

The Philippines

Looking Up to the Future

Special report prepared by Strategic Media

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The Philippines

Looking Up to the Future

2007 was a year of lucky numbers for the Philippines. In the first nine months of last year, the country's economy managed to post a 7.1 percent GDP growth, the highest in almost 20 years. This record was buoyed by strong performances of services and industry, a continued slowing down of inflation, and improved macroeconomic stability. As a result, investors have been lining up to join the dynamic developments. Yet analysts have indicated the Southeast Asian state needs seven years of at least 7 percent growth in order to improve the lives of 40 percent of Filipinos living in poverty. Will President Gloria Macapagal-Arroyo's succeed in fulfilling this target during her last two years in office until the 2010 elections, as well as tackling regional development and infrastructure issues?

Gloria Macapagal-Arroyo has found a new way of harnessing the natural competitive advantages of major areas



Gloria Macapagal-Arroyo, President of the Philippines

within the country. In her sixth State of the Nation Address, in 2006, the Philippine President announced a development concept that formed five distinct "Super Regions." To highlight distinct subeconomic qualities of particular regions, Macapagal-Arroyo's concept created the North Luzon Agribusiness Quadrangle, the Luzon Urban Beltway, the Central Philippines Super Region, the Mindanao Super Region, and the Philippine Cyberservices Corridor. With these enlarged development areas, the Philippine National Government could boost economic and market potential beyond each region's current generative capacity.

Through these areas, development is being brought back to the people at faster rates in terms of physical infrastructure, development of human capital, and peaceful communities. In addition, investments have been flowing in, with infrastructure/industrial service facilities, manufacturing, energy, real estate, and IT services receiving the most significant capital injections. Foreign direct investments were up 22 percent in the first three quarters of 2007, amassing \$1.9 billion. The country's sustained growth is in large part also supported by Filipino workers overseas sending funds back home. Remittances are at record heights, having topped \$1 billion per month for over a year, and boosting the country's gross

international reserves (GIR) to another all-time high of \$33.7 billion.

“There is no question we are moving in the right direction,” states President Gloria Macapagal-Arroyo. “We are on a permanent, sustained path of economic growth and stability.” The President believes that the key to continuing this dynamic momentum is significant investment in human and physical infrastructure. “This includes billions of pesos in education, healthcare,

“I envision a Philippines that is ready for first-world status by 2020, when we will have all the hallmarks of a modern society.”

Gloria Macapagal-Arroyo, President of the Philippines

and training, along with new bridges, roads, and ports to upgrade the competitiveness of the Philippines.” Through rigorous investments, tough budget controls, and a strict monetary policy, Macapagal-Arroyo has been able to stabilize the country’s economy. “We have also expanded the scope and breadth of our economy to build up many new sectors, from mining and technology to agriculture, tourism, and outsourcing. All of these efforts have the combined effect of mitigating shocks to the Philippine economy that in past times would have caused deep uncertainty.”

The Philippines have simultaneously been heralding closer cooperation between East Asian states, especially within the ASEAN (Association of South East Asian Nations) framework, in order to create a more solid base for social development, economic integration, and security. As President Macapagal-Arroyo adequately pointed out at the 12th ASEAN Summit in Cebu, Philippines, on January 15, 2007, “The Philippines is

not only a strategic hub for East Asia but a center of excellence and democracy. We can be at the crossroads of goodwill and change.” Later that year, at the East Asia Economic Forum in Singapore, she referred to the quality of leadership within the region being able to maintain a “rapid economic rise at a time when the global order has undergone enormous swings. I am bullish on Asia. Our time has come. Asia will be up to the task of leading our people and our region into a more dominant role in world economic and political affairs.”

So what is the outlook for a nation at the core of a new Asian boom? Will the National Government be able to maintain its seven years of 7+ percent growth? With an expanding skilled labor force and upward figures for investments and exports, the near future indeed has a rosy aura. Strong partners are an indispensable asset in this quest. The United States remains an important cohort with over \$16 billion in two-way trade as well as being the largest investor with over \$6 billion in assets. U.S. investors are likely to tap into the growing opportunities of real estate and tourism development in the Philippines, and the U.S. government continues its support for counterterrorism efforts and achieving peace in Mindanao. Gloria Macapagal-Arroyo’s internationalist commitments have been at the heart of the country’s passage into the modern age, and Filipinos largely share her engaging optimism.

“I envision a Philippines that is ready for first-world status by 2020, when we will have dramatically reduced poverty, created a robust middle class, and have all the hallmarks of a modern society in strong, stable institutions. By the time I leave office in 2010, I will have launched the Philippines to be well on its way to achieving that vision.” ■



Balanced Blessings

Zero-deficit budget adds up to credibility

For the Philippines, the year 2008 is set to become a milestone on many levels. Not only is it heading for another year of rapid growth, it is also looking forward to a very important turning point in the country's fiscal fortunes. After 10 years in the red, the National Government will most likely achieve the blessing of a balanced, zero-deficit budget.

The budget is one of the National Government's most potent tools in charting the country's future. The responsibility for weighing this financial equilibrium lies with the Department of Budget and Management (DBM), a key member of the government's management team, which plays a pivotal role in the country's development. The DBM is mandated to ensure the judicious and most beneficial use of limited public financial resources. Together with the Department of Finance (DOF) and the National Economic Development Authority (NEDA), it monitors the financial management and operational performance of all government agencies and programs supported by public funds.

DBM's Secretary Rolando G. Andaya Jr. expects 2008 will bring the government revenues worth 1.23 trillion pesos (\$30.2 billion), having aimed for a budget deficit decrease of 63 billion pesos (\$1.5 billion) in 2007. "Balancing the budget is not as elusive as it was a decade ago," says Andaya. "Improved revenue collections coupled with fiscal consolidation have enabled us to aim for a balanced budget, two years earlier than scheduled." The Secretary attributes this remarkable feat to the more than 80 million Filipinos "who helped carry the burden of additional taxes and tight spending when the economy was in poor health." In return, the 2008 budget will focus on infrastructure, education, health, housing, and science and technology, "areas which will generate significant impact on economic and human development," according to Andaya.

It is clear from the proposed budgetary allocations for 2008 that social development takes

top priority. The Department of Education is set to gain approximately \$81 million, the Department of Health \$66 million, and the National Housing Authority \$108 million on top of last year's allocations. Investors will also be able to appreciate the large allotment to Science and Technology, Transport and Communications, and Public Works and Highways.

The budget is not only set to produce tangible results, but also establishes credibility for the current administration's governance and revenue collection. "It is a continuous process for us to reduce all the red tape," says Secretary Andaya. "Since the President started holding conferences with the Bureau of Internal Revenue (BIR) and all Customs revenue heads from the regions, the institutions have been hitting their targets."

Building up infrastructure and making services more accessible in the five Super Regions also aids decentralization from the crowded and more costly Manila metro area. One way the government is trying to ameliorate regional infrastructure is by attracting foreign companies to set up shop in underdeveloped areas, for example by offering reduced electricity fees. Rolando Andaya explains this may be achieved by harnessing the benefits derived from geothermal plants around the country. "Towns and cities where these power plants are located are given a share of the taxes collected from these plants. We now even have areas where all residents no longer pay for electricity. We propose businesses that want to operate in the country to come to these places in order to enjoy a lower electricity rate."

Ultimately, Andaya explains that the budget will be geared towards accommodating green-field investments. "If just one [investor] would be interested, we'd be happy to put a road there. All we need to do is declare that area an economic zone and they can get the perks and tax breaks involved in such a program." ■

Landing a Sound Banking System

The true heroes of Philippine national growth are, ironically, Filipinos working abroad. Remittances sent back by overseas workers to support their families have grown substantially, to over \$14 billion annually. The fact that most of these funds are received in rural areas makes those regions outside the country's metropolitan areas especially economically vibrant. It is a key reason why LandBank, one of the Philippines' top banks maintaining a strong regional presence, has partnered with Citibank to converge their remittances platforms. LandBank's branch network extends across all of the Philippines' regions, fulfilling its social mandate of promoting countryside development in support of farmers, fisherfolk, and micro-, small-, and medium-sized enterprises and agribusinesses. "We are the only bank present in all provinces," says Miss Gilda E. Pico, the institution's President and CEO. The partnership with Citibank supplements its services throughout 324 national LandBank branches as well as international offices in the United States.

The bank is unique in that it has two key functions: In addition to its universal banking function, it also handles the government's agrarian reform program. LandBank's focus is now on training rural families how to make the most out of the capital they receive. The initiative is supported by

the Central Bank of the Philippines (BSP), which revised its policies to allow rural banks to operate a foreign currency deposit and deal in foreign exchange. "We also started an economic and financial literacy program to benefit all the families of our overseas foreign workers," explains Central Bank Governor Amando M. Tetangco Jr. "We try to encourage them to transform these funds from being used for consumption into savings that can be used for productive activities. They can invest in banks or channel part of these funds in micro and small enterprises."

LandBank's Miss Pico observes a recent trend towards investment among rural clientele, especially in real estate property. "Our presence there really helps. If they want to go into business, then we can train and advise them on how to manage their funds." LandBank has been on a sustained growth curve for several years with estimated 2007 revenues of \$4 billion. "We also retain our position as one of the top five banks in the country," says Pico of the 100 percent government-owned bank, which earned its second and third ISO certifications last year for trust banking and wholesale lending operations. Growing together with its customers, LandBank exemplifies that financial soundness is a goal shared by all Filipinos, both at home and abroad. ■

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Zoning In on Regional Development

Free ports and economic zones map out Philippine future

By embarking on a Super Regions strategy, the Philippine National Government is targeting economic equilibrium throughout the nation. With skilled labor and natural geographic advantages available throughout the country's regions, attracting viable projects merely becomes a matter of marketing. Two very particular cases illustrate how certain choices have led to raising both the economic potential and profile of an entire region.

Subic Bay: From military bastion to market force

As far back as the 1800s, Spanish settlers identified the protected anchorage and natural beauty of Subic Bay on the island of Luzon as an ideal location for a fort and naval base. It came to prominence, however, in the early 1900s, when U.S. President Theodore Roosevelt, following America's ousting of the Spaniards from the Philippines, announced that "if we are to exert the slightest influence in Western Asia ... it is of the highest importance that we have a naval station in Subic Bay." U.S. military presence consequently lasted for 94 years, until administration of the Subic Bay Naval Base and Air Station—the largest overseas U.S. military installation and ship repair, supply, and rest and recreation facility—was handed over to Philippine authorities in 1992.

The extensive infrastructure left behind then became available for further development to lo-

cal administrators of Zambales Province in the central Luzon region, and a plan was sculpted to turn it into a major free port and economic zone. Subic Bay, 62 miles northwest of Manila Bay, underwent a highly successful conversion from military base to bustling hub for commerce and tourism, creating 200,000 jobs and generating \$2 billion worth of investments in the first four years alone.

Philippine Senator Richard Gordon, founding father of the Subic Bay Metropolitan Authority (SBMA), says that through improved management in recent years, things are only getting better. "It will now become the third largest builder of ships in the world," says Gordon, referring to the \$1.6 billion investment by Hanjin Heavy Industries and Construction Corp. in its Subic Bay shipyards. "They will have about 17,000 employees and several billion dollars worth of investments. It is also fast becoming a transshipment hub."

SBMA operates, administers, and manages the entire Freeport Zone, as well as identifies partners for development. These range from logistics services and steel suppliers to real estate and ecotourism developments. As of the third quarter of 2007, the Subic Bay Freeport Zone had a total active workforce of 70,179, most of which are employed in the services sector, followed by construction and manufacturing. Recognizing the overwhelming growth potential, SBMA opted for a link-up with Clark Special Economic Zone, formerly Clark U.S. Air Base, via a 60-mile toll expressway. Known as the Clark-Subic Corridor, the connection will allow a major increase of seamless traffic and logistics



utilizing Subic's port facilities and Clark's large international airport. Some suggest it would make sense to designate Clark as the country's main aviation hub, able to compete with major airports in Southeast Asia.

"The infrastructure is a motivating factor for investment growth," explains Feliciano Salonga, Chairman of SBMA, "because once the corridor is completed this year, there will be a quantum development along both sides of that corridor arising from natural incentives." Armand Arreza, SBMA's Administrator, points out why the corridor is so important for the region's development. "The Metro Luzon area accounts for more than 30 percent of the Philippines' total population, and produces 60 percent of the gross domestic income. If you were to make a major impact in the country's economy, this would be the place to do it. That is exactly why major infrastructure developments are being made here. The challenge for us is to use the world-class facilities of Subic and Clark and spread the development out."

This is being achieved by promoting economic convergence, not only within but also between the regions. By investing heavily in the country's infrastructure networks, opportunities unfold where they might previously not have existed, as Feliciano Salonga points out. "With new developments, especially in shipbuilding technologies, most businesses will no longer be dependent on how much land we can offer them here, because they can move down to Mindanao. There they can book some large areas for modular construction and then transport them back here for assembly." The rest, says Armand Arreza, is up to educating the local workforce to excel in the global business, be it in call centers, tourism, or the shipping industry. "30 percent of seafaring personnel worldwide are Filipinos, and we are running short of manpower in the of cer corps. So in the next three years, you will find more maritime schools and more shipping activities for both the domestic and international market. Growth. That is what you will see."



Cagayan: Licensed to thrive

In the northeastern tip of the Philippines lies Cagayan, part of the North Luzon Super Region. Twelve years ago, a charter was drawn up by Senator Juan Ponce Enrile to set up a 54,000 hectare special economic zone and freeport, emphasizing tax incentives to attract industries and resorts to Cagayan. Strategically located between the Pacific Ocean and the South China Sea, Cagayan was envisioned to become the Northern Philippines' gateway to Asia. Despite being one of the flagship projects of the Philippine government, the Cagayan Economic Zone Authority (CEZA) endeavored to finance most of its infrastructure autonomously. Their development plan is based on a trinodal nucleus: agro-industrial, shipping and transshipment, and tourism and leisure facilities.

Eventually, Cagayan's defining boost came when CEZA utilized a unique feature in its charter that empowers it to issue licenses and permits to conduct gaming and casino operations from and within the zone. From this point forward, foreign investment started playing the upper hand, and in 2006 President Gloria Macapagal-Arroyo broke ground on a brand-new, 300-room casino and hotel resort worth an estimated \$19 million. For Jose Mari B. Ponce, Chairman, CEO, and Administrator of CEZA, it was a logical step towards transforming Cagayan into a first-class investment zone. "If we were to focus on the development of the pier, we would not generate income immediately, so I encouraged the government to reverse the cycle by first putting up the tourism development, and from there we generate funds for the infrastructure."

Ultimately, it is Ponce's vision to turn the area into a major transshipment and agro-industrial hub, since the region supplies 80 percent of Manila's rice stocks. The projection is to employ around 3,000 people. "We divided the zone into six major components," explains Ponce. "There is the seaport development for the two major

ports, expansion of the existing naval airstrip, and we intend to develop an international airport in the province with financing from Spain. Next is the agro-industrial park, which will commence next year with a growth potential for pineapple plantations. Dole has already expressed interest in this. Another component is resorts and ecotourism development, including Fuga Island Casino for foreign high rollers."

There are still advances to be made, especially in utilities infrastructure, including high-end telecommunications, which CEZA is targeting to have in place by the end of this year. "We are still a virgin area," admits Ponce, "but that is our advantage in a way. We can design and operate it in a way that addresses investors' needs much quicker, and we have plenty of land to expand." ■

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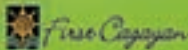
CAGAYAN

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BEHIND
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Cheques and the City

Asia is big on gaming. Not only can the capital-intensive industry generate grand amounts of revenue and employment, but it also has the capacity to attract megaprojects and leisure resorts with 5-star flair. Even within the Philippines' traditionally conservative stance towards gaming, not least from a religious point of view, the industry manages to rake in an estimated \$2.5 billion a year. A massive new entertainment city now rising on 100 acres of reclaimed land in the country's capital is set to bump that figure even further skywards.

The Manila Bay Integrated City—or Bagong Nayong Pilipino, as it's known locally—is a colossal \$10 billion megaproject being developed along Roxas Boulevard, envisioned to become the Philippines' answer to entertainment centers of excellence such as Singapore and Macau. It is the “dream” of Efraim C. Genuino, who since 2001 has been the Chairman and CEO of the Philippines Amusement and Gaming Corporation (PAGCOR). Building on 25 years of regulating the country's gaming industry, PAGCOR's megaproject is unique in that the cost of its construction will be borne solely by foreign investors. “Our country will not spend for these developments. We are just selling a concept.” The agency mentioned last year that it was conducting talks with an array of renowned investors from Greece, Japan, the United States, and Malaysia.

Nevertheless, the city will undoubtedly become a prime source of income for the Philippines. Already more than 60 percent of PAGCOR's total income goes back to the government in the form of franchise tax and contributions to legally mandated beneficiaries. PAGCOR has consistently been the third-largest income-generating government agency, with revenues of around \$850 million annually. “Manila Bay Integrated City will be the biggest tourism development project the country has ever seen,” says Genuino, “the government's largest job-generating program. It will be the economic miracle people have been waiting for.”

The reception has been generally positive, even earning support from the country's Catholic bishop, Antonio Tobias, who called it a “more holistic complex” in the sense that it is not solely focused on gambling. It will include luxury hotels, amusement parks, meeting and convention facilities, theatres, a sports stadium, shopping centers, restaurants, museums and cultural complexes,



Efraim C. Genuino Chairman & CEO of PAGCOR

residential villages, and a marina. Weighing in on PAGCOR's track record of supporting numerous charity causes over the years, especially children's welfare, PAGCOR's entertainment city will be able to give back much to the community once it has been completed. Even before then, the jobs created in the construction sector will be a major boost to the local economy.

“Over the years the global gaming industry has been experiencing a paradigm shift from merely gaming to entertainment and shopping,” observes Genuino. “This is most evident in Las Vegas. Thirty years ago, 25 percent of the revenues from tourism in the state of Nevada came from entertainment, while 75 percent came from casino gaming. Today, it is the reverse. The same goes for the Philippines; our casinos today are regarded as tourist attractions. With this project we are pushing the country to the forefront of tourism development and the booming gaming industry. Our country has been in the business for more than 25 years. In fact, next to Macau, we are the second-highest-earning casino operator in Asia.”

Already in 2006 Macau surpassed even Las Vegas's earnings with just under \$7 billion in gaming revenues, and estimates for 2007 weigh in at \$10 billion. However, PAGCOR's CEO says he is not competing with Macau, but would rather like to work hand-in-hand with the Chinese Special Administrative Region, expecting a spillover of the market to be picked up by the Philippines. “China alone is expected to have 150 million outbound tourists in the next five years. We can also benefit from this, especially with our proximity to China.”

For Efraim Genuino, the time for the Philippines to thrive on the international stage has already arrived. “Many nations which are looking into the legalization of casino gaming are looking at the Philippine model. We have the legal framework in place and are very successful in what we do. I have always had this vision of creating an entertainment city that will rival the most popular destinations around the world.” The next few years will tell if the Philippines can deliver on its promise. ■

NO BETTING LIMITS FOR INVESTMENT IN THE PHILIPPINES

The Philippine government, through the state-run Philippine Amusement and Gaming Corporation (PAGCOR), unveils what is touted as the biggest foreign investment project the country has ever seen.

Christened the Bagong Nayong Pilipino (New Town Philippines) - Manila Bay Integrated City, the project is a wholly integrated tourism, leisure and entertainment zone. It will initially cover 40 hectares of prime reclaimed land at Manila Bay, one of the finest natural harbors in the world, and will be developed

in various phases over the next 10 years. The first phase is expected to begin in 2008.

According to PAGCOR Chairman and CEO Efraim C. Genuino, the visionary behind this project, the integrated city shall have luxury hotels, amusement parks, meeting and convention facilities, state-of-the-art theaters, a sports stadium, race tracks, shopping centers, restaurants, a professional golf course, museums and cultural complexes, residential villages, a waste management facility, a marina and

boardwalk and an observation tower which will be among the tallest megastructures in the world.

Serving as a gateway to Asia, the country is only a few hours away from some of the most progressive and dynamic markets in the world including China and Japan. Most importantly, the government has taken significant steps under the leadership of President Gloria Macapagal-Arroyo to promote a favorable business environment. Fundamental reasons why this project is set for great success!



Tourism's Plentiful Knock-On Effect

There's a new destination darling in Asia, and its name is the Philippines. Tourism has become the one industry to benefit the most from the recent economic surge. Whereas 2006 saw 2.8 million visitors bring in \$2.7 billion in revenues, last year's 3 million visitors spent close to \$4.8 billion. Metro Manila's hotel occupancy alone reached an average 72.8 percent, and popular resorts around the country had to turn down bookings as reservations filled up capacity.

The rise in numbers is largely attributable to the increased number of long-stay, high-spending visitors, especially Europeans. Traditional markets that form a top source of tourists for the Philippines continue to be Korea, Japan, China, Taiwan, and most recently Russia. But the United States has also proved to be a prime contender for the visitor's top origination spot.

The high level of occupancy has the country dealing with problems of plenty. It has become such a popular destination that the Philippines' Department of Tourism (DOT) reiterated the need to construct 20,000 more hotel rooms to accommodate the target of 5 million tourists by 2010. Accommodation facilities are still lacking in top locations as Subic Bay, Clark, Bohol, Cebu, Boracay, Palawan, and Davao.

This obviously poses an immense opportunity for tourism developers, who are assured rapid returns on their investments. As DOT's Secretary Joseph Ace Durano illustrates, the government's own return on tourism-related projects in 2006 became the lead indicator of the industry's bright opportunities. "Return on investment in 2006 was at \$2.43 billion, roughly 2 percent of the total GDP," says Secretary Durano. "Demand right now is outstripping the supply of hotels, even air seats. It is just the environment that investors are looking for. Under such an environment you can expect, or in fact you can be guaranteed, healthy returns. New investments that were projecting a 10- to 15-year payback are now seeing a payback in 5-7 years."

The country's main attraction is its diversity. Across the whole archipelago, new developments are accentuating the country's many facets. From ecological, low-impact developments and diving trips at Palawan Island, boutique resorts in Bohol, and large-scale resorts in Cebu to tourism estates and integrated complexes in South Luzon, the

country is a real mix-and-match of treats. "The Philippines is a multi-attraction, multi-destination country," Durano says proudly. "Tour operators from abroad always say that it is the strength of the country, because by packaging the Philippines, especially for longer-staying tourists, they can package two or three destinations offering different experiences, which is an attractive offer for their clients. We want new and future developments to maintain such a diversity."

Philippine Ambassador to the United States Willy C. Gaa explains that the U.S. plays a considerable part in the Philippines' tourism growth, as it attracts many Filipino-Americans. "Filipinos in the U.S. today number over 3 million. They have assimilated well into American society but have, at the same time, continued to treasure and value their Filipino culture, history, and heritage." A recent study indicated that in the medium term, the U.S. propensity for outbound travel shall contract, but not so for the Filipino-American community, especially as the elder generation moves into retirement. Given their strong attachment to their roots, many of that age group are looking for second homes in the Philippines. This, according to Durano, will have a knock-on effect of additional economic activity. "Once these families have their home here, they will have an even stronger tendency to visit the country for longer periods of time. We not only see them investing in second homes but we also see them doing business here."

The Philippine Embassy and Consulates in the U.S. also vigorously promote their country as a tourist destination through successful events such as golf tours and veterans' tours. "We continue to improve tourist facilities and will also be boosting the service industries that visitors and tourists can avail of, like our health and wellness sectors," says Ambassador Gaa.

As things stand, Secretary Durano says the tourism industry will see a business environment where demand will continue to outstrip supply until 2010 and beyond. "If there is one industry for which the Philippines is strategically positioned, it is tourism. This competitiveness comes from a natural advantage position, natural blessings, historical treasures, and natural charms. It is just a matter of finding the right recipe as all ingredients are already here." ■

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