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Research

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PHILIPPINES

INVESTMENT HANDBOOK

September 2020

Krungsri Research

Executive Summary: Near-term growth severely hit by the pandemic, but long-term positive growth prospects and fundamentals remain intact

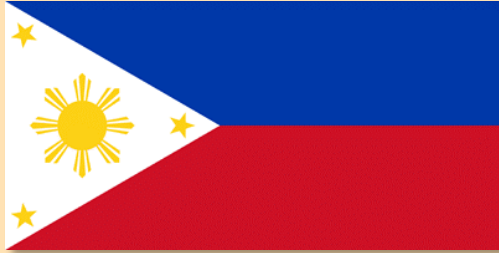


The Philippines is expected to be one of the worst hit economies by the covid-19 pandemic regionally. Domestic demand, particularly household consumption which accounts for almost 70% of GDP, has been stalled by strict lockdown measures. Amid a weak external demand, remittance inflows which fuel private consumption are also disrupted. However, the economy should gradually recover in 2H2020 as mobility restrictions are eased and economic activities are resumed.



However, long-term growth prospects and economic fundamentals of the Philippines should remain robust and favorable, so we believe that the country could enjoy growth rate of 6.0%-7.0% p.a. going forward underpinned by its underlying fundamentals of positive demographic structure, structural reforms, infrastructure investment, and foreign direct investment (FDI) inflows. On the back of favorable long-term growth prospects of the Philippines, in our view, there are ample business opportunities for Thai businesses in some potential sectors including (1) financial services, (2) food and beverage, (3) consumer goods, (4) healthcare and pharmaceuticals, and (5) Agribusiness.

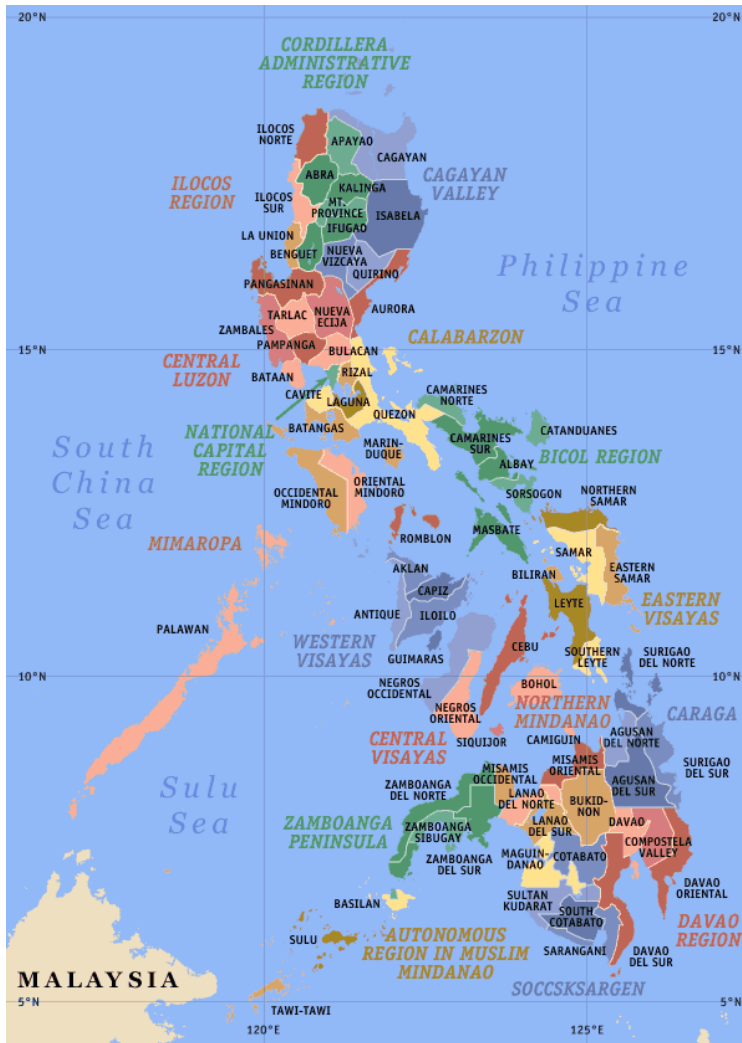
Philippines: A Country Overview



Official name	Republic of the Philippines
Form of State	Presidential republic
Economic system	Market-led economy
Total area (sq. km)	300,000
Administrative divisions:	81 provinces and 38 chartered cities
Total population (person)	109,180,815 (July 2020 est.) Median age: 24.6 years (2020 est.) Population growth rate: 1.52% (2020 est.)
Climate	Tropical marine; northeast monsoon (Nov to Apr); Southwest monsoon (May to Oct)
Urbanization	Urban population: 47.4% of total population (2020) Rate of urbanization: 1.99% annual rate of change (2015-20 est.)
GDP (official exchange rate)	USD313.6bn (2017 est.)
GDP - composition, by sector	Agriculture: 9.6% (2017 est.) Industry: 30.6% (2017 est.) Services: 59.8% (2017 est.)
Agricultural products	Rice, fish, livestock, poultry, bananas, coconut/copra, corn, sugarcane, mangoes, pineapple, cassava
Industries	Semiconductors and electronics assembly, business process outsourcing, food and beverage manufacturing, construction, electric/gas/water supply, chemical products, radio/television/communications equipment and apparatus, petroleum and fuel, textile and garments, non-metallic minerals, basic metal industries, transport equipment
Exports - commodities:	Semiconductors and electronic products, machinery and transport equipment, wood manufactures, chemicals, processed food and beverages, garments, coconut oil, copper concentrates, seafood, bananas/fruits
Labor force	42.78 million (2017 est.)
Taxes and other revenues:	15.6% (of GDP) (2017 est.)
Fiscal year:	Calendar year

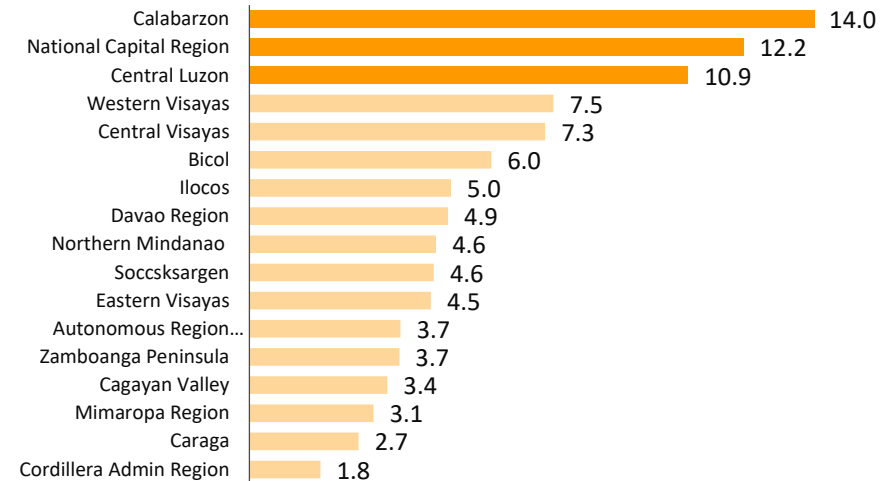
Source: CIA Factbook compiled by Krungsri Research

The Philippine archipelago constitutes of over 7,000 islands with the economic activity concentration in Luzon

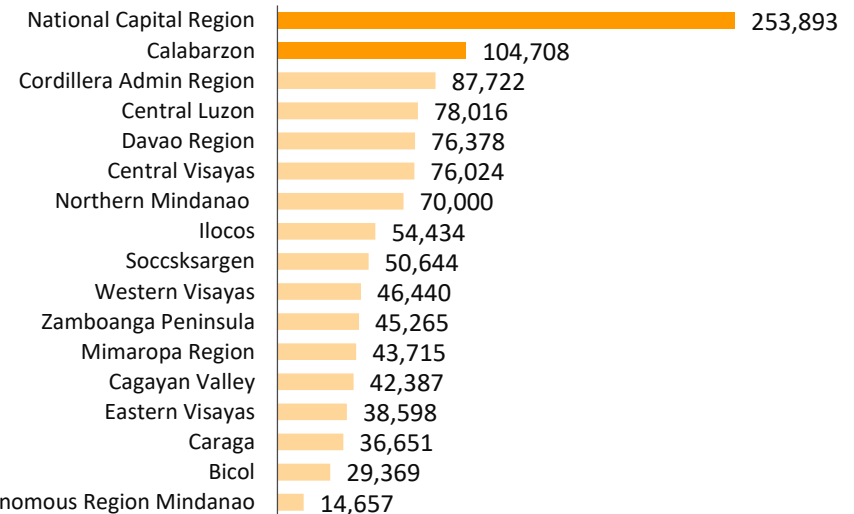


Source: CEIC

Regional population distribution (% of total, 2018)



Per capita RGDP (2000p, PHP, 2018)



Macro forecasts: The pandemic weighs on the near-term outlook, but positive long-term views remain intact

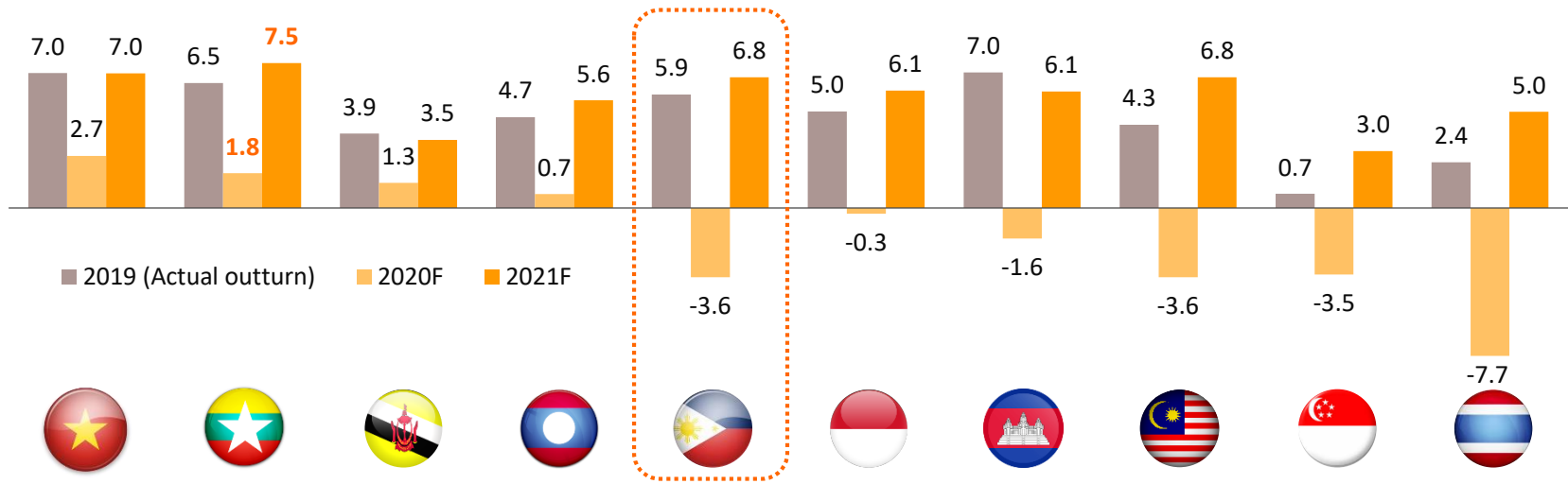
Indicators (% change, otherwise indicated)	2017	2018	2019	2020F	2021F
Real GDP	6.7	6.2	5.7	-3.6 (-6.8)*	6.8 (7.4)*
CPI (end of period, 2012 basket)	2.9	5.2	2.5	2.6 (2.5)*	3.0 (3.0)*
Net lending (+)/borrowing (-) (% of GDP)	-2.2	-3.3	-2.7	-3.7	-2.7
General govt gross debt (% of GDP)	39.9	38.9	38.9	38.9	...
Money and credit: claims on private sector (% of GDP)	47.8	49.9	50.7	52.6	...
Current account balance (% of GDP)	-0.7	-2.6	-1.6	-2.3	-2.2
Trade balance (% of GDP)	-10.1	-11.6	-11.3	-11.1	-10.8
Foreign Direct Investment (net, % of GDP)	-2.2	-1.8	-1.4	-1.4	...
Overall balance	-0.9	-2.3	5.5	-1.1	...
Gross International reserves					
In billions of USD (end period)	81.6	79.2	85.6	85.0	...
Percent of short-term debt, residual maturity	419.3	369.7	402.2	385.0	...
Total external debt (USD bn)	73.1	79.0	86.3	89.7	...
Total external debt (% of GDP)	23.3	23.9	23.6	22.4	...
Exchange rate (USD/PHP, period average)	50.4	52.7	51.8	...	...
Nominal GDP (in trillions of pesos)	15,808	17,426	18,614	20,302	...
Nominal GDP (USD bn)	313.6	330.9	365.0	399.7	...

Note: Data is based on IMF WEO database updated as of June 2020, *Bloomberg Median Forecast Figures

Source: IMF WEO (June 2020), IMF Article IV Staff Report on Indonesia, Bloomberg, AMRO, Krungsri Research

Growth is expected to slip deep into a negative territory in 2020, but it should resume its potential trajectory of 6.0% - 7.0% p.a. in the long term

Growth projection for ASEAN members (2019-2021, %YoY)

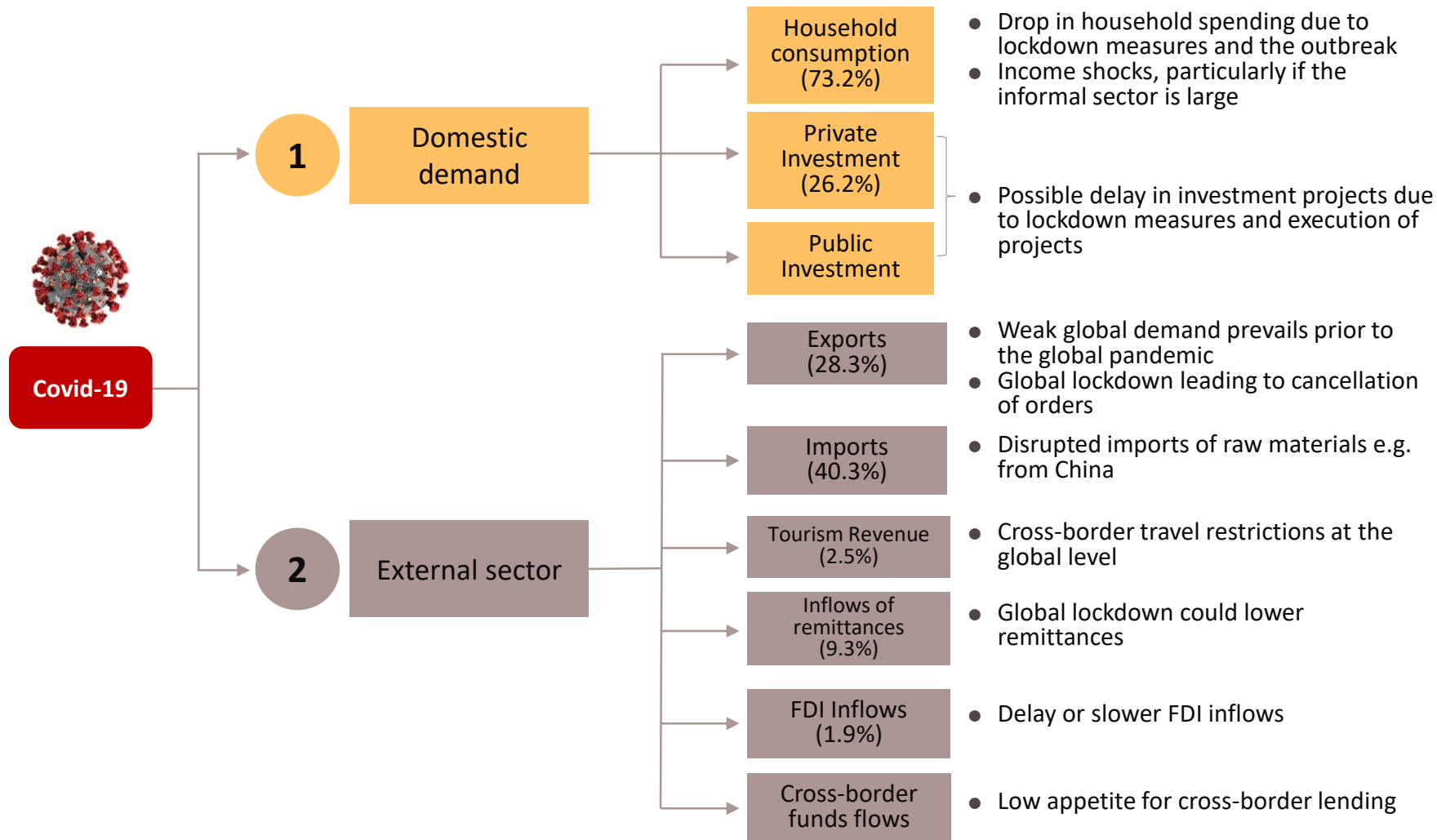


Despite a dim short-term outlook weighed on by the pandemic, **Philippines' high growth trajectory should be resumed over the long term, there are at least 4 main factors to underpin the country's bright growth prospects:**

- 1. Underlying fundamentals** including demographic dividend resulting growing and wealthier middle-class consumers as well as rapid urbanization
- 2. Structural reforms** including promotion of ease of doing business as well as lowering corporate tax to attract FDI inflows
- 3. Infrastructure investment** which is expected to unlock the country's structural bottlenecks and to lift its economic potentials
- 4. Foreign Director Investment (FDI) inflows** which are expected to boost developments of manufacturing and industrial sector and bilateral and regional free trade agreements such as ASEAN Economic Community (AEC 2025), and the Regional Comprehensive Economic Partnership (RCEP) would be tailwinds to additionally attract foreign investment.

Source: IMF WEO (July 2020) compiled by Krungsri Research, and various sources

Covid-19 pandemic shocks are likely to weigh on the Philippines's growth through different channels

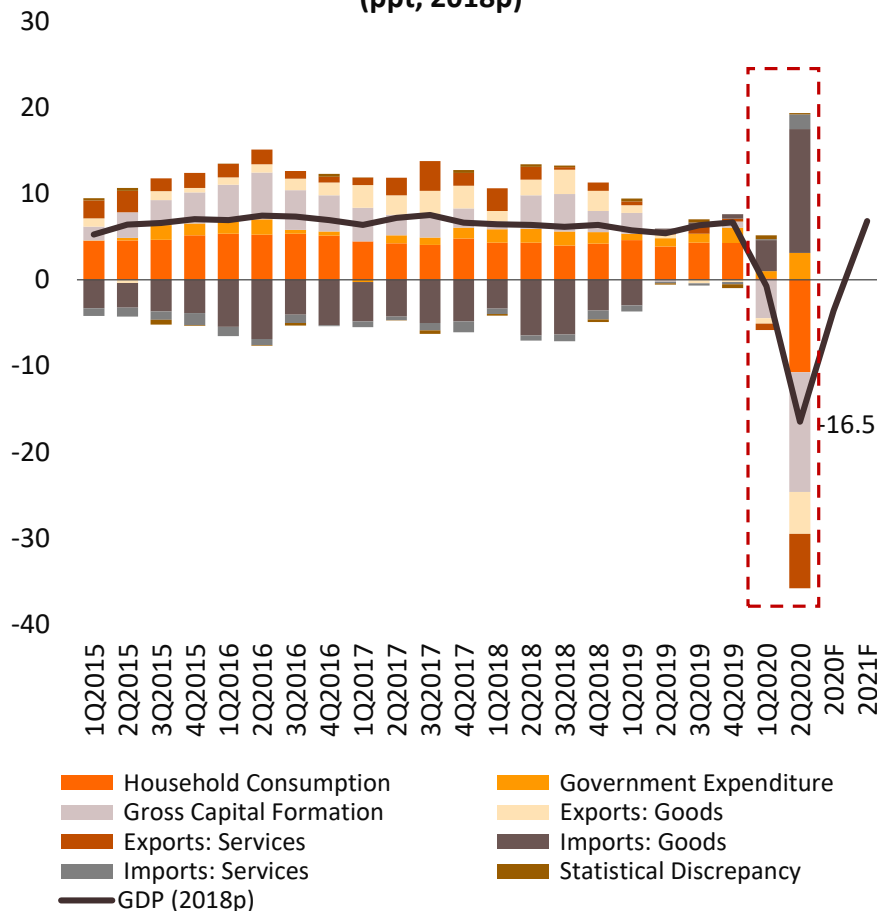


Note: () is in terms of % of 2019 nominal GDP

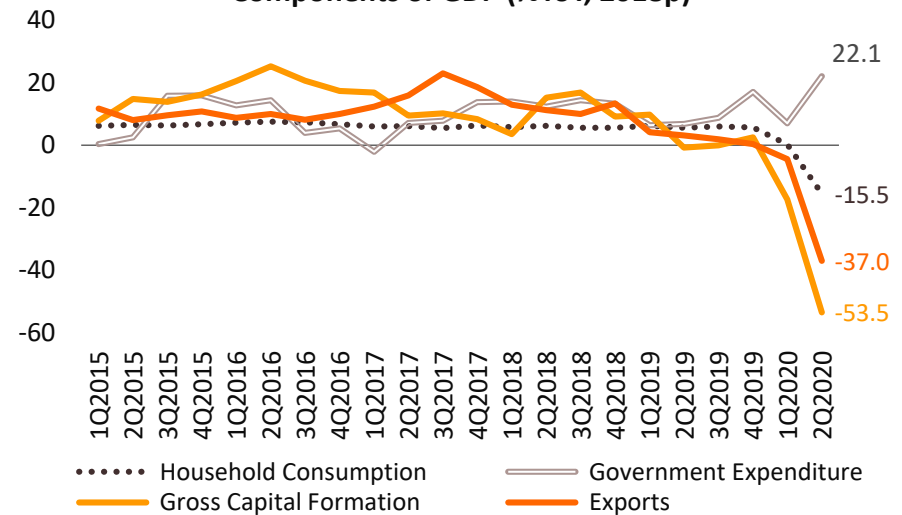
Source: Krungsri Research

Growth slump in 2Q20 depicts the severe impact of the pandemic on the economy; however, the economy should slowly recover starting from 2H20

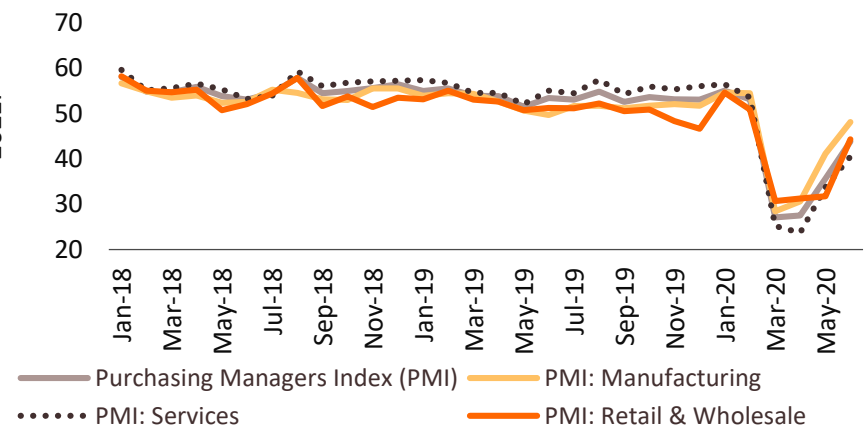
Contributions to growth: Expenditure side
(ppt, 2018p)



Components of GDP (%YoY, 2018p)



Purchasing Managers Index (PMI)

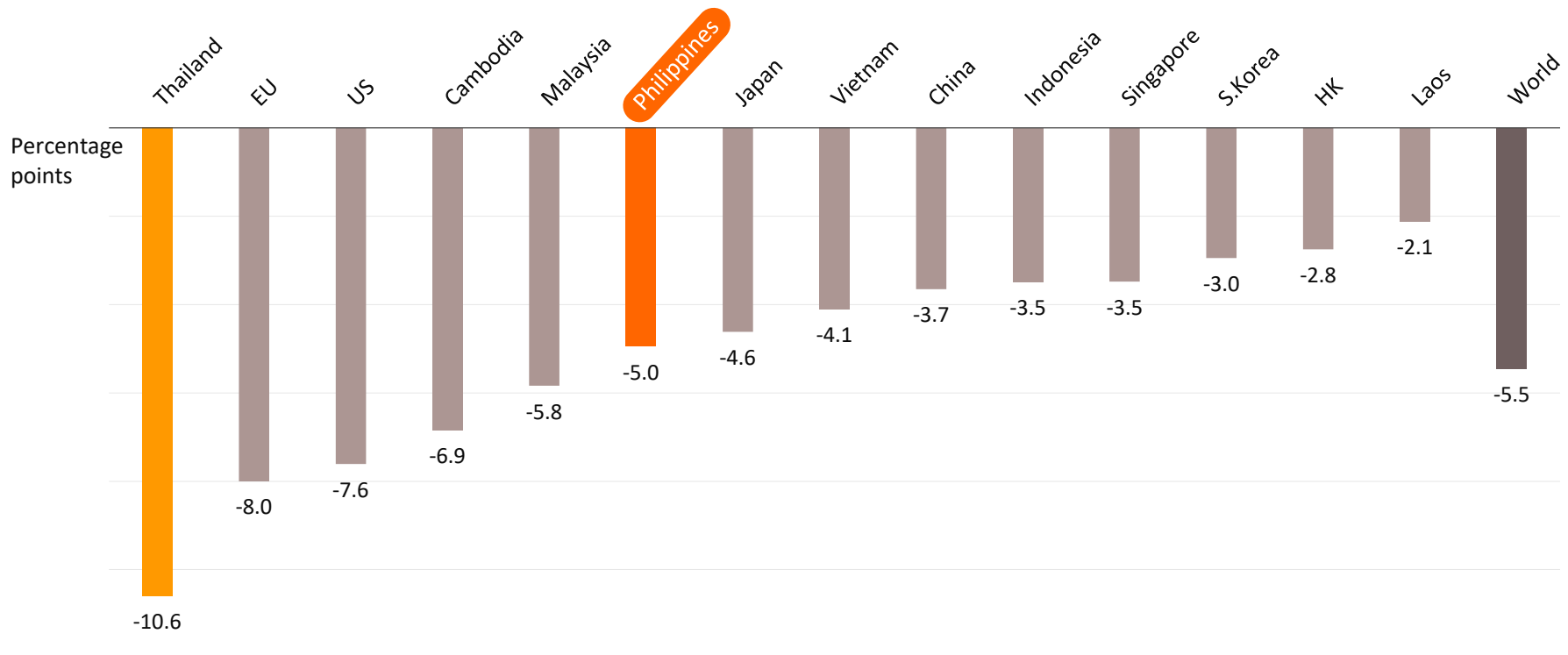


Source: CEIC

The pandemic could pose a negative impact of 5.0% on the Philippines' growth in 2020 according to our model

The outbreak would reduce global GDP growth substantially by 5.5ppt from baseline forecast (pre-outbreak). **Krungsri Research now projects the outbreak would pose a negative impact to the Philippines' economy of 5.0 ppt, which is relatively significantly compared to that of regional peers in ASEAN.** The impact of the pandemic to the economy is passed through different channels – tourism, supply disruption at home and abroad, and multiplier effect.

Spillover impact of coronavirus outbreak on GDP growth of selected Asian economies



Note: *Krungsri Research has studied these effects by adopting computable general equilibrium model (CGE) to measure the spillover effects. Also, we adopt vector autoregression model to assess how economies react periodically to these changes.

Source: Global Trade Analysis Project (GTAP), Krungsri Research

Sets of policy measures have been deployed to cushion the dire impact caused by the covid-19 pandemic, but their effectiveness remains to be seen

The Philippines reported its first cases of confirmed COVID-19 on 30 January 2020. Recently, on 19 August 2020, the government has moved Metro Manila and other high-risk areas from a “modified enhanced community quarantine” to a “general community quarantine,” allowing more businesses to reopen and mass transportation to resume in phases. International travel restrictions largely remain in place, but domestic flights are allowed under limited capacity. Financial market volatility has subsided recently, with the USD/PHP exchange rate staying stable. Meanwhile, real GDP in the first quarter and second quarter of 2020 contracted by 0.7% and 16.5%, respectively, on a year-on-year basis. This therefore marks the technical recession for the Philippines.

Fiscal Policy



The government launched a PHP595.6bn fiscal package (about 3.1% of 2019 GDP) for vulnerable individuals and groups, which includes the following measures that had been implemented during the first half of 2020:

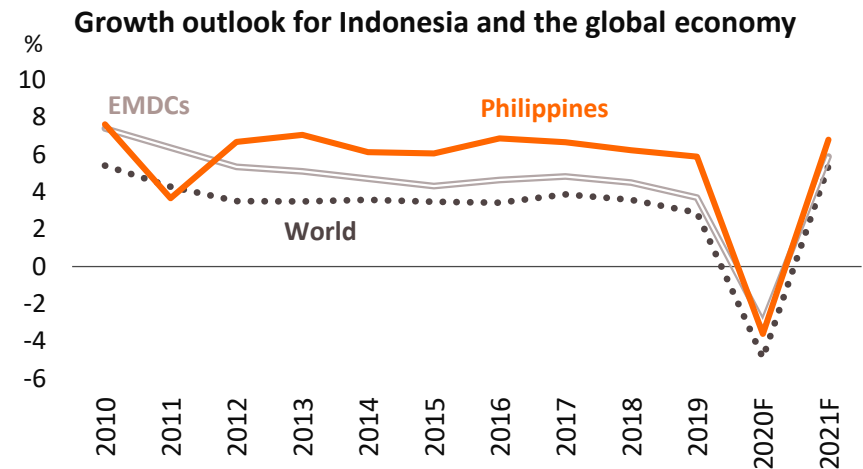
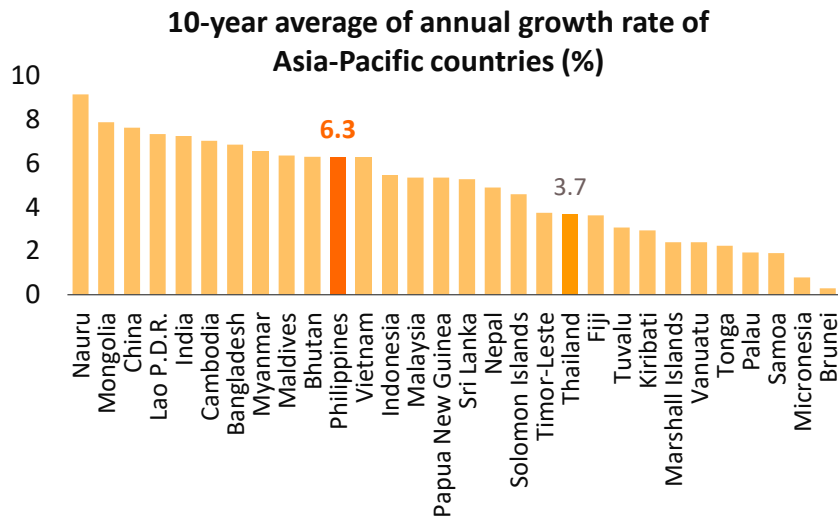
- (1) PHP 205 billion cash aid program (1.1% of 2019 GDP) for 18 million low-income households, under which eligible households are expected to receive cash transfers of between PHP 5,000 and PHP 8,000 a month for a period of two months;
- (2) over PHP 56 billion social protection measures for vulnerable workers, including for displaced and overseas Filipino workers (0.3% of 2019 GDP);
- (3) over PHP 54 billion on COVID-19-related medical response (0.3% of 2019 GDP); and
- (4) PHP 120 billion (0.6% of 2019 GDP) credit guarantee for small businesses and support to the agriculture sector.

Monetary policy

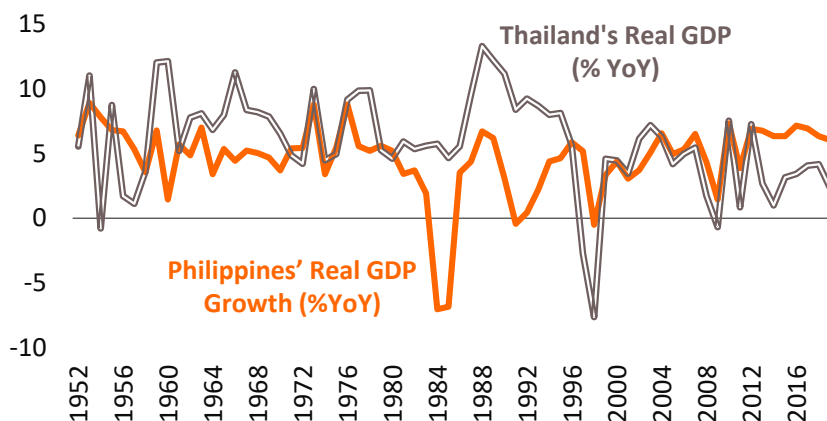


The Bangko Sentral ng Pilipinas (BSP), the central bank of the Philippines, has reduced its policy rate four times in 2020 by a cumulative 175 bps to 2.25% and lowered the reserve requirement ratio for commercial banks by 200 bps to 12%, effective from 3 April. In addition, a number of relief measures have been introduced to help businesses, particularly SMEs, to weather the dire impact of the pandemic.

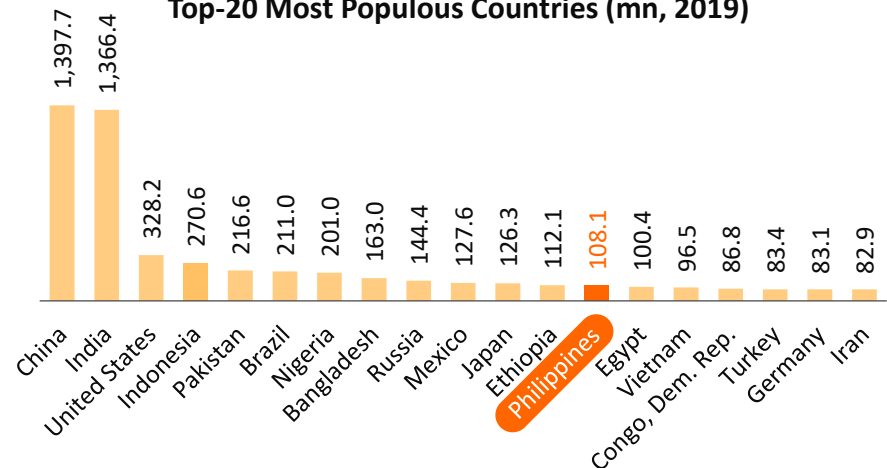
In the post-pandemic era, *Philippines' growth potential* of 6.0-7.0% p.a. is likely to be reinvigorated due to its favorable underlying fundamentals



Economic Growth of Philippines and Thailand (2010 price)



Top-20 Most Populous Countries (mn, 2019)



Source: IMF WEO (April 2020), CEIC, Krungsri Research

Major milestone of Philippines' developments

1542	The Spanish expedition claims the islands and names them the Philippines after the heir to the Spanish throne (later becomes King Philip II of Spain).
1896	The beginning of the Civil and armed campaign for independence from Spanish rule.
1898	A short period of the Spanish-American War, the US Navy destroys Spanish fleet in Manila Bay. Spain cedes Philippines to the US, which proclaims military rule.
1941	Japan occupation of the Philippines
1945	The Philippines gains independence from the US.
1965	Ferdinand Marcos becomes president.
1967	Joining the Association of Southeast Asian Nations (ASEAN)
1980-2010	The Philippines had been dubbed the “Sick man of Asia” as it grew by just 3.6% annually during 1980 to 2010 – much slower than its nearby East Asian ‘tigers’ that grew by more than 6% a year over the same period.
1992	Fidel Ramos wins presidency.
1995	Joining the World Trade Organization (WTO).
1997	Asian Financial Crisis (AFC)
2002	The inflation targeting framework has been adopted by the Bangko Sentral ng Pilipinas (BSP), the central bank, formally replacing the monetary aggregate targeting framework.
2008-2009	Global Financial Crisis (GFC)
2010-2018	High economic growth period with annual growth rate of 6.3%.
2016	- Rodrigo Duterte becomes a 6-year-term president in from June 2016. - The national government through the National Economic and Development Authority (NEDA) launched Ambisyon Natin 2040, a long-term vision of becoming a prosperous middle-class country free of poverty by 2040.
2017	- Implementing the medium-term development plan under the long-term plan (Ambisyon Natin 2040), the Philippine Development Plan (PDP) 2017-2022 with several aims including to become an upper middle-income country by 2022. - President Rodrigo Duterte and his economic managers launched the ambitious P8.4-trillion infrastructure program called the “Build, Build, Build” program in 2017 to reduce poverty, stimulate economic growth, and reduce congestion in Metro Manila. This program is expected to be significantly funded by the government’s tax reform initiatives.

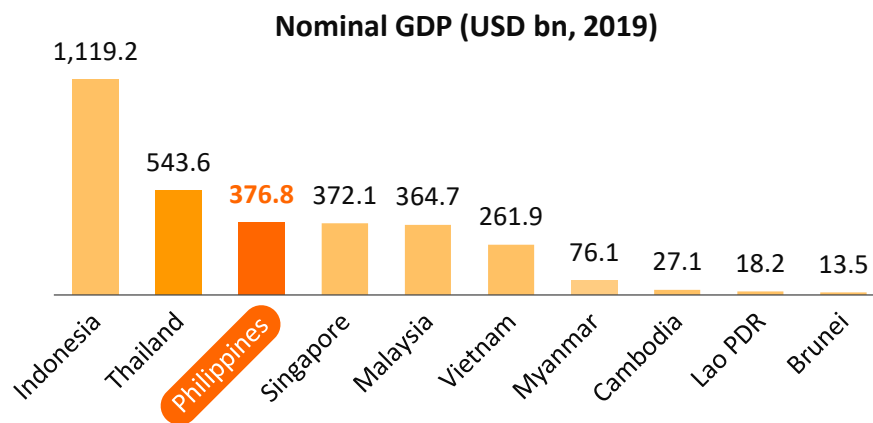
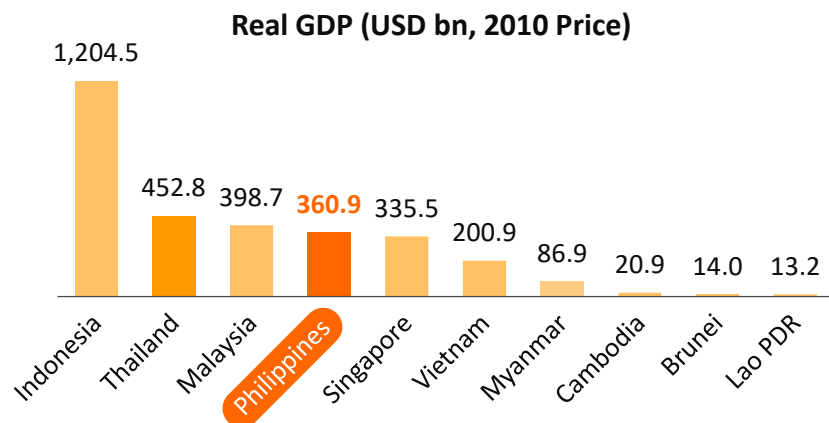
Source: World Bank, IMF, BBC, and various sources compiled by Krungsri Research

STRUCTURE AND POTENTIAL OF THE PHILIPPINES ECONOMY



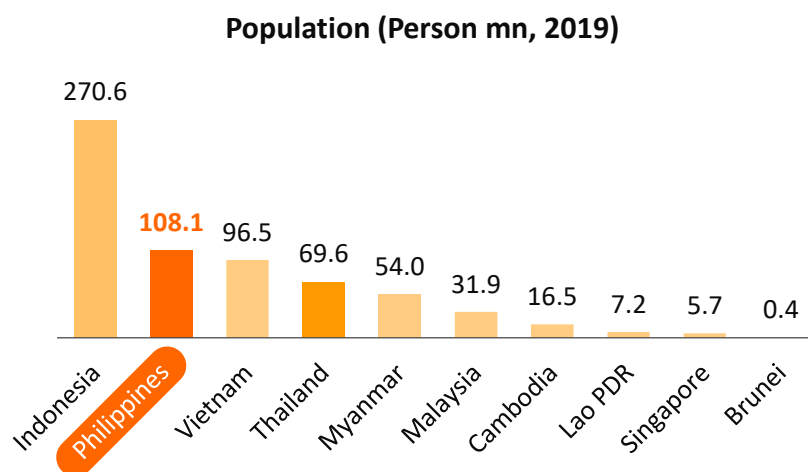
Philippines among ASEAN peers: It aims to be an upper-middle income country by 2022

The Philippines is currently listed as a lower-middle income country with the GNI per capita of USD3,850 (still slightly below the upper bound of a lower-middle income group of USD3,995) by the World Bank in July 2020. High economic growth over the last decade with the annual growth rate of around 6.3% leads to a continuous increase of Filipinos' GNI per capita. With the strong growth momentum, the country aims to achieve the upper-middle income country status by 2020.



ASEAN members by income status (as of 1 July 2020)

ASEAN member	GNI per capita ^{1/} (USD)	Classification by income
Singapore	59,590	High-income
Brunei	32,230	High-income
Malaysia	11,200	Upper-middle income
Thailand	7,260	Upper-middle income
Indonesia	4,050	Upper-middle income
Philippines	3,850	Lower-middle income
Lao PDR	2,570	Lower-middle income
Vietnam	2,540	Lower-middle income
Cambodia	1,480	Lower-middle income
Myanmar	1,390	Lower-middle income



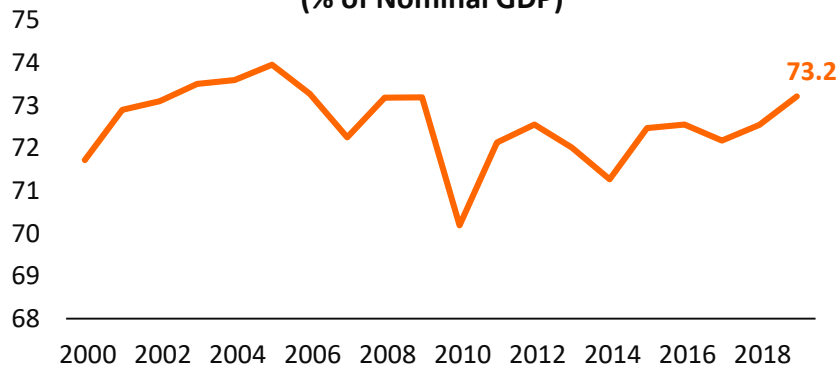
Note: 1/ Based on classification by the World Bank, lower middle-income economies are those with a GNI per capita between USD1,026 and USD3,995; upper middle-income economies are those with a GNI per capita between USD3,996 and USD12,375; high-income economies are those with a GNI per capita of USD12,376 or more.

Source: IMF WEO (April 2020), IMF 2019 Article IV Staff Report on Vietnam, World Bank: WDI, Krungsri Research

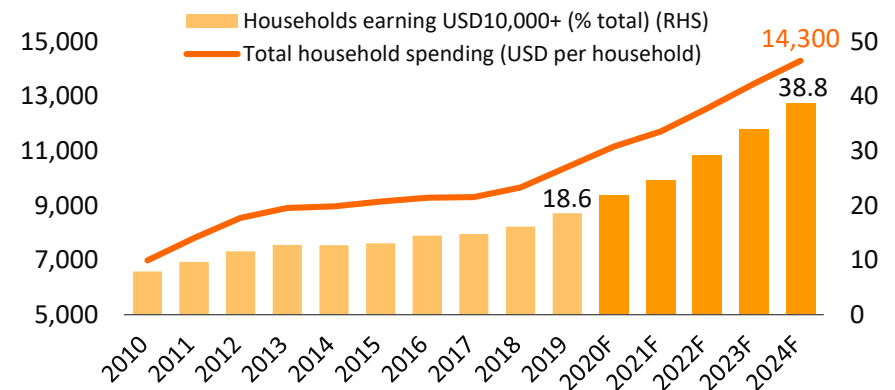
Household consumption is to remain a major growth driver on the expenditure side

Household consumption which currently accounts for about 73.2% of nominal GDP (as of 2019) is expected to be a main driver for the Philippines' growth over the periods ahead. Sustained and strong economic growth in the last decade results in rising annual household earnings and annual disposable income per capita which is expected to reach USD3,859 in 2024. And, over the 2020s, over 50% of the population is in the working age (below 64 years old) and this favorable structure of population will be a great boon to the country's domestic consumption.

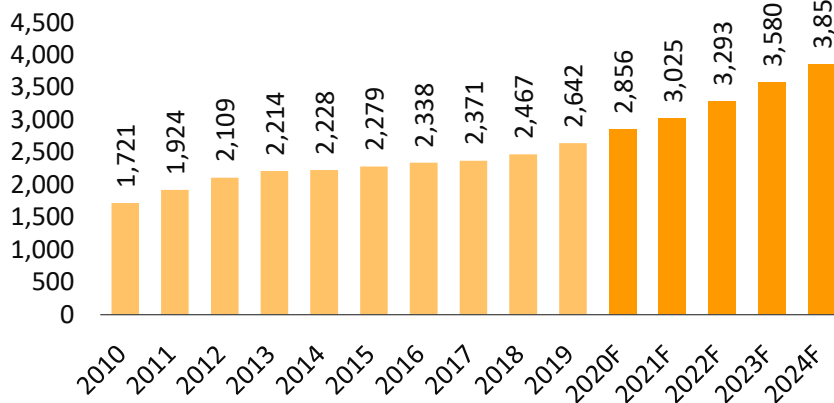
Household Final Consumption
(% of Nominal GDP)



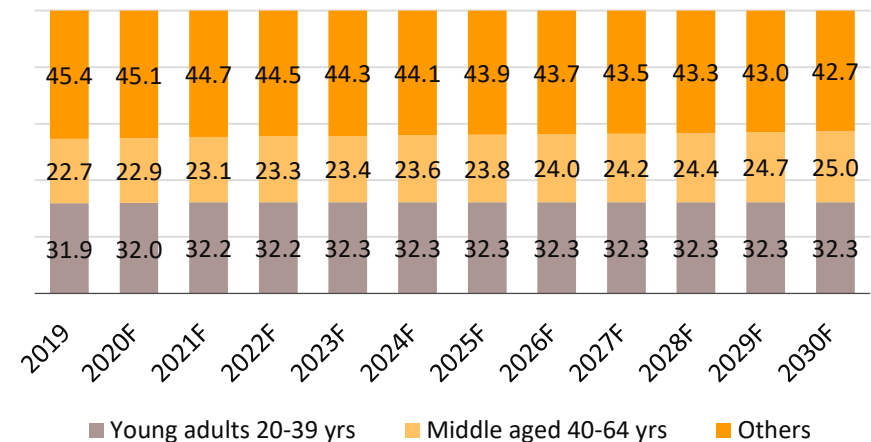
Household earnings



Disposable Income per capita (USD)



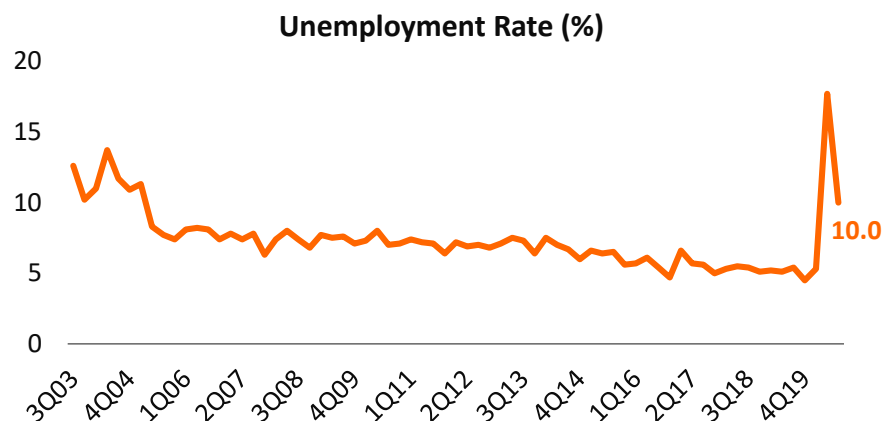
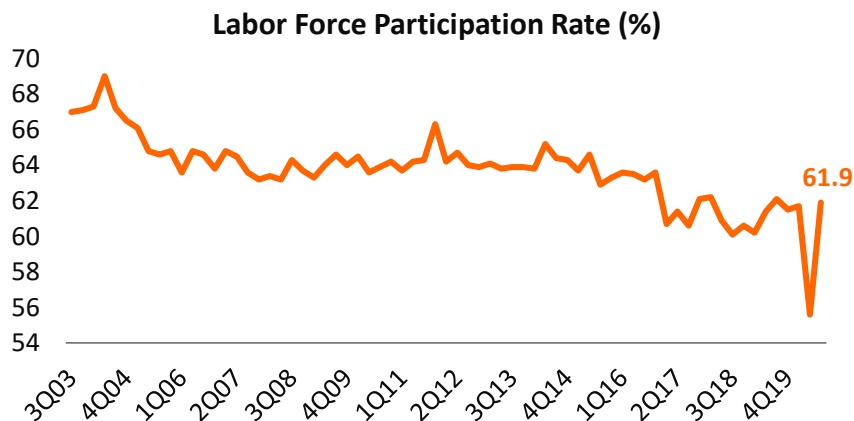
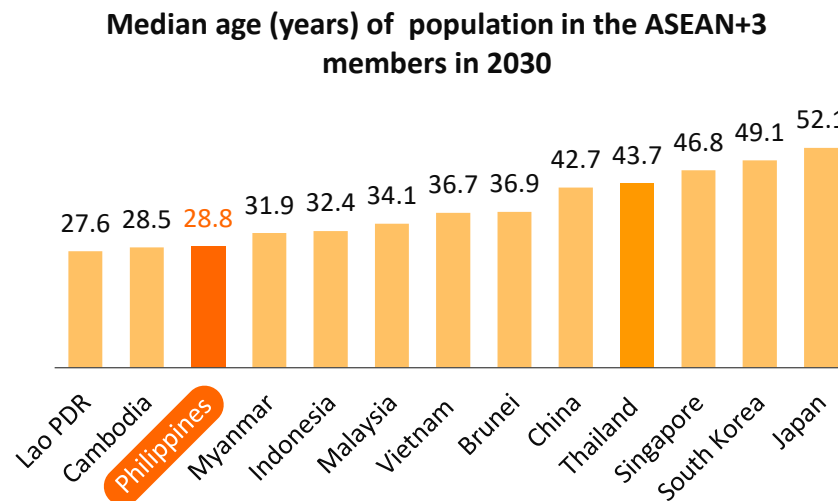
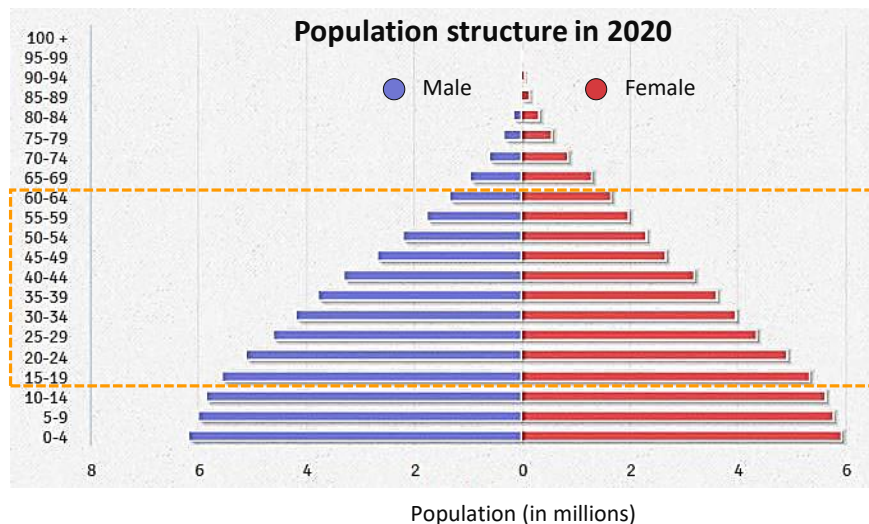
Population structure (% of Total)



Source: CEIC, Fitch Solutions

...to continuously driven by *favorable demographic structure and strong labor market conditions*

While the labor market conditions are being worsened in the near term due to the impact of the pandemic, we view that favorable demographic structure and benign conditions in the labor market against a backdrop of high economic growth would underpin household consumption in the years ahead.

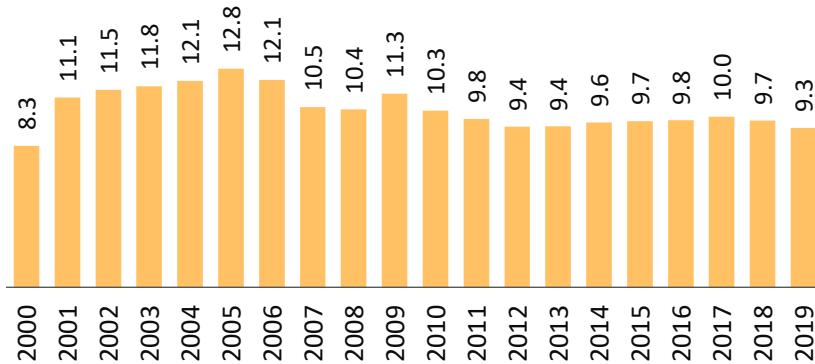


Source: CIA Factbook, CEIC

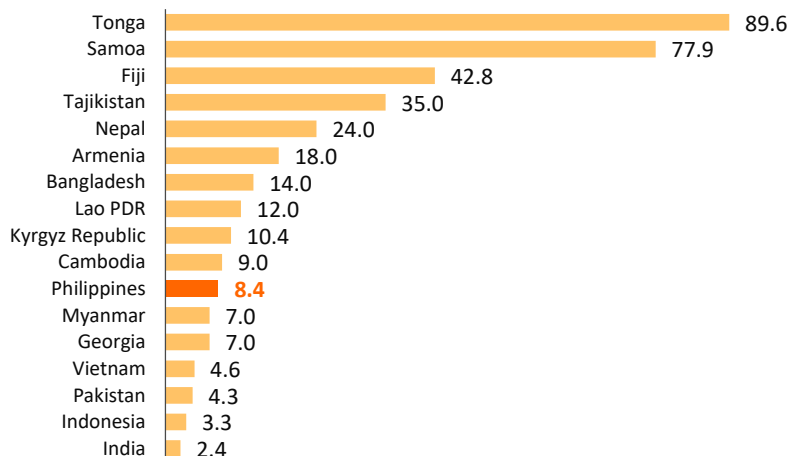
Remittances should continue to support household consumption of Filipinos

Remittances which currently account for about 9.3% of the Philippines' GDP have played a crucial role by being a main source of income for a number of households in the Philippines or around 8.4% of the total households, according to the figure provided by the ADB. We expect that inflows of remittances should resume strongly once the pandemic is effectively contained and the global economic activity starts to recover in the medium term.

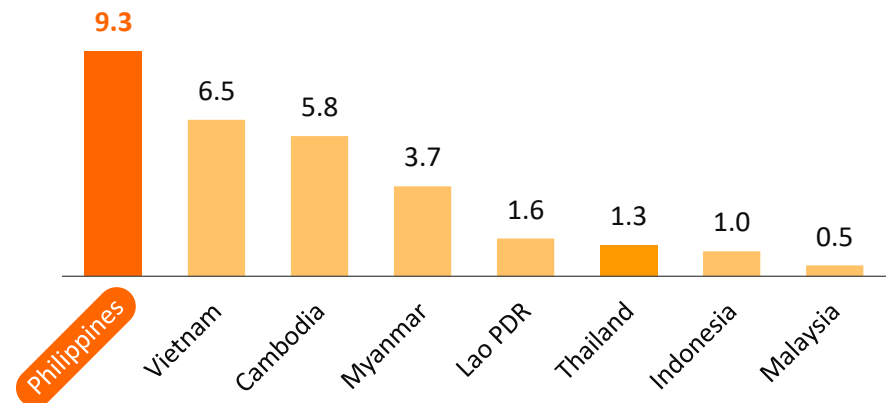
Personal Remittances (Received as % of GDP)



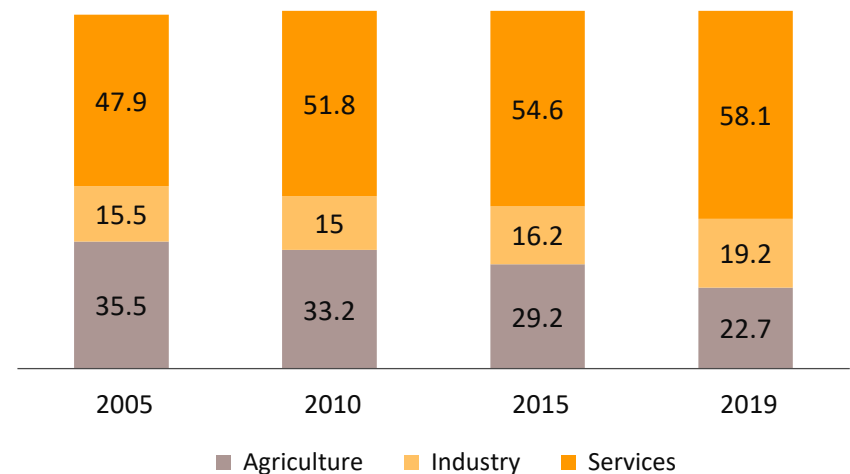
Share of recipient households with international remittances (% of total, 2020)



Personal remittances, received (% of GDP, 2019)



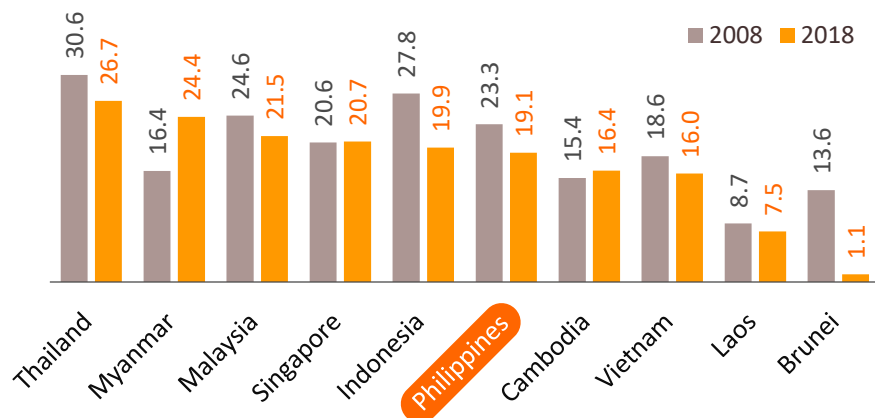
Employment by sector (% of total employment)



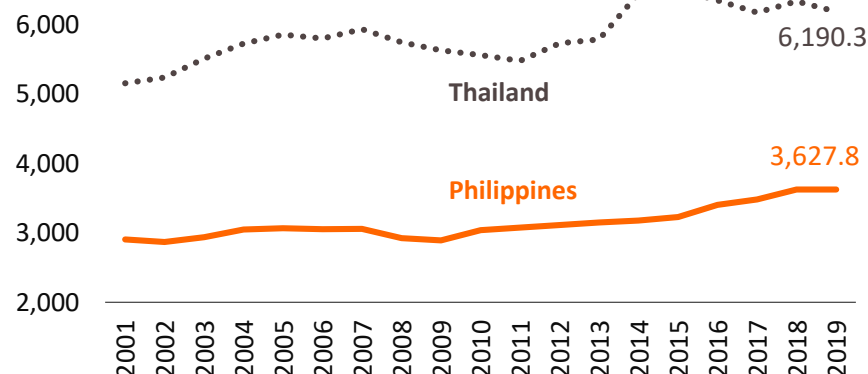
Source: World Bank: World Development Indicators, ADB, CEIC

On the production side, developments of the export-oriented manufacturing sector remain lagged behind regional peers in ASEAN and this limits exposure to disruptions to cross-country supply chains

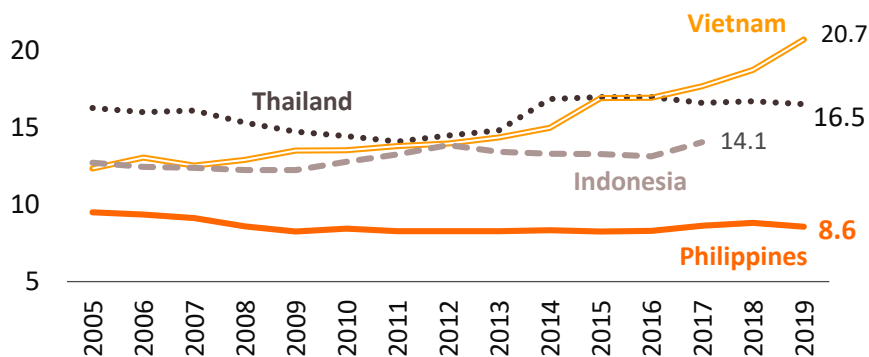
Manufacturing to GDP Ratio (%)



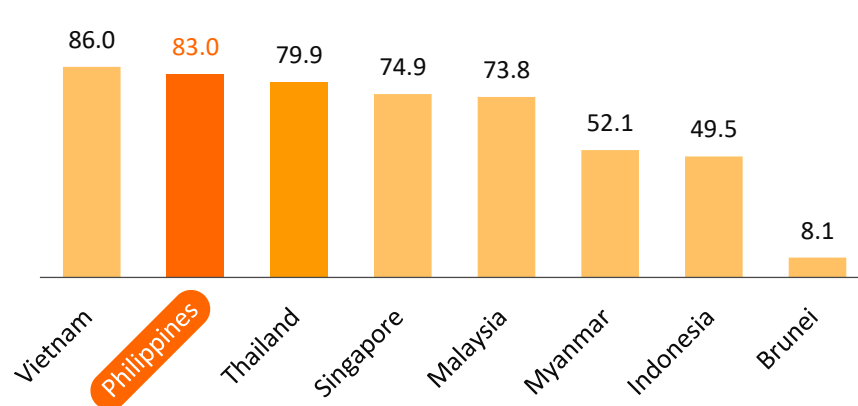
Employment in the manufacturing sector (person th)



Employment in the manufacturing sector (% of total employment)

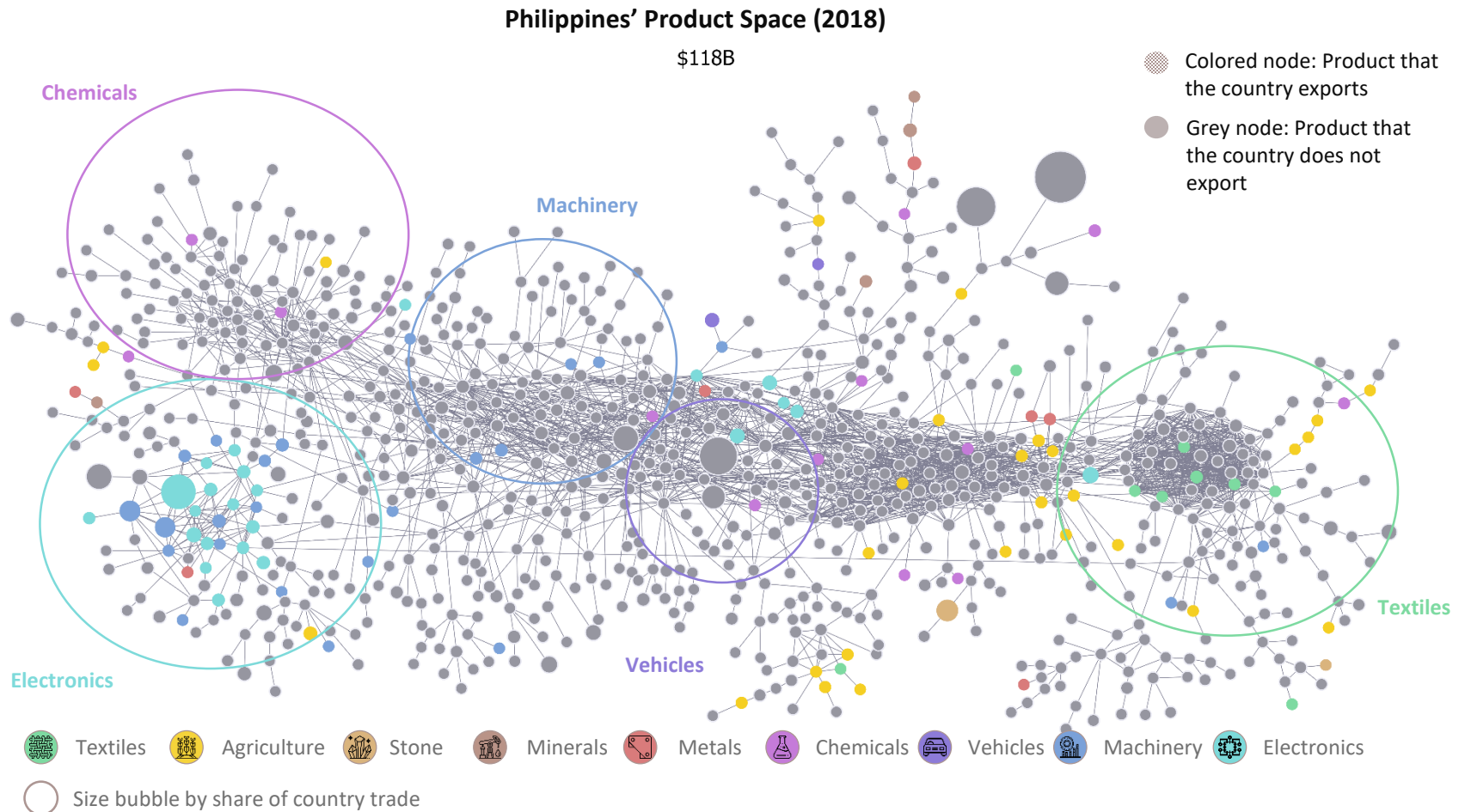


Exports of manufactured products (% of total exports, 2019)



Source: CEIC

Main exports are concentrated on the low-end of electronics products accounting for a significant share of the country's total exports

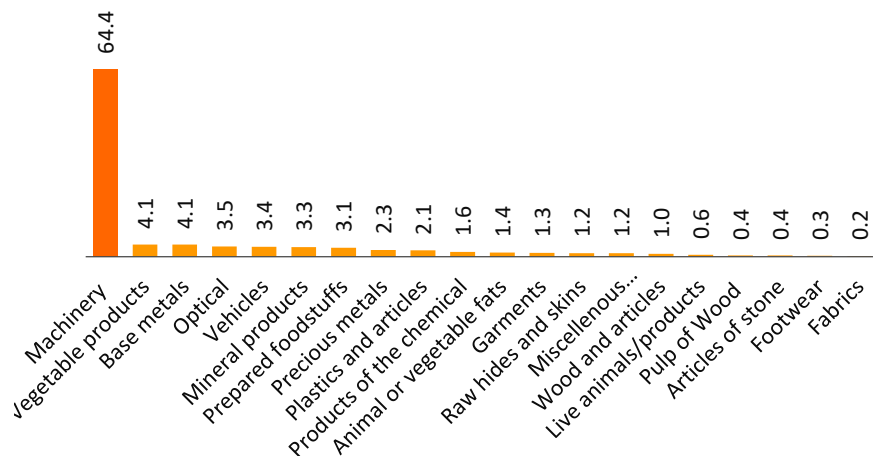


Note: 1/ The Product Space depicts the connectedness between products, based on the similarities of know-how required to produce them. Product Space highlighted for products with Revealed Comparative Advantage > 1 and product nodes are sized by world trade.

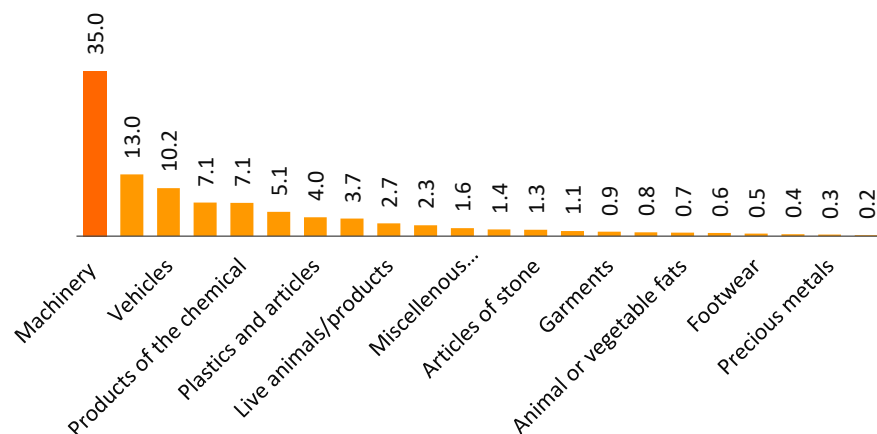
Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity (2017). <http://www.atlas.cid.harvard.edu>.

...and this is reflected by the country's narrow international trade structure

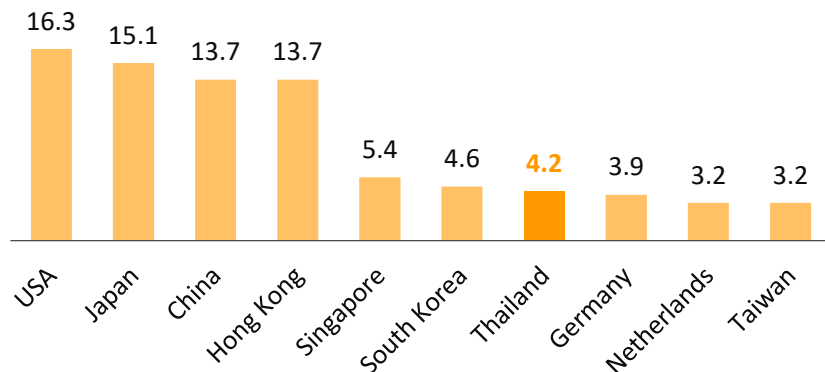
Structure of Philippines' exports by product
(% of total exports, 2019)



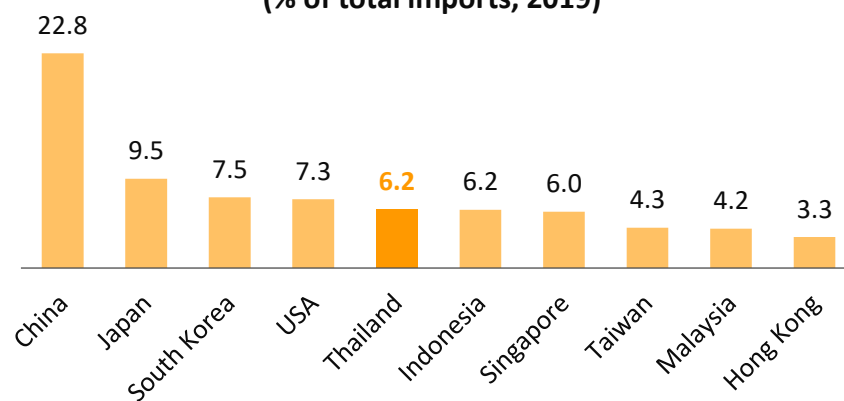
Structure of Philippines' imports
(% of total imports, 2019)



Share of exports by destination
(% of total exports, 2019)



Share of imports by destination
(% of total imports, 2019)

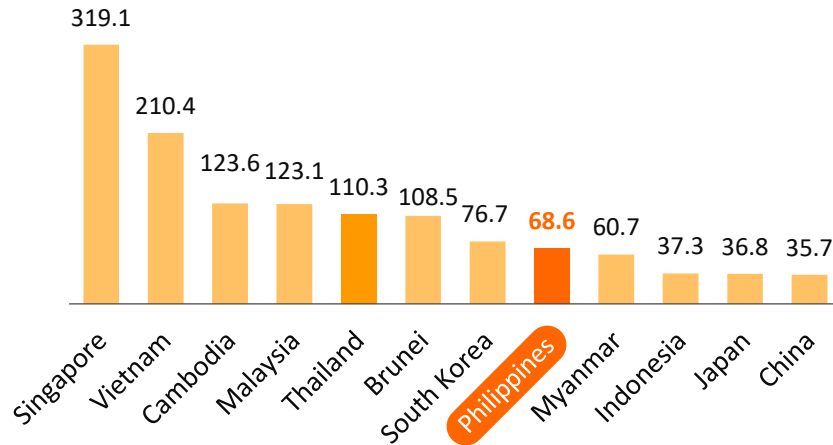


Source: Trade Map, Krungsri Research

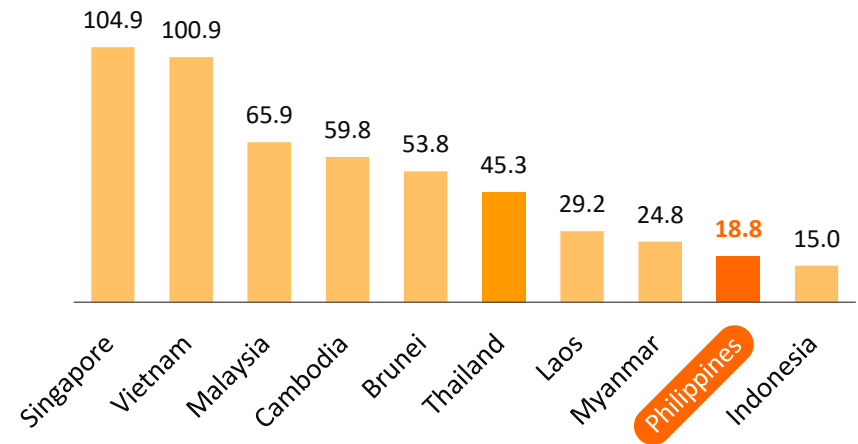
Degree of openness to international trade is also reported relatively low compared to that of regional peers

Due to its less-advanced export-oriented manufacturing sector compared to that of regional peers in ASEAN, the Philippines has been less dependent on international trade (both merchandise trade and trade in services), with the trade-to-GDP ratio of 68.6% (as of 2019) compared to 123.1% of Malaysia and 110.3% of Thailand.

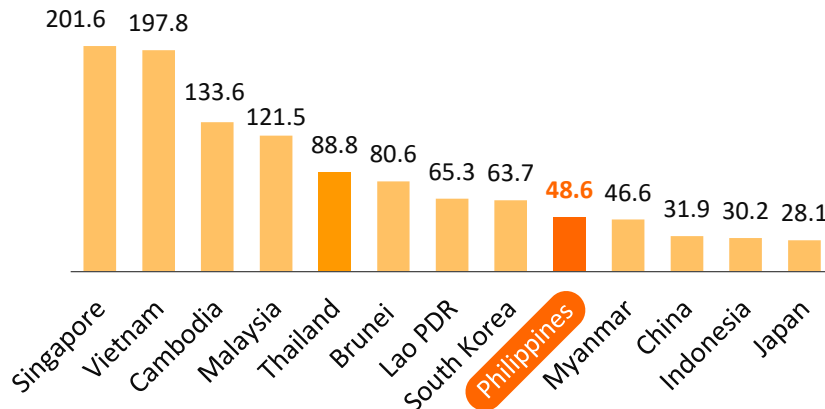
Trade (% of GDP, 2019)



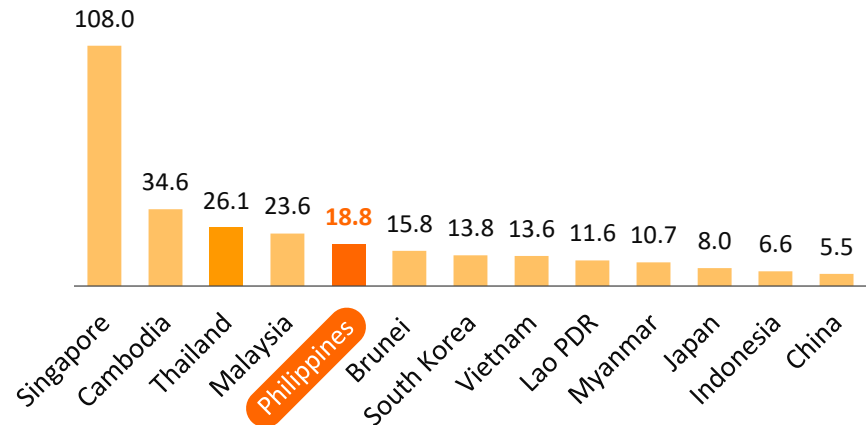
Exports (% of Nominal GDP, 2019)



Merchandise trade (% of GDP, 2019)



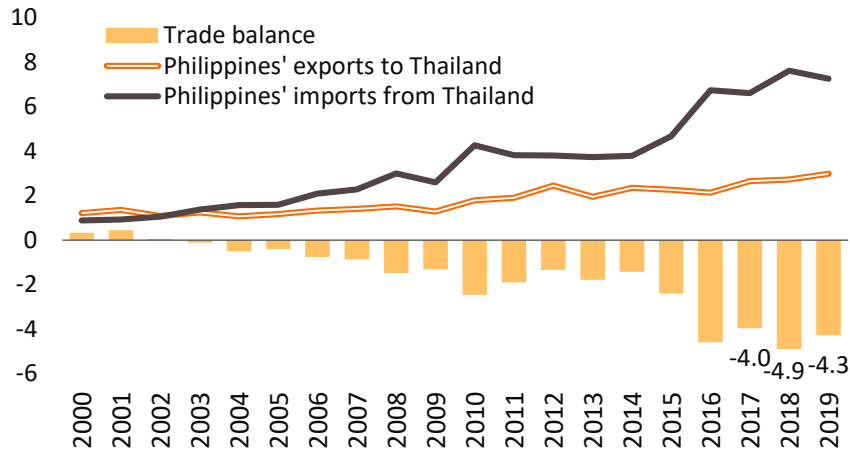
Trade in services (% of GDP, 2018)



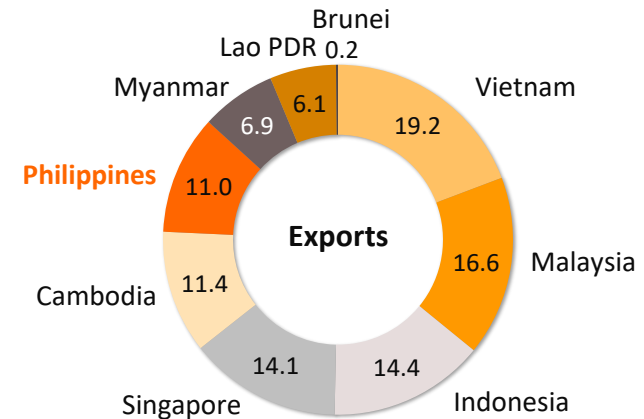
Source: CEIC

Philippines is one of the key trading partner in ASEAN for Thailand

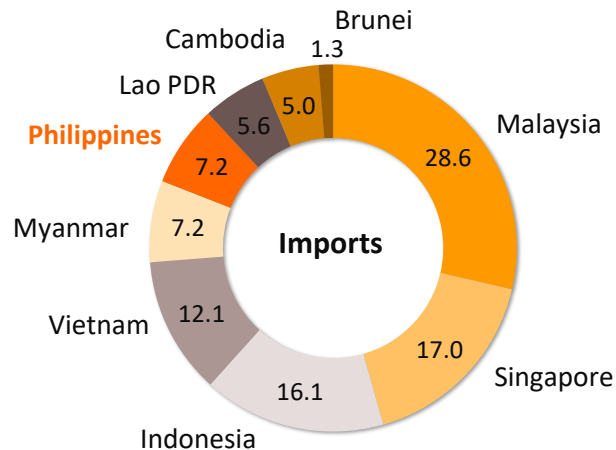
Philippines' bilateral trade with Thailand (USD bn)



Share of Thailand's export to ASEAN (% , 2019)



Shares of Thailand's import from ASEAN (% , 2019)

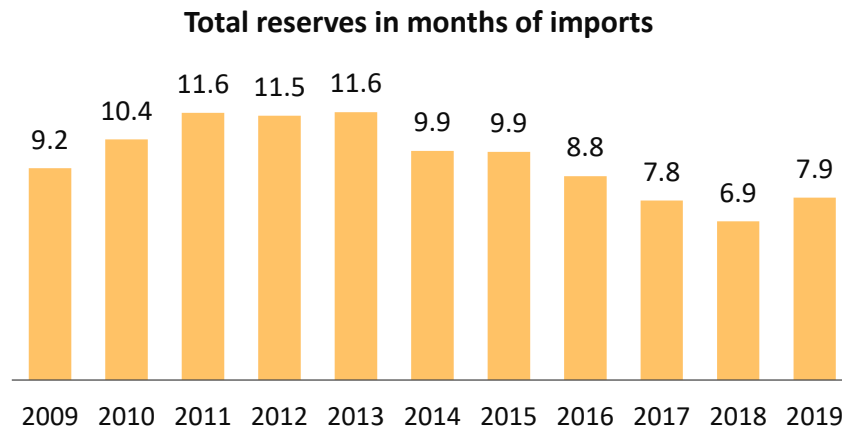
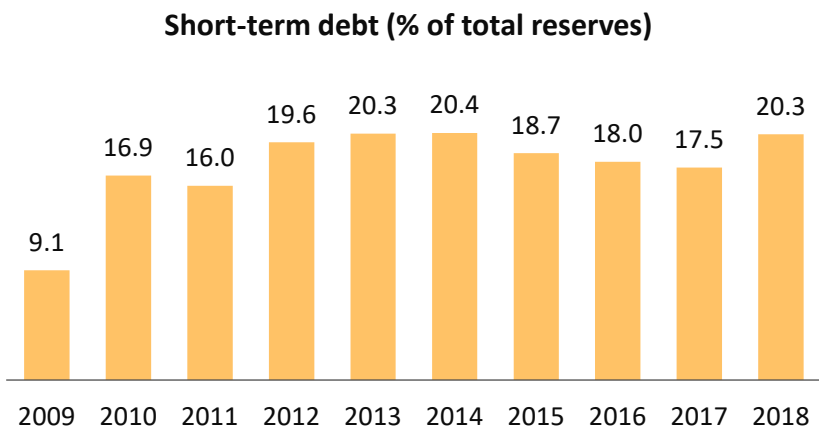
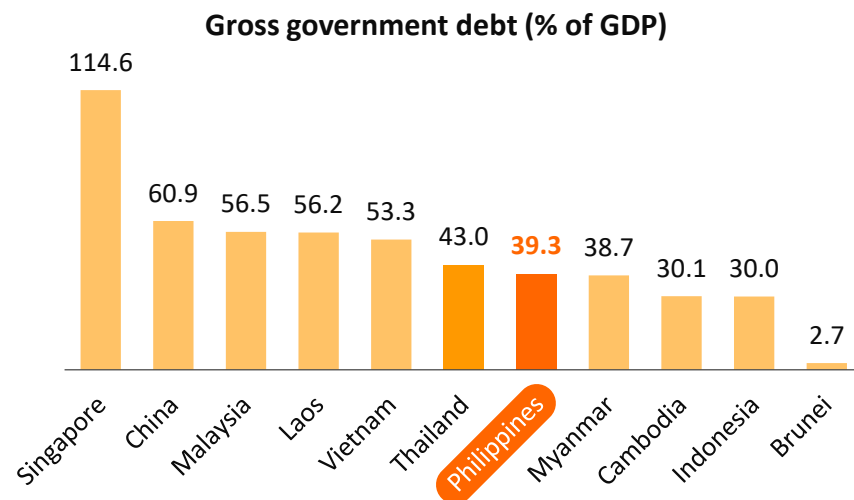
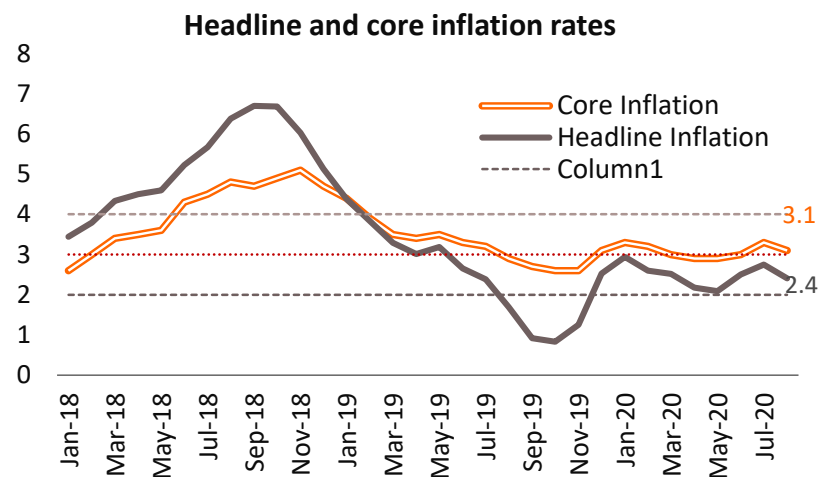


Major goods traded between Thailand and Philippines (2019)

Major Thailand's exports to Philippines	USD mn	Major Thailand's imports from Philippines	USD mn
1. Motor cars, parts and accessories	2,201.1	1. Computer, parts and accessories	888.2
2. Electronic integrated circuits	396.5	2. Electronic integrated circuits	395.5
3. Beauty or make up preparation and soap	269.0	3. Parts and accessories of vehicles	362.7
4. Plastics	256.2	4. Electrical machinery and parts	317.9
5. Machinery and parts thereof	252.4	5. Other metal ores, metal waste scrap	264.0

Source: CEIC, Thailand's Ministry of Commerce

Sound macroeconomic stability has been maintained and should help the country weather external challenges and shocks induced by the pandemic



Source: CEIC

The exchange rate movement has been in line with its fundamentals

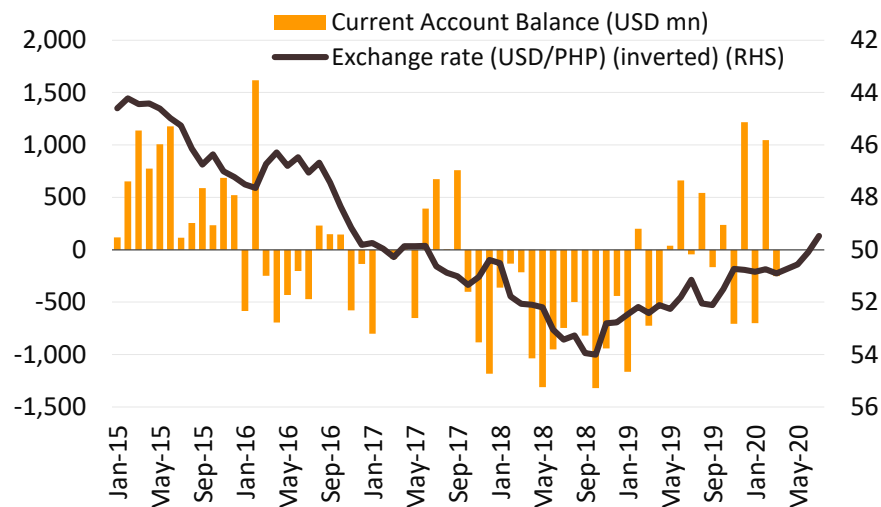
Exchange rate policy

- The currency of the Philippines is the Philippine peso (PHP). According to the IMF classification, the Philippines' de jure exchange rate arrangement is free floating, and the de facto exchange rate arrangement is also classified as floating.
- The Philippines adopted inflation targeting in January 2002.
- The Development Budget Coordination Committee (DBCC), in consultation with the BSP, sets a fixed inflation target over a multiyear period to promote a longer-term view on inflation, help anchor inflation expectations, and foster greater flexibility in economic decisions. On approval by the DBCC, the BSP announces the inflation target to the public. The DBCC is composed of the principals of the four member agencies namely, Department of Budget and Management, Department of Finance, National Economic and Development Authority, and the Office of the President.

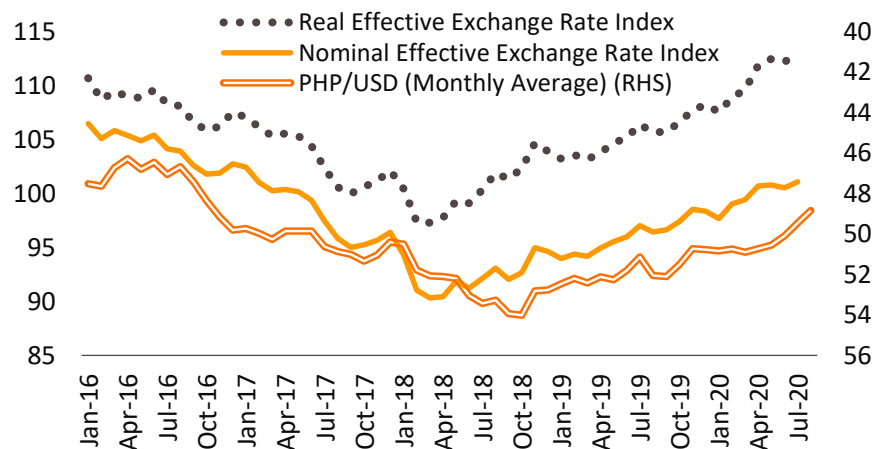
Arrangements for Payments and Receipts

- The use of domestic currency for international payments and receipts is not allowed, except for exports to ASEAN countries (provided the BSP is not asked to intervene in the clearing of any balances from this payment scheme and gold sales to the BSP which are considered constructive exports).
- Any person, natural or juridical, may deposit foreign currencies with Philippine banks authorized to operate a foreign currency deposit unit (FCDU) or expanded FCDU. There is no restriction on the withdrawal by the depositor of his foreign currency deposit or on the transferability of the same abroad, except those arising from the contract between the depositor and the bank.

Current account balance and USD/PHP exchange rate



Nominal and real exchange rates



Source: IMF AREAR Database, CEIC

Favorable underlying fundamentals will support the economy to resume its potential trajectory in the years ahead

Although the pandemic is expected to substantially erode the Philippines' potential growth path, over the medium to long term, we view that the economy should be able to eventually follow its potential trajectory of 6.0%-7.0%. There are 4 main drivers comprising (1) demographic dividend, (2) structural reforms, (3) infrastructure investment, and (4) foreign direct investment (FDI) inflows. These factors will enable the Philippines to remain one of the fastest growing economies regionally.



1

Favorable demographic structure (young labor force)

- Pools of young labor force for labor-intensive manufacturing
- Attracting FDI inflows
- Growing middle-class consumers and sizeable domestic market as young workers earning higher income
- Expanding physical and digital urbanization



2

Structural reforms

- Raising the country's long-term potential growth by eliminating structural bottlenecks
- Enhancing the country's overall productivity and competitiveness
- Promoting ease of doing business
- Underpinning confidence and attracting FDI inflows



3

Infrastructure investment



4

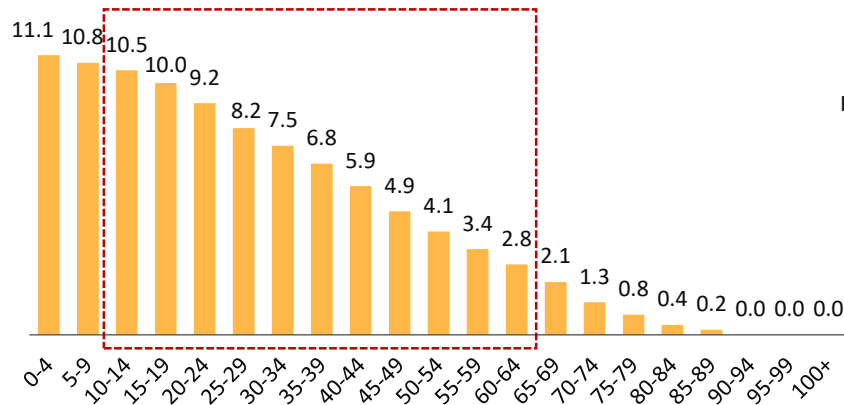
Foreign Direct Investment (FDI) inflows

- Further supporting and facilitating Indonesia's industrialization
- Supporting the integration to regional supply chains and value chains
- Creating jobs and new business opportunities for growing young workers.

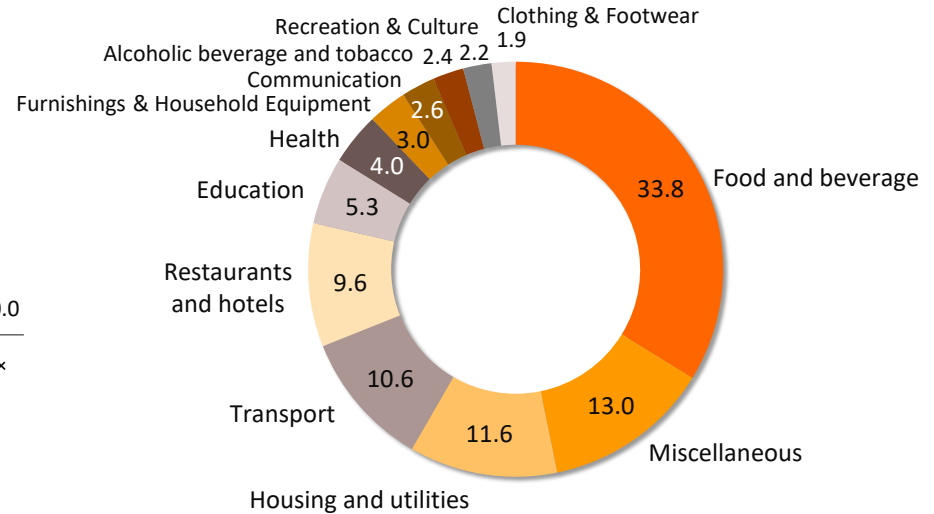
1

Demographic dividends will support the Philippines' growth over the years to come

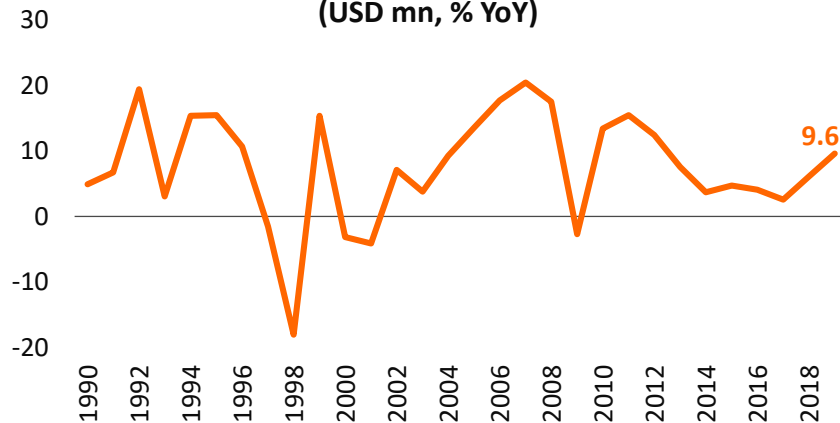
Population profile (% , 2020)



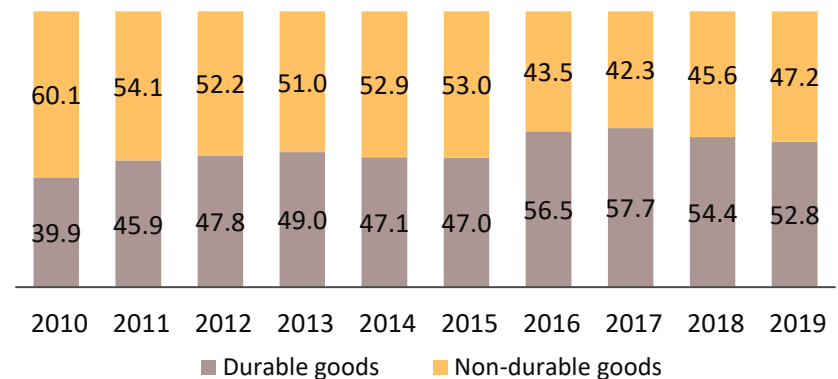
Household consumption expenditure by commodities and services group (% of total expenditure, 2019)



Household Consumption Expenditure (USD mn, % YoY)



Shares of consumer goods imports (%)

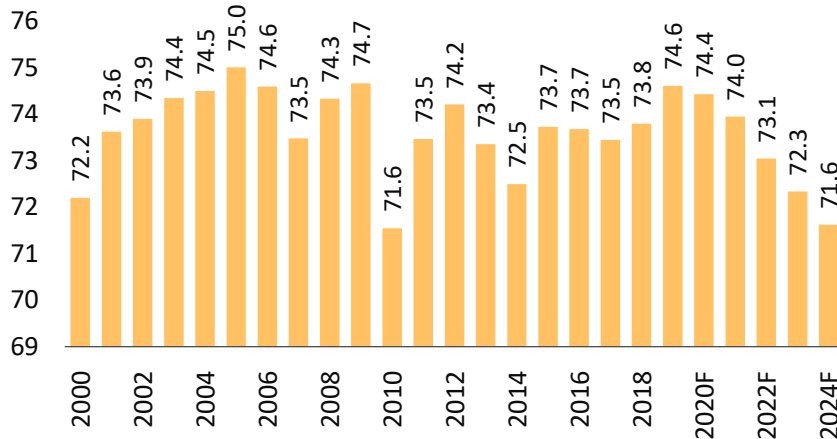


Source: Trade Map, Krungsri Research

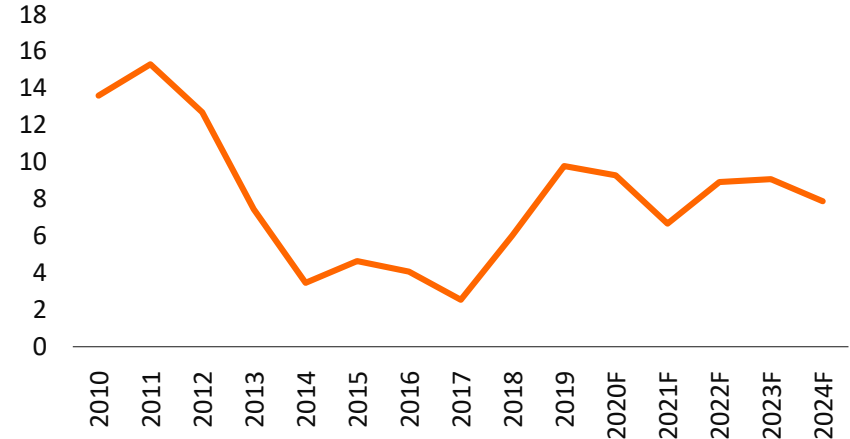
1

Young middle-class consumers are expected to become wealthier and have higher purchasing power

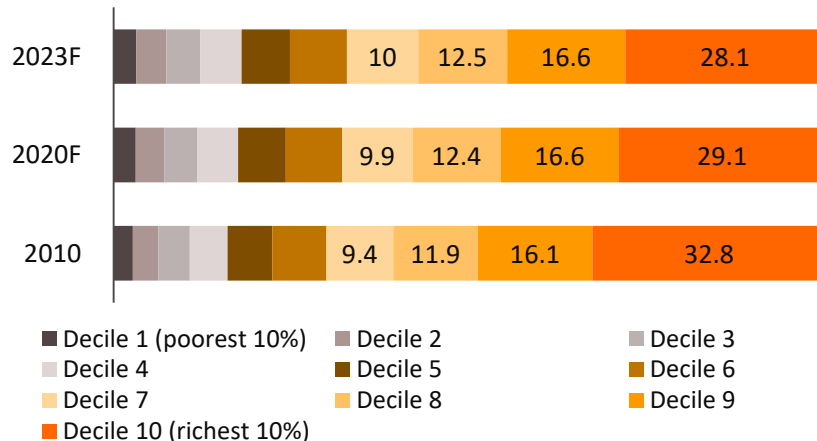
Total household spending (% of GDP)



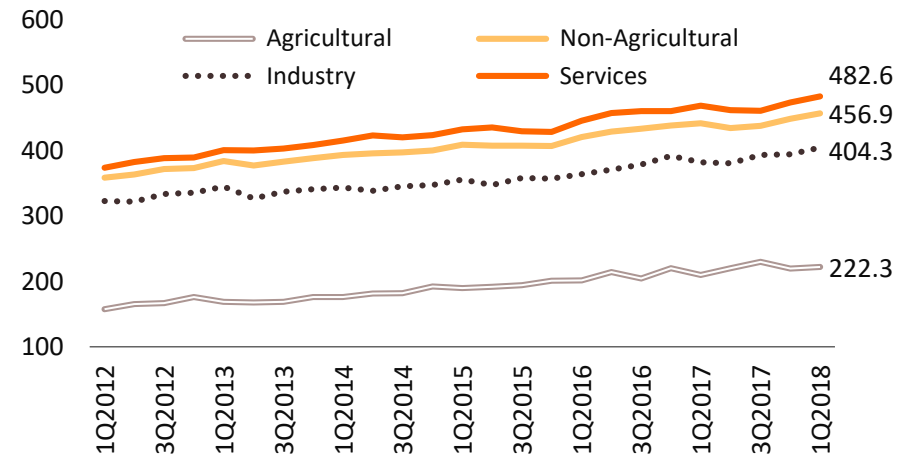
Total household spending (USD % y-o-y)



Income distribution (% of total income)



Average Daily Basic Pay (PHP)

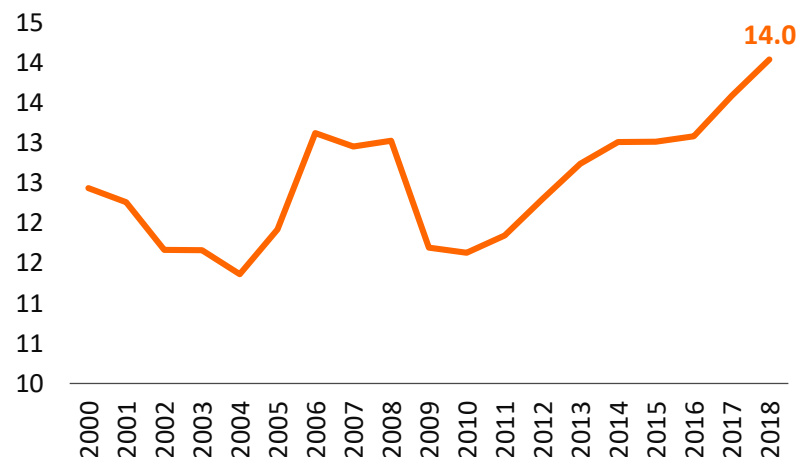


Source: CEIC, EMIS

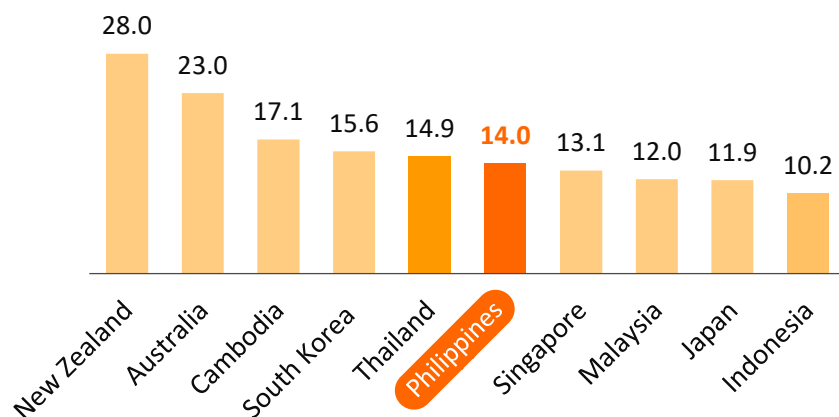
2 *Structural reforms* should help promote ease of doing business and attract foreign investment

- The Philippines under President Rodrigo Duterte has introduced several meaningful structural reforms to unlock structural bottlenecks and boost the country's potential growth as well as competitiveness.
- The Comprehensive Tax Reform Program (CTRP) has been pushed for implementation to intensify tax collection efforts to finance its infrastructure program and various social spending priorities, including the infrastructure investment under the Build, Build, Build program.
- Currently, the government is pushing to implement the rest of the components of the CTRP including the Corporate Income Tax and Incentives Rationalization (CITIRA), Sin Tax Reform, Reform Property Taxes and Reform of Passive Income and Financial Taxes to finance infrastructure and social spending, and at the same time improve the equity and efficiency of the tax system.

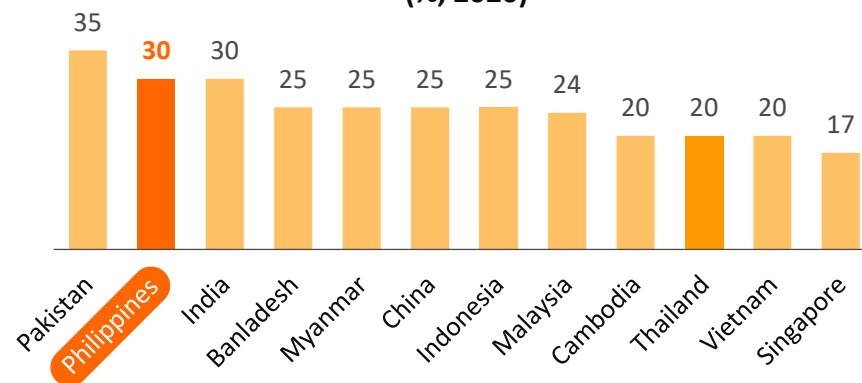
Tax Revenue (% of GDP)



Tax revenue (% of GDP as of 2018)



Corporate tax rates in some selected countries (% , 2020)



Source: CEIC, AMRO: Philippines' 2019 Annual Consultation Report

2 Philippines is implementing the long-term plan to become a prosperous society by 2040

- The Government of the Philippines is implementing the Ambisyon Natin 2040, a long-term vision of becoming a prosperous middle-class country free of poverty by 2040.
- Hence, there are priority sectors promoted by the government to improve market linkages, simplify government procedures, and facilitate access to finance. And those priority sectors are:

Priority for investment promotion specified in the Philippines' 25-year development plan



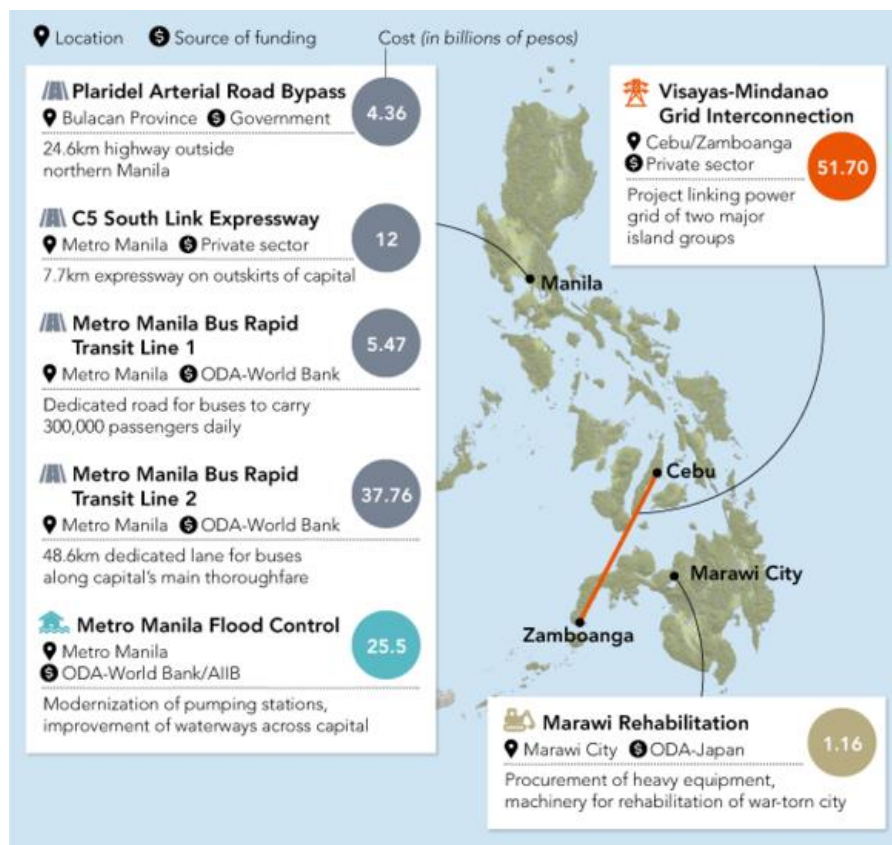
Source: NEDA: Philippines

3

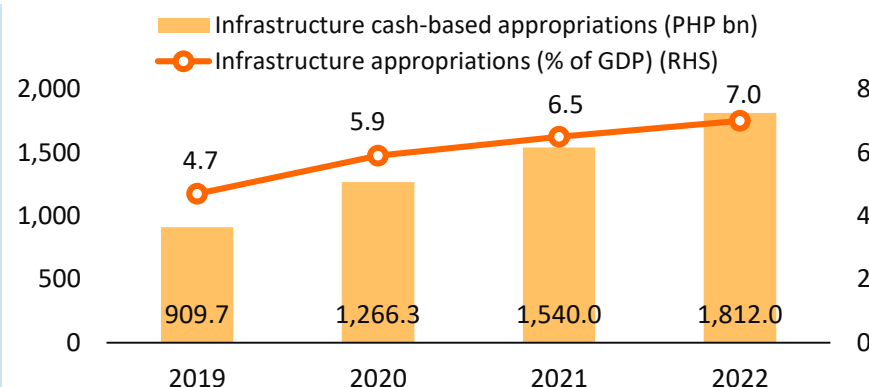
The 'Build, Build, Build' program should help enhance the potential growth and unlock infrastructure bottlenecks

The Philippines government under the Duterte Administration has been implementing and accelerating the infrastructure spending under the so called the "Build, Build, Build" program to help address the country's long-standing infrastructure bottlenecks and the Program is expected to boost the economy in the long run. The infrastructure spending will be pushed reach about 7% of GDP in 2022, the end of the 6-year and one term of President Duterte.

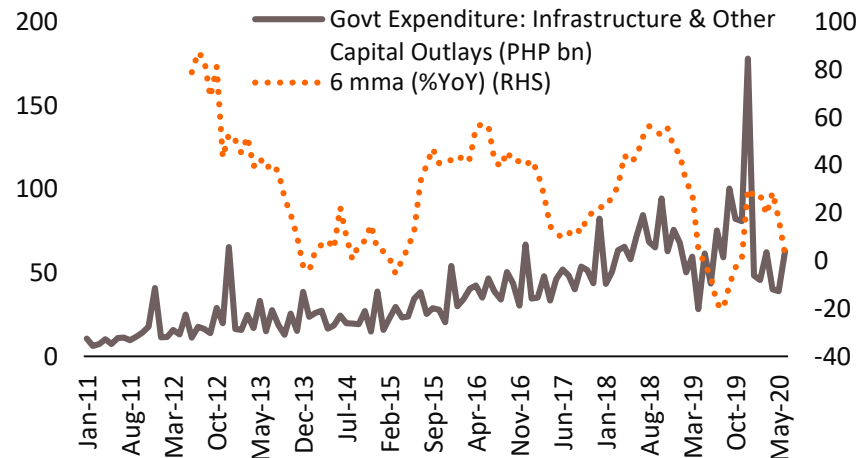
Some of the big-ticket infrastructure projects under the BBB Program



Infrastructure spending program (annual cash-based appropriations)



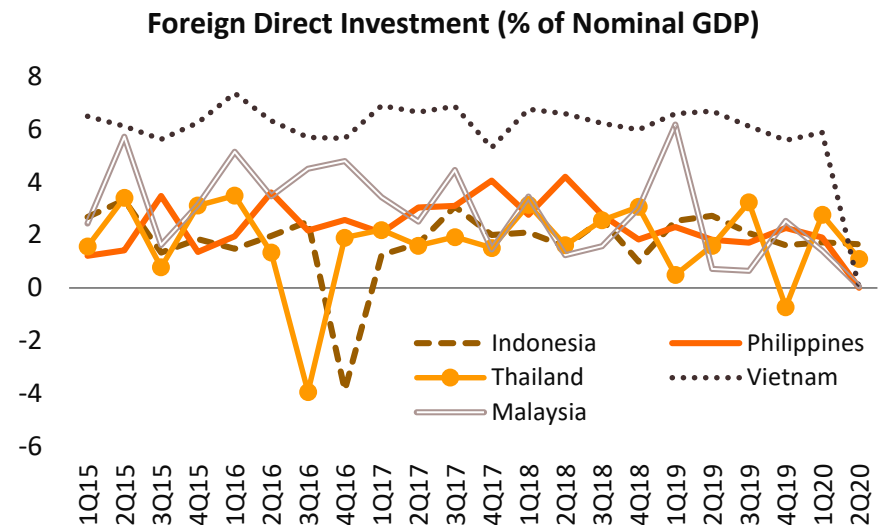
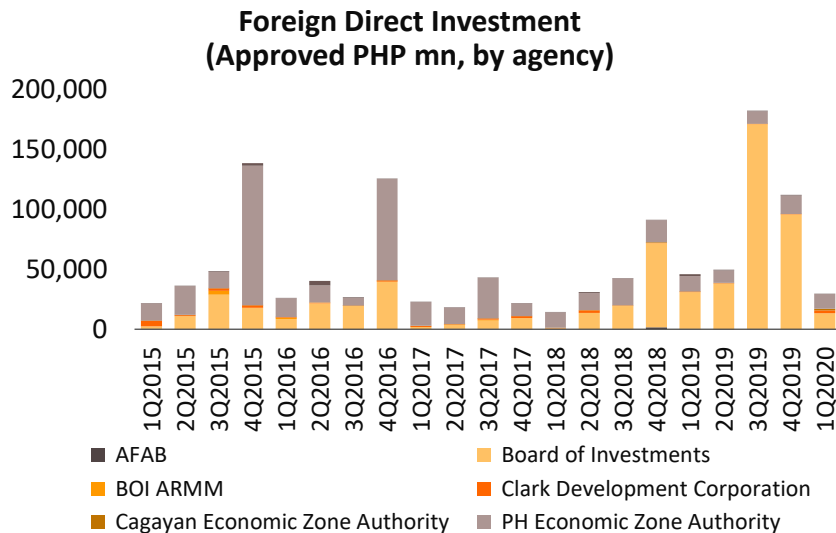
Government infrastructure expenditure



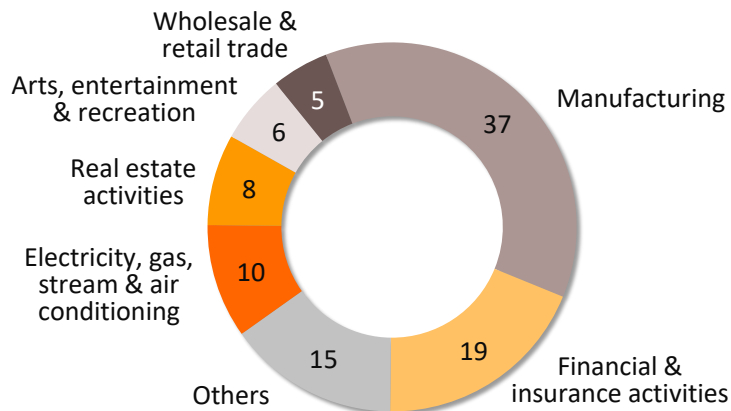
Source: Nikkei Asian Review, CEIC, AMRO: Philippines' Annual Consultation Reports

4

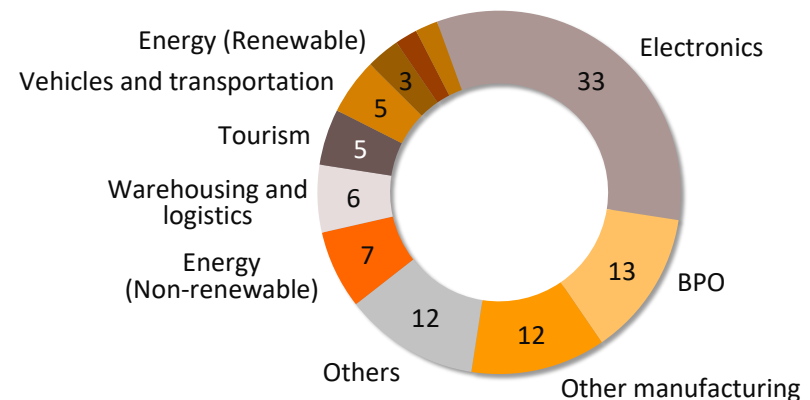
FDI inflows are likely to be continuously attracted and to support the industrialization



FDI by sector (% value share, 2011-2017)



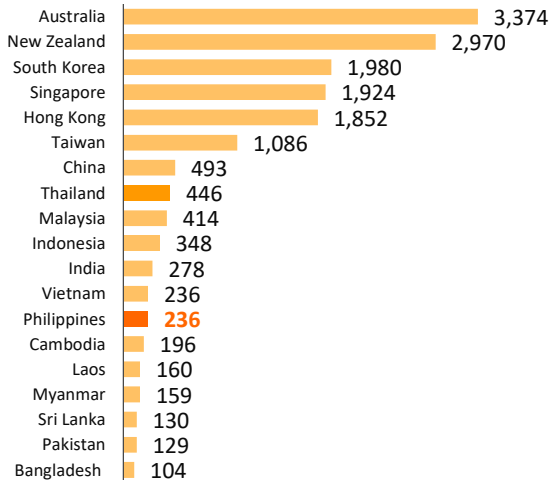
Tax incentive beneficiaries by sector (% share, 2016)



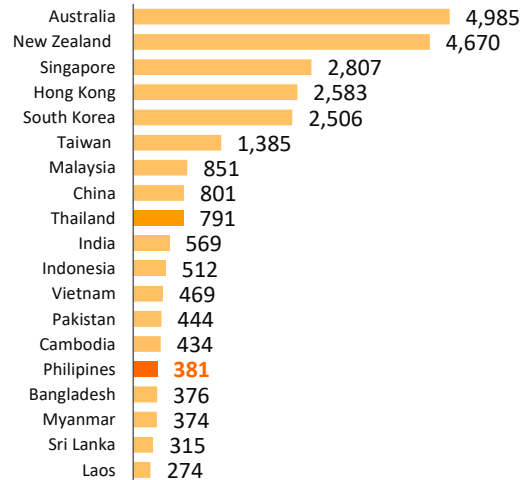
Source: CEIC, BSP, AMRO: Philippines' Annual Consultation Reports

Low wage levels should support attractiveness of the Philippines in attracting labor-intensive manufacturing

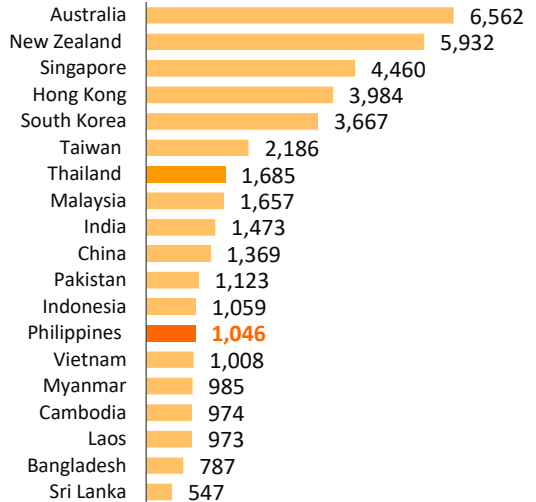
Manufacturing: Worker



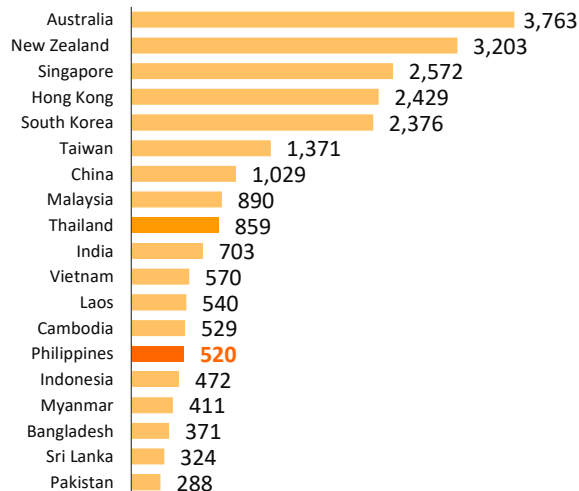
Manufacturing: Engineer



Manufacturing: Manager



Non-Manufacturing: Staff



Non-Manufacturing: Manager



Base salary: Salary excluding benefits, as of August 2019

Worker: Regular general workers with 3 years of work experience, not including contract-based and probationary workers

Engineer: Regular employees who are core technicians, graduates of a vocational college or university, and have 5 years of experience.

Manager (Manufacturing): Regular employees who are section managers in charge of sales, university graduates, and who have 10 years of work experience.

Staff: Regular general workers with 3 years of work experience, not including dispatched and probationary workers.

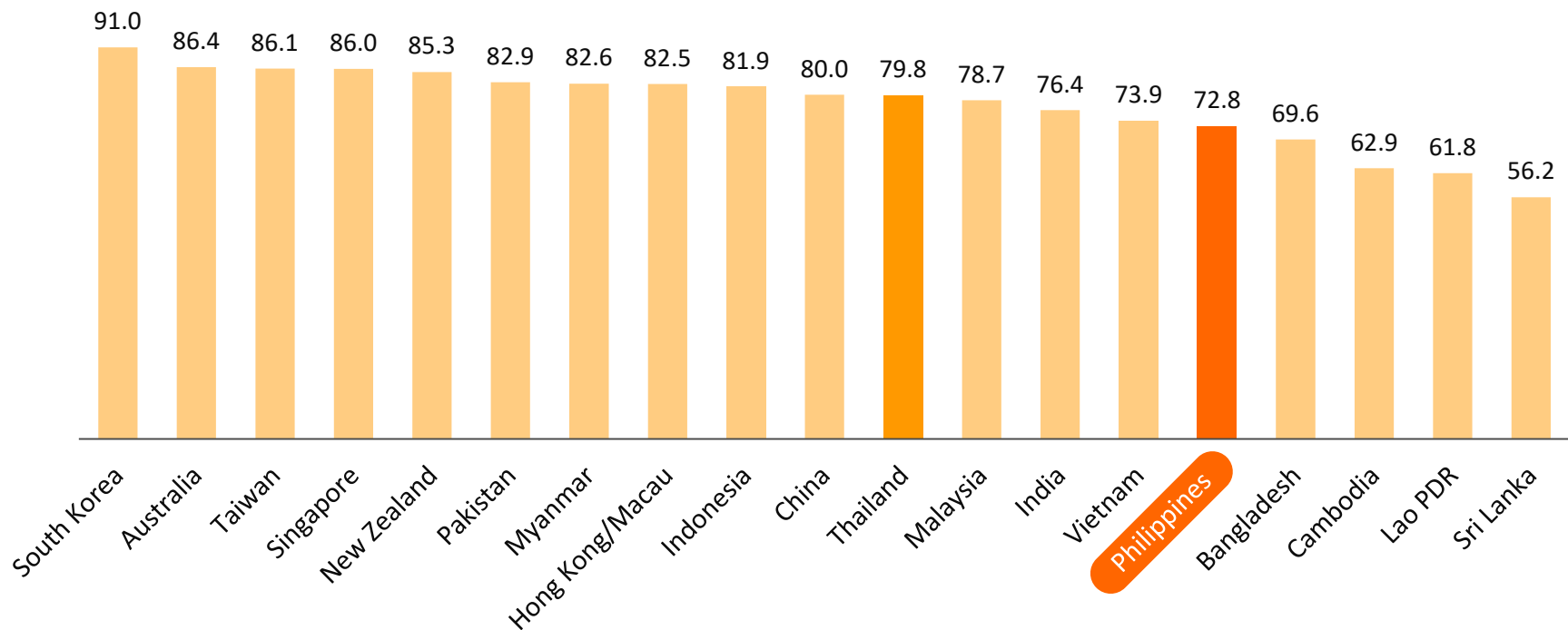
Manager (Non-manufacturing): Regular employees who are section manager in charge of sales, university graduates, and who have 10 years of work experience.

Note: Except for Cambodia, base salaries were reported in local currencies. (For Myanmar, salaries were reported selectively either in the local currency or in USD.) The average wage for each job type in the local currency was converted to the USD, using the average exchange rate of August 2019 published by the central bank of each country/regional or by the State Administration of Foreign Exchange for China. For Myanmar, where companies reported base salaries either in the local currency or in USD, base salaries reported in the local currency were converted to USD, and then the average was calculated.

Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

Cost of production in the Philippines could be further lowered in the long term should the structural reforms and infrastructure investment are accomplished

Local production cost in comparison with production cost in Japan, (Japan = 100, by country/region)

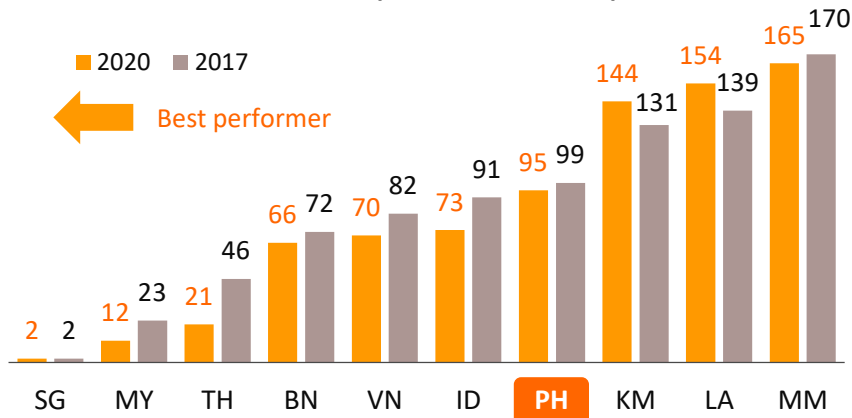


Note: Production costs for Japanese firms operating in those countries which include the costs of all resources consumed in producing a product, such as materials, labor, and others.

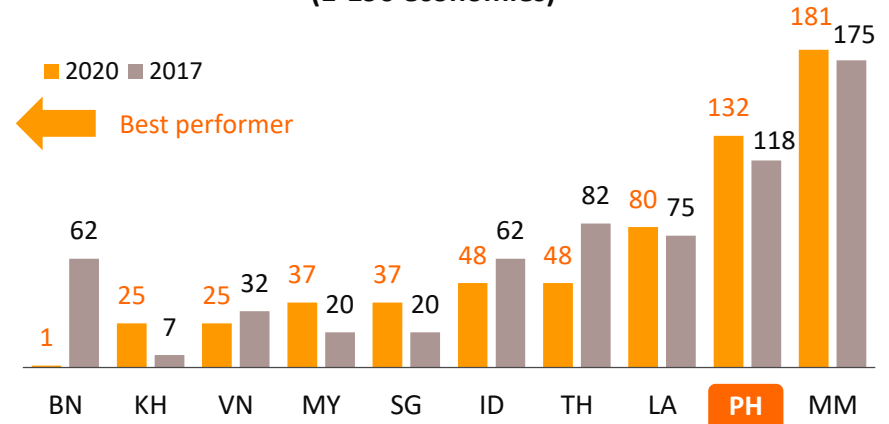
Source: 2019 JETRO Survey on Business Conditions of Japanese Companies in Asia and Oceania

Overall business environment has also been slightly improved over the past few years

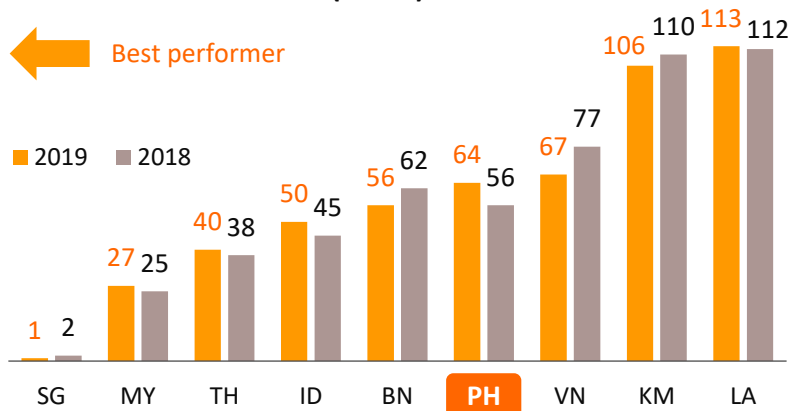
2020 Ease of Doing Business Ranking of ASEAN countries (1-190 economies)



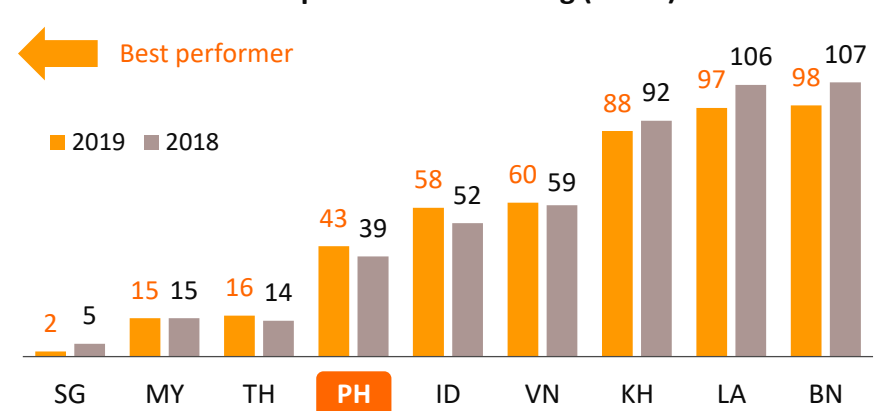
Ease of Doing Business: Getting credit ranking (1-190 economies)



Global Competitiveness Ranking of ASEAN countries (1-140)



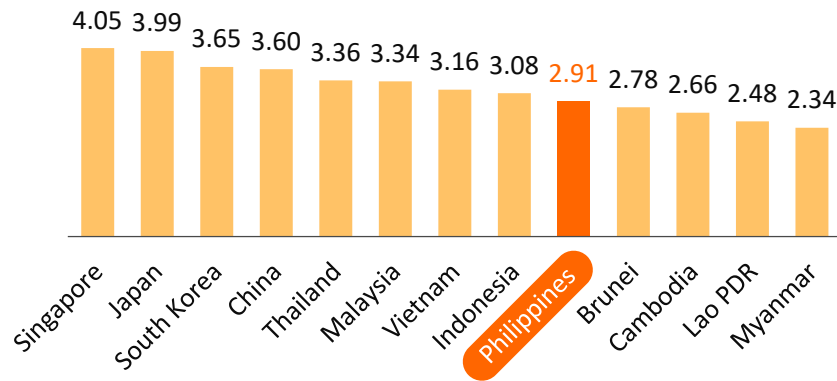
The Financial system pillar of the Global Competitiveness Ranking (1-140)



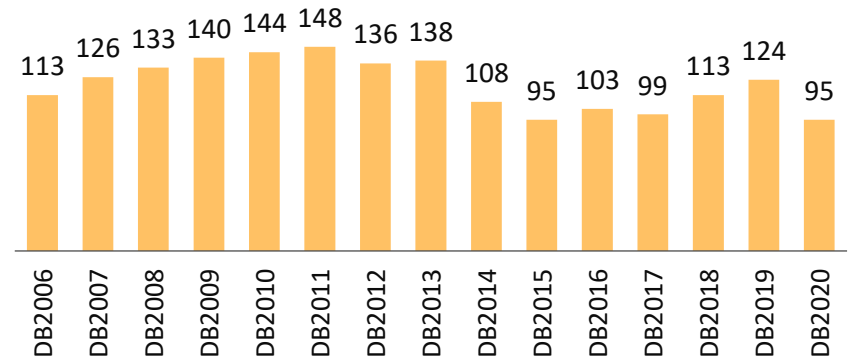
Source: World Bank: 2020 Ease of Doing Business, WEF: The Global Competitiveness Reports

Despite the improvement, the ease of doing business may not be conducive enough compared to that of regional peers

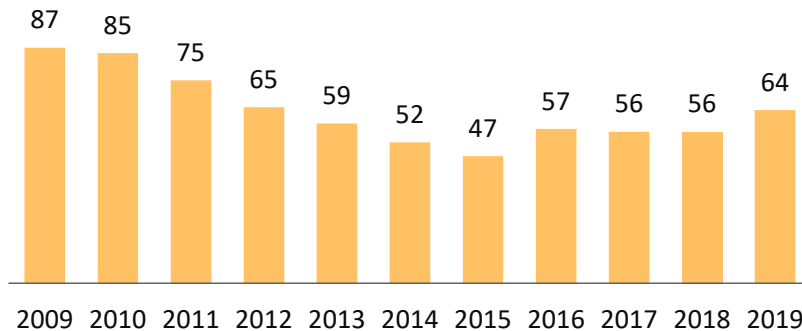
World Bank: Logistics Performance Index
(5= the highest performance)



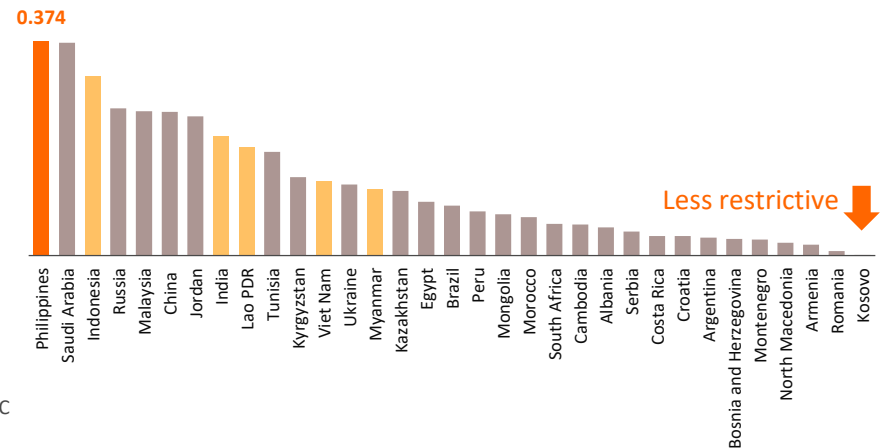
The Philippines' Ease of Doing Business Ranking



The Philippines' Global Competitiveness Ranking



OECD FDI Regulatory Restrictiveness Index for some selected non-member countries (2018)

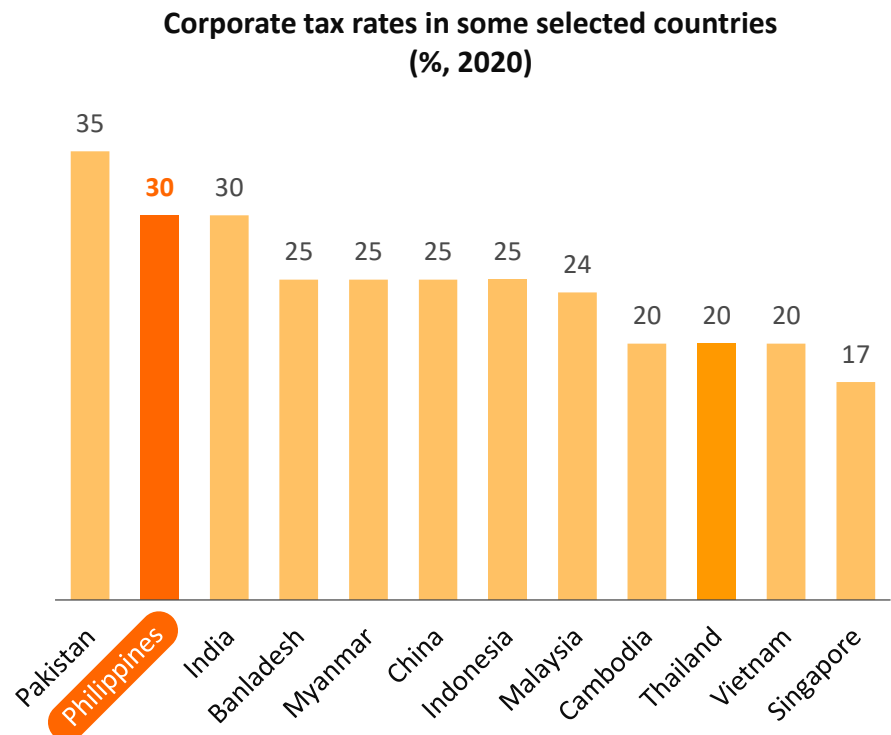


Source: World Bank: 2020 Ease of Doing Business, WEF: The Global Competitiveness Reports, OECD, CEIC

In addition, the corporate tax rate in Philippines is among the highest in the region

Currently, the corporate income tax (CIT) of the Philippines is the highest among peers in ASEAN, 30% compared to that of Singapore of 17% . Although the government is implementing the CIT reforms to promote both domestic investment and FDI, it will take at least 5 years to become competitive regionally. This is because the CIT rates is reduced to 20 percent in annual increments of 1 percentage point over a 10-year period starting in 2020 according to the Corporate Income Tax and Incentives Rationalization Act (CITIRA) introduced in September 2019.

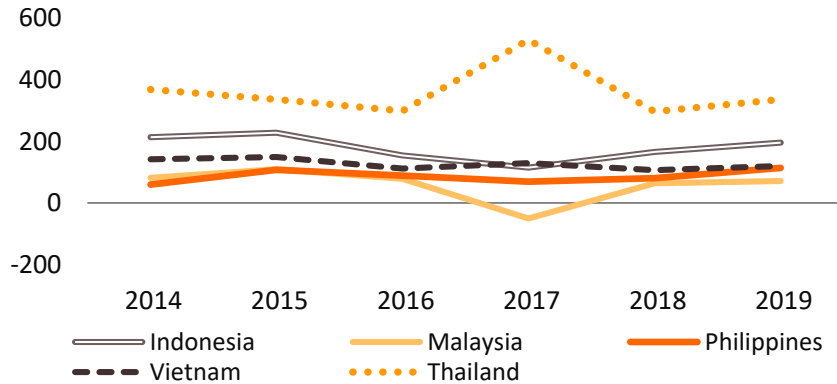
Tax	Scope	Rate
Corporate Income Tax (CIT)	Domestic corporations created or organized under Philippine laws are taxed on their worldwide income. Foreign corporations are taxed on their Philippine source income.	30% (standard rate) 15% (branch remittance tax)
Value added tax (VAT)	VAT is levied on the value added at each stage of the production and distribution supply chain. The amount levied depends on the type of good.	0% or 12% (standard rate is 12%)
Personal Income Tax (PIT)	Resident Philippine citizens are subject to tax on their worldwide income, whereas non-resident Philippine citizens are subject to tax on their Philippine source income.	5% to 32%
Withholding taxes on payments abroad	Applied on dividends, interests and royalties payments made abroad by companies.	10% to 30%



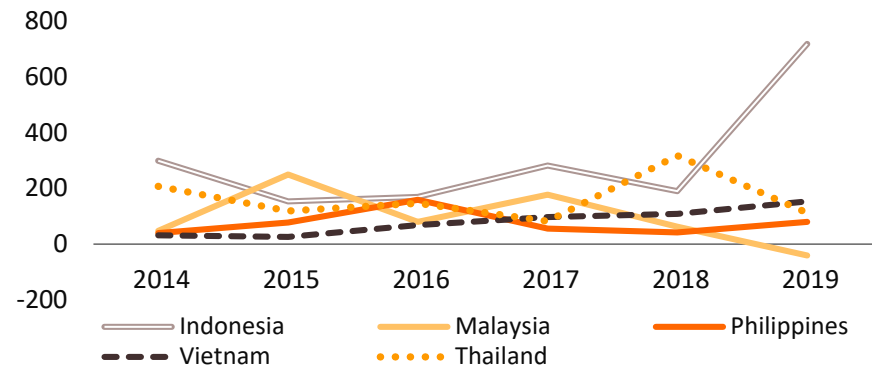
Source: HKTDC, CEIC, Krungsri Research

Japanese direct investment to the Philippines has been flat compared to that flowing to other regional peers

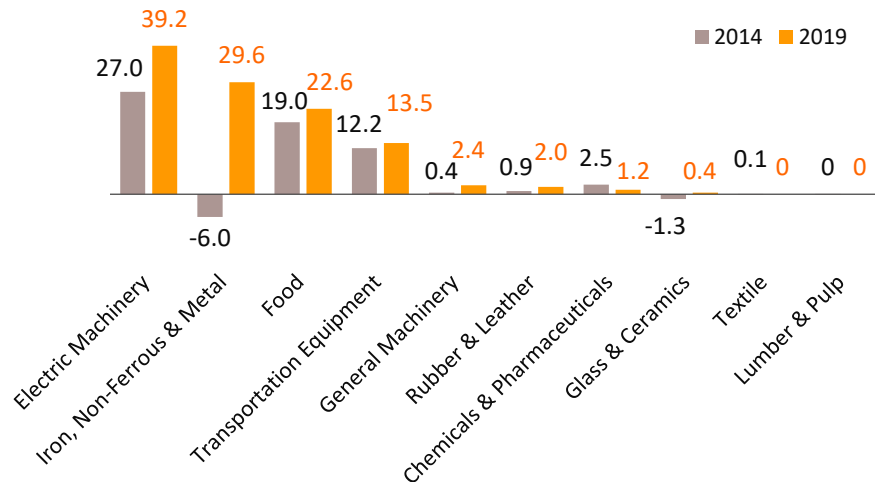
Japan outward direct investment to ASEAN-5 countries: Manufacturing sector (JPY bn)



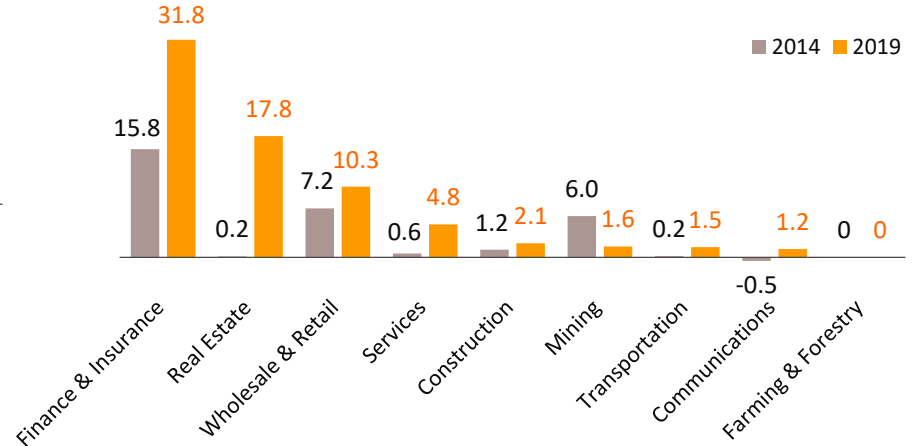
Japan outward direct investment to ASEAN-5 countries: Non-manufacturing sector (JPY bn)



Japan's outward direct investment to the Philippines: Manufacturing (JPY bn)



Japan's outward direct investment to the Philippines: Non-manufacturing (JPY bn)



Source: CEIC

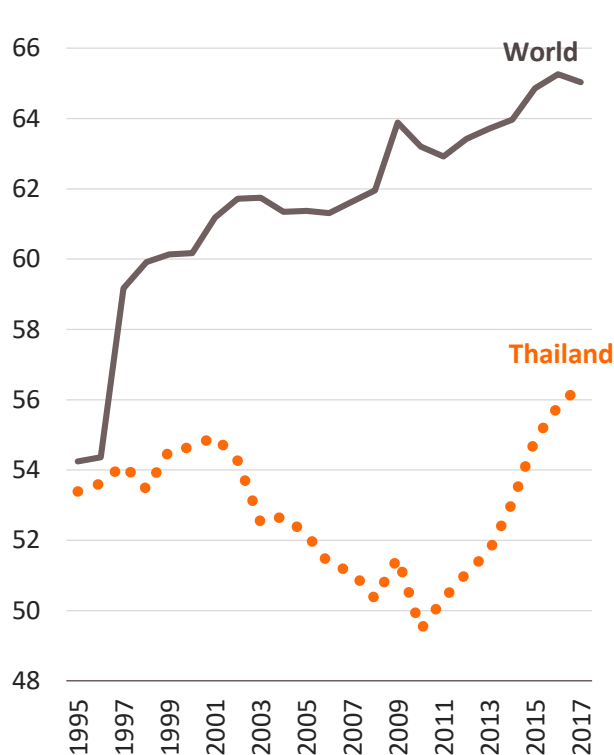
BUSINESS OPPORTUNITIES IN THE PHILIPPINES FOR **THAILAND**



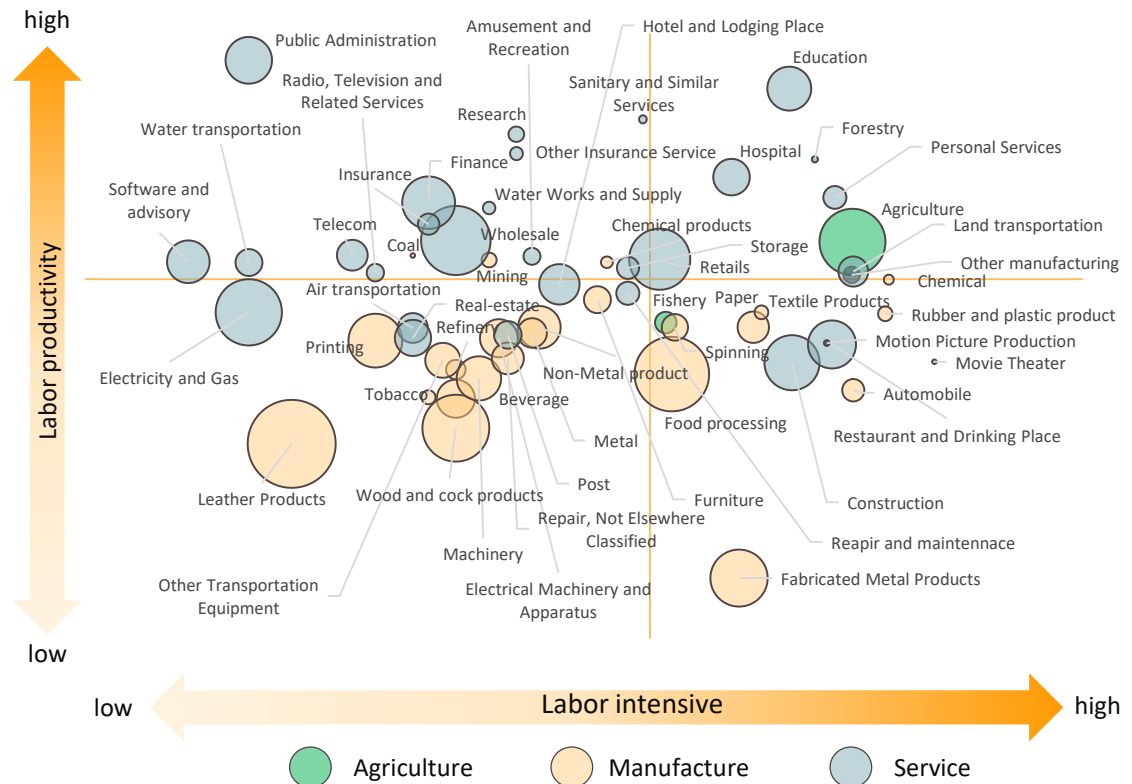
Thailand is moving toward service-based economy and could shift some labor-intensive activities to the region

Thailand is in line with the world economy in moving toward a service-based economy, and this is depicted by a rising contribution of service sector to GDP from 50.3% in 2008 to 56.9% in 2017. **Based on the recent data, we found that Thailand also has relatively high valued-added labor productivity in the services sector.** Thai businesses may be able to reap the advantages to shift labour-intensive manufacturing activities as well as export services to countries in the region including the Philippines.

**Value-added Services Sector
(% of GDP)**



**Thailand's Labor dependency and productivity by industry
(Input-Output Tables 2015)**

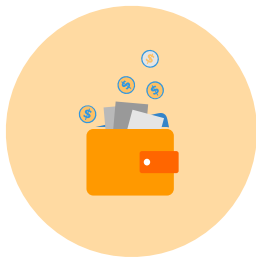


Source: Office of the National Economic and Social Development Council (NESDC), National Statistical Office (NSO), World Bank, Krungsri Research

Sizeable domestic demand and growing wealthier middle-class Filipino consumers offer business opportunities for Thai investors

The Philippines will become home for around 124 million inhabitants by 2030. On the back of high economic growth, this would mean that there would be a sizeable young and wealthier consumers. Therefore, looking ahead, the Philippines should remain one of the most vibrant economies regionally and provide business opportunities for Thai firms seeking markets to grow their business in the region. And, some potential sectors that are on the top of our mind are (1) financial services, (2) food and beverage, (3) Cosmetics & toiletries, (4) healthcare and pharmaceuticals, and (5) Agribusiness.

Financial services



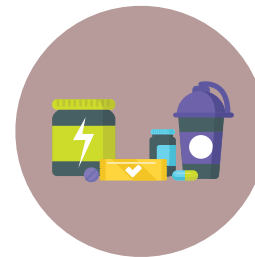
Food and beverage



Cosmetics & toiletries



Healthcare services and Pharmaceuticals



Agribusiness



Underlying trends in Indonesia

- Sizeable unbanked and underbanked population
- More demanding wealthier and young consumers
- Personalization

- Sizeable domestic market
- Growing young middle-class consumers
- Health consciousness
- Urbanization
- Premiumization

- Sizeable domestic market
- Growing young middle-class consumers
- Urbanization
- Premiumization and Personalization

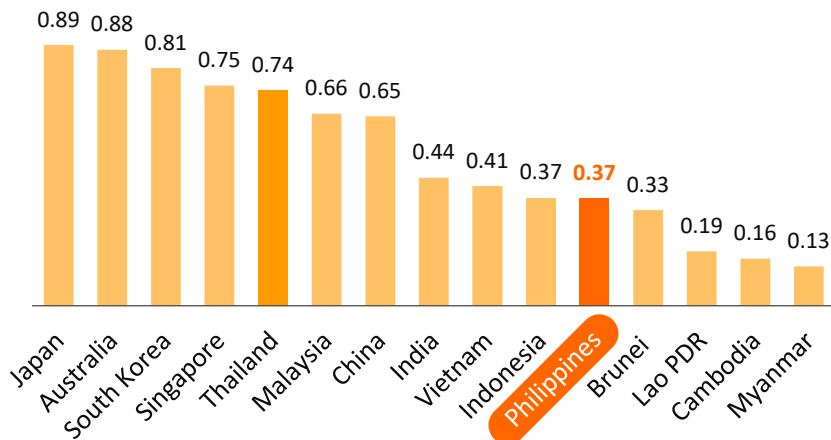
- Sizeable domestic market
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- Sizeable domestic market
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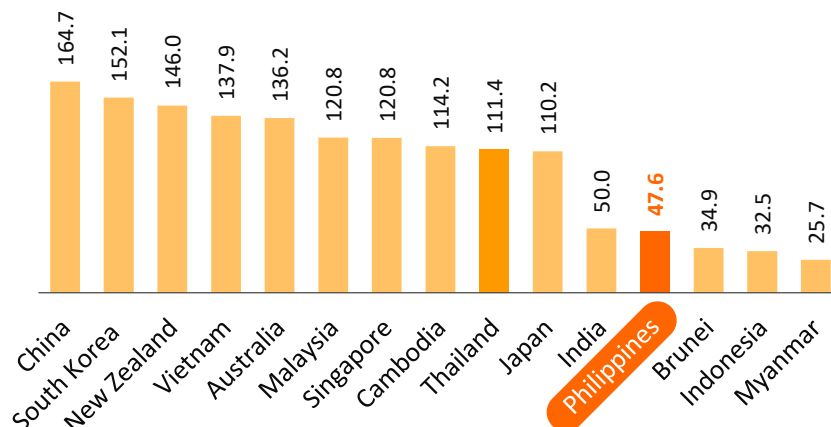
Source: Krungsri Research

Financial services: Unbanked and underbanked population remain sizeable in the Philippines

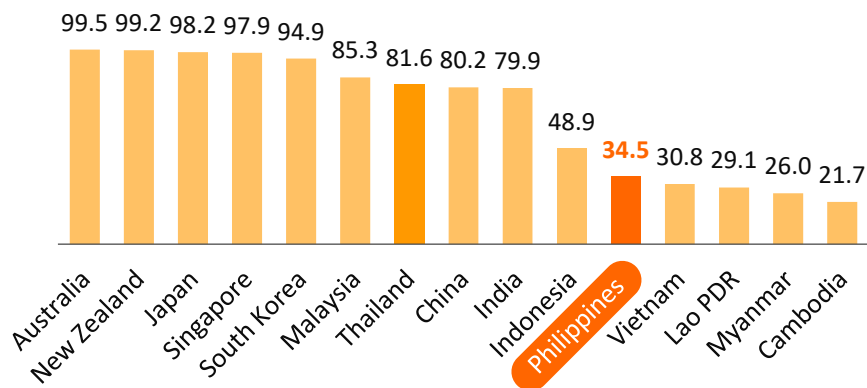
Financial Development Index (as of 2018)



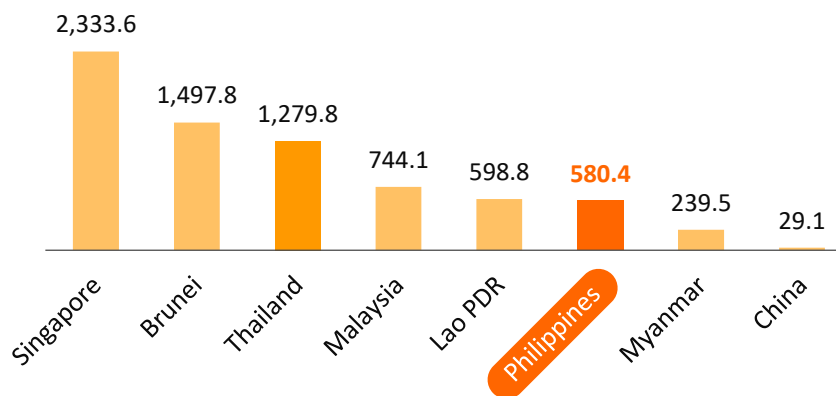
Domestic credit to private sector by banks (% of GDP, 2019)



Account ownership at a financial institution or with a mobile-money-service provider (as of 2017)

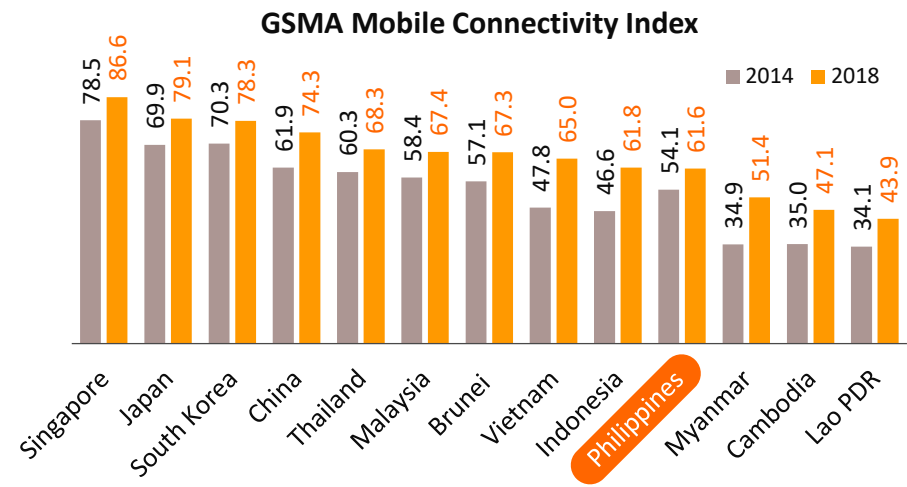
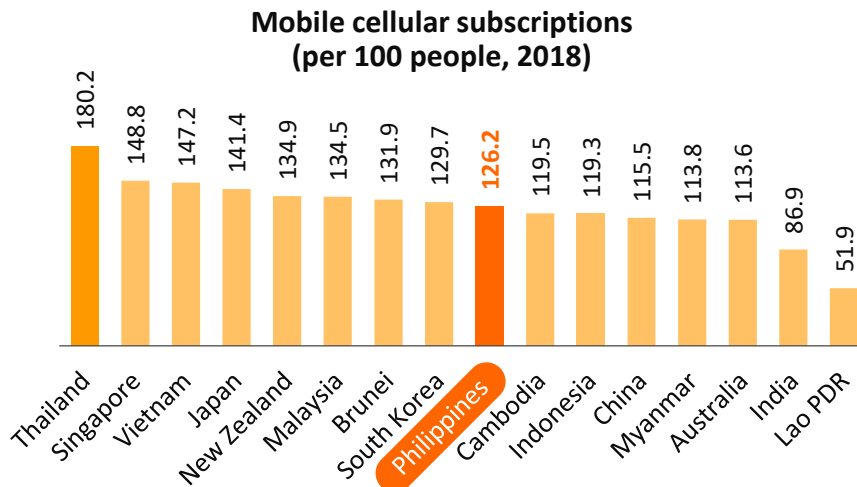
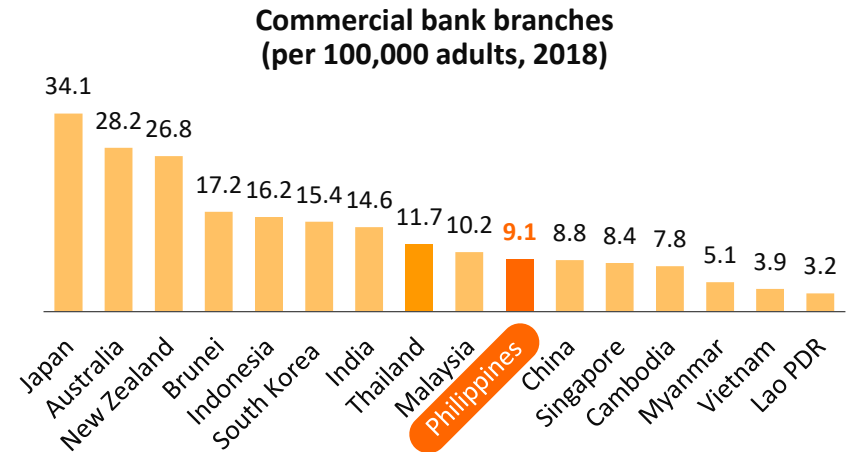
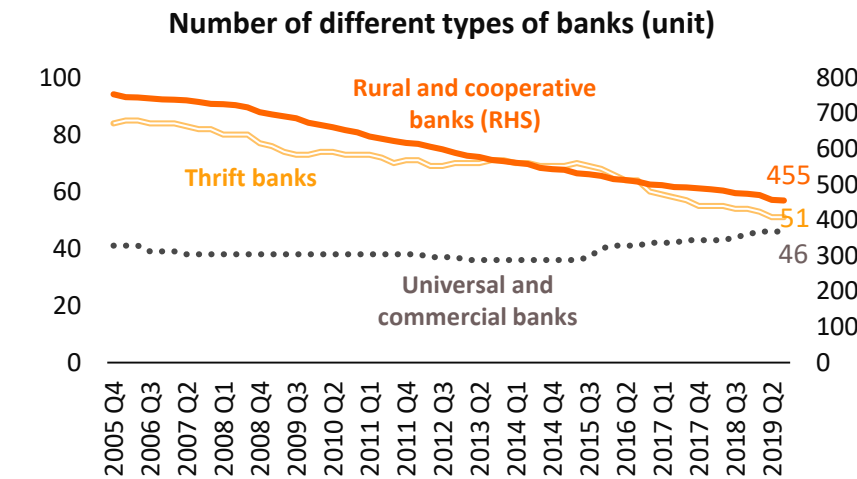


Depositors with commercial banks (per 1,000 adults) (2018)



Source: CEIC, Bloomberg, GSMA, AMRO, World Bank: World Development Indicators

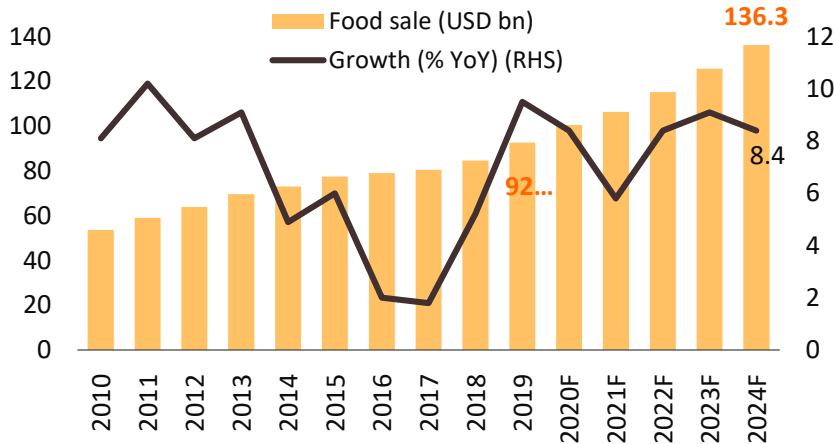
...Despite there are a large number of banks and other types of financial service providers: mobile-led financial services could be used to promote financial inclusion



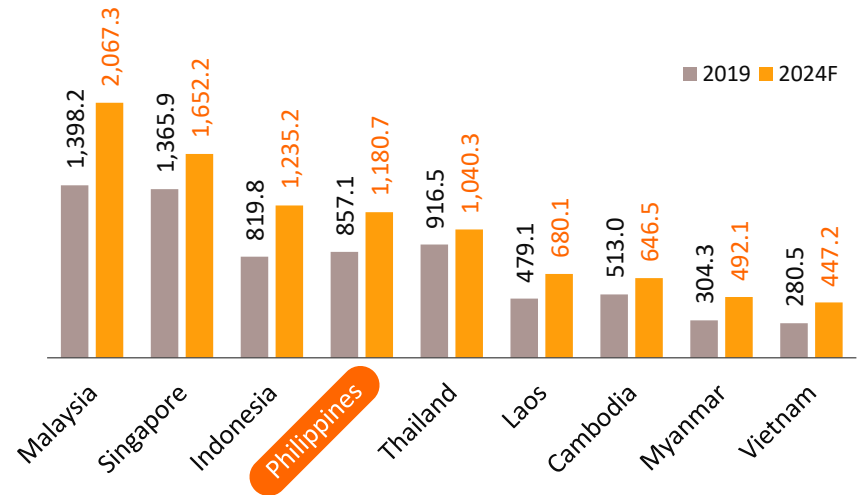
Source: CEIC, Bloomberg, GSMA, World Bank: World Development Indicators

Food: Thailand's competitive advantages in the food and agricultural industries should support Thai firms to penetrate Philippines' food and healthy food sectors

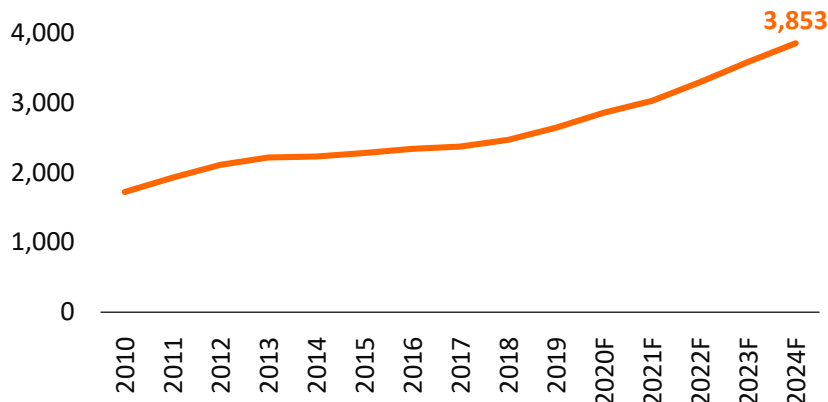
Food sales in the Philippines



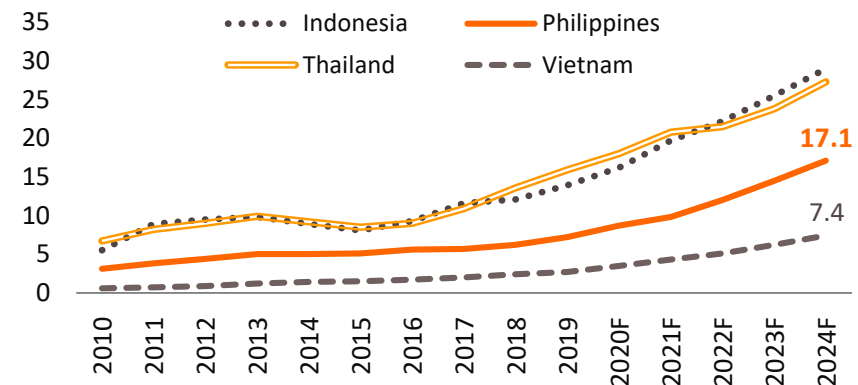
Food sales (USD per capita)



Disposable Income per capita (USD)



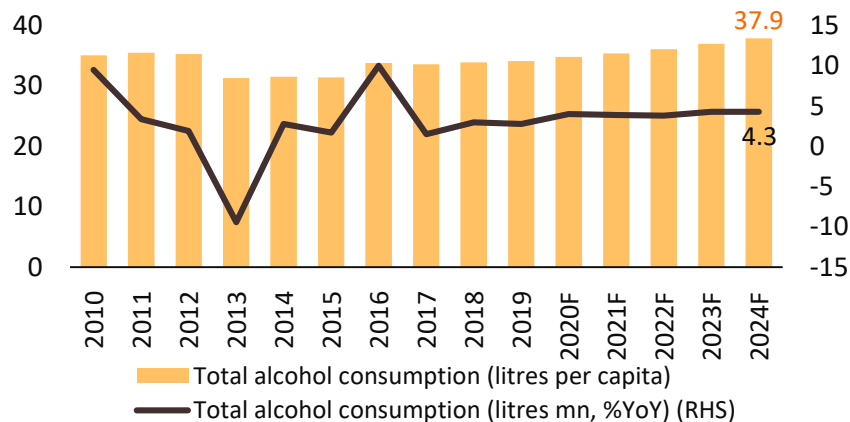
Households earning USD15,000+ (% of total)



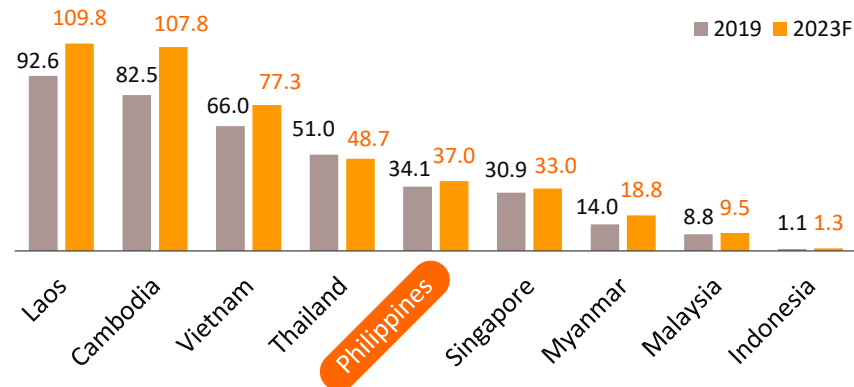
Source: Fitch Solutions, EMIS, Euromonitor

Beverage: Demand for healthier alternative drinks^{1/} are likely to be boosted by increased local consumers' health-consciousness

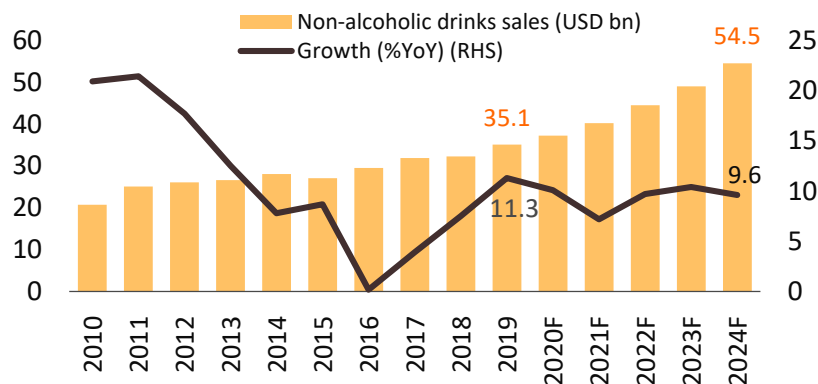
Total alcohol consumption (litres per capita)



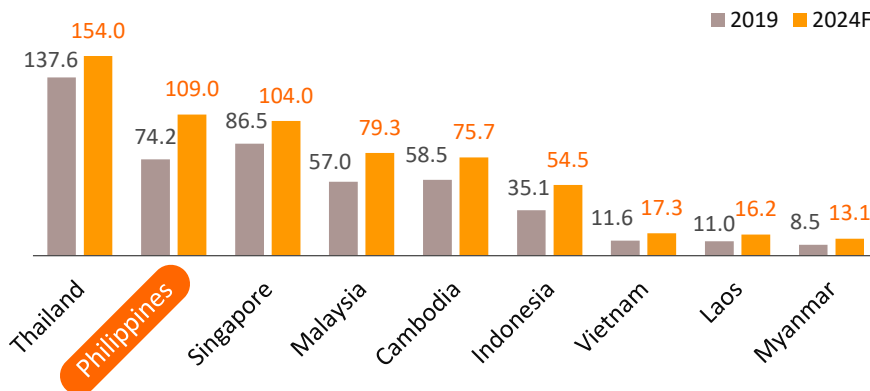
Total alcohol consumption (litres per capita)



Non-alcoholic drinks sales



Non-alcoholic drinks sales (USD per capita)



Note: 1/ including energy drinks, bottled water and fruit juices functional beverages as well as non-alcoholic drinks such as higher-value coffee products

Source: Fitch Solutions, EMIS, Euromonitor

*Cosmetics & toiletries*¹: Demand is expected to be driven by a growing wealthier middle-class consumers and a premiumization trend

Health & Beauty in the Philippines by category
(USD bn, as of 2018)

Category	Sales (USD bn)	% Share
Cosmetics & Toiletries	4.15	40.65
Healthcare products ^{2/}	6.05	59.35
Overall	10.20	100.0

Health & Beauty in the Philippines by category
(USD bn, 2023)

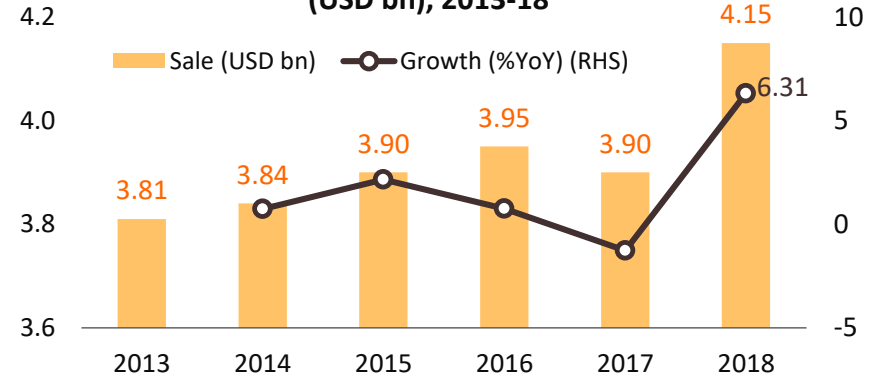
Category	Sales (USD bn)	% Share
Cosmetics & Toiletries	5.44	40.51
Healthcare products ^{2/}	7.99	59.49
Overall	13.43	100.0

Note: 1/Cosmetics & toiletries include men's, women's and children's fragrances, hair care, make-up, oral hygiene, personal hygiene, skincare and sun-care products. It also includes baby personal care products.

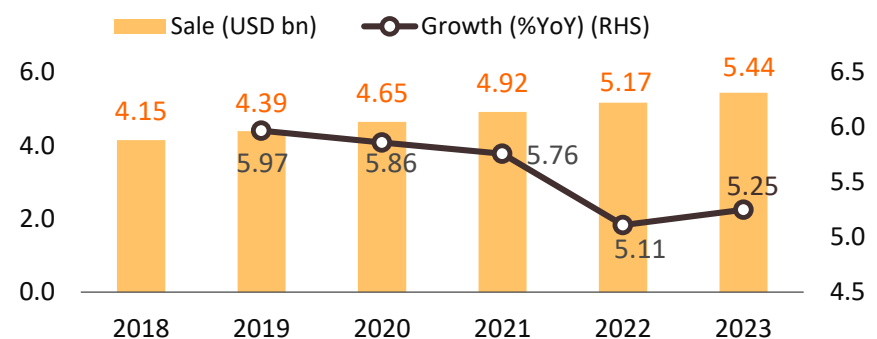
2/Healthcare products include Includes over-the-counter and prescription healthcare products, including medicines and treatments, lifestyle & wellbeing products, vitamins & supplements, mobility and daily living aids and other health-related products

Source: EMIS

Sales of cosmetics & toiletries in the Philippines
(USD bn), 2013-18



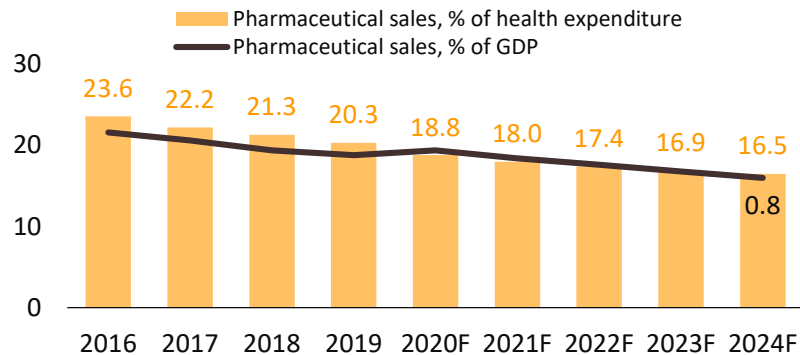
Sales of cosmetics & toiletries in the Philippines
(USD bn), 2018-23



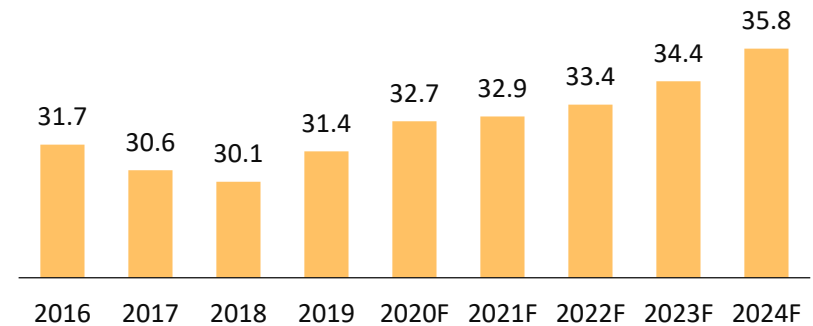
Healthcare and pharmaceuticals: Unmet demand is sizeable

It is estimated that the Philippines pharmaceutical market will reach a value of USD3.6bn in 2020 and USD4.1bn by 2024. Pharmaceutical sales represented 20.0% of total health expenditure in 2019, which is expected to decline to 16.5% in 2024. Annual medicine spending per capita will increase from USD31 in 2019 to USD35.8 by 2024. Against a backdrop of unserved demand for healthcare services, an increase in population and rising urbanization, as well as a growing communicable and non-communicable disease burden and the support for universal healthcare coverage, will boost the spending on medicines and healthcare services in the long term. This should offer business opportunities for Thai and investors to penetrate the Philippines' healthcare sector.

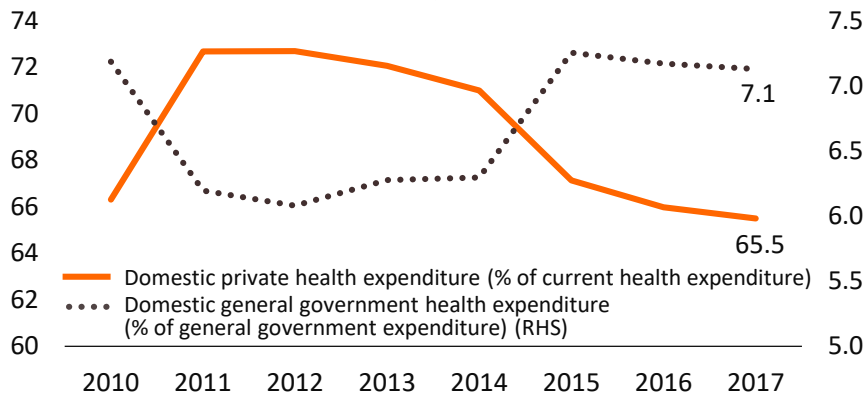
Pharmaceutical sales



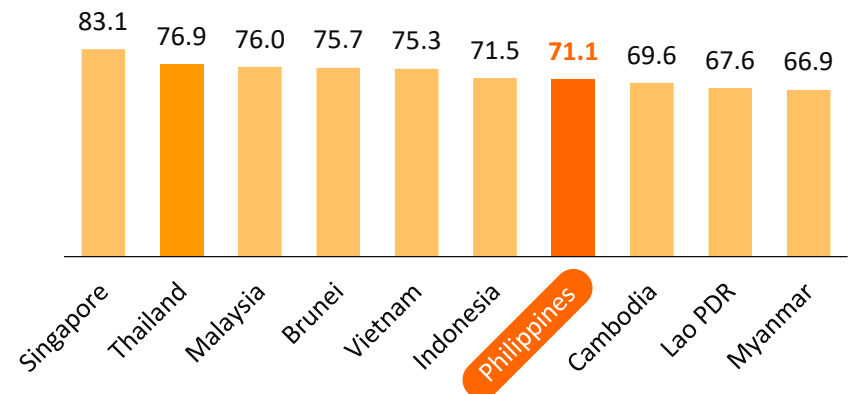
Pharmaceutical sales (USD per capita)



Health expenditure



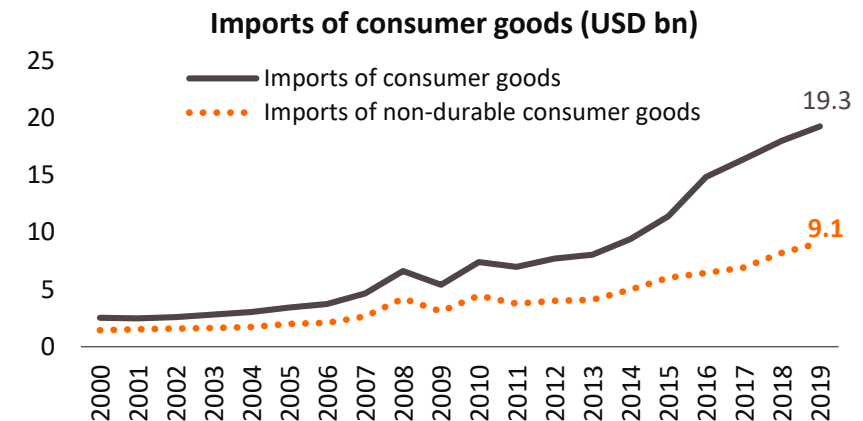
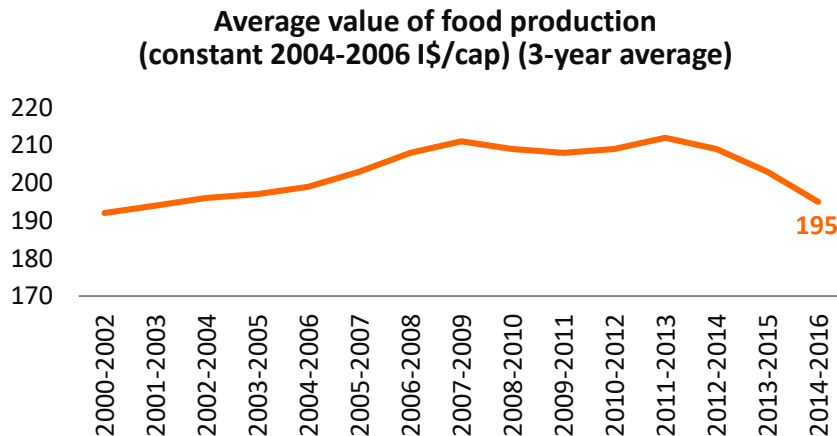
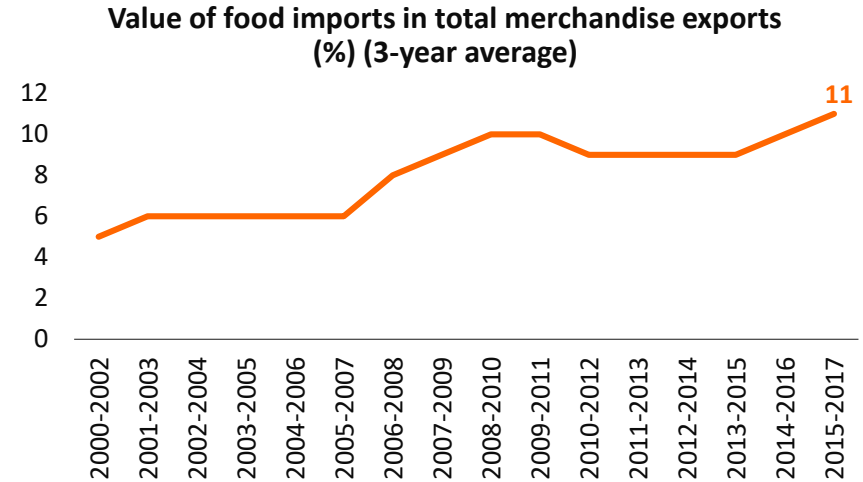
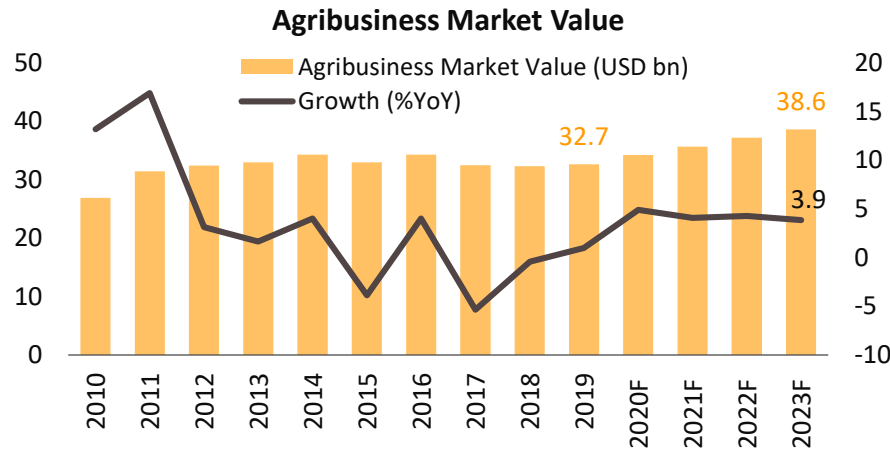
Life expectancy at birth, total (years) (2018)



Source: Fitch Solutions, Krungsri Research

Agribusiness: Philippines is the net importer of food products and demand is increasing in line with population growth

The Philippines is another promising market for Thai firms involving in the agribusiness due to a large number of population and rising income levels. While the country has the tropical climate and varied geography allowing the production of a diverse range of agricultural products, domestic agricultural production has been unable to keep up with population growth, so the country remains a net food importer.



Source: Fitch Solutions, Krungsri Research

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