PHILIPPINES MARKET OUTLOOK

BUSINESS SWEDEN

2018

Philippines
FOREWORD

The Philippine economy offers robust and high growth fueled by a growing middle class, favourable demographics, and large infrastructure projects that are now taking off. It is important to keep in mind that the economy is still developing, that poverty is very much present and that most of the economic development so far has been concentrated to Manila. To deal with this the current government focuses on poverty reduction through regional growth and large infrastructure investments.

Business opportunities in the Philippines are large and many, and lie in infrastructure development, manufacturing, retail and services. The country is often referred to as a high risk market to do business in, but we believe the opportunities outpace the risks as long as a market entry is well prepared and well executed by focusing on best practise factors from leading companies. This is proven by Swedish companies that are established in the Philippine experience high and profitable growth.

We believe that now is a good timing to enter the Philippine market. But before you enter make sure to do a proper analysis and set a suitable strategy. We hope that this report will give you new and valuable insights as well as direction in that process.

Ulf Wennblom
Country Manager
Philippines

Harald Fries
Ambassador of Sweden
to the Philippines
AGENDA

- Philippines economy and outlook
  - Swedish business in the Philippines
  - Our point of view
PHILIPPINES IS AMONG THE FASTEST GROWING MARKETS GLOBALLY

- The Philippines is an island nation with 105 million people, the second largest population in the Asean region.

- The historic annual growth (CAGR) of the Philippines is 4%. The new long term growth trajectory is at 6.6%. By that, Philippines is among the fastest growing economies globally. And, the economy is robust with 76 consecutive quarters of growth.

- Key underlying growth factors are a growing middle class, the fact that the Philippines has the youngest population globally (24.6 years), almost half the median age of Sweden, and the massive infrastructure projects that are now taking off.
PUTTING THE PHILIPPINES INTO PERSPECTIVE

GDP B$ & Growth 2016

GDP / Capita (USD)

Median age

Geography

Philippines is an island nation with 7,107 islands and a land size that is 2/3 of Sweden.

Infant mortality rate

Sweden has 0.3% and Thailand 1.1%.

Urban population

Individuals using internet

Seats held by women in national parliaments

Thailand has 6.1% and Sweden 43.6%.

PHILIPPINES IS CONSIDERED AS A LOWER MIDDLE INCOME COUNTRY, IN NEED OF DEVELOPMENT

SOURCE: IMF, UN
THE ECONOMY IS CONCENTRATED IN MANILA, THE OPPORTUNITY LIES IN REGIONAL GROWTH

Bubble size represents the size of GDP in 2016.

GDP Growth (CAGR 2014-2016)

GDP Per Capita (2016, Constant Yr 2000 Prices)

Source: IMF, PSA
PRIVATE INVESTMENTS AND GOVERNMENT SPENDING ACCELERATE ECONOMIC EXPANSION

- Private consumption fuelled by the growing middle class and young population forms the foundation of the economic growth
- Key drivers for the current and future expansion of the economy, factors that make a difference, are private sector investments and government spending
- Another challenge is to reverse the current goods trade deficit, to boost exports by strengthening the manufacturing industry

SERVICES, MANUFACTURING AND CONSTRUCTION ARE THE KEY INDUSTRIES FOR GROWTH

SOURCE: ADB, BDO, BUSINESS SWEDEN ANALYSIS
“BUILD BUILD BUILD”, THE GOLDEN AGE OF INFRASTRUCTURE

- The Philippine government has committed up to USD 180 billion in investments until 2022 in 75 projects primarily in railways, roads & bridges, airports, new city development and mass transit systems. The program labeled Build Build Build aims at supporting economic growth and solve major infrastructure hurdles.

- Development in 2018 and 2019 will be crucial to regain trust among the public for Build Build Build, as previous administrations have made similar commitments without delivering on them.

- The Asian Development Bank (ADB) is supporting Build Build Build through a USD 100 million loan labeled the Infrastructure Preparation and Innovation Facility (IPIF), and with a USD 5 million technical assistance grant to help the government recruit experts for the projects and for capacity building in implementing agencies.

- Infrastructure projects worth about USD 3.8 billion will be prepared under the IPIF and is expected to shorten start-up periods for priority infrastructure projects. Including complex road networks, long-span bridges, flood control and urban water systems, and crucial public transport, port, airport, and railway investments.

- The IPIF will support only a small slice of the huge infrastructure investment needed, but it will allow the government to accelerate project implementation and bring in international expertise and innovative practice.
THE PRIVATE SECTOR IS STILL DOMINATED BY A FEW COMPANIES

- The Philippine private sector is dominated by conglomerates such as San Miguel, SM, JG Summit, Ayala and Pangilinan (MVP, PLDT). Ownership structures are complex and sometimes non-transparent. These companies are large in global comparison. It is almost impossible to do business in the Philippines without having them as customers and/or partners. These companies invest primarily in energy, manufacturing, real estate and infrastructure.

- The trend is to go outside Philippines. Ayala has made several strategic investments in the automotive supply chain in Europe. In the Philippines, the company is investing USD 150 million in the automotive sector through its electronics subsidiary IMI. Furthermore, Ayala has a JV plant with KTM motorcycles in the Philippines, to use as export base in Asia.

- An indicator of the maturity of the private sector is the capitalization of the stock exchange. The capitalization of the Philippines Stock Exchange is comparatively low, almost half of Thailand and 1/5 of Stockholm OMX. Sweden has 10% of the population of Philippines and OMX is still 5 times larger! It is clearly room for growth in the Philippines.

- To enable a more flourishing private sector, the Government has an inclusive growth agenda to create better conditions for SMEs.

SOURCE: PSE, BUSINESS SWEDEN ANALYSIS
High potential sectors that are especially promoted by the Government for all investors include manufacturing, infrastructure and IT & BPM. Investments outside Manila are also heavily promoted, especially on Mindanao.

The country is quite open for foreign investments, and the Government is pushing for more foreign investments by reducing existing restrictions on foreign ownership.

Foreign investors may set up businesses through the Board of Investment (BOI), in export zones (PEZA) and in specific free trade zones

- If BOI conditions are met, BOI offers incentives such as lower import tariffs and income tax holidays
- In PEZA zones, VAT exemption is also an incentive as the majority of goods are produced for exports

Total investment levels and FDI have shown a solid development in recent years. FDI is almost 30 % of all PEZA and BOI approved investments. Measuring in monetary terms, manufacturing and utilities are the largest sectors, yet in number of employed people the services sector is likely to be in top.

### 2016 TOP SECTORS

<table>
<thead>
<tr>
<th>Rank</th>
<th>Top sectors</th>
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<tbody>
<tr>
<td>1</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>2</td>
<td>Utilities</td>
</tr>
<tr>
<td>3</td>
<td>Real Estate</td>
</tr>
<tr>
<td>4</td>
<td>Transportation &amp; Logistics</td>
</tr>
<tr>
<td>5</td>
<td>Tourism &amp; hospitality</td>
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</table>

### 2016 TOP ORIGIN

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
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<tbody>
<tr>
<td>1</td>
<td>Netherlands</td>
</tr>
<tr>
<td>2</td>
<td>Australia</td>
</tr>
<tr>
<td>3</td>
<td>USA</td>
</tr>
<tr>
<td>4</td>
<td>Japan</td>
</tr>
<tr>
<td>5</td>
<td>Singapore</td>
</tr>
</tbody>
</table>

SOURCE: BUSINESS SWEDEN ANALYSIS, BOI, UNCTAD
**DEMOGRAPHICS AND A GROWING MIDDLE CLASS SUPPORT INVESTMENTS AND CONSUMER SPENDING**

- The median age of the Filipinos is only 24.6 years, among the lowest in global comparison.
- With a population growth close to 2%, driven by birth rates, the Philippines is expected to continue to have a young population in an elsewhere aging world. On top of that, most of the young are English speakers. **The young English speaking population is a key competitive advantage for the service industry, especially for the BPO industry.**
- The middle class is growing at high pace, and is expected to reach over 50 million in 2020. This safeguards strong consumer demand for many years ahead.
- A challenge though is that the difference between the rich and the poor is increasing, a challenge not limited to the Philippines but common across Southeast Asia. In the 10-point Socioeconomic Agenda, President Rodrigo Duterte envisioned the reduction of poverty from 21.6% in 2015 to 13%-15% by 2022.

**DAILY CONSUMPTION PER PERSON, SHARE OF POPULATION**

- **CONSUMER CLASS**
  - 100%
  - 80%
  - 60%
  - 40%
  - 20%
  - 0%
- **2010, 2020, 2030**
  - More than $20 (rich)
  - $10-20 (upper-middle class)
  - $4-10 (middle-class)
  - $2-4 (lower-middle class)
  - < $1,25 (poverty)

**DEMOGRAPHICS (MEDIAN AGE)**

- Japan
- Sweden
- Thailand
- China
- Philippines

SOURCE: BUSINESS SWEDEN ANALYSIS, BOI, UNCTAD, PHILIPPINES INFRASTRUCTURE TRANSPARENCY PORTAL
REVENUES FROM OVERSEAS FUEL INVESTMENTS AND SPENDING IN THE PHILIPPINES

SOURCE: BDO BANK
THE PHILIPPINES IS DEPENDANT ON GOODS IMPORTS AND SERVICES EXPORTS

**Export vs import (Goods, BUSD)**

- Export (orange)
- Import (yellow)
- Balance (black)

**Key goods trading partners (BUSD)**

- China
- Japan
- US
- EU

**Export vs import (Services, BUSD)**

- Export (orange)
- Import (yellow)
- Balance (black)

**Key EU exports to the Philippines (BUSD)**

- Chemicals
- Office & telec. Equipm.
- Transport equipment
- Other machinery
- Food & live animals

*Source: ADB, BDO, BUSINESS SWEDEN ANALYSIS, EU DELEGATION IN MANILA*
SERVICES IS THE LARGEST SECTOR, MANUFACTURING EXPECTED TO BE THE NEXT DRIVER

<table>
<thead>
<tr>
<th>SECTORS</th>
<th>CAGR</th>
</tr>
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<tbody>
<tr>
<td>MINING – potential lies in stable and predictable rules governing the sector</td>
<td>0.5 %</td>
</tr>
<tr>
<td>UTILITIES – Almost completely privatized sector (90 %) with many players in the market</td>
<td>4.7 %</td>
</tr>
<tr>
<td>CONSTRUCTION – Road, rail, air, flood control, power, residential and commercial construction to drive growth</td>
<td>12.8 %</td>
</tr>
<tr>
<td>AGRICULTURE – focus sector of the government. Key is to increase size of farms and thereby increase efficiency</td>
<td>4.0 %</td>
</tr>
<tr>
<td>MANUFACTURING – F&amp;B, chemicals and electronics largest. Chemicals, pulp &amp; paper and metals with highest growth</td>
<td>6.9 %</td>
</tr>
<tr>
<td>SERVICES – Services production (incl. BPO), retail and real estate are the largest sectors and still have high growth</td>
<td>9.7 %</td>
</tr>
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SWEDISH EXPORT FIGURES INDICATE THAT THERE IS ROOM FOR GROWTH

- Sweden has a trade surplus with the Philippines
- Trade has been increasing slightly in recent years
- Finland and Denmark have both larger and higher growth in exports than Sweden, indicating that there is room for growth
- Sweden primarily exports pulp & paper, telecom equipment, industrial machinery and automotive products
- Automotive and industrial machinery have seen the highest growth in recent years

SOURCE: ADB, BDO, BUSINESS SWEDEN ANALYSIS, SCB
SWEDISH COMPANIES ARE DOING WELL IN THE PHILIPPINES BUT INVESTMENTS ARE LOW

- Approximately 40 Swedish companies are present in the Philippines, whereof some 20 are multinationals
- Several Swedish companies have a long history in the Philippines, being present here more than 20 years. Swedish Match is the company with the longest history of almost 100 years of local presence
- Swedish investments since 2012 are approximately at SEK 120 million, and are mainly in manufacturing and services
- The primary customer group for Swedish companies is B2B*
- The combined annual Swedish revenue on the Philippine market is SEK 4 to 5 billion*
- The average Swedish sales growth in the recent 3 years was 19 % per year*
- The forecasted average Swedish growth rate in the coming 3 years is 15 % per year*

SWEDISH REVENUE IN THE PHILIPPINES BSEK

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth - CAGR</th>
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<tbody>
<tr>
<td>2015-2017</td>
<td>19%</td>
</tr>
<tr>
<td>2018-2020</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Business Sweden Analysis, BOI

SWEDISH INVESTMENTS (USD MILLION) AND FDI STOCK (2012-2017) (BOI & PEZA)

* Interviews with 14 Swedish companies with local presence in the Philippines
THERE ARE SEVERAL PERCEIVED CHALLENGES

- Corruption is widespread in the Philippines and common in both the private and public sector
- Swedish companies perceive that regulations and processes for taxation and VAT is handled in a non transparent way
- Lack of sufficient infrastructure nationwide limits efficient logistics flows and constantly poses large barriers in Manila in the form of traffic congestion
- Bureaucracy in the public and private sector slows down processes
- 114th place in World Bank's ease of doing business index, with very low ranking in categories “starting business”, “protection of minority interests” and “enforcement of contracts”
THE RECIPE AMONG SUCCESSFUL SWEDISH COMPANIES

BUILD TRUST
- By strong local presence, either through your own local company or a strong local partner that represents your company with strong commitment and dedication

PARTNER WITH THE RIGHT PEOPLE
- From start. Including employees, business partners, advisors, lawyers, clients etc..

INVEST IN PEOPLE
- Salaries are high and in specific cases on par with Singapore levels. Education is needed even if experienced people are recruited

BE PATIENT
- Living and working in the Philippines can sometimes feel like being in a roller coaster. However, the economy is resilient and it is important to be patient and have a long term focus to overcome the perceived short term hurdles

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THE MARKET BRINGS OPPORTUNITIES IN BOTH SALES AND PRODUCTION FOR SWEDISH COMPANIES

Materials, solutions and equipment for the manufacturing sector

Infrastructure solutions:
- Urban, road, rail and air transportation
- Energy & power
- Waste water
- Flood control
- Public safety
- Telecom

Construction equipment and solutions

Retail, consumer products and food

Pharma, healthcare and medical devices

Agriculture products & solutions

Services production
- Contact centre & BPO
- Global In-house centres
- IT services
- Healthcare information management
- Animation and Game development

Manufacturing, use Philippines as hub for export & domestic sales

THESE OPPORTUNITIES ARE NOT ONLY IN MANILA, BUT SPREAD OUT IN THE REGIONS

SOURCE: BUSINESS SWEDEN ANALYSIS
NOW IS A GOOD TIME TO ENTER THE PHILIPPINES

Reasons to enter
- Solid economic fundamentals – high and stable growth
- The large infrastructure programs that are now taking off
- Optimal demographics – 100+ million with 50% being under 25 years
- Developing and growing manufacturing sector
- Leverage the increased presence of Team Sweden

Impediments
- Political situation
- Corruption
- Infrastructure
- Bureaucracy
FIVE STEPS FOR A SUCCESSFUL MARKET ENTRY IN THE PHILIPPINES

1. Build a good understanding of your market before entry
2. Develop a market entry strategy to build trust, through local presence and/or partners
3. Partner with the right people from start
4. Train your people and partners to fulfill the needs of the clients
5. Keep patience and maintain continuity when the market conditions change

SOURCE: BUSINESS SWEDEN ANALYSIS
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