

The Philippine Economy

- Fact sheet for German investors –





Table of Content

1. A Growing Market.....	4
2. GDP generation and wealth distribution.....	4
3. The Philippines' economic relations to Asia and Europe.....	5
a. The Asian-Philippine business relationship.....	5
b. The Philippines and Europe.....	6
4. German-Philippine Trade Relations.....	6
5. German Presence in the Philippine.....	7
6. Student exchanges.....	9
7. Currency – PHP versus EUR.....	9

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Republic of the Philippines



Bundesrepublik Deutschland

Filipino	Nationality	German
Filipino (official; based on Tagalog) and English (official); eight major dialects	<i>Languages</i>	German
Roman Catholic 80.9%, Muslim 5%, Evangelical 2.8%, Iglesia ni Kristo 2.3%	<i>Religions</i>	Protestant 34%, Roman Catholic 34%, Muslim 3.7%, unaffiliated or other 28.3%
300,000 sq km	<i>Land Area</i>	357,210 sq km
101.833 million (July 2011 est.)	<i>Population</i>	81.571 million (July 2011 est.)
1.903% (2011 est.)	<i>Population growth rate</i>	-0.208% (2011 est.)
92.6%	<i>Literacy</i>	99%
Manila	<i>Capital</i>	Berlin
President Benigno S. AQUINO III (since 30 June 2010)	<i>Chief of State / Head of Government</i>	President Dr. Christian WULFF (since 30 June 2010) Chancellor Dr. Angela MERKEL (since 22 November 2005)
Bicameral Congress	<i>Legislative branch</i>	Parliament and Federal Council
Supreme Court	<i>Judicial branch</i>	Federal Constitutional Court
Independence Day, 12 June	<i>National Holiday</i>	Unity Day, 3 October
USD 351.4 billion (2010 est.)	<i>GDP (purchasing power parity)</i>	USD 2.941 trillion (2010 est.)
7.3% (2010 est.)	<i>GDP real growth rate</i>	3.5% (2009 est.)
USD 3,500 (2010 est.)	<i>GDP – per capita (PPP)</i>	USD 35,700 (2010 est.)
38.9 million (2010 est.)	<i>Labor Force</i>	43.35 million (2010 est.)
7.3% (2010 est.)	<i>Unemployment rate</i>	7.4% (2010 est.)
3.8% (2010 est.)	<i>Inflation rate (consumer price)</i>	1.1 (2010 est.)
Philippine Peso (PHP)	<i>Currency</i>	Euro (EUR)
PHP 59.74 = 1.00 EUR	<i>Exchange rate (ECB avg. 2010)</i>	EUR 0.017 = 1.00 PHP

1. A Growing Market

The Philippines have survived the global financial crisis with a 20-year record **growth rate** of 7.3% in 2010. Before the start of the financial crisis, the country had a stable growth rate of approximately 6%.

Economic data at a glance:	
Population:	estimated 94 m. (2010)
GDP:	351.4 bn. USD (2010)
GDP/ capita:	3,500 USD (2010)
GDP growth:	3.8% (2008); 0.9% (2009); 7.3% (2010)
Inflation rate:	3.8% (2010); 4.8% (2011)
Budget deficit:	3.5% of GDP (2010)
Unemployment:	7.2% (2011)
Simple literacy:	95.1% (2010)
Trade volume with Germany:	import: 2.23 bn. EUR (2010); export: 1.11 bn. EUR (2010)

The country's condition has improved in 2010. Investments (+17.1%) and exports (+25.6%) have improved and consumer spending has increased (+5.3%). The Philippines are one of the "**Next Eleven**" (or N-11) countries. The "Next Eleven" were identified by Goldman Sachs investment bank in December 2005 as having a high potential of

becoming the world's largest economies in the 21st century. The criteria used were macroeconomic stability, political maturity, openness of trade and investment policies, and the quality of education.

The Philippines exported in 2010 **merchandise products** world-wide worth 51,432 million USD. This is a growth by around 34% compared to 2009. The demand for clothing, coconut oil, wood, furniture and metal goods has increased. 60% of exported products come from the electronics industry. The import of merchandise products to the Philippines grew from 2009 to 2010 by 27% – from 43,092 million USD to 54,721 million USD.

Multinational companies from the United States, Japan, Korea, Taiwan and Europe are significant for the Philippine **export business**. In recent years, the European Union (EU) has developed into the biggest export market for the Philippines.

Approximately 8 to 9 million Filipinos work abroad and contribute around 10% to the Philippines' Gross Domestic Product (GDP). These Filipinos are referred to as **Overseas Filipino Workers (OFW)**. The government continues to support the outflow of Filipinos to foreign economies.

2. GDP generation and wealth distribution

The **service sector** is the main driver towards the country's GDP. It generates 50% of the GDP, provides more than half of all jobs and grew at a rate of 7.1% this year. Most of the service sector jobs are placed in the Information Technology (IT) industry. Business Process Outsourcing (BPO) and Knowledge Processing Outsourcing (KPO) industries are increasing in importance. The Business Processing Association of the Philippines (BPAP) estimates an annual growth rate of 25% and a workforce of 1.3 million people as well as profits worth 25 billion USD by 2016.

The **industrial sector** generates around 30% of the GDP and employs 15% of the Philippine workforce. An increasingly important business in this sector is the electronics industry. In 2010, its growth rate overtook that of the service sector by 12.1% for the first time since many years. The strong development of the electronics industry also leads to greater investments (+384%) and exports (+41%) in that field.

The **farming sector** generates around 15% of the GDP but employs as much as 30% of the Philippine workforce. The **mining sector**, which has remained small until now, offers great future potential. The Philippines has substantial gold, copper and nickel resources. Its favourable geographical position makes it an ideal natural resources supplier for China.

The competitiveness of the Philippine **tourism industry** was not satisfactory in 2010. Nevertheless, German tourists (~59,000) were the second biggest incoming tourist group from the EU and number 12 worldwide.

3. The Philippines' economic relations to Asia and Europe

a. The Asian-Philippine business relationship

The Philippines are a founding member of the Association of Southeast Asian Nations (**ASEAN**). This geo-political and economic organization was formed in 1967. Three years ago, the 10 members launched a charter with the aim of moving closer to an "EU-style community". The charter turns ASEAN into a legal entity and aims to create a single free-trade area until 2015 for the region encompassing 500 million people.

The Philippines are bound by **seven Free Trade Agreements (FTAs)**:

- ASEAN Free Trade Area (AFTA) in effect as of 1 January 2003
- ASEAN-Japan (AJCEP) in effect as of 1 December 2008
- ASEAN-Australia-New Zealand FTAs (AANZFTA) in effect as of 1 January 2010
- ASEAN-China (ACFTA) in effect as of 1 January 2010
- ASEAN-India (AIFTA) in effect as of 1 January 2010
- ASEAN-Korea (AKFTA) in effect as of 1 January 2010
- Japan-Philippines Economic Partnership Agreement (JPEPA) in effect as of 11 December 2008

The **Philippines and China** established a strong bilateral relationship during the past 36 years through numerous bilateral agreements. The relationship was further strengthened through mutual state visits on top level and through Philippine-Chinese business men who have very good contacts to the Chinese government and who push into the market.

China moved from place 5 in 2009 up to place 4 in 2010 in the rank of Philippine trading partners. The Philippines exported in 2010 to China merchandise products worth more than twice the amount of what they exported to Germany. Imports of merchandise products from China were worth almost five times the amount of what was imported from Germany. The Philippines almost doubled the total volume of exports to China from 2009 to 2010.

The Philippines' number one trading partner in 2010 was **Japan** overtaking the **United States** and cornering 13.7% of the country's total trade. The Philippines exported in 2010 to Japan merchandise products worth three times the amount of what they exported to Germany. Imports of merchandise products from Japan were worth seven times the amount of what was imported from Germany.

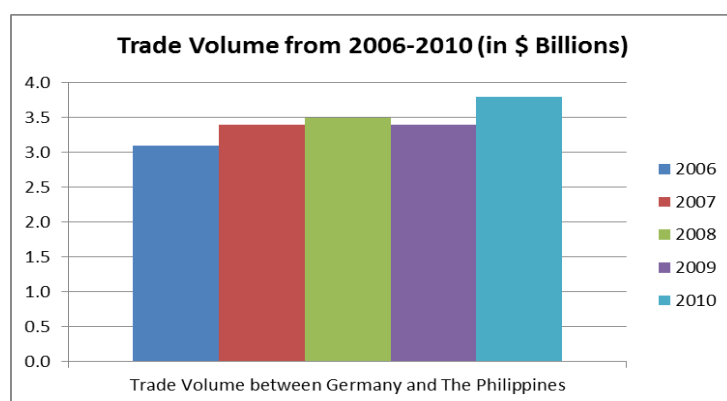
The countries signed the Japan-Philippines Economic Partnership Agreement (JPEPA) in 2006, which seeks to promote investments and the trade of goods and services. The agreement is the first bilateral agreement between the Philippines and Japan, and comprises 153 pages. One of its main purposes is to reduce barriers to products like bananas, it also aims to facilitate the movement of human beings, in particular, Filipino nurses and caregivers to the aging society. It entered into force when the Philippine Senate ratified it in December 2008.

b. The Philippines and Europe

Total external trade in goods with the **European Union (EU)** grossed in 2010 10.7% of the country's total trade amounting to 11,373.31 million USD. This is about 2,700 million USD more compared to 2009.

The EU and the Philippines completed negotiations for a Partnership and Cooperation Agreement (PCA) in June 2010 upgrading the EEC-ASEAN Cooperation Agreement of 1980. The agreement builds the foundation for even stronger relations of the years ahead, whether in the political, economic or cooperation fields. The Philippines is the second ASEAN country after Indonesia to complete negotiations on an updated PCA with the European Union. It is presumed to be ratified by the end of the year.

4. German-Philippine Trade Relations



The **trade volume** between Germany and the Philippines amounted to 3.3 billion EUR in 2010. Germany was the Philippines' top trading partner in Europe, covering 33.1% of the European trade volume with the Philippines. It was the Philippines' number 12 trading partner worldwide. Exports into the Phi-

lippines increased in 2010 by 49.3% compared to 2009. Imports to Germany from the Philippines raised by 40.7%.

The graph above shows the steady increase of the trade volume between Germany and the Philippines from 2006-2008 and the huge comeback from the 2009 decrease.

In particular, Germany and the Philippines have a good relationship in **merchandise trading**. Germany was in 2010 among the six biggest merchandise trading partners of the Philippines worldwide covering 3.55% after Japan (13.7%), United States, Singapore, China and Hong Kong.

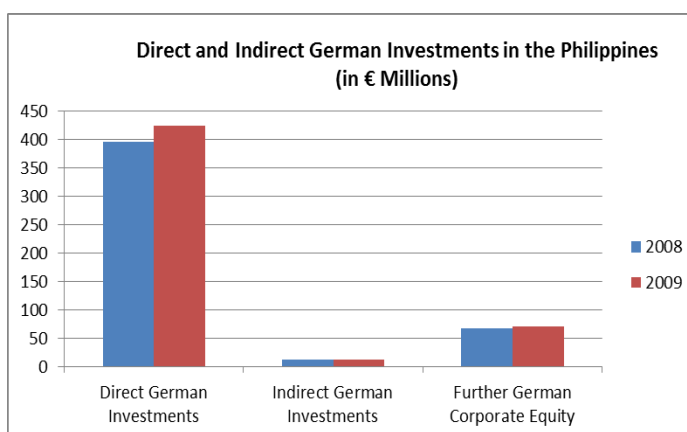
Germany and the Philippines concluded an agreement in 1983 to mitigate the effects of double taxation. The “Avoidance of Double Taxation with respect to Taxes on Income and Capital” (**Doppelbesteuerungsabkommen**) covers income tax, corporation tax, capital tax and trade tax. It applies only to those persons who are residents of both or one of the contracting states.

A “Bilateral Investment Treaty” (**Investitionsschutzabkommen**) between Germany and the Philippines is effective since 2000. It serves as protection for all bilateral investments. It contains the regular clauses of this kind of treaty except the “Umbrella Clause”. The “Umbrella Clause” protects the investor against any interference with his contractual rights, whether it results from a mere breach of contract or a legislative or administrative act; and independently of the question whether or no such interference amounts to expropriation. This treaty provides foreign investors with the option of legal recourse to an International Centre For Settlement Of Investment Disputes (ICSID) tribunal of the World Bank for divergences resulting from an expropriation or from unfair or illegal treatment.

5. German Presence in the Philippines

An estimated total number of around **4000-6000 Germans** work, study or just live in the Philippines. 52 German **companies** were based in the Philippines in 2009. The number increased by one compared to 2008. The number of **employees** did not change between 2008 and 2009. 14,000 employees were working in German companies in 2009.

The **direct German investments** in the Philippines increased significantly between 2008 and 2009. It went up by 28 million EUR to an amount of 424 million EUR. Indirect German investments decreased slightly. They amounted to 13 million EUR in 2008 and 12 million EUR in 2009. Further German corporate equity increased from 2008 to 2009 from 68 million EUR to 71 million EUR.¹



¹ Based on statistics of the Deutsche Bundesbank:
www.bundesbank.de/download/statistik/stat_sonder/statso10.pdf.



The **annual turnover** of German companies has increased by 14% in 2009 compared to 2008. It went up to 1.6 billion EUR.

The **top 10 sectors** in which German companies are active are listed below. The list considers only the number of German companies in this sector, not the amount of their turnover:

1. Trading
2. Pharmaceuticals, Medical/ Dental/ Optical - Laboratory Equipment, Products and Supplies
3. Automotive/ Motorcycle-Assembly/ Plants/ Machines/ Parts/ Components/ Supplies
4. Engineering/ Metal Works/ Plants/ Machinery/ Equipment/ Products Supplies
5. Garments/ Textile/ Clothing/ Wearables/ Machines/ Accessories
6. Air/ Sea-Freight/ Cargo Forwarders
7. Woodworking/ Products/ Equipment/ Machinery
8. Industrial/ Fine Chemicals
9. Services
10. Construction

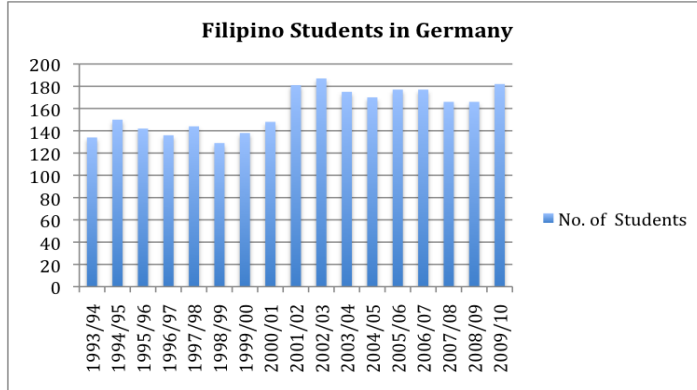
Perceiving the increase of the German business community in the Philippines and the growing demand for information about the Philippine market, the **German-Philippine Chamber of Commerce and Industry (GPCCI)** established in 2008. Since then, the Chamber represents the interests of the German-Filipino business community in the Philippines and brings forward the German-Filipino business relationship in both countries. For more information, kindly visit our website at www.gpcci.org.

A good network of **11 German institutions**, which are located in Metro Manila, provides several interesting and helpful services to Germans and other nationals. These are the following:

- Friedrich Ebert Foundation
- Friedrich Naumann Foundation for Liberty
- German Club, Inc.
- German Embassy Manila
- German European School Manila (GESM)
- German International Cooperation - GIZ (formerly known as GTZ)
- German-Philippine Chamber of Commerce and Industry, Inc. (GPCCI)
- Goethe-Institut Manila (German Cultural Center)
- Hanns Seidel Foundation
- KFW Entwicklungsbank Philippine Office
- Konrad Adenauer Foundation

6. Student exchanges

Based on the statistics of the German Academic Exchange Service (or DAAD), the number of Filipino **exchange students** studying in Germany and vice versa has been fluctuating. Despite all the ups and downs, in general, a slight increase can be recognized by comparing the numbers from 1993 to 2010.



Figures are based on the data of the DAAD

7. Currency – PHP versus EUR

The exchange rate of the Euro and the Philippine Peso (PHP) has been fluctuating. The Euro was very strong towards the second half of 2009 but lost value at the beginning of 2010. The Euro has become stronger again since June 2010 but is currently shaken by the Euro crisis.

