

COUNTRY OUTLOOK: PHILIPPINES



USC Marshall
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APBO
ASIA-PACIFIC BUSINESS OUTLOOK
CONFERENCE
2017



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GEOGRAPHY AND PEOPLE



- **2016 GDP:** \$304 Billion
- **Poverty:** 25%
- **Population:** 105 Million
- **66%** of the population is aged 23 or younger.
- **Literacy Rate:** 97.5% or 71.5 million of the population.
- **English-speaking**
- **Religion:** Catholic (86%), Muslim (11.6%)
- **7,107 islands**, Metro Manila as the capital



PHILIPPINE MARKET OVERVIEW



- **2016 GDP growth:** 6.8%
- **Inflation rate:** 1.8%, government target: 2-2.4%
- Economy set to expand more than 6.7-7% this year, ranking among the **fastest-growing in the world.**
- Robust growth over the past six years with an average of **6.3% from 2010-2016** exceeding regional actors including China, Indonesia, Malaysia, Thailand, and Vietnam.
- **Major Industries:** Manufacturing (Semiconductor), Information Technology and Business Process Outsourcing, Tourism, Agribusiness.
- **Economy driven by:**
 - ✓ Remittances - 12 million overseas Filipinos contribute roughly 10% of the GDP)
 - ✓ Service Sector (BPOs) -1.5 million workers
 - ✓ Consumption



PHILIPPINES - UNITED STATES RELATIONSHIP



- Long Term Allies
- Largely positive towards the United States
- Stable and Democratic
- President Duterte was elected in May 2016
- New Administration has strong economic leaders and a ten point socioeconomic agenda in place.

A wide-angle photograph of a modern city skyline with numerous skyscrapers and high-rise buildings under a clear sky.

PHILIPPINES AND UNITED STATES BILATERAL TRADE AND INVESTMENT



- \$8.3 billion U.S. exports to the Philippines in 2016.
- \$10 billion U.S. imports from the Philippines in 2016.
- United States is the Philippines' third largest trading partner behind China and Japan.
- Philippines was the 31st largest market for U.S. exports in 2016.
- The U.S. is among the top foreign investors in the Philippines, with \$4.7 billion in existing FDI stock.



THE PHILIPPINES: A WORK IN PROGRESS



WEF Global Competitiveness
Report(2016)

Ranked
57 out of 140 economies

Up by 28 in 6 years

Ranked 52 in 2015

Ranked 85 in 2011



IFC Ease of Doing Business
Report (2016)

Ranked
99 out of 190 economies

Up by 49 in 6 years

Ranked 95 in 2015

Ranked 148 in 2011



TI Corruption Perceptions
Index (2016)

Ranked
101 out of 176 economies

Up by 33 in 6 years

Ranked 95 in 2015

Ranked 134 in 2011



CHALLENGES IN DOING BUSINESS



- Bureaucracy
- Lack of transparency
- Lack of expertise
- Legacy of corruption
- Strain on infrastructure/cost of energy
- Local Government Units – rules and requirements
- Judicial system: appeals process, “legacy cases”
- Limited foreign ownership: 60/40 rule currently under review
- Government Procurement Reform Act



LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



Infrastructure

- Philippine government plans to spend \$160 billion for infrastructure projects in the next 5 years.
- There is a Build, Build, Build mantra
- Funding through Government budget, PPP, Overseas Development Assistance funds, or hybrid
- China, Japan, Korea very interested in Philippine infrastructure projects
- Open to unsolicited proposals (currently reviewing airport and toll road unsolicited proposals)
- PPP projects: airports (expansion and O&M), rail, water projects



LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



Infrastructure

- Several Proposals in play to liberalize foreign investment (60/40 rule)
 - PPP center working on a framework to allow for 100% Operations and Maintenance (O & M) of utilities
 - Amendment of the Utilities Act to remove transportation and ICT from the definition of a utility
 - Change in the constitution to allow for greater foreign investment.



LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



Infrastructure

- Best Prospects:
 - Transport: transport design and engineering companies, navigational aids, airport ground support equipment, security equipment, locomotives, signaling equipment.
 - Water Resources Products and Equipment: Products/equipment for the construction and development of additional water resources and water supply and distribution systems; Products/equipment/accessories for sewage/septic projects; packaged or modular wastewater treatment equipment; wastewater treatment technologies that will result in smaller footprints (due to land constraints).

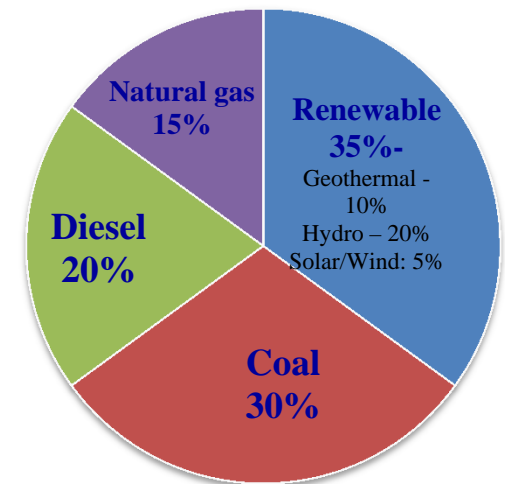
LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



Energy

- World leader in renewable energy with a third of its total electric power needs met through renewable sources.
 - The dependable energy capacity of the country is 17,500 megawatts.
 - Renewable energy fiscal and non-fiscal incentives to equipment manufacturers/suppliers with the goal of achieving 60% renewable energy generation by 2030.
 - Energy Sector Commercial Opportunities:
 - Fully Privatized Power Sector with 10 major producers.
- New facilities, Plant expansion, rehabilitation, and upgrading, maintenance services

Philippine Energy Mix





LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



Energy

- Energy Sector Commercial Opportunities:
 - Supply of equipment and services to greenfield generation projects, additional renewable energy deployment.
 - Top distribution utilities (Meralco, Aboitiz, Cepalco) to implement smart grid deployment.
 - Rural electrification systems operations improvement, Off-grid/microgrid and hybrid solutions (solar/biomass plus battery energy storage (BES))
 - LNG imports will increase in the next 5 years. Natural gas from Malampaya Gas Plant tapers off in 2023.
 - Coal remains the fuel for baseload power; coal power plants use subcritical and super-critical technologies (boilers are for polarized coal in the tropics).



LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



ICT

- 2016 IT spending estimated at US\$4.4 billion, 10% annual growth expected.
- ICT industry growth expected to continue due to opportunities in the financial, telecom, and Business Process Outsourcing (BPO), and health IT sectors.
- New Department of Information and Communication Technology (DICT) created in May 2016.



LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



ICT

- Telecom duopoly: PLDT and Globe
- 116.8 million mobile subscribers in 2015, about 40% of which use smartphones
- Filipinos are prolific users of social media: 48 million active social media users
- Tremendous growth potential for broadband
- Upward trend for smartphones as it becomes more affordable
- Challenge: slowest internet speed in Asia Pacific at 4.5 Mbps, 108th in global rankings (Akamai's Q4 2016 State of the Internet Report)



LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



ICT

- Opportunities: The DICT has been instructed by the President to:
 - Make faster Internet speeds a national priority
 - Cut red tape for cell tower building
 - Deploy free nationwide broadband and Wi-Fi
- Best prospects: IT security, servers, networking equipment, data storage and management, software-as-a-service, smartphones and tablet, fiber optic, middle mile and last mile connectivity for underserved and unserved areas



LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



Safety and Security

- Increased demand for electronic surveillance for crime prevention and apprehension purposes both in the national and local government levels.
- There is a surge of procurement for personnel protective equipment (PPE) for both the military and law enforcement agencies.
- The Manila International Airport Authority (MIAA) is planning an Integrated Security Management System (ISMS) with the following components:
 - Command and Control Center System
 - Screening and Surveillance System
 - Permit and Access Control System
 - Perimeter Intrusion System
 - Emergency Response System
 - Security Zone Development



LEADING SECTORS FOR U.S. EXPORTS TO THE PHILIPPINES (2017)



Defense

- 2017 Philippines Defense Budget: US\$2.7 billion
- 2015 U.S. defense assistance to the Philippines: US\$86.2 million
- 2016 U.S. defense assistance to the Philippines: US\$131.5 million
- Republic Act (RA) 10349 or The Revised Armed Forces of the Philippines (AFP) Modernization Program – a 15-year program divided into three phases/horizons.
- The AFP modernization continues under President Rodrigo Duterte, now moving to its second horizon from 2018-2022.
- Current administration's priority is more focused on internal security/counterterrorism operations, and maritime domain awareness.



SECONDARY SECTORS



Healthcare

- The Philippine medical industry is almost completely dependent on imports.
- U.S. market share is an average 20%.
- The U.S. products are strong in high-value, low-volume capital equipment.
- Opportunities exist in public and private sector for linear accelerators, electrocardiographs, ultrasonic scanning machines (ultrasound), magnetic resonance imaging (MRI) equipment, x-ray and radiation equipment, breathing appliances, and computed tomography apparatus (CT scan), as well as diagnostic and laboratory devices, and biologicals.
- Private sector investment in healthcare has provided much-needed capital for facilities to upgrade and modernize equipment.



SECONDARY SECTORS



Franchising

- U.S. Franchises dominate the Philippine market.
 - The market has a large, young consumer base
 - English language is widely used
 - The market has a cultural affinity with American values
 - Filipino consumers love products that are made in the U.S.A
- New market entrants innovate and adapt quickly to the environment in order to succeed. Franchise managers closely observe foreign franchises, adapt best practices, and train with experienced establishments.
- Franchises must be flexible in terms of portion size and cost.



SECONDARY SECTORS



Education

- The Philippines adopted the K-12 education system in 2015.
- Philippine private and public educational institutions are in need of international partnerships with the transition to the K-12 system.
- There were 2,886 Filipinos student enrolled in United States in 2015/16.
- Best Prospects: bilateral exchange education programs; consortia exchange relationships, institutional linkages, government scholarships offered to K-12 professors/teachers



Travel and Tourism

- UNWTO has identified Filipinos as one of the fastest growing travel spenders among emerging markets. Economic growth in the Philippines is creating an ever larger Filipino middle class that has disposable cash to spend for travel.
- U.S. National Travel and Tourism reports ranked 34th market visiting the U.S. in the with nearly 240,000 visitors. Philippines topped the ASEAN region in sending tourists to the U.S.
- Best Prospects: travel packages, hotel accommodations, air tickets, marketing of attractions and destinations.



WHAT YOU SHOULD KNOW (before you go)



- Local presence required

- Do your due diligence
– Know Your Partner!

- Patience and determination is a necessity
- It takes time to develop the market



INTERNATIONAL BUYER PROGRAMS

We will be leading delegation of Philippine buyers to the following
U.S. Department of Commerce International Buyer Programs:

• NAB Show, Las Vegas, NV	April 24-27
• Offshore Technology Conference, Houston, TX	May 1-4
• The NRA Show, Chicago, IL	May 20-23
• InfoComm, Orlando, FL	June 14-16
• International Franchise Expo, New York, NY	June 15-17
• Outdoor Retailer Summer Market, Salt Lake City, UT	July 26-29
• 69th AACC Annual Scientific Meeting and Clinical Lab Expo, San Diego, CA	July 30 – August 3
• Solar Power International, Las Vegas, NV	September 10-13
• ASIS, Dallas, TX	September 16-19
• WEFTEC, Chicago, IL	September 30 – October 4
• Greater New York Dental Meeting, New York, NY	November 24-29
• POWER-GEN International, Las Vegas, NV	December 5-7

Visit the U.S. Commercial Service website to learn more about the list of 2017 IBP Shows: www.export.gov/ibp/



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