

PROSPECTS FOR PHILIPPINE - BRITISH BUSINESS PARTNERSHIPS

PONCIANO C. MANALO JR.

Undersecretary, Department of Trade and Industry – Industry Promotion Group

ALDERMAN ALAN YARROW

The Right Honourable the Lord Mayor of London

USEC. PONCIANO C. MANALO JR.

STATE OF PHILIPPINE-BRITISH BILATERAL ECONOMIC RELATIONS

Philippines-United Kingdom trade and investment relations have been very strong and have been steadily strengthening over recent years. In 2013, the UK was the Philippines' 22nd top trading partner. It ranked as the 13th top export destination of Philippine products, and 27th biggest import source. For the first 10 months of 2014, total trade of the Philippines with the UK reached \$712 million, with exports to UK valued at \$406 million, and \$306 million worth of imported products [and goods] from the UK.

At the investments front, the UK has made significant contributions in the fields of information technology-business process management (IT-BPM), finance, oil, manufacturing, and retail. There are [currently] about 200 British companies operating in the Philippines, such as Shell, HSBC, Standard Chartered Bank, Unilever, and Marks and Spencer.

With improved Philippine-British trade and investment relations over the recent years, as well as increasing high-level [bilateral]

business mission exchanges in the past three years, such as the visit of the Right Honourable the Lord Mayor of London, we envision a deepening and a strengthening of partnership between our two countries, as we further explore mutual economic opportunities.

THE PHILIPPINES: STILL THE IDEAL INVESTMENT DESTINATION

There has never been a better time to do business and invest in the Philippines. Under the



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Usec. Manalo and Yarrow were the guest speakers at a business forum of the Makati Business Club and the Philippines-British Business Council held on 13 February 2015 at the Hotel InterContinental in Makati City. Published here are excerpts from their keynote speeches and the open forum.



USEC. PONCIANO C. MANALO JR.

leadership of President Benigno S. Aquino III, our country has experienced remarkable growth. Our economy grew by 6.9% in the last quarter of 2014, pushing the average full-year growth to 6.1%—exceeding market expectations, [and posting the second-fastest growth rate among Asian economies.] This robust, broad-based growth in all sectors is, to a large extent, due to our President's steadfast commitment to transparency and good governance, which has resulted in a more systematic and efficient way of doing business in the Philippines.

Our macroeconomic fundamentals remain very strong: inflation for 2014 has been well-managed at 4.1%, with inflation rates over the last six years also kept within target and interest rates remaining at record-lows. Our

budget deficit has been maintained at 2% of GDP and debt has fallen from 70% of GDP in 2004, to just around 47% today. Our gross international reserves, from just \$15 billion in 2000, have increased to \$83.2 billion in 2013. Most importantly, foreign direct investments have likewise been very strong, with cumulative net inflows for January to November 2014 growing 61.6% to \$5.7 billion, compared to the same period last year. This growth has been noted to be one of the highest among the ASEAN-5 (Malaysia, Indonesia, Thailand, Singapore, and the Philippines) for the last three years. This is a big achievement for the Philippines, and a testament to the momentum of the growth of foreign investments into the country.

The most important factor for the robust growth of our economy is the Filipino people. We have a population of about 100 million, with a median age of 23 years. These young people—well-educated, highly trainable, hardworking, loyal, and English-speaking—comprise our country's primary asset. These traits are the reason why there are 10 million Filipinos working outside the Philippines as doctors, nurses, architects, engineers, accountants, teachers, mechanics, seafarers, and other service professionals. These same traits are also why our IT-BPM industry has grown by leaps and bounds—from a mere 5,000 workers in the year 2000, to more than a million as of October last year.

Cash remittances from overseas Filipino workers (\$23 billion in 2013, of which \$1.6 billion having come from the UK) and revenues generated by the IT-BPM industry (\$16.1 billion in 2013) are key reasons why the Philippines has enjoyed a current account balance surplus for the past 10 years; [it has] helped keep the country financially stable and attractive for foreign direct investments.

[It is also important to note that] when President Aquino assumed the presidency five years ago, he immediately focused on further developing the country's human resources. The budget [allocated] for education was increased from P161.4 billion in 2010 to P365 billion this year, to address classroom, textbook, and teacher shortages. Moreover, two years have been added to the basic education program, now aligning Philippine education standards with general international practice. In addition, the Philippine government continues to forge strong linkages with the private sector so that course offerings in higher education are responsive to industry needs and opportunities.

The commitment to transparency and good governance, coupled with judicious investments in human resource capacity-building has yielded tremendous results for the Philippines. However, we realize that we will only continue to reap economic success with the help of our valued economic partners. We are pleased to welcome the Lord Mayor of London for further exploration of valued trade and investment opportunities.

ABOUT THE SPEAKER

PONCIANO C. MANALO JR.

Ponciano C. Manalo, Jr. was appointed as Undersecretary of the Department of Trade & Industry's (DTI) Industry Promotion Group (IPG)/formerly Trade and Investment Promotions Group (TIPG), on March 2013.

He formerly held executive level positions for Colgate-Palmolive Company in various countries including Europe, United States, and the Philippines where he was in charge of designing, developing and implementing country-wide strategic marketing initiatives for the company. His last stint was as the Global Director of Hill's Pet Nutrition (USA) in Topeka, Kansas, a global subsidiary of Colgate-Palmolive Company. Prior to Colgate-Palmolive, he was also Assistant Brand Manager for Procter & Gamble Philippines. ■

AREAS FOR ENHANCED ECONOMIC PARTNERSHIP

Indeed, the British government continues to identify and promote the Philippines as one of the world's emerging powers; and many British financial institutions and businesses maintain strong, positive views towards

our country. The strengthening of the British economy also bodes well for our business relations, and we most welcome the heightened activity and increased interest accompanying numerous high-level missions from the UK. Our flagship public-private partnership (PPP) program is particularly exciting, and we invite the UK to closely study the current opportunities in this area. We have already awarded nine major PPP projects, with many more in the pipeline. Many British companies have expressed interest or are already taking part, in the process. Officials of our PPP Center have even visited the UK—and will visit again the UK soon—to promote key Philippine PPP projects.

We also hope British companies look to the Philippines as an ideal regional base and hub, particularly in view of the ongoing ASEAN economic integration, and given our country's strategic location, and our English-speaking young, dynamic, skilled, highly-educated, dedicated workforce. [We are thankful to the City of London] for supporting the visits of top Philippine officials to the UK. These activities have proven to be meaningful and productive on both sides, and we hope our cooperation continues in the many years to come. ■

ALDERMAN ALAN YARROW

ON PRESIDENT AQUINO'S FIRST visit to London in 2012, he identified the cultural and business links shared by our two countries: our universal values of democracy, absolute dedication to the rule of law, and of course, our shared language. I am delighted we are building on fantastic foundations for a thriving trade partnership. The UK-Philippines relationship is incredibly strong: UK [Special Trade Envoy to the Philippines], George Freeman MP, and the

Foreign Commonwealth Office (FCO) Permanent Undersecretary, Simon Fraser, have both recently visited [the Philippines], and I understand, we have even more exciting visits to come. Alongside that, business is booming and [the Philippine] economy is the envy of the region. [With] growth of over 6%, there are very few countries anywhere that can compete with that, particularly given the general sense of global unpredictability. It is a fascinating time to visit and to be in the region.

LONDON AND THE UK'S RELATIONSHIP WITH THE EU

Over the past few months, we have seen oil prices plummet, we have seen the Greek elections, we have seen the Swiss Franc go haywire; and just around the corner, we will have our General Elections in the UK, with the possibility of a European Union (EU) referendum after that. As we know, business does not like uncertainty. In particular relations with the EU, the position of the City [of London] is clear: we believe that we are better off inside the European Union. Trade is strongest when there is less friction, not more.

Business thrives when economies are open, markets are free, and schooled people can move between markets. Wealth is created faster and needs are to be met



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ALDERMAN ALAN YARROW

more quickly. My position is to prepare for periods of uncertainty, and today I stand wearing three hats: (1) as the Lord Mayor; (2) as a former banker; and (3) as Chairman of the Chartered Institute of Securities & Investment (CISI).

The CISI provides training and qualification for people who work in financial services. Training is a fantastic way to migrate and mitigate uncertainty. If you have bright, capable people who understand markets, ethics, and responsibility, then you are in a far stronger position to react to uncertainty. On my way here, former British Embassy staff had very encouraging words on the youth and ambition of the [Filipino] workforce.

ABOUT THE SPEAKER

ALDERMAN ALAN YARROW

Alderman Alan Yarrow took office as the 687th Lord Mayor of the City of London on November 2014.

Yarrow was born in Jahor Bahru, Malaysia in 1951 and educated at Harrow. He went to Paris to work in a graphic design studio in 1969.

He joined Grieveson Grant, stockbrokers, in 1972 and was elected a member of the Stock Exchange in 1978. He studied International Corporate Finance at Manchester Business School in 1981 and on his return was made a partner of the firm the same year. Following the merger of Grieveson Grant and Kleinwort Benson, Yarrow became Head of UK Institutional Sales in 1989, Head of Global Distribution in 1992, and Managing Director of Kleinwort Benson Securities in 1994. He was appointed to the Kleinwort Benson Group Board in 1995. ■

Q&A

What is the perception in the City of London of the Philippines, and doing business in the Philippines at the moment? What can the Philippines do to attract more British companies and investments?

Yarrow: The UK manages about £2 trillion of money, looking for investments overseas. We were very early investors in the Philippines, and the reasons for this are because the country was able to grow a very able workforce (well-educated and English-speaking), and [the country has] predictability. However, that predictability, which comes both in legal and tax form, is not as good as people would like.

We would like to have a far faster process of resolution when it comes down to legal cases—we are about six or seven years at the moment, which is too long; we would like to get it down to two years. We would also like to have predictability on how taxes are raised—at the moment, it is quite vague. The feedback I have been getting from (British) businesses is quite simple: they need to have an assurance of return.

It is all very well about having workarounds on processes in the Philippines, but it is very difficult for a large company to do business in a country where there are infringements of regulation in the host country. Companies such as GlaxoSmithKline or HSBC may know how to work around problems in the [host] country, but when it is [reported] to the main board back in London, it comes up as an infringement or non-compliance. That does not go down well; that stops further money coming in. We need to get this cleared up.

There are also issues to deal with skill gaps in professional qualifications. There is a reluctance to accept international professional bodies coming in to the Philippines, which in itself is a detriment to the development of professions in the country.

There are a number of issues that need to be resolved; but the fact at the end of the day is, with a consolidated economic growth of 6%, there are bound to be bottlenecks. If there is an indication that the government is confronting these bottlenecks and making changes, there will be goodwill coming from the investor. But as soon as that stops, that is when you have to be quite careful, as progress has to be continuous.

The situation within the European Union (EU) is not immediately clear—where do you think the trend is headed in the EU, and what are our reasons for optimism? What kind of structure is likely to take place, and what sort of contribution or participation can the UK give to make a difference?

Yarrow: We have 27 countries in Europe, all with their individual cultures. Some of them are within the Euro zone, some are not. There is no doubt, as far as the UK is concerned, that political negotiations and discussions are broken; it is not working properly. Our workaround for that particular issue is that there is one area where there is a common language and that is called business.

The whole concept of the European Union was structured on business and trade. Nationality does not matter, but the reality is that big businesses all speak the same language.

We in London, where we have 85% of our people in the city who want us to remain in the EU, have set up working parties with Germany, France, Italy, Spain, Ireland, and soon to be with the Netherlands, to make sure that the business discussions come through into Parliament. At the end of the day, Europe will only succeed if it is a good place to invest, and people can take a proper return.

We have a demographic problem, which you do not have in the Philippines. We have a falling birth rate and an aging population. Aging populations effectively are risk-averse, and you cannot have a risk-averse environment when you are up against competition of the world. We might have 500 million people in Europe, which is a very large population, but the reality is our aging at the moment is a detrimental effect.

We are at odds with Europe at the moment because we do not seem to see the right reforms coming through. We are great believers in cost-benefit analysis—you can only bring in change and regulation when there is a benefit to the countries or the taxpayer.

We also believe in flexibility of labor—you ought to disemploy people as quickly as you can employ them. This is one of the reasons why unemployment in the UK remains at 6%, but is 9-12% for the rest of Europe. In France, for example, they would much rather buy a machine than employ a person; that cannot be right for society.

Europe is far better with the UK in it, than Europe without it. The only slight caveat I have is the Euro itself is a very difficult problem. You got to have fiscal and political unity, and that is too soon. Which is why when you look at ASEAN, please do not think about currency; only trade. We tried to run too quickly, and we are suffering from that now. ■

CAPITALIZING ON PHILIPPINE MARKET DEVELOPMENTS AND ECONOMIC LIBERALIZATION

With the banking liberalization law, the [Philippine] market is opening up in front of our very eyes. The UK and the City of London—as a global financial center—could help build on that superb work. We can help provide expertise, energy, and innovation, particularly in financial services, due to our fabulous ETQ (education, training, and qualifications) offer. Moreover, it is official that we are open for business, and the UK government is very clear about it.

The UK wants to double British exports to £1 trillion by 2020. One way to do that is with existing partners, like the Philippines—partners with whom we already have strong or tight connections. And already many British firms here operate in all sorts of sectors. But I am an optimist, and I think we have barely scratched the surface. As strong as our ties are at the moment, we all know we can always do more.

My great-grandfather, Sir Alfred Yarrow, built a ship-building business from the bottom-up. He started with nothing; renting his whole, tiny workshop in the east-end of London, and he did end up doing business all over the world—including Southeast Asia. He also ended up as a great philanthropist, with huge shipyards across the UK and beyond. But how did he make such a success of it? He was always looking out; scanning the horizons for new opportunities.

Just like Sir Alfred, I see fantastic opportunities right here. I was delighted when the Bank of the Philippine Islands set up its European headquarters in London, and I would support other companies in the Philippines to do exactly the same. [We look forward to] create even more effective partnerships for prosperity between our countries. ■

Excerpts edited by
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MBC
MAKATI BUSINESS CLUB
THE FORUM FOR CONSTRUCTIVE IDEAS

The Makati Business Club invites guest speakers to its General Membership Meetings and MBC Briefings to discuss public issues and trends, whether local or global, that have an impact on Philippine development. MBC Forum highlights the speeches and discussions at these gatherings. The full text of speeches and other presentations may also be found at the MBC website, www.mbc.com.ph.



The PBBC was established in 1995 to promote trade and investments between the Philippines and the United Kingdom. The council is composed of top business executives who seek to explore business opportunities between the two countries and to promote the exchange of views on policies of mutual concern. The Makati Business Club serves as the secretariat of the PBBC.

The Makati Business Club is the secretariat of the Philippine-British Business Council.
For more information visit <http://www.mbc.com.ph/philippinebritish-business-council>, or contact:

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