

PHILIPPINES

The NEW Philippines

These magical islands are open like never before

With a huge domestic market of around 100 million people, large, untapped industries, vast resources that include some of the world's most lucrative minerals and a high-quality, cost-efficient workforce, the Philippines has waited too long to join the list of powerful emerging economies.

Amid the global slowdown, this hardball economy managed to grow by 6% last year on the back of a robust service sector, steady remittances from the millions of Filipinos working abroad, and well-anchored inflation expectations, showing private investors that their businesses and capital will thrive.

The new administration, led by President Benigno S. Aquino III since June 2010, has been quick to address corruption issues in order to create a level playing field for investors and improve tax collections to replenish government coffers, among the important list of reforms that were launched. Spending on infrastructure is at an all-time high, with public-private partnerships available for various projects that will benefit the people of the country and investors. Communications are good, and the archipelago is only a four-hour flight away from most of Asia's major business centers.

The Philippines is transitioning: as government officials point out, the country finally has the shape of a modern political system; now it needs the substance. With recently upgraded credit ratings, all signs are showing the Philippines can become the brightest star in the Association of South East Asian Nations (ASEAN), a community of 600 million people that the Philippines co-founded in 1967, with investment.

Germany remains one of the largest investors in the country and offers the biggest export market. For this reason, German-Philippine synergies make excellent sense. Günter Matschuck, president of the German-Philippine Chamber of Commerce and Industry, Inc. (GPCCI), which has over 180 members and growing, explains the attraction.

"The Philippines is becoming a great place for companies to direct their diversification strategy," he says. "The number one factor is very clearly linked to the growing population. When you have a population that is exploding like this, you get a new market with great possibilities and challenges; there is a long way to go before you can satisfy the needs of a country that is still emerging.

"Unfortunately, a lot of German investors are still reluctant about the Philippines. There is uncertainty on the legal side, but that is the challenge as well. If you know how to do business, there are lots of opportunities. We think the present administration is making every



The Manila skyline.

effort to clear the way."

Matschuck, who has been in Manila for 33 years working in the power and communications sectors, believes electronics and ICT will be the main export sectors.

"The Philippines has huge potential not only as a consumer but as a fantastic service provider," he says. "There are sectors in which we have an excellent reputation, from nursing to seafaring. There is still massive potential in business process outsourcing (BPO) as well. We are talking about a highly-skilled, English speaking population that delivers a great performance."

GPCCI is the first entry point for most German companies being the official partner of the German Ministry of Economics and Technology. Thanks to several initiatives by the German government, the Chamber has welcomed numerous delegations to the Philippines and has become a platform for German industry in the country. Through network-building, the GPCCI links clients with the relevant officials and entities and ensures they receive feedback on the market, as well as market research and business partnering services.

The growth of textiles from the cottage industry it was in the 1950s to the leading non-traditional export and top foreign exchange earner it is today has been remarkable. Textiles directly employs around 400,000 workers, with a further 700,000 employed as home workers and small-scale sub-contractors.

"Top export markets include the U.S., Japan, the U.K, Germany

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and Canada. For Claus Sudhoff, the German president and CEO of medium-sized CS Garment Inc., the Philippines remains the best place for his company, despite competition from China and Vietnam.

“We stayed because we have invested in the latest technology and work only for the high-end market,” he says. “In the meantime, many of the companies that left in the 1990s are now coming back due to the rise in labor costs elsewhere. Also, from January 1st 2014, the Philippines will be a full Generalized System of Preferences (GSP+) member of the E.U. This means all products in the garment industry will be tax-free in the E.U. and this will be a huge advantage for us. Our main market is Germany and we have orders confirmed for the whole of this year.”

We are well known in Germany, Austria and Switzerland not only for our work, but for our reliability.

Claus Sudhoff, President and CEO, CS Garment, Inc.

The combination of German know-how, Filipino workmanship and high-quality materials has allowed CS Garment to exploit the luxury niche. “We are well known in Germany, Austria and Switzerland, not only for our work, but for our reliability,” Sudhoff says. “Our deliveries are always on time, and we work to maintain standards that allow us to differentiate ourselves from the large manufacturers. Our team is reminded every day how important they are to the entire process. We have managed to ensure that no one comes in late and this helps reinforce the quality aspect. It is a learning curve, and it takes time but it is definitely possible.

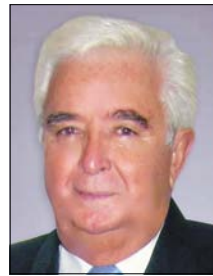
“I would recommend the German-Philippine Chamber of Commerce and Industry as the place to go to for investors. They can divert you to the right people, which will save time and money, and help you adapt to the way of doing business here. It is essential that investors give something back to the people that work with you. CS Garment is closely connected to the workers, they are like part of my family.”

Banking on an exciting future

With a growing population and middle class boosting the need for banking products and services, one entity is doing all it can to reach out to the population at large, as well as providing a top-notch service to businesses. BDO Unibank Inc., part of the SM Investments Corp., even has a department dedicated to working with German investors entering the country.

“The Philippines is a great country for the global investor and, after years of being overlooked, perceptions are changing,” says Teresita Sy-Coson, chairperson of BDO Unibank and vice-chairperson of SM Investments Corp. “I think the rising optimism is due to several factors: good governance, a stable fiscal policy, a low credit environment, and an improvement in infrastructure.”

Nestor V. Tan, president of BDO Unibank agrees. “We have strong



Dr. Günter Matschuck
President
GPCCI



Teresita Sy-Coson
Chairperson
BDO Unibank



Nestor V. Tan
President
BDO Unibank

foundations because of BPO and remittances from the diaspora. We earn close to 30 billion from those, which accounts for roughly 15% of the Philippines’ GDP. What changed perceptions, however, is that the new administration focused on fixing fiscal problems and addressing high-level corruption, which brought the confidence back.

“What’s happening overseas made us suddenly attractive: our economy is largely domestic and we have not been overleveraged like other countries. It is a combination of factors. The less attractive U.S. and European markets are now pushing investments here.

“The financial sector will play an important role in attracting investors. A large part of our economy is still outside the banking sector: would you believe that we have two times more pawnshops that we do bank branches? A lot of people use the informal sector as their lender and we need to bring them into the formal sector.

“A large portion, around 80%, of Filipinos do not even have bank accounts. The financial sector will therefore be key in bringing them in, so we can leverage their earnings into something more productive. For example, if I get remittances from Germany it comes in as consumption. After five years of receiving it consistently, I can look at it as a capacity to pay. But if it is outside the banking system, I cannot see it and I cannot use it as a housing loan. If I am able to lend against it for housing, I have the multiplier effect of that on housing development and that is the factor that the financial sector brings to the equation.”

And, as Sy-Coson adds, a large portion of the informal market can be brought into the formal sector through SM Investments Corp. “We will continue to take advantage of the synergy created by the shopping, housing and banking segments,” she says.

As far as German partnerships are concerned, the BDO leaders see the most potential in the non-consumer area.

Tan says: “There are a lot of German technologies that can be applied here, for example, in solar energy being sold back to the grid. We can also be a back-up manufacturing site for German companies. We have excellent logistics, a strategic location, and more than 270 export-processing zones offering highly competitive facilities, services and incentives. There are a lot of things we can work on together and,

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Im Jahre 2012 übertraf die AGI Aktie, die auf 58% anstieg, den Leitindex PSE, der um 30% wuchs.

Die Industrieanalysten haben die AGI Aktie mit der Einstufung KAUFEN bewertet.



Weitere Informationen zu unseren Wachstumsinitiativen finden Sie unter www.allianceglobalinc.com.



Rice terraces.

besides that fact, Filipinos love German products.”

Among its many competitive advantages, the Philippines enjoys an expansive amount of sustainable resources in the form of sunlight, wind, geothermal springs, water, and tides that once fully harnessed could offer an excellent alternative to fossil fuels.

At present, coal-fired power plants provide 26% of power generation, oil-based fuels are 23%, with hydro, natural gas and geothermal accounting for 21%, 18% and 12% respectively. The Philippines is one of the largest producers of geothermal energy in the world in terms of installed capacity, and there are already two solar cell sites.

The Department of Energy is mandated to prepare, integrate, coordinate, supervise and control all plans, programs, projects and activities of the government relative to energy exploration, development, utilization, distribution and conservation. It is also important to improve the quality of life for Filipinos by formulating and implementing policies and programs to ensure sustainable, stable, secure, sufficient, accessible and reasonably-priced energy.

“A sustainable energy supply is crucial,” says Secretary of Energy Carlos Jericho Petilla. “The projection for this year’s energy usage was 7% and it has actually reached double digits. There are industries like BPO that have experienced such a remarkable growth in the country and had a major impact on our energetic needs. These are exciting time for the Philippines, especially in the energy sector. It will be exciting because we will have to face and address numerous challenges.

“We have a Bureau in charge of promotion of education with the objective of improving energy conservation on a consumer level, for example. We would also like to extend this to public buildings.

“Meanwhile, the Philippines is headed towards energy regulation. Instead of relying on the government to provide energy, however, we want to encourage the private sector to take a leading role. Energetic

strategies are planned on a long-term basis and this is why we do not expect to execute it all during our mandate. We want to set the groundwork for the future generation of leaders to continue with these efforts. With economic growth, energy consumption will exponentially increase and the departments and related organizations are trying to design and develop a plan to supply energy to every corner of the archipelago with the essential cooperation from international investors. European countries play a very key role and we appreciate all the help that’s been given to us. We continue to hope that Europe can help us so that we can graduate from fossil fuel power plants to renewable energies.”

Generating More

For the National Power Corporation (NPC), the main priority is to get a rational mix between renewable energies and base-load sources. Froilan A. Tampinco, the former president and CEO of the NPC, explained: “If we look at the Philippine scenario, the available base load is coal, but since there is growing concern over climate change and the environmental impacts, there has got to be recognition that the coal source should be adapted. It has to be transformed into clean coal technology that is more environmentally friendly. Nuclear power is also an option, but it has a very sensitive social impact.

“Even when it has to be considered, the preparation for this technology requires much more effort. I am sure we will get very valuable insights on how Germany is trying to adapt renewable energies to satisfy the country’s needs. It will be a challenge, however, because there are certain realities that need to be accepted, like the intermittent nature of solar and wind sources, for example.”

For decades, NPC has been working off grid, and started the island grid systems when it was the major player. All of its generating capacities have been driven by conventional energies, such as diesel. Due to the shift in rationale, where high dependency on fossil fuels is being replaced by diesel, there is now a rapid shift to renewable energies. “We’ll try to look at hybrid systems to support the 24/7 supply of electricity,” Tampinco said. “We have a good number of proposals that have moved forward, where international players have shown interest in developing projects in these areas. The level of demand from these islands is not as great as in the major grid; this is only transitory. Once we are able to prompt sufficient economic activity, the demand will grow, especially in the major islands.”

The reality is, of course, that NPC cannot do it alone. “We will oversee the development of various islands in partnership with other stakeholders, such as other government units and private entities that are already there,” Tampinco said. “The private entities will act as generators, either with renewable energy technology or whichever technology might be adapted for that area. If an area is rich in hydro-resources, this is the type of project that will be promoted. The Philippines has good potential in geothermal energy, so that will be a valuable option.

“The challenge, of course, is getting all the stakeholders together with the common objective of supporting the economic growth of a particular area. This is something that needs to be pursued. There are areas that are admittedly unattractive to private investors, and this is where NPC will continue to pioneer and initiate the development of certain islands. Once it has reached a level of attractiveness, we will facilitate the transition. The role of NPC is to be the architect of the energy development of this country. There is a very big window of opportunity for Germany in the off-grid island areas.”

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A Booming Sunshine Industry

There are countless reasons to visit the Philippines

Currently operating five hotels with a room inventory of 1,570, Alliance Global Incorporated (AGI) is one company making a huge impact on the Philippines tourism sector and chairman Andrew L. Tan is excited by a new wave of prospects.

“The tourism sector is a booming, sunshine industry for the Philippines, and, with the Department of Tourism’s latest creative push for the country, more foreigners are bound to take notice of what we have to offer: endless summers and enticing smiles,” he says.

“The country has targeted 10 million tourist arrivals within three years. From January to October 2012, we saw one million tourists just in Boracay, and pretty soon, this wonderful island will welcome 2 million tourists a year, partly due to increased word of mouth. With such strong demand, we need to ramp up hotel expansion in Boracay.”

Among AGI’s subsidiaries are Megaworld Corp., Travellers International Hotel Group, Inc., Global-Estate Resorts, Inc. (GERI), Emperador Distillers Inc. and Golden Arches Development Corp. (GADC). As Tan explains: “Megaworld is the country’s premier developer of residential condominiums and business process



Andrew L. Tan
Chairman, Alliance
Global Incorporated



Rosalie R. Montenegro
President and CEO,
Makati Medical Center

outsourcing (BPO) offices. “We will continue to enhance our residential, BPO and commercial offerings in our live-work-play township projects such as Eastwood City, Newport City, McKinley Hill, McKinley West, Uptown Bonifacio and Resorts World Bayshore City. We have also expanded our expertise on building townships into the countryside, specifically with The Mactan Newtown in Cebu and Iloilo Business Park in Iloilo.

“In the meantime, Travellers has announced expansion initiatives for Marriott Manila* and Maxims Hotel and signed agreements with Sheraton and Hilton Worldwide. With these initiatives, AGI will be the largest hotel owner in the country. Travellers has also broken ground for its second integrated tourism estate, Resorts World Bayshore City in Entertainment City Manila, with 2016 as the target opening date.

“AGI is allocating \$1.5 billion over the next five years to more than triple its hotel-room count and become the country’s largest hotel owner. We are expecting to build 5,000 hotel rooms by 2017, and Marriott is also expanding to build the country’s largest convention

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Exploring the archipelago.

center. We are proud to do our part in boosting the country's tourism efforts." Last year, GERI launched two master-planned, fully integrated townships: Boracay Newcoast in Boracay Island and Twin Lakes in Tagaytay City, while GADC continues to expand the presence of McDonald's in the country.

"Over the years, I have reinvested whatever I earned as a businessman into sectors where I saw an opportunity," Tan says. "In the late 90s, I saw the strong potential of the Philippines as an investment destination for call centers and BPO. I observed that Filipinos have two distinct advantages: Excellent English language skills and a natural and friendly vocal tone. With the support of the government and our first locators, we established Eastwood City Cyberpark as the country's first information technology park.

"Pretty soon, my observations were proven correct. Foreigners loved speaking to our customer service agents. Even if they are on the other side of the world, they could sense the friendliness and dedication of our people. From such negligible earnings and employee counts, recent reports state that the Philippines has already overtaken India as the world's number one voice BPO destination.

"If our people can do wonders with foreigners over the phone, imagine what we can do when they are here for holidays or business! That is why I am investing heavily in tourism; I want to capitalize on another inherent Filipino trait: Our warm hospitality. Such hospitality, combined with our wonderful beaches, rich dive sites and picturesque landscapes make for a powerful tourism formula.

"With the efforts of Travellers and GERI in building world-class, large-scale tourism estates, we intend to support the government's initiatives to bring about a strong surge in tourist arrivals. Megaworld is also supporting the group's push for tourism, specifically on long-staying tourists. Some of our residential projects in the Mactan Newtown in Cebu are specifically designed as retirement communities, with wellness centers to cater to this rapidly growing market's requirements.

"With such a strong push for tourism within AGI, we expect to create more than 100,000 jobs for our fellow Filipinos. They will play crucial roles in the achievement of the objective of the Philippines as a leading destination for travel worldwide. AGI will continue to seek opportunities for expansion, especially within the tourism, residential and BPO sectors."

Medical tourism is another possible revenue earner that the government is keen to exploit. Filipinos have an excellent worldwide

reputation as healthcare providers, and there is a strong value chain in the Philippines consisting of patients, doctors, hospitals, government agencies and tourist resorts.

As Enrique A. Tayag, Assistant Secretary in the Department of Health explains, medical tourism isn't just about providing cheaper services to foreign patients, but provides a great chance for investors to get involved in the health care infrastructure. There has been a tremendous response from the private sector.

"We have lined up several projects and decided to play up small victories immediately so they can snowball," he says. "One example is the Philippine Orthopedic Center and Vaccine Facility. We have to demonstrate that it works, and show that working with the private sector doesn't mean the health of the poorer people will be endangered. We have already shown that we learn from the new technology."

Wellness Industry Builds a Healthy Economy

For Rosalie R. Montenegro, president and CEO of the multi-award winning Makati Medical Center (MakatiMed)—"the country's premier health institution"—this is an exciting time.

"Our transformation began in 2009, a conversion that went beyond just facilities but covered the entire infrastructure of the hospital, from Information Technology to People to Process, to bring us to the top of the healthcare industry.

"Our redefined positioning—"MakatiMed is Total Patient Care"—continues to guide and permeate the implementation of our strategic and tactical plans, and has paid off. In 2011, MakatiMed was accredited as a provider of world-class healthcare by no less than the Joint Commission International (JCI).

"The level of confidence and trust of patients in a hospital increases through accreditation, especially by the JCI, since this ensures that the hospital not only performs evidence-based practices but also gives importance to efficiency, quality and effectiveness of healthcare delivery and ensures a safe environment for the patients, staff and visitors. It establishes excellence in the delivery of healthcare and promotes continuous quality improvement.

"On top of the JCI accreditation, Hospital Management Asia conferred to us a special recognition dubbed "A Decade of Achievement" in 2011. We are the only hospital in the country to be given this award.

"This was followed with an HMA Excellence Award for Bio Medical Equipment/Facilities Improvement Project in 2012. In 2011, the Philippine Health Insurance Corporation also recognized MakatiMed as a Center of Excellence, affirming our reputation of providing top-quality healthcare."

This level of excellence has led MakatiMed to attract patients from both the United States and Europe, as well as neighboring Asia-Pacific countries. MakatiMed offers personalized "patient-assist" services for all medical tourists, and conducts hospital tours for their representatives when they come to the Philippines.

The hospital's medical travel facilitators and providers can plan the tourist's itinerary for their convenience, including leisure travel plans and transport service. MakatiMed has existing tie-ups with hotels and lodging facilities nearby where patients and their relatives can check-in and rest after treatment. It also offers homecare services to assist patients while they are recuperating or under palliative care, as well as training services for the patients' companions so they can care for their loved ones at home. As Montenegro says, "You can expect more exciting news from MakatiMed in the months and years ahead."



Sinulog Festival, Cebu.



Panglao Island, Bohol.

Tourism ventures given the go-ahead

Ministry of Tourism gears up for record arrivals

With world-class natural attractions and proximity to the high-tourist generating and travel-savvy Asian markets China, Japan and South Korea, Hong Kong, Taiwan and the growing markets of Malaysia and India, the Philippines is priming itself as a must-experience destination in the region. Recognizing the benefits a buoyant tourism industry has on social as well as economic development, the government is promoting sustainable tourism as a major growth engine for the country.

Along with the anticipated growth in international arrivals and domestic travel movements, investors are gearing up for the increased demand in new products, facilities and services. Hotels, resorts and other types of accommodations, particularly in the regions, will need to be built, while improved accessibility needs will require more integrated air, sea and land transportation.

As Ramon R. Jimenez Jr., Secretary of the Department of Tourism (DOT) explains: "For the current administration, good governance is good economics. The tourism industry represents a point of view that says the more inclusive the growth, the better for the country. I cannot think of another industry where growth is more connected to the people. The tourism industry is gaining national importance and that is why we are promoting transparency, especially in this sector."

"The National Tourism Development Plan envisions 10 million foreign arrivals by 2016. The DOT, in partnership with other departments, will contribute to the promotion of inclusive growth and poverty reduction. The objective is to integrate all the local communities into the tourism value chain."

In terms of visitors, Jimenez takes great pride in the fact that Germans are flocking to the country. "The German visitor is much valued for one simple reason: German people have a genuine eye for quality. In many parts of the country, for example in Bohol, German people have stayed and contributed to that quality. There are so many outrageously beautiful places in this country: San Vicente for example, is a stretch of 15 kilometers of white-sand beach that will someday make Boracay look tiny. The impact of a white sand beach on the human spirit leads you to relax and reconnect with who you are and the things that matter."

The DOT is currently encouraging investment in tourism estates and ecozones, historic-cultural heritage projects, as well as ecotourism, agro-tourism, and health and wellness projects.

Overcoming Challenges

As Jimenez explains, no one was prepared for the kind of attention the Philippines is getting now, so the shortages in infrastructure are beginning to show.

"The important question to ask, however, is: Are they being addressed? And the answer is yes!" he says. "We are upgrading around 14 airports within the next few years. Six of them will become international, to join the existing ones, and a few more will be upgraded to accommodate aircraft like the Airbus 320."

Recently, the European Union (EU) lifted its aviation safety ban on Philippine Airlines. As such, source markets from this region are expected to improve as flag carrier Philippine Airlines plans to resume services to Europe in the last quarter of the year. Other Philippine carriers are working to improve their respective aviation safety issues in order to promote greater accessibility and capacities.

Visitors from the European region totaled 442,686 in 2012. For this year, the DOT expects 574,565. For the years to come, the projections are: 699,326 in 2014; 2015: 851,176 in 2015, and 1,036,000 in 2016.

"It is going to take a little time for the cement to dry. This is why we have a campaign called "It's More Fun in the Philippines". As well as being a competitive marketing campaign, it also reminds Filipinos that they have to step up to ensure that they are able to bridge the gap between the infrastructure and our guest arrivals. Filipinos must cooperate because there will be some congestion and a few more bumps on the road and only their smiles will be able to compensate."

Waxing lyrical about the Philippines' particular journey, Jimenez says: "Like some of the greatest societies in history, we have gone through a very difficult road, by choice. We have a government that is committed to transparency and good governance. The Philippines has decided to take the hard, long but irreversible road to real fulfilment and now we are seeing the results. There is a reason for everything and a time for everything. And now is the time for the Philippines."

U-Bahn. More fun in the Philippines



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