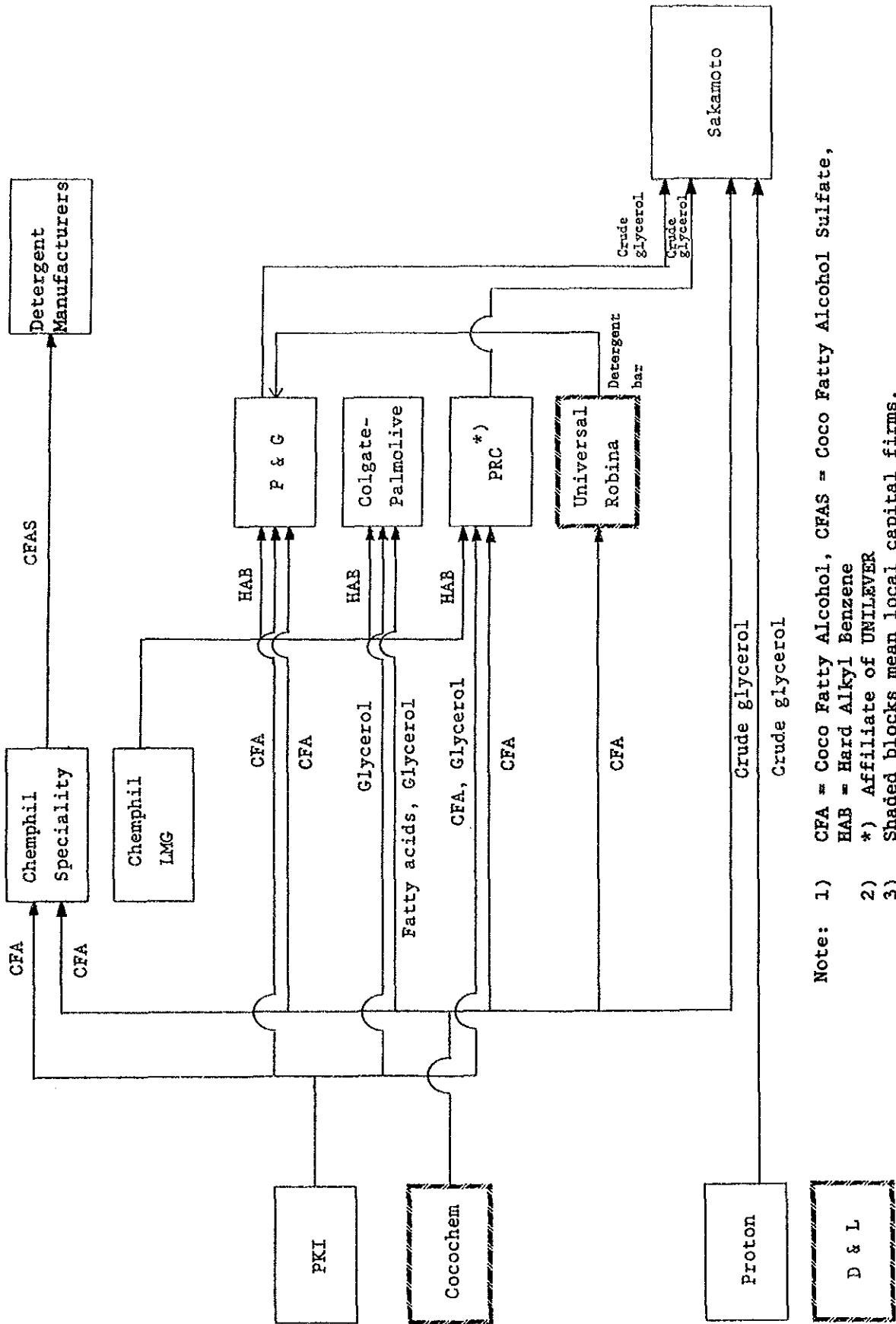


Figure III-3-2: Business Relations among the Philippine Oleochemical Firms



Note: 1) CFA = Coco Fatty Alcohol, CFAS = Coco Fatty Alcohol Sulfate,
 HAB = Hard Alkyl Benzene
 2) *) Affiliate of UNILEVER
 3) Shaded blocks mean local capital firms.

IV. Framework of Development Programs and Recommendation on Programs

IV. Framework of Development Programs and Recommendation on Programs

1. Toys (Stuffed Toys)

1-1 Framework of Development Program for the Stuffed Toy Industry

1-1-1 Basic Perspective

Under the current system of minimum wages being applied to firms, it has already become difficult for the Philippine stuffed toy industry to maintain price competitiveness in the low-priced product market. Thus the existence of the Philippine stuffed toy industry is currently based on non-price competitiveness and fundamental goals in the future should be based on the establishment of status in the medium and high-grade product markets.

The Philippine industry will maintain non-price competitiveness through 1) production technology and quality control levels adequate for buyers, and 2) the ability of workers to speak English, which makes giving directions on the factory floor simpler. Furthermore, because of the Philippines' exposure to U.S. culture in the past and present similarities between the two cultures as can be seen in television programs, it is easy for Filipinos to understand U.S. character fashions. This can be said to give the Philippines an edge in counter-design.

However, this non-price competitiveness is possessed only by firms which have teamed up with overseas capital and a small number of local firms of middle standing. The remaining majority of firms lack ability in pattern making, quality control and other areas necessary for manufacturing medium and high-grade products. Unless efforts are made to nurture such firms, the size of the Philippine stuffed toy industry will inevitably shrink. One result of this would be a reduction in the infrastructural facilities required by the stuffed toy industry and this disadvantage would outweigh the Philippine industry's advantage in non-price competitiveness. That is why nurturing of the majority of local firms should be considered in parallel with the fundamental goals stated above. Where these firms can currently compete is in the low-priced product market.

Local firms of middle standing essentially possess non-price competitiveness sufficient for advances into the medium and high-grade product markets. However, this non-price competitiveness is diminished a great deal by the lack of price competitiveness in the current level of production costs. Difficulty in local purchases of raw materials and the social tolerance of illegal copying also offset the non-price competitiveness. As countries with low labor costs currently producing low-priced items are likely to begin production of goods of higher quality in the future, efforts to bolster price competitiveness must be the first priority, even in the medium and high-class product markets. Price competitiveness may be bolstered by lifting the currently low operation rate. Expansion of orders from markets which have delivery times different from those of current customers would improve the operation rate and bolster price competitiveness.

On the other hand, active efforts to make known the industry's ability to manufacture medium and high-grade products are required to establish a position in the medium and high-grade product markets, and thus exploitation of new buyers is absolutely necessary.

As for the remaining majority of local firms, it is necessary for the time being to take measures to give them price competitiveness in the low-priced product market. For

instance, while making efforts to utilize subcontracting firms for the reduction of labor costs, manufacturers should also make efforts to improve operation rates by: 1) subcontracting for other stuffed toy makers; 2) accepting orders for handicrafts or other sundry articles; and 3) subcontracting for the clothing industry. However, such actions alone will not bring about improvement of the corporate quality of stuffed toy firms. Nurturing of pattern makers and study of quality control manuals are also necessary to receive orders from the medium and high-grade product markets.

The possibility of local raw material purchases is one of the most important conditions for selecting a production base from the viewpoints of buyers and vendors. The Philippines has only one plush manufacturer with the present capacity or future potential to produce articles qualified for export. However, protecting and nurturing one firm may distort the corporate quality of the industry. It would be more appropriate to provide the firm with encouragement measures as an exporting firm under free competition and for the user industries to understand the significance of nurturing the firm and collaborate with it. While waiting for the growth of the local plush industry, it would be necessary to consider complementary measures for raw material purchases.

Throughout the process of development, it is necessary for the entire industry to collaborate on the improvement of corporate quality.

To achieve the unity in the industry which will be required for these activities, it is essential that the membership of PHILTOY be expanded.

1-1-2 Targets of Development Program

The positions of development projects in the development of the stuffed toy industry are outlined in Figure IV-1-1.

(1) Development Programs and Assumed Development Stages

The following two stages of development of the stuffed toy industry are envisioned in the promotion and development plans:

1. The first stage is the stage where it is basically necessary to solidify the foundation for proceeding to the second stage of development using the current capabilities of the subsector. In consolidating for the second stage, it is necessary to 1) strengthen the international competitiveness of existing medium and large sized companies through expanding their markets and raising their rates of operation and 2) raise the level of the small and cottage sized manufacturers to bring some of them up to the level of medium sized companies so as to increase the size of the subsector as a whole and, at the same time, to create a group of subcontractors which can make exportable products.

2. In the second stage of development, it is considered necessary to try to establish the Philippines as a world center for production of medium and high grade stuffed toys through this expansion of its markets and manufacturing base.

Whether or not the Philippine stuffed toy industry will be able to follow this course will depend on how soon the Philippines secures a global position through the implementation of a comprehensive development plan.

The Philippine stuffed toy industry, however, is already losing its international superiority in terms of labor costs. In order to achieve development in the stuffed toy industry as a whole, as opposed to simply those firms possessing special capabilities, it is important that the whole subsector be given the ability to handle higher grade products. Looking at the development of products throughout the world at present, it is questionable

whether the Philippines would be able to gain any substantial edge in manufacturing technology for high grade products. It might be possible for a certain number of existing stuffed toy companies to maintain a position for themselves in the future, without having to compete with countries with lower labor costs, through the enhancement of the abilities for planning and the manufacture of high quality products. In this case, however, one could not expect development to the second stage and there is a danger that only a handful of companies, i.e., those with planning abilities and the capability of making high quality products, could survive as stuffed toy manufacturers or other toy or craft makers. Moreover, it is conceivable that competing countries will eventually lose their advantage in terms of labor costs to other countries and be faced with the necessity of moving into production of medium and high grade stuffed toys. Thus it would be difficult to increase the size of the stuffed toy subsector as a whole, as envisioned in the promotion and development plan, unless prompt efforts are made to increase orders in the medium and high grade products markets and the Philippines' position as a production base established. For this reason it is important to begin such efforts before competing countries develop the required capabilities.

(2) Development Program Themes

1) Marketing activity themes

The themes which must be taken up by the Philippine stuffed toy industry in export marketing are 1) the increase of orders from the medium and high grade product markets and 2) the opening up of markets with different delivery schedules. In line with these objectives, as marketing projects with such goals, "joint industry marketing activities for entering the medium and high grade product markets" and "activities for promoting orders from markets with different delivery schedules" are needed.

In regard to this, one cannot necessarily expect buyers to immediately respond. In many cases, when these projects are implemented, it will be a matter of timing if buyers feel a need to start business with new production centers. Therefore, it is possible that there will be a response to the project implementing end and it is also possible that there will be contacts from other markets through completely different channels. Suitable channels for handling inquiries from abroad must be specified and suitable action taken as, for example, in a project for "clarification of contact windows for buyers".

2) Theme in the projects for Improving Standing of Individual Companies through Design, Manufacturing Technology, Management Control, etc.

Support in these areas will be provided through 1) projects focusing on medium sized or large-sized companies and 2) projects focusing on local small-sized independent companies and companies currently engaged in subcontracting work.

The former companies basically already have the capabilities to export and require only assistance in export marketing activities and assistance in improving the environment of the industry as a whole in the following respects:

1. A "copy suppression campaign" to enable development of the domestic market and positive domestic exhibition of products
2. Implementation of a "joint material purchasing" scheme for smoothing the fabrication of counter samples
3. Revision of the methods of calculation of estimated costs and acquisition of methods of estimating prices in accordance with the improved operating rates
4. Cooperation with domestic plush manufacturers in establishment of system for domestic supply of raw materials

All of these are basically themes which the industry should pursue on its own, but it would be desirable that a system of public support be established to assist these activities of the industry. Note that to establish the Philippines as a future base for production, it is necessary to strengthen the foundation of production of the industry as a whole through "expansion of the subcontractor network". Public assistance will be necessary in forming this network from the perspectives of promoting small and medium-sized business and the regional dispersion of industry.

Next, turning to support for local small-sized independent companies and subcontractors, these companies still lack both the money and manpower to train designers and acquire manufacturing technology on their own, so a public support system is considered necessary. Toward this end, 1) assistance should be provided in improving their ability to make counter samples by a project for "training designers/patterners" and a "joint purchasing and inventory scheme for materials required for making samples", 2) a place should be provided for learning methods of quality control of products and parts and safety standards required in export markets through the project for "promotion of suitable quality control", and 3) a system should be set up for teaching the rules of business which must be followed in dealing with export markets and export companies through a project for "seminars for improvement of export business practices". Further, subcontractors qualified for dealing with the export companies thus formed should be organized into a network through a project for "forming a network of stuffed toy subcontractors". Contacts from stuffed toy companies desiring subcontractors should be facilitated, and support should be given to maintaining the quality of the network of organized subcontractors.

1-1-3 Framework of Development Programs

As stated above, the implementation of programs in the following areas is necessary for the overall development of the stuffed toy industry:

1. Program for strengthening order receiving activities
 - a. Improvement of contact windows for buyers
 - b. Activities for the promotion of the industry focused on the medium and high-grade product markets
 - c. Strengthening of order receiving activities, including those for low-priced products, in markets where shipment seasons are different from those of the current main markets
2. Program for improvement of corporate quality of medium and small stuffed toy firms
 - a. Nurturing of designers and patternmakers
 - b. Promotion of quality control
 - c. Dissemination of business practise on trade
 - d. Establishment of stuffed toy subcontracting network
3. Joint industrial activity programs for the improvement of the business environment
 - a. Campaign for suppressing copies
 - b. Joint purchasing and inventory scheme for raw materials
 - c. Improvement of methods of estimation of costs
 - d. Cooperation with domestic plush manufacturers
 - e. Compilation of industrial statistics
 - f. Assistance to members of industrial organization in loan procedures

1-2 Recommendation on Program

1-2-1 Outline of Projects

The relationship between issues in development and the content of the proposed projects to deal with them are outlined in Table IV-1-1. Proposals relating to the content, necessary requirements and recommendation on implementation are outlined in Table IV-1-2.

(1) Program for Strengthening Order Receiving Activities

The operation rate of the Philippine stuffed toy industry is estimated to be low, especially at the beginning of every year. This has caused cost increases, resulting in a decline in cost competitiveness. Cheap labor costs used to be one of the advantages of Philippine industries. However, Philippine labor costs are no longer an advantage when compared with new comer countries such as China. Thus, without further efforts to obtain new orders, the operation rate will continue to decrease to result in further increases in production costs.

The key strategy to cope with such unfavorable situation is an increased penetration into the medium and high-end products market, where competitive labor costs are not the key factor. However, even in the medium and high-end market, buyers are quite conscious of cost factors in addition to quality, and the present Philippine cost level is not necessarily attractive to potential buyers of these middle and high-end products.

Taking account of these factors, this program is 1) to reinforce Philippine capability to produce middle and high-end products to potential buyers, and 2) to promote order booking from the market with different delivery seasons from those of traditional markets to reduce production costs by an increase in operation rates. At the same time, it intends to provide potential buyers with easy access routes to Philippine manufacturers so as to take full effect of the above efforts.

1) Clarification of Contact Windows for Buyers

BETP and CITEM currently aim to establish the collection of overseas information and dispatch of domestic information overseas through public organizations, as well as a system of answering overseas enquiries through embassies and consuls. However the coordination of functions of these two organizations is not yet clear. Although it is proper that emphasis be placed on these functions, if only one body is contacted only incomplete information will be given, and suitable introductions will not be arranged. The sales promotion activities of the industry can not be said to be adequately effective. Both organizations must have an awareness of the other's functions and establish a system whereby appropriate organizations can be introduced to answer enquiries made domestically or from overseas. This should include 1) strengthening of a system to deal with enquiries, 2) clarification of contact points for buyers, and 3) establishment of a system for the supply of information. The system should consist of government affiliated organizations likely to be approached by buyers such as CITEM, BETP and BOI and the industry organization, PHILTOY.

There are also many firms who do not have stable contacts or who would like to export but do not know how to go about starting. In order to aid firms who do not have the funds or the personnel to enter export markets independently, a system like this is needed to clarify access points from which potential overseas partners can be found.

2) Industry Level Activities for Securing Orders in Medium and High-grade Product Markets

Although a fair number of stuffed toy manufacturing firms can satisfy the technological requirements for entry into medium and high-end toy markets overseas, an inadequate volume of orders are received due to the low appeal of the industry to overseas

markets. The sales promotions activities at an individual firm level will not necessarily generate appeal for their middle and high-end markets, because of the promotion using their products alone. The aim of this project is not to give assistance to individual firms for sales promotion, but to appeal the order receiving capacity of the industry as a whole through joint activities of the industry.

3) Promotion of Orders from Markets with Different Delivery Schedules

The major markets for Stuffed toys made in the Philippines are the U.S., Europe and Australia. The three peak demand periods for each of these regions are Christmas, St. Valentines day and Easter. The shipment seasons for each market derived from order receiving time and transportation period are almost the same. This means that under the current order receiving system the peak production times for the three markets are also the same. The manufacturers who presently suffer a shortage of orders could increase annual orders as well as operate all year round to disperse peak seasons if they could successfully enter new markets with different shipment seasons.

There are two types of markets with shipment season patterns different to those of the present markets. The first is markets where although demand peaks are the same as the present markets, because of the difference in time taken to deliver products or a difference in the time orders are made, peak production and shipment times are different. The Christmas market in Japan, which does not import many stuffed toys directly from the Philippines, is one of such markets. Japanese buyers tend to procure goods from producer countries closer to Christmas day than is the case for other countries. Thus if the Philippines are able to supply the Japanese Christmas market directly, peak production and shipment times for the Japan market would occur after that of other countries.

The other types of market are markets other than the traditional Christmas, St. Valentines day and Easter markets. These may include new "filler" markets such as the school and university graduation/entrance period in Japan and festive seasons such as the Chinese New Year for Chinese communities.

In order to break into markets with shipment seasons different to those of present markets, information gathering and marketing activities in these potential markets must be conducted in line with above mentioned purposes.

(2) Program for Improvement of Corporate Quality of Medium and Small Stuffed Toy Firms

This program is to upgrade the technological and management performance of stuffed toy MCSMEs (Micro Cottage, Small and Medium Enterprises) and promote their involvement in export businesses either directly as export contractors, or indirectly as sub-contractors. The upgrading of MCSMEs as sub-contractors will also contribute to strengthening of the industry's capability to respond to increased orders from export markets.

The program consists of three components:

1. Upgrading of counter sample making capabilities through 1) fostering of designers/pattern makers and 2) joint stock operations on materials needed for making samples.

2. Improvement of the technological and management performance of MCSMEs by providing them with opportunities to learn about the needs of exports market through seminars and workshops on 1) quality control and safety standard requirements, and 2) export trade business practices.

3.Improvement of the MCSMEs' market access through the following two systems for contact with or approach by buyers, main contractors and MCSMEs;

- Formulation of a sub-contractor network for the stuffed toy industry
- Creation of a clarified contact window for buyers and potential exports manufacturers.

1) Nurturing Designers/Pattern Makers

A serious problem encountered by MCSMEs in the Philippine stuffed toy industry is the lack of design and pattern making capability. A quick response to buyers' inquiries in making a quality countersample is essential to obtain job orders. Designers and pattern makers are generally trained in their respective firms through OJT (on the job training) in the case of medium, large scale stuffed toy firms. However, in the case of MCSMEs, even owners, who are responsible for conducting the OJT to their employees, do not have sufficient experience in design and pattern making, nor is there any appropriate organization to provide a transfer of design and pattern making technology. This project is to facilitate those firms in providing with opportunities to train their design/pattern making staff to cope with these problems.

The training of designers/pattern makers should not be limited to basic training alone. Rather, emphasis should be put in training on a high quality and effective design/pattern making. Therefore, the project must include consultancy services for the design/pattern making as a follow-up function.

Training of designer/patternmakers is required only at the initial stage of sub-sector development. Once the MCSMEs are heavily involved in the business, they will be able to foster successors themselves through OJT.

2) Promotion of Quality Control

Adequate quality control is highly important for stuffed toy manufacturing, especially of medium and high-end market oriented stuffed toys, since these stuffed toys are required to express exactly the intended feature and/or touch of characters and animals. Some manufacturers, who produce medium and high-end products, are inclined to quit engaging sub-contractors, and expand their in-house production lines to maintain their targeted product quality. This ensures their quality, but might cause cost increases if orders are insufficient to operate the factory at a high operation rate. The production capacity, when the received order exceeds the capacity will lose flexibility in responding quickly to the order increase. Fostering MCSMEs, in this context, for them to undertake appropriate quality control is essential to form a basis for the further development of the sub-sector.

In addition to the above, clearance of safety standards set by export market countries is a minimum requirement for stuffed toy exporters, since most of these standards are enforced on a mandatory basis to protect children from harm. The EC is now launching new safety standards to which all the exporters and manufacturers must comply. Ignorance of such safety standards could result in a serious loss caused by rejection of cargo at the port of discharge. Most leading manufacturers in the Philippines have given great attention to this point; for instance, in selecting plush using adequate dyestuffs, paints, etc., and detecting metals and other harmful materials contained in their products. MCSMEs also need to be familiar with such standards to prevent unexpected loss from rejection.

3) Seminars on Improvement of Export Trade Business Practices

Export business practices of Philippine firms are not highly rated by buyers, engaged in export business with Philippine exporters. This is especially true in the case of small and medium firms. Basically, there is not yet sufficient understanding on business rules to be complied with. Problems include delay in delivery, discrepancies between counter samples shown at the time of contract and articles, insufficient communication when encountering difficulties to fulfill contracted terms, etc. Some problems may have arisen because of factors outside of their control. Nevertheless, the firms need to do better in avoiding possible losses. Even if most exporters do business appropriately, failure to comply with above rules by a limited number of exporters has damaged the reputation of Philippine export businesses. This program aims to promote a thorough understanding of export business practices especially among MCSMEs which intend to engage in export business either directly or indirectly through sub-contracting, and improve the reputation of Philippine firms in the export market.

4) Stuffed Toy Subcontractor Network Formulation Project

In order to develop a stuffed toy subcontractor network, its integration into subcontractor network of the garment industry is recommended. By this way, the number of firms able to do subcontract work for the stuffed toy industry would increase, and so stable order booking can be expected by subcontractors as they would be able to work for the garment industry if orders from the stuffed toy firms declined.

Most subcontractors in the stuffed industry started their work in the garment industry. They moved to the stuffed toy industry using the same sewing machines, with little additional training.

Although TLRC, DTI, and PHILTOY are currently trying to formulate a stuffed toy subcontractor network, in line with the government's National Economic Recovery Program, the network does not perform adequately at present.

The garment industry developed its subcontractor network under SUBCONEX. This program aims to attach the stuffed toy industry subcontractor network to SUBCONEX, while providing registered subcontractors in the stuffed toy division with periodical information on industrial trends and technology.

(3) Program for Joint Industrial Activities for the Improvement of Business Environment

This is a program to be undertaken by the industrial association themselves for further improvement of their business environment. However, assistance from the government is also effective in most cases as indicated under the respective project statements. The actions recommended in this program cover the following areas:

1. Joint activities to improve the business environment; 1) deterring design copying, 2) support on development of local plush suppliers
2. Joint operations; joint stock operation of materials for counter-sample making
3. Technical/managerial guidance activities for members; 1) loan application assistance, 2) rationalization of costing
4. Research activities; compilation of industry statistics

1) Campaign for suppressing copies

Illegal design copying which occurs in the Philippines has not only damaged the image of the industry through frequent distribution of copied products, but has also hindered original design development in the country and impeded the introduction of excellent foreign designs into the country.

This project aims to promote the activities to increase a consciousness of the need to deter from illegal design copying. Laws prohibiting copying are not usually so effective in deterring copying as expected due to the technical difficulty of registering designs and the time needed for litigation. This project puts emphasis on a campaign to improve consciousness on the need to curb copying, instead of pursuing legal provision development.

2) Joint purchasing and inventory scheme for raw materials

The stuffed toy sub-sector in the Philippines relies mainly on imports for supply of its materials. There is no established local supply channel of materials. In the case of processing on assignment, all the required materials are provided by buyers or vendors. Quick response to the inquires from buyers in providing counter-samples, is essential to obtain job orders; but most Philippine stuffed toy manufacturers have difficulty in making quick response due to lack of materials for counter-sample making. This program is to operate material purchase/stock jointly by manufacturers to improve the availability of materials especially for this purpose.

3) Improvement of Methods of Estimation of Costs

By the cost estimation method commonly employed in the Philippines, they calculates costs independently order by order, and further, a certain percent of cost is put on top of the cost as the profit margin regardless of the operation situation of the plant concerned. This practice has been one of the causes of decline in their cost competitiveness. The following would improve this situation.

1. Change in costing; the fixed costs and profit margin should be calculated on the basis of a certain planned operation rate of the plant, instead of the total cost being calculated on the basis of operation assuming the existing orders alone.

2. Change in sales policy and plant operation policy; long term management stability can be attained by an increase in operation rate of the capacity, through reasonably small profits but quick returns.

4) Cooperation extended to Domestic Plush Manufacturer(s)

This is a campaign project directed to local stuffed toy manufacturers to increase an awareness among firms of the importance of the growth of the domestic plush industry in strengthening both the price and non-price competitiveness of the stuffed industry, and to encourage them to use locally produced plush wherever possible.

It would be possible to promote the use of domestically produced plush through such measures as import restrictions of plush and application of tariff barriers on plush, etc. This would, however, result in a disadvantage on cost competitiveness and quality of Philippine stuffed toy industry. Basically, the local plush industry should be promoted as an export industry, in light of the small scale of the domestic market for plush. Then, the stuffed industry, as a result, would benefit from their operations. However, development of the plush industry as an export industry would require support from domestic demand. It is necessary, therefore, for the stuffed toy industry to appeal to member firms to cooperate by procuring plush domestically wherever it is acceptable from a commercial view point.

5) Compilation of Industry Statistics

Lack of adequate statistics on the sub-sector has caused difficulties in planning an appropriate development strategy on the basis of the actual situation. Since no government agency has taken responsibility to compile industrial statistics especially by sub-sector, it is recommended that the industrial association takes action on this. The statistics will be also useful for introducing the industry to potential buyers.

It is recommended to set up a reporting system that covers non-members as well as members. If it is difficult to include non-members, statistics should be supplemented periodically, for example biennially, by ad hoc sampling surveys, etc.

It is recommended to utilize the data available from government agencies at the same time.

6) Assistance to members of industrial organization in loan procedures

DBP and TLRC have a loan facility available for members of PCHI, of which PHILTOY is a member. However, application for the loan from PHILTOY member has been minimal so far. One of the reasons for the few applications is the procedure which applicants have to go through. This project recommends that PHILTOY assists its members in processing the loan application to encourage them to use the loan facility.

PHILTOY can obtain a small processing fee from the applicants based on cost sharing among beneficiaries. The fee may be used as a fund for PHILTOY activities.

1-2-2 Implementation Schedule and Priorities

Below, "short-term plans" refer to plans for which it is desirable to quickly start or start preparations for. "Projects for which it is desirable to start preparations for" means those for which it is assumed that further study of the necessity, feasibility, and cost will be made in the process of preparation. "Medium and long-term plans" mean plans for which no need for immediate start or start of preparations for is currently recognized, but which are recommended to be started along with the development of the stuffed toy industry.

Note that in addition to these, separate study is required on the establishment of a new system of loan guarantees and system of development loans for small and medium sized businesses.

(1) Short-term Projects

1) Projects for which immediate implementation is recommended

1. Promotion of orders from markets with different delivery schedules
2. Industry-level activities for securing orders in medium and high grade product markets
3. Clarification of contact windows for buyers
4. Campaign for suppressing copies
5. Cooperation with domestic plush manufacturers
6. Improvement of methods of estimation of costs
7. Compilation of industrial statistics
8. Assistance to members of industrial organization in loan procedures

2) Projects for which immediate commencement of preparation is recommended

1. Joint purchasing and inventory scheme for raw materials
2. Training of designers/patterners
3. Promotion of quality control
4. Seminar on trade business practices

(2) Medium and Long-term Projects

Expansion of subcontractor network

(3) Priority Projects

The projects mentioned above are all ones which it is believed could play important roles in accordance with the relevant stage of development of the stuffed toy industry. If only a limited number of projects can be implemented due to problems in funding and the implementing structure, however, it is recommended that projects be restricted to the following three, which require quick public support in the development strategy, and that the way be prepared for industrial development.

1. Promotion of orders from markets with different delivery schedules: This would help improve operating rates and cut unit production costs and thereby would strengthen competitiveness in costs, a key element in the expansion of orders in the medium and high grade product markets.

2. Industry-level activities for securing orders in the medium and high grade product markets: The success of such activities would determine the future development of the stuffed toy industry. In this sense, this would be the most important project.

3. Clarification of contact windows for buyers: This project would be necessary to make efficient use of the results of the marketing activities, especially important for the development of the stuffed toy industry.

1-2-3 Implementation System

In the stuffed toy subsector, a partial development program is already underway under the 10-year plan, but much of what is being done is insufficient. It is extremely important how faithfully this plan is implemented.

First of all, in its implementation, the focus should not be on just the individual plans. A sufficient grasp should be obtained of the role which the individual plans should play in the overall plans and the plans must be implemented with proper linkage.

Next, it is necessary to set up a system of responsibility over the implementation. It is necessary to establish a system in advance enabling various preparatory processes, coordinating processes, etc. to go smoothly. Positive action by the responsible organizations is also essential in terms of efficient action in raising the necessary funds.

There are many steps to be taken in implementation. Further, the individual projects are mutually linked and are sometimes planned assuming the implementation of other projects. Therefore, in implementing the plans, it is essential that an implementing system be established with suitable control and coordinating functions. Suitable organizations in this system must perform the respective functions in line with the overall implementing plan. The following two organizations are recommended as implementing authorities with overall functions of promotion and coordination:

1. General Secretariat: This would maintain a grasp over the state of progress in the individual projects, convene and coordinate related organizations as needed, and

make corrections to projects. Desirably this would be formed based on the DTI/BOI and PHILTOY.

2. Advisory Committee: This would provide recommendations and assistance in activities of the above secretariat. It would be based around PHILTOY and would be comprised of representatives of the BOI, BSMBD, BPS, BETP, CITEM, DTI Planning Group, DTI Regional Group, PDDCP, etc. The representatives would endeavor to have their own organizations act in accordance with the matters agreed upon in the committee.

Note that among the short term projects, the following projects could be implemented through just partial improvement of existing activities or would require only a little more in additional funding. All should desirably be immediately acted on by the industry itself or through coordination of related organizations under the industry's leadership:

1. Promotion of orders from markets with different delivery schedules
 2. Industry-level activities for securing orders in medium and high grade product markets
 3. Clarification of contact windows for buyers
 4. Campaign for suppressing copies
 5. Cooperation with domestic plush manufacturers
 6. Improvement of methods of estimation of costs
 7. Compilation of industrial statistics
 8. Assistance to members of industrial organization in loan procedures
- The implementing structure for the individual plans is shown Table IV-1-2.

Table IV-1-1: Objectives and Development Programs for Stuffed Toy Industry

Promotion Objectives	Effective Measures	Development Projects											
		Creation of a definite contact window for buyers	Joint marketing activities for penetrating into medium to high-end product market	Promotion of order booking from markets with different shipment seasons	Fortifying designers/pattern makers	Project to adequate quality control	Seminars on improvement of export trade business practice	Stuffed toy subcontractor network formulation project	Campaign for deterring from illegal design copying	Scheme for joint purchase/stock operation of raw materials	Improvement of rate estimation method for bidding	Cooperation extended to domestic plush manufacturers to improve local plush supply capability	Compilation of industry statistics
	Schedule	A **	B **	B **	B **	B	B	A	B	A	B	B	B
(1) Strengthening the international cost competitiveness of medium to large firms	1. Strengthening the cost competitiveness	X		X									
	2. Strengthening the subcontractors				X								
2. Strengthening marketing capability	1. Sales promotion for potential market	X									X		
	2. Appropriate correspondence to buyers' inquiry	X											
(2) Strengthening the sub-sector by upgrading MCSMEs	1. Upgrading of design capability		X								X		
	2. Promotion of export business					X				X			
	3. Strengthening the subcontractors												
(3) Improvement of conditions of the sub-sector	1. Improvement of raw materials supplying system										X		
	2. Promotion of export business					X							
	3. Repetition of financial system					X							
	4. Understanding of general figure of the industry and make appropriate plan											X	

Notes: Schedule's symbols: A = Should be implemented immediately
 B = Preparation should be begun immediately
 C = Medium to long-term project
 ** = Key projects

Table IV-1-2: Outline of Development Programs for Stuffed Toy Industry (1)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
1. Program for Strengthening the Activities to Increase in Order Booking	<p>For improvement of answering inquiries from both domestic and abroad:</p> <ul style="list-style-type: none"> - To clarify the job allocation among the relevant government agencies/organizations. - To create a definite liaison system for buyers. - To establish a system providing buyers with information on manufacturers. 	<ol style="list-style-type: none"> 1. Establishment of a coordination committee. 2. Clarification of job allocation among the relevant government agencies/organizations. 	<ol style="list-style-type: none"> 1. Promotion of project: CITEM under the initiative of PHILTOY. 2. Operation of project: The liaison office should be attached to CITEM. A coordination committee by BETP, CITEM, BOI and PHILTOY should be established. 3. Time of implementation: Better to implement immediately. 	
Activities for the promotion of the industry focused on the medium and high-grade product market	<p>Selection of the products able to appeal for middle and high-end markets, and joint marketing activities.</p> <ol style="list-style-type: none"> 1. To make catalogues and materials introducing the industry. 2. To seek cooperation of public/private organizations both domestic and overseas. 3. To participate in trade fairs, etc. 	<ol style="list-style-type: none"> 1. Cooperation from both domestic/overseas buyers in selecting products. 2. Taking certain protective measures against illegal copying of original designs. 3. Creating a definite liaison service for buyers. 	<ol style="list-style-type: none"> 1. Promotion of project: PHILTOY with full support from CITEM. 2. Operation of project: CITEM with PHILTOY and BETP in setting up an organizational framework. 3. Time of implementation: Detailed planning and coordination work is recommended to be started immediately. 	

Table IV-1-2: Outline of Development Programs for Stuffed Toy Industry (2)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
<p>1. Program for Strengthening the Activities to increase in Order Booking (continued)</p> <p>Strengthening of order receiving activities, including those for low-priced products, in markets where shipment seasons are different from those of the current main markets</p>	<p>Contribution to increasing capacity utilization ratio of factories by means of strengthening joint sales activities of order bookings from markets with different shipment seasons. Although the activity here is almost similar to the "Activities for the promotion of the industry focused on the medium and high-grade product market", above, details of this program is as below.</p> <ol style="list-style-type: none"> 1. Be well versed not only in market trends in particular countries, but also in the distribution system, ordering and purchasing patterns of the buyers. 2. Particular seasons and occasions may be capitalized on as potential demand periods. 3. In establishing price and estimates, costs arising solely out of the placement of additional orders are to be borne by the buyer. Orders for low priced goods should also be created for. 	<p>Creation and operation of a clearly defined liaison service for potential buyers.</p>	<ol style="list-style-type: none"> 1. Promotion of project: PHILTOY with full support from CITEM. 2. Operation of project: CITEM with PHILTOY members in setting up an organizational framework. 3. Time of implementation: Detailed planning and coordination work is recommended to be started immediately. 	

Table IV-1-2: Outline of Development Programs for Stuffed Toy Industry (3)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
<p>II. Program to Improve the Technological/Management Performance of Stuffed Toy MCSMEs</p> <p>Nurturing of designers and pattern-makers</p>	<p>Foster designer/pattern-makers to promote counter sample making capabilities of MCSMEs.</p> <ol style="list-style-type: none"> Continual implementation of workshops to train potential designers/pattern-makers by the time a sufficient number of them can be ensured. Assignment of a stuffed toy specific designer in PDDCP who is in charge of development work for new design as well as training for foster potential designer/pattern-makers. 	<ol style="list-style-type: none"> Implementers not only for basic training but also continuous consulting services after the training. Assign a staff who has sufficient experience in the stuffed toy field. 	<ol style="list-style-type: none"> Promotion of project: PDDCP with request and support by PHILTOY. Operation of project: PDDCP with full support from PHILTOY. Time of implementation: Immediate preparation will be recommended. 	
<p>Promotion of quality control</p>	<p>Seminars/workshops on practical quality control to meet the needs of export markets, and on safety standards of major prospective export markets.</p>	<ol style="list-style-type: none"> Invite lecturers who have enough experience to understand the needs of export markets. Practice by using comparison samples of passed products and rejected products. Operate seminars by payments from beneficiaries. 	<ol style="list-style-type: none"> Promotion of the project: PTTC in cooperation with PHILTOY and BPS. Operation of the project: PTTC in cooperation with PHILTOY and BPS. Time of implementation: Immediate preparation will be recommended. 	
<p>Dissemination of business practice on trade</p>	<p>Promote sufficient understanding on business rules to be complied with to maintain reliability from buyers in the market. Open periodical seminars and workshops on the following schemes.</p> <ol style="list-style-type: none"> Basic points of export business practice and rules to be compiled with by exporters. Case studies of damage of the reputation and possible counter measures. Access to potential buyers. 	<p>Lecturers of the seminars and workshops must have sufficient experience in export trade with Philippine stuffed toy exporters.</p>	<ol style="list-style-type: none"> Promotion of the project: PTTC in cooperation with PHILTOY. Operation of the project: PTTC in cooperation with PHILTOY. Time of implementation: Immediate preparation will be recommended. 	

Table IV-1-2: Outline of Development Programs for Stuffed Toy Industry (4)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
<p>II. Program to Improve the Technological/Management Performance of Stuffed Toy MCSMEs (continued)</p> <p>Stuffed toy subcontractor network formulation project</p>	<p>Expand the stuffed toy industry by means of developing a subcontractor network. To satisfy the scheme:</p> <ol style="list-style-type: none"> 1. Establishment of a stuffed toy subcontractor network as one division of "SUBCONEX". 2. Registration to the division of firms expecting subcontracted work with stuffed toy industry, including the firms registered to the garments industry. 3. Provision of basic training to firms newly registered to stuffed toy division. 4. periodic supply of information on industrial trends and technology to the registered stuffed toy subcontractors. 	<p>Provision not only of basic training, but also of the various programs aiming at upgrading subcontractors. Implement projects under the Program to Improve the Technological/Management Performance of Stuffed Toy MCSMEs.</p>	<ol style="list-style-type: none"> 1. Promotion of project: BSMED with support from PHILTOY. 2. Operation of the project: SUBCONEX with support from PHILTOY. 3. Time of implementation: Better to consolidate the network by promoting subcontracting firms under the network. 	
<p>III. Joint Industrial Activity Program for the Further Improvement of Business Environment</p> <p>Campaign for deterring from illegal design copying</p>	<p>Call for peoples' consciousness on necessity to deter from illegal design copying through campaign.</p> <ol style="list-style-type: none"> 1. Formation of a conference to discuss about the measures for prevention of design copying. 2. Encouraging industrial association members to avoid subcontracting with non-members of the conference. 3. Campaign on illegality of design copying when copying has happened. 	<ol style="list-style-type: none"> 1. Campaign is not to win the case, but publicize illegality of design copying is essential. The campaign will be more effective if it is carried out together with as many other industrial associations related to designing as possible. 2. Participation of governmental sectors to the conference as well as cooperation through campaign on various government publications. 	<ol style="list-style-type: none"> 1. Promotion of the project: PHILTOY 2. Operation of the project: Conference for design copying prevention. 3. Time of implementation: Better to implement immediately. 	

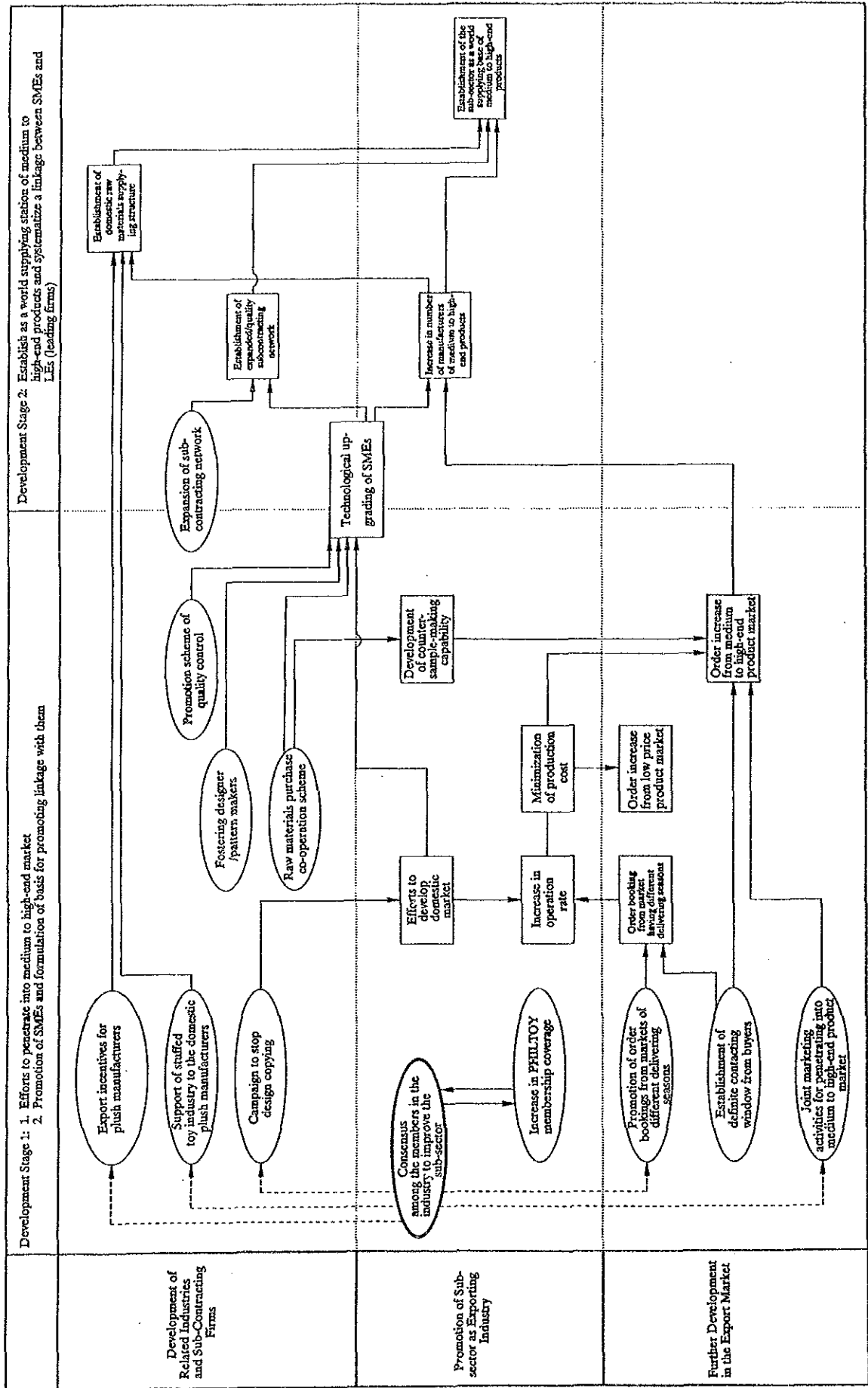
Table IV-1-2: Outline of Development Programs for Stuffed Toy Industry (5)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
<p>III. Joint Industrial Activity Program for the Further Improvement of Business Environment (continued)</p> <p>Scheme for Joint Purchase/Stock Operation of Materials</p>	<p>So as to respond swiftly to inquiries from buyers with providing counter sample, joint purchase/stock operation of raw materials is necessary. To enable the project, following activities are recommended to be implemented.</p> <ol style="list-style-type: none"> 1. Establishment of fund for operation collected from participants. 2. Joint purchase/stock of raw materials. 3. Purchase/stock of raw materials for counter sample making. 	<p>Implementation of feasibility study in detail.</p>	<ol style="list-style-type: none"> 1. Promotion of the project: PHILTOY 2. Operation of the project: Utilize fund prepared for the Project. 3. Time of implementation: Immediate preparation will be recommended. 	
<p>Improvement of Cost Estimation Method for Bidding</p>	<p>In order to cope with order booking from markets with different shipment seasons, it is necessary to apply costing which is based on the utilization of "production cost reduction by increase in operation rate of capacity" from order-by-order cost calculation method.</p>		<ol style="list-style-type: none"> 1. Promotion of the project: PHILTOY 2. Operation of the project: PHILTOY 3. Time of implementation: Better to implement immediately. 	
<p>Cooperation extended to domestic plush manufacturers to improve local plush supply capability</p>	<p>Improve current raw materials supply condition by promoting local plush manufacturing industry. To accomplish the scheme, request the following cooperation to stuffed toy firms.</p> <ol style="list-style-type: none"> 1. Active proposal for buyers to allow to use local plush. 2. Seminars for stuffed toy manufacturers on sufficient technical knowledge of plush. 	<p>The cooperation should be on voluntary basis, and should not be the government led cooperation.</p>	<ol style="list-style-type: none"> 1. Promotion of the project: PHILTOY 2. Operation of the project: PHILTOY 3. Time of implementation: Better to implement immediately. 	

Table IV-1-2: Outline of Development Programs for Stuffed Toy Industry (6)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
III. Joint Industrial Activity Program for the Further Improvement of Business Environment (continued)				
Compilation of industry statistics	Compile industry statistics on stuffed toy sub-sector.	Utilize the data available from governmental agencies.	<ol style="list-style-type: none"> 1. Promotion of the project: PHILTOY 2. Operation of the project: PHILTOY 3. Time of implementation: Better to implement immediately. 	
Assistance for members in processing loan application	Assist PHILTOY members to apply loan facility provided by DBP and TLRC. PHILTOY can obtain small amount of processing fee as the fund for PHILTOY's activities.	Seminars on application procedures for those who will be in charge at industrial associations of assisting the loan application.	<ol style="list-style-type: none"> 1. Promotion of the project: PHILTOY 2. Operation of the project: PHILTOY 3. Time of implementation: Better to implement immediately. 	

Figure IV-1-1: Development Stages of Stuffed Toy Industry and Expected Effects of Development Projects



2. Costume Jewelry Industry

2-1 Framework of Development Programs for Costume Jewelry Industry

2-1-1 Basic Perspective

The Philippines' use of wood, shell, paper and paper mache has gained a reputation among buyers for its innovativeness. No other country can supply costume jewelry using these materials. However, Philippine products are grouped into the Class C and Class D markets of the U.S. costume jewelry market. None of these products has been able to penetrate the Class B market, and they are hardly sold even in the Class C market. In Japan as well, the Class D market is the main destination for Philippine goods.

Buyers make the decision to purchase from a country when consumers demand the kinds of products for which that country is known. Thus, buyers turn to the Philippines only when there is substantial demand for Class D costume jewelry. As long as demand for this Class D jewelry does not increase, neither will imports from the Philippines. A temporary boom may result in a rush on orders to the Philippines, but once the boom is over sales are bound to grow sluggish once again.

When considering penetration of Class A-C markets, however, there is a lack of the materials and processing technologies required to develop suitable new products, and the development of supporting industry cannot be seen. In particular, the metalworking techniques so necessary to success in today's market are virtually nonexistent in the Philippines, and there are no local manufacturers of needed metal components. Even shell processing techniques are not advanced enough to produce products suited to Class C and higher markets.

In the area of product development and designs, a few corporations have the potential to produce Class C products. As indicated above, however, those buyers with an eye on the Philippines are basically interested in products for the Class D market and can only offer low prices. As a result, Philippine producers are forced to sacrifice materials and design in order to meet these prices. With the exception of the few firms noted above (some of those classified into Group A), it will be difficult to develop the product planning and design capabilities required for Class C and higher markets.

One definite advantage of the Philippine costume jewelry industry is the availability of low-cost labor which can be mobilized at any time. "Low-cost labor," however, is a relative term; labor cost and quality must be compared with those in competing nations. Labor costs in the Manila area have already begun to rise, and in some cases are no longer capable of competing with Chinese standards. However, most producers of costume jewelry are located in Cebu, where firms can still compete on the basis of costs. The utilization of skillful labor formed on the basis of individual communities is a key point.

The inadequate infrastructure hinders firms attempting to expand their business. *Improvements are needed in the areas of transportation, communications, and shipping.* In terms of transportation and shipping, companies are forced to depend on a single airport with no replacement routes when it closes down. This sometimes interferes with local visits by buyers or overseas sales promotion activities by Philippine exporters. International communications also need to be improved, and numerous problems remain in terms of contacting the subcontractors within the Cebu region. The country also lags behind in the areas of electrical power supply and environmental measures.

If the country is to expand costume jewelry exports, it will have to go beyond the confines of the Class D market which is the present targeted market.

Achieving such a transition will require consideration of local industry strengths. After the above discussion, the following strategies are recommended.

1. Some firms already have the planning capability to target Class C markets, and some could reach that level with a certain amount of work. Efforts should be made to promote sales of these products.

These companies need improvements in parts supply, timing, profitability, and market appeal for new products. Although there is a high possibility of success, the resulting increase in exports is likely to be rather small.

2. Based on operations at existing firms, new materials or new processing technologies should be developed in an attempt to penetrate the Class C market.

The development of products acceptable on this market should be relatively easy based on existing operations. Penetration of the Class B or Class A markets, however, will require modernization of operations, including subcontractors. Problems include the small demand for Class C products and the difficulty of predicting whether or not new materials would be accepted by this market. In consideration of future development, however, new materials and new processing technologies should be introduced.

3. Tieups with or the attraction of companies in costume jewelry exporting nations should be promoted as a means of penetrating the Class B market.

Any substantial expansion of exports will require sales to this market. However, fundamental improvements must be made in the local industry, and this will require a great deal of time. R. Korea and Taiwan together account for roughly half of all U.S. imports of costume jewelry. Increasing labor costs and labor shortages are becoming increasingly serious problems in these countries, and their costume jewelry industries are suffering. Tieups with firms from these countries, or the promotion of their foreign investment in the Philippines, could help to bring in necessary technology.

As already discussed above, the use of current operations as a base for penetration of Class C markets followed by tieups with foreign corporations to break into Class B markets is thought to be a reasonable target. This objective would necessitate the following short- and mid- to long-term strategies.

Short-term strategy: Development based on existing capabilities. Class C markets are to be penetrated by making full use of current capabilities while preparations are begun to allow product development in the future.

Medium- and long-term strategy: Taking advantage of the country's abundant supplies of low-cost labor and shells, efforts should be made to attract costume jewelry manufacturers, partially or wholly, from countries facing rising labor costs. This will not only expand the target markets to export but also transfer technology to local companies and promote the establishment of supporting industries.

The future penetration of Class A markets by Philippine firms is assumed as a result of these strategies.

2-1-2 Targets of Development Programs

The positions of development programs in the development of the costume jewelry industry are shown in Fig. IV-2-1.

(1) Development Program in Accordance with Development Stages

This development program assumes the following two stages of development for the costume jewelry industry.

1. The first involves preparation for future development, while at the same time making efforts to develop new markets using existing products, made from natural materials such as wood and shells, and existing production technologies and designs. The markets which can realistically be targeted using current designs, production techniques and materials are limited. Unless metalworking techniques are improved to expand the possibilities for design and materials development, penetration of Class C markets on any scale will be difficult. Tieups with foreign costume jewelry firms are thought to be the most effective means of achieving this goal, but Philippine manufacturers have yet to reach the stage where they can be attractive partners. In this phase, therefore, they must 1) make full use of existing capabilities to boost exports; and 2) develop designs and materials and master the basic material processing technologies needed for future development.

2. In the second stage of development, based on tieups with foreign firms, the potential of the Philippines as a costume jewelry production center should be developed, with care taken to attract buyers for the Class B and Class C markets as well. Foreign manufacturers should be attracted and linkages promoted with local firms based on the material processing technologies mastered in the first stage. As a result, the Philippines will gain a factory-based production system suited to use by foreign firms and other export markets, and at the same time local firms will be able to access high-quality raw materials and processing technologies while developing traditional manual techniques. The end result will be the stamping out of unique characteristics for the Philippines as a production center for costume jewelry.

In terms of government assistance, the following measures will be needed in the short term to correspond with the first stage of development described above: 1) assistance for export marketing to develop Class C market; 2) assistance for exporter efforts to develop designs and materials; and 3) assistance for structural improvements in technology and management at manufacturers and subcontractors. Activities must also be started to promote the attraction of foreign costume jewelry firms and producers of related metal components, who will provide the foundation for the second stage of development. Finally, although current demand in funds is limited, preparations should be begun for an effective fundraising system in preparation for the time when new investment starts to become more active.

This aid should be continued into the second stage of development and enhanced in accordance with industry growth.

(2) Themes on Development Programs

1) Themes on marketing activities

Marketing activities are not limited to sales promotion alone. A comprehensive range of activities, including the collection and analysis of market information, product development, advertising and promotion, and reinforcement of market access, is needed.

The sales promotion for penetrating the Class C market is designed to aggressively promote existing product lines, which have yet to be noticed in new markets and establish a system for the gathering of market-related information. Improvement of design and materials development capability requires creating a system for helping companies to analyze market information and develop new products. Reinforced market access will require comprehensive adoption of the following measures: 1) developing new buyers, 2) improvement and utilization of a system for access from buyers to bring about results in sales promotion and other promotional activities, and 3) encouraging investment by foreign costume jewelry manufacturers and related parts producers, which should be utilized together with linkages with local firms to penetrate the sales channels developed by these firms in the past.

2) Themes on structural improvements at individual corporations (design, processing technologies, management, etc.)

Two types of assistance are needed for structural improvements at individual corporations: 1) measures targeting exporters; and 2) measures targeting manufacturers and subcontractors.

To achieve constitutional improvement of export businesses it is necessary to provide aid for design research as well as research into uses and processing technology for new materials in order to enhance design. On the other hand, it is also necessary to master export business methods for gaining confidence in the export market.

Improved processing technologies are especially needed for manufacturers and subcontractors. In this sense, it is necessary to master the metal component processing technologies which are essential to future development. Providing instruction in quality control and production management, both of which are essential for manufacturers and subcontractors, and promoting the modernization of the costume jewelry industry are expected. In addition to improved production and management, modernization of the subcontracting sector through improvements in the working environment and utility facilities need to be studied. It is hoped that these efforts will facilitate communication between subcontractors and their customers and allow stabilization of the electrical power supply and reduction of vulnerability to climate, both of which have hurt efforts to be punctual delivery time and establish quality control.

2-2 Recommendation on Program

2-2-1 Outlines of Projects

Objectives and recommended projects for the subsector's development are shown in Table IV-2-1. Outlines and requirements of each development project and recommendations on their implementation are shown in Table IV-2-2.

(1) Joint Export Sales Promotion and Assistance Program

The major export-sales promotion activities, which are expected to be effective under the present conditions of sub sectors are the following two besides the marketing efforts being undertaken by individual firms; 1) export sales promotion focusing on penetration into Class C markets with products which are on hand but whose potentiality is not realized yet, and 2) improvement of inquiry handling and liaison services for inquiries from potential buyers/foreign manufactures seeking tie-ups with Philippine exporters/manufacturers. The former is needed immediately to realize the existing potentiality of the Philippines, while the latter forms the basis to tap the fruits of future marketing efforts.

Tie-ups with foreign costume jewelry firms, for example through manufacturing contracts on a consignment basis, are certainly the most desirable way to promote exports and technology transfer. However, given the present situation of the Philippine costume jewelry industry it will be hard to attract potential foreign partners, since almost no technological basis for metal working exists in this sub-sector. Therefore, the Philippine costume jewelry industry as a whole is recommended to tackle improvements in their technical and managerial performance initially to attract such potential partners. At the same time, improvement of handling services for inquires from buyers/manufactures abroad will contribute to assist promotion of such tie-ups even in the initial stage, for those who already have capability to proceed with such tie-ups.

1) Sales Promotion Project for Penetrating the Class C Market with Products on Hand

Products currently being exported to the United States and other markets are mainly low-end items targeting the Class D market. The buyers of these products requires low costs at first, making it impossible for Philippine manufacturers to utilize their substantial expertise in design and material development. Buyers view the Philippines simply as a supply source of Class D products which feature natural materials, and they come to the Philippines only when they need to import such products. Those buyers, who plan to import products targeting markets other than D markets, go to other sources, each of which are characterized by products for a specific market.

The objective of this project is to improve conditions and attract buyers of Class B/C products to the Philippines, by showing the capability of Philippine industry to manufacture these products.

2) Improvement of the System for Easy Access from Buyers

Since most current buyers who are interested in Philippine products, know about available products new inquiries might be minimal at present. However, inquiries will increase in the future in accordance with 1) intensive sales promotion efforts to penetrate into the C markets, as recommended in the above, 2) further increase in labor costs as well as labor shortage in Japan and NIEs which are the major manufacturing countries of costume jewelry.

In order to meet such needs, and maximize benefits of sales promotion efforts, it is recommended to improve the existing system for handling buyers' incoming inquiries so that 1) potential buyers and foreign manufacturers who are looking for tie-ups with Philippine manufacturers, can easily find out the appropriate access route/liaison services to Philippine industry, and 2) these inquiries can be handled adequately so that appropriate partners for orders or tie ups are found.

(2) Program for Upgrading Existing Costume Jewelry Export/Manufacturing Sector

No matter what marketing efforts are made, it will be difficult to expect substantial new demand, given the current product line, which can only be handled in D markets where demand is not large. Further development of product lines, which is the prerequisite for penetration to Class C and B markets, requires intensive efforts for upgrading design, materials used, processing technologies, trade business practices and market trend analysis.

It would be extremely difficult to develop any of these capabilities in a short term. One of the most efficient methods for upgrading the technology level of the Philippine costume jewelry industry would be to attract foreign producers for tie-ups with local exporters/manufacturers, and promote linkages among them. However, again, the

present technological/managerial level of Philippine costume jewelry industry is still far from attracting such potential partners.

This program is to upgrade the technology/managerial levels of the Philippine costume jewelry industry and so aim at future possible of tie-ups with advanced firms abroad, and further development of the industry as a reputable costume jewelry supply base for the world.

The major areas to be upgraded for this purpose are;

1. Design and material development capability
2. Material processing technology especially of metals
3. Business ethic focussing on design copying
4. Export trade business practices
5. Subcontractor system

Even in stages where the tie-ups with foreign manufacturers can not be expected, efforts for upgrading the industry will contribute to penetrate to certain segments of the Class C market in combination with the export sales promotion program already described.

1) Project to Improve Design and Materials Development Capability

This project is to expand and strengthen the functions of PDDCP, the PDDCP is 1) to play a leading role in the area of design information gathering and analysis, design development, and materials development, and 2) to be opened to the private sector to stimulate the PDDCP's efforts.

2) Establishment of the Promotion and Assistance Center for Cebu C/J industry

A center will be established to assist costume jewelry manufacturers and subcontractors in the Cebu area in improving technology and management. The recommended promotion and assistance center is expected to contribute to the upgrading of the industry by;

1. Technology transfer and training of technologies
2. Providing machine and equipment which are basic requirement in upgrading the technology
3. R & D on materials development
4. Training in the field of export business practices, quality control, etc.

3) Project to Deter Design Imitation (Campaign Project to Stop Design Copying)

In the case of Philippines, and especially of the Cebu costume jewelry industry, designs are easily copied, since they share the same subcontractors. So far, no effective measure has been taken to stop such action. Although this problem also exists in industrialized nations, the Philippines have been flooded by imitation products, doing great harm to the country's image as a producer. It also discourages manufacturers from paying large fees for the use of foreign designs and discourages design promotion activities in the Philippines.

This project involves a campaign to increase awareness of the need to prevent imitation designs. Although legal regulations would appear to have a strong deterrent force, in fact there are many technical difficulties associated with registering a design, and processing court actions under the regulations takes a long time, hindering their

effectiveness. Apart from legal preparations, this project involves a campaign designed to increase awareness of the need for restraint.

4) Seminars on Improvement of Export Trade Business Practice

Export business practices of Philippine firms are not highly rated by buyers, engaged in export business with Philippine exporters. This is especially true in the case of trade with small and medium firms. Basically, there is not yet sufficient understanding on business rules to be complied with. Problems include delay in delivery, discrepancies with counter samples shown at the time of contract, insufficient communication when encountering difficulties to fulfill contracted terms, etc. Some problems may have arisen because of factors outside of their control. Nevertheless, the firms need to do better in avoiding possible loss to customers. Even if most exporters do business appropriately, failure to comply with the above rules by a limited number of exporters has damaged the reputation of Philippine export businesses.

This project aims to promote a thorough understanding of export business practices especially among MCSMEs which intend to engage in export either directly or indirectly through sub-contracting, so improve the reputation of Philippine firms in the export market.

5) Construction of the Cebu Costume Jewelry Manufacturing Village

Small companies and cottage industries currently operating individually should be brought together in a certain location to achieve the following benefits: (1) improved working environment; (2) a better business environments; (3) more efficient subcontracting; and (4) waste treatment and other environmental measures.

Manufacturers located in Cebu are operate with inferior working conditions. Employees have little enthusiasm for their work, and efforts to improve efficiency are hindered. In addition, safety factors are seldom taken into consideration. The floor easily becomes dirty due to the large quantities of waste products produced.

Improvement of the working environment will also help to improve quality control. Collection of operations in a single location providing communications facilities, emergency generators, and waste treatment will improve ties with contractors, help to prevent delivery delays resulting from power outages, and reduce pollution.

The gathering in one location of numerous subcontractors, each specializing in a certain process, will make it easy for manufacturers (contractors) to place orders. Under the present situation, work must be sent from one location to the next to proceed to the next process.

If future efforts to attract foreign corporations are successful, these villages will also be effective in forming links with such firms.

(3) Program to Encourage Investment by Foreign Costume Jewelry Manufacturers and Related Parts Producers

The Philippine costume jewelry industry lacks several conditions required for penetration of Class B/C markets, which are already large in size and expected to grow even further. These include:

1. Metal materials and related design and processing technologies
2. Metal components
3. Production management and quality control

Formation of a modern costume jewelry industry will require overcoming these problems so that Class B/C buyers can be satisfied by Philippine suppliers. Transfer of the necessary technology will require the attraction of leading costume jewelry manufacturers from abroad and the formation of linkages between these firms and local subcontractors. When buyers begin to turn their attention to these advanced companies, the the Philippine industry as a certain producing center will also receive its share of attention.

In addition, the attraction of export-oriented foreign metal components companies will make it possible to obtain metal components locally.

2-2-2 Implementation Schedule and Priorities

The "short-term projects" listed below are those which should be begun, or those for which preparations should be begun, immediately; the "projects for which preparations are to be begun immediately" are those for which such factors as necessity, practicality, and profitability should be studied further during preparatory stages. The "medium- and long-term projects" are those which need not be begun immediately, but which should be carried out in accordance with the growth of the costume jewelry industry.

In addition to these projects, the possibility of establishing a credit guarantee system and a development finance system for small and medium-sized businesses should be examined separately.

(1) Short-Term Projects

1) Projects to be implemented immediately

1. Sales Promotion Project for Penetrating the Class C Market with Products on Hand
2. Improvement of the System for Easy Access from Buyers (excluding the establishment of a pilot shop and showroom)
3. Project to Improve Design and Materials Development Capability
4. Project to Deter Design Imitation
5. Seminars on Improvement of Export Trade Business Practice

b) Projects for which preparations are to be begun immediately

1. Establishment of the Promotion and Assistance Center for Cebu C/J Industry
2. Construction of the Cebu Costume Jewelry Manufacturing Village (only as a pilot project)

(2) Medium- and Long-Term Projects

1. Program to Encourage Investment by Foreign Costume Jewelry Manufacturers and Related Parts Producers
2. Construction of the Cebu Costume Jewelry Manufacturing Village
3. Improvement of the System for Easy Access from Buyers (establishment of a pilot shop and showroom)

(3) Priority Projects

All of the above projects can play an important role in accordance with the local industry's stage of development. However, if financial or structural problems prevent the implementation of all projects, it will be necessary to limit efforts to those fields with a

pressing need for government assistance. Later on, the private sector will have to be relied upon to create a suitable structure on its own.

If this in fact is the case, work on the following two projects should be started immediately to establish a beachhead for industrial development.

1. Project to Improve Design and Materials Development Capability

This project will nurture the skills needed to respond to the design, material, and quality-related demands of the Class B and C markets that the industry must aim for in the future. By expanding the functions of the PDDCP and creating a design research committee consisting of representatives from fashion-related industries, this project will serve as a powerful boost to future research on design trends and functions of existing material R&D centers.

2. Establishment of the Promotion and Assistance Center for Cebu C/J Industry

In contrast to the first project, which focuses mainly on the export sector of the costume jewelry industry, this project will provide assistance for improvements in production technology and production management by Cebu manufacturers and subcontractors so that they can keep up with export sector development.

These two projects can be expected to work together to bring about industry-wide improvements.

2-2-3 Implementing System

During implementation of the development program, special attention should be paid to the following areas.

First of all, it will be important not to focus on individual projects but rather to understand the role that each will play within the framework of the whole and assure that adequate linkage is achieved.

Next, a structure must be set up to take responsibility for implementation. This must be done in advance to assure that the preparatory and coordinating stages progress smoothly. This kind of supervisory body is also needed to promote efficient fundraising.

Many steps will be required before actual implementation, and some of the individual projects will be interrelated or will be based on the implementation of other projects. Therefore, the creation of an implementing structure with monitoring and coordinating functions is essential. It is also important that the bodies within this structure carry out their individual tasks in line with an overall program. The following two organizations are suggested as potential candidates for such a structure.

1. General Secretariat

This body's tasks will be to follow the progress of each project, call up and coordinate related organizations, and carry out modifications to projects as necessary. It should be centered around DTI/BOI, CEBU-FAME and FAMA-PHIL.

2. Advisory Committee

This body will be responsible for providing advice and assistance for the activities of the general secretariat. It should be based around CEBU-FAME and FAMA-PHIL and should include representatives from BOI, BSMBD, BETP, CITEM, DTI Regional Groups, and PDDCP. Representatives should work to ensure that their organizations act in accordance with the items agreed on by the committee.

The following short-term projects are those which could be implemented either through minor improvements in existing activities or with little additional funding. It is suggested that the industry begin work on them immediately, either on its own or with the coordinated assistance of related organizations.

1. Sales Promotion Project for Penetrating the Class C Market with Products on Hand
2. Improvement of the System for Easy Access from Buyers (excluding the establishment of a pilot shop and showroom)
3. Project to Deter Design Imitation (Campaign Project to Stop Design Copying)

Implementing system for individual projects will be shown in Table IV-2-2.

2-2-4 Framework of Development Programs

Realizing the above strategies will require implementation of the following programs:

1. Joint Export Sales Promotion and Assistance Program: sales promotion and assistance program for those manufacturers who, despite having products capable of penetrating Class C markets, have been unable to sell them

- a) Sales Promotion Project for Penetrating the Class C Market with Products on Hand
- b) Improvement of the System for Easy Access from Buyers

2. Program for Upgrading Existing Costume Jewelry Export/Manufacturing Sector: program to create the necessary conditions for penetration of the Class B market

- a) Project to Improve Design and Materials Development Capability
- b) Establishment of the Promotion and Assistance Center for Cebu C/J Industry
- c) Project to Deter Design Imitation
- d) Seminars on Improvement of Export Trade Business Practice
- e) Construction of the Cebu Costume Jewelry Manufacturing Village

3. Program to Encourage Investment by Foreign Costume Jewelry Manufacturers and Related Parts Producers

Table IV-2-1: Objectives and Development Programs for Costume Jewelry Industry

Promotion Objectives	Effective Measures	Development Project							
		Sales Promotion Project for Penetrating the Class C Market	Improvement of the System for Easy Access from Buyers	Project to Improve Design and Material Development Capability	Establishment of the Promotion and Assistance Center for Cebu C/J Industry	Campaign Project to Deter Design Imitation	Seminars on Improvement of Export Trade Business Practice	Construction of the Cebu Costume Jewelry Manufacturing Village	Program to Encourage Investment by Foreign Costume Jewelry Manufacturers and Related Parts Producers
(1) Penetration to New Market 1. Full Utilization of Existing Potentiality 2. Upgrade Product Development and Marketing Capabilities of Export Sector	Schedule	A	A/C ¹⁾	A**	B**	A	A	B/C ²⁾	C
	1. Attracting new (potential) buyers	X							
	2. Improvement of route for inquires from buyers		X						
(2) Program for Upgrading Existing Costume Jewelry Export/Manufacturing Sector 1. Acquisition of Process Technology and Production Management Technology 2. Improvement of Working Condition and Infrastructure	3. Improvement of information gathering system	X							
	1. Upgrading PDDCF's assistance capability for design/material development			X	X				
	2. Establishment of assisting system for market information analysis and product development among fashion related industries			X	X				
	3. Appeal to new market	X			X			X	X
	4. Improvement of route for inquires from buyers								
	5. Improvement of raw material supplying system			X					X
1. Acquisition of basic metal processing technology 2. Promotions of understanding the necessities of quality control and process technology 3. Technology transfer from advanced foreign firm 1. Improvement of productivity with introducing machinery and equipments 2. Improvement of communication between orderer and sub-contractor 3. Stabilities of electricity supply 4. Supply the working condition will not be influenced by weather	6. Establishment of rule of export business					X			
	1. Acquisition of basic metal processing technology				X				
	2. Promotions of understanding the necessities of quality control and process technology				X		X	X	X
	3. Technology transfer from advanced foreign firm				X				X
1. Improvement of productivity with introducing machinery and equipments 2. Improvement of communication between orderer and sub-contractor 3. Stabilities of electricity supply 4. Supply the working condition will not be influenced by weather	1. Improvement of productivity with introducing machinery and equipments								
	2. Improvement of communication between orderer and sub-contractor							X	
	3. Stabilities of electricity supply							X	
	4. Supply the working condition will not be influenced by weather							X	

Notes: "Schedule" symbols: A = Should be implemented immediately, B = Preparations should be begun immediately, C = Medium- to long-term project, ** = Key project
1) [A] = not include opening and operating pilot shop or show room. 2) [B] = as pilot project only.

Table IV-2-2: Outline of Development Programs for Costume Jewelry Industry (1)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
<p>I. Joint Export Sales Promotion and Assistance Program</p>	<p>Export sales promotion focusing on C market with the products on hand but hasn't been able to penetrate the market because of inadequate sales promotion.</p> <ol style="list-style-type: none"> 1. Attaching a special display corner to trade fairs, featuring these products. 2. Advance publicity appealing the new corner to buyers. 3. Discount on exhibition fees for the corner. 4. Selection of qualified products to display at the corner. 	<ol style="list-style-type: none"> 1. The associations should jointly undertake this project. The cost should be burden partly by beneficiaries. 2. Selection of the appropriate products. The display corner should be cancel when the products are not found. 3. Gathering and accumulating market information for adequate analysis (especially in Cebu). 4. "Improvement of the System for Easy Access from Buyers" project is indispensable. 5. "Project to Deter Design Imitation" is also necessary to be tackled. 	<ol style="list-style-type: none"> 1. Promotion of project: (CEBU-FAME with assistance from CITEM. 2. Operation of project: CITEM with full support from CEBU-FAME and FAMA-PHIL. 3. Schedule: Immediate implementation is recommended. 	
<p>2. Improvement of the system for easy access from buyers</p>	<p>The inquiries will increase in the future in accordance with intensive sales promotion. It is recommended to improve the system of handling buyers' inquiry so that buyers can easily find appropriate access, and these inquiries be handled adequately and effectively.</p> <ol style="list-style-type: none"> 1. Upgrading of company data base for inquiry from foreign buyers. 2. Improvement of a service system for inquiries. 3. Operation of show room and/or pilot shop. 		<ol style="list-style-type: none"> 1. Promotion of project: CITEM with full support from CEBU-FAME and FAMA-PHIL. 2. Operation of project: The inquiry service office set up in CITEM with establishment of coordination committee from BETP, CITEM, BOI, CEBU-FAME, FAMA-PHIL. 3. Schedule: Immediate implementation is recommended. However, showroom/pilot shop is recommended to be operated with other fashion oriented industries. 	

Table IV-2-2: Outline of Development Programs for Costume Jewelry Industry (2)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
<p>II. Program for Upgrading Existing Costume Jewelry Export/Manufacturing Sector</p> <p>1. Project to improve design and materials development capability</p>	<p>This project is to expand and strengthen the functions of PDDCP; the PDDCP is 1) to play a leading role in the areas of design, information gathering and analysis, design development, and materials development, and 2) to be opened to the private sector to simulate the PDDCP's efforts.</p> <p>1. Assignment of costume jewelry design to specific staff(s) as a part of apparel and fashion division of PDDCP.</p> <p>2. The strengthening function of costume jewelry specific staff. Functions are: 1) collection, analysis and distribution of information 2) R & D on development of new materials 3) training of costume jewelry designers.</p> <p>3. Strengthening of Cebu representatives of PDDCP.</p>	<p>1. The expansion of PDDCP's function in development of design and materials.</p> <p>2. To support and advise the activities of the PDDCP's staff for costume jewelry, establishment of a National Design Study Committee is recommended by leading designers from fashion oriented industries.</p> <p>3. Support from the Cebu Chamber of Commerce and Industry, CEBU-FAME, and the regional government.</p>	<p>1. Promotion of project: CEBU regional office of DTI with request from CEBU-FAME.</p> <p>2. Operation of project: Creation of new organization jointly by government and private sector for the operation as a third sector organization. The center should be operated under the supervision of an Advisory Committee involving representatives from government agencies and the private sector.</p> <p>3. Schedule: Immediate preparation is recommended.</p>	

Table IV-2-2: Outline of Development Programs for Costume Jewelry Industry (3)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
<p>II. Program for Upgrading Existing Costume Jewelry Export/Manufacturing Sector (continued)</p>	<p>The recommended promotion and assistance center is expected to contribute to the upgrading of the industry by:</p> <ol style="list-style-type: none"> 1. technology transfer and training of technologies 2. providing machine and equipment which are basic requirement in upgrading the technology 3. R & D on materials development 4. training in the field of export business practices, quality control, etc. 	<ol style="list-style-type: none"> 1. The guidance should cover not only that for exporters but also that for manufacturers (subcontractors). 2. The technical guidance and R & D work should put emphasis on combination products of metals and materials. 3. The scope of technical guidance and R & D work as well as equipment of metal component parts, rather than processing for product finishing. 4. The center must have qualified staff who have sufficient knowledge not only of machine operation but also of the quality of processed products required in the market. 5. Invitation of consultants or buyers from potential export market. 	<ol style="list-style-type: none"> 1. Promotion of project: CEBU regional office of D/TI with request from CEBU-FAME. 2. Operation of project: Creation of new organization jointly by government and private sector for the operation as a third sector organization. The center should be operated under the supervision of an Advisory Committee involving representatives from government agencies and the private sector. 3. Schedule: Immediate preparation is recommended. 	<p>Estimate funds required: 236 million yens (1.82 million U.S. dollars)</p>
<p>3. Project to deter design imitation</p>	<p>This project involves a campaign to increase awareness of the need to prevent imitation designs.</p> <ol style="list-style-type: none"> 1. Formation of a conference to discuss measures for prevention of design copying. 2. Encouraging industrial association members to avoid subcontracting with non-members of the conference. 3. Subsidizing litigation costs with conference and industrial association's funds to encourage law suits against offending parties. 	<ol style="list-style-type: none"> 1. The most important point is not to win cases, but to publicize the illegality of design copying as much as possible. 2. Participation in the conference. Campaign through the various government publications. 	<ol style="list-style-type: none"> 1. Promotion of project: CEBU-FAME and FAMA-PHIL. 2. Implementation of project: Council against Illegal Design Copying. 	

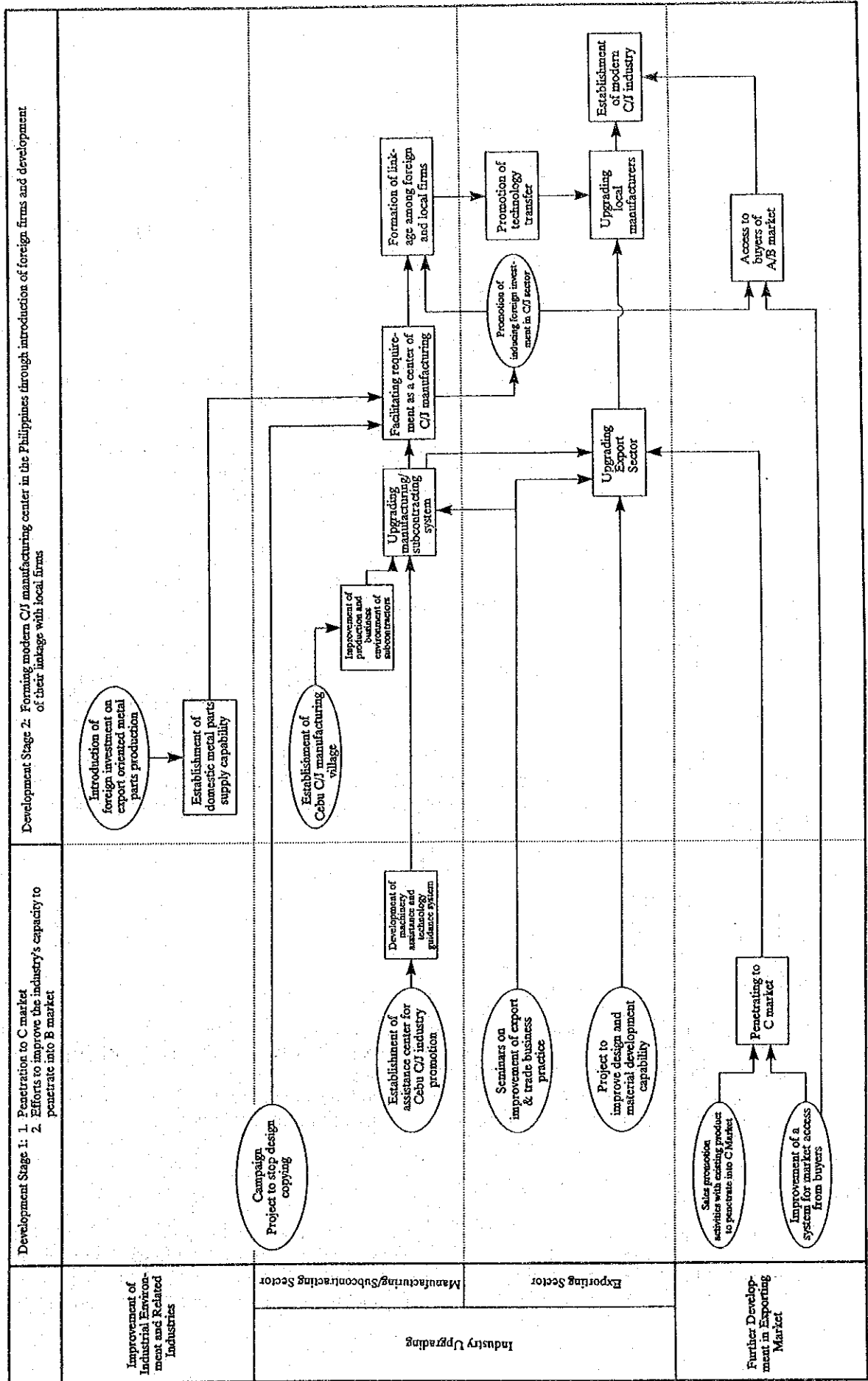
Table IV-2-2: Outline of Development Programs for Costume Jewelry Industry (4)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
<p>II. Program for Upgrading Existing Costume Jewelry Export/Manufacturing Sector (continued)</p>	<p>4. Seminars on improvement of export trade business practice</p> <p>Seminar and workshops for improving export business practices.</p> <ol style="list-style-type: none"> 1. Basic points of export business practice and rules to be complied with by exporters. 2. Case studies of damage to the reputation of exporters, and possible countermeasures. 3. Access to potential buyers. 	<ol style="list-style-type: none"> 1. Lecturers of the seminars and workshops need to have sufficient experience in export trade with Philippine costume jewelry exporters. These include buyers, buying agents and foreign consultants, etc. 2. The seminars should be held also in Cebu. The seminars should be held both for exporters and manufacturers (sub-contractors) 	<ol style="list-style-type: none"> 1. Promotion of project: PTTC in cooperation with CEBU-FAME and FAMA-PHIL. 2. Operation of project: PTTC in cooperation with CEBU-FAME and FAMA-PHIL. 3. Schedule: Immediate implementation is recommended. 	
<p>5. Construction of the Cebu costume jewelry manufacturing village</p>	<p>Sub-contractors should be brought together in a certain location and establish common working place to achieve the following benefits: (1) improved working environment, (2) a better business environment, (3) more efficient subcontracting, and (4) waste treatment and other environmental measures.</p>	<ol style="list-style-type: none"> 1. The concept of a costume jewelry manufacturers' village is indispensable in the process of modernization of the industry. However, at the present time, the manufacturers will not understand the necessity of this upgrading of their business environment. This project will not be viable when these conditions are met. 2. In the initial stage, a pilot operation will be useful to show the effectiveness of the "manufacturing village" concept in modernizing the subcontractor sector. A construction site adjacent to the Cebu C/J Promotion and Assistance Center. 	<ol style="list-style-type: none"> 1. Promotion of project: Regional government and BOI 2. Operation of project: An operation company in the third sector. Subsidy by the government will be necessary for operation. 3. Schedule: It should be implemented when necessity of the project is realized in the process of modernization in the industry. 	

Table IV-2-2: Outline of Development Programs for Costume Jewelry Industry (5)

Programs & project	Outline of project	Requirements of project	Recommendation on implementation	Remarks
<p>III. Program to Encourage Investment by Foreign Costume Jewelry Manufacturers and Related Parts Producers</p>	<p>To attract the foreign investments both in costume jewelry assembling/manufacturing and metal parts production, to improve local metal parts supplying system and to transfer technology from foreign firms to local firms.</p>	<p>Local firms should be improve their business conditions to form linkages with foreign investing firms.</p>	<p>1. Promotion of project: BOI</p>	

Figure IV-2-1: Development Stages of Costume Jewelry Industry and Expected Effects of Development Projects



3. Oleochemicals

3-1 Framework of Development Programs for Oleochemical Industry

3-1-1 Basic Perspective on Development for Oleochemical Industry

It is considered that the following fields would be helpful in the development of the Philippine oleochemical industry.

(1) Development of the Philippine Oleochemical Industry

1) Expansion of basic oleochemicals production.

It is believed that the following basic oleochemicals should be given priority for production expansion because 1) demand as a whole for those products is expanding, 2) the demand scale in terms of volume is largest, meaning that merit in scale can be expected and raw material producer countries are in a position of comparative advantage, and 3) the value added for the Philippines would be in no way small compared to other products. Global demand for basic oleochemicals is forecast as follows.

(Units: 1,000 MT)

	Fatty acids	Fatty alcohols	Methyl esters	Glycerol
1995	2,400	1,170	570	390
2000	2,600	1,620	630	420
2005	2,850	2,120	700	450
2010	3,130	2,670	770	475

2) Diversification into mass production derivatives

Fatty acid esters and fatty amines are regarded as mass production derivatives. As these mass production derivatives are followed by a wide variety of derivatives. They can be produced at lower cost in countries producing the raw materials. Prospects of demand is as follows;

(Units: 1,000 MT)

	Fatty esters	Fatty amines
1995	280	480
2000	335	530
2005	400	585
2010	470	615

Note: The following methods were used to make the above forecasts.

1. The scale of demand for final products by 2010 was estimated by multiplying population forecasts by per capita consumption.
2. The scale of demand for basic and intermediate oleochemicals was estimated by examining the relationship between final products and basic and intermediate oleochemicals in production processes.

3) Promotion of fine chemicals production

In the past fine chemicals themselves were not sold so much as the technology for them. Manufacturers who developed products or applications worked closely with their customers and offered technical services in addition to selling products. Thus when these customers moved their production bases overseas, many fine chemicals manufacturers

began supplying to these production bases overseas. However in recent years as well as those customers moving their production bases overseas, production by local firms has also been increasing. Therefore, though in the past where business deals depended on ties with firms from industrialized countries, new types of business relationship has arisen. It follows that diversification of fine chemicals trade in NIEs and ASEAN countries can be expected.

Products on which the highest expectations can be placed are those related to the industries undergoing rapid expansion in these countries.

1. Textile industry
2. Electric and electronics industry
3. Automobile and other transportation industries, automobile repair industry
4. Plastic processing industry

4) Assistance to local firms for small scale production of oleochemicals suitable for the local market and export market

Oleochemical products can be categorized in the following way according to marketing requirements.

1. This group is comprised of products such as toilet soaps, detergents, and toiletries where there are no direct links between the final consumers and manufacturers and it is thus very important to draw consumers to a product at the point of final sale. For the marketing of these products it is thus regarded as necessary to allocate considerable funds for advertising. Where this financial power is lacking, it is very difficult to succeed in this product area. As a result, the leading firms and other fairly large businesses occupy over half this market. Even for large firms looking to enter this market, large investment into introductory advertising is necessary. Returns from such investments are relatively low in comparison to the outlay required. It would be almost impossible for small and medium firms to enter the market.

2. This product group comprises products for which there is very little differentiation according to the manufacturer (eg. metallic soaps, lubricant agents, animal feed) and laundry soaps of commercial use. For these products appropriate price setting and maintaining good relations with customers is the key to maintaining and expanding consumption. Sustaining good relations with customers involves maintaining quality and providing a system of delivery responsive to customer needs.

3. This group is comprised of fine chemicals, and those intermediate products which require compliance with detailed standards. Product development and closely linked joint operations with customers is considered necessary for the marketing of these products. It is thus necessary for manufacturers to establish R&D as well as technical services systems enabling them to respond to such requirements. However, after a certain amount of time some of these products come into more general use, and for some products it is becoming the case that a more general approach can be taken to the marketing of these products.

4. This group comprises basic oleochemicals and mass consumption type intermediate products. Standards for these products are relatively general. However, a large proportion of these intermediate products are consumed by the manufacturers itself. It is therefore considered necessary to conclude contracts before new production begins.

Demand for oleochemicals (except for fatty alcohols) in the Philippines is still low, and production for the domestic market is presently beset by difficulties. Despite this it is believed that the industry will be able to supply both the Philippines and the neighboring

countries in the future. However, because of the abovementioned marketing features, production looks set to become limited to the following products.

1. Low priced toilet soaps, household soaps and toiletries directed at consumers not particular about brand name
2. Intermediate products for which there is little differentiation
3. Those fine chemicals which have come into general specifications
4. Products based on long term contracts

(2) Prospective Derivatives for Production in the Philippines

Finding prospective derivatives for production in the Philippines was extremely difficult amid such limitations. Derivatives deemed appropriate by the survey team are outlined in Table IV-3-1. The derivatives chosen were those for which 1) fatty acid composition of coconut oil could be used effectively, 2) demand in the domestic and export markets is expected to expand, 3) the use of large volumes of petroleum-based materials is not required, thereby restraining costs, 4) foreign exchanges will be conserved through import substitution, and 5) capital investment requirements are relatively small.

However a number of issues such as manufacturing technology, the procurement of auxiliary materials, and market development methods need to be overcome. There is most certainly a need to research these issues in order to develop the Philippines oleochemical industry based on coconut oil, and respond to global demand.

(3) Basic Perspective on Development Strategies

As is the case with numerous other countries, most Philippine oleochemical manufacturers are joint ventures with overseas firms. Cocomchem and D&L are the only major firms of Philippine capital. Both firms basically have the capacity to expand their operations based on their particular management strategies. It follows that as a development strategy it is necessary to provide support for the creation of an industrial environment which allows each of these firms, including those which will enter the industry in the future, to fully demonstrate their capacities. In other words, what is necessary is an industrial environment in which Philippine oleochemical firms may compete on equal conditions with firms in competing countries.

From this standpoint, the following are believed necessary.

1. The provision to existing firms of incentives in line with those offered to firms in competing countries, particularly Malaysia
2. Security of stable supplies of coconut oil
3. Elimination of barriers to new investment from overseas

In areas where it is believed that firms will as a matter of course, or should, make efforts according to their own management plans, development should be left to those firms. However, areas where this cannot be expected, for reasons of the limitations on the Philippine oleochemical industry, should be given separate consideration. On this point, it is often the case that though the Philippines may have a particular need for development in certain areas, little attention will be paid to this as it does not concern the international development of the oleochemical industry. This is due to the fact that most of the oleochemical firms in the Philippines are either multinational corporations or joint ventures with overseas firms, and activities are carried out fundamentally in accordance with the concerns of these firms. Therefore there is always the possibility that these firms will move their production bases to more advantageous regions rather than expend more

of its resources than necessary in the Philippines. Thus it is strongly emphasized that R&D activities based on Philippine needs should be promoted.

3-1-2 Targets of Development Programs

Fig. IV-3-1 is shown relations between development programs and development of the oleochemical industry.

The development program assumes the following two stages in the development of the oleochemical industry.

The first stage is that of drawing the attention of global oleochemical manufacturers, being accepted as part of their global strategies and developing further as a production base.

However, in addition to this development which depends on manufacturers' global strategies, the Philippine oleochemical industry must also research possibilities for independent industrial development. This would involve the development of fields other than those in which international oleochemicals firms are interested, and to focus still more on coconut oil as a raw material. This is the second stage of development. It is not possible to say how these developments would proceed at present. Oleochemical firms operating on a global scale choose from all types of possible oils and fats those which are most suitable to them. When a material ceases to be the most appropriate, firms opt to use other materials. As coconuts will continue to be a resource for the Philippines despite this, efforts must be made to ensure that this continues to be the most suitable resource for firms. Even if international oleochemicals firms cease to find coconut oil the most appropriate material for their operations, efforts must be made so that it will become this for other firms (for example local firms). This would require conducting R&D activities in the Philippines.

Table IV-3-1: Examination of Prospective Oleochemical Intermediates in the Philippines (1)

	Reasons to be Prospective	Problems in the Philippines
Metallic Soaps	<ul style="list-style-type: none"> - Use of C₈, C₁₀, and C₁₂ - Growing demand for plastics (incl. PVCs) in developed countries - Large domestic demand - Comparatively small investment for production facilities 	<ul style="list-style-type: none"> - Close cooperation with agricultural sectors (calcium soaps) - Procurement of calcium hydroxides, plumbum oxides, dibutyl tin oxides, etc. - Introduction of production technologies through foreign firms
Monoglycerides and their Derivatives	<ul style="list-style-type: none"> - Use of C₈, C₁₀, and C₁₂ - Growing demand for food, cosmetics, and toiletries - Increasing use as materials for liquid synthetic detergents - Monoglycerides using lauric acids and myristic acids are 10 degrees lower in the melting point and more easily processed than those from hydrogenated lard oil or soybean oil - Large domestic demand (ex. anti-molding agents) - Comparatively small investment for production facilities - Application of production technologies to other fields incl. synthetic lubricants 	<ul style="list-style-type: none"> - Introduction of molecular distillation technology through foreign firms
MCTs	<ul style="list-style-type: none"> - Use of C₈ and C₁₀ - Growing demand for nutritive/dietetic products in developed countries - Development of production technologies of synthetic MCTs applying lipase in developed countries - Prospective domestic demand - Prospective export demand - Comparatively small investment for production facilities 	<ul style="list-style-type: none"> - Introduction of production technologies through foreign firms (synthesizing methods with no catalysts, quality control, etc.)
α-Sulfo Fatty Acid Methyl Esters	<ul style="list-style-type: none"> - Production cost can be reduced because of no need for high-pressure catalytic facilities 	<ul style="list-style-type: none"> - More basic researches (use of CH₃O, sulfonation technologies, stabilization of soda salts, etc.)
n-DOPs	<ul style="list-style-type: none"> - Use of C₈, C₁₀, and C₁₂ (incl. caprylic acids) - Growing demand for gel-use plasticizers in developed countries - Large domestic demand - More competitive in production cost than petroleum-based products - Application of production technologies to other fields (Phenolic/phosphoric/sulfuric anti-oxidizing agents, ultraviolet ray absorbing agents, etc.) 	<ul style="list-style-type: none"> - Lowering of import duties on phthalic anhydrides - Reduction of production cost through technological improvement

Table IV-3-1: Examination of Prospective Oleochemical Intermediates in the Philippines (2)

	Reasons to be Prospective	Problems in the Philippines
AEs and their Derivatives	<ul style="list-style-type: none"> - Growing demand for various products incl. cosmetics, pharmaceuticals, and surfactants - Increasing use as materials for liquid synthetic detergents - Comparatively small investment for production facilities - Application of production technologies to other fields - Large domestic demand 	<ul style="list-style-type: none"> - Lowering of import duties on EOs and AEs
Primary Amines, Tertiary Amines and Quaternary Ammonium Salts	<ul style="list-style-type: none"> - Use of C₈, C₁₀, and C₁₂ - Growing demand in developed countries - Large domestic demand 	<ul style="list-style-type: none"> - Introduction of production technologies through foreign firms - Procurement of phosphoric trioxides, di-methyl amines, quaternizing agents
Soap Chips/Noodles	<ul style="list-style-type: none"> - Growing demand in developed countries (for mixing into synthetic detergents) - Establishment of production technologies in the Philippines 	<ul style="list-style-type: none"> - More basic researches - Use of other raw materials than CMO
Alkyl Polyglucosides	<ul style="list-style-type: none"> - Local procurement of fatty alcohols and starch - Growing demand in developed countries - Comparatively small investment for production facilities 	<ul style="list-style-type: none"> - Introduction of production technologies through foreign firms

Table IV-3-2: Objectives and Development Programs for Oleochemical Industry

Promotion Objectives	Effective Measures	Development Projects			
		Granting of Investment Incentives Equal to Those Granted in Malaysia	Removal of Barriers to Procurement of Raw Materials	Establishment of R&D System	
(1) Stable Supply of CNO in Both Volume and Price	<p>Schedule</p> <ol style="list-style-type: none"> Continuation/Expansion of the Replanting Schemes Industrial Policies to Promote the CNO-Related Industries Improvement of Coconut Cultivation <ol style="list-style-type: none"> R&D for Improving Seeds From Small Farming to Corporate Management Rationalization of Distribution of CNO Improvement of Quality of CNO Measures to Deterioration of CNO in Distribution 	A	A	B / C ** 1)	
(2) Development of the Oleochemical Product Markets/Security of Scale Economy in Production	Improvement of Investment Environment to Make the Most of the Private Sector	X	X		
(3) Removal of Barriers to Procurement of Related Chemicals and Intermediates			X		
(4) Development of Independent R&D	<ol style="list-style-type: none"> Activation of the R&D Network Backups from Private Firms Addition of Functions as an International Center for Coconut-Related Studies 	X		X	X

Notes: "Schedule" symbols:

- A = Should be implemented immediately
- B = Preparation should be made immediately
- C = Medium to long-term project
- ** = Key projects

1) "E" means augmentation of each separate theme in the existing R&D network, while "C" means establishment of a comprehensive R&D system.

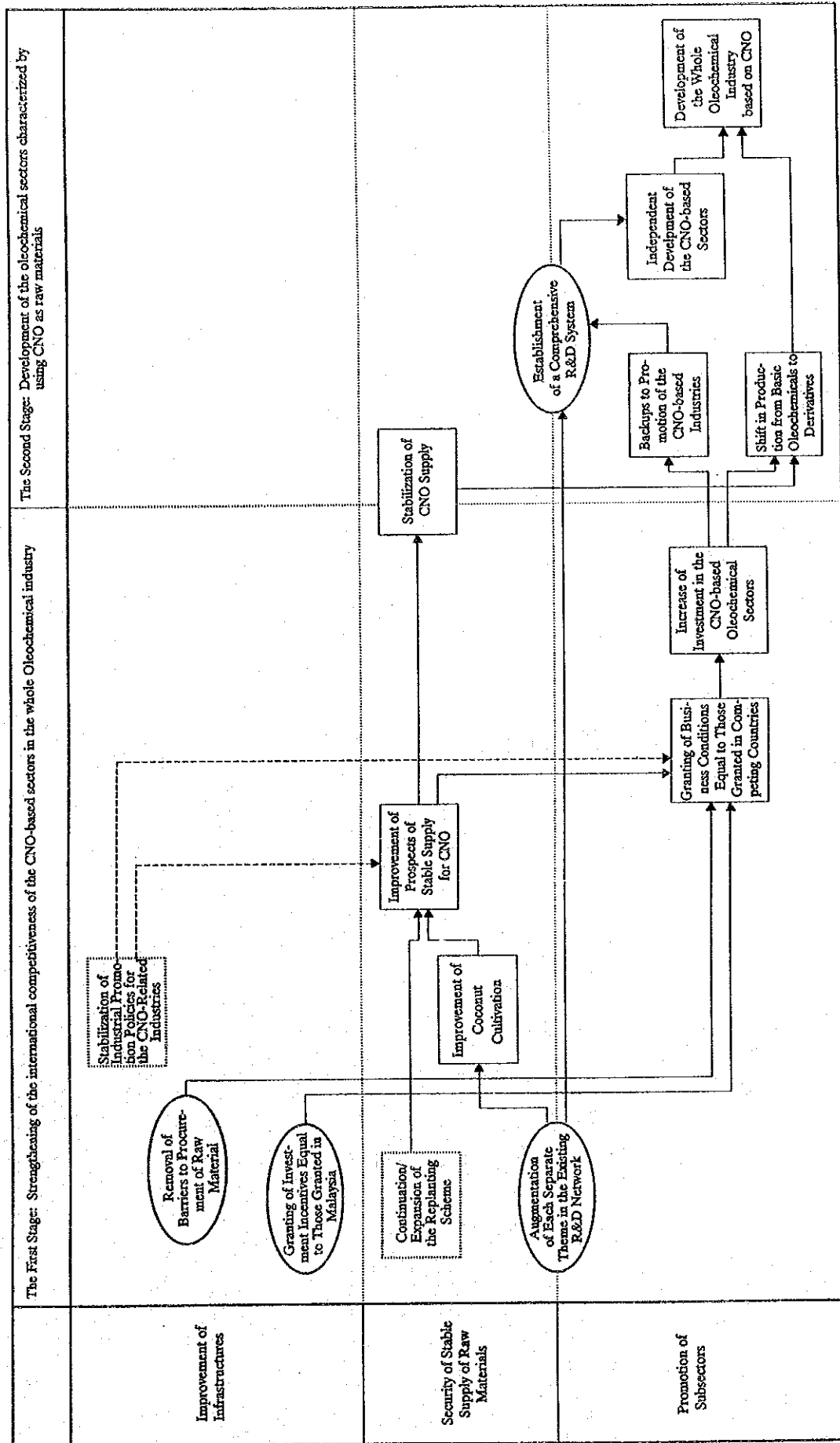
Table IV-3-3: Outline of Development Programs for Oleochemical Industry

Program & Project	Project Outline	Required Conditions	Recommendation on Implementation
<p>I. Improvement of the Industrial Environment</p>	<p>1. Incentives equal to those in competing countries</p> <p>Establishment of investment incentives equal to Malaysia, which is producing palm kernel oil as competing raw material of coconut oil. Following measures are preferable.</p> <ol style="list-style-type: none"> 1. Extension of import duty exemption on capital goods imported by BOI registered firms. 2. Establishment of net operating loss carry-over and accelerated depreciation. 3. Extension of land leasing periods. 	<p>- PCA frequently announce the progress of the Small Coconut Farms Development Project to alleviate the supply-related uneasiness of oil and fat manufacturers which use coconut oil.</p> <p>- In spite of the reduction of import duties by EO470, further reduction will be discussed in cases where costs of import duties become unfavorable compared to those in competing countries.</p>	<p>1. Promotion of project: BOI</p>
<p>2. Elimination of obstacles to new investment</p>	<ol style="list-style-type: none"> 1. Stabilization of price and supply of coconut oil. 2. Facilitation of import duties on chemical raw materials for oleochemical industry which are not produced in the Philippines. 	<p>1. Promotion of project: PCA</p> <p>1. Promotion of project: BOI</p> <p>2. Implementation of project: POMA will request the government to reduce import duties if necessary.</p>	<p>1. Promotion of project: BOI</p> <p>2. Implementation of project: POMA will request the government to reduce import duties if necessary.</p>
<p>II. Strengthening of R&D Activities</p>	<ol style="list-style-type: none"> 1. Establishment of the Coconut R&D Center (tentative name) <p>Establishment of the R&D Center which conducts research based on Philippine needs. Its main objectives focus on contributing to a recovery in coconuts production and the development of oleochemicals. Through the promotion of integrated research in coconut related sectors such as agriculture and industry, it aims to foster R&D activities as same level as PORM.</p>	<ol style="list-style-type: none"> 1. Agreement on funds, staff and operation among concerned organizations. 2. Coordination of research themes with established coconut-related research organizations. 3. To secure necessary operating funds. 	<ol style="list-style-type: none"> 1. Promotion of project: Coconut R&D Network. DOST will be centered for the promotion of project. 2. Implementation of project: DOST. A promotion council based on the Coconut R&D Network will be established to implement the project. Further feasibility study should be conducted to secure building lot and others.

Table IV-3-4: Evaluation of the Philippine Oleochemical Industry by Japanese Firms

Evaluation of Coconut Oil	Evaluation of the Oleochemical Industry, Market, and Industrial Policies of the Philippines
<p>1. The price of coconut oil has been fluctuant than that of palm kernel oils. (Formerly some manufacturers used only coconut oil. But recently more manufacturers are trying to use both coconut oil and palm kernel oil. They usually purchase cheaper oils.)</p> <p>2. Because of its higher content of C8 and C10, coconut oil is more used for plasticizers than palm kernel oil. (Some manufacturers think that higher content of C8 and C10 has resulted in higher production cost of fatty alcohols.)</p> <p>3. Coconut Oil is more used for processed food than palm kernel oil. (The volume of coconut oil used for processed food has not increased in Japan where demand for higher-grade products are growing.)</p> <p>4. Japanese consumers tend to prefer PKO-based cosmetics and personal care products, because it is milder and less stimulative.</p>	<p>1. The domestic market for finished products is small and oligopolized by large manufacturers.</p> <p>2. Production technology of intermediate derivatives has not been established yet.</p> <p>3. Chemicals necessary for the production of intermediates derivatives are difficult to procure. Some manufacturers point out that the absence of local petrochemical industries has made it difficult for foreign manufacturers to expand their businesses.</p> <p>4. Application fields of husks, meals, and other parts of coconuts remain to be developed.</p> <p>5. Infrastructures are not developed.</p> <p>6. The Philippine side is lacking in long-term and consistent policies for developing the oleochemical industry.</p> <p>7. There are few oleochemical manufacturers in Mindanao which has easier access to coconut oil.</p> <p>8. Enough incentives are not given to foreign investment.</p>

Figure IV-3-1: Development Stages of Oleochemical Industry and Expected Effects of Development Projects



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