‘DUTERTENOMICS’: BUILDING SUSTAINABLE AND INCLUSIVE GROWTH

The Filipino government is set to transform the nation through its 10-point economic agenda

Since assuming office in June 2016, the new Filipino government under President Rodrigo Duterte has been working hard towards achieving the objectives set out in its roadmap to build sustainable and inclusive growth, known as the ‘0+10-Point Socioeconomic Agenda’.

The Agenda comprises ten pillars, or points, which include: maintaining current fiscal, monetary, and trade policies; instituting progressive tax reform; increasing competitiveness and the ease of doing business; increasing infrastructure spending to account for 5 percent of GDP; and investing in human capital development to meet the demands of the private sector.

The government also aims to open up the economy to boost foreign direct investment, particularly from its regional neighbors such as Japan and China, for whom the Philippines is already an attractive destination, thanks to its growing middle class; educated and English-speaking workforce; and robust economic growth, with yearly GDP growth above 6 percent for the past six consecutive years.

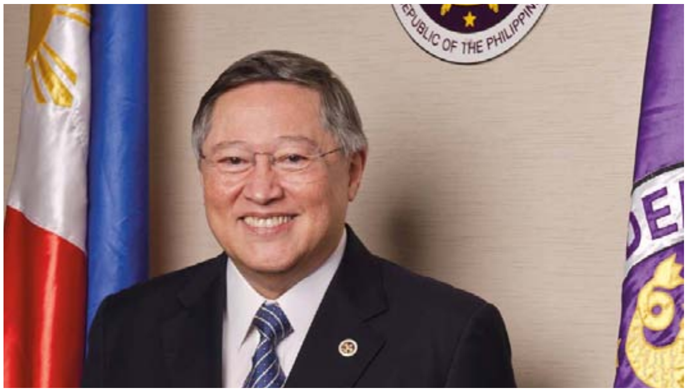
Thirteen new economic zones are also being built as a further draw for Japanese investors looking to use the Philippines as a gateway to tap the growing ASEAN market. Strengthening ASEAN regional integration, therefore, is another important factor for the government, which, during its Chairmanship of ASEAN in 2017, promoted unity with and among the member states and its global partners.

One of the other main goals for the Duterte administration is reducing the poverty rate from the current 22 percent to 14 percent by 2022.

“Our major anti-poverty tool is going to be investment in infrastructure, and I am not only talking about physical infrastructure. I am also talking about education, training, science, and technology, but obviously physical infrastructure is what we need to primarily focus on,” says Secretary of Finance Carlos G. Dominguez III.

The implementation of the comprehensive tax reform program is crucial to the government’s infrastructure plan, says Cecilia C. Borromeo, President and CEO of the Development Bank of the Philippines, a state-owned institution. “The success of the administration’s infrastructure program largely rests on it, as it will be funded mainly by revenue gains from the tax reform.”

With the expected revenue gains as a result of the tax reform program, President Duterte has pledged to pour $160 billion into infrastructure development during his six-year tenure.



Carlos G. Dominguez III , Secretary of Finance of the Philippines

“For the last 30 years, no more than 3 percent of the GDP was spent on infrastructure – a reason for the evident congestion in the country. This is an issue that must be addressed before investors get discouraged to establish operations here,” says Benjamin Diokno, Secretary of Budget and Management.

Japan is set to become a major partner in the infrastructure plan. In January 2017, Japanese Prime Minister Shinzo Abe approved a one-trillion-yen package (approx. $9.4 billion) for the Philippines, which will include both government aid and private investments. The package will be used to fund infrastructure projects across the country over the next five years. The move serves as a clear testament to Japan’s intentions to strengthen its commercial engagement in the region, as it vies for power with China, and to use the Philippines as its gateway to the ASEAN market.

“One factor that drives Japan into the Philippines is their search for a single market in the ASEAN region. There are around 600 million people in the region and the Philippines offers a good location,” says Guillermo M. Luz, Private Sector Co-Chairman of the National Competitive Council.

“Another factor is the long history of Japanese investments. The Japanese companies can leverage on these long-existing relationships. If their companies can produce here, they will be able to export to neighboring ASEAN countries.”

PRIVATE SECTOR SUPPORTS DECENTRALIZATION OF ECONOMY, A KEY PART OF GOVERNMENT AGENDA

The private sector, including several Japanese companies, are supporting the government in its plan to boost prosperity beyond the Manila Metropolitan Area

With so much economic prosperity concentrated around the capital Manila and the surrounding area, one of the key objectives for the Duterte administration is decentralization. And much of the $160 billion pledged for investment in infrastructure will be used to build vital road, rail, air, sea and power links across the nation, in a bid to build inclusive economic growth as envisioned in the '0+10-Point Socioeconomic Agenda'.

"The main strategy that we will employ is having investments in infrastructure outside the greater Manila area, because approximately two thirds of our GDP is produced in this area, while one third of the GDP is divided into the other regions," says Secretary of Finance Carlos G. Dominguez III.

"Developments nowadays are also extending towards other regions of the Philippines like Mindanao," says George T. Barcelon, President of the Philippine Chamber of Commerce and Industry.

"Previously, I was in an induction ceremony at San Fernando, Pampanga, and one of the economists there mentioned that the Philippines is becoming a rising star. If you look at the last four or five years, we are doing well as a consumer economy, primarily because of the BPO industry and remittances, among others. Our manufacturing industry has been growing also, and I am looking forward to seeing more investments coming from Japan."

While the government is going to provide much of the funding for infrastructure, the private sector has expressed its support for the decentralization plan. With the privatization of the energy sector, for example, several private Filipino companies are buying up power plants that were previously in the hands of the public sector, as well as building new power infrastructure.

Japanese firms are also getting in on the act. Trading company Marubeni has invested in a coal-fired plant in the province of Batangas, and is looking to make other investments in power plants there; while Toyota Tsusho Corporation has had a 25 percent stake Sarangani Energy Corp. since 2012. Investments from the Japanese private sector will also fund the construction of a high-speed train connecting Subic in Zambales and Clark in Pampanga, and the commuter rail connecting Tutuban in Manila and Las Baños in Laguna. Projects like these will help to further bolster economic growth outside the capital.

"The private sector has definitely welcomed the administration's plans with regards to tax reforms and most especially the whole idea of investing vast amounts of money for infrastructure over the next six years," says Peter Angelo V. Perfecto, Executive Director of the Makati Business Club, a non-profit organization which aims to foster and promote the role of the business sector in national development efforts.

"Generally, the business community will be supportive of the administration. We will provide them with help by participating when they call for policy dialogues and ensure that they succeed."

"Given the Philippines' good relationship with countries such as Japan, it can be considered an opportunity, a golden era – one that must be capitalized on in order to promote the country's resources and to be able to increase the income of farmers"

Antonio Tiu, President and CEO, AgriNurture Inc.

The development of economic zones is another important factor in the decentralization plan. Aside from the 13 new economic zones being developed under the Duterte government, there are currently 74 Manufacturing Economic Zones, 262 Information Technology Parks, 22 Agro-Industrial Economic Zones, 19 Tourism Economic Zones and 2 Medical Tourism Parks, which are located across the country and offer attractive incentives to foreign investors.

With subsistence farming being the main economic activity in many rural areas, building a thriving agro-industry is also a crucial part of the decentralization plan. This will help to drive economic prosperity in poorer regions. Japanese investors are already supporting this initiative. Trading firms Itochu and Sumitomo announced last year that they would invest an additional PHP 12.9 billion ($259 million) in 2018 to expand their integrated farming projects in the Mindanao region.

Japan is also a major buyer of the Philippines' vast variety of agricultural products, which range from fruits such as pineapples, mangoes, coconuts and bananas, to grains such as rice and other commodities like coffee and cocoa.

"Maximizing local agricultural resources is a critical factor but always a formidable task in stimulating economic growth," says Antonio Tiu and President and CEO of AgriNurture Inc., a company engaged in the manufacture and distribution of food and beverage products, whose subsidiaries include Big Chill, Inc.

"Given the Philippines' good relationship with countries such as Japan, it can be considered an opportunity, a golden era – one that must be capitalized on in order to promote the country's resources and to be able to increase the income of farmers. The scarcity of agricultural resources in Japan has led the country to demand a number of off-season vegetables from the Philippines. These are then considered high-value items that the Philippines can mainly offer to Japan."

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NO LONGER A MERE ELECTRONICS CONTRACT MANUFACTURER

The Philippines aims to become a regional leader in electronics innovation and R&D, with the support of companies like Integrated Micro-Electronics Inc.

The Philippines' electronics industry was born in the mid-1970s, as companies from industrialized nations such as the U.S. and Japan began to relocate their production facilities to developing countries, or outsourcing production to local electronics contract manufacturers.

Since then, the industry has grown impressively, and today electronics and electrical machinery and components make up over half of the Philippines' exports. The country has been a preferred outsourcing destination for many Japanese electronics firms, including Canon, Fujifilm, Furukawa Electric and Murata Engineering.

Undoubtedly, infrastructure challenges can be a deterrent for manufacturers. But special economic zones such as Subic Bay and Clark Economic Zone have been able to attract several investors, including many from Japan, thanks to their excellent transport connections, reliable power supply, talented workforce, tax incentives and special regulations. The Government's infrastructure development program should also help to drive manufacturing growth to other parts of the country, in line with its plan to boost inclusive development.

"We would be willing to support high-quality infrastructure; and also Japanese investment – from large to small and medium-scale investments," says Mr. Seigo Baba, a chief representative of the Japan Bank for International Cooperation in Manila.

"These will be beneficial in building the manufacturing sector, and creating better and more sustainable jobs."

While the Philippines will continue to be an outsourcing destination for Japanese and other international electronics manufacturers, it is determined to transform its image as a mere outsourcing destination into that of a regional leader in high technology, innovation and R&D. One pillar of the '0+10-Point Socioeconomic Agenda' is focused on promoting science, technology, and innovation, which will be supported by companies like Integrated Micro-Electronics Inc. (IMI).

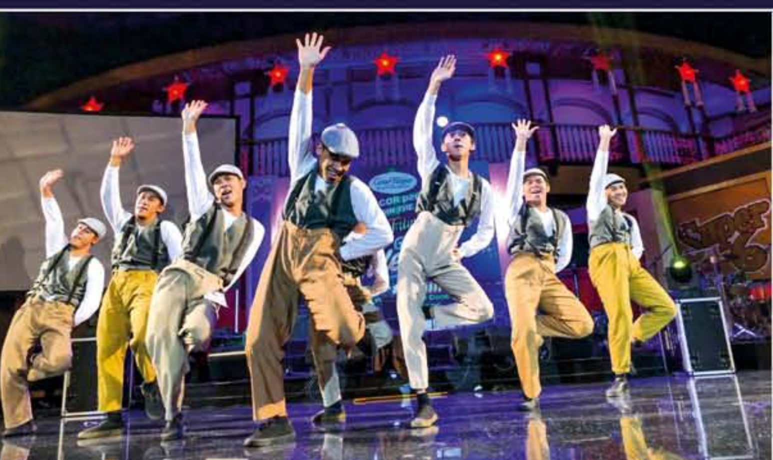
"Although the country has been evolving significantly, the issue that we are facing now is that the Philippines has remained in that role of a simple contract manufacturer," says Arthur Tan, CEO of IMI, which is a subsidiary one of the Philippines largest conglomerates, Ayala Corp.

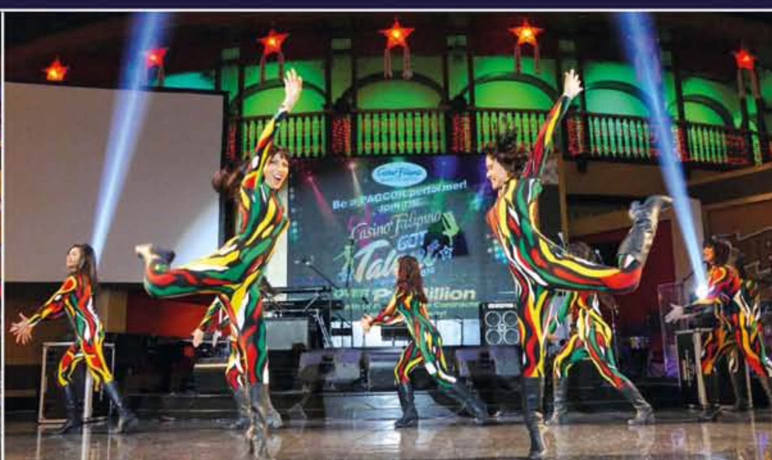
"It is true that we are still very active in contract manufacturing but it has become less about assembly work and more about engineering to a level where new processes that are developed here have been transferred to Japan. It is now a challenge to change the perception of the Philippines as being just a contract manufacturer."

IMI has been in been engaged in contract electronics manufacturing since the early 1980s and has several Japanese clients, but has since evolved to become a leading global electronics company.

"We have been one of the pioneers in contract manufacturing and were able to evolve with different technology trends and develop the economy," says Mr. Tan. "After many years of scaling up our engineering, we are now able to produce and develop new product processes that can be exported to other countries."

"Companies in the U.S. that used to just do back-end assembly work here have recognized our potential," he adds. "They have transitioned to front-end R&D and design work for products that are released globally. I think Japan Inc. should take notice of this."



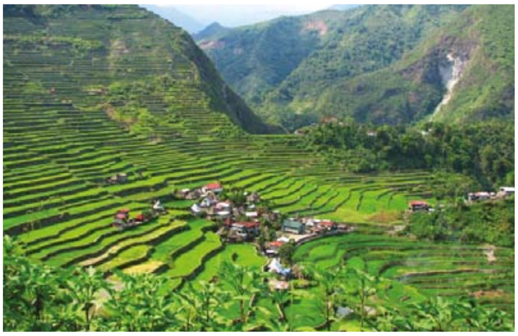


TOURISM ARRIVALS TO REACH A RECORD 7M THIS YEAR, AS INDUSTRY INVESTMENTS CONTINUE TO GROW

The Philippines aims to leverage its potential to build a thriving tourism industry that will drive inclusive growth

"The country continues to receive a growing influx of tourists, desiring to see our world-class destinations and experience the renowned Filipino hospitality"

Wanda Corazon Teo,
Secretary of Tourism



The Philippines is made up of over 7,000 islands teeming with biodiversity, ranging from tropical rain forests, mangroves, and coral reefs to mountain ranges and sandy-white beaches. And while it may not match Thailand in terms of visitor numbers, it certainly matches – if not surpasses – its regional competitor in the beauty stakes.

But the numbers are growing, making investment in the budding tourism industry an interesting proposition for foreign investors, and an alternative to less saturated markets like Thailand. According to the Department of Tourism, tourism arrivals hit 6.6 million in 2017, 11 percent higher than the previous year's 5.97 million – well above the average tourism growth of Asia and the Pacific, which is at 6 percent, and Southeast Asia, at 8 percent. And that figure is expected to reach a record 7 million by the end of the year, increasing to more than 10 million by 2027.

"In the face of challenges, the country continues to receive a growing influx of tourists from across the globe, desiring to see our world-class destinations and experience the renowned Filipino hospitality," says Secretary of Tourism, Wanda Corazon Teo.

"We would like to close the year strongly for the tourism industry in terms of visitor arrivals and carry the momentum into the coming year."

Contributing 8 percent to GDP and employing 5.5 percent of the workforce, the tourism industry is an important pillar of the Filipino economy. The government has made tourism development a priority in its goal to build inclusive growth, and aims to invest in tourism and transport infrastructure to bring much-needed economic activity and jobs to poorer regions.

The vision, laid out in The National Tourism Development Plan (NTDP) 2016-2020, is to develop a highly competitive, environmentally sustainable and socially responsible tourism that promotes inclusive growth.

"With the Philippines' diversely-rich natural environment, Filipinos offer our guests ultimate fun experiences. But without collaborated measures on environmental protection, we cannot ensure sustainable growth of the tourism industry nor reap its economic benefits," explains Secretary Corazon Teo.

As part of the Plan, 20 tourism clusters, nine gateway clusters and 49 development areas will be established. Building international airports to increase arrival capacity is also a vital part of the plan to boost tourism and economic growth across the nation.

"As envisioned in our NTDP, secondary airports will be upgraded to address air traffic congestion in Manila, and to disperse the benefits of tourism to the countryside," adds Secretary Corazon Teo.

PAGCOR

China is the number one source of tourists for the Philippines, many of whom are drawn by the nation's gaming and entertainment resorts, which are a large source of tourism revenues for the government. As the operator and regulator of these resorts, the Philippine Amusement and Gaming Corporation (PAGCOR) manages these revenues, which are invested in wide range of civic and social programs in health, education and other sectors.

"We are the third largest revenue generating body in the Philippines," says PAGCOR CEO and Chairperson, Andrea D. Domingo. "We take the profit from gaming and use it for social civic programs. In our mandate, there is a specified use for the money that PAGCOR collects and it is to fund social development projects."

PAGCOR is a firm supporter of the government's drive to boost tourism in the country, and is behind one of the country's most exciting tourism developments, Entertainment City, a 44-hectare leisure and entertainment complex under development along Manila Bay that will be a major draw for visitors to the capital.

"We are focusing on Entertainment City so that when people think of going to Las Vegas they can also come here, which is much cheaper for them, especially for ASEAN nationals," explains Ms. Domingo. "We are working very hard on providing a personal touch and great service to customers so that they feel most welcomed."

TOURISM *INVESTMENTS*
PHILIPPINES

Tourism Infrastructure and Enterprise Zone Authority (TIEZA)

The Philippines continues to rise - proving its competitiveness as it ranked seventh in a list of economies tagged as "most promising host countries," according to a business survey conducted by the United Nations Conference on Trade and Development (UNCTAD) in 2017. Moreover, the Philippines is rapidly becoming a more attractive destination for Foreign Direct Investment (FDI). It is now among the fastest growing economies in Asia, continuing to perform strongly each year. The country's Gross Domestic Product (GDP) grew by 6.7 percent in the first three quarters of 2017, in comparison to the projected 6.6 percent. This GDP growth is one of the highest in the ASEAN region.

Under the Tourism Act of 2009, the Tourism Infrastructure and Enterprise Zone Authority (TIEZA) is the sole agency that designates, regulates, and supervises Tourism Enterprise Zones (TEZ) and administers fiscal and non-fiscal incentives available to TEZ Developers and Registered Tourism Enterprises (RTEs) in the Philippines.

A TEZ has the following attributes:

- Capable of being defined into one contiguous territory
- Has historical and cultural significance with existing or potential integrated leisure facilities
- Is in a strategic location with easy access to transportation and utilities
- Has at least five (5) hectares land area.
- At least five million dollars in investment (US$5 M)

Fiscal Incentives for investing in San Vicente Flagship TEZ:

Fiscal Incentives

- Six-year Income Tax Holiday
- 5% Gross Income Taxation
- Net Operating Loss Carry Over (NOLCO)
- Tax and Duty Free Importation of:
  - Goods and Services
  - Capital Investment and Equipment
  - Transportation Equipment and Spare Parts
- Tax Credit on Locally-Sourced Goods
- Social Responsibility Incentive

Non-Fiscal Incentives

- Employment of Foreign Nationals
- Special Investors Resident Visa
- Lease of Land by Foreign Investors
- Exemption from non-requisition of investment

San Vicente Flagship TEZ: A Stretch of Paradise
Palawan, Philippines

SAN VICENTE
TOURISM ENTERPRISE ZONE

Palawan, known for its marvelous scenery and tranquil ambience, has established its presence to travelers, both locally and internationally. Indeed, Palawan never fails to astonish its visitors and always lands a place on the top island destinations around the globe. Other than Palawan's biggest draws such as El Nido, Coron, and the Underground River in Puerto Princesa, Palawan still has a hidden gem that is bigger than any of its other well-known attractions.

Located on the western shore of the northern portion of Palawan, San Vicente features a 14 km long unbroken stretch of pristine white sand beach, a coastline dotted with picturesque islets, and a lush and unspoiled tropical forest. The newly built San Vicente Airport at the heart of the Zone makes it easier for tourists to visit and explore this next go-to destination. San Vicente TEZ, one of the main Flagship TEZs, is envisioned to be an environmentally and socially sustainable, integrated investor's haven that will be a catalyst for inclusive economic growth through public and private partnership.

The Flagship Tourism Enterprise Zone Project is a joint initiative of the Department of Tourism (DOT) and the Tourism Infrastructure and Enterprise Zone Authority to develop TEZs and raise the competitiveness of the Philippines as a tourism destination.