

# The Philippines

Asia's next economic powerhouse?



## The Philippines – Asia’s next economic powerhouse?

*The Philippines is emerging as one of Asia’s most dynamic economies, with a forecasted growth rate of 6.9 per cent in 2018<sup>1</sup> driven by investment and private consumption<sup>2</sup>. The economy recorded growth of over 6 per cent in 2017, for the sixth straight year<sup>3</sup>, thanks to buoyant government spending, exports and a recovery in the agricultural sector. Will this Southeast Asian tiger be able to maintain its momentum?*

### A growing economy

While advanced economies like the United States, Europe and Japan are growing at slow rate, a number of emerging economies like the Philippines continue to surge ahead<sup>4</sup>.

With annual growth expected to reach 6.9 per cent by 2018<sup>5</sup>, the Philippines now ranks as the 10<sup>th</sup> fastest growing economy globally<sup>6</sup>. Owing to strong domestic demand and government projects, the country’s economy is on the rise<sup>7</sup>.

The government’s expansionary fiscal policy has aided capital formation and credit growth, whereas low inflation has strengthened private consumption<sup>8</sup>.

### Path to recovery

The Philippines pursues a growth policy that uses levers like attracting foreign investment, stimulating healthy domestic spending, remittances and infrastructure development<sup>9</sup>.

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<sup>1</sup> The Philippines: Asia’s new economic powerhouse, Forbes Media LLC., 1 July 2017

<sup>2</sup> Ibid

<sup>3</sup> Philippine GDP grows by 6.7% in 2017, Rappler Inc., Chris Schnabel and Chrisee Dela Paz, 23 January 2018

<sup>4</sup> Good News! PH is now the 10<sup>th</sup> fastest-growing economy in the world, Summit Publishing Co., Inc., Christopher Puhm, 23 June 2017

<sup>5</sup> Ibid

<sup>6</sup> PH to remain fastest-growing economy in ASEAN – World Bank, Inquirer Interactive, Inc., Ben O. de Vera, 10 January 2018

<sup>7</sup> Duterte’s Philippines is the 10<sup>th</sup> fastest growing economy in the world, Forbes Media LLC., PanosMourdoukoutas, 20 June 2017

<sup>8</sup> World Bank sees steady 6.7% growth for Philippines, Philstar Global Corp., Czeriza Valencia, 13 April 2018

In spite of numerous political set-backs, the government's efforts are bearing some fruit<sup>10</sup>. Some pull factors that make the Philippines an attractive destination for investors include:

## **Tax reform**

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The Comprehensive Tax Reform Program (CTRP) initiative by the Department of Finance (DOF) in 2017<sup>11</sup> aims to make the Philippines' tax environment more competitive against its ASEAN counterparts. For example, personal income tax rates have been lowered<sup>12</sup>.

Tax reforms are projected to add an additional investment of approximately USD4 billion to the Philippines government<sup>13</sup>.

## **ASEAN integration**

The Philippines is part of the ASEAN Economic Community (AEC), along with 9 other countries with a total Gross Domestic Product (GDP) of USD2.5 trillion and economic growth at an average of 5-8 per cent<sup>14</sup>.

Being part of the AEC has enabled Philippine-domiciled businesses to expand into a larger market. The AEC could potentially become what the European Union is today and give a huge boost to the Filipino economy<sup>15</sup>.

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<sup>9</sup> Investing in the Philippines: What to expect in 2017, Dezan Shira & Associates, 3 February 2017

<sup>10</sup> President Duterte will help the Philippines rise, Pacific Daily News, a division of Gannett Company, Inc., Rey Llaneta, 31 July 2016

<sup>11</sup> Ibid

<sup>12</sup> Details of Tax Reform Bill of the Duterte Administration (House Version), PinoyMoneyTalk, 26 February 2018

<sup>13</sup> Ibid

<sup>14</sup> Asean's economic future takes shape: Philippine Daily Inquirer, Singapore Press Holdings Ltd. Co., 13 November 2017

<sup>15</sup> Ibid

## **Government initiatives**

The Philippine Government Common Platform (PGCP)<sup>16</sup> aims to enhance government operations and services by introducing new policies and laws. One of the major transitions included changing the Philippine's K-10 system to a K-12 system in 2013, in line with International standards<sup>17</sup>.

The government is also set to spend USD180 billion over the next decade in infrastructure spending, so as to fund four new seaports, 32 new bridges and roads, three new bus rapid transit systems, nine new railways as well as six new airports<sup>18</sup>.

## **Consumer market<sup>19</sup>**

Being the second-most populous ASEAN country with 105 million people (after Indonesia), the Philippines is nowadays seen as a promising consumer market by both local and overseas businesses alike.

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The average age of a Filipino is 24.6 years – among the lowest globally and even in comparison to most other ASEAN countries. Apart from a young population with a good command of

the English language, this youthful population serves as a competitive advantage in the service industry – especially for the Business Process Outsourcing (BPO) industry.

## **Educated and skilled workforce**

Despite a historically strong economy, growth in the education sector has been muted<sup>20</sup>.

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<sup>16</sup> Philippine Government Common Platform (PGCP), iGovPhilippines, Retrieved on 13 March 2018

<sup>17</sup> Philippines-Education and Training, International Trade Administration, 5 April 2018

<sup>18</sup> Duterte's ambitious 'build, build, build' project to transform the Philippines could become his legacy, Forbes Media LLC., Richard Javad Heydarian, 28 February 2018

<sup>19</sup> Philippines market outlook, The Swedish Trade & Invest Council, 19 January 2018

Nevertheless, the employment rate in 2018 was estimated to be 95 per cent, one per cent higher than last year. However, out of the total number of unemployment residents, around 22 per cent were college graduates and close to 30 per cent completed junior high school education<sup>21</sup>.

## **Growth potential**

The Philippines is an attractive market for investors. Total Foreign Direct Investment (FDI) inflows for 2017 were valued at USD10 billion<sup>22</sup>.

Key sectors of interest include:

### **Agriculture**

With agriculture contributing to 10 per cent of the country's GDP, it is now one of The Priority Investment Areas listed in the 2017 Investment Priorities Plan (IPP)<sup>23</sup>.

With 10 million hectares of agricultural land in 2017, major exports consist of pineapple, banana, coconut and fishery products<sup>24</sup>.

### **Manufacturing**

Often one of the overlooked economic sectors, Filipino manufacturing continues to perform well due to the large yet relatively low-cost, educated labor force<sup>25</sup>.

Expansion of major infrastructure projects and rising domestic consumption are key growth drivers of this sector, which contributes around 25 per cent of GDP as at March 2018<sup>26</sup>.

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<sup>20</sup> Enhancing the foundations for economic growth in the Philippines, Department of Foreign Affairs and Trade, Retrieved on 30 April 2018

<sup>21</sup> Employment Rate in January 2018 is estimated at 94.7 Percent, Philippine Statistics Authority, 7 March 2018

<sup>22</sup> Record high again for foreign investments in Philippines, Rappler Inc., Chrisee Dela Prez, 13 March 2018

<sup>23</sup> Agriculture & Fisheries, Oxford Business Group, 2017

<sup>24</sup> Doing Business in the Philippines, SyCip Gorres Velayo & Co., March 2017

<sup>25</sup> Philippines' manufacturing industry bolstered by growing demand, Oxford Business Group 2018, 2017

## **Tourism**

Tourist arrivals in 2017 reached 6.6 million, up 11 per cent over 2016. The number is expected to hit 7.4 million in 2018 with adventure and sports tourism on the rise<sup>27</sup>.

A major economic contributor in the Philippines, tourism accounts for approximately USD27 billion of GDP in 2017 with a projected growth of about 6 per cent in 2018<sup>28</sup>.

## **Labor force**

Workers in the Philippines are primarily spread across three broad sectors, industry, agriculture and services<sup>29</sup>.

The labor force grew to approximately 71 million in January this year; up from 69 million a year ago. The services sector is where the largest proportion of the population is employed; close to 56 per cent of the total employed persons (as of January 2018)<sup>30</sup>.

## **Offshoring and outsourcing**

The BPO sector contributes 9 per cent to the country's GDP growth (in 2017). With robust growth, the total income for this sector is expected to reach USD40-55 billion by 2020. One of the Philippines' fastest growing sectors, the BPO industry continues to expand at an annual rate of 20 per cent<sup>31</sup>.

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<sup>26</sup> Philippines manufacturing fuels broader economic growth, Oxford Business Group 2018, 18 June 2018

<sup>27</sup> Philippines' tourist arrivals hit 6.6 million in 2017, up by 11%, Business World Publishing, 9 February 2018

<sup>28</sup> Travel & Tourism – Economic Impact 2018, Philippines, World Travel & Tourism Council, 2018

<sup>29</sup> Employment rate in January 2018 is estimated at 94.7 percent, Philippine Statistics Authority, 7 March 2018

<sup>30</sup> Number of jobless in Philippines declines, Independent Publications Limited, 8 March 2018

<sup>31</sup> Business Process Outsourcing in the Philippines, Dezan Shira & Associates, 17 April 2017

It is set to become the number one source of revenue for the Philippines, outpacing overseas remittances by 2018 and adding over 7 million jobs and revenue worth USD40 billion<sup>32</sup>.

## Challenges ahead

The Philippines economy continues to grow despite a drop in its ranking from 99 to 113 for ease of doing business in 2017<sup>33</sup>. Nevertheless the challenges should not be glossed over.

Some obstacles in the way of healthy economic growth include:

### **Limited ownership**

The Philippines restricts foreign ownership in selected industries to protect the market, including utilities and media under a Foreign Investment Negative List (FINL) in 2017<sup>34</sup>.

Although the list is revised every two years, the government plans to reduce limitations to encourage FDI for certain industries which include education, construction, retail trade to name a few<sup>35</sup>.

### **Low FDI inflow**

Net inflow of FDI in mid-2017 fell, largely due to a decline in debt instrument investments from USD407 million to USD105 million, which outweighed net equity capital inflows five-fold<sup>36</sup>.

The Philippines still lags behind for FDI inflows within the Association of Southeast Asian Nations (ASEAN). Even though it has 16 per cent of ASEAN's

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<sup>32</sup>A brief look at the Philippine BPO Industry in 2017, Diversify OSS Pty Ltd., 27 June 2017

<sup>33</sup>PH ranking in ease of doing business slips from 99<sup>th</sup> to 113<sup>th</sup>, Inquirer Interactive, Inc., Ben O. de Vera, 1 November 2017

<sup>34</sup>Philippines – market challenges, U.S. Department of Commerce, 7 December 2017

<sup>35</sup>Foreign Investment Negative List in the Philippines, EmerHub Indonesia, 21 October 2017

<sup>36</sup>End-July FDI down 16.5% to \$3.904 billion, Inquirer Interactive, Inc., Ben O. de Vera, 10 October 2017

population, it hardly receives 8 per cent of ASEAN's total FDI for 2017 figures<sup>37</sup>.

## **Infrastructure**

The Philippines lags behind many neighbouring countries in terms of better infrastructure development. Poor transport facilities hinder economic development and utilities provision<sup>38</sup>.

Metro Manila suffers from congestion in terms of air, road and sea traffic as one of the most densely populated cities in the world<sup>39</sup>.

The World Economic Forum's Global Competitiveness Index currently places the nation in the 90<sup>th</sup> position in terms of infrastructure ranking, which undermines its ability to compete globally<sup>40</sup>.

## **Corruption**

The Philippines ranked 111<sup>th</sup> out of 180 countries in the Corruption Perceptions Index (CPI) for 2017, lower than the previous two years<sup>41</sup>.

Although the government established a Presidential Anti-Corruption Commission earlier this year<sup>42</sup> with a hotline for citizens' complaints among other government initiatives, more comprehensive efforts are clearly needed to curb the scourge of corruption<sup>43</sup>.

## **Political uncertainties**

In 2017, Philippine was ranked 12<sup>th</sup> globally in terms of impact due to terrorism<sup>44</sup>. Although an ideal holiday destination, Western countries are

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<sup>37</sup> Philippines remains at bottom of FDI inflows in ASEAN, Philstar Global Corp., Richmond Mercurio, 7 June 2018

<sup>38</sup> The Philippines: infrastructure opportunities and challenges, Hong Kong, Trade Development Council, 24 October 2017

<sup>39</sup> Ibid

<sup>40</sup> To realize Duterte's 'Golden Age of Infrastructure' in Philippines, better roads a must, The Asia Foundation, King Francis Ocampo, 31 January 2018

<sup>41</sup> PH slips in 2017 global corruption index, Rappler Inc., Micheal Bueza, 22 February 2018

<sup>42</sup> Presidential anti-corruption commission officials named, Cable News Network, Inc., 15 January 2018

<sup>43</sup> Perception of corruption worsens in Philippines, SunStar Publishing Inc., Retrieved on 2 February 2018

<sup>44</sup> Philippines is 12<sup>th</sup> country most affected by terrorism, Philstar Global Corp., Audrey Morallo, 16 November 2017

wary about doing businesses and investing due to the perception of continuing instability on the security front, thus limiting economic growth<sup>45</sup>.

### **Tackling poverty**

22 million Filipinos in 2015 still live below the national poverty line – more than one-fifth of the population. Two out of five families that are poor live in Mindanao, where public investment could boost prospects for better jobs<sup>46</sup>.

As jobs in rural areas are scarce, a third of Filipinos survive on fishing or farming, industries in which productivity and hence wages are very low. Most do not have the money to move to Manila for better prospects, nor do they speak the national language let alone English<sup>47</sup>.

### **Future outlook**

Barring significant global political and economic shocks, the Philippines' economy appears well-positioned for a continuous year of steady growth in 2018<sup>48</sup>.

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The tourism industry is becoming the third growth engine in the service sector, after remittances from overseas BPO-IT sector services. However, political uncertainty and terrorism cloud the prospects for economic growth<sup>49</sup>.

<sup>45</sup> Terrorism could thwart one of the Philippines' growth engines, CNBC LLC., Nyshka Chandran, 17 May 2017

<sup>46</sup> World Bank tells PH to reduce poverty faster, Cable News Network, Inc., Jerald Uy, 31 May 2018

<sup>47</sup> The Philippines has the most persistent poverty in South-East Asia, The Economist Newspaper Limited, 25 November 2017

<sup>48</sup> Investing in the Philippines: What to Expect in 2017, Dezan Shira & Associates, 3 February 2017

<sup>49</sup> The future of Philippine tourism, INQUIRER.net, Bernardo M. Villegas, 20 May 2017

Development in agriculture, an increase in the rate of employment, sustained inflow of remittances and lower inflation rates would likely bring down the poverty rate in the next few years<sup>50</sup>.

Nonetheless, the Philippine Development Plan (PDP), introduced to cover the years from 2017 to 2022, aims to reduce poverty from about 22 per cent in 2016 to 14 per cent by 2020. Raising the country's standard of living is the main goal of the PDP<sup>51</sup>.

Moreover, the latest tax reforms, Philippine's participation in AEC and various government initiatives are paving the way for it to become Asia's next economic powerhouse<sup>52</sup>.

As the Philippines' government and elite are seized of the need to reform and have demonstrated significant progress in that direction, prospects for the country's economy are positive, building on the nation's natural demographic and economic advantages. Savvy investors would do well to give the Philippines a second look.

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<sup>50</sup> Philippines Economic Update: Investing in the Future, The World Bank Group, 16 April 2018

<sup>51</sup> Philippine Development Plan 2017-2022, National Economic and Development Authority, 5 June 2018

<sup>52</sup> Ibid