connection, the Philippines demonstrates that while the services sector can hasten growth, services alone do not suffice for deep structural transformation (Serafica et al., 2025). Specifically, the country's service-led growth has failed to shift resources from low- to high-value activities, a process traditionally driven by manufacturing. This gap aligns with global cross-sectoral studies emphasizing the enduring importance of manufacturing for developing economies, particularly in absorbing workers from low-value employment (Su and Yao 2016; Battisti et al. 2026).

The sectoral and intra-sectoral analysis of aggregate growth in this study also highlights the necessity of a more nuanced industrial policy. Through an

examination of sectoral and industrial contributions to economic growth, this study highlights the assymetric impacts of government policy. As mentioned before, because services and manufacturing have different policy, capital, logistical, and technology requirements, development planning must incorporate distinct, sector-specific strategies to achieve structural transformation.

The present paper argues that there is a need to recenter manufacturing in industrial policy, especially in the Philippine case and other developing countries. While the services sector is important, the historical neglect of manufacturing catches up on a country, not only in terms of low productivity, but also widespread poverty. A cross-country comparison including the Philippines found that low- and middle-income countries with a robust manufacturing base generally have lower poverty rates than those relying more on the services sector (Fabella et al. 2023). In fact, the Philippine development pattern shows that without a commensurate increase in the country's productivity and the expansion of the real economy, service-led growth would likely exacerbate income inequality. Most deleterious of all is the corrosive impact of the export labor industry on the nation's social fiber in terms of overseas workers' relations with their families, cultural identity, and sense of place (Albert et al. 2023).

In this light, with remittances growing to more than USD 35 billion (roughly PHP 2 trillion) in 2025, their contribution to improving the lives of Filipinos should go beyond covering basic needs to securing a better future for families at home. A portion of this revenue stream could be mobilized as venture capital to fund MSME manufacturing projects. The idea behind this is similar to establishing special funds from import tariff revenues to subsidize local production in heavily import-dependent sectors. Mobilizing migrants, many of whom left the Philippines to be able to provide a better life for their families, would require giving them investment options in specific industries or areas in which they and their families could develop stakes. Platforms, programs, and facilities that have clear development mandates provide migrant communities a stronger connection to local or industry initiatives than traditional financial instruments and capital markets do. In fact, the SBCorp recently established a PhP2 billion "Negosyo Funds" to help ensure overseas Filipino workers' smooth reintegration at home by "launching sustainable business" (SBCorp 2026a). Developing remittance-based special funds for MSME manufacturing projects ensures long-term benefits for returning overseas workers and their children's future.

All told, the paper stresses the need to recenter manufacturing in industrial policy, mainly to broaden and deepen the foundation of Philippine economic growth. At this point in world history, the geo-economic architecture is undergoing structural change and the global order is fragmenting. As small states work to secure their competitive advantage by building domestic economies, manufacturing remains the missing link in the Philippines' development. Industrial policy, therefore, needs to stay focused on its original intent: effecting structural transformation, beyond simply job generation and raising foreign capital flows. Ultimately, raising the productive capacity and lifting the productive forces of developing countries must inform the direction of industrial policy.

In this connection, the present paper aligns with studies that assert the role of manufacturing in promoting innovation-driven, resilient, and inclusive economic development (UNIDO 2026). The sector's role in structural transformation, therefore, places it at the core of a progressive industrial policy.

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