

MAKE IT
HAPPEN

THE PHILIPPINES



Secretary Ramon M. Lopez
Department of Trade and Industry
November 26, 2021

**Rethinking and Bolstering the
Country's Priority Investments
in the New Economy**
Philippine Economic Briefing

Prior to the COVID-19 pandemic, the Philippines was the second fastest growing GDP. The pandemic pushed the economy to decline by -9.6%

Annual Philippine Gross Domestic Product, 2016-2020

	Gross Value Added (in million PHP)						Growth (%)	
	2016	2017	2018	2019	2020	2019 and 2020 Difference	Average 2016-2019	2019-2020
Gross Domestic Product	16,062,676	17,175,978	18,265,190	19,382,751	17,527,234	-1,855,517	6.6%	-9.6%

Q1-Q3 2021 GDP showed an economic rebound of 4.9%

Performance of Philippine GDP, 2019 Q1-Q3 to 2021 Q1-Q3

	Gross Value Added (in million PH)				Growth (%)	
	2019 Q1-Q3	2020 Q1-Q3	2021 Q1-Q3	2019 Q1-Q3 & 2021 Q1-Q3 Difference	2019 Q1-Q3 vs 2021 Q1-Q3	2019 Q1-Q3 vs 2021 Q1-Q3
Gross Domestic Product	14,124,654	12,703,568	13,323,437	-801,217	-5.7%	4.9%

Given 4.9% YTD Sept 2021 GDP Growth, 2021 Q4 growth should be 5.3% or 7.1%, to hit the full year 2021 target of 5% or 5.5% GDP Growth

Annual GDP and 2021 targets

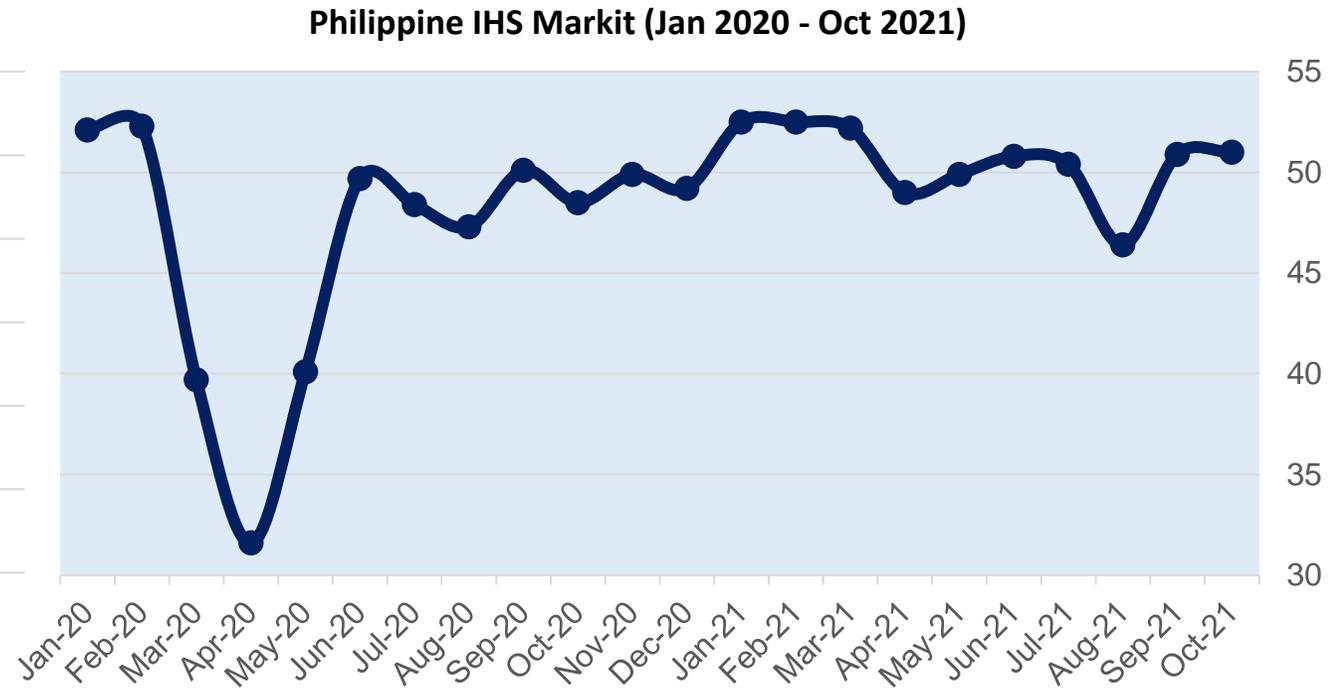
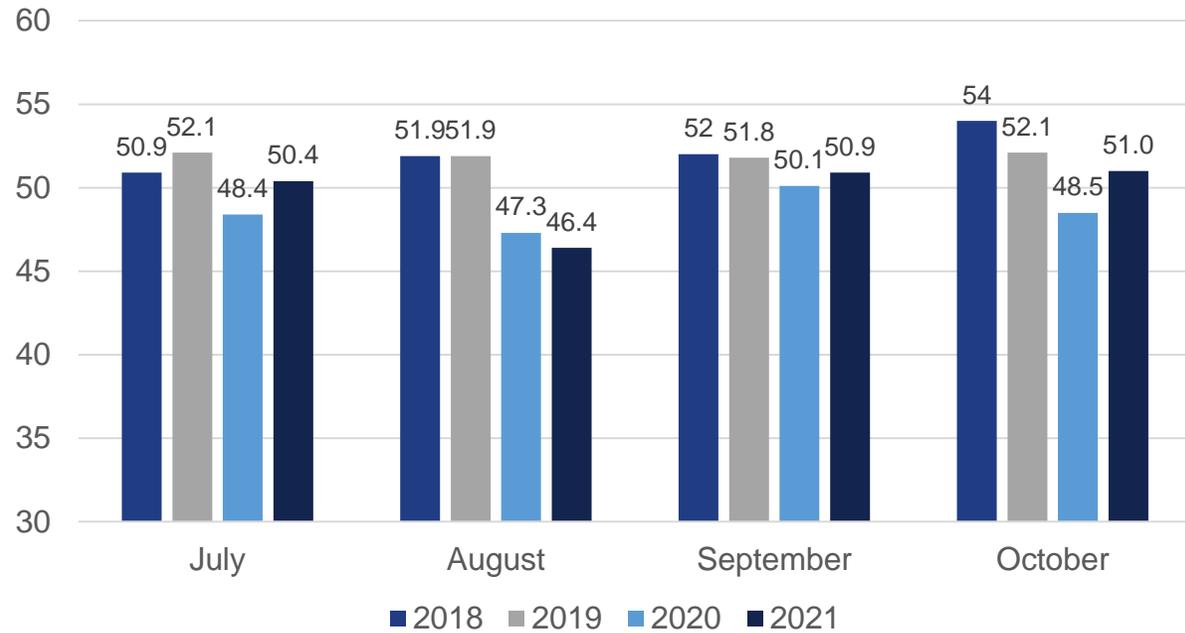
	Gross Value Added (in million PH)			
	2019	2020	2021 at 5.0% target	2021 at 5.5% target
Gross Domestic Product	19,382,751	17,527,234	18,403,596	18,491,232
To hit 2021 target, Q4 GDP should be			5,080,159	5,167,795
Q4 GDP growth should be			5.3%	7.1%

If 2021 growth hits 5.5%, 2022 GDP growth just needs minimum of 4.8% to restore 2019 pre-pandemic levels

GDP and 2021 targets

	Gross Value Added (in million PH)		
If 2021 Growth is:	2021 Annual GDP	% Growth to hit 2019 Pre-Pandemic of ₱19,382,751	So if we grow 7% (will surpass 2019 level)
5%	18,403,596	5.3%	19,691,848
5.50%	18,491,232	4.8%	19,785,618

PH Manufacturing Index (PMI) hits 7-month high of 51.0 in October



- The PMI regained its health albeit marginally signals the country's **path to recovery in the manufacturing sectors.**
- The shift of the NCR+ Bubble towards General Community Quarantine (GCQ) provides an avenue for stakeholders to **resume operations and productions to reduce backlogs.**

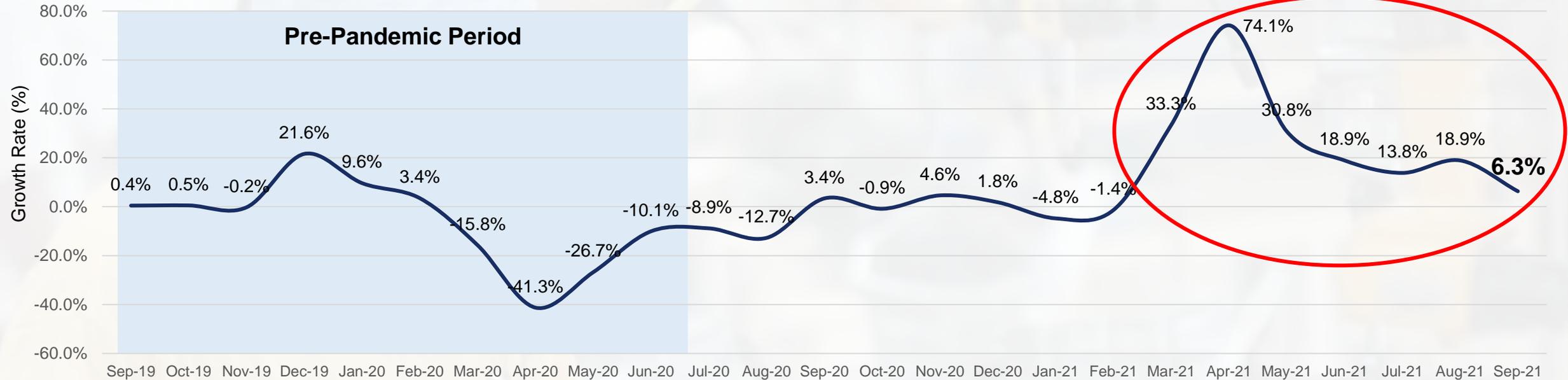
- Overall outlook remained positive as hopes of returning to normalcy **anchored on the success of the vaccination efforts.**
- Government still **expects improvements** in the measure as it continuous to **implement programs under REBUILD and CREATE.**

Note: A line is drawn for the 50th mark to highlight the neutrality since anything above or below indicate an expansion or contraction in manufacturing PMI, respectively.

Source: Purchasing Managers' Index, IHS Markit

Exports rebound YTD September 2021 at 18%

Philippine Merchandise Exports Performance (September 2019 – September 2021)



Top 5 Highest Export Trade Value Products in 2021 (Jan – Sep)

Top Exports by Commodity Groups	Value (USD)
Electronic Products	31,489 M
Other Manufactured Goods	3,392 M
Other Mineral Products	1,989 M
Ignition Wiring Set and Other Wiring Sets Used in Vehicles, Aircrafts and Ships	1,820 M
Machinery & Transport Equipment	1,812 M

Top 5 Highest Export Markets in 2021 (Jan – Sep)

Top Export Market	Value (USD)
United States of America	8,907 M
China	8,721 M
Japan	8,109 M
Hong Kong SAR	7,370 M
Singapore	3,002 M

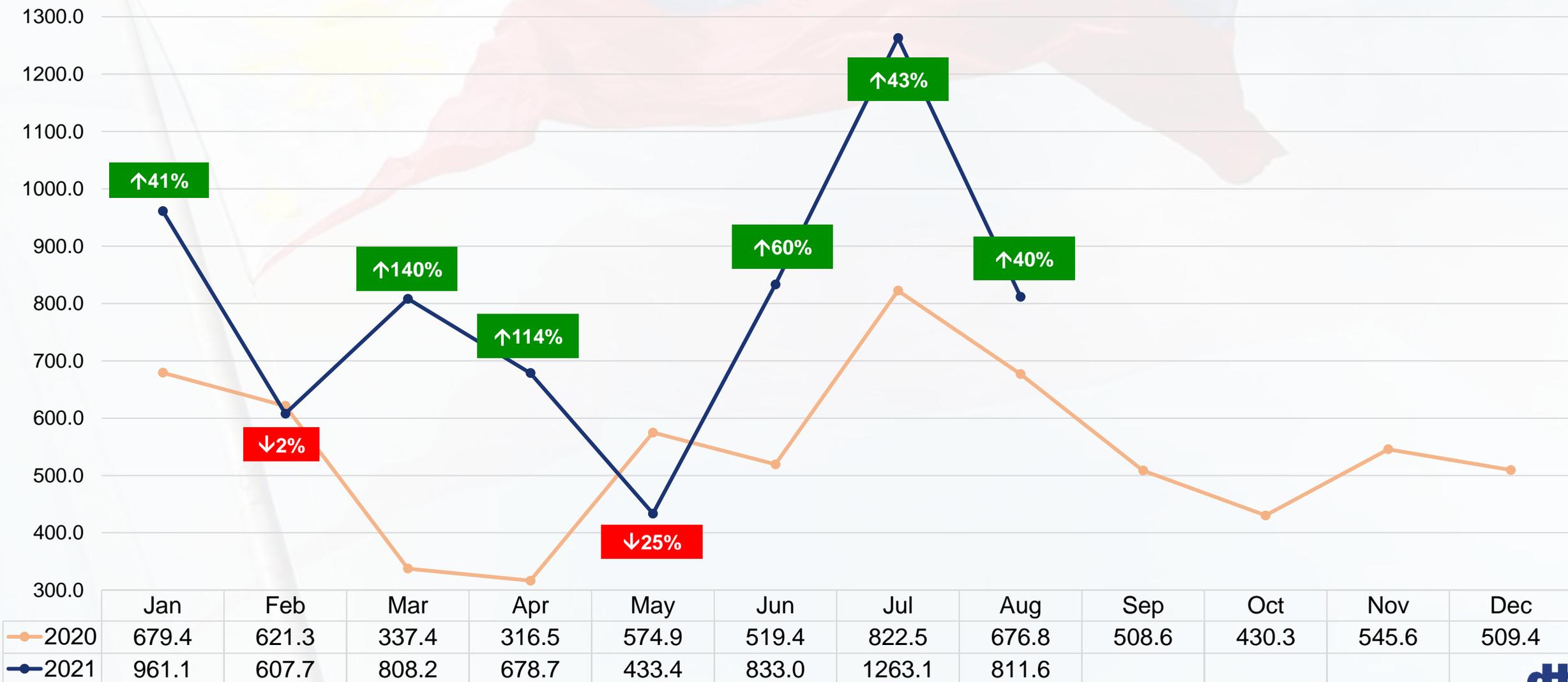
YTD exports confirmed a rebound; higher than 2019 pre-pandemic

Comparative Exports Performance: Year-to-date (Jan-Sept)

	2019	2020	2021	Growth rate 2021 vs 2020	Growth rate 2021 vs 2019
Exports Jan-Sept (in USD million)	53,211.76	47,190.67	55,679.41	17.97%	4.62%

Net FDIs picking up, with year-to-date (Jan-Aug 2021) at USD6.4 billion, 39.7% higher than USD4.6 billion recorded for Jan-Aug 2020

Philippine FDI Performance (Jan 2020 – Jul 2021) (USD Million)



Source: Investments, Bangko Sentral ng Pilipinas

YTD FDI confirmed a rebound; higher than 2019 pre-pandemic

Comparative FDI Performance: Year-to-date (Jan-Aug)

	2019	2020	2021	Growth rate 2021 vs 2020	Growth rate 2021 vs 2019
Net FDI Jan-Aug (in USD million)	4,693.03	4,562.50	6,373.22	39.7%	35.8%

Average Flows of Inward Foreign Direct Investment (FDI) to ASEAN Countries (in million US\$)

Host Country	2010-2015 Average	Rank	2016-2020 Average	Rank
Brunei Darussalam	693.912	9	355.804	↓ 10 ↓
Cambodia	1322.305	8	3,152.86	↑ 7 ↑
Indonesia	18,174.35	2	17,505.53	• 2 •
Lao PDR	585.48	10	1,170.46	↑ 9 ↑
Malaysia	10,619.86	3	7,913.77	↓ 5 ↓
Myanmar	2,008.80	7	2,447.74	↓ 8 ↓
Philippines	3,537.41	6	8,739.64	↑ 4 ↑
Singapore	57,851.13	1	87,123.76	• 1 •
Thailand	9,993.08	4	5,002.23	↓ 6 ↓
Viet Nam	8,964.51	5	14,824.00	↑ 3 ↑
Grand Total	113,750.84		148,235.79	

Growth in PH Manufacturing and Services Sectors

Strong growth in manufacturing and services sectors in the last 10 years

	2010-2020	Q1-Q3 2019-2020	Q1-Q3 2020-2021
Agriculture, Forestry, Fishing	3.6%	0.8%	-0.1%
Services	8.2%	-7.6%	6.8%
Manufacturing	4.6%	-14.9%	7.8%

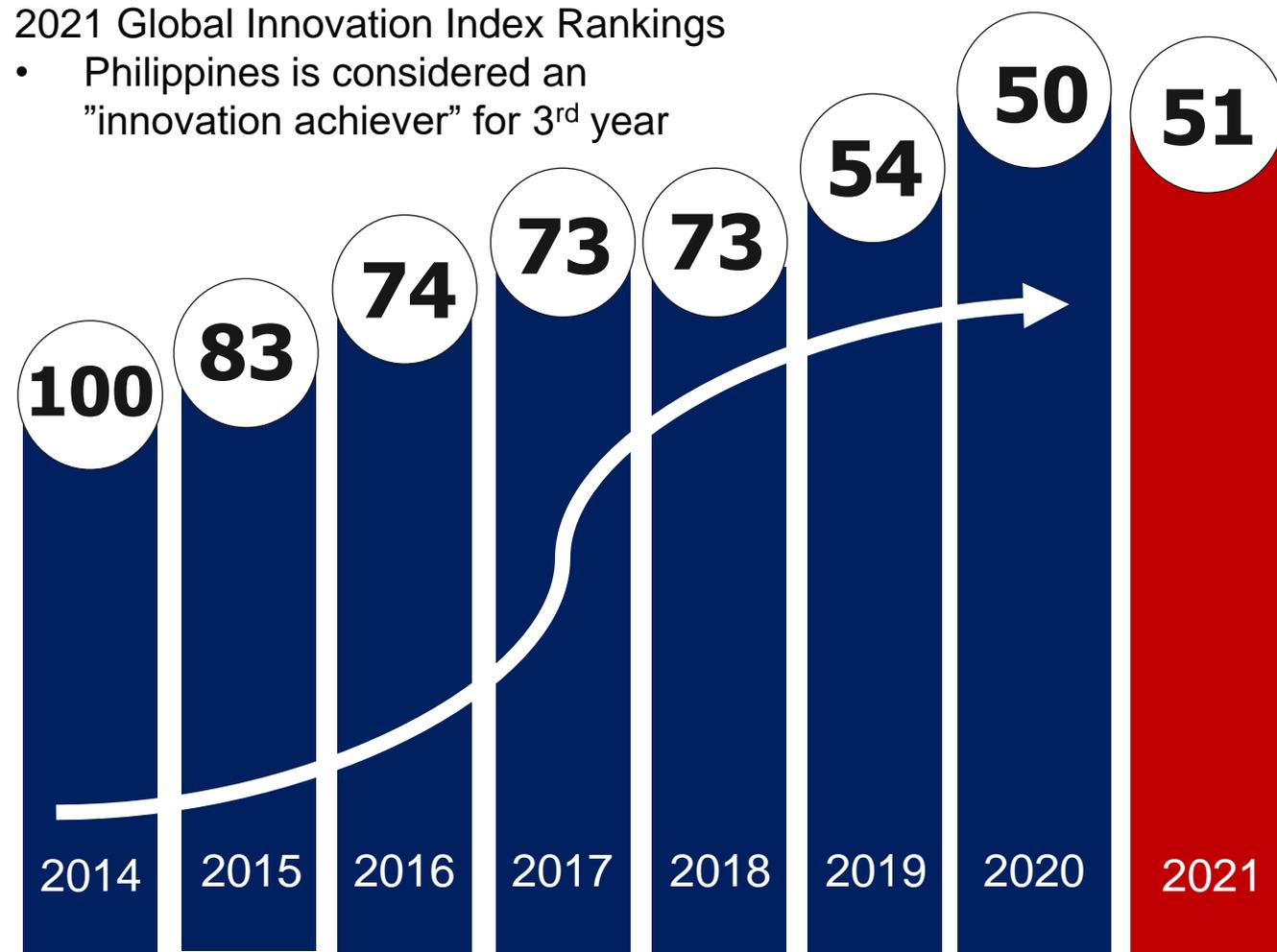
Source: BOI-IPPS

Innovation in the Philippines remained resilient despite COVID-19 setbacks

GII: Philippines continues to perform above expectations for its level of development

2021 Global Innovation Index Rankings

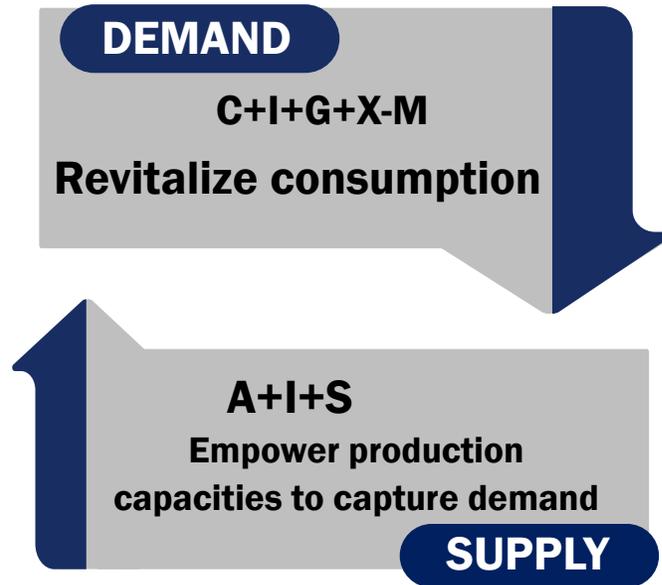
- Philippines is considered an "innovation achiever" for 3rd year



Philippines Strengths:

Indicator	Global Rank
High-tech imports, % total trade	1
High-tech exports, % total trade	1
Firms offering formal training, %	8
Utility models by origin/bn PPP\$ GDP	8
Creative goods exports, % of total trade	10
ICT Services exports, % of total trade	13
Graduates in science and engineering, %	19
GDP/unit of energy use	21
Applied tariff rate, weighted avg., %	22
Domestic market scale, bn PPP\$	27

REBUILD PH! “BUILD BACK BETTER”



VISION

To create a better future for Filipinos in a Modern, Dynamic and Responsible Philippines

OBJECTIVES

1. To have a modernized and integrated industrial capacity
2. To integrate PH high-value products and services in global value chains
3. To contribute to socio-economic development (in particular on infra, health, poverty, employment, environment)

GOALS

1. Reduce trade deficit
2. Increase value creation
3. Increase backward and forward linkages
4. Modernize Philippine Industries

DEMAND SIDE STRATEGY: REVITALIZE CONSUMPTION

C CONSUMER EXPENDITURE

- Economic Stimulus to Save Jobs/Income
- Promote Buy Local! Go Lokal!
- Increase accessibility to markets (online platforms, contactless payments, logistics)
- Strengthen consumer protection
- Ensure safety of consumers (COVID-proofing businesses to reduce fear)

I INVESTMENTS

- Improve investment climate (including incentives, structural reforms and infra)
- Promote IP generation and commercialization
- Implement policies on rural development i.e. provide incentives for investments outside metropolitan areas

G GOVERNMENT EXPENDITURE

- Continue implementation of Build! 3x Projects
- Implement strategic stockpiling

X EXPORTS

- Maximize utilization of FTAs and GSPs
- Strengthen trade promotion/deepen integration in global value chains

M IMPORTS

- Enforce standards to ensure high quality of products offered in the market
- Use appropriate trade remedy measures



PH in Demographic Sweet Spot and Rich Talent Pool

108M

Population and consumer base

49M

highly-skilled, educated, dedicated, and cost-efficient workforce

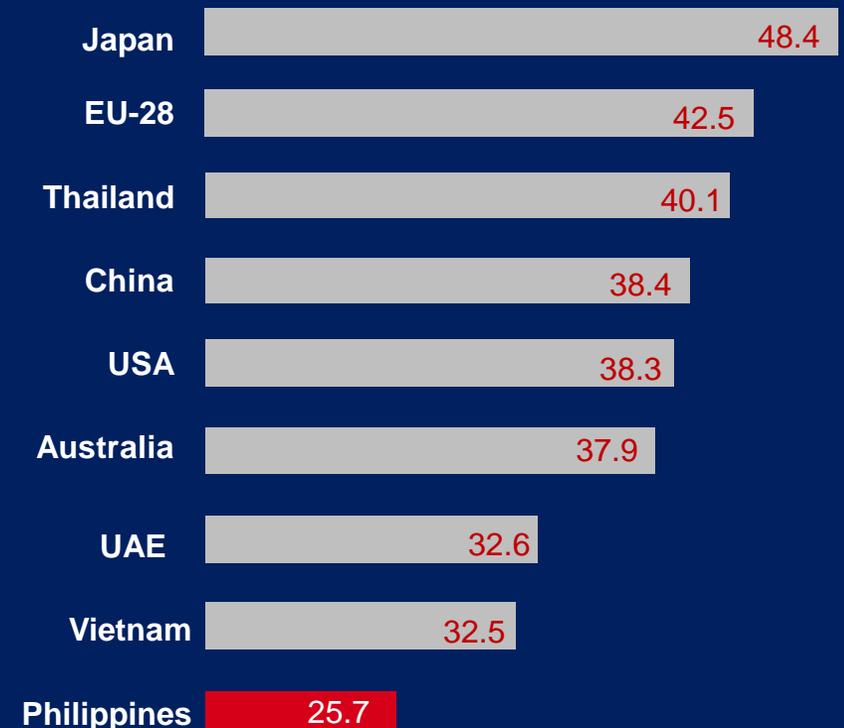
Our workforce is:

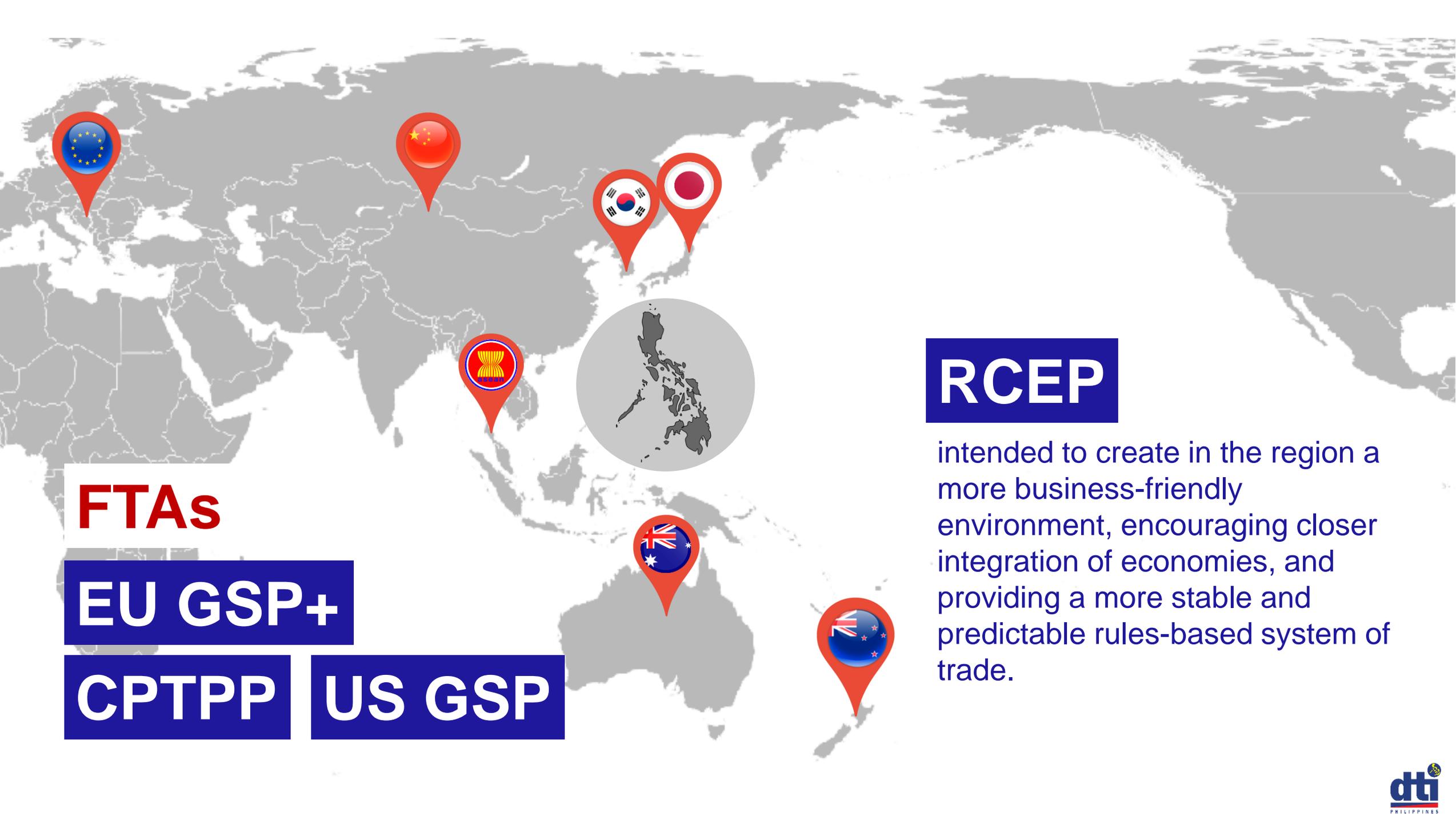
- Highly educated and English Proficient
- Strongly customer-oriented
- Multi-skilled
- Highly trainable with fast learning curve
- Adaptable to universal cultures
- High level of commitment and loyalty



Filipinos are younger compared to the rest of the world

The median age in the Philippines is 25.7 years old. This is equivalent to the age of someone who recently graduated from college.





FTAs

EU GSP+

CPTPP

US GSP

RCEP

intended to create in the region a more business-friendly environment, encouraging closer integration of economies, and providing a more stable and predictable rules-based system of trade.

CREATE

Corporate Recovery and Tax Incentives for Enterprises Act

CREATE Act

will rationalize, modernize,
and offer more relevant
incentives to investors

CREATE will reduce the corporate
income tax rate from

30%-25%

on large Corporations
&

20%

on small & medium
businesses

CREATE Act

Qualified activities or projects can also enjoy an incentives package for a maximum of 17 years

Includes Income Tax Holiday for

4 to 7 years

5%

Special Corporate Income Tax (CIT) rate of **5** years for domestic market enterprises and **10** years for export-oriented enterprises.

What kind of quality investment should we support

Classification of Investments into Tiers

Tier I

- High potential for job creation
- Sectors with market failures resulting in under provision of basic goods & services
- Value creation through innovation, upgrading, & moving up the value chain
- Essential support to sectors **critical to industrial development**
- Emerging owing to potential comparative advantage

Tier II

- Activities that are not locally produced but are **critical to industrial development : modern import substitution**
- **Address gaps in the supply/value chains and import-substituting activities**
- **Intermediate parts, components and services**

Tier III

- R&D with Significant Value Added, Higher Productivity
- Breakthroughs in Science & Health, High Paying Jobs
- Generation of new knowledge
- Commercialization of patents, industrial designs, copyrights, & utility models
- Highly technical manufacturing
- **Critical to structural transformation & industrial revolution of the economy**

Classification of Investments into Tiers

Sample Activities

Tier I

- Modern agri & food processing
- Coffee, Cacao, Coconut, Rubber, Fruits, Vegetables using modern technologies like agritech, precision agriculture
- Design focused: furniture, games & toys, jewelry, garments, textile articles
- Energy efficiency & environment friendly activities
- Health & medical products
- Ecozones, industrial parks
- Ports, airports, seaports

Tier II

- Iron & steel, non-ferrous metals
- Fabricated metal products
- Copper rods
- Plastics & synthetics in primary form
- Basic chemicals
- Pharmaceuticals
- Treatment & coating of metals, machining
- Tool and die
- Semi-conductor devices & other electrical components
- Fiber optic cables
- Refined petroleum
- Machinery & equipment

Tier III

- Research and development
- Production of 3D printers, drones, robots, EVs, PHEVs and similar products including parts & components
- Optical image devices/stabilizers
- Establishment of smart factory and smart cities, predictive agriculture, introduction of new products that embed new technologies and adoption of innovative processes using Industry 4.0 technologies like AI, ML, IOT in industries
- Vaccines

The Philippine automotive industry is well integrated in the major global value chains

- Covers a wide range, from assembly, importation and distribution, rebuilding of motor vehicles, and the manufacture of automotive parts and components.
- Employing around **90,000** of our countrymen
- Exported USD 4.1 billion in auto parts in 2019
- **6 Major Assemblers**, including global names like Toyota and Mitsubishi, and 6 Major Parts Manufacturers



The Philippines positions itself as a regional hub for EV and EV parts in ASEAN

- 54 manufacturers and importers
- 71,840 direct and direct employment for Filipinos



Transitioning to Electric Vehicles

Activities critical to industry development and priorities for incentives for domestic and export markets



Electric Vehicles Assembly

Manufacturing of
E-jeepneys
E-trucks
E-buses
E-UVs
E-Cars
E-Tricycles and
E-Motorcycles



Automotive Electronics and other parts Manufacturing

Products for
Advanced Driver Assistance Systems
High-precision sensors
AI-enabled parts;
Augmented Reality/Virtual Reality
Technology-enabled parts;
Electric motor powertrains
Metal forging



EV Battery, Charging, Energy Storage Systems, and Recycling

Battery and Parts
Charging Equipment
Energy Storage Systems utilizing local minerals in the Philippines for higher value upgrading, including recycling.



Engineering Service Outsourcing

Engineering Service Outsourcing; R&D;
Automotive systems design & modelling;
AI applications in autonomous vehicles

We are positioning the Philippines as a regional manufacturing hub for EV and EV parts in ASEAN. We recognize that the future of transportation will be autonomous, connected, electric, and shared.

ELECTRIC VEHICLE INCENTIVE STRATEGY (EVIS)

- Information, Education, and Communication
- Research and Development
- Regulations and Standards
- Fiscal and Non-Fiscal Incentives
- Human Resource Development



PH Electric Vehicle Ecosystem

54 MANUFACTURERS & IMPORTERS

11 PARTS
MANUFACTURERS

18 DEALERS &
TRADERS

19 CHARGING STATIONS

71,840 DIRECT & INDIRECT
EMPLOYMENT



The Philippine semiconductor and electronics industry remains to be the top contributor to our economy

- Home to about **500** semiconductor and electronics companies, employing about **3.2 million** in direct and indirect workers
- A growing base of competitive IC Design companies to provide services to the worldwide IC ecosystem, with around **1,200** engineers employed
- Medical devices manufacturing is a growing industry supported by existence of supply chain for manufacturing, PH medical device market is projected to expand up to **US\$ 744.7 million**

INDUSTRY PLAYERS



The Philippines produces 287,000 dry metric tons (MT) of copper concentrates annually and has 330,000 MT annual copper cathode capacity

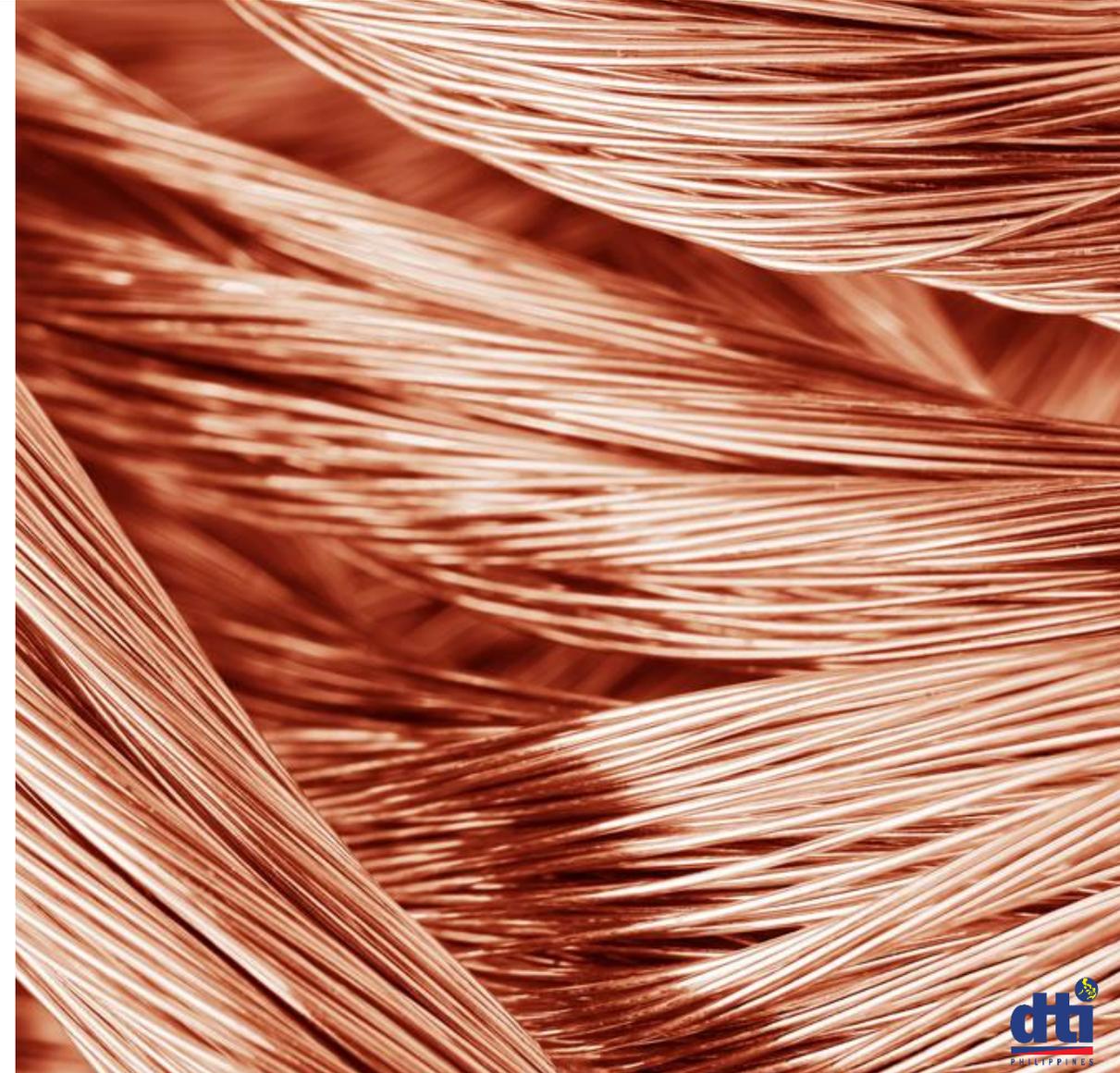
- Estimated **1.1 B** metric tons (MT) of copper reserves
- Produces about **287,000** dry metric tons (DMT) of copper concentrates annually¹;
- GVA in mining of copper ores amount to **PhP4.8B**, or **4.6%** of the total **third** quarter 2021 GVA in mining and quarrying²;
- Produced 44,050 DMT during the first quarter 2021 with a production value of Php3.3B;
- **Annual production capacity of 330,000 MT** of copper cathode³;
- World-class copper smelting plant in Leyte that is 19th largest in the world **in 2020**³;
- **Global copper price amounted to US\$9,812/ton** in October 2021⁴;

1 2016-2020 actual production data

2 Q3 2021 National Accounts of the Philippines, PSA

3 World Copper Factbook 2020, INSG

4 London Metal Exchange



The Philippines has nickel reserves amounting to 2.0B MT and the country's Nickel Industry employs 9,905 Filipinos in nickel mines and processing plants

- The Philippines ranked **6th** in nickel reserves and **2nd** in nickel production
- Produced **12.5 million** DMT of nickel direct shipping ore for the first half of 2021, with a production value of **Php21.0B**; and,
- Produced **39,205** DMT of mixed nickel-cobalt sulfide for the same period, with a production value of **Php15.1B**.



The Philippines continues to be recognized in the global aerospace industry as a developing player in the aerospace industry value chain

- Ranked 34th in the 2020 PWC Aerospace Manufacturing Attractiveness Rankings, up from 39th in 2019 and 47th in 2018.
 - Slipped from top spot to number 2 in terms of the Labor metric
 - Made gains in terms of Cost, Infrastructure, Industry, and Geo-Political Risk metrics
- Host to 3 aerospace Original Equipment Manufacturers (OEM) producing requirements for commercial aircraft industry
 - Developing local supply chain capability;
 - Exported around US\$407M in aerospace parts in 2020
- Host to 2 major MRO brands servicing commercial aviation industry, both domestic and international
- Various schools that supply human resource and training requirements



Opportunities

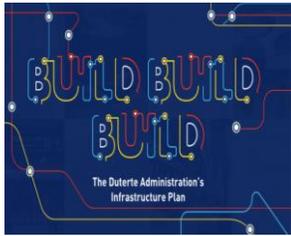
Coconut Processing	Processed Tropical Fruits	Carrageenan	Meat Processing and Feed Milling
<ul style="list-style-type: none"> • Manufacture of VCO, MCT Oil, Coco Sugar, Coco Condiments, and Coco Milk • Manufacture of Activated Carbon 	<ul style="list-style-type: none"> • Manufacture of tropical fruits (mango, banana, etc.) through drying/ dehydration, thermal processing or spray drying • Manufacture of Fruit-based Beverages 	<ul style="list-style-type: none"> • Food applications • Pharmaceutical applications – soft gel capsule • Seaweed/ carrageenan-based biofilm and bioplastics as sustainable packaging material • Seaweed-based feed ingredient 	<ul style="list-style-type: none"> • Manufacturing of Mechanically-deboned Meat (MDM) • Manufacture of animal and aqua feeds
Cassava Processing	Natural Health Products	Agri-Fishery Machinery Manufacturing	Cold Chain
<ul style="list-style-type: none"> • Manufacture of cassava as thickener / binder in snack foods (chips), malting ingredient for alcoholic beverages and protomalt for powdered beverages 	<ul style="list-style-type: none"> • Manufacturing of health supplements, nutraceuticals, personal care, and essential oils • R&D and Clinical Trial on Active Pharma Ingredient Extraction 	<ul style="list-style-type: none"> • Manufacture of agri-fishery machinery and equipment, including parts, tools and components 	<ul style="list-style-type: none"> • Establishment and operation of cold storage warehouses • Operation of temperature-controlled logistics service for food, pharma and non-food



The Philippine Agribusiness Industry

- The Philippines is **one of the world's largest exporter of agriculture, fishery and products** derived therefrom.
- PH is a **renowned global supplier of tropical fruits, coconuts, carrageenan and tuna** either in fresh, chilled, frozen or processed form (Sources: PSA and Trademap).
- **Agricultural and fisheries production has remained relatively stable in the last 5 years.** However, on a sub-sector level, rapid growth is observed in poultry and livestock (Source: PSA).
- **Food and beverage manufacturing has been dynamic in the last five years,** posting an average increase of 10-12 Index Points annually (Source: Volume of Production Index, PSA-MISSI).

Market Potential (local)



40% additional infrastructure funding in 2021 and 26% more government spending in Q1 2021



USD 100 billion investment on transportation for the next decade.



12.4 million housing backlog by 2030



USD 14.07 billion investment requirement for logistics in the next 10 years.



368,600 sq. m of office space requirement for 2021-2025



20 new power plants need to supply 20 GW by 2030



Construction of hospitals and quarantine facilities for COVID-19 patients

Market Potential (global)



Global construction is estimated to reach **USD49.1 trillion** in value by 2030.



The value of Engineering Services Outsourcing (ESO) market is expected to reach **USD 1.49 Trillion** by 2025.



The Philippine Construction Service Industry

4.4 million workers

USD 39 billion as component of Gross Capital Formation

USD 18.8 Billion Gross Value Added

16.6% Share-to-GDP

USD 5,331 Average annual compensation for construction employees

500,000 (43% of ASEAN) Registered engineers

USD 275 Average construction cost per square meter for residential constructions in Q1 2021

USD 228 Average construction cost per square meter for non-residential constructions in Q1 2021

With a 13% share of the global market in 2019 and 15% in 2020, the Philippine IT-BPM sector is the second largest in the world

SECTOR HIGHLIGHTS



Leading provider of Voice BPO services



World-class IT-BPM services to a wide range of Fortune 1000 firms



13% global market share in 2019



Direct employees at 1.3M as of 2019 and projected to be 1.6M by 2022



Industry revenue is at \$26.3B in 2019 and projected to be \$32.2B by 2022

IT-BPM SUBSECTORS



ANIMATION COUNCIL OF THE PHILIPPINES, INC.

ANIMATION



SERVING THE WORLD

CONTACT CENTER



GAME DEVELOPERS ASSOCIATION OF THE PHILIPPINES

GAME DEVELOPMENT



GLOBAL IN-HOUSE CENTER COUNCIL PHILIPPINES

GLOBAL SHARED SERVICES



Healthcare Information Management Association of the Philippines

HEALTHCARE



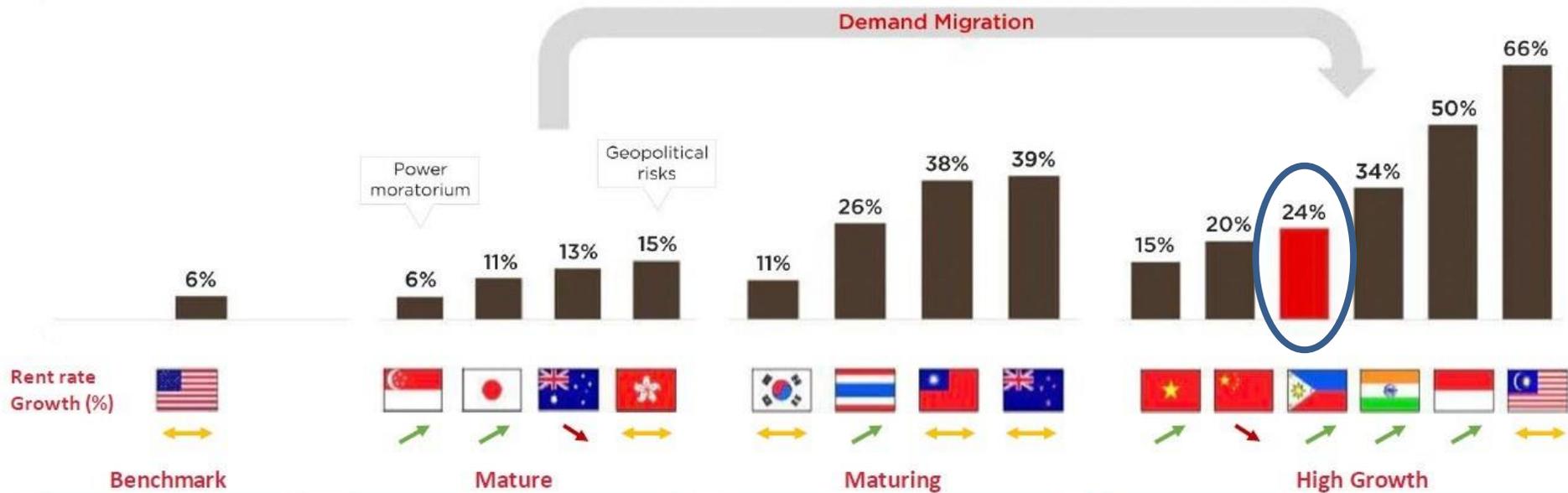
Philippine Software Industry Association

IT AND SOFTWARE

PH: THE NEXT STRATEGIC HYPERSCALER HUB IN APAC

An underserved market with tremendous potential

Data Center Projected Supply Growth (3-5years CAGR)



US: mature, well-served markets

Australia considered 'well-served' and may see near term rate pressure

Combination of sufficient supply with moderate demand creates stable rate environment

Data localization and demand for lower latency driving emerging markets
Accelerating hyper-scaler inbound

National AI Strategy for the Philippines to position the our country as an AI center of excellence in the region.

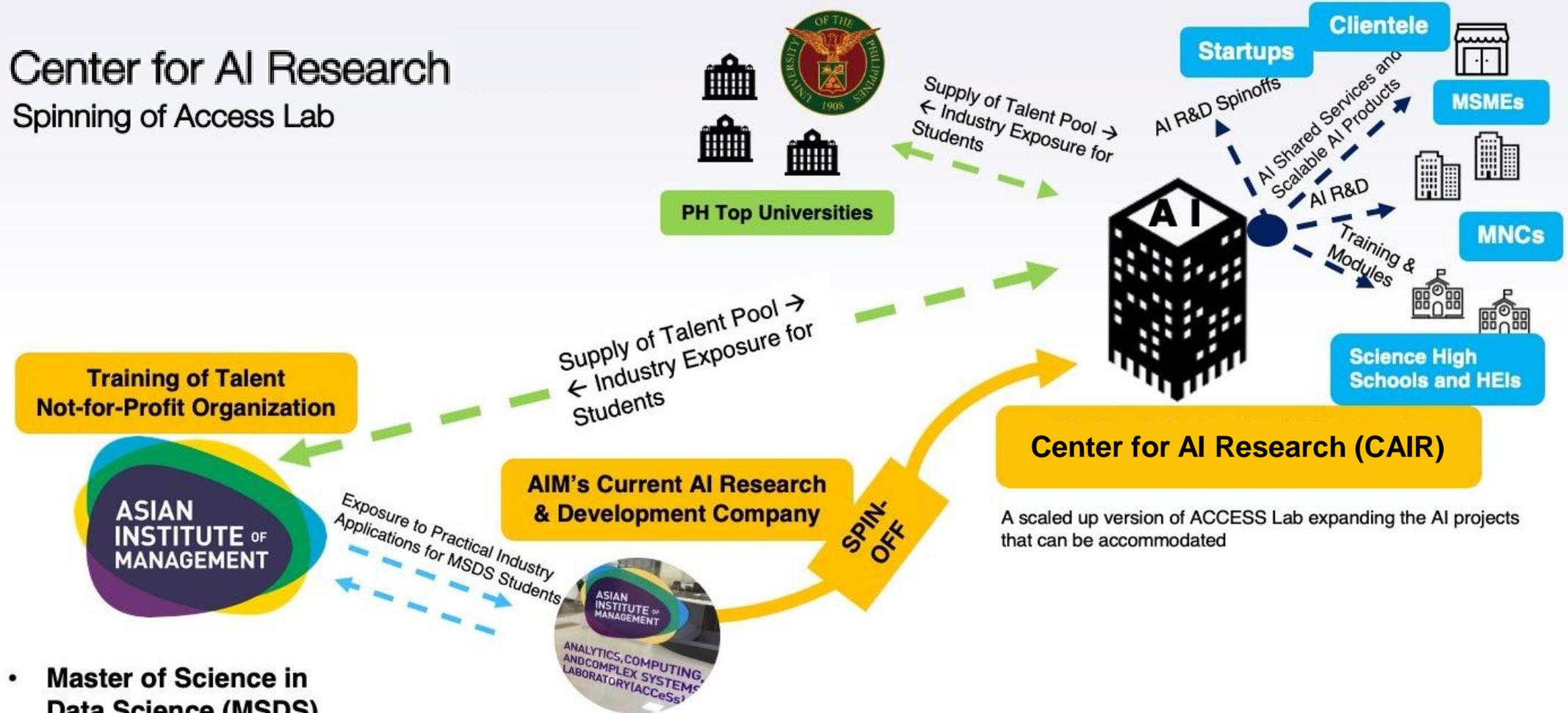
Specific objectives:

1. To **maintain the regional and global competitiveness** of local industries noting that AI is one of the biggest drivers of innovation for enterprises.
2. To identify **key areas (in both R&D and technology application) for investing** both time and resources of government, industry, and society.
3. To recommend ways for effectively **fostering a triple-helix (Government-Industry-Academe) R&D collaboration**, essential to national development.
4. To suggest approaches for **preparing the future workforce** for the jobs of the future.
5. To **attract the world's leading firms** to set shop in the country, thus generating **more jobs for the Filipino people**.



Center for AI Research

Spinning of Access Lab



- **Master of Science in Data Science (MSDS)**
- **PhD in Data Science**

Key CAIR Services:

- AI Research and Development for Industries
- AI products for off-the-shelf access for MSMEs
- Training of educators and faculties

Pandemic remains to be very challenging

- Initially, we thought that this year's global recovery can surely be sustained since this demand-triggered recovery is ultimately based on higher vaccination rates of Western countries.
 - However, with developed nations once again struggling to take control of the spread of the pandemic, it is imperative to keep ahead of the curve.
- Policy: There should be a need for targeted (rather than blanket) health protocols.
 - Geographic focus for lockdowns
 - Empowering those who are less vulnerable
- Capacity
 - Healthcare capacity
 - Vaccine production and therapeutics—we cannot protect 100% of the population, so for those who will be infected, we need to have an effective treatment protocol

PH as a Premium Investment Destination

Vietnam

Essentially a suburb of China

Ability to offer superior incentives (e.g. public land)

Indonesia

Big market

Leveraging access to resources (e.g. Ore export ban)

• Philippines

- **Sizeable market**
- Resilient and capable **human resource pool** – demographics, education, communication skills, flexible
- Strong **commitment to protect intellectual property**
- **Strategic trade management regime**, recognized by US, EU, Japan, for dual-purpose goods and services
- **Ideal location** to link **Asian/ASEAN value chains and key markets**
- **Wide network of FTAs and GSPs**
- Sincere **dedication not to dilute protection to workers and environment** in order to gain cost competitiveness
- **Proven track record** in terms of trajectory and direction of **economic reform, across administrations**

THE PHILIPPINES **MAKE IT HAPPEN** INES

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