

Philippine Development *Forum 2008*

Jaime Augusto Zobel de Ayala

Key Issues

- Governance as foundation for economic development
- Economic Blueprint and Resource Allocation
- Focused infrastructure spending
- Support development of industries with competitive advantages

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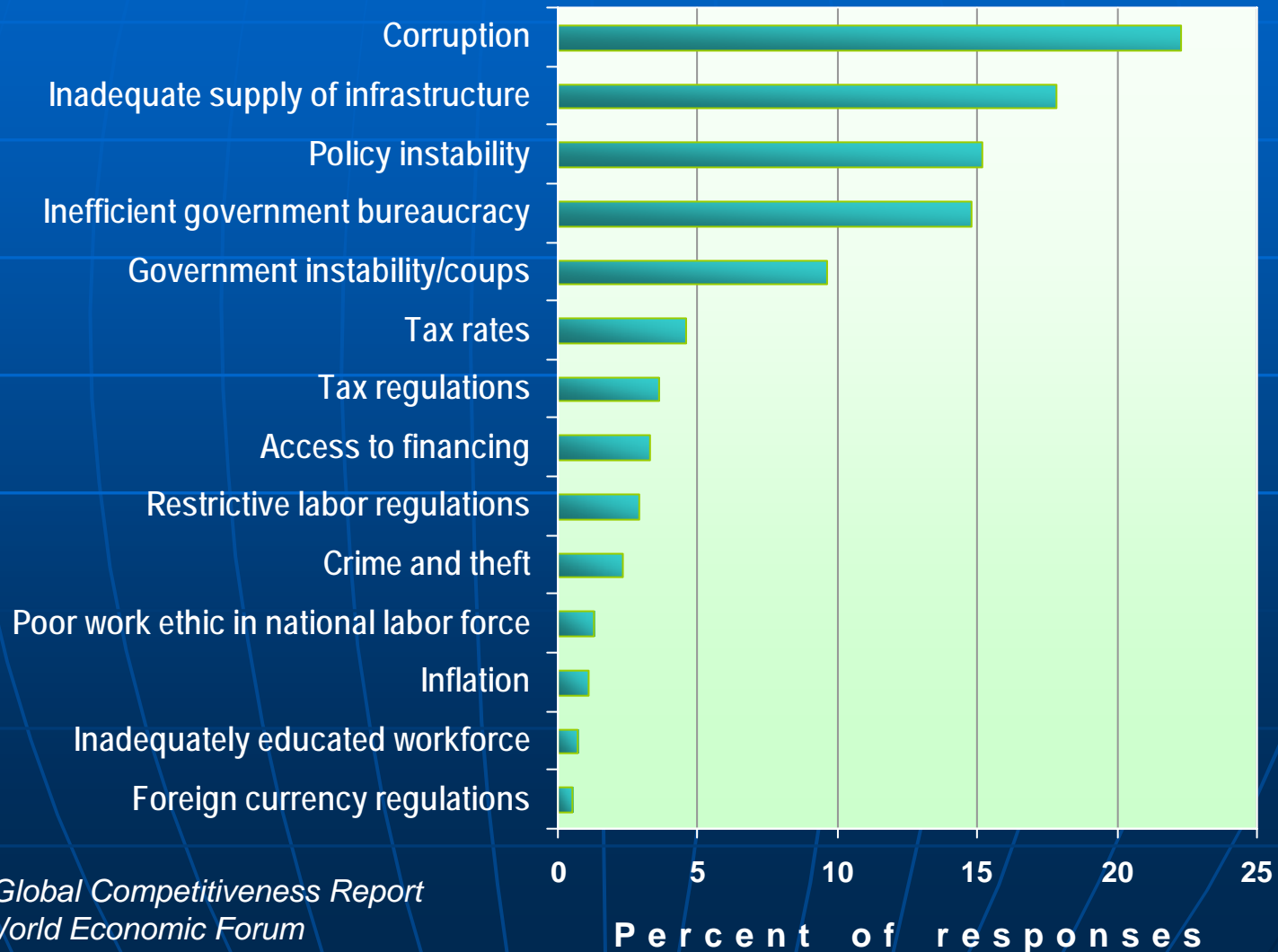
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Governance as foundation for economic development

The most problematic factors for doing business in the Philippines



Source: *The Global Competitiveness Report 2007-2008*, World Economic Forum

Governance as foundation for economic development

- ✓ Rule of Law
- ✓ Transparency in Rules and Regulations
- ✓ Thriving Local Private Sector

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Economic Blueprint: Case of Ireland

The IRISH government pursued a variety of policies to stimulate the economy

National Development Plans (NDPs)

- ▶ Improve social and economic infrastructure
- ▶ Foster balanced regional development
- ▶ Promote social inclusion
- ▶ Sustain economic and employment growth

Labor Market Reforms

- ▶ Create a skilled workforce through improved education and training
- ▶ Manage wage inflation to ensure labor cost competitiveness
- ▶ Reverse trend toward emigration of skilled labor

Fiscal Policies

- ▶ Low corporate tax rate
- ▶ Reciprocal tax agreements with other countries

Commercial Policies

- ▶ Offer financial aid in the form of grants
- ▶ Establish export duty exempt zones
- ▶ Develop specialized business parks for certain industries

Enterprise Agencies

- ▶ Promote inward investment
- ▶ Encourage local entrepreneurship
- ▶ Invest in scientific research and development

European Integration

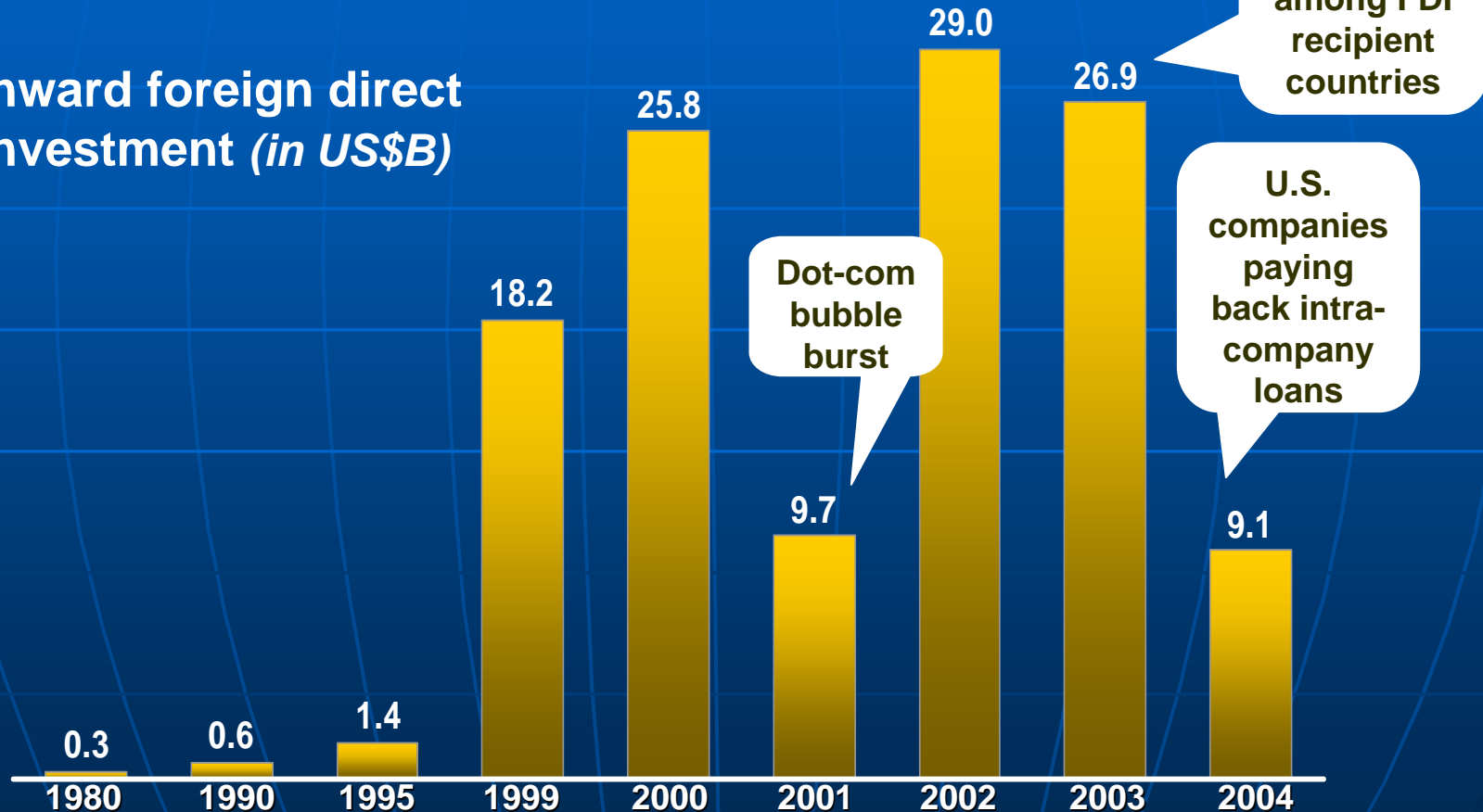
- ▶ Membership to EU
- ▶ Adoption of Euro

Source: McKinsey

Economic Blueprint: Case of Ireland

Inward FDI flows subject to fluctuations, but are still higher than a decade ago

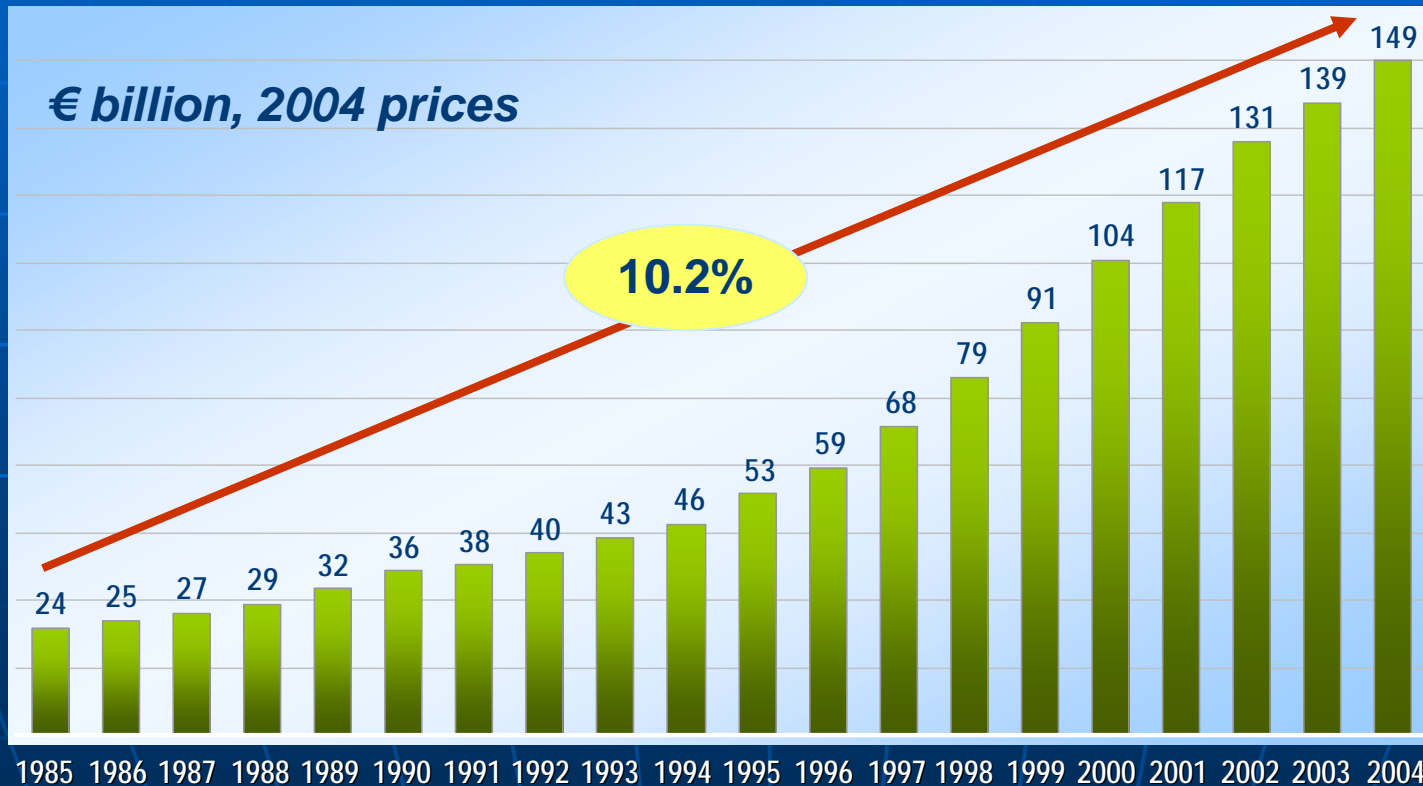
Inward foreign direct investment (in US\$B)



Sources: UNCTAD; World Investment Reports, McKinsey

Economic Blueprint: Case of Ireland

Ireland has experienced strong GDP growth since 1985



GDP at purchasing power parity

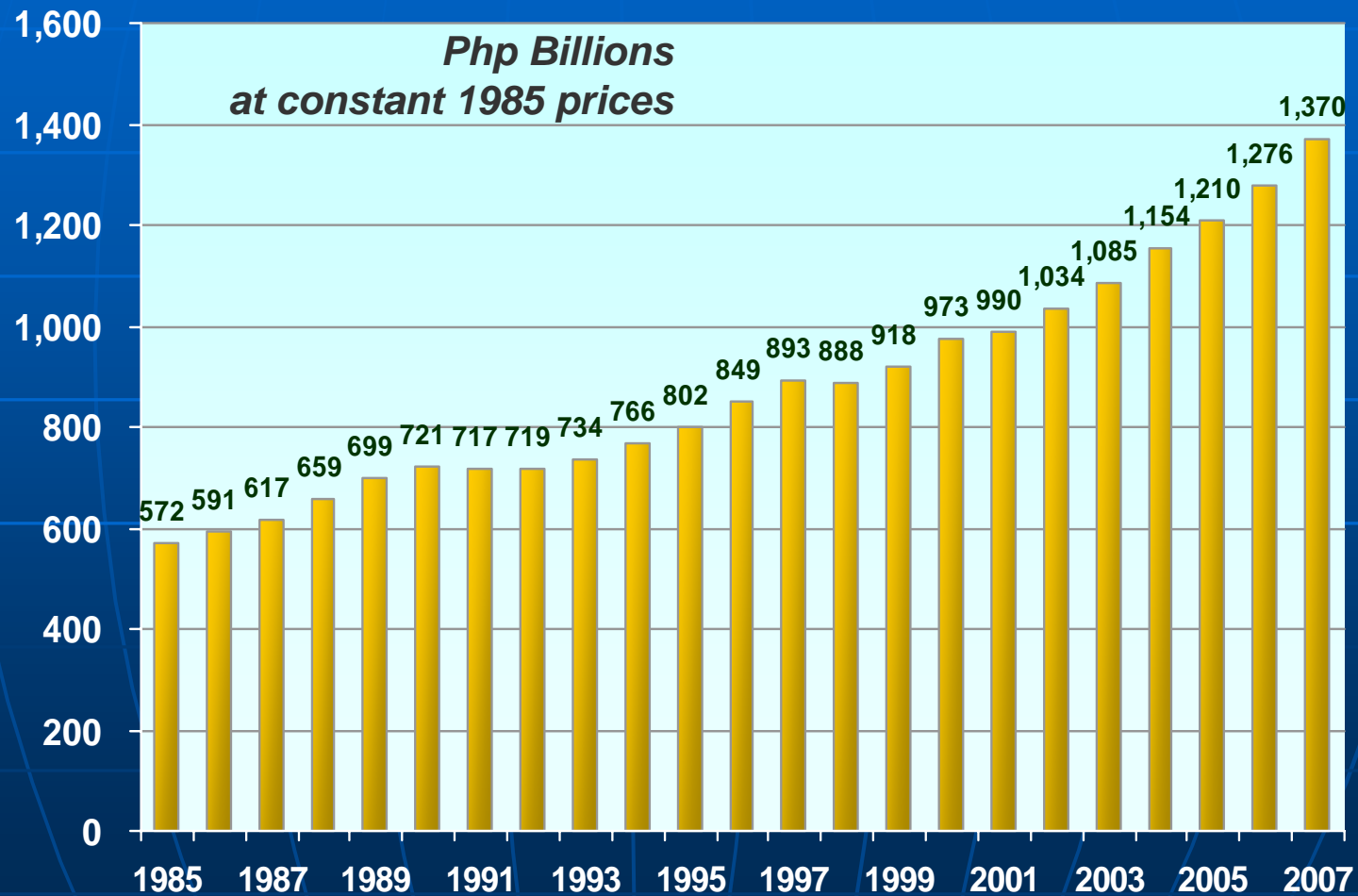
Source: OECD

Source: Central Statistical Office Ireland

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Philippine GDP 1985-2007



Source: NEDA

Focused Infrastructure Spending

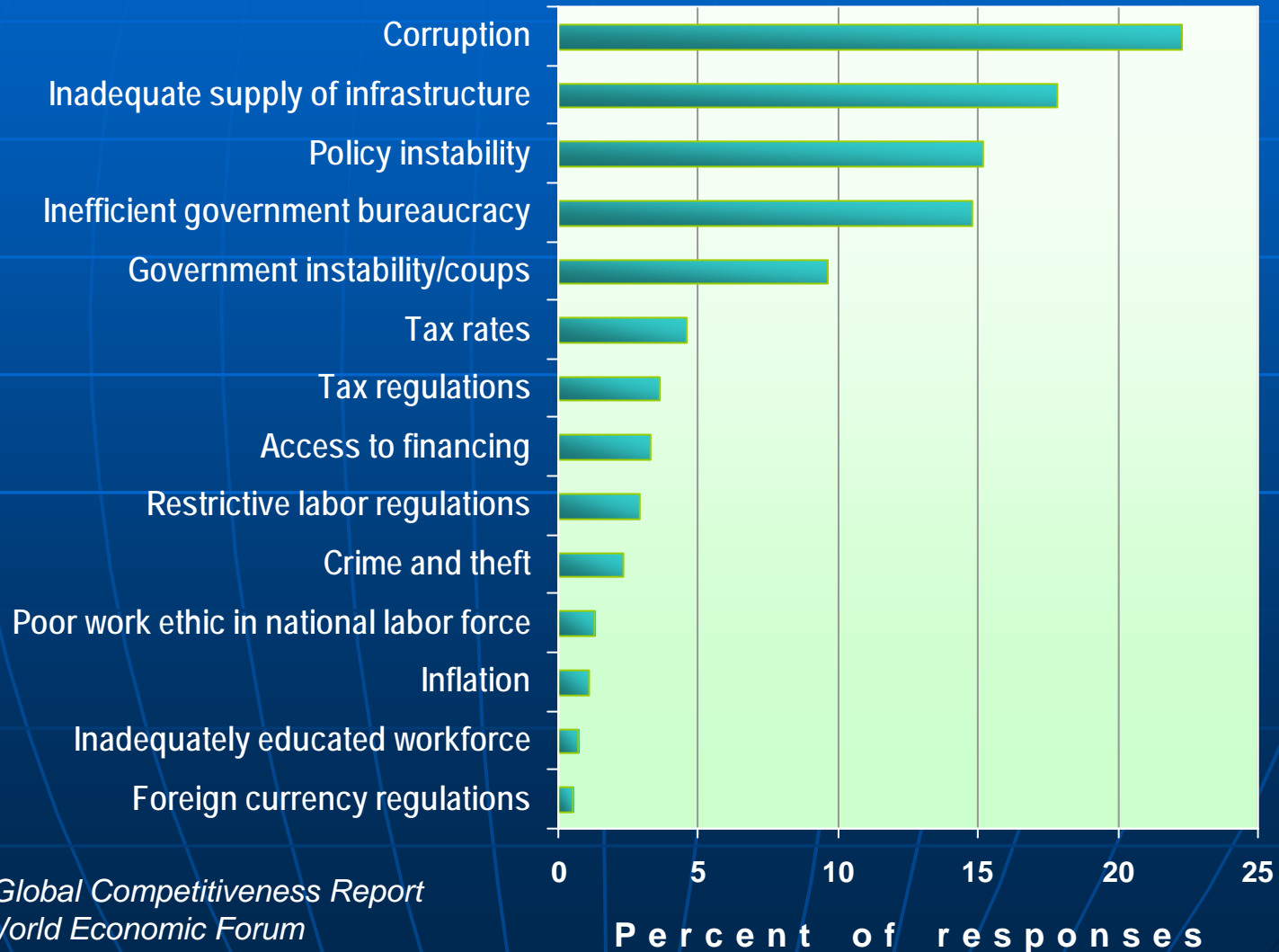
Share of expenditure components in GDP (%)

Period	Consumption		Government		Investment	
	Growth Rate	Share in GDP	Growth Rate	Share in GDP	Growth Rate	Share in GDP
1951-1960	6.5	74.9	4.5	7.3	5.8	18.4
1961-1970	4.7	74.2	5.5	7.1	6.3	20.7
1971-1980	4.7	67.7	7.0	8.7	9.5	25.2
1981-1990	3.0	70.1	1.5	7.6	3.0	21.3
1991-2000	3.5	77.8	3.5	8.0	4.0	23.0
2001-2006	4.9	78.4	0.4	6.8	-1.3	19.7

Source: Philippines: Critical Development Constraints, Asian Development Bank

Focused Infrastructure Spending

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Focused Infrastructure Spending

Types of Infrastructure Urgently Required

- Power, from generation to distribution
- Water supply, irrigation, and distribution
- National roads and expressways
- International airports and seaports;
- Mass-transit systems
- Basic education

Focused Infrastructure Spending

Philippines' Core Growth Areas:

- National Capital Region
- Central-Southern Luzon growth corridor
- Metropolitan Cebu
- Metropolitan Davao

Account for large and growing share of national output

NCR and Calabarzon alone account for nearly half of national GDP

Focused Infrastructure Spending

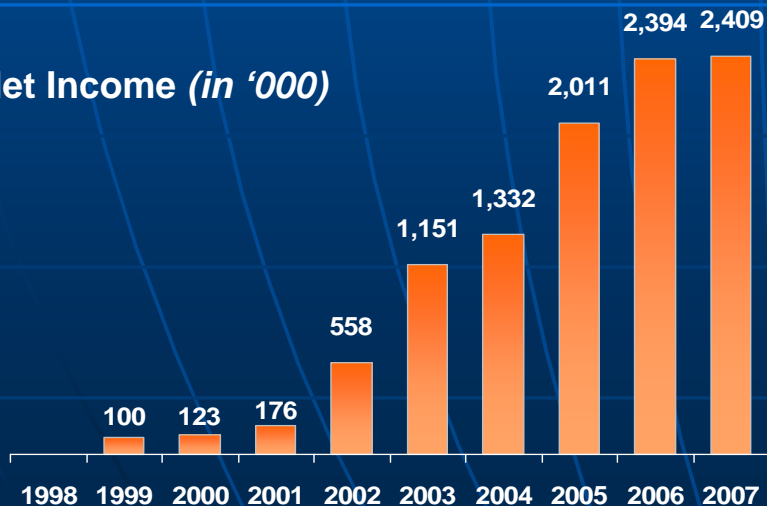
Manila Water



No. of Households Served
(in '000)



Net Income (in '000)



- 99% of population in East Zone now have access to 24-hour uninterrupted water supply vs. 26% before MWC took over the concession
- System losses reduced from 63% in 1997 to 24% today
- Market value of Manila Water Co. increased to P37B in 2007 from P2B in 2001
- MWC paid P800M in taxes to the government in 2007 following the expiration of its income tax holiday

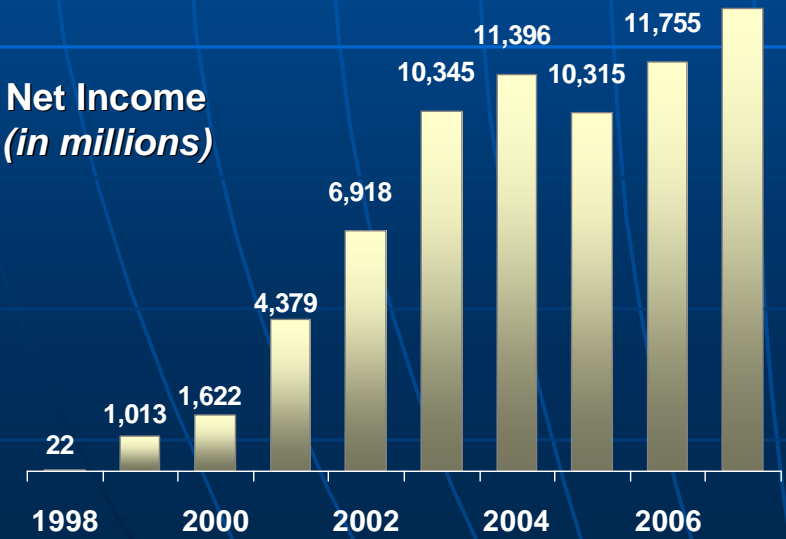
Focused Infrastructure Spending



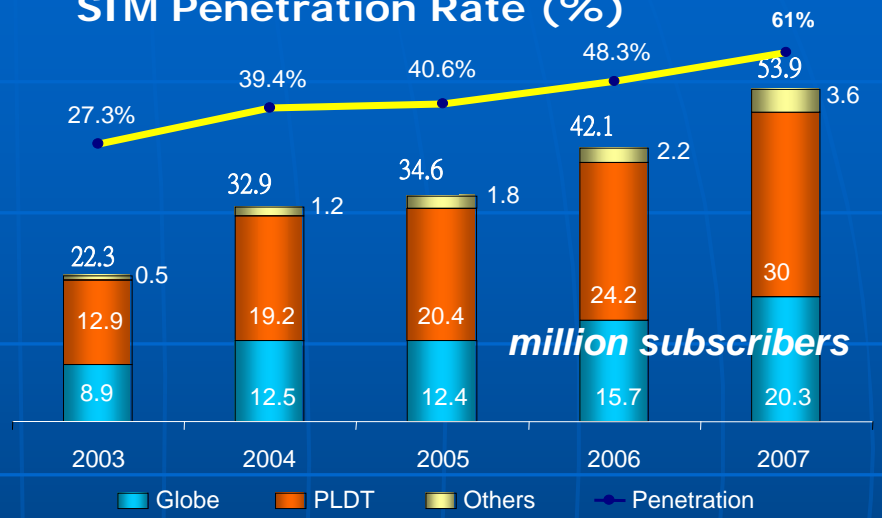
Wireless Subscribers
(in '000)



Net Income
(in millions)



SIM Penetration Rate (%)



- SIM Penetration levels increased from 0.7% in 1995 to 61% today giving a majority of the population access to telecom services
- Market value of Globe now at P208B from P298M in 1994
- Globe paid P14.8B in taxes to the government in 2007, up 55% from prior year

Focused Infrastructure Spending

In the 2005-2006 National Achievement Tests (NATS)...

- The average score among public elementary school students was 57% vs. 75% passing score
- The average among public high school students was even lower at about 44%
- Only a handful of students passed the test

Focused Infrastructure Spending

Spending on Education

	Education Budget as % to GDP		Education Per Capita Budget
International Benchmark	6.0%		
Malaysia	7.4%	Singapore	US\$1,582
Thailand	4.0%	Thailand	US\$852
Philippines	2.5%	Philippines	US\$138

Source: UNESCO data. No Retreat, No Surrender: The battle against the Philippine Education crisis

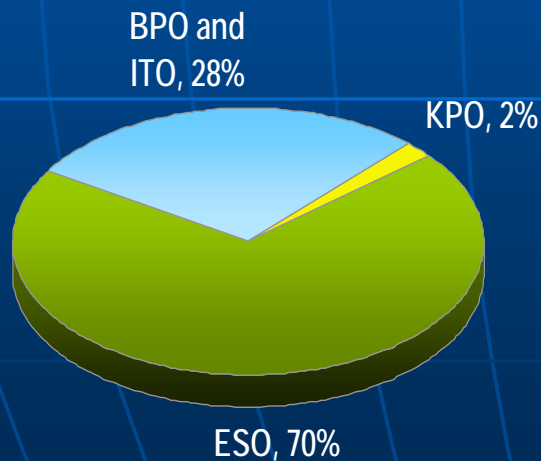
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Development of Industries with Competitive Advantages

GLOBAL ADDRESSABLE MARKET PER OUTSOURCING AND OFFSHORING DIVISION

*Total: US\$1.067 Trillion
(estimated in 2005)*



ACTUAL PENETRATED MARKET

(in USD Billions)



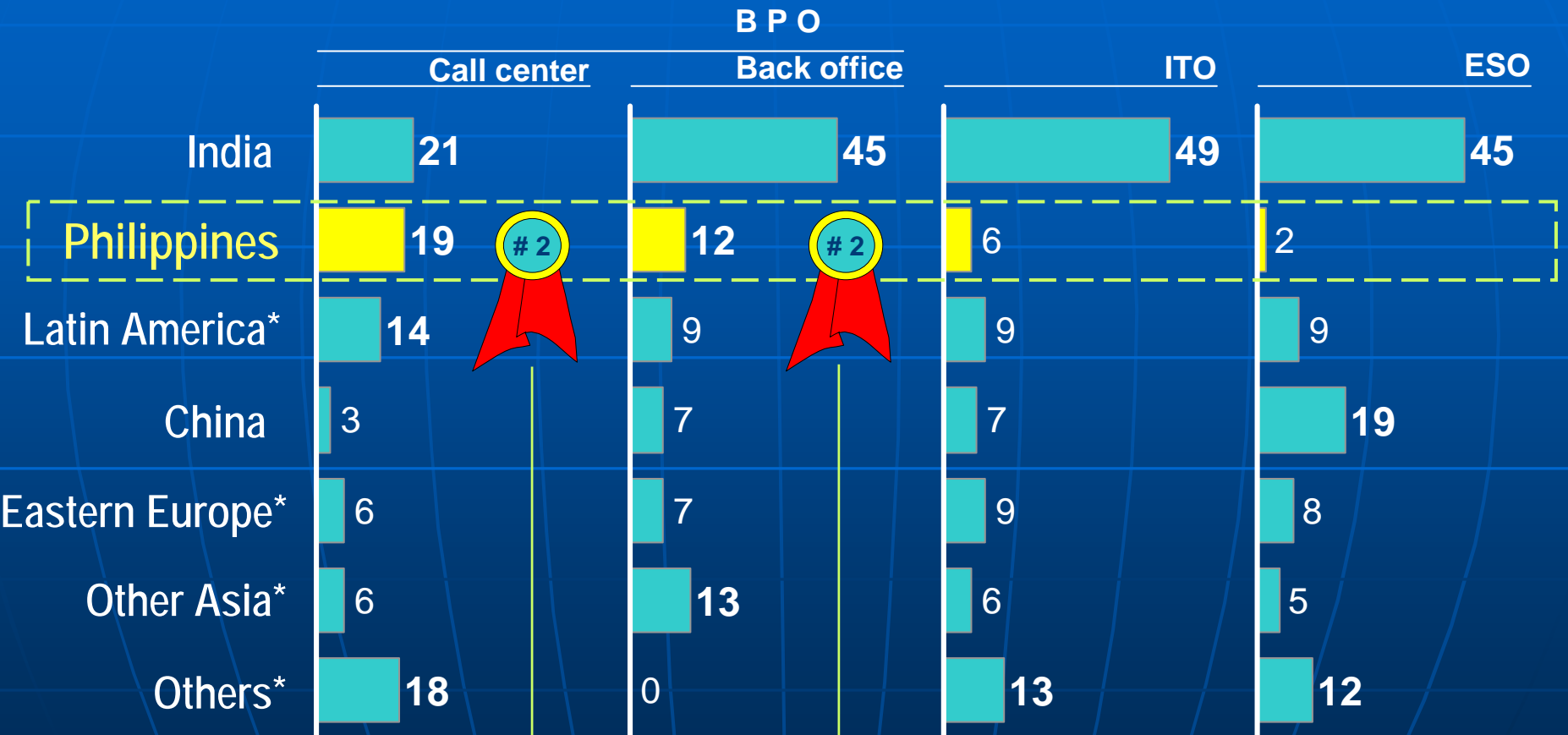
PHILIPPINE SHARE



Development of Industries with Competitive Advantages

The Philippines is viewed as a favorable location for O&O services

Percentage of firms citing offshore location of choice



* Contains multiple countries

2007 Outsourcing Destination of the Year –
National Outsourcing Association, UK

Source: BPAP: Duke University;
Booz Allen Offshoring Research
Network 2006 survey

Development of Industries with Competitive Advantages

Key Components of Roadmap 2010 for Philippine Outsourcing and Offshoring:

- Talent development
- Development of Next Wave locations
- Business Environment and supportive public policies

Development of Industries with Competitive Advantages

Key Trends to consider in shaping education policy and investments:

- Migration
- Relationship between science and technology and a country's competitiveness
- Effect of investment policy on people's decision where to work

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