



The Philippines:
The Next Leading Offshore Player

A Geography Lesson







Capital city: Manila
Currency: Peso
GDP: 2765 USD
President term: 6 years
Population 98.3 million

Rodrigo Duterte
16th president

Terms length=6 years

A Geography Lesson

- ❖ **Consists of 7,108 islands off the southeast coast of the Asian mainland**
- ❖ **Total land area of 115,000 square miles (roughly the size of Italy or Arizona)**

A Geography Lesson

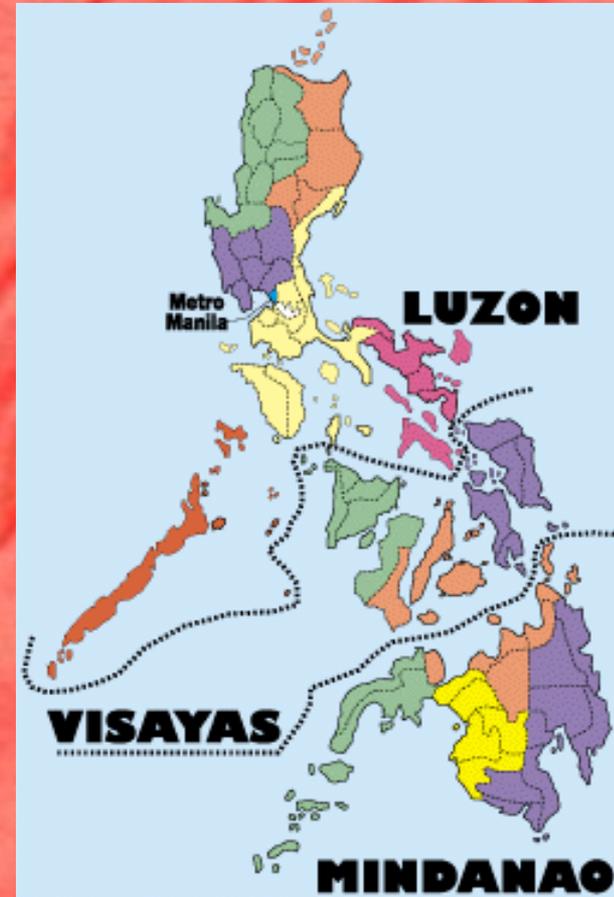
❖ Location is strategic

“Situated on the crossroads of Asia’s commerce and transportation, it plays a significant role in international affairs. It serves as a bastion of democracy and a convenient and vital link between the two worlds – the East and the West.”

- “Doing Business in the Philippines” by Price Waterhouse

A Geography Lesson

❖ 13 key regions



18 Active volcanoes

The Philippines is an archipelago of more than 7100 islands. Most of these islands are of volcanic origin. There are 37 volcanoes in the Philippines, of which 18 are still active volcanoes. It means that an eruption occurred in the last decennia and that a new eruption can be expected in the future. All the other volcanoes are 'sleeping' or 'dead' volcanoes. Scientists think that an eruption of these volcanoes is unlikely. The most known volcanoes in the Philippines are [Mount Pinatubo](#), Mount Mayon and the [Taal volcano](#). They are all located on the Northern island Luzon.



A Geography Lesson

❖ 13 key regions

❖ Illocos: well-known beaches



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❖ Central Visayas: emerging growth center



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A Geography Lesson

❖ 13 key regions

❖ Ilocos: well-known beaches

❖ Central Visayas: emerging growth center

❖ Northern Capital Region (Metro-Manila)

1. Manila – capital city
2. Makati – major commercial center
3. Kalookan City
4. Quezon City



A Geography Lesson

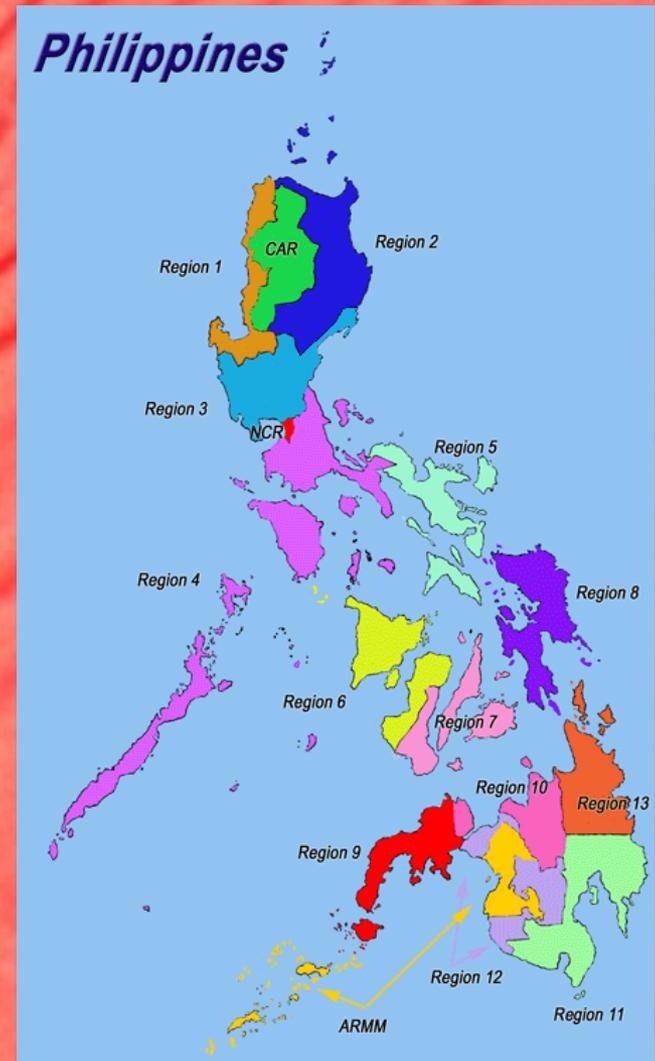
❖ 13 key regions

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❖ **Northern Capital Region (Metro-Manila)**

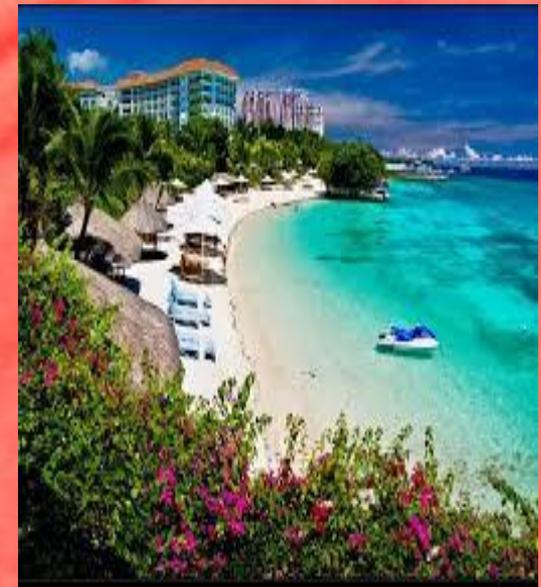
1. Manila – capital city
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Cebu city, the Queen City of the south

The capital of Cebu island is Cebu City. Cebu City is the first Spanish settlement in the country and the oldest city in the country.

In the beginning of the 16th century the Spaniards arrived in the southern part of the Philippines. Since then Cebu City has been the centre of trade and commerce in the southern part of the Philippines.



A Brief History

- ❖ **The Philippines had social and economic ties to China dating back to the 9th century**
- ❖ **In the early 1500's, the Spanish started a 300-year rule that left lasting impressions on the culture of the Philippines**

- 1. Religion**
- 2. Cuisine**
- 3. Language**

How are you?

“¿Cómo estás?”

“Kumusta?”

A Brief History

- ❖ **In 1898 America acquired the Philippines from Spain**
- ❖ **The 48-year “tutelage” resulted in important American contributions:**
 - 1. Development of strong Filipino leaders capable of running an independent government**
 - 2. A system of free education that emphasized democratic traditions**
 - 3. Democratic elections**
 - 4. English as a predominant language**
- ❖ **The Philippines gained independence in 1946**

Effects of Colonialism

- ❖ **1987 Constitution declared the Philippines a democratic republican state with a presidential form of government**
- ❖ **Government consists of three branches:**
 - 1. Executive Branch – headed by President who appoints cabinet**
 - 2. Legislative Branch – Senate and House of Representatives**
 - 3. Judicial Branch – Supreme Court**
 - 4. Independent Agencies – Securities and Exchange Commission**
- ❖ **Many existing laws are based on Spanish and American statutes**
 - 1. US model of government brings stability and a defined process for handling political issues**

Effects of Colonialism

- ❖ **The combined influence of the colonialists have made the Philippines:**
 1. ***“One of the most westernized of any Asian country”***
- Stephanie Overby, CIO Magazine
 2. **The oldest working democracy in Asia**
 3. **World-class English proficiency**
 - a. **Third-largest English speaking country in the world**
 4. **Ranked the third-most educated nation in Asia by World Bank**

The Filipino People

❖ Population

1. 90 million

❖ Language

1. Bilingual
2. 87 different Filipino dialects
3. American English is the basic language in schools, government, business dealings, and everyday conversation

The Filipino People

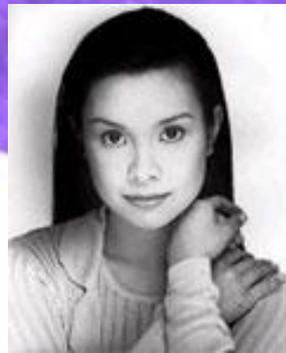
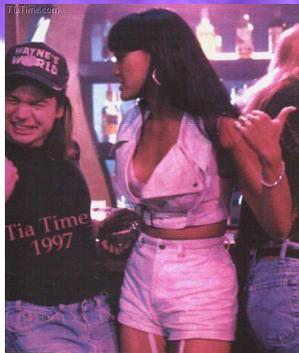
❖ Education

- 1. Patterned after the US system**
 - a. free public schools at elementary and secondary levels**
- 2. “*Filipinos have a deep regard for education, which they view as a primary avenue for upward social and economic mobility.*” - Library of Congress**
- 3. 95% literacy rate**

❖ Religion

- 1. 93% of country is Christian (83% are Roman Catholics)**
 - a. The only predominantly Christian country in Asia**
- 2. Small minority of Muslims in southern Mindanao (4%)**

Famous Pinoys



Inventions:

Two-way television telephone

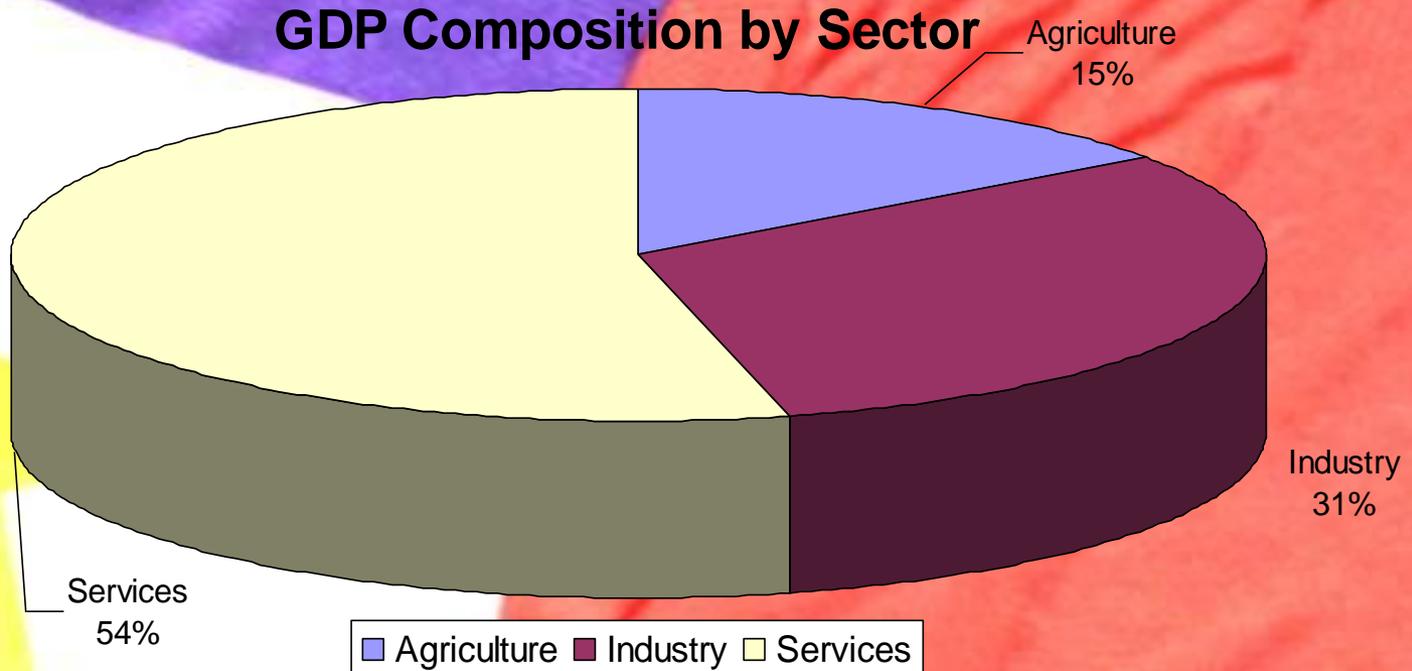
Airplane engine that runs on alcohol instead of aviation fuel

Fluorescent lamp

Single chip video camera

Karaoke machine

The Philippine Economy



The Philippine Economy

❖ **Though the economy suffered in the late 90's as a result of the Asian Financial Crisis, analysts are predicting future growth**

- 1. With strong domestic consumption and improved exports, the Philippine economy is forecast to grow 4.5% in 2004**
- 2. Services will have a higher growth rate than other sectors**
- 3. Imports will be slower than exports**
- 4. Inflation will remain low at 4.5%**

❖ **The Negative side**

- 1. Fiscal deficit rose sharply to P212.7 billion (US\$4.07 billion) in 2002, or 5.4% of gross domestic product (GDP)**
- 2. Unemployment remains high at 11.4%**
- 3. Conflict in Mindanao has contributed to a loss of business confidence and has had a negative impact on economic growth, investment and development prospects.**

The Philippine Economy

- ❖ **Historically a protectionist, inward looking country is now ranked by the World Bank as one of the most deregulated countries in Asia**
- ❖ **Now considered a liberalized, trade-oriented economy**

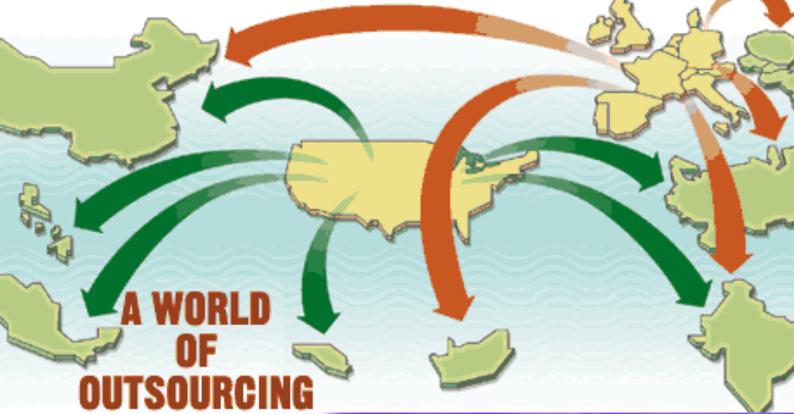
Market Assessment

Incentives

- ❖ Relatively stable administration committed to reforming economy
- ❖ Positive attitude towards foreign investments
- ❖ Special economic zones that make the country an attractive base for manufacturing export products
- ❖ Receptiveness of family-owned corporations to joint ventures with foreign firms
- ❖ Decline in tariffs and import barriers
- ❖ English speaking, highly trainable workforce

Drawbacks

- ❖ High cost of nationwide distribution due to archipelago geography and poor transport infrastructure
- ❖ Local consumers' relatively limited purchasing power with more than half of the country's income flowing to the richest 20% of population
- ❖ Relatively high degree of wage control



Why Outsource in the Philippines?

- ❖ **The fastest growing outpost of the high-tech economy**
- ❖ **Accessible by air within 4 hours of any Asian capital**
- ❖ **Gateway for international shipping, air lanes**
- ❖ **Entry point to the world's largest market with over 2 billion people.**
- ❖ **Ranks high as a location for outsourced solution.**

Why Outsource in the Philippines?

- ❖ **Provides affordable quality human resource:**
 - ❖ **skilled labor force of 29 million**
 - ❖ **literacy rate of 95%**
 - ❖ **3rd largest English speaking nation**
 - ❖ **Customer-service-oriented workforce**
 - ❖ **High-quality, low cost labor**

Why Outsource in the Philippines?

❖ *“The Philippines ranked 4th overall worldwide as the best source IT professionals.”*

- US based Meta Group

Rank	Country
1	India
2	Israel
3	Iceland
4	Philippines

Why Outsource in the Philippines?

- ❖ *“The country was also rated ahead of its Asian neighbors for “excellent availability” of skilled workers, reinforcing its goal to become an ITC hub in Asia.”*
- ❖ *“The Philippines is the best kept secret in the IT industry.”*

❖ US based Meta Group

Why Outsource in the Philippines?

❖ *“We’re a very open economy, and our culture is very well adapted to Western business practices.”*

❖ **Gloria Macapagal Arroyo**
Philippines president

Risks Associated w/ the Philippines

- ❖ **Low awareness of the Philippines as an offshore contender**
- ❖ **Lack of experienced operations management teams**
- ❖ **Migration of workers to the United States**

Risks Associated w/ the Philippines

❖ Political instability

- ❖ Impeachment of President Joseph Estrada**

❖ Terrorism

- ❖ small militant Islamic group ties with Al Qaeda**

❖ Shadows of India

Philippines vs. India

Country:	<u>Philippines</u>	<u>India</u>
Status:	Leader	Leader
Geopolitical risk:	Moderate	High
Infrastructure:	Good	Good
Average Salary:	\$6,564/Year	\$5,880/Year
Cultural Compatibility:	Good	Fair
Areas of Expertise:	Application development, application maintenance, call centers, business continuity and disaster recovery, e-business	Application development, application maintenance, packaged software, e-business

Philippines vs. Vietnam

Country:	<u>Philippines</u>	<u>Vietnam</u>
Status:	Leader	Up-and-comer
Geopolitical risk:	Moderate	Low
Infrastructure:	Good	Poor
Average Salary:	\$6,564/Year	\$7,200/Year
Cultural Compatibility:	Good	Fair
Areas of Expertise:	Application development, application maintenance, call centers, business continuity and disaster recovery, e-business	Application development, application maintenance, e-business

Philippines vs. China

Country:	<u>Philippines</u>	<u>China</u>
Status:	Leader	Up-and-comer
Geopolitical risk:	Moderate	Moderate
Infrastructure:	Good	Fair
Average Salary:	\$6,564/Year	\$8,952/Year
Cultural Compatibility:	Good	Poor
Areas of Expertise:	Application development, application maintenance, call centers, business continuity and disaster recovery, e-business	Application development, application maintenance, QA testing systems integration

Philippines vs. South Korea

Country:	<u>Philippines</u>	<u>South Korea</u>
Status:	Leader	Rookie
Geopolitical risk:	Moderate	Moderate
Infrastructure:	Good	Good
Average Salary:	\$6,564/Year	\$25,440/Year
Cultural Compatibility:	Good	Good
Areas of Expertise:	Application development, application maintenance, call centers, business continuity and disaster recovery, e-business	Application development, application maintenance

Philippines vs. Malaysia

Country:	<u>Philippines</u>	<u>Malaysia</u>
Status:	Leader	Up-and-comer
Geopolitical risk:	Moderate	Moderate
Infrastructure:	Good	Good
Average Salary:	\$6,564/Year	\$7,200/Year
Cultural Compatibility:	Good	Poor
Areas of Expertise:	Application development, application maintenance, call centers, business continuity and disaster recovery, e-business	Application development, application maintenance, e-business

AIGBPSI

- ❖ Philamalife and AIG – American General formed AIG Business Processing Services in August 2002**
- ❖ 150 employees**
- ❖ Estimated savings of 40% - 45%**
- ❖ Intensive training on US Insurance Industry, AIG-AG operations, procedures, systems, PC, communication and customer service skills**

AIG in the Philippines

- ❖ **People are more familiar with American jargon and culture**
- ❖ **Western expatriates preferred living in the Philippines**
- ❖ **The financial reporting and accounting standards aligned with U.S. standards**
- ❖ **Government provided critical support through incentives such as tax holidays**
- ❖ **Philamlife has been in business for more than fifty years**
- ❖ **Deregulated telecom industry**
- ❖ **IT a big part in education system**

AIGBPSI - Quality

- ❖ **Gearing towards Quality Assurance**
- ❖ **Target Insurance Functions:**
 - ❖ **New Business: mail match, text encoding, data entry and requirements management**
 - ❖ **Post Sales Servicing: tile, correspondence, premium, disbursements, call center, claims**
 - ❖ **Support Functions: index, return mail**
 - ❖ **Licensing & Contracting**

Insights

- ❖ **Critical to have a strong local partner**
- ❖ **Clear executive support and employee communication required**
- ❖ **Philippines can be a global e-services hub**
- ❖ **Filipinos are rich in talent and skill**
- ❖ **Cost alone cannot be the single motivating factor**

Other Firms



Disney Online



invent



Schlumberger



ALSTOM



BARNES & NOBLE .com
www.bn.com



citi



intel.



UNION FENOSA



PENSION-QUAKER STATE
COMPANY



P&G



NOKIA
CONNECTING PEOPLE



AOL.COM



PACIFIC BELL



ANDERSEN



PETRO-CANADA



AIG AMERICAN
GENERAL



FLUOR DANIEL



Microsoft

Current Events in the Philippines

❖ **Effects on the government**

❖ **Infrastructure? Emerging or diminishing**

Effects on the government

- ❖ **Defense Secretary Angelo Reyes said he is used to being a target but he recently resigned due to the second government casualty of a military mutiny last month.**
- ❖ **He believes that the attacks on the government are efforts to undercut the Philippines' 17-year-old democracy and besmirch and divide the armed forces.**

Effects on the government

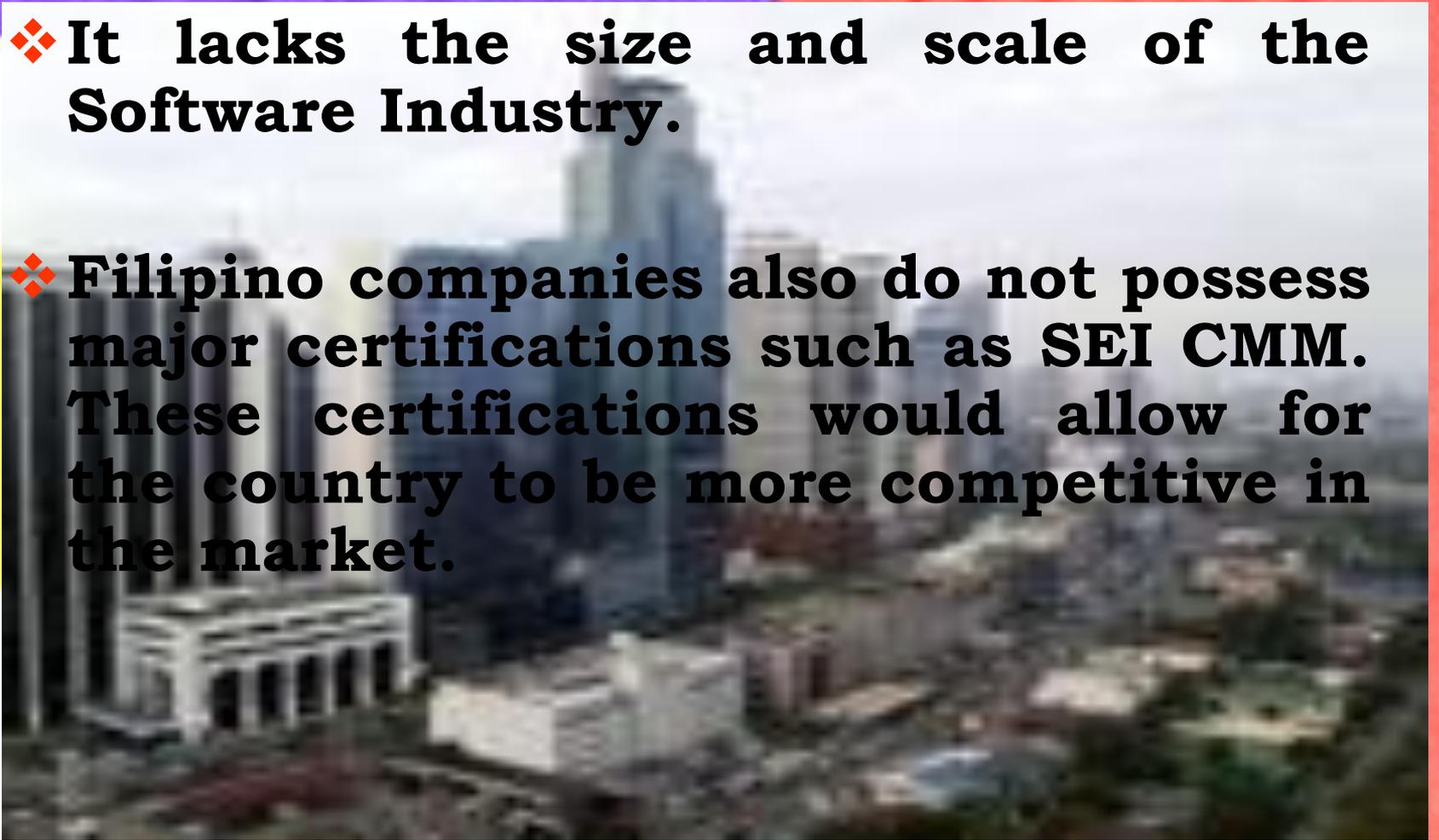
- ❖ **According to government statistics, the Philippines has more than 1.8 million drug addicts and 1.6 million recreational users of illicit drugs.**
- ❖ **President Gloria Macapagal-Arroyo wants police to launch a shame campaign against known drug pushers. She promised 1 billion pesos, more than \$18 million, to fund the fight.**

Infrastructure

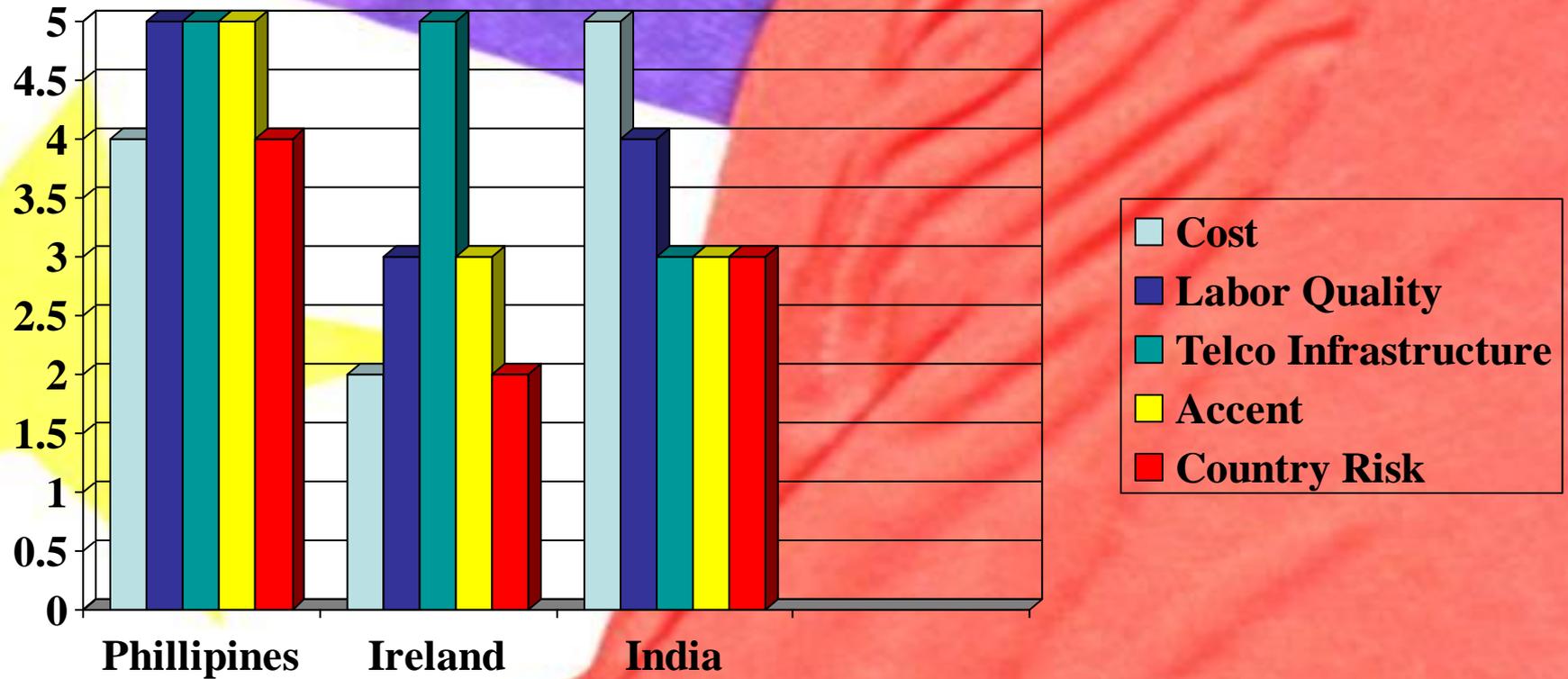
- ❖ **Same Accounting Standards accepted by the US**
- ❖ **Majority of 90 million citizens speak English**
- ❖ **Roughly 350,00 Filipinos graduate from colleges and universities each year**
- ❖ **Multiple undersea cables to every region of the world**

Infrastructure Problems

- ❖ **It lacks the size and scale of the Software Industry.**
- ❖ **Filipino companies also do not possess major certifications such as SEI CMM. These certifications would allow for the country to be more competitive in the market.**



Comparison Chart



Notes

- ❖ Network World
- ❖ Boston Globe
- ❖ CIO Magazine
- ❖ E-Services Philippines
- ❖ Business Week
- ❖ Vertex Solutions
- ❖ Offshore IT outsourcing to Philippines
- ❖ A World of Outsourcing
- ❖ CIO-Asia
- ❖ Outsourcing Philippines
- ❖ Board of Investments



Filipino Photo Album

Group 7 Vacation Pictures



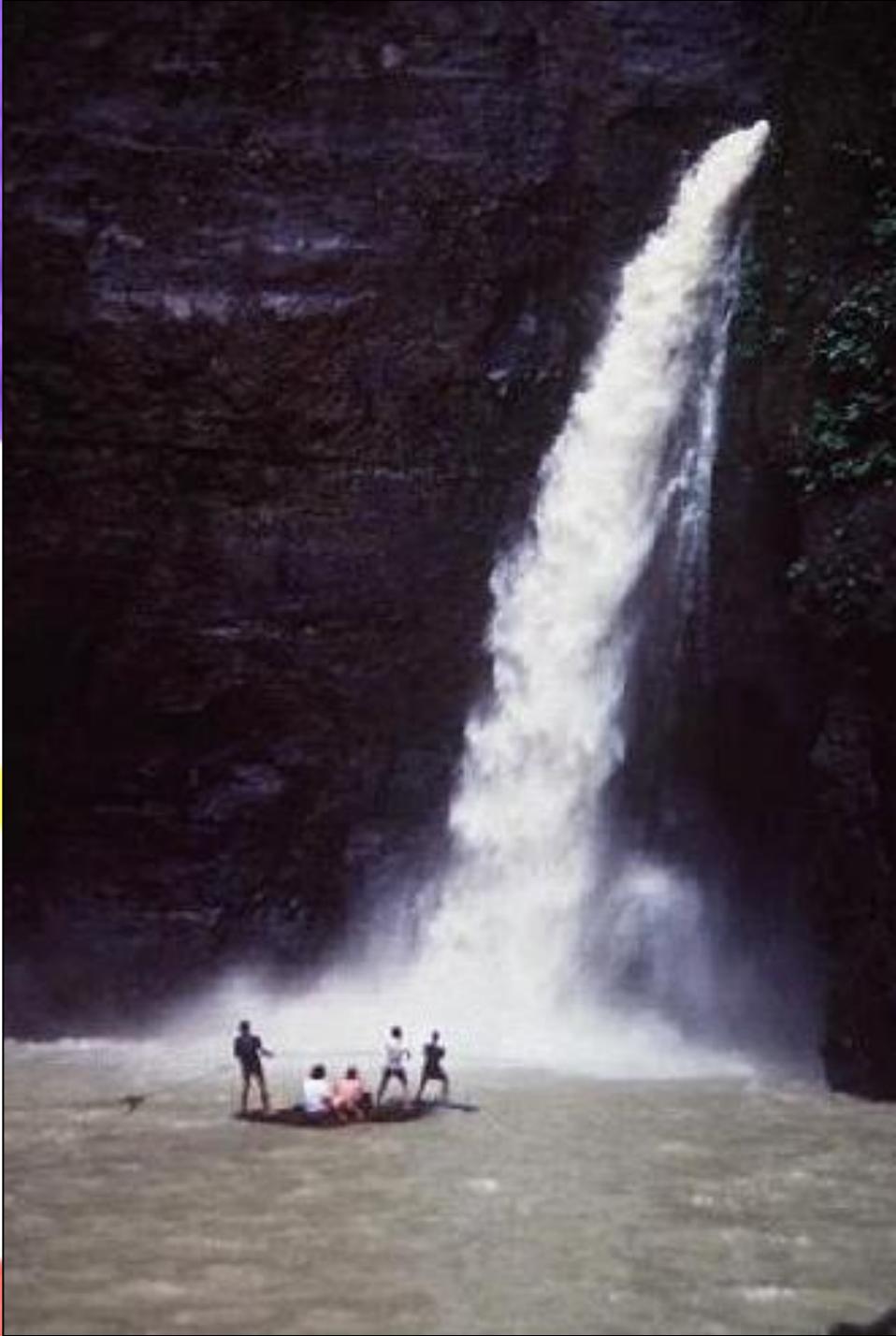




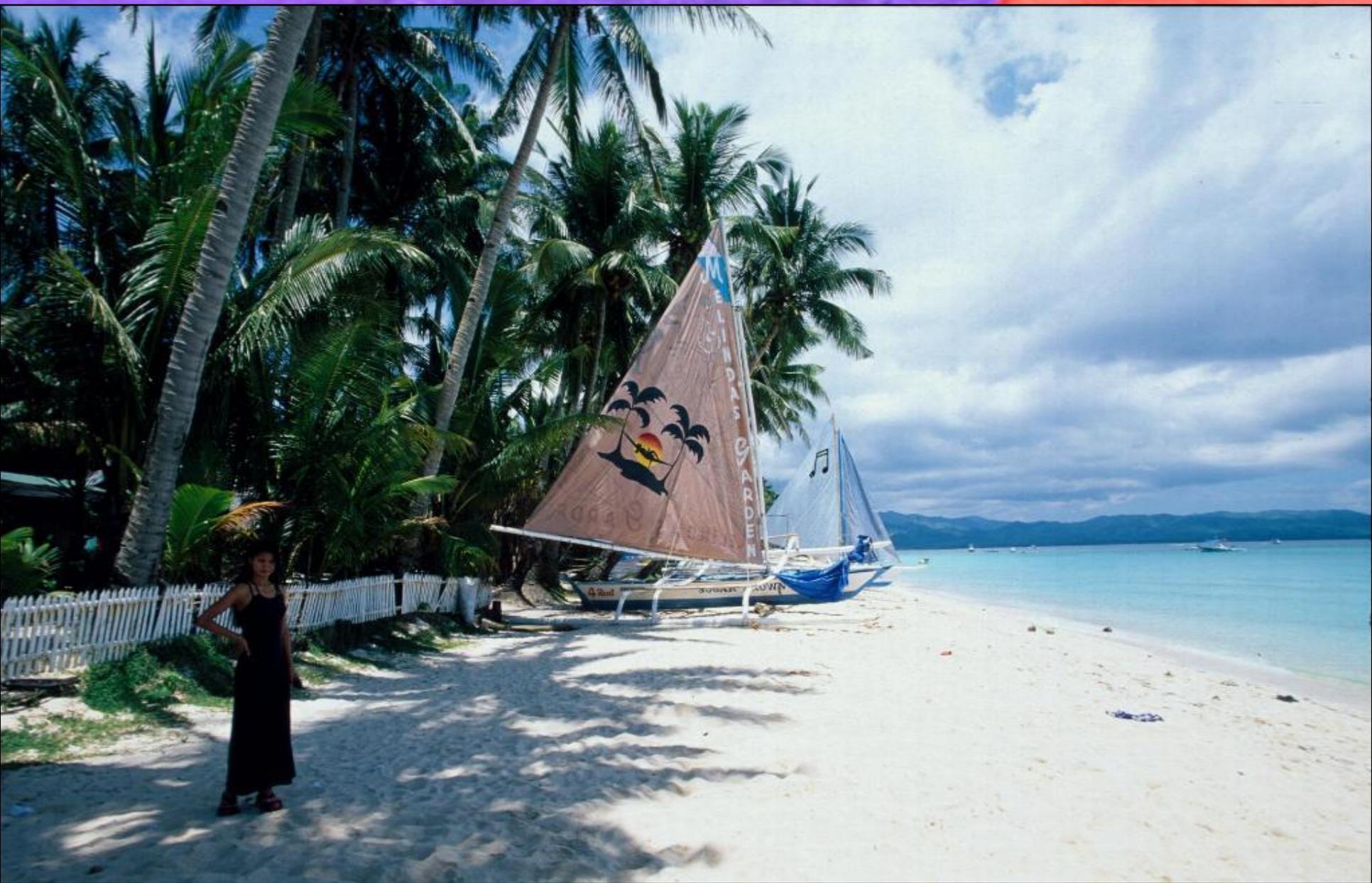














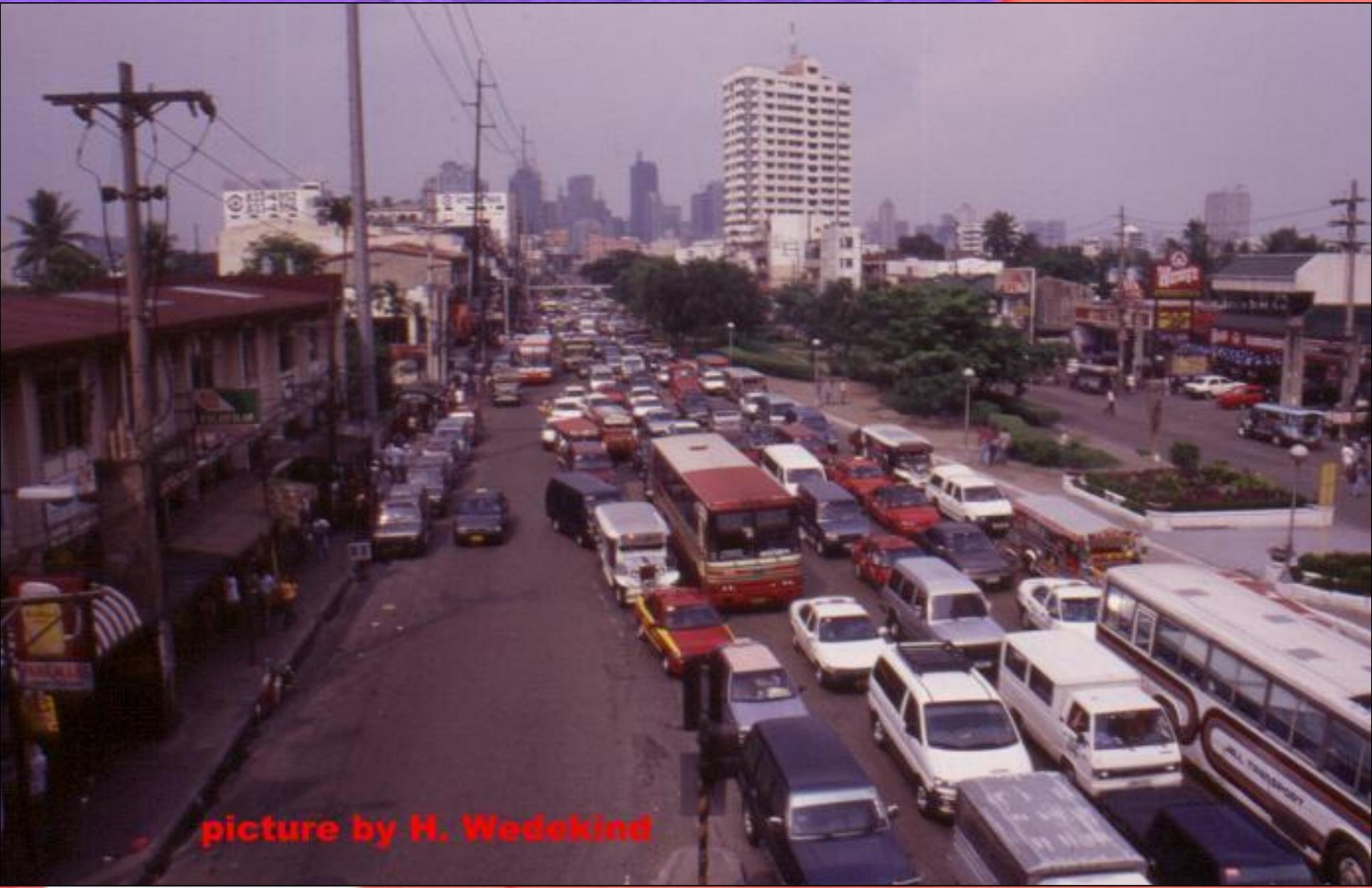








www.statiknet.de



picture by H. Wedekind

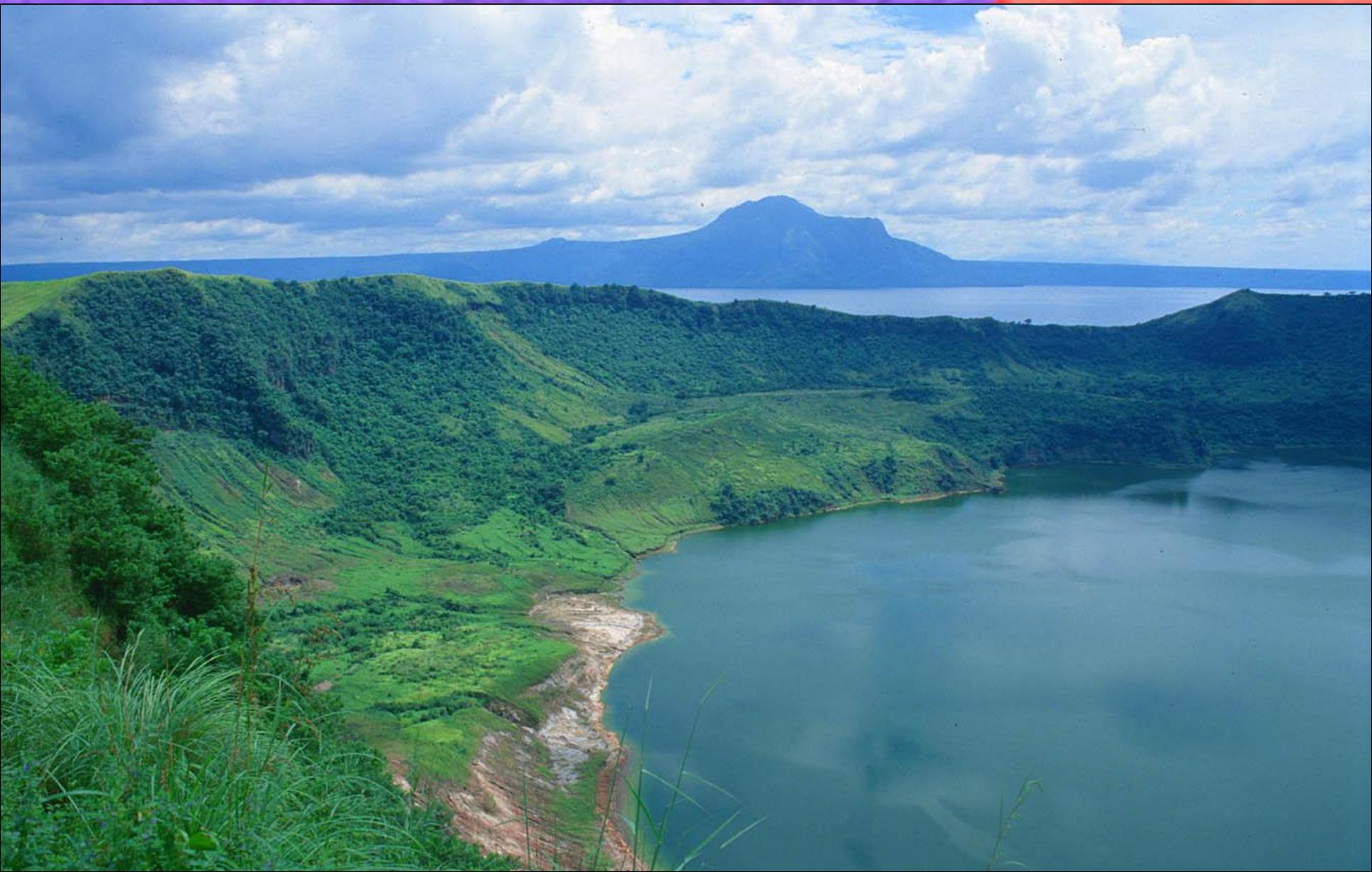




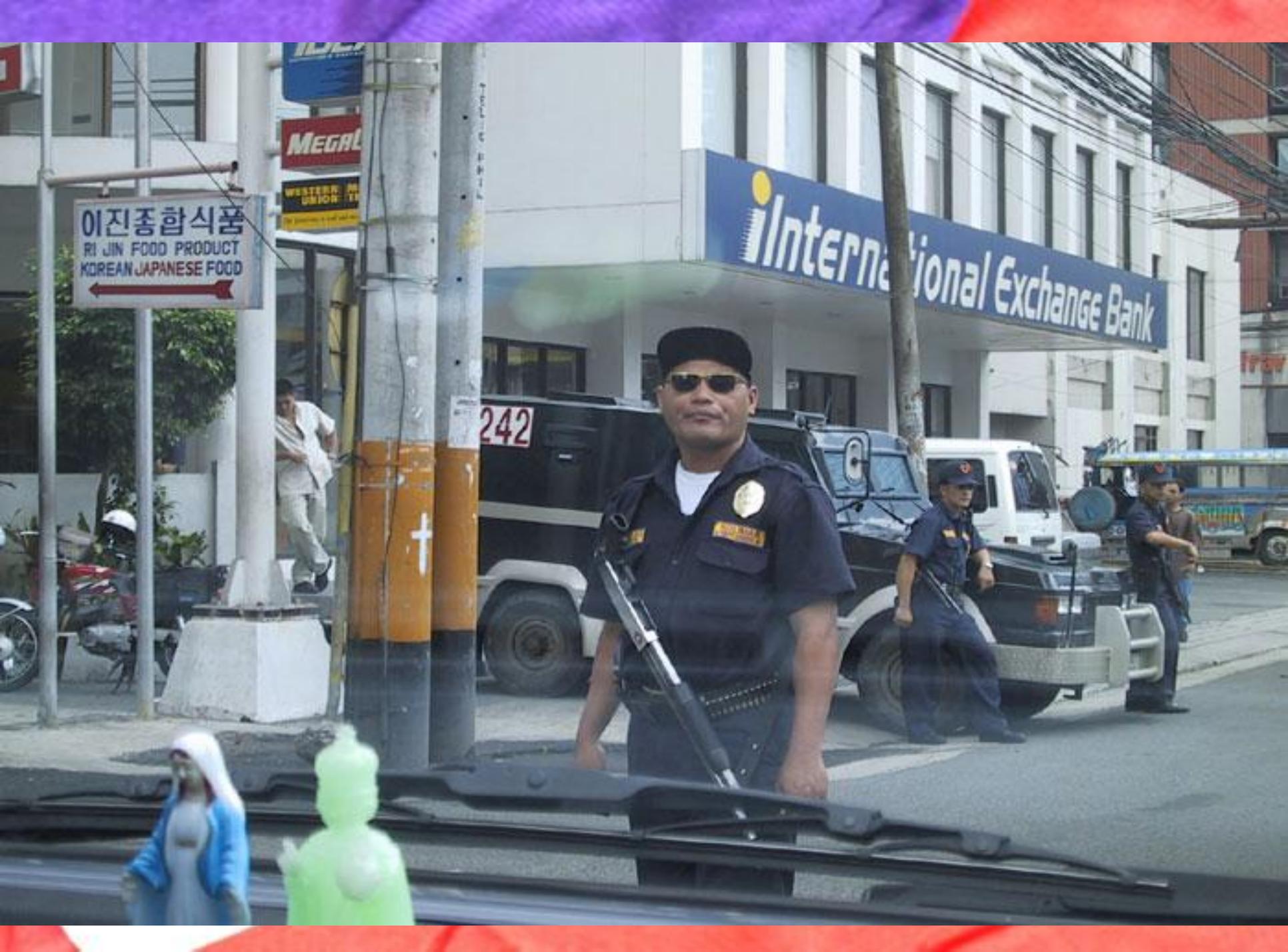












이진종합식품
RI JIN FOOD PRODUCT
KOREAN JAPANESE FOOD
←

MEGAL

WESTERN UNION

International Exchange Bank

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