



THOMAS WHITE - GLOBAL INVESTING
CAPTURING VALUE WORLDWIDESM



Country Profile: Philippines

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It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in dark ink, reading "James S. White, Jr." in a cursive style.

Philippines: Uniquely Rising from Its Past

*Land dear and holy,
Cradle of noble heroes,
Ne'er shall invaders,
Trample thy sacred shores.
Lupang Hinirang – Chosen Land.*



Reminiscent of the country's Spanish colonial past, the Saint Agustin church dominates Manila's Intramuros district, built by the Spaniards in the 16th century.

Echoing softly across the 7,100 islands that form the Philippines archipelago, the lilting strains of the country's national anthem seem to be a reminder of a volatile past. This indeed is a country where invaders trampled its sacred shores, imposing colonization for more than three centuries. Freedom since then has been a thorny crown to wear and the years of toil under colonial masters and then despotic power hungry leaders have marred these pristine islands. Asia's only predominantly Christian country, the Philippines enjoys one of the highest literacy rates in the world, and it would seem that economic prosperity is its destiny. But then man plays a cruel hand where destiny cannot. It has been the curse of the Philippines that its leaders have shorn the country of its value. Will the nation rise again? Perhaps, gentle as the wind that swirls across Cebu, it already has.

Colonial vassal rises to become independent power

The islands of the Philippines were inhabited long before Ferdinand Magellan first landed his ship on these shores. The invading Spanish colonizers termed the Pygmies of the Aeta and Agta tribes as Negritos, which continues to be used even today. Spain eventually named these groups

of islands Isla Filipinas after Prince Philip. Magellan’s exploration would mean the conquest of the Philippines in the hands of Spain for the next 300 years. Traces of the Spanish influence remain visible in the country even today.

Following the defeat of Spain in the Spanish-American war, the Treaty of Paris granted the Philippines to the Americans who were to exert their dominance and shape the course of this nation until well into the 20th century. The American President William McKinley called it a policy of ‘benevolent assimilation.’ The Filipinos, however, were a proud people and searching for sovereignty, went to war in what was to be known as the Philippine-American War. More than 4,000 American and 16,000 Filipino soldiers died in combat before the U.S. established a political administration in the Philippines with the promise of independence eventually on July 4, 1946.

The shadow of the “Rising Sun” and the looming hand of World War II cast an unwilling Philippines into the forefront of a vicious battle between the Americans and the Japanese. Battered, and bruised beyond recognition, Manila became the second most destroyed city of the cataclysmic World War – next only to Warsaw in Poland. It was in this bitter, somber and fragile atmosphere that the Philippines finally claimed its rightful independence in 1946.

Philippines and the World	
Nominal GDP (\$)	166.9 billion
GDP Rank	47/191
Per Capita GNI	\$1890
Per Capita GNI Rank	144/210
Population Rank	12/227
Geographical Area Rank	72/249
Global Competitiveness Rank	87/133
Economic Freedom Index Rank	109/179
Human Development Index Rank	105/182
Major Industries	Processed Foods, Coal, Chemical Products, Garments, Electrical Machinery and Electronics, Fishing

Post-war, faced with teething infrastructure and economic problems, the fledgling government led by Manuel Roxas also had to face insurgency from within in the form of the Hukbalahap – a guerilla warfare that was extinguished finally in 1954. A period of relative stability followed



The Manila American Cemetery and Memorial in the Philippines for victims of World War II contains 17, 202 graves.

with progressive visionary Ferdinand Magsaysay's rule, but his death in a plane crash hurled the country into the hands of power despots such as Ferdinand Marcos. The assassination of popular opposition leader Benigno Aquino was to be the trigger for a People Power Movement that led to the immensely corrupt leader's downfall and flight from the Philippines. The newly widowed Corazon Aquino and later Fidel

Ramos's presidency brought about a semblance of reform to the teetering nation. A second People Power Movement or ESDA led to the downfall of the charismatic but inept Joseph Estrada, paving the way for Gloria Macapagal – Arroyo. However, Arroyo was to be one of the most unpopular presidents the Philippines ever had, and Benigno Aquino, a senator and the son of former President Corazon Aquino, won the 2010 elections to become the country's next president in a term that will last until 2016.

Administrative Structure: As a democratic republic, the chief of state, head of government, and commander-in-chief of the armed forces in the Philippines remains the president, who is elected by direct popular vote for a term of six years. The Philippines has a bicameral (two-chamber) legislature called the Congress, which consists of the 24-member Senate and the 260-strong House of Representatives. Administratively, the country is divided into 15 regions, 79 provinces and 115 cities.

American and Spanish mix

Unlike most other countries in the region, the Philippines' indigenous culture was almost completely transformed by the Spanish and American influences it was subject to for centuries. Under American occupation, the Philippines rose to become one of the most westernized nations in Southeast Asia. Yet, especially among Muslim and upland tribal groups, certain old Malay traditions related to dance, sculpture and music still remain. Under the patronage of the Roman Catholic Church, architecture drew on religious icons for expression.

Local culture: Philippine tribes have retained some of the older traditions of oral storytelling, and art forms such as rattan weaving, woodcarving, and textile weaving. Filipino music has synthesized the best of its Spanish and American past although unique folk dances such as *tinikling* (bamboo or heron dance) and *singkil* (court dance), which continue to be popular. With around 120 ethnic groups and mainstream communities such as the Tagalog, Ilocano, Pampango, and Visaya, the quest for a common identity is forged oddly through another American legacy – English. The Philippines is now the third-largest English speaking country in the world.

Unbridled corruption taints erratic growth

Economic history: During the long years of American occupation, the Philippines functioned only as an economic vassal to the world superpower. Supplying the U.S. with mainly agricultural and forest products, the Philippines was forced to import most manufactured items from the U.S. Industrial growth virtually grounded to a halt during this period.

Post independence, the Philippines economy swirled through a dizzying cycle of boom and bust. During the 1950s, the country tried to become an industrialized nation with the policy of import substitution, where domestic goods are substituted for imports. However, these protectionist measures had a negative effect in the long term leading to inefficiencies and misallocation of resources. For that period during the 1970s, however, economic growth spurted.

Marcos rule: Rich in human and natural resources, it seemed then that the Philippines was destined to become one of Asia's real superpowers. However, the overwhelming power of corruption tainted its leaders, and the Philippines struggled under Marcos' long rule. By 1981, the nation was heavily in debt, the country was facing problems making payments on its international loans, and poverty was endemic as economic and democratic institutions collapsed. Plunged into a deep recession in the 1980s, the Philippines suffered from what came to be known as crony capitalism, as President Marcos built up a monopolistic system that favored his relatives and associates. Marcos's removal from office ushered in the more progressive Aquino administration, which introduced vital reforms such as a liberal Foreign Investment Act, a Comprehensive Agrarian Reform Law, and the privatization of public companies. Then, under Ramos, the government embarked on a



During the American occupation, the Philippines primarily supplied the U.S. with agricultural products. Today, the agricultural sector only contributes 13.6% to the country's GDP.

development plan called 'Philippines 2000,' which enhanced privatization in key industries like banking, electricity, telecommunications, shipping and oil.

The economy slowly recovered and unlike other countries in the region, the Philippines contracted less dramatically during the Asian crisis of 1997, though inflation soared. The situation has eased since then and progressively improved..

Historically, the agricultural sector in the Philippines has underperformed, considering that it employs about 36% of the labor force even while contributing just 13.6% to the Gross Domestic Product (GDP).

Important cash crops:

🍌 Bananas

🍬 Sugar

🍍 Pineapples

🥥 Coconuts: the Philippines remains one of the world's leading producers

However, in one of the most stunning cases of environmental degradation, the Philippines has turned from being one of the world's biggest exporters of tropical hardwoods in the 1970s to being a net importer of forest products by 1990s.



This business park in Cebu is one of many which support a growing back office processing business in the Philippines. With the third largest English speaking population in the world, the country's BPO sector is forecasted to earn \$1 billion by 2010.

Industry contributes to 33.2% of the GDP, with consumer goods such as processed goods, coal, and garments dominating the manufacturing sector. Mining was once one of the predominant industries, with the Philippines blessed with minerals like copper, gold, silver, chromium and lead. The closure of several mines and crumbling infrastructure coupled with worries about environmental havoc, have led to the decline of the mining industry.

Key fact: The Philippines is the second largest producer of geothermal power in the world after the U.S. Geothermal

power accounts for about 50% of domestic power generation, followed by hydropower, which represents about 33%.

One of the most competitive aspects of the Philippine economy has been the rapid growth of its services sector since 1980. Contributing to 53.2% of the GDP, segments such as telecommunications, business outsourcing and financial services have leapfrogged into the limelight, making the country one of the fastest growing BPO (Back Office Processing) destinations in the world.

A member of the World Trade Organization, the Philippines' most important trading partners are:

 The U.S.

 Japan

 Netherlands

 Hong Kong

 China

 Singapore

According to 2008 figures, life expectancy at birth was 69.4 for males, 73.9 for women, and 71.6 years overall (*Human Development Reports*). Although health status improvement has been slow compared to other countries in the region, Filipinos are in a better state of health now than 50 years ago, according to data by the World Health Organization (WHO).

The recession and its aftermath




Economic upheaval: During the recent global recession, the Philippines found that its export industry was hard hit, and remittances also fell, as overseas Filipinos felt the pinch of the economic downturn. Faced with the challenges of declining external demand, the economy of the Philippines grew just 0.9% in 2009, a sharp fall compared to the average growth of 5.5% over the previous five years, mainly on the back of a strong services sector. At the same time, private consumption rose by 3.8%, and increased government stimulus spending to rejuvenate the economy helped support demand. Towards the latter half of 2009, remittances also rose as a series of typhoons forced Filipinos overseas to transfer more money to affected relatives. Inflationary pressures were reduced remarkably, with whole-year inflation falling to an average of 3.2% compared to 9.3% in 2008, according to the Philippine central bank.

Still, infrastructure remains a key issue. Among developing economies in East Asia, the Philippines ranks last owing to the poor quality of its railroads, electrical systems and ports. The country's creaking infrastructure received a boost with the government's stimulus, and the construction of roads, expressways and airports is expected to gather momentum over the next

few years. Despite the global economy showing firm signs of revival, it is unlikely that the new Aquino government will pamper the economy with further stimuli, given the turmoil in Greece and the Euro-zone, and especially with the new focus on reducing the country's fiscal deficit to around 3% to 5% of the GDP.

Monetary action: Along with the fiscal stimulus, the economy also received support from the central bank, with Bangko Sentral ng Pilipinas lowering its benchmark interest rates by over 200 basis steps in a series of policy actions from December 2008 to July 2009. At the height of the rate cutting cycle, the policy interest rate stood at just 4%, the lowest in almost two decades. While monetary policy is expected to continue to support economic recovery, the bank needs to be wary of inflationary pressures.

Forecasts and projections:

-  The International Monetary Fund expects the Philippines to grow 3.6% in 2010. Inflation to rise to 5%.
-  The ADB raised its growth outlook for the Philippines economy, stating that with private consumption rising, and helped by 'robust remittances,' GDP may expand to 3.8% this year.
-  The World Bank projects the Philippines will grow at 3.5% in 2010 and 3.8% in 2011.

Problems aplenty

From relative prosperity in the 1950s and 1960s, where the country was hailed as one of Asia's most impressive beacons, to the dark days of Marcos' rule, and again to the promise of today, the Philippines has lurched through time, with chaos, confusion and instability serving as constant reminders of a decayed past.

Driven by paucity of job opportunities, around six million Filipinos have found work outside the Philippines. Almost 10% of the country's GDP comes in the form of remittances sent by overseas Filipinos to family members back home. Yet, this migration of professionals is causing a severe 'brain drain' on the country.

Unrealized potential: For a country that always promised much, it seems that for the Philippines potential has never matched performance. Corruption has been a deadly poison that has sunk its fangs deep into the very fiber of its society. Almost all of the country's leaders from Marcos to Estrada have succumbed to the dark side, and the country's political scene remains tumultuous despite the optimism surrounding Aquino's 2010 win. The U.S. continues to be the Philippines' biggest ally, and relations with China and old rival Indonesia are improving, although Malaysia

remains a testy neighbor. Rising economic growth, however, has not resulted in better standards of living, with 22.6% of the population still subsisting on less than \$1.25 a day.

What's more, concerns remain over the country's ability to sustain its growth, especially as the U.S. remains the Philippines' largest investor with more than \$6.5 billion in total Foreign Direct Investment (FDI). Moreover, with one of the highest population growth rates in Asia, this middle-income country is finding it increasingly difficult to lift its millions out of poverty. Urbanization has accelerated at an alarming pace, and with the country located on the Pacific Ring of Fire, the Philippines has had to cope with natural disasters like typhoons, volcanoes, landslides and earthquakes on a frequency that would test even the most developed and mature economy.

El Nino's impact: In one of its reports, the ADB highlighted its concern that the Philippines, already in a difficult fiscal situation, gripped by high public debt and heavily dependent on exports and overseas remittances for growth, has not invested sufficiently in infrastructure and social sectors. Also, the El Nino effect has been playing havoc on the Philippines' fragile ecosystem. There have been long sustained periods of drought that have caused significant problems for the agricultural sector, and the impact of El Nino, it is feared, may also constrain the supply of power.

The biggest challenge for this archipelago will be to reconcile its fragile ecosystem and equally fragile political structure, while at the same time sustain a growing populace on the wealth that its economic growth will bring. It seems a test of fire. For this predominantly Roman Catholic country, one thing remains - faith. Amidst the breathtakingly beautiful sands of the Philippines, as the strains of the national anthem drift through the air, the echoes of Aquino's words hover. Perhaps, faith is what the Philippines survives on.



Manila, the 11th most populous metropolitan area in the world, continues to be a fast growing center of the country's economy.

“Faith is not simply a patience that passively suffers until the storm is past. Rather, it is a spirit that bears things - with resignations, yes, but above all, with blazing, serene hope”- Corazon Aquino, President of the Philippines, 1986-1992. 🌍

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