

The Philippines: An Analysis  
**AHK World Business Outlook Survey 2015-2019**  
German-Philippine Chamber of Commerce and Industry (GPCCI)  
AHK Philippinen



Deutsch-Philippinische  
Industrie- und Handelskammer  
German-Philippine Chamber  
of Commerce and Industry

 **PartnerInThePhilippines**

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## AHK World Business Outlook Survey 2015-2019

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The AHK World Business Outlook Survey is based on a regular DIHK survey among member companies of the German Chambers of Commerce Abroad, delegations and representative offices (AHKs). This study focuses on the surveys conducted annually in the Philippines during 2015-2019 and encompasses the feedback from about 130 companies which are involved in German-Philippine economic relations. The German-Philippine Chamber of Commerce and Industry (GPCCI) is the official representation of German businesses in the Philippines; a bilateral membership organization with around 300 members; and a service provider to companies in their market entry and expansion.

## SUMMARY: Philippines – The Bullish Economy

The 2019 AHK World Business Outlook survey reiterates the German companies' bullishness regarding the Philippine market despite global uncertainties and local policy adjustments.

According to the study, more than 70% of respondents evaluate their current business situation in the country as "good". This is a 6% increase compared the last year's survey. Similar positive figures persist when it comes to business expectations in the next 12 months with almost two-thirds anticipate growing business opportunities. Additionally, more than 53% say that they intend to increase their workforce.

Investment spending remains robust, with almost a half (49%) of participants report that they have increased expansion plans within the next 12 months. Additionally, 42% of the respondents claim to have the same amount of investments in the pipeline as last year. Although high, these positive numbers are lower than last year. Underlying reasons – on the local setting – are policy uncertainties such as the final structure of a corporate tax and fiscal incentives, and on a global scale – increasing challenges to international trade.

The companies involved in German-Philippine businesses relations continue to face challenges. A plurality of respondents (46%) describes that economic policies mainly contribute to business challenges in the next 12 months. Exchange rate volatility comes in second at 36%. Sharing the third place (34%) are challenges in securing skilled labor and international / domestic market demand. Meanwhile, concerns on infrastructure seem to have lost its momentum from 3rd place last year as the government's "Build, Build, Build" program – with planned investments of up to USD 160 billion – shows its first results.

In terms of other factors influencing the companies' engagement in the Philippines, almost 70 % of the respondents refer to the inflation rate. The importance of the availability of skilled workers, particularly in technical fields on university as well as on vocational training level, almost doubled from 2017 to 2018 remaining on a high plateau with 45 % this year.

With regard to a potential EU-ASEAN free trade agreement, companies continue to emphasize the important influence of such an enhanced cooperation between the two economic zones.

Overall, the positive and confident business outlook of this survey reflects the view of respondents engaged in German-Philippines business where the trade volume has increased from USD 3.9 Billion in 2008<sup>1</sup>, when GPCCI was founded, to USD 7.4 Billion in 2018<sup>2</sup>.

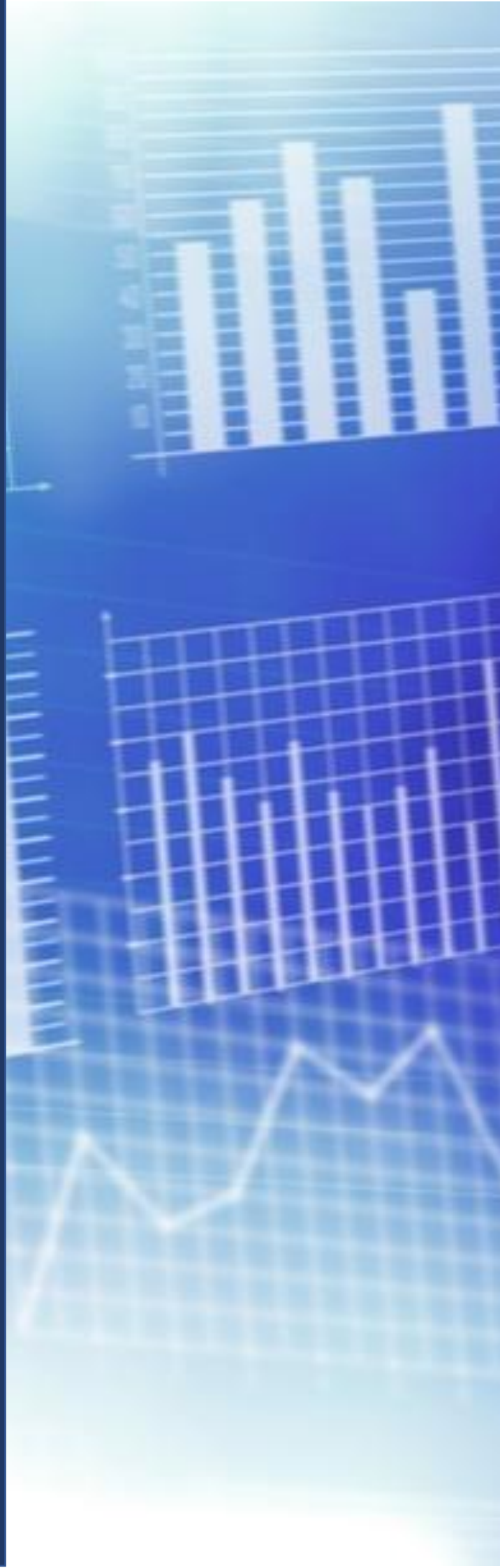
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<sup>1</sup> (2008) Außenhandel, Statistisches Bundesamt, pg. 29

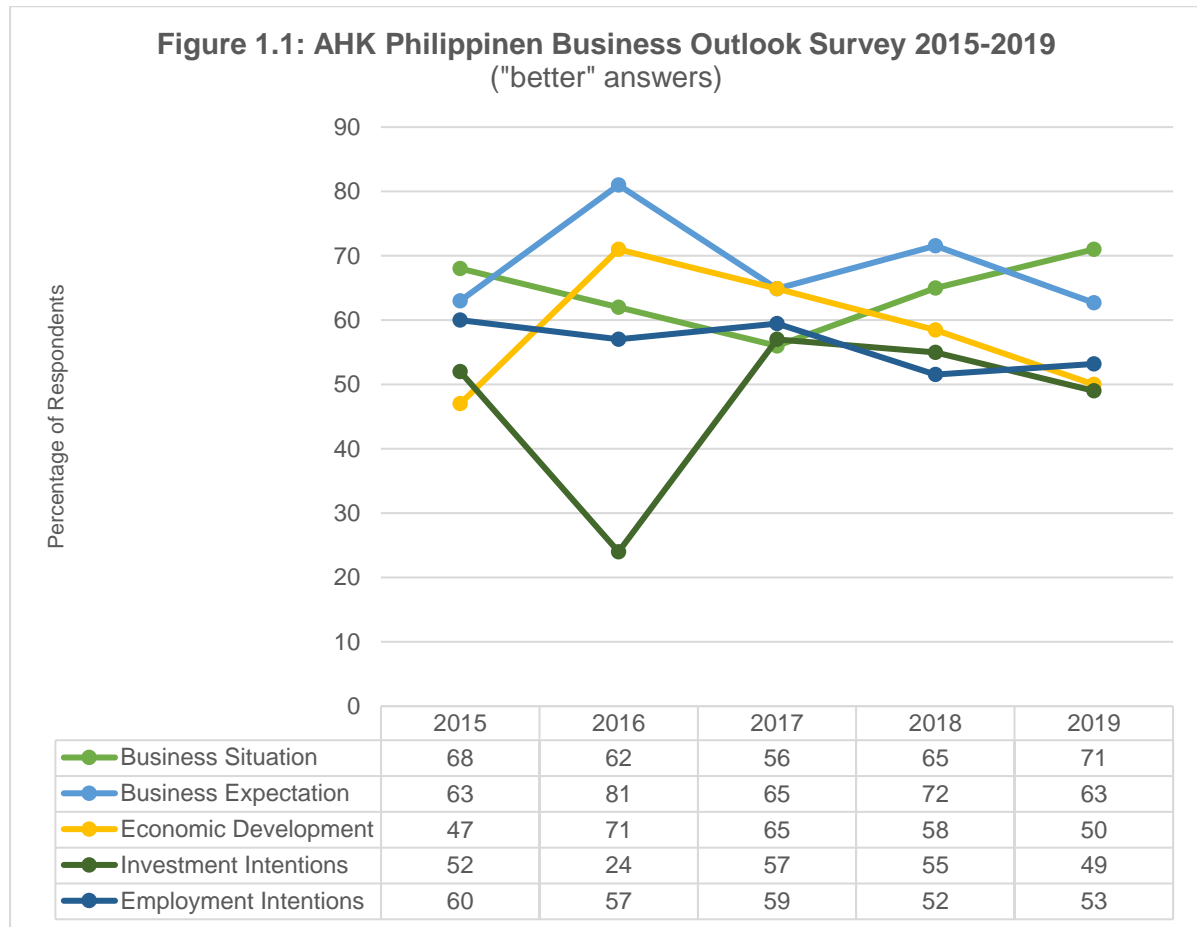
<sup>2</sup> (2018) Außenhandel, Statistisches Bundesamt, pg. 2

# Part 1

## GENERAL EVALUATION



## 1.1 Overall Analysis

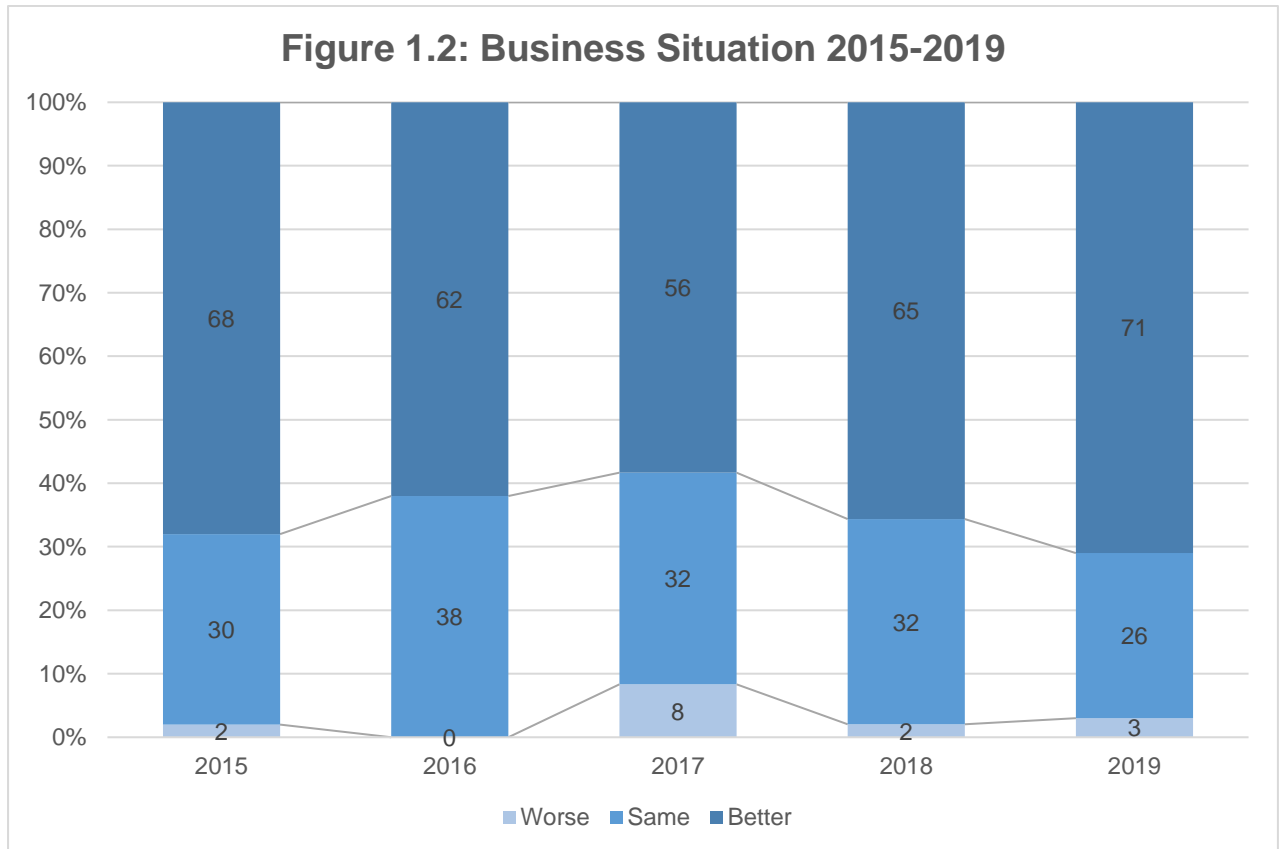


The chart above shows the overall results of “better” answers on the primary inquiries in different issues such as: business situation, business expectations, economic development, investment intentions, and employment intentions on the World Business Outlook Survey from 2015-2019.

The figures regarding the current business situation and employment intentions are on positive trends while business expectations, economic development, and investment intentions shows a downtrend. The succeeding parts of this study shall look unto these in-detail and further understand the underlying causes of these results.

## 1.2 Business Situation

**Question: What is your company's general situation by present judgment?**

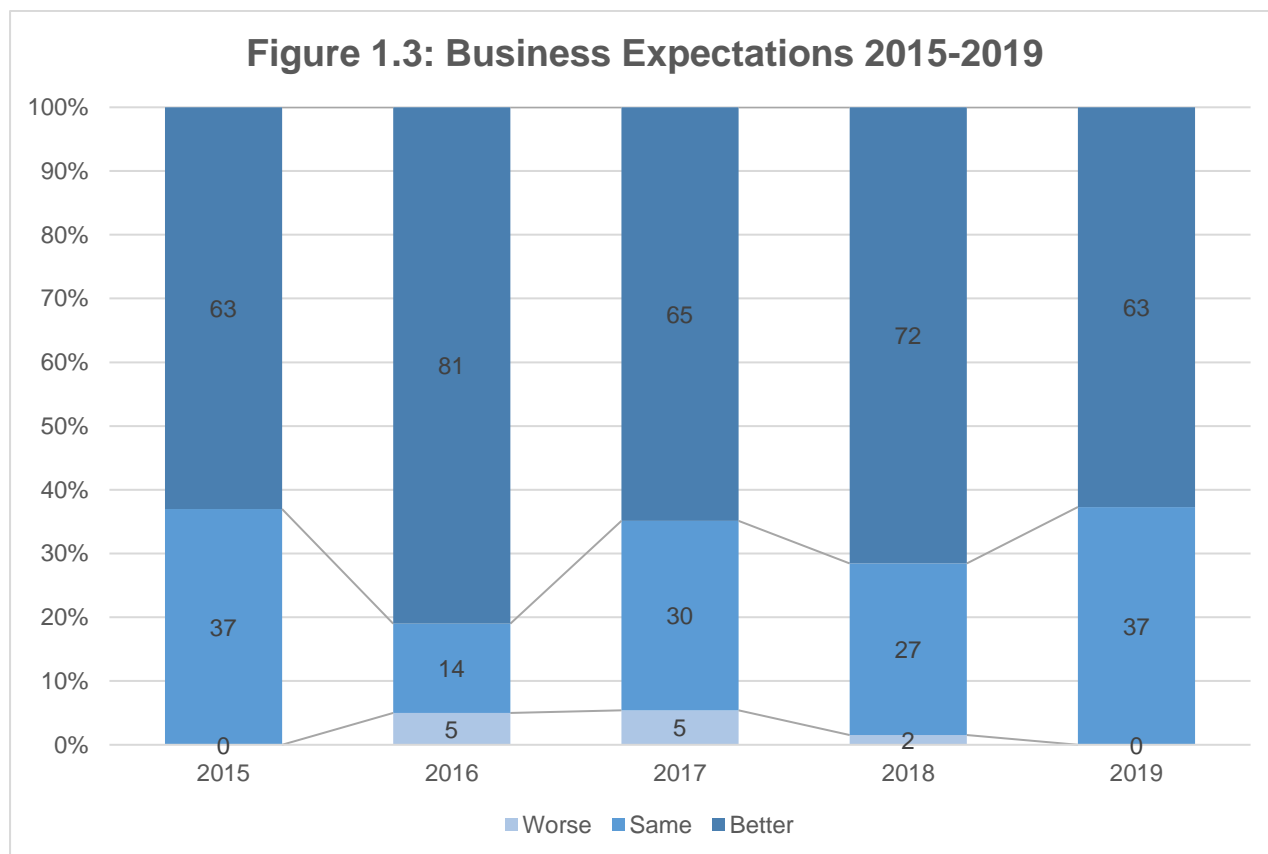


AHK Philippines, World Business Outlook Survey Results 2015-2019, in percent

About 71% of the participating firms evaluate that their current business situation in the country at a “better” state than last year. This shows a notable increase from 2017 and 2018 with figures of 56% and 65% respectively.

### 1.3 Business Expectations

**Question: What is your company’s general situation from now on: expected situation by the end of the next 12 months?**

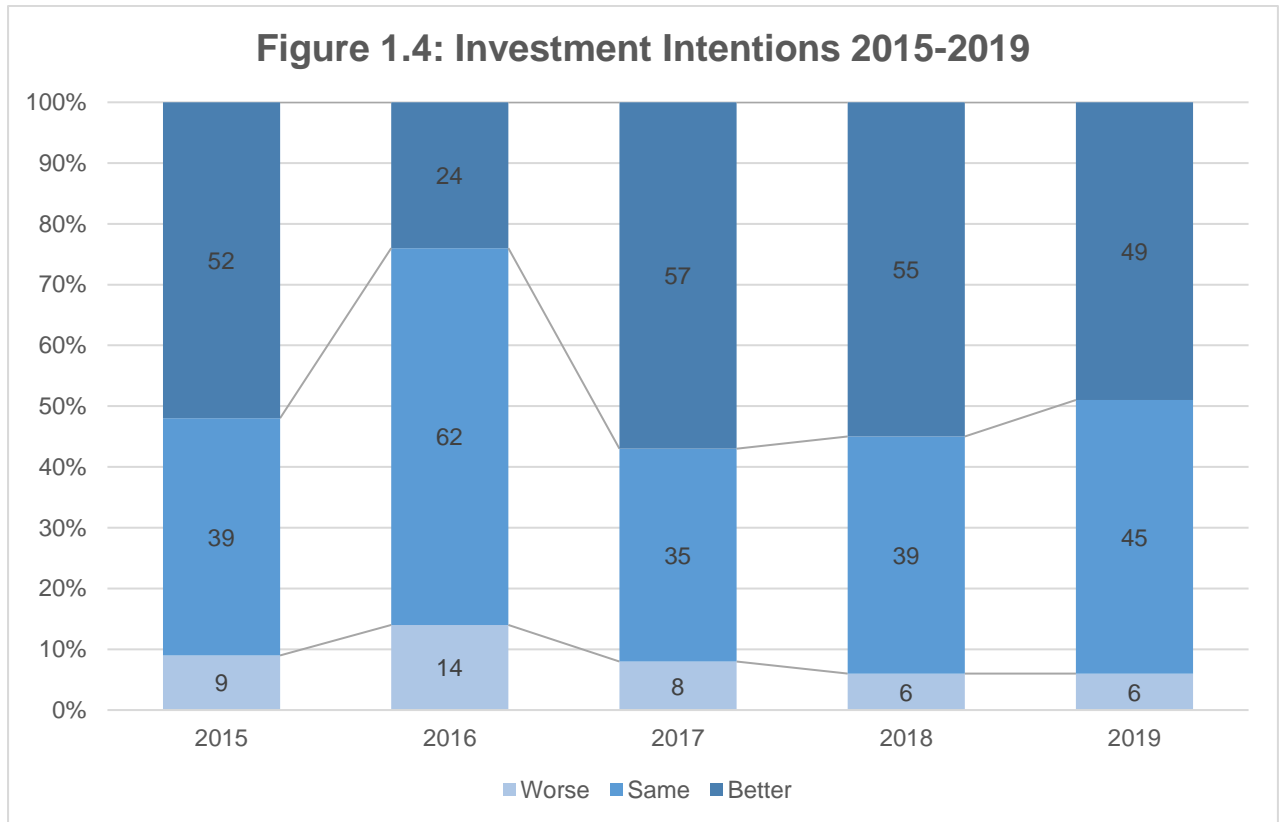


AHK Philippines, World Business Outlook Survey Results 2015-2019, in percent

Asked for the expected company situation in 12 months, the majority expects that the business situation will continue to be better. However, the 2019 data shows a downtrend from last year with figures declining from 72% to 63%. Noticeably, the study shows that the greatest number of “better” votes (81%) was seen in 2015-2016 when the Philippines experienced a positive development on its economy as the Gross Domestic Product (GDP) growth reached up to 7.1%.

## 1.4 Investment Intentions

**Question: What is your company's expected capital expenditures and investments in the next 12 months?**



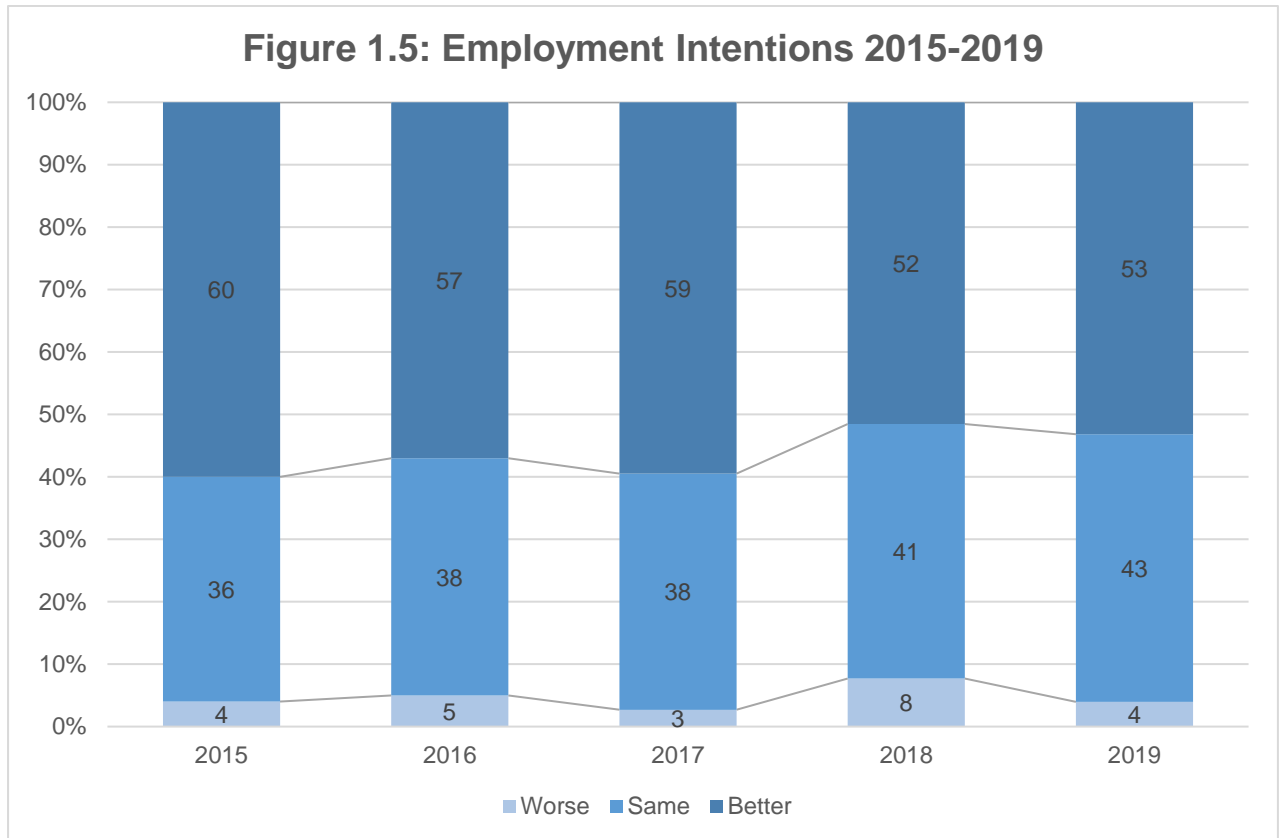
AHK Philippines, World Business Outlook Survey Results 2015-2019, in percent

Capital expenditures and investments are much needed for a growing economy like the Philippines. The respondents – with the intention to invest more – amounts to about 49%. Although high, the 2019 data shows 6% less than the previous year. The worries on unsolved international trade tensions between the US and China and uncertainties brought by expected reforms for the 18<sup>th</sup> Congress caused this decline. Furthermore, the strong impact of the national election on investment intentions was already observed during the presidential campaign in 2015-2016 when the investment figure of the “investing more” dropped down to 24 %.



## 1.5 Employment Intentions

**Question: What is your company's expected workforce one year from now?**

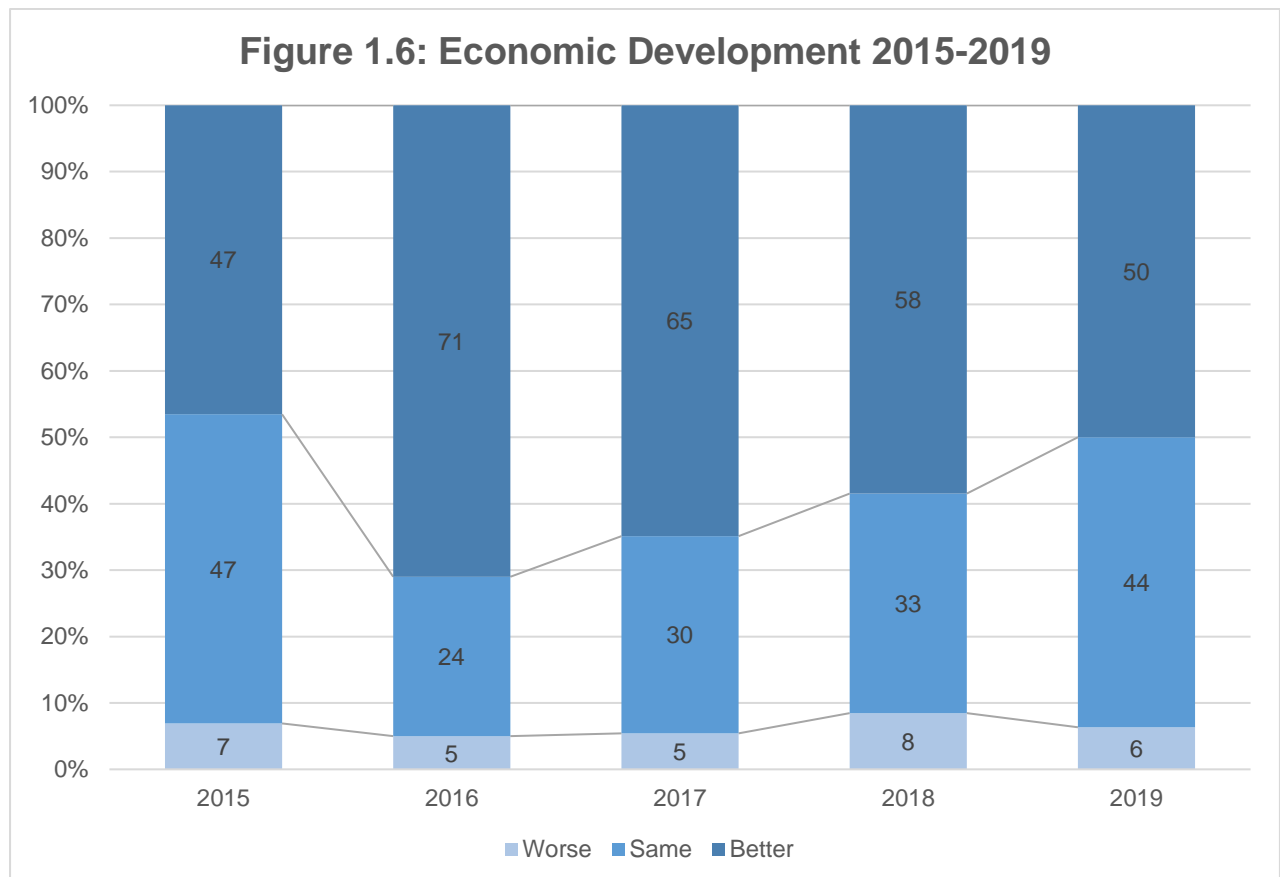


AHK Philippinen, World Business Outlook Survey Results 2015-2019, in percent

The number of companies which expect to extend their workforce grew to 53 %. On the other end, the number of firms – which foresee less workers – halved from 8% to 4%. The interest to recruit more shows that the planned investments are not only linked to new machinery and automatization, but also to sectors which are workforce intensive.

## 1.6 Economic Development in 12 months

**Question: What is your assessment of the expected situation by the end of the next 12 months regarding the overall economy?**



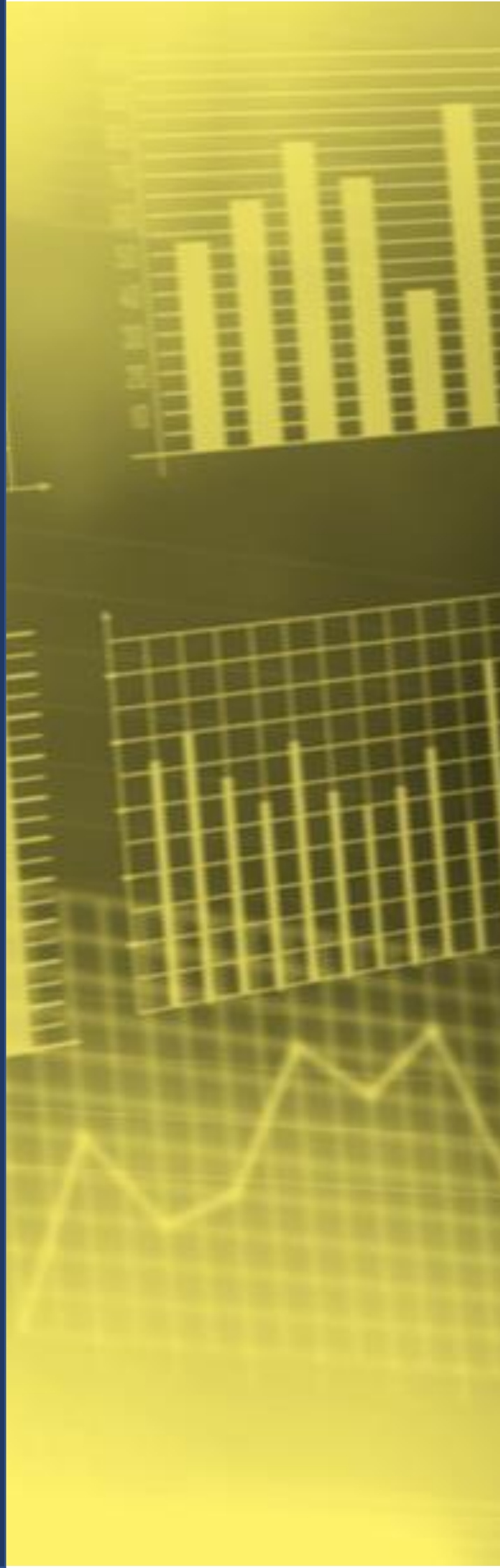
AHK Philippines, World Business Outlook Survey Results 2015-2019, in percent

Analyzing the expectations of the respondents on the overall growth of the Philippines in the next 12 months shows a continuous decline of “better” answers while staying above 50% of the total respondents.

As observed in the past years, the number of companies expecting the “same” situation increased to 44% while respondents expecting a “better” situation decreased. Similar to the other forecasting of the survey, companies were cautious about the next 12 months as they await the outcome of the mid-term elections in the Philippines and closely observing global trade developments.

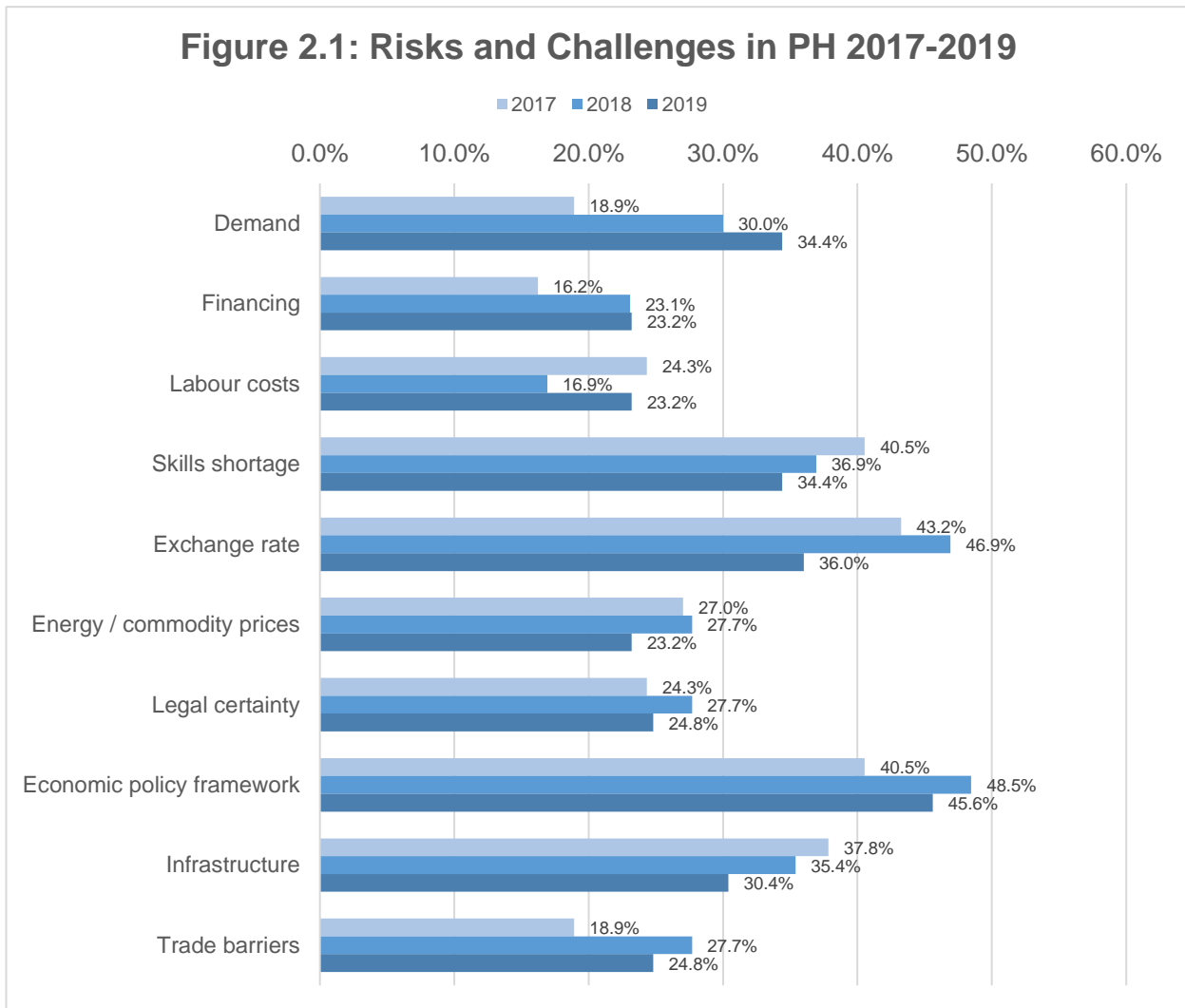
# Part 2

## ISSUES & CONCERNS



## 2.1 Risks and Challenges

**Question: Please try to assess the influence or the importance of the following factors for your company’s engagement in the country in terms of policies and regulations:**

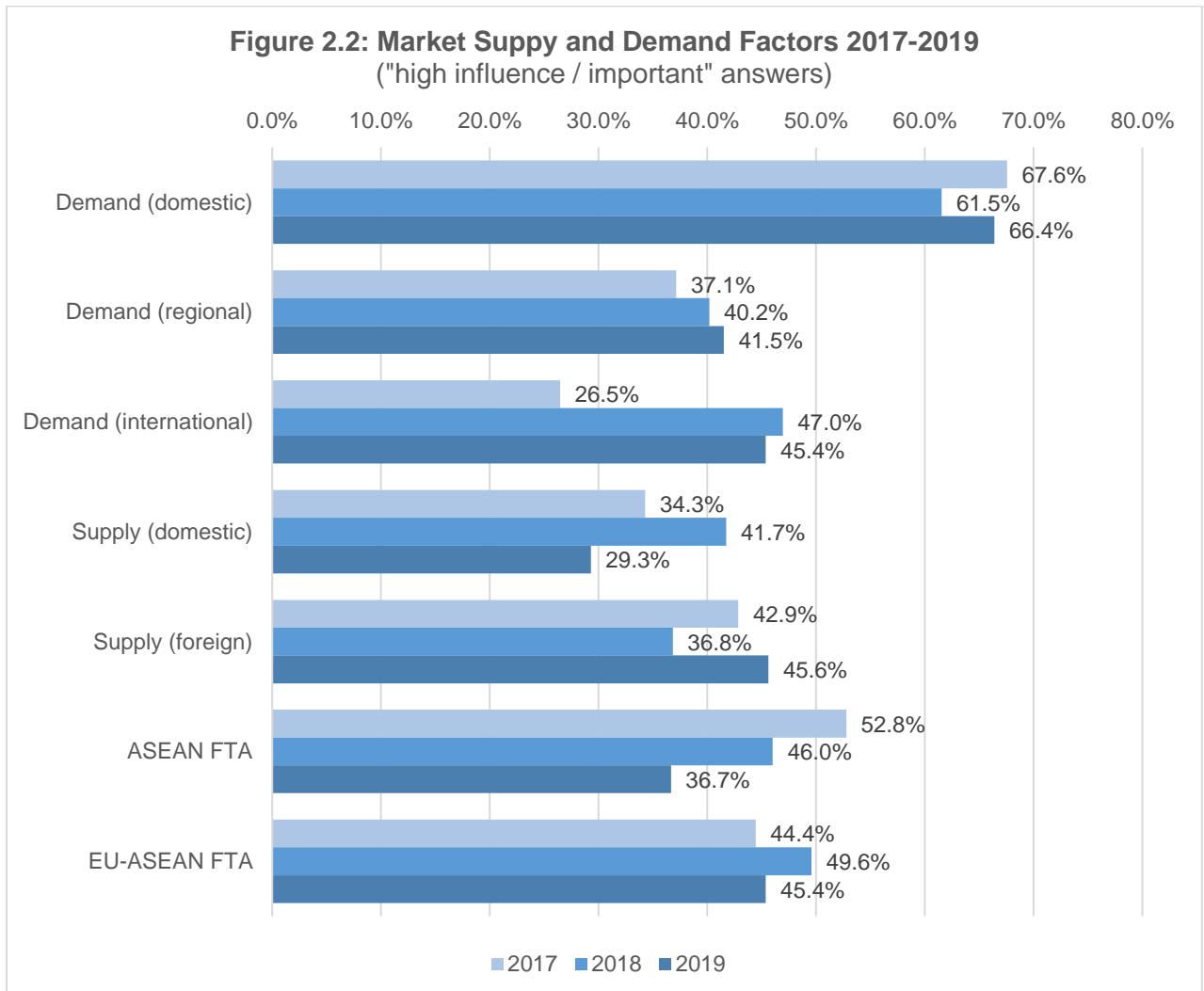


AHK Philippinen, World Business Outlook Survey Results 2017-2019

In terms of assessing influence of regulatory-related risks to businesses in the country, the chart above shows that the respondents continue to face challenges in 2019. Economic policies are seen to be one of the main business challenges at 46%. This also holds true in 2017 (41%) and 2018 (49%) where this was seen to be among the top issues compared to the other fields. Meanwhile, exchange rate volatility comes in second at 36% but is 11% lower than last year. Sharing the third place (34%) are challenges in securing skilled labor and potential volatility in international / domestic market demand.

## 2.2 Market Supply and Demand Factors

**Question: Please try to assess the influence or the importance of the following factors for your company's engagement in the country in terms of market supply and demand:**

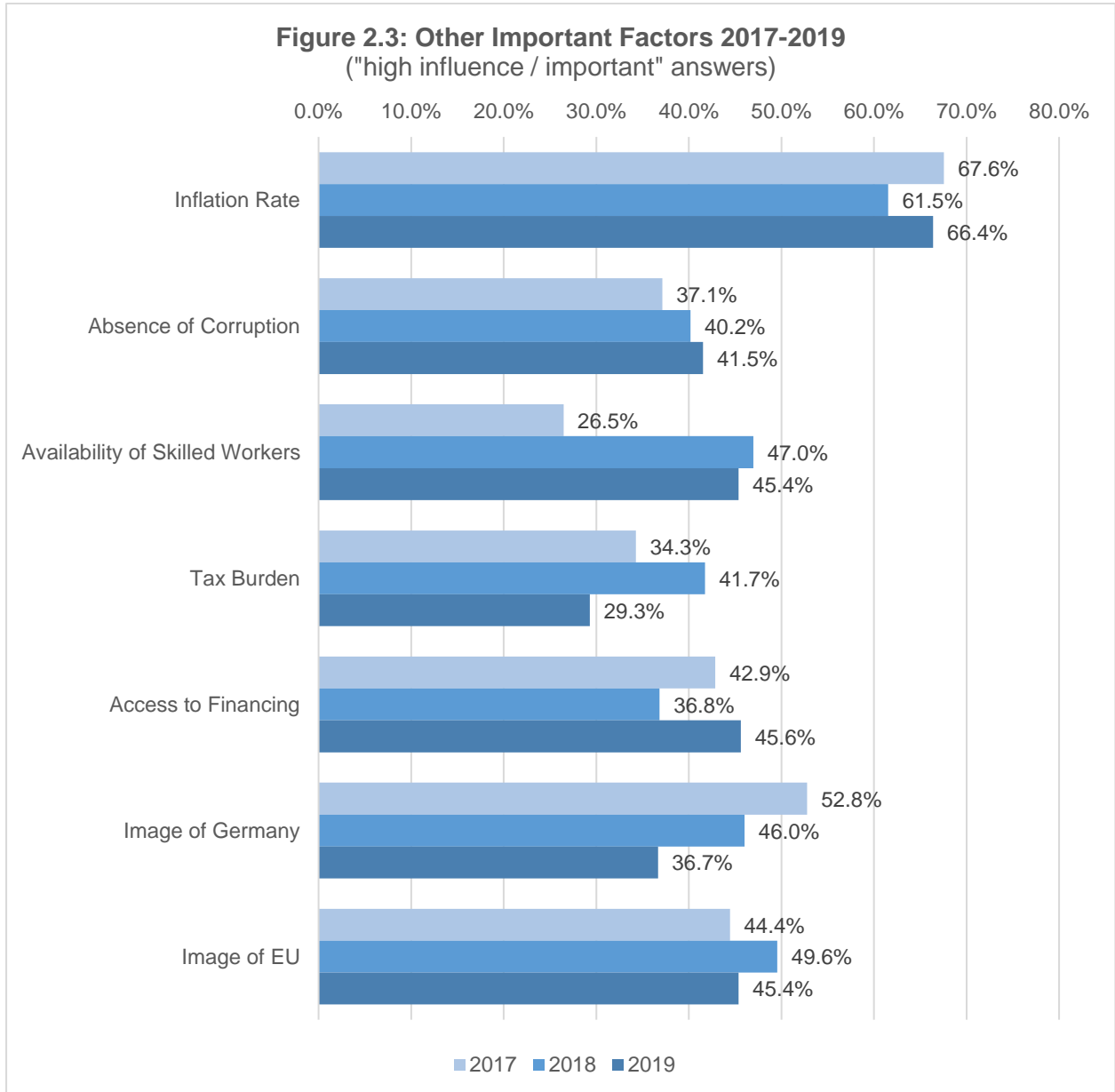


AHK Philippinen, World Business Outlook Survey Results 2017-2019

In terms of market demand and supply factors, domestic demand still stands at the top spot for the participating firms in 2019 while regional and international demands are also considered as important parameters. With regard to free trade agreements (FTA), the respondents continue to emphasize the important influence of such cooperation. While participants see less importance of the ASEAN FTA decreasing from 2017 to 2019, they continue to see that a potential EU-ASEAN FTA would strongly influence their business engagement in the country.

## 2.3 Other Important Factors

**Question: Please try to assess other factors influencing your company's engagement in your country:**

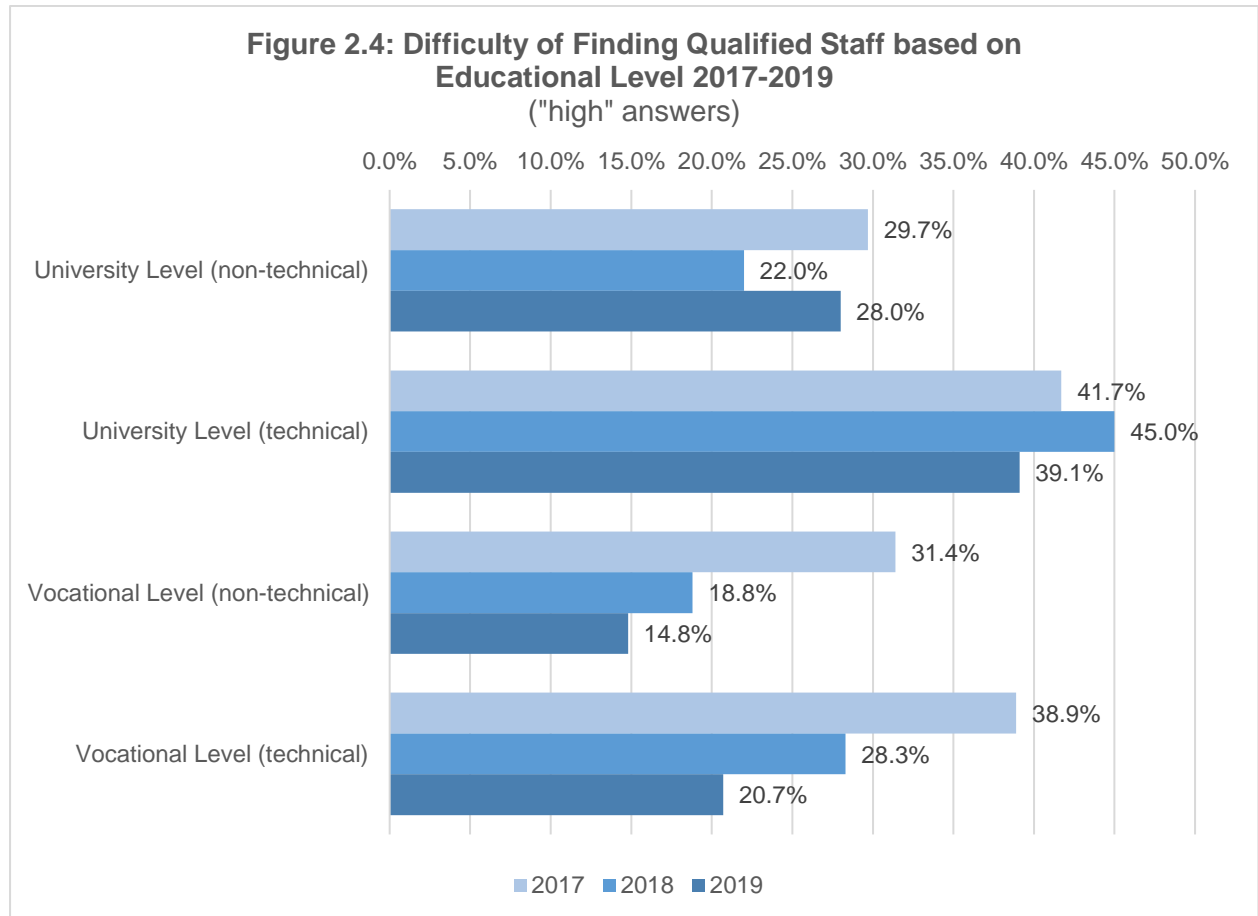


AHK Philippinen, World Business Outlook Survey Results 2017-2019

Assessing other factors concerning the participants' business activities in the Philippines, inflation rate – under the impression of its peak in 2018 – continues to be at the top spot in 2019. Another important factor is the availability of skilled labor where the importance almost doubled from 2017 to 2018 and stays high at 45 % in 2019.

## 2.4 Workforce / Education-related Impact

**Question: How would you rate the difficulty in finding qualified staff based on education?**



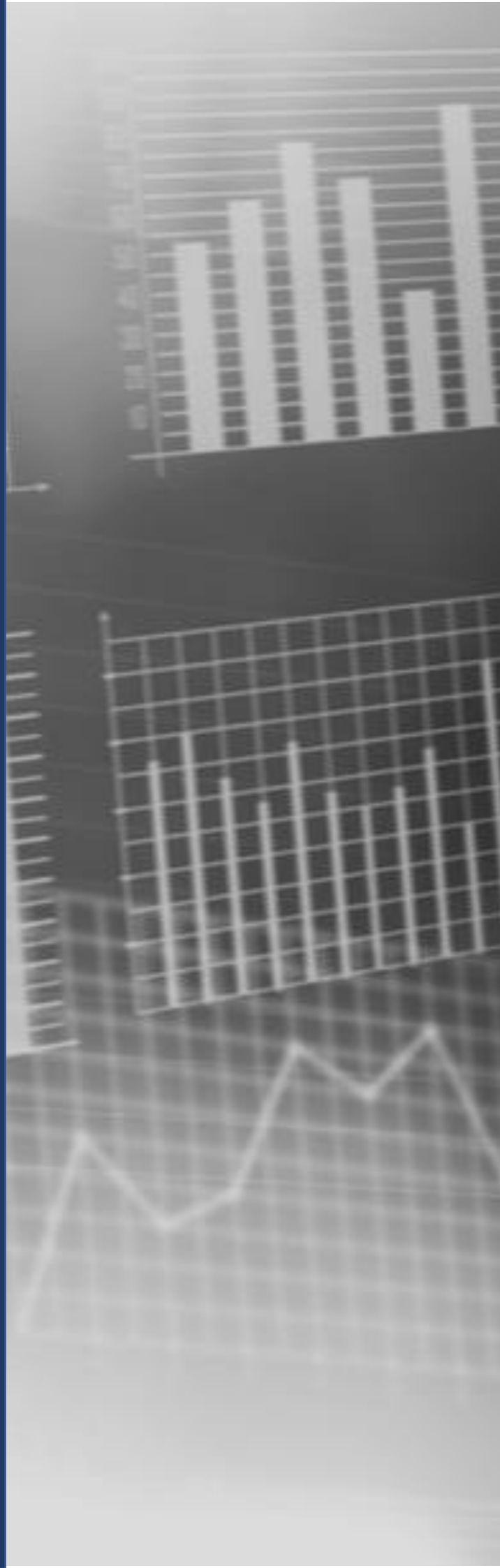
AHK Philippines, World Business Outlook Survey Results 2017-2019

Difficulties in finding the right individual still possess a great concern among participants. One of the reasons is the existence of skill mismatch when employers hardly find appropriate employees. This reflects to the result of the survey where participating firms find it difficult to hire qualified technical university level graduates. These figures are particularly concerning as the country intends to bring more high added value activities into the country for which high skilled employees are needed.

With regard to the vocational level graduates, the figures have been decreasing. It is still uncertain if this is a trend was caused by the newly introduced K-to-12 program and if the trend shall continue in the next years.

# Part 3

## FINAL REMARKS





### 3.1 Recommendations

The figures presented in this study suggest that a significant response from the government is needed to make the country more attractive to more domestic and foreign investments.

- a) While the expected reintroduction of the second package of the comprehensive tax reform program (TRABAHO) in the 18<sup>th</sup> Congress remains to largely contribute on the ambiguity of investors, this also presents an opportunity for the government to explore and create a more attractive fiscal incentive structure for both existing and incoming firms. Furthermore, an effort to expedite the lowering corporate income tax rate – together with an attractive incentive framework – could make the country immediately more competitive compared to its neighbors.
- b) The implementation of the rules and regulations for the Ease of Doing Business / Anti-Red Tape Act need to be promulgated fast, unambiguous and transparent.
- c) The passage of reforms related to the relaxation of restrictions for foreign investments will further make the country appealing to investments. Such reforms are the amendments to the Retail Trade Liberalization Act of 2000, Foreign Investment Act of 1991, and Public Service Act (Commonwealth Act No. 146) will further improve the country's external trade performance, bring in more competition and introduce new technologies in the country.

### 3.2 GPCCI's Message and Commitment

Overall, the results of this study reflect the general economic perspective of the responding firms. While they remain very bullish in the country, it is important not to disregard their needs and concerns.

GPCCI-AHK Philippinen, with almost 300 member companies, shall continue to support and promote the bilateral business relations between the Philippines and Germany.

## Acknowledgements

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