



## **ARANGKADA PHILIPPINES FORUM: MOVING TWICE AS FAST**

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### **The Role of Foreign Investments in Philippine Economic Growth Secretary Gregory Domingo's Speech as delivered during the Arangkada Forum**

Good morning, Ambassador Toshinao Urabe of Japan; Rick Jennings, President, American Chamber of Commerce; John Casey, President of Australia-New Zealand Chamber of Commerce; Julian Payne President, Canadian Chamber of Commerce; Hubert d'Aboville, President, European Chamber of Commerce; Nobuya Ichiki, President, Japanese Chamber of Commerce; Edward Chang, President, Korean Chamber of Commerce; Kee Teek Hong, Philippine Association of Multinational Companies Regional Headquarters (PAMURI); my former colleague Bertie Lim, former Tourism Secretary; former Finance Secretary Bobby de Ocampo, Vice Chairman, Makati Business Club. We have governor of Ilocos Norte, Imee Marcos; Gloria Steele, Mission Director, USAID; Bill Luz, private sector co-chairman of the National Competitiveness Council, members of the foreign chambers, other guests, ladies and gentlemen.

On behalf of the Department of Trade and Industry, I wish to extend my congratulations to the Joint Foreign Chambers for the first anniversary of Arangkada Philippines. The Philippine government appreciates your significant contributions in moving the country forward to attaining inclusive growth, the type of growth, where the poor also benefits. We've considered your recommendations and made some progress by introducing policy reforms particularly in providing a better business environment and improving the country's competitiveness.

I am supposed to talk on the role of foreign investments in Philippine economic growth, but the only thing I will say about it is that it is very important. What I'd like to do instead is just to share with you some of my thoughts on a variety of things related to DTI. The first one is the situation the Philippines right now finds itself in. I'd like to use a term called sweet spot. Sweet spot, in the sense that foreign investments seem to be coming this way, in a big way. And there are really many reasons for that including the weakness in US and Europe. Within Asia, what we are seeing now is that the coastal area of China, because of the recent policies of the Chinese government which have resulted not accidentally but actually on purpose, in increasing wages in the coastal areas of China by a lot. And so now, the Philippines is actually a cheaper operating environment than the coastal areas of China. And it seems like the wage cost increases there will continue in the near future.

You also find the situation wherein Vietnam, which was attracting a lot of foreign investments, finds itself now with a 20% inflation rate environment. So that has temporarily caused pause to big companies in terms of locating there. Then you have the situation in Thailand which is the flooding, and we really sympathize with them on this thing, but the result of that, since flooding has not completely abated yet, is that we're also seeing some flows from there to us. Of course there are also some flows coming from Japan. Some of them are normal flows, some of them are new flows. So that's why we find ourselves in the sweet spot along with Indonesia. That's what I see as the two countries in this region which are apparently the choices right now among investors.

The second thing I'd like to mention is that, you may have read in the papers some of my comments already. I'm very bullish about the economic growth this year. I think I'm the most bullish in terms of forecast, there's no one above my forecast. The official government forecast is 5-6 %. ADB and other multilaterals institutions are forecasting in the 4-5.5% range. I think that we will exceed 7% and even have a chance of exceeding the 2010 growth of 7.6%. And that's not based on a pure guess, it's actually based on what I see is happening. I have already mentioned to you the sweet spot, and we have already seen a lot of flows on that side. We just inaugurated the Coach leather factory in Tarlac just last week and they already hired 1200 people, they're ramping up to 5000, and they'll put up another factory with another 5000, and a few more factories. This is just one example, and this is being replicated many times in garments.

We already have seen the announcements of Yokohama Tire, wherein the Philippines, in 3-5 years time will become one of their biggest facilities worldwide for production of tires. You're already seeing the expansion of shipbuilding. You're seeing the continuing expansion of BPO/ Call Center area. And I've also seen the pipeline already of the projects in PEZA. These are not maybes, these pipelines are almost sure and they're very big projects. So many of them will break ground this year. I also see the pipeline in the other areas and I already know the expansion of even in the non-registered firms, so there's really a lot.

Plus, the final thing, when I originally made my forecast, I was thinking that the electronics sector, which accounts for 50% of total Philippine merchandise exports, will have no growth this year. Last year they declined by 20%. And even with the decline of 20% in electronics exports which accounts for half of our total merchandise exports, we will still managed to grow this economy at around 3.6% this year, that's my guess. In today's paper they said 3.6-4, my estimate was 3.6. So despite the electronics industry suffering a 20% decline last year, we still managed to achieve a 3.6% growth in 2011.

Now this year, I am expecting that maybe they will just do flat for 2011 -zero growth. But even with zero growth in electronics exports we would still achieve very strong economic growth. But I met with the SEIPI board last week and they told me that they are very bullish this year. They told me that there is a very good chance that they will

exceed 2010 levels and 2010 was a record export year. A few of the companies already told me they're hiring 2000 people now, another told me they're hiring 800 now. Those were just two companies that I talked to. So I'm sure it is being replicated again across the board.

So my optimism really is based on facts. And so that's why when one of the titles of the succeeding sessions, the one that's going to be discussed by Bobby de Ocampo, says growing too slow, I think that's not correct. Because the Philippines has been growing, we're one of the very few countries in the world wherein we've had over 50 quarters of consecutive quarterly growth. So since late 90s, we have had not a single quarter of negative growth. I think it is very inappropriate to say that we are growing too slow. We grew 7.6 % in 2010, that's not slow growth. And even at 3.6% last year, that's still not a slow growth given what happened globally. And this year definitely it will not be a slow growth.

I want to make a comment as well on some perceptions. There are perceptions that the Philippines grossly lacks infrastructure. Again I challenge that statement. Admittedly, maybe in power we need additional capacity. But outside of power, we do have adequate infrastructure to be able to have this growth above 7%. I will admit though that it is always desirable to see more infrastructure. But I think that we should not put down ourselves and say that we lack all these infrastructure. You know I travel a lot around Asia, and our infrastructure is not bad, I see all those other countries, we're okay. Sometimes we tend to be harsh on ourselves.

DTI now is embarking on many things, including the development of industry roadmaps. We kind of lost that, the agency lost that part in the past. We are trying to rebuild that capability. But to be able to rebuild that capability, we really need the inputs of the different sectors because the expertise really is in the sectors. So we have to rely a lot on the inputs from industry to have a credible industry development roadmap. So I would like to request for your assistance and I know my people have been working with some of you already. And we hope you give this effort full support because the industry roadmaps actually are also very important when we go into trade negotiations because the basis for trade negotiations is in the industry roadmaps.

I'd also like to discuss very briefly the importance of SMEs. Under my watch, we are putting a lot of effort and resources in the development of SMEs. President Aquino's vision really is to attain inclusive growth, where everybody benefits from economic growth, not only the biggest companies, not only the richest people. But the benefit has to flow through as well to the poorest of the poor. That's why the SME component is very critical, because without the SME component, we cannot really attain inclusive growth. So we are pouring a lot of DTI's meagre resources into SMEs. Any savings that we have we are pouring into SMEs. Because this is the only way we can generate employment in the countryside. This is supported as well by our choice of sectors which

are utmost priority. The two sectors are tourism and agriculture. Because those are the two sectors that can provide employment in the countryside.

That doesn't mean we are not paying attention to the big industries. We are taking a three pronged approach. One is the SME development, second is to continue to support the big success sectors, this include the BPOs, this include electronics industry, and etc. And the third leg is to look for new sunrise industries, the new BPOs, we are in continuous search for that. It could be shipbuilding. We are now 4th largest in the world after China, Korea and Japan. And the two major shipbuilders here, Tsuneishi and Hanjin, they are both looking to expand and there are additional companies that are now searching to put up major shipbuilding facilities in the Philippines. We are continuing to look for these additional BPOs that can bring our economic growth faster.

Let me talk for two minutes on competitiveness. I know Bill Luz is gonna be talking about this later but the statement earlier that we want to improve our competitiveness and be in the top quartile is correct. In fact our main benchmark is the Doing Business Survey of the World Bank, and currently we are 136th out of I think 185 countries. Our target by 2016 is to be in the top 50. The main workhorse for that is the National Competitiveness Council and Bill Luz will be leading that charge. But I would like to appeal to you, because we've made a lot of progress with this Doing Business Survey. One is we changed the benchmark city. Based on our request, the World Bank agreed to it, we changed the benchmark city from Manila to Quezon City. It had to be either Makati or Quezon City. Makati being biggest in volume, and Quezon City being the biggest in the number of businesses. But they were using earlier the benchmark of City of Manila so we changed that to Quezon City.

Second is we asked them to include in their survey PEZA companies. As you know in the Philippines, we have two business environments, one is really the PEZA and the other one is Non-PEZA. The non-PEZA, there's still a lot of work to be done there. But PEZA locators are very very happy and they have not been captured in the past surveys. I think that's a big distortion, because 80% of total exports of the Philippines comes from PEZA zones. That's a big part of our GDP, that's a big part of our economy. It's our most competitive environment and it has not been captured in the surveys. We've asked the World Economic Forum through Bill Luz and I asked directly the World Bank to please include PEZA firms in their next survey. Doing that will definitely improve our rankings overnight.

The surveyor told us that they send us the forms but very few actually send back the surveys. My appeal to you is for this year, the surveys start around March, please fill up the forms and submit it. That would really help us get an appropriate ranking. When I looked at the rankings, there are many categories there that I totally disagree with, including the state of telecoms in the Philippines. We are ranked very low in telecoms and I think that's because of the survey forms are not appropriately returned. The Philippines cannot be that low in telecoms. If we are the number one call center in the

world, it cannot be. That means our cost is competitive, our infrastructure is good. There are certain things that can easily be corrected. I would like to appeal to you to really participate, to be supportive.

That's all I have to say. My point is we have all the necessary ingredients for success. This year will be a good year. Philippines is blessed with natural resources and a large population of educated, highly creative and productive people.

The success story will really depend also on us. We don't even have to make a larger effort this year to achieve big economic growth. My appeal to you is not to be negative, not to block it. Just let it happen. It will happen, already. Thank you very much and have a good day.