BUSINESS SWEDEN

PHILIPPINES – OPEN FOR BUSINESS

RECIPES FOR SUCCESS

INDEX

FOREWORD

Keeping up with Asia will be imperative to stay relevant in the global economy of the 21st century. Asia's role as a global growth engine will becoming increasingly important. Therefore, Swedish companies looking to take part of the next wave of growth need a strong foothold in Asia.

The Philippines is an important piece of that puzzle. The country has one of the fastest growing economies in Asia and a population bigger than any European country. Therefore the Philippines has the potential to play a vital role in Swedish businesses broader Asia growth strategy.

Contrary to the less optimistic scenarios painted by some observers a decade ago, the Philippine economy is thriving and is showing no sign of diverging from this upward trajectory. In 2017 The Philippines' GDP grew by 6.7 percent, the fastest among any Southeast Asian country. Growth in 2018 exceeded 6 percent and the IMF, World Bank and similar organisations has projected the positive direction to continue for many years to come.

In this report, we highlight our point of view of the Philippine market with a special focus on infrastructure and a selected number of high growth sectors. We focus on how to mitigate barriers by explaining successful Swedish and foreign company strategies. We aim to educate the reader in what is so special about the Philippine market, such as the mindset that characterizes the young generation of Filipinos. We also provide a snapshot of what Swedish companies present in the Philippines are thinking about the future of the market, and of the footprint they are having. Finally, we provide our point of view on the recipes for success in the Philippine market.

We hope you will enjoy the read and realize that, although no one is suggesting doing business in the Philippines is easy, it is indeed a country open for business.

MARTIN GLAUMANN
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Southeast Asia

ULF WENNBLOM
Country Manager,
The Philippines

COUNTRY SNAPSHOT

A NATION ON THE MOVE

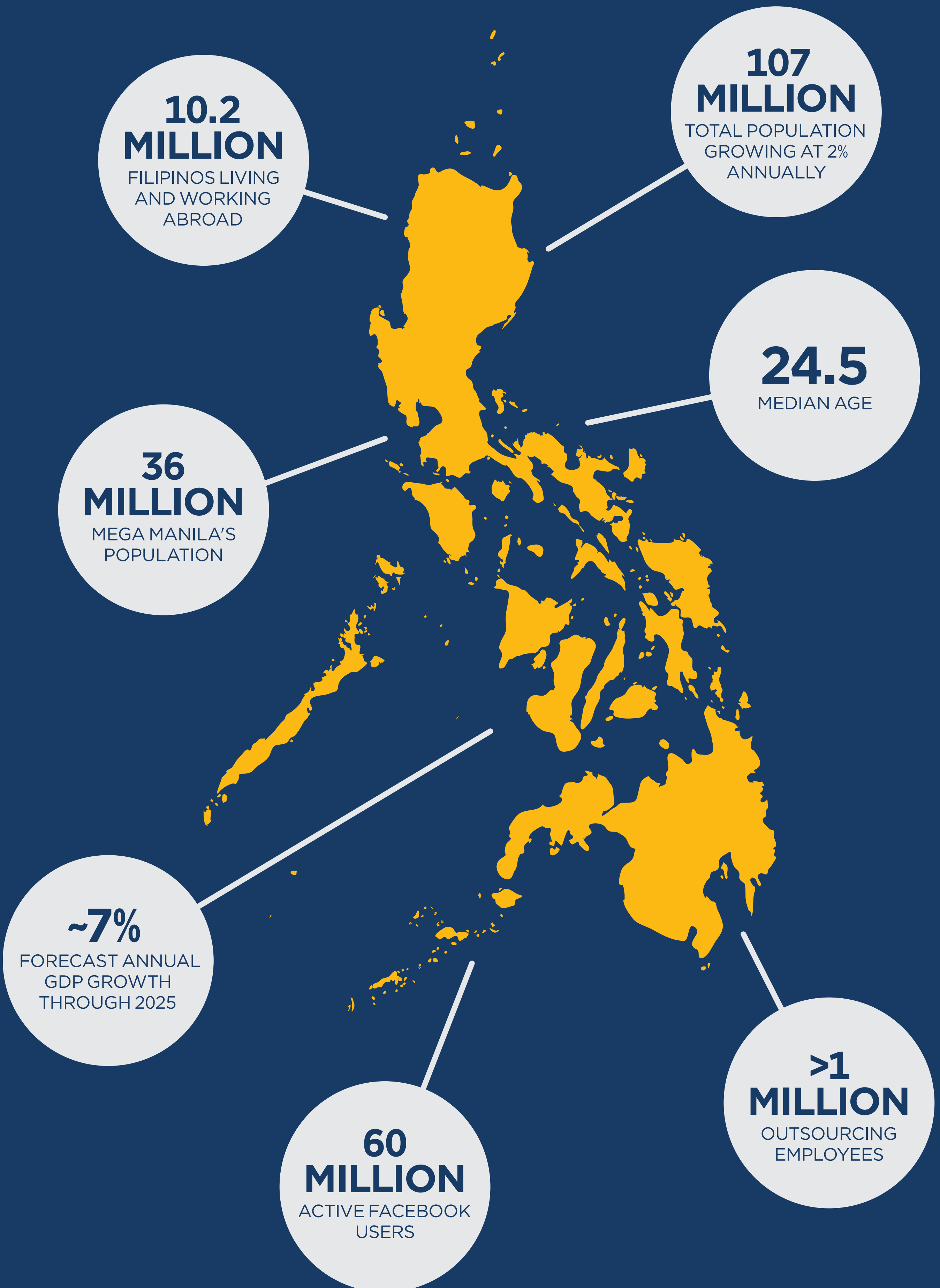
The Philippines has for decades gone largely unnoticed by Swedish businesses. But thanks to the strong economic performance of the country in recent years, which has resulted in millions of people working their way out of poverty into the middle class, there is a significant increase in the interest in doing business in this dynamic archipelago. The current political administration has also helped raise the profile of the Philippines by vowing to make massive investments in infrastructure and to strengthen the country's position in the region.

This newfound confidence is not only due to the impressive economic growth at home. With the rising significance of Asia, both for businesses and politically, the country's leadership has realized that the future of the Philippines will be just as dependent on constructive relations with its neighbors in the East as with the old powers in the West. Not surprisingly, then, the administration is making considerable efforts to enhance its ties with countries like China, Japan and Korea.

Domestically the Philippines is experiencing a rapidly growing middle class, propelled by strong economic fundamentals. In order to use and sustain this economic momentum, the administration has embarked on an ambitious journey which includes massive infrastructure investments as well as a progressive social reform agenda. These initiatives are a response to the wide wealth gap between rich and poor and the regional development disparities that still exist in the Philippines.

Whether or not the government's current initiatives will be enough to tackle the challenges that the country is facing remains to be seen. But its acknowledgment that there are issues to address, such as lagging infrastructure, corruption and unwieldy bureaucracy, and its earnest attempts to address them, is welcome.

With a population of more than 105 million, prospects of continued high growth and with business-friendly reforms and priorities in place, there are good reasons to be optimistic about the future of the Philippines. Swedish companies are well positioned to join the Philippines on its growth journey.


10.2 MILLION
FILIPINOS LIVING AND WORKING ABROAD
107 MILLION
TOTAL POPULATION GROWING AT 2% ANNUALLY
24.5
MEDIAN AGE
36 MILLION
MEGA MANILA'S POPULATION
~7%
FORECAST ANNUAL GDP GROWTH THROUGH 2025
60 MILLION
ACTIVE FACEBOOK USERS
>1 MILLION
OUTSOURCING EMPLOYEES

OPPORTUNITIES IN INFRASTRUCTURE

A FOCUS ON "BUILD BUILD BUILD"

It is widely recognized that infrastructure development in the Philippines has not kept pace with economic expansion. Prior to 2017, spending on infrastructure had fallen short of targets due in part to implementation delays. Bottlenecks continue to emerge, the most cited example would be traffic congestion. In Metro Manila alone, it is estimated that economic losses reach at least USD 50 million a day due to worsening congestion.

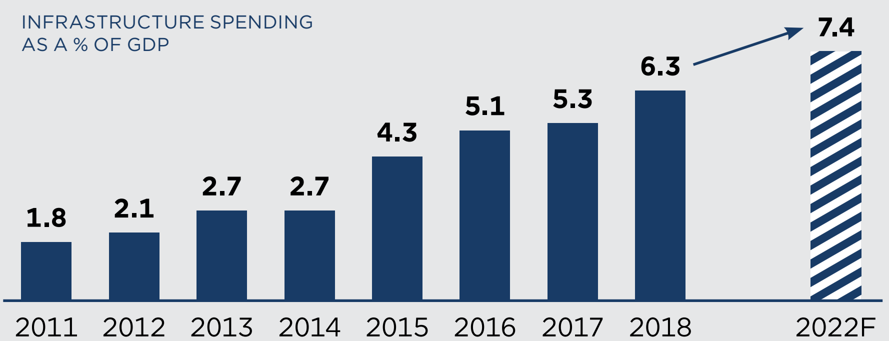
More importantly, the infrastructure drive is more than just roads and bridges. The current administration intends to spend USD 158 billion over the next five years under its "Build Build Build" program. This program mainly prioritizes building ports, airports, roads and railways in the near to medium-term.

However, the long view is to improve infrastructure across all its facets. Within the Philippine Development Plan set by the current administration, other prioritized sectors are water resources, energy, ICT infrastructure, and social infrastructure (housing, education, health care and waste management). This major infrastructure undertaking is expected to last for at least four administrations through to the year 2040.

Alongside operational and strategic frameworks, policy reforms and a legislative agenda critical to the infrastructure lineup are also being pursued. For one, the Philippines is currently undergoing a phased comprehensive tax reform. This aims to redistribute income, as well as raise funds that will be funneled into both social and physical infrastructure spending.

TRENDS IN INFRASTRUCTURE SPENDING

Public spending on infrastructure has steadily risen since 2011. The average rate from 2011–2016 (Aquino administration) was less than 3%. This has gone up to almost 6% per year from 2016–2018, on the back of the current administration's Build Build Build program. However, the Philippines still lags behind the rest of the ASEAN-5 (Singapore, Malaysia, Thailand, and Indonesia). Keeping fiscal balances in mind, there should be room to further accelerate the infrastructure push. Higher investments should enable the Philippines to increase output overall, and attain higher growth.



China is likewise investing in regional infrastructure development via its Belt and Road Initiative (BRI). As of this writing, there are technically no BRI projects in the Philippines yet. But it should only be a matter of time until a pipeline takes shape. A memorandum of understanding (MOU) was signed Nov-2018 between the Philippines and China, stating the agreement to pursue projects under the BRI. Areas of cooperation include policy dialogues, infrastructure & interconnectivity, trade & investment, and financial support. We see that cooperation with China under the BRI would be prioritized near-term, given the current administration's "pivot to China".

As a percentage of GDP, infrastructure spending is expected to hit ~5% in 2018, from 2–3% in previous years. Infrastructure spending is increasing in the Philippines, and its importance to the economy is expected to grow even more in the years to come. Stakeholders – public and private – are now aware that it is a critical time for infrastructure investments.

THE ROLE OF THE PRIVATE SECTOR

For Build Build Build alone, the current administration targets that ~18% of funding must be secured from the private sector – mainly through participation in the PPP framework.

Investing in infrastructure projects requires financial muscle and economic power. Philippine conglomerates fit the bill, and quite a few have been engaging in this arena. Notable players include Metro Pacific, San Miguel Corp., Megawide, and Ayala Corporation.

In addition to bidding for projects in the existing PPP pipeline, quite a few consortiums submit unsolicited proposals for out-of-pipeline projects. Unsolicited proposals require new technologies to be entertained by the government. As such, foreign companies which bring innovation to the table are indisputably potential partners in this infrastructure push.

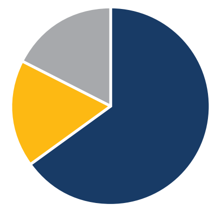
BUILD BUILD BUILD

The administration's infrastructure plan

75

NUMBER OF FLAGSHIP PROJECTS UNDER THE DUERTE ADMINISTRATION

TARGET FUNDING MIX



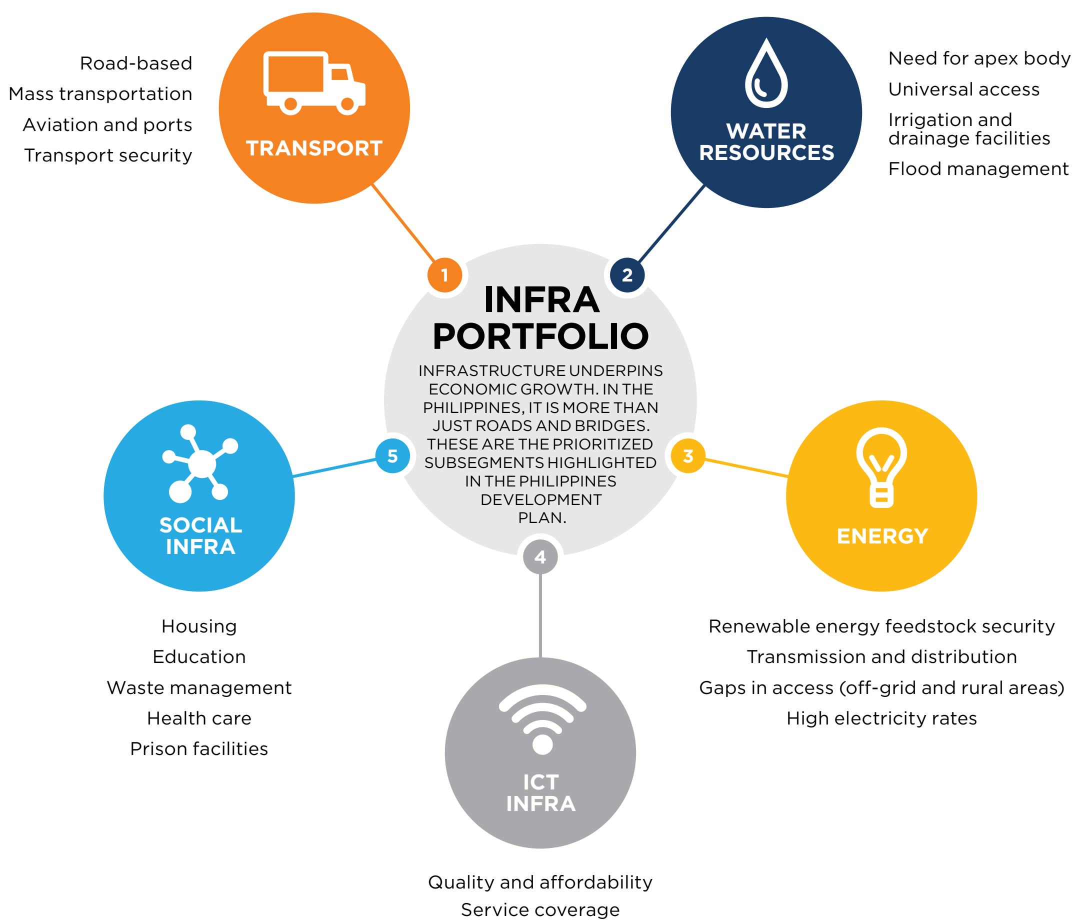
FEATURED PROJECTS

Dept. of Public Works and Highways
- USD 1.5 billion Mindanao Logistics Infrastructure Network
- USD 445 million North Luzon-South Luzon Expressways Connector Road
- USD 285 million Central Luzon Link Expressway

Dept. of Transportation
- USD 4.3 billion Mega Manila Subway
- USD 2.9 billion Phil. National Railways (PNR) South Long Haul – Luzon
- USD 600 million Mindanao Railway: Tagum-Davao City-Digos Segment

BCDA

Bases Conversion and Development Authority
- USD 950 million Subic-Clark Railway Project
- USD 600 million New Clark City-Food Processing Terminal and Intl. Food Market
- USD 250 million New Clark City-National Government Administrative Center



A SUCCESSFUL PPP PROJECT: MACTAN-CEBU INTERNATIONAL AIRPORT

Located on Mactan Island in Central Visayas (the central area of the Philippines), the Mactan-Cebu Airport is the second busiest international airport in the county. As a civilian airport, it has been in operation since the mid-1960s. In 2014, a plan to expand and improve the existing airport commenced. Development consists of: construction of Terminal 2, renovation and expansion of Terminal 1, and development of related infrastructure within a 25-year concession agreement.

The project was awarded in 2014 to the consortium of India-based GMR Infrastructure and Megawide Construction Corporation, a Philippine infrastructure and construction company. Shortly thereafter, renovation of Terminal 1 and construction of Terminal 2 kicked off. The new terminal began commercial operations in July 2018, while renovation of the older terminal is expected to be completed in 2019.

Expansion of the airport was necessary at the time, both to rehabilitate existing facilities and to increase its capacity. At the time of project development, Mactan-Cebu was accommodating almost 8 million passengers a year – double its design capacity of only 4.5 million. Upon completion of Terminal 2 in 2018, capacity has increased by more than 50% to 12.5 million per year.

The completion of Terminal 2 of the Mactan-Cebu Airport project is a testament that the infrastructure push is a reality in the Philippines. Since the re-launch of the Public-Private Partnership Center in 2010, 5 national projects have been completed and are now operational, and around 11 are under construction and pre-construction stages. Note that these are just the infrastructure projects that were undertaken using the PPP model. Fully-government funded and ODA-funded projects are also in full-swing, and even more so particularly for less commercially viable projects such as rail systems (e.g. Manila subway system).

Success of the Mactan-Cebu Airport project thus far is also proof that the PPP model can work and that the private sector has a role in infrastructure development. Certainly, there are hurdles in executing big-ticket projects specific to private sector led-ones, such as delays in right-of-way acquisitions. Nonetheless, it is arguable that the benefits could outweigh these barriers. Adoption of private sector techniques, better performance measurements, and detailed output specifications could just be a few of the advantages of involving the private sector in infra development.


OVER
USD 330 MILLION
PROJECT COST
3X
INCREASE IN DOMESTIC FLIGHT FREQUENCY BY 2024
USD 75 MILLION
CO-FINANCED BY THE ASIAN DEVELOPMENT BANK

WHAT IS IN "BUILD BUILD BUILD" FOR SWEDISH COMPANIES?

Swedish suppliers that can offer equipment, solutions and services for critical applications will be able to find a good, profitable and high growth market for years to come in the Philippines. Opportunities are divided in three areas: government, private sector via public private partnership (PPP) and official development assistance (ODA) funded projects. A detailed description is provided below.

To tap into the government projects a strong local partner is necessary, and expect competition as procurement in most cases focus on lowest price.

Private sector-led projects provide larger and more opportunities, as companies that are proponents in PPP projects prioritize quality and the actual business case in procurement. Swedish companies are well suited because of their high innovation level. Additionally, the importance of adapting to the specific context and getting local partners cannot be emphasized enough. These are long-term and extensive processes, and include partnerships beyond having only an importer, dealer or distributor in the Philippines. Key partners should at least include projects owners, advisors and contractors.

For ODA, even though there are no formally agreed Belt and Road projects, the warming of China-Philippines relations has led to a strong presence of Chinese contractors hoping to take part in the domestic infrastructure expansion. Chinese companies are increasingly a force to reckon with, also for Swedish companies, and may become both partners and competitors. There are also several large Japanese ODA financed projects in the Philippines. It is the same logic for all ODA financed deals, procurement of equipment will mostly happen in the donor country whereas after sales services will be provided in the Philippines. For Japanese ODA, this means that there is an opportunity to sell equipment in Japan to the Japanese contractor and to sell services to the contractor's subsidiary in the Philippines.

MODES OF FINANCING VIS-À-VIS RESPECTIVE PROCUREMENT GUIDELINES AND THEIR IMPLICATIONS FOR SWEDISH SUPPLIERS OF GOODS AND SERVICES

USD 104 bn
(66% OF TOTAL)

GOVERNMENT-BUDGETED

- Procurement rules under R.A. 9184 "Government Procurement Reform Act"
- Philippine Government Electronic Procurement System (PhilGEPs) as primary and definitive source of procurement information
- All suppliers, contractors, and consultants must register with PhilGEPs at www.philgeps.gov.ph
- Applies to projects across all branches of the government, from local government to national agencies
- Procurement tends to be price-centric; lowest bidder usually wins

USD 28 bn
(18%)

PRIVATE SECTOR VIA PPP

- Procurement rules under R.A. 7178 "Build-Operate Transfer Law" and its variations
- Two main modes: solicited and uncsolicited
- Projects normally finance and operated by private sector proponents – procurement would depend on the respective private sector player(s)
- Risks assumed by private sector and their respective contractors before transfer to the government
- Government retains ownership of the asset; project is transferred to the government after agreed fixed term
- Private sector total investment figure may be understated, as this does not account for unsolicited proposals

USD 25 bn
(16%)

ODA-FUNDED

- Guidelines under R.A. 8182 "Official Development Assistance Act"
- Suppliers, contractors and consultants will follow the procurement requirements of the donor country
- Ideally, ODA project must still adhere to competitive bidding pursuant to the GPRA
- Projects tend to have "nationality requirements" when it comes to procurement of suppliers and contractors
- General lack of official requirements concerning G2G procurement – Philippines tied to the conditions of the donor country

PATHWAYS TO WIN

Best practices for Swedish suppliers of infrastructure equipment and services

Government-budgeted:
1. Typically best handled by or limited to local companies, and so it becomes important to work with the right local distributor or partner.
2. Emphasis on life-cycle cost.

Private sector via PPP:
1. Work with the right local distributor or partner, similar to government-funded projects.
2. Build strategic relationships and parnerships with key Philippine infrastructure players and conglomerates.

ODA-funded:
1. Know the procurement requirements of the donor country.
2. Build relations and partnerships with EPCs from the donor countries. Key Chinese EPCs present in the Philippines include Nantong Hua Xin, China No. 3, China Qidong, China Zhongxin, China Zengfang and China Zengfang.

USD figures indicate target budgets under Build Build Build program (2017 to 2022)

DOING BUSINESS IN THE PHILIPPINES

NAVIGATING A COMPLEX AND FAST-GROWING ECONOMY

The Philippine government is making strides in opening the economy to foreign companies and investors. Legislative action has been taken to streamline government approvals for businesses, under the Ease of Doing Business Act, and there are regular reviews to the Foreign Investment Negative List (FINL). In general, foreign equity of up to 100% is allowed in all areas except for those industries listed in the FINL.

The three main modes of setting up a business are branch office, corporation and representative office. In our recent survey of Swedish companies in the Philippines, it showed that about 80% of the companies have already incorporated a company in the country – indicating preference for longer term engagements.

There are two other types of entities entitled to special incentives that should be mentioned: Regional Area Headquarters (RHQ) and the Regional Operating Headquarters (ROHQ). Also, companies choosing to operate in a Philippine Economic Zone Authority (PEZA) eco-zone may be

MODES OF DOING BUSINESS IN THE PHILIPPINES FOR FOREIGN INVESTORS

	BRANCH OFFICE	CORPORATION	REPRESENTATIVE OFFICE
Foreign parent company	Requires a foreign parent company exisiting in a foreign country.	Similar to Limited Liability Company; an individual or foreign company can own shares.	Requires a foreign parent company existing in a foreign country.
Nature of business	Limited to the same business as the foreign parent company.	May engage in business that is different from the parent company (if any).	Limited to the same business as the foreign parent company. **Cannot derive income from the Philippines.**
Minimum business capitalization	Minimum USD 200,000. If the business is to export >60% of its product/ service, then the minimum amount is waived.	Minimum USD 200,000 if >40% of stock is owned by foreigners. If 40 or less, capitalization would depend on the type of business. If the business is to export >60% of its product/service, then the minimum amount is waived.	Minimum USD 30,000.
Business legal personality	Not considered a separate business from the parent company.	Considered a separate business – liabilities of the Philippine entity are its own.	Not considered a separate business from the parent company.
Officers	Not considered a separate business from the parent company.	Requires at least 5 individuals to start registration, 3 of which must be Philippine residents.	Requires only 1 Philippine-resident agent to represent the office.
Notes	The foreign company will be licensed by the SEC, and can then earn income and invoice from the Philippines. No need to form a new and separate company from the company overseas.	A separate company will be formed, in which the parent company or individuals can own shares.	Similar to a branch office, in which there is no need to form a new and separate company. Major difference is that a rep office cannot invoice from the Philippines, and thus cannot earn income.

eligible for incentives that include tax and duty exemption. There is an on-going legislative process aimed at unifying all incentives structures in one single regime, and we advise Swedish companies to keep track of this development.

Navigating the economy of the Philippines can literally be seen as navigating thousands of islands, as well as a bureaucracy and business climate that is often challenging. Nonetheless, the general view of foreign businesses who have met success in the Philippines is that there are more opportunities than barriers, and that the opportunity cost of not being present in the country would be too high to ignore. Logistics can also be a headache; in larger cities congestion is an increasing problem that can add hours to the schedule, and in smaller ones, "connectivity" is lacking, resulting in inefficiencies. Such conditions can be both frustrating and confusing to foreign investors.

But despite a business environment with plenty of room for improvement, the economy is flourishing. The number of foreign businesses is growing and Swedish companies report healthy profits with a clear majority of them planning for expansion. So how can we square these facts? In the following pages we discuss some cases where Swedish as well as international companies have managed to successfully navigate in the Philippine business milieu. They have not only managed to mitigate risk by employing strategies adapted to the local context, but also increased profits.

SELLING PREMIUM PRODUCTS

Perhaps one of the most common challenges for Swedish businesses operating in the Philippines is the competition from low-priced (and often low quality) competitors. The price point of Swedish products and services tend to be significantly higher than that of, first and foremost, Asian competitors, and sometimes even higher than other Western brands too. Not rarely does the excitement of what seems to be a perfect business opportunity turn into disappointment as discussions begin to focus on purchasing price, with little understanding or interest for other considerations, such as life-cycle cost, maintenance and sustainability.

But it is precisely the connection between understanding and interest, that holds the key to increasing sales. Volvo Buses has recognized this link and together with their local partner Autodelta Coach Builders, they have made considerable efforts to shift the conversation from price to the long-term cost of "premium" versus low-quality products.

"We had everything against us" Mr Robbie Torres, President of Autodelta Coach Builders, said as he we sat down with him to hear about how Volvo Buses has approached the Philippine market. "The local customers thought European brands were too costly and too complicated to maintain". In the past, some other premium brands had tried entering the market but it ended up with complications which left a bitter aftertaste.

"Reputation is everything" Torres insisted, "the experiences in the past made many operators stick with the old business formula which was all about getting an ROI in 1–3 years. Investing in buses that lasted longer then that was not really a priority". This is still very much the case, but he has seen a change begin to take place and it has led to increased business".

"One of our now biggest clients asked me if I could show an 'old market', so he could see for himself what Volvo was claiming to have done was not just something on paper" Torres said. "I took him to Hong Kong where Volvo has been present for more than 30 years and where we have more than 4,000 busses on the streets." The whole management team were very impressed and it later led to our first order. According to Torres, it was central that the client could see and really understand what Volvo was all about.

But Volvo Buses has also succeeded in the Philippine market by allowing its partner to explore opportunities that they themselves have had doubts about. This requires a lot of trust but has paid off. Autodelta had recognized that the Philippine government had eyed a so called point-to-point (P2P) program which required busses to adhere to much stricter environmental standards than what had previously been used in public transportation. This could possibly be an opportunity for Volvo but there was that great reluctance from local operator initially, partly because many of them were concerned that the program could get cancelled amid political changes, partly because the location for the P2P lines meant there was a risk for of creating friction among other stakeholders operating other forms of public

> "Everything was against us ... the perception was that European brands were too costly and too complicated to maintain.

transportation. But perhaps most significantly, many of them wondered if a business case could be made for investing in high-quality busses operating on a P2P route.

Torres in addition to being President of Autodela also runs a public transport company. He decided to practice what he preaches and decided to start running his own Volvo buses on the line. After about a year of operations he managed to show that it was indeed possible to make healthy profits from the P2P scheme. When he re-engaged with the operators discussions started to focus on the possibilities, rather than on hinders. In the end, this "radical idea" as Torres called it, led to increased order intake and growing trust in the Volvo brand.

When it comes to deepening ones understanding of a tricky market it's important to keep an open mind and welcome opportunities for learning. Although there are several Swedish companies that have succeeded in selling premium products, such examples are certainly not confined to those companies. When the opportunity presented itself to sit down with Mr. Dino Santos, COO for KTM Asia Motorcycle Manufacturing, Inc. (KAMMI), we jumped on it.

Mr. Santos brims with enthusiasm as he shares his story of how he left his job as a banker with the Ayala corporation to take on the role of COO for KAMMI. "I was very thrilled when I got this opportunity. I had been a proud KTM motorbike owner for several years!". The company is a joint venture between Adventure Cycle Philippines Inc, owned by Ayala, and KTM AG, the famous Austrian motorbike manufacturer. In 2017 they opened their state of the art manufacturing facility at the Laguna Technopark in Laguna as way of better serving the growing Asian market for premium motorbikes, but also because of the belief that such a facility would help to strengthen the Philippines manufacturing capabilities and contribute to increased inclusive growth.

"Having worked for Ayala for more than two decades, I know that they want to learn from the best", Santos said in a slightly more serious tone. "As Filipinos, we too have ambitions, and it's important that we partner up with good brands to reach our goals. KTM understood this so it's a good match" he said. Mr. Santos advice for Swedish companies who want to enter the Philippines to sell premium products is to do their homework well: "not all companies understand the value of quality products. Since we are selling premium products, we do and that's why we use Atlas Copco tools in our manufacturing facilities. They don't break!"

But it's not all about the quality of the product: "you got to have a good story" says Santos. "Why are you in the Philippines? Is it just a market to you?" This advice resonates with our own experience in dealing with both Filipino companies and government agencies. It's important to have an answer to the question of what value you're bringing to the country. Luckily, most Swedish companies will have several answers, sustainability, good corporate culture, and quality being some of them.

According to Mr. Santos, companies should also try to seek out "hidden" benefits of being in the Philippines. "We are generally free trade friendly" he said. "But we have sometimes been underestimated, and some countries never foresaw us becoming manufacturers of more advanced products. This has been to our benefits as products shipped from the Philippines may be less likely to be subject to import tariffs in other countries".

Regardless the product, the lessons from both Volvo and KTM seems to suggest that the cliché of growing together with your partner, is as true as it is old.

DOING BUSINESS IN REMOTE AREAS

Developments are taking place all over the Philippines because of the governments inclusive growth strategy. Companies which are serious about "doubling in APAC" and expect the Philippines to play a part, need to capitalize on these new growth opportunities.

ABB has been operating in the Philippines for over 50 years and has played a significant role in electrifying the country. The company has long since recognized the importance of localizing its strategy and looking for opportunities in all of the archipelago. Olivier Coquerel, the President and Country Managing Director of ABB Philippines, stresses, much like other Swedish companies, the importance of a good local partner. "It can take months and months to find the right partner. We are very serious about the process of due diligence" he says. This of course makes sense, ABB needs a partner that will have the capabilities to grow with them in areas where challenges such as corruption and poor infrastructure are common. In some areas which have experienced conflicts, physical safety can be a concern and that requires the utmost professionalism from ABB and its partners.

Mr Coquerel also highlights how the company has made great efforts to find distribution points in remote areas. This allows ABB to better meet the needs of their clients as well as getting their ears closer to the ground to identify new business opportunities

"But we also engage in roadshows and other events to ensure that we get in contact with new potential clients, new partners or government representatives" he continues. "By being active in those kind of initiatives, we get a better understanding of what our customers want, and where the country is heading".

Currently, ABB is working hard to assist the Philippines in its digitalization journey. Mr Coquerel notes that although the Philippines Food & Beverage industry is important for the country, it is lagging when it comes to automation, or rather, the lack of it. ABB is considered a world-leader in robotics and automation and Mr Coquerel is certain that the company will continue to grow in the Philippines as more and more producers recognize the need of becoming more digital to stay competitive. In Cebu for example, ABB is now helping a dried mango producer to automate its production. In the future, this will be the norm rather than the exception and this future is coming sooner than many people think. ABB is determined to be there to make it happen, as it happens.

Sandvik is another example of a Swedish company that have tried to extend their reach in the Philippines by setting up operations outside Luzon. Since 2016 Sandvik has a warehouse in Bato on Leyte island and there are similar setups with clients in other parts of the Philippines as well. The mining industry, which is much less price sensitive than for example the construction sector according to Managing Director and Territory Manager of Sandvik Tamrock Philippines, George Yap III, is pushing Sandvik to be present and localized throughout the country. One way of ensuring that this is done right is maintaining strong contacts and cooperation with both national and local industry associations.

> "... companies which are serious about 'doubling in APAC' and expect the Philippines to play a part, need to capitalize on the opportunities that exist in the new urban centers in the country.

ATTRACTING AND RETAINING TALENT

With a labour force participation rate of over 60% and a total population of over 105 million, one could say that the Philippines has an adequate talent pool that supports economic productivity. In terms of talent management and quality however, there seems to be room for improvements.

In the latest Global Talent Competitiveness Index (GTCI)*, the Philippines ranks 56th out of 119 countries in terms of attracting talent, and 68th in terms of retaining talent. Including other factors, overall GTCI ranking was at 54th. In comparison, Sweden was ranked 5th overall, scoring 11th in attracting talent and 4th in retention.

In our recent survey of Swedish companies currently present in the Philippines, three success factors stood out when it comes to attracting and retaining talent in the country. These are: 1) opportunities for advancement and professional development, 2) competitive monetary compensation, and 3) company values and policies. With these success factors in mind, one could say that Swedish businesses recognize that people are most important in organisations, and that employees are seen not as mere cogs in the wheel.

Swedish companies who were first-movers in the Philippine market also noted that one factor that works well for them is that, given that they have been around, they know where to find the talent that fits their organisations. For one, Atlas Copco, which has been in the Philippines for over 50 years, has been proactive in its recruitment process – going straight to universities and influencing young people early in their job seeking timetables. Meanwhile, Transcom has broadened recruitment outside the main central business districts (CBDs), focusing on peripheries where recruitment becomes more cost-effective.

Competition for talent is a reality, particularly in more urbanized areas and within certain industries such as IT BPM. And locally domiciled companies not only compete with each other, but also with overseas work. An estimated 10 million Filipinos are now currently living and/or working abroad, in pursuit of greener pastures. We do see, however, that the Swedish edge arises from the ability to give competitive compensation, as well as providing opportunities for development. Along with other factors, these build brand equity of Swedish businesses and of Sweden in general, and thus create good reputation in the marketplace.

Presently, Transcom is the largest Swedish business process outsourcing (BPO) company in the Philippines with over 12,000 employees all over the country. The company has been in the Philippines for over 15 years, and now has several sites in the capital, Metro Manila. It also has facilities in Iloilo and Bacolod City, both located in Visayas, which is the central area of the country. In 2018, it acquired Awesome OS, an e-commerce customer experience specialist based in Davao City, in the southern island of Mindanao.

Transcom is truly entrenched in the Philippines. Its 12,000-manpower complement in the country accounts for 40% of its global headcount. The company intends to stay invested in the Philippines, seeing several advantages of having a significant workforce in the country. For one, the Philippines is globally recognized as one of the largest English-speaking countries, ranking 14th out of 88 worldwide in the latest English Proficiency Index. Another is the cost advantage, brought about by the relatively low cost of labor in the Philippines, as compared to other outsourcing countries such as India and the USA.

When asked what has been working well for them in the talent marketplace, Transcom affirms that they know how to take care of their people. Looking after the welfare of their employees goes beyond monetary compensation. Transcom is first in the industry to offer benefits such as in-house pharmacies, and providing child care facilities, among others. "We try to offer [our employees] something else that we know they need", according to Transcom CFO Kalle Soininen. All of these have helped build Transcom's reputation in the market and has created for them a competitive edge recognized by Filipinos.

INTERVIEW WITH JOEY CONCEPCION

PRESIDENTIAL ADVISER FOR ENTREPRENEURSHIP

Joey Concepcion is no stranger to the needs of the private sector in the Philippines. The serial entrepreneur and former Chairman for the ASEAN SME Business Advisory Council, lives and breathes business. In his current role as the Presidential Advisor for Entrepreneurship, he enjoys a position of great influence, but also of great responsibility. We sat down the with Mr. Concepcion to hear his reflections on the future of the economy and how Swedish and foreign businesses can contribute to a more prosperous Philippines.

The fast economic growth of the Philippines has gotten a lot of international attention. What does the future hold for the Philippine economy?
The economy has slowed down somewhat, but still continues at a healthy pace. What the President has made as his objective is to ensure inclusive growth. This I would say differs from previous administrations. They focused a lot on balancing the books and on governance. I think ensuring inclusive growth is in some sense the more challenging part. It has higher risk. This is where the Build, build, build program comes in. What do I mean when I say higher risk? If we look at the Philippines as a company, you need spend to expand. You need to make sure your balance sheet can handle it, and if we're honest, I think previous administration did a lot to ensure that. But this administration will have to raise the money for the expansion that will allow for growth to be inclusive. The ongoing tax reforms, which include increase in taxes on sugar and tobacco, as well as reducing some other business incentives, is needed to finance the program. But this is the overall mission. To increase infrastructure. How many of the top millionaires of this country live here in Manila? They all basically live in the same area.

The President, when he was Mayor of Davao City, realized that the opportunities of Mindanao were wasted because there was not enough focus from the capital on the rest of the country. So that is why he's pushing the Build, build, build program. You have to increase capital expenditure. How else do you grow? We have spent in the past, but the goal was not inclusive growth, and today we see the effects of that. We are behind in agriculture and tourism for example.

It is very important to help what I call the micro, small, and medium sized businesses. They need better access to the market and we need to bring them into the main engine that drives the economy. If you look at the developments in Clark City, there are plans for industrial parks and this will be important for those businesses. In developing these areas the private sector will be key, but they basically follow a plan set by the government. The idea is to create more places like Metro Manila. This administration is now focusing on raising money for that and then it will focus on implementation. There are some risks, but overall I'm optimistic about the future.

You mentioned the government reforms. What kind of opportunities will such reforms open up for Swedish and other foreign companies?
This goes back to the issue of connectivity. If you reach other islands and allow the rest of the country to share in the growth, it opens up for many Swedish companies. There will be competition of course, but there will be opportunities.

There are clearly a lot of positive developments happening in the Philippines and there is a growing interest from Swedish companies in the region. But why would they choose to invest in the Philippines as opposed to other markets?
I start with an example, why would IKEA pick the Philippines for their largest store globally? I think maybe with respect to IKEA at least, there is no dominant high-end brand that is still affordable. If you look in Metro Manila, it's dominated by Italian brands. But they are not affordable to the larger population. With our big middle class, it makes a lot of sense to invest here. If you can occupy that space, you will do well.

According to the World Bank, the Philippines ranks 113th in the world in terms of Ease of Doing Business (for 2018). In your opinion, what needs to happen to improve this ranking?
The government's mandate is to make the economy more inclusive, therefore the Ease of Doing Business (EOB) Act has to happen. I think the implementing rules and regulations (IRR) are already out, and are just awaiting the appointment of a Director General of the agency in charge. ARTA (or the Anti-Red Tape Authority) is going to be an independent body reporting directly to the Office of the President.

The EOB Act is going to help more of the foreign and smaller businesses. Big businesses have a way of getting things done. Issues such as securing business permits and FDA approvals – these are problems that are there. But still, we see a lot of successful entrepreneurs, thus these issues should not be hindrances. In other words, it's like an obstacle course. Other countries would have their own. Maybe our obstacle course is a little bit more complex than others, but it does not mean that businesses would not be able to go through that.

We now have the Republic Act 11032 that addresses the issues related to "ease of doing business". But given that improvement will take some time, is there anything in particular you believe that foreign companies (present, or those looking to enter the Philippines) can do to be successful in the current business environment?
I can share my own experience with the ice cream business. Unilever, which is our partner for this, has been around for many years, maybe much longer than us. But in the ice cream space, they needed a local partner. We gave them assets to utilize, to add to our good branding and positioning. In turn, we were able to get their technology and knowledge about this business. In the Philippines, to be able to get through the whole spectrum of bureaucracy, you would also need a local law firm to help you. To some extent with the blind spots, you would also be protected.

In the same manner, when we go abroad, having a local partner is also important for us because they would know the landscape better. For example, we have a partnership with Cold Storage of Singapore. Now, they are trying to enter the Philippines, so we are also supporting that.

On corruption, I think you can never totally eradicate this. It's just the way it is. Now, how do you minimise this? I think the way forward is through digitalisation. Make everything cashless. China did it. Once you digitalise the country, everything becomes documented and transparency will be felt. For example, with the use of more modern enterprise solutions, you can't fool around with your business. Before, if you want to hide your sales, just burn the invoices and that will disappear. Once you digitalize, you can't do that anymore.

On digitalization, maybe it will not be fully realized in this generation, but in the next and change will be rapid. I see that happening down the road, and so you don't have to worry about pilferage anymore. Once you have automation, there's no going back. Big businesses are leading the way, and this will eventually filter down to the SMEs. This is where education should also focus on – STEM (science, technology, engineering and mathematics). We are pushing this on the youth, as they will lead this movement to go online.

You are the Presidential Adviser for Entrepreneurship, but at the heart, you are also a Filipino entrepreneur. Given this role of great responsibility, and your unique understanding of the art of business, what keeps you up at night?
I keep going back to the question, "Why am I here?" And it's really the passion of being an entrepreneur, and helping other people that has kept me going. Our mission is to empower the Filipinos through entrepreneurship. Create and give SMEs the access to the 3 M's (Mentorship, Money and Markets). This is our mission. In my experience, supporting this micro and small and medium enterprises, their problems become your inspiration.

BUSINESS OPPORTUNITIES THROUGH THE ASIAN DEVELOPMENT BANK

HOW TO ENGAGE WITH THE BANK'S HEADQUARTER IN MANILA

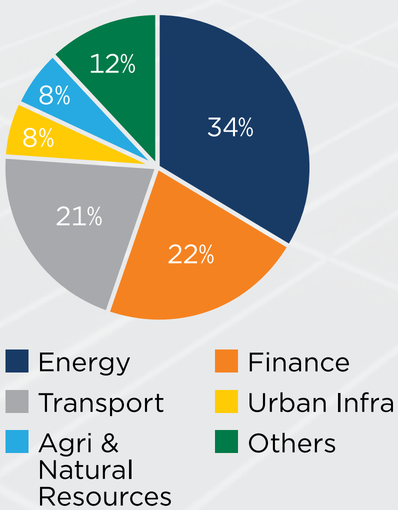
Since its establishment in 1966, ADB has been part of forming the new "Asia and the Pacific" by providing USD 247 billion in loans to build infrastructure and enhance development to eradicate poverty throughout Asia and the Pacific. Its large headquarters are located in Manila. Sweden is a founding member of ADB and holds 0.34% of the total shares and 0.57% of the voting power in the bank.

Each year, ADB's loans, grants, and technical assistance finance several billion dollars in contracts to procure goods, works and consulting services in its developing member countries. Contracts for goods, works and related services totals USD 11–12 billion and contracts for consulting services is at USD 600–700 million, both annually. Most contracts are awarded on the basis of international competition, which is open to firms and individuals from any ADB member, regional or non regional. It is important to follow the guidelines from ADB to take part in these processes. This opens up large business opportunities throughout APAC within e.g. energy, transport and urban development.

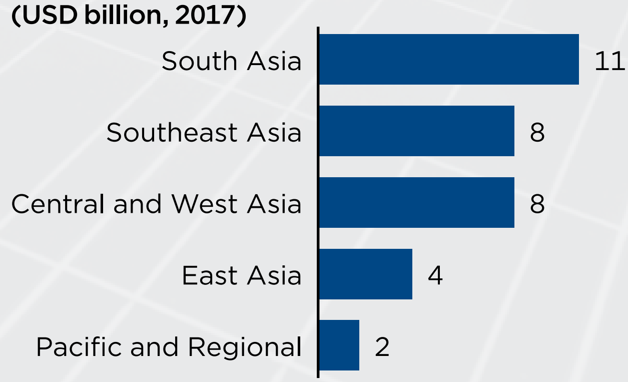
Because of their leadership in innovation and sustainability, Swedish companies should be suitable to take part in the ADB procurement system. But the Swedish performance is volatile, and it seams that Swedish companies target ADB opportunities case by case. For example, Swedish companies win only 1.5 out of 1,000 deals in ADB, this is only half of the ownership share (0.34%). It is evident that the Swedish potential is untapped by looking at transport – transport is only the third largest sector for Swedish companies in ADB by looking at won deals (transport is the second largest sector for ADB financed projects, and Sweden is a global leader in urban transport).

First of all, Swedish companies present in APAC are advised to assess if their products or offerings are demanded in the ADB procurement system. If that is the case, get familiarized with the ADB procurement guidelines and set an ADB strategy. A successful ADB strategy involves stakeholder engagement at local and central level of ADB. For example. to win a deal in an ADB project in Indonesia a company that has a local subsidiary and / or a local partner in Indonesia will be better positioned than a company without local presence.

ADB PROJECT APPROVALS BY SECTOR (2017)



ADB PROJECT APPROVALS BY REGION (USD billion, 2017)



SECTORS ON THE RISE

KEEPING UP WITH THE TRENDS

Growth of the Philippine economy has been broad-based in the past decade, touching most sectors at one point. However, there are several industries that are picking up more momentum, given higher investment yields, positive externalities, and structural reforms. In this section, we discuss three growth sectors (apart from infrastructure) wherein there are relatively level playing fields for both domestic and foreign companies. In some segments, Swedish companies may even be at an advantage, given their sustainable and innovative offerings.

MANUFACTURING

Manufacturing plays an important part in the Philippine economy, being second to services in contribution to GDP and an important sector for employment. However, the potential is far from reached.

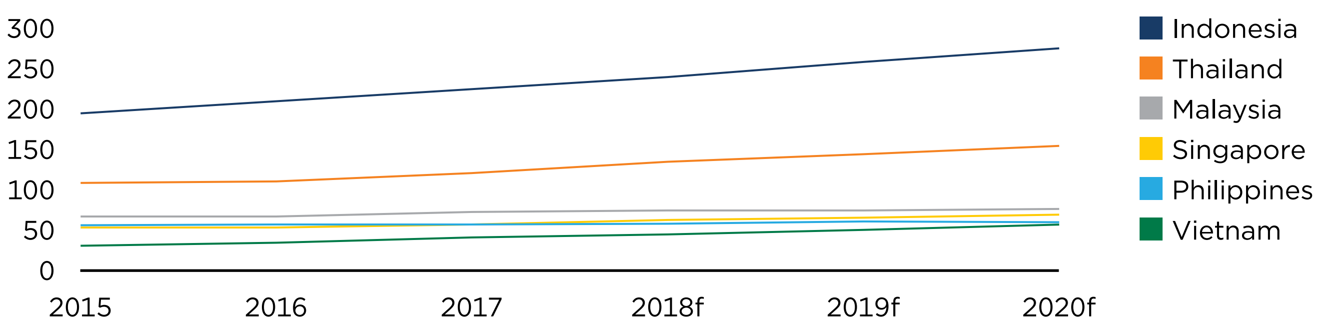
Starting with comparing the Philippines to its Southeast Asian peers, taking into account gross value add (GVA) in manufacturing, it is evident that the country is not a manufacturing powerhouse like Indonesia and Thailand. These two markets have reaped the benefits of Japanese transplants in primarily sectors such as automotive and electronics. The Philippines is however almost at par with Vietnam – a market that has had double digit growth in manufacturing GVA in recent years.

Continuing to look at export statistics, the Philippines runs a substantial trade deficit (in 2017 it was at almost USD 40 billion) – it imports more than it exports. However, with a 100 million plus population, is the domestic market driving demand for manufacturing? In general no, but food & beverage (F&B) is an exception. It is also the segment where the Philippines is a key player in Southeast Asia and in the wider Asia.

The F&B sector in the Philippines is dominated by conglomerates, which have met success with their own local brands. Worth mentioning are JG Summit and its subsidiary Universal Robina (URC), as well as San Miguel Corporation with San Miguel Food & Beverage (SMFB). URC is one of the largest branded food companies in the country. SMFB is the largest and one of the most diversified F&B company in the Philippines, operating in several segments including branded foods, processed and canned meats (Pure Foods), and beverages (San Miguel Beer). These companies drive innovation in F&B by developing their own products, using top-level techniques and world-class practices.

Philippine F&B companies are also venturing out to countries in the more developed parts of the Asia Pacific region, such as Australia, New Zealand, and Japan. Some companies took advantage of the low cost of capital seen in recent years to make strategic acquisitions in other markets. While this allows Philippine F&B firms to tap other consumer markets, more importantly, this gives them access to premium brands and innovative technologies that can be brought back to Philippine shores and even to other emerging Southeast Asian markets. A good example of this is URC which acquired Griffin's Foods Ltd in 2014 for USD 600 million. Griffin's is a leading snack foods company in the Australia-New Zealand area. URC has since then started to distribute Griffin's products back to the Philippines, where premiumization of consumer tastes have started and in other emerging markets in Southeast Asia where it is present, including Thailand and Vietnam.

GROSS VALUE ADD (GVA) FROM MANUFACTURING (USD billion)

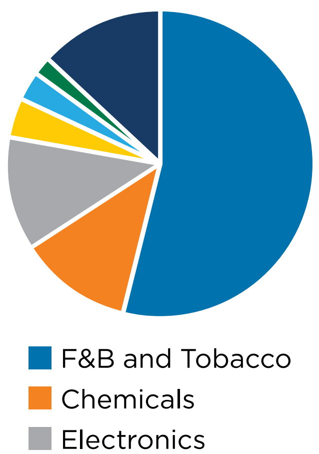


Electronics is another sector that stands out, but again not comparable with the success of Vietnam in luring key Japanese and Korean transplants. The sector is primarily a part of the global/regional value chain in electronics in key areas such as automotive electronics. One local brand that stands out and that drives innovation is Integrated Micro-Electronics, Inc. (IMI), which is under the Ayala group of companies. IMI provides world-class electronics manufacturing services (EMS) and power semiconductor assembly and test services, servicing players in the automotive, industrial, and aerospace sectors. It also has a global supply chain, with facilities located in Asia, Europe, and the Americas.

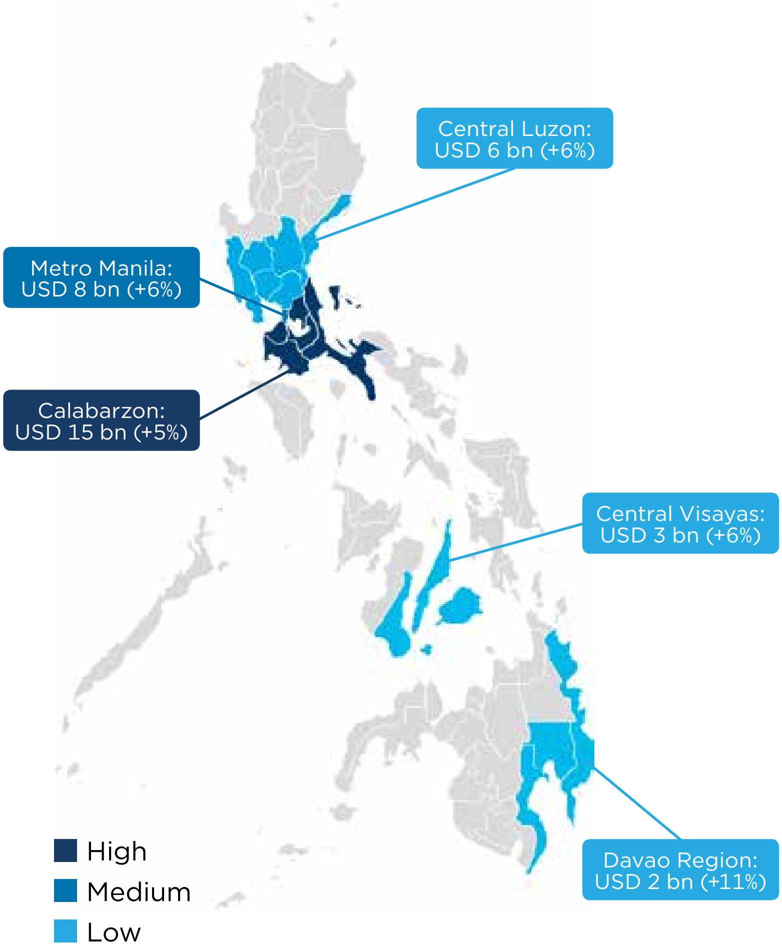
The manufacturing sector is expected to grow steadily in the coming years. It will be a priority investment area for both the public and private sector, given that it has higher employment, income and output multipliers compared to other industries. The government has also started to implement a roadmap that outlines a structural transformation of the sector. From being just a cog in the global manufacturing wheel, it is envisioned to be a key participant in regional and global production networks in the areas of automotive, electronics, machinery, food and garments. In the interim, steps are being taken to achieve this vision, which includes shifting to high value-added activities, investing in upstream sectors, as well as promoting innovation at both the large corporates and SMEs.

Currently, manufacturing in the Philippines is mainly located on the island of Luzon, with Calabarzon being the key hub (accounting for ~40% of total manufacturing output), whereas the highest growth is in Central Luzon and in Davao. The latter is not a coincidence as both regions are in areas that the government prioritize for infrastructure development. These two locations as well as Central Visayas are expected to lure more investments into manufacturing in the coming years.

MANUFACTURING SHARE OF GVA IN THE PHILIPPINES (2017)



TOP CONCENTRATIONS OF MANUFACTURING OUTPUT BY REGION (2017) AND 3-YR CAGR (2014–2017)



How will the Philippines reach its full manufacturing potential?

Some improvements will come out of the high economic growth, large population and growing middle class, and the government infrastructure program. These factors are expected to drive local manufacturing in the years to come in F&B, chemicals, petroleum, metals and transport equipment.

The Department of Trade and Industry (DTI) is keen on making Philippines into a major manufacturing hub, by focusing on higher value added production. We already see trends in the market with regards to growing local production of parts and components for the aerospace industry.

For the Philippines to make a significant leap forward in becoming a strong regional player in manufacturing, enhanced productivity is the best solution. The Philippines is ranked among the lowest in the region for automation adoption, with a robot density of three industrial robots installed per 10,000 employees, behind Singapore, Thailand and Malaysia. For Swedish companies this represent a unique and almost untapped opportunity to educate the market in automation and lean manufacturing.

INFORMATION TECHNOLOGY AND BUSINESS PROCESS MANAGEMENT (IT BPM)

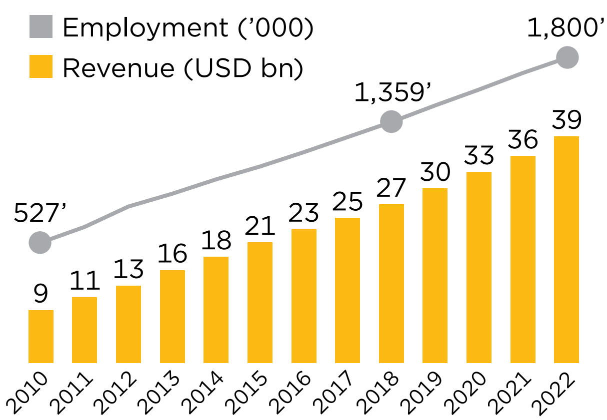
Having started out only twenty years ago, the IT BPM industry in the Philippines is now a key contributor to socio-economic development. Industry revenues reached roughly USD 25 billion in 2017, translating to >9% contribution to GDP. The sector is also a significant employer, with more than 1 million in direct jobs generated as of 2017. The industry also has robust multiplier effects in the Philippine economy, given its strong linkages to other economic sectors such as retail, food and beverage, banking, and real estate.

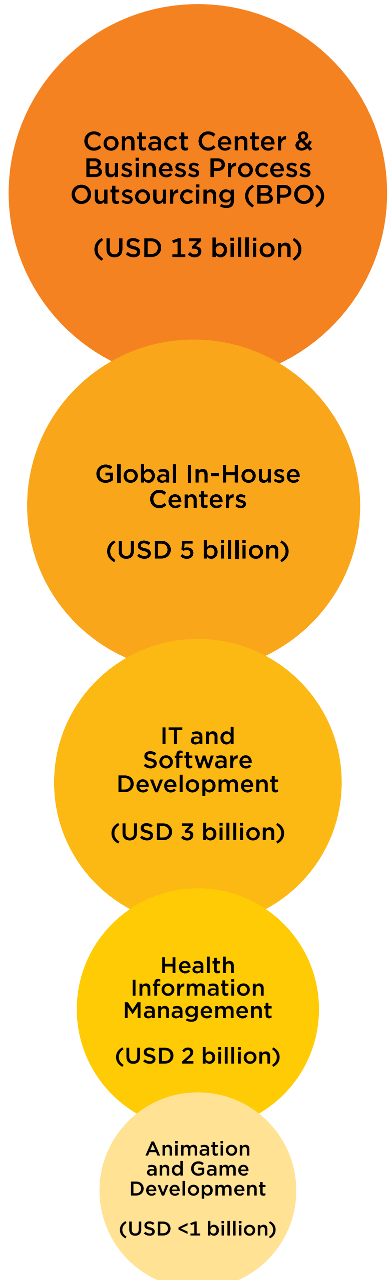
North America (particularly the USA) is the top market for the Philippine IT BPM industry, followed by Australia, New Zealand and Europe. Accordingly, the top IT BPM companies in the country comprise of major players serving these markets such as Accenture, Convergys, JPMorgan Chase, Teleperformance, and Teletech, to name a few.

IBPAP (Information Technology and Business Process Association of the Philippines) sees growth to continue through to 2022. As outlined in its recent Roadmap, industry revenues are forecasted to grow at a CAGR of ~10% to reach roughly USD 39 billion in 2022. Consequently, market share of global IT-BPM sourcing is seen to increase to 16%, from 13%.

In the medium-term, we see that industry dynamics will be driven by rapid technological advancements, such as automation, artificial intelligence, digital transformation and the use of big data and analytics. In our view, higher-value jobs which are present in non-voice services, would grow faster compared to the traditional voice subsegment. As a result, generated jobs would likely grow at a slower pace, but this will be accompanied by higher revenue per FTE (full-time equivalent).

SECTOR REVENUE AND EMPLOYMENT





PHILIPPINE IT-BPM SUBSECTORS
(Revenue generated per subsector, 2016)

RETAIL & ECOMMERCE

Consumer spending has been rising steadily over the past years and domestic consumption accounted for nearly for more than 70 percent of GDP in 2017 and similar figures for 2018. While a slight decrease in consumer spending could be noticed towards the end of 2018 as inflation increased, the overall upward trend appears, to be robust. Indeed, according to American research firm Nielsen, consumer confidence in the Philippines still remain among the highest in the world.

Such indicators have led several giants in the retail sector to "up their game", and key to doing so has been to explore opportunities outside Metro Manila. Back in 2016, the Philippines conglomerate SM Prime opted to broaden its presence in the country and roughly 80 percent of its store openings were outside the capital. Convenience store giant 7-11 is also pushing deeper into unexplored regions and is looking to open nearly 300 stores spread out on the islands of Luzon, Visayas, and Mindanao. These moves underpin the fact that the Philippines is seeing it's middle class grow and that this change is taking place outside the capital region as well, creating new urban centres that will have to accommodate the fast-paced developments.

In 2018 reforms to liberalize the retail market for medium-sized companies were introduced and foreign investors can now enter the country with almost 100 percent foreign equity. There is still a quite large capital threshold of USD 200,000 but even this is being considered to be lowered by the senate.

The growth in the retail sector as a result of the bullish economy has of course been coupled with an increase in ecommerce. According to a much-cited Google and Temasek report from 2016 (and updated in 2017 and again in 2018 with ever higher projections), ecommerce is set to be the largest segment of the online economy in Southeast Asia by 2025, valued at a total of USD 88.1 billion. The Philippines' slice of the ecommerce cake is expected to be USD 10 billion. As is many of the Southeast Asian countries the younger generation is driving the ecommerce wave and Filipinos are particularly eager to embrace the shift to online shopping. At a "Tech in Asia" event in 2018, head of Lazada Philippines, Mr. Inane Balci, said he believes the Philippines has emerged as an ecommerce leader due to its roots as an SMS nation and its positioning as the Facebook capital in the world. A "selling culture", combined with a leaning towards spending and a desire for convenience are all factors that propel the ecommerce boom.

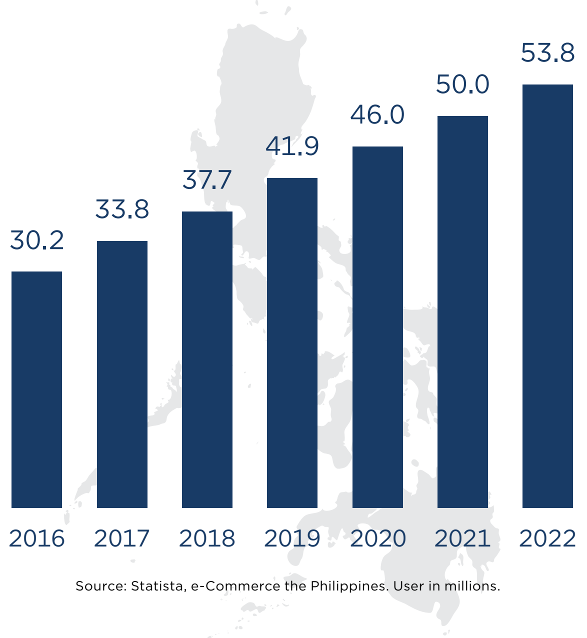
Unlike many of its neighbors, the Philippines is dominated by foreign players with Alibaba-backed Lazada overshadowing its competition. Shopee is the second largest ecommerce platform in the country but still only gets half of the monthly traffic of Lazada. Part of Lazada's strategy is partnering up with other international companies.

In September of 2018, for instance, it launched the LazMall which includes thousands of brands like Samsung, L'Oreal, MAC, Robinsons Appliances and the SM Store. But the company is also trying to support the so called micro, small, and medium enterprises (MSMEs), and it currently houses around 20,000 Philippine MSMEs on its platform.

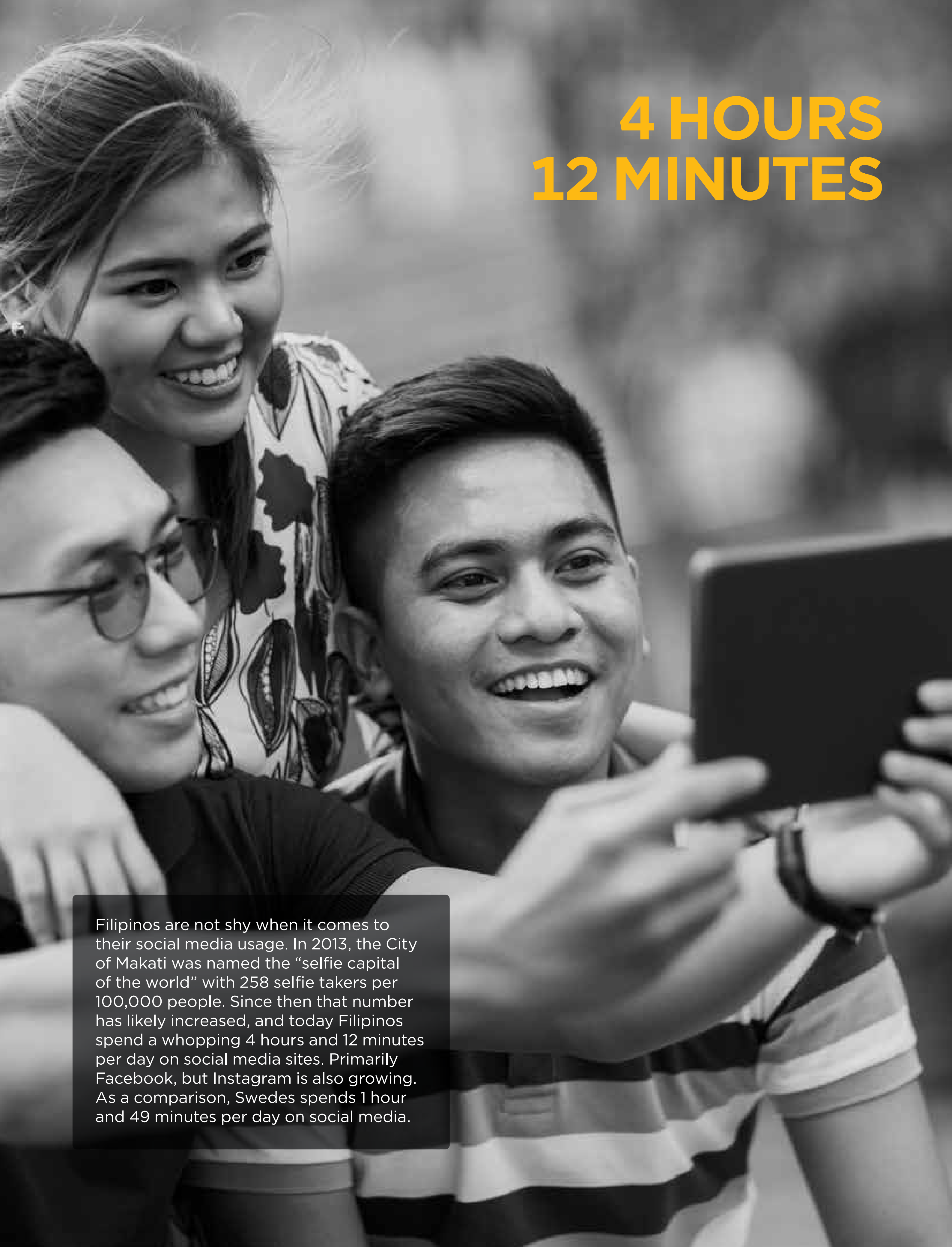
But there are challenges to reach the kind of potential that has been identified. Part of the challenge relates to infrastructure: logistical challenges are significant and improving the connectivity of the archipelago will take time. Other hinders relate to payment options. In the Philippines cash is still king and around 80 percent of merchants still offering cash-on-deliver (COD) as a payment option. Since credit card penetration in the Philippines is only 5%, finding smart payment solutions will be critical.

If the governments Build build build progam proves successful it can have a real impact for the ecommerce sector. The ambitions by the DTI, as can be seen in their 2016–2020 roadmap for ecommerce, are also welcome. The department has partnered up with some of the biggest platforms to ensure that everyone is pulling in the same direction. Whether or not they succeed is too early to tell, but it's clear at this point that there is little that can stop ecommerce, it's only a matter if it will be a march or a sprint.

NUMBER OF ONLINE SHOPPERS IN THE PHILIPPINES (IN MILLIONS)



Source: Statista, e-Commerce the Philippines. User in millions.



4 HOURS 12 MINUTES

Filipinos are not shy when it comes to their social media usage. In 2013, the City of Makati was named the “selfie capital of the world” with 258 selfie takers per 100,000 people. Since then that number has likely increased, and today Filipinos spend a whopping 4 hours and 12 minutes per day on social media sites. Primarily Facebook, but Instagram is also growing. As a comparison, Swedes spends 1 hour and 49 minutes per day on social media.

THE PHILIPPINE ADVANTAGE

A YOUNG POPULATION WITH A GLOBAL MINDSET

Southeast Asian markets share many characteristics, but there are also things that set them apart. The Philippines stand out relative to the other countries – with perhaps the exception of Singapore, which is a separate case entirely – in its global mindset. This openness can be seen in the country's comparatively trade friendly policies, the Filipino workforce which is highly internationalized both in terms of education and work experience, as well as the private sector which is actively investing in a growing number of foreign markets.

Together these aspects of the Philippine market add up to an environment that is highly conducive to collaboration and cooperation. Such favorable conditions do not always exist in other Southeast Asian markets. That is, in markets where trust in Western companies may be high, trade policies might stifle an otherwise attractive business environment. Conversely, where one finds low trade barriers, the workforce may not be competitive. In this section we talk briefly about these strengths of the Philippine economy which we believe give the Philippine its edge.

THE FILIPINO WORKFORCE

When sitting down with Swedish companies present in the Philippines it quickly becomes clear that the one thing that there seems to be agreement on is the quality of the Filipino workforce. Rarely were we told that companies were held back due to a lack of skilled labour. Instead, many business leaders attested to the competitiveness of the

Filipinos, which they often attributed to exposure to an international environment, either in terms of education attained abroad, experience of working outside the Philippines, or both. And there is data to back up this "international mindset" of the country's workforce. In terms of remittances, the numbers are staggering with a total amount of USD 29.7 billion being contributed from overseas workers in 2017. This constitutes around 10 percent of total GDP in the Philippines and only the diaspora from India (USD 72.2 billion) and China (USD 63.9 billion) outperform the Filipinos in this regard.

The English language seems to be one of the very clear advantages that Filipinos have over their neighbors. It has allowed them to "conquer" the world and has also led to the strong position the Philippines occupy in the service sector (see section on IT BPM). Another reason according to one executive we spoke to at a large Philippine conglomerate, is that during the period of colonialism, Filipinos came to look for inspiration "outward". This notion – that the world outside had a lot to offer Filipinos – stuck with the people and today they don't feel confined by national borders. Although this may be just anecdotal, it seems to ring true for many of the people we spoke to; Filipinos look at world that as a place that belongs to them, just as much as it does to others. Such confidence, coupled with a strong demographic advantage, over 50 percent of the population are below 25 years old after all, makes Filipinos a force to be reckoned with.

FREE TRADE FOCUSED

The past few years have been dominated by a political backlash against global trade, spearheaded by the Trump administration. But unlike the experience of the US and some Western European countries where the negative effects of globalization have led to resentment of free trade among workers who have seen their jobs disappear, either through competition from low-wage workers in the developing world, or from increased automation, the overall experience in the Philippines has been positive, with millions lifted out of poverty as result of economic development, enabled by trade.

The Philippines attitude towards free trade is refreshing and part of the explanation for this attitude can be explained by the recognition by the government as well as Filipinos, that there is a clear link between global trade and economic growth.

At the Philippines' latest WTO trade review back in 2018, the country was praised "for its strong commitment to preserve and strengthen the multilateral trading system". The lack of complaints to the WTO appellate body also suggests that the Philippines truly respects the Free Trade Agreements (FTAs) it ratifies. Additionally, the Philippines non-tariff barriers are few, meaning the that when it comes to the Philippines, "what you see is what you get", a rather rare occurrence with respect to emerging markets.

It should be noted that customs processes are seen as a trade barrier among businesses in the Philippines. However, this is typically an issue when making one-time shipments and less so when shipments are frequent and your company and products are known by the Bureau of Customs.

INTERNATIONAL PRIVATE SECTOR

Filipinos aspire to become global citizens, and this is not just seen in the multitude of Filipinos venturing overseas for work. From the beginning, Filipino graduates across spectrums of society are not just content with attaining a bachelor's degree. On top of this, they aspire to finish a master's and even doctorate decrees in both local and international universities. Post-graduate degrees are seen as necessities to compete globally. Noticeably, there is an affinity towards American educational institutions, given that the Philippines was previously under American rule. In fact, during the US colonial period in the Philippines from 1898 to 1946, education in the Philippines was provided by the US Government.

What this has resulted in are generations of Filipino "global citizens" that increasingly want to be part of a larger global community. It has created a workforce that seeks higher standards from education and training overseas. It has generated clusters of businessmen and entrepreneurs that aim to search for partners outside Philippine shores that can offer new ideas, innovations, and solutions that can be brought home to the Philippine market.

Consequently, Philippine companies have expanded internationally (both emerging and developed) in order to utilize foreign expertise, improve product offerings, in addition to capturing new markets. Expansion has been done both organically and inorganically through M&A. Here are a few notable examples:

Jollibee Foods Corp. – established in the 1970s in Manila, Jollibee is now the number one fast-food group in the Philippines. It has since expanded in other parts of Asia, the Middle East, and the USA. As of 2017, its store count is over 1,260 outlets. Part of Jollibee's strategy is also to target foreign markets with a sizeable Filipino population.

Integrated Micro-Electronics, Inc. (IMI) – IMI is a global manufacturing company based in Laguna, Philippines. It has over 21 facilities across 9 countries and ranked 18th of the top 50 EMS providers globally. IMI is part of the Ayala group.

Xurpas, Inc. – one of the leading consumer technology companies in the Philippines. In 2015, the company also acquired a 49%-stake in Indonesian mobile content developer Ninelives Interactive, to support its expansion in mobile content development and distribution.

MARKET OUTLOOK

A PERSPECTIVE FROM SWEDISH COMPANIES

Today there are 20 large Swedish companies present in the Philippines, and they have a combined revenue in the local market of SEK 5 billion. Swedish exports are also growing – YoY growth in 2017 and 2018 was at 30%, almost reaching SEK 2 billion in 2018. A survey of leading Swedish companies who have local presence in the Philippines was conducted in end of 2018, asking about their views on the Philippine market. Results show that overall, Swedish businesses remain positive about their prospects in the Philippines. A majority of the respondents are opting to stay invested, and even plan to expand operations in the country in the long term.

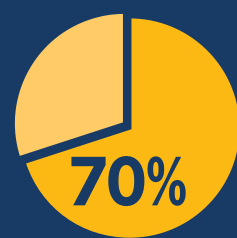
Near term, 70% of respondents also forecast solid growth, with expectations of 10% growth in sales per annum within the next 3 years. However, we are seeing cautious optimism. For one, respondents cited bureaucracy and regulatory changes as potential source of risks. Also, 4 out of 13 said that the expect economic conditions in the Philippines to either stay the same or even decline. Nonetheless, majority still expect economic improvements, citing average confidence in the infrastructure push of the current administration.

From the survey, what we see driving Swedish business in the Philippines is that most firms are able to support their clients by providing innovative solutions needed for the present and the future. Consequently, Swedish companies feel that they take a more active role in shaping industry trends. Having a shaping role in the sectors that they operate in supports the view that Swedish companies have a long-term positive outlook for the Philippine market.

As a message to Swedish companies that are thinking of setting up shop in the Philippines, the following were cited as the top success factors to win customers: competitive pricing, high product quality, and being able to offer innovative technologies. Doing business in the Philippines is not easy, but if done right, it makes a lot of business sense, both from a bottom-line perspective as well as a way of increasing your presence in the region. If your target is to "double in APAC", as we believe it should be, then the Philippines is an important piece of the puzzle to increase sales. The forward-looking plans of the companies in our survey suggests that there is no time to lose. On the next page we suggest some specific factors to consider for those who are ready to engage.

Reported profitable operations

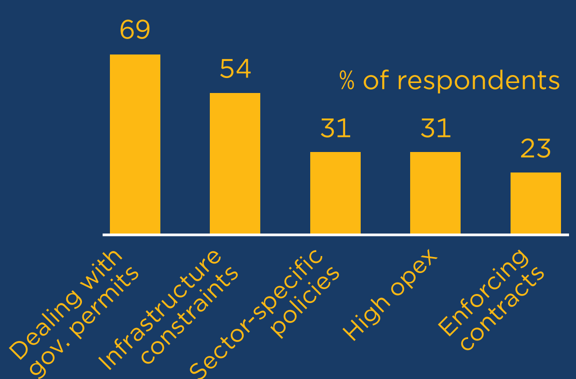
Plan for long-term business expansion in the Philippines



Expect revenue growth of more than +10% annually in the next 3 years

Direct and indirect jobs generated related to production, sales and service

TOP CHALLENGES OF DOING BUSINESS IN THE PHILIPPINES



Data from survey conducted with Swedish companies locally present in the Philippines; 13 respondents overall

RECIPIES FOR SUCCESS

OUR POINT OF VIEW

There has likely never been a better time to enter the Philippines. The market has proven itself with 20 years of consecutive economic growth coupled with stable government finances. At the same time Swedish businesses already present have seen profitable and high growth.

The market outlook looks even more promising, but its dynamics are changing. Four key trends can be seen:

- The conglomerates and large Philippine companies are expanding in international markets. An already global competent country with the largest English speaking workforce in Asia after India, is becoming even more globally competitive.
- The Philippines is becoming more domestic focused, with the government's inclusive growth strategy.
- Key sectors are developing rapidly and automation and digitalization is about to make major inroads. In terms of disruptive trends, automation in IT BPM is already an inevitability among key players, as well as digitalization for retail in the form of ecommerce. The next sectors to follow would probably be manufacturing, infrastructure and construction.
- Infrastructure deals are becoming larger and more complex, and China's involvement is expected to increase.

These emerging trends require new strategies and bold measures from Swedish companies so as not to fall behind. In our view, Swedish companies should:

Handle the Philippines both as a single market and as an integral part of their regional and global organization. This can only be done by considerable investments, and by empowering and giving necessary decision-making authority to the management of the Philippine operations. This requires recruitment of top talent, and the necessary budget for it. Also consider moving global shared services functions to the Philippines for reasons of cost-effectiveness and lack of language barriers.

Create strategic partnerships in the Philippines for the local market and for the regional and global market. Swedish companies in the Philippines are quite good at stating they have good partnerships with the conglomerates but these partnerships seldom reach beyond the supplier-to-customer partnership. KTM's partnership with Ayala Corporation is a blueprint for local and regional cooperation that Swedish businesses should take inspiration from or even copy. Executives of top Philippine companies are often educated at top-level Ivy League universities, speak fluent and easy understandable English and have a global mindset. How about leveraging on this and having your Philippine partner as a strategic partner in other Asia and the Pacific markets also, even in Europe? The partnership may go as far as setting up joint ventures and developing products and solutions together. This can only be achieved by lifting partnership decisions in the Philippines to the global management level and board level, to see the implications and potential benefits of such decisions on other markets today and in the future.

Be at the forefront of innovation and don't settle with what you have. The market is developing rapidly. Continuously develop your organization, products and/or solutions. Even dare to innovate and adapt products and solutions for the local market. A sector that we see developing tremendously is the IT BPM sector. More and more, the sector will be automated and services production in the Philippines will be increasingly advanced. Software development is an area that we strongly believe will see accelerated growth.

Find a way to take part in the foreign infrastructure investments in the Philippines (limited to Swedish suppliers of infrastructure solutions and goods). It's only a matter of time before the Belt and Road Initiative (BRI) will make a considerable impact in the Philippines, and the Japanese financed projects have already broken ground. These projects will be managed by the same Chinese and Japanese EPCs and contractors as in other markets. Ensure that you know the major Chinese and Japanese EPCs and in case you have operations in China and in Japan, engage those colleagues as deals may happen there and not in the Philippines.

Finally, the Philippines offers large and vast opportunities. The experience from successful Swedish ventures in the Philippines show that patience, resilience and to believe in your offering, are the most important factors to win in this market. Before considering entering, ensure you build a solid understanding of the specific market segments you are targeting.

ABOUT THE REPORT

The Philippines is one the Swedish government's prioritized markets. Today there are around 30 Swedish companies active in the Philippines. That number could be much higher with increased awareness of what the Philippines has to offer, as well as which needs that have to be met to ensure continued economic and social development of the country. This report, which was produced in Q4 2018, aims to highlight some of these opportunities and needs but also to give insights into how Swedish companies can better approach, or engage further in, the Philippine market. In the process of making the report it became evident that many of the Swedish companies present in the country today have had to learn some of the lessons on how to do business in the Philippines the hard way. But as can be seen from the results of the business climate survey, Swedish companies are optimistic about the future of the Philippines and their role in its development. We hope that the reader of this report will find it valuable and we always welcome a discussion on how Swedish companies can increase their footprint in this rapidly growing market.

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