Leadership & Democracy Lab

Short-Term Risk Assessment Analysis

Political Risk Assessment
Mitigating Foreign Investment Risk in the Philippines

Prepared by the Leadership & Democracy Lab, University of Western Ontario

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ABBREVIATIONS

AEC	ASEAN Economic Community
APEC	Asian-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BPO	Business Process Outsourcing
BRIC	Brazil, Russia, India, China
DICT	Department of Information Communications
EUR	Euro
EU	European Union
GDP	Gross Domestic Product
HR	Human resources
ICT	Information Communications Technology
MILF	Moro-Islamic Liberation Front
MNC	Multi-national corporations
NDCC	National Disaster Coordinating Commission
NDPA	National Disaster Preventative Agencies
NGO	Non-Governmental Organization
NLRC	National Labor Relations Commission
PHP	Philippine Peso
PPP	Public-Private Partnership
PR	Public Relations
PTS	Philippines Transport System
TPP	Trans-Pacific Partnership
USD	United States Dollar
WHO	World Health Organization

Executive Summary

As BRIC countries—Brazil, Russia, India, and China—become less favourable for investors, other developing countries grow in attractiveness.[1] Many of these countries have stronger economic growth and a mix of the industries to provide long-term stability. The Philippines is one such country. It currently maintains strong GDP growth and a movement in the government toward reform and stability, both of which well-position the country for foreign investment. This report outlines the potential investment risks that corporations will face in the Philippines, and it provides a range of mitigation strategies to help minimize this risk and maximize return on investment. Each section of the report is broken into three components:

- The nature of the risk;
- An evaluation of the risk and its relationship with the technology industry; and,
- Strategies to mitigate the risk and increase investment security.

The report consists of six sections, each of which impact technology firms investing in the Philippines.

- **Economic risks:** Financing investment with a strongly-fluctuating peso, and operating within the ASEAN single market.
- **Legal and governance risks:** Conducting business in a country with an unpredictable judiciary and a corrupt government.
- **Labour risks:** Hiring and managing employees with uncertain labour regulations, high employee turnover, and frequent labour lawsuits.
- **Urbanization and transportation risks**: Moving people and products with insufficient infrastructure, rising urban populations, and a lack of funding and resources.
- **Community risks:** Controlling actors and issues such as an increasingly educated society, civil unrest, and natural disasters.
- **International risks**: Addressing the influence of and relationships with ASEAN members, China, and the United States.

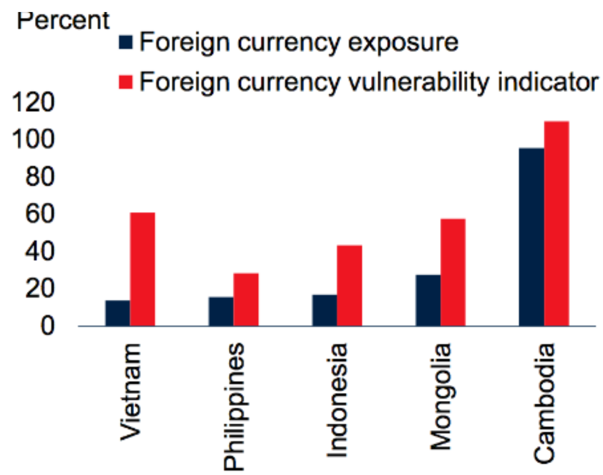
The Philippines will elect its next president in May 2016. Regardless of who is elected, the overall situation in the Philippines is expected to remain similar to how it is represented in this report. A democratic transition of presidential power, which has successfully occurred on fifteen previous occasions, should not impede investment outlooks for businesses in the Philippines. Outlined on the subsequent page is a risk mitigation chart that summarizes the key sectors that the authors believe are essential for technology firms and investors to consider in the Philippines. Although the scope of the research is limited to the technology sector, we are certain that our analysis can also be applicable to other industries.

The first rice harvest since Typhoon Yolanda. [i]

Mitigation \ Risks	Economic			Legal			Labour			Transpor-tation		Community			Interna-tional	
	Currency Inconvertibility	ASEAN Single Market	Corruption	Overwhelmed Judiciary	Corruption	Breach of Contract	Unionization	Labour Action and Lawsuits	High Employee Turnover	Urbanization	Inadequate Public Funding	Natural Disasters	Civil Unrest	Increasingly Educated Workers	Chinese Relations	U.S. Relations
Alternative dispute resolution				●		●		●								
Avoid interactions with gov't					●											
Competitive wage rates							●		●					●		
Community outreach													●			
Debt and equity financing in U.S.	●															●
Diversify investment opportunities		●													●	●
Diversify products and services	●	●														
Due diligence during negotiations						●	●									
Enhance PR & HR activities								●								
Favour reputable clients						●										
Fund housing developments							●		●	●						
Futures contracts / hedging	●															
Improve health and safety stnd.							●		●							
Language familiarity		●												●		
Lobbying government officials			●								●	●				
Locate strategically												●	●			
Pool resources with peers											●					
Private transportation networks									●	●	●					
Proactive, preventative strategies												●	●			
Provide leadership opportunities							●		●							
Relationships with social groups												●	●			
Use modern technology														●		
Use DICT as advocacy tool			●												●	●
Use local lawyers					●											
Use public-private partnerships		●									●					

Economic Risks

Generally speaking, economic risk can be described as the likelihood that an investment will be affected by macroeconomic conditions such as government regulation, exchange rates, or political stability (most commonly in a foreign country).[2] By virtue of the relationship between businesses and the economy, the technology sector is not isolated from economic risks. As seen during the 1997 Asian financial crisis, a macroeconomic event can trigger momentous political decisions that severely alter domestic regulatory practices for businesses in the region.[3] This section, however, will focus on two major economic risks: currency inconvertibility and the proposed ASEAN single market, that pose grave concerns to technology companies in the Philippines.



Foreign currency exposure and foreign currency vulnerability indicators, 2013.[ii]

CURRENCY INCONVERTIBILITY

As the U.S. dollar (USD) strengthens, investors will continue to seek higher returns in the American and the Philippine economy with further outflows of foreign capital, causing the peso to continue falling.[4] As the USD appreciates, all goods priced in USD will become more expensive—a serious problem for the Philippines since it receives the second-largest number of imported goods from the US. Costlier goods and inflation will only strain the Philippine economy by making it more expensive for businesses to operate in the country.

Most multi-national corporations (MNCs) operate using either the USD or the Euro (EUR) as their home currency. This home currency is then exchanged to Philippine pesos (PHP) when MNCs invest in the Philippines, or conversely PHPs are converted to the home currency when MNCs extract money from the country.[5] Businesses cannot necessarily change their strategy based on current exchange rates. This often results in companies having very limited options to combat ever-changing exchange rates.

Mitigation Strategy

There are a few steps that businesses can take to lessen the impact of changing currency exchange rates. These strategies relate to the *transfer* of currency, not the *devaluation* of currency, which is regulated by the central bank and market forces.[6] First, companies can buy futures contracts so that there is more stability and predictability when they convert cash. Second, companies should seek debt and equity financing in the US. Not only are the U.S. markets more stable than elsewhere, but companies, whether American or not, would benefit when they convert the USD into PHP. Lastly, firms should look to diversify where they sell their products or services. Many technology firms have utilized this natural hedging strategy to diversify their businesses by engaging in favourable Philippine business process outsourcing (BPO) practices.[7,8] By not concentrating too heavily on the Philippines and instead operating in multiple countries, MNCs can use a favourable exchange rate in one country to compensate for an unfavourable exchange rate elsewhere.

ASEAN ECONOMIC COMMUNITY (AEC)

Despite delays at the end of 2015, the much-publicized AEC is predicted to launch in the near future.[9] The AEC has been coined as ASEAN's "EU moment," when member countries move toward economic integration, creating a common market with a combined gross domestic product (GDP) of $2.4 trillion. The business community, unsurprisingly, is eagerly anticipating an intra-ASEAN market with reduced tariffs and freer flow of goods, services, and investment across borders.[10]

As ASEAN nations begin further integration into the AEC, many risks emerge for firms located in the Philippines. First, conflicts are bound to materialize amongst governments, businesses, communities, and the Secretariat governing the single market system.[11] This can lead to annoyance and frustration by businesses as they can now be held liable to many new international actors. Second, there is a risk of changes to regulations in the technology industry to adhere to the new ASEAN standard. This can lead to additional risks of taxation and wage rate changes that can be imposed directly against the wishes of the Philippine government.

Third, to satisfy the needs of the AEC, the risk of increased corruption and market distortion becomes apparent. Having many non-democratic countries within the AEC as well as the Philippine government can make investments in the region more precarious. Lastly, businesses should question the feasibility of the AEC in its current state.[12] The AEC is problematic because it pins the tenure of domestic politicians against the longevity of the AEC program.[13] If new domestic politicians are elected, policy objectives of that nation will change, inevitability altering the long-term objective of the AEC, which provides no predictability for business regulations and practices.

Although the AEC poses many potential problems for businesses ane technology companies in the Philippines, the Philippines marketplace possesses a few unique opportunities that many other regional countries cannot offer. With these opportunities, businesses operating in the Philippines can minimize exposure to the risks associated with the installment of the AEC.

Physical currency from the Philippines.[iii]

ASEAN member states.[iv]

Mitigation Strategy

First, the Philippines has a surplus of labour and many workers who have English as a first language. Language familiarity will make it cheaper and easier to deal with local businesses, hire employees, and interact with the government officials. Additionally, the Philippines shares many aspects of American culture.[14] As such, industries serving western nations, such as call centres, are booming because companies find it cheap and easy to train workers.

Second, the Philippines is well positioned to capitalize on the migration of low-cost manufacturing out of China in the longer term, especially in electronics.[15] An influx of investment opportunities will offset the increased business regulations. Furthermore, in late January the legislature passed the president's flagship public-private partnership (PPP) programme that will remain in place under the new government following the May 2016 elections.[16] The Aquino government remains optimistic that the PPP will increase predictability and security to business-government relations amidst an election year and the launch of the AEC.

Lastly, technology firms can benefit from the recently established Department of Information Communications and Technology (DICT), which can advocate and lobby for business interests in the government.[17] In addition, the DICT is tasked to grow the industry by promoting investment opportunities for ICT firms and ease the process to create local and global partnerships. Establishing international linkages will expand the Philippines technology sector by attracting more investment opportunities for ICT firms. The Philippines is well-positioned within ASEAN to secure future investments from the new single market association.[18] The DICT measure will also be consistent with other ASEAN economies that include cabinet-level departments for their ICT sectors, especially necessary for the BPO industry.[19]

Governance & Legal Risks

In 1987, the Philippines ratified its most recent constitution and codified its status as a "democracy under the rule of law and a regime of truth, justice, [and] freedom…",[20] but so far many aspirations have yet to be achieved. The Philippines scored lower than many of its regional peers for maintaining political stability and upholding the rule of law, making it an unpredictable business environment. Corruption throughout the government remains a serious concern, and going through the courts is a slow and costly process. Nevertheless, many of the obstacles presented by the country's governance and legal systems can be mitigated, proving that the Philippines is a reasonable candidate for foreign business investment.

THE RULE OF LAW IS FLEXIBLE

The rule of law, a concept that embodies the restriction of unequal treatment under the law and the exercise of arbitrary power, is rated in the Philippines by the World Bank at 43% versus 55% for East Asian and Pacific countries and 90% for the United States (a higher percentage is desirable).[21] What this means is that when interacting with the Philippine government (and in particular the judiciary), the processes and standards applied may be neither predictable nor consistent with past applications. This uncertainty poses a risk to businesses as they are left unsure of what to expect in future interactions with the state. As well, the state is put in a weaker position for enforcing the law and maintaining stability. This is demonstrated by the Philippines' low scoring for political stability, as well as the lack of violence and terrorism (which is ranked at 23%, compared to an average of 63% for East Asian and Pacific countries and 67% for the United States).[22] These statistics tie into the relatively high levels of crime, theft, and social disorder in the country, with 11.7% of businesses reporting these factors to be major business constraints (compared to 7.4% in the East Asia and Pacific region).

Mitigation Strategy

Companies choosing to operate within the Philippines must accept the realities posed by a weak rule of law and a lack of stability. This risk is difficult to mitigate because the Philippines is an unpredictable country in which the government may act arbitrarily and the political landscape can vary significantly. One common mitigation strategy is to rely on private security rather than the state's law enforcement agencies. Currently, 48.2% of businesses purchase private security, costing an average of 1.0% of annual sales.[23] Insurance is another form of protection that can mitigate after-the-fact damages. Finally, multinational corporations can structure their Philippine subsidiaries as a joint venture with a local business. Joint ventures give the perception of being a local operation, which may help improve public perception amongst people hostile to foreign companies. Overall, businesses operating in the Philippines can mitigate some legal risks, but there is no method of completely eliminating them.

CORRUPTION IS COMMON

72% of Filipinos felt that the government's attempts to fight corruption were either ineffective or impotent,[24] an understandable percentage considering that Transparency International ranked the Philippines as the 95th least corrupt country in 2015,[25] a downgrade from 85th least corrupt in 2014.[26] The Philippines is tied with Mexico, Mali, and Armenia; while behind neighbouring Singapore (8th) and China (83rd).

Corruption is most often seen in the form of bribery, which continues to be a common method of advancing special interests. Nearly 19% of businesses operating in the Philippines reported that they expect to give gifts to government officials in order to "get things done", and bribes are requested by government officials in 16.4% of transactions involving the government (compared to 31.2% of government transactions in the Asia-Pacific region).[27] In all, 16% of Filipinos reported paying a bribe in 2010-11, and in 2013, 10% of people reported paying a member of the judiciary[28] (contrasted with 5% of people in the United States).[29] The highest profile corruption case involving the judiciary was the 2012 impeachment of the Chief Justice of the Supreme Court following his acceptance of millions of dollars in bribes.[30]

Corruption in the Philippine political system is exemplified by its tradition of patronage. Licenses, monopolies, government contracts, and political appointments are awarded through patronage, making whole sectors of the government and economy inefficient, poorly managed, and uncompetitive.[31] The resulting impact for businesses is that they need to leverage informal networks in order to secure government contracts. However, companies must utilize these informal networks without entering transactions that could be construed as bribes. Multinational corporations can be held criminally liable in their home country for engaging in bribery.[32] In addition, companies are banned from donating to political parties,[33] so businesses need to rely more heavily on traditional lobbyists to garner government goodwill.

Mitigation Strategy

Although corruption is a serious problem, it is possible to avoid many of its impacts by minimizing government interactions and maintaining a low profile. To achieve this, corporations should focus on hiring local lawyers and consultants to ensure they adhere to local practices. This provides businesses with a local network that can be leveraged when interacting with the government without a need to resort to bribery. In particularly serious cases of government corruption, the corrupt parties can be brought to the Sandiganbayan, a special court developed purely for resolving public corruption issues.[34]

Judicial corruption is more difficult to avoid when involved in legal disputes, but it can be mitigated by avoiding the courts and opting for alternative dispute resolution methods. The Philippines has a well-developed alternative dispute resolution system, and not only does this system allow parties to avoid potentially-corrupt judges, but it is also cheaper and quicker than going to court.

THE JUDICIAL SYSTEM IS SLOW AND COSTLY

The Philippine courts are often backlogged, making their use a difficult and time-consuming process. For example, should a business encounter trouble with a contracting party and need to sue it for breach of contract, it takes an average of 580 days to complete the trial process and receive a judgment, and a further 200 days for the judgment to be enforced—more than 50% longer than other East Asian and Pacific countries, but at roughly half the cost of these other countries.[35]

President Benigno S Aquino III of the Philippines.[v]

The Supreme Court and Department of Justice in Manila.[vi]

Mitigation Strategy

Businesses can save money and time by avoiding litigation in the courts and opting for alternative dispute resolution strategies, which has in recent years become popular and well developed in the Philippine legal system.[36,37] Although negotiations, mediation, and arbitration may result in a less desirable outcome than a lawsuit (in terms of damages awarded), they are quicker and significantly cheaper. Unlike hostile litigation, alternative dispute resolution in business contexts can often better preserve business relationships.

Moreover, companies should avoid the need to litigate in the first place. For example, when engaging in contracts with other parties, the contracting party should first conduct a high level of due diligence to evaluate the other party's credibility. Businesses should also favour well-known and highly reputable companies, and use local lawyers to ensure the contract adheres to regional and local practices. By taking these steps in the beginning, businesses can avoid the hassle and cost of enforcing contracts through judicial means in the future.

Labour Risks

Since the 1990s, the Philippines has grown to dominate the business process outsourcing (BPO) industry, with many firms that target English-speaking customers by locating their call centres in the Philippines. In response to the rapid expansion of the BPO industry in the Philippines, there has been pressure on government to enact reforms; namely, improved health and safety standards, a higher minimum wage, and better work hours. Three risks and problems that are often interconnected include: uncertainty of unionization, labour action and lawsuits, and high employee turnover.

Ilocos Norte Governor Imee Marcos and Expert Global Solutions' Philippines President Bong Borja tour EGS's newly-opened call centre.[vii]

UNCERTAINTY OF UNIONIZATION

Philippine policies and regulations tend to favour the interests of investors, employers, and the overall domestic economy instead of workers. Workers, in response, have the ability to unionize, though many workers the BPO industry do not exercise this right.[38] The first BPO company to unionize was Alorica Contact Service Corporation, which entered a collective agreement in April 2015 following a picket protest in February of that year.[39] When employees choose to unionize, employers are in most cases left with the option of working with the new situation or shutting down their operations.

Labour rights is an evolving topic in the Philippines. In August 2013, Senate Bill 57 proposed to permit call centre workers the right to organize and join labour unions.[40] The bill is critical of Philippine companies failing to meet international labour standards and aims to appoint labour officers for the implementation of workers' rights provisions while assisting BPO employees facing contract violations. However, Bill 57 will not become law in its current form due to political barriers and a lack of action from the Aquino government.[41] In favour of the bill is the Trade Union Congress of the Philippines, which urges companies to allow their workers to create or join a union.[42]

Mitigation Strategy

This risk posed by labour unionization can be mitigated through fair incentive structures and the funding of community developments. By providing employees with a fair wage, job security, and sufficient benefits, they will have fewer reasons to unionize or switch to a competing firm. Salaries are a particular concern amongst Philippine BPO workers,[43] despite their salaries already being far above minimum wage.[44] Improving and negotiating wages should be conducted at the individual level to keep human resource costs low. Providing employees with pay raises when appropriate shows that the company values its employees.[45]

A group of demonstrators in Manila.[viii]

In addition to improving workplace regulations and employee morale, firms could determine whether to fund developments close to their headquarters.[46] Developing houses, schools, or even communal bike paths in close proximity to the company would reduce employee unhappiness and shift blame to other actors. Establishing a positive relationship with the community can allow firms to impact employee lives beyond the workplace environment. Having the support of employees and the surrounding community could prevent the repercussions of a toxic labour environment and high employee turnover.

LABOUR ACTION AND LAWSUITS

The Department of Labor and Employment inspects companies every two years for compliance with labour laws and standards,[47] and cases involving unfair labour practices at BPO companies are filed nearly every day with the National Labor Relations Commission (NLRC).[48] When cases are brought to court, the court appears to rule in favour of workers (one estimate shows that workers won in 60% of labour cases),[49] although this is often because management fails to abide by domestic labour laws. As outlined in the legal risk section, many firms should utilize alternative dispute-resolution mechanisms to avoid the unfavourable judicial results. Many foreign firms lack sufficient knowledge about labour laws in the Philippines, a problem that can be mitigated by hiring local human resource specialists. If there are labour disputes, the negative impacts of it can be mitigated by developing a public relations strategy.

Mitigation Strategy

A successful HR strategy could identify potential flaws in operations and prevent possible labour issues from escalating into legal action. To save costs in the long-term, companies should train highly competent human resource consultants, managers, and local labour lawyers who understand Philippine labour laws. This is crucial for effective day-to-day business and would allow opportunities for local managerial personnel to directly resolve problems on a case-by-case basis. This common mitigation strategy will solve issues in labour disputes as well as even preventing high employee turnover.

Basic steps can be taken to mitigate and prevent the risk of employment disputes through public relations (PR).

Workers in the Philippine BPO sector complain about sleep problems, fatigue, eyestrain, back pains, as well as colds and flu from bacteria on headsets.[50] Proactive companies should improve health and safety standards in addition to the maintenance of a sanitary workplace environment. This would deter distraught workers from calling for collective bargaining and unionization as well as losing employees to other companies. It is important for companies to avoid getting caught in a PR issue on labour as it can undermine productivity in the workplace and damage the public image of the corporation. Reviewing, upholding, and understanding employment and labour laws will also avoid adverse effects on the company's image and reputation.

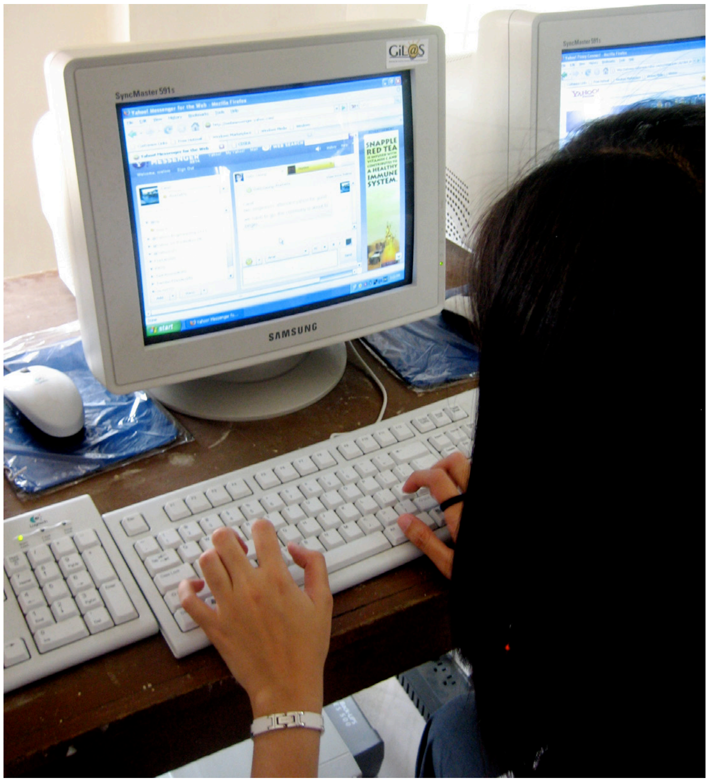
HIGH EMPLOYEE TURNOVER

BPO companies stationed in Manila find that their workers frequently change employers every two years.[51] Although there are many well-educated Filipino college graduates to fill these vacancies,[52] the costs of hiring and training workers are high. Moreover, many workers in the Millennial Generation do not see call centre employment as a viable career path that fully leverages their skills. In fact, two out of five young Filipinos leave their job due to their employer's failure to foster their leadership skills.[53] High employee turnover has a detrimental effect on firms' ability to appropriately allocate job-training funds and maintain a positive reputation. Avoiding this risk can be achieved through fair incentive structures, ensuring HR representatives are well equipped, and improving leadership opportunities.

Mitigation Strategy

With significant time and resources already allocated toward job training for new employees, it is important for companies to prioritize their workers by making them truly connected and involved in their team. Currently, 62% of Filipino millennials report that personal leadership skills are not being developed in their current organization.[54] Companies should provide opportunities to utilize these skills and support professional development. This includes meaningful prospects for promotions by ensuring locally trained and educated employees are not overlooked for potential leadership positions.

The aforementioned funding of community developments would also prevent high turnover, and would demonstrate explicit expression of company interest in participating in community projects. As well, increasing senior management positions for Filipinos instead of international representatives will indicate to employees and potential hires that they can climb up the ladder within their company. While recognizing ambition of young professionals, executives could further discuss their potential progress in the industry from being a call centre worker to part of the decision-making team. Thus, providing new opportunities will improve both employee morale and recognition, thereby encouraging workers to maintain employment within the company.



Most call centres rely on computer-savvy employees.[ix]

Urbanization and Transportation Risks

As of 2011, the Philippines Transport System (PTS) consisted of 215 000 km of roads.[55] According to the Asian Development Bank in 2011, 165 500 km of roadways were inoperative and in need of repair. In recent years, the lack of road expansions coupled with decaying roads has resulted in large-scale traffic delays. This has prompted the American Chamber of Commerce for the Philippines to claim that Metro Manila may become uninhabitable within four years.[56] As such, the inadequate transportation infrastructure poses a large risk to corporations investing in the Philippines because it results in lost economic opportunities, increased pollution, and decreased employee productivity due to congestion and delays.

There are mass transportation projects underway to improve existing infrastructure and reduce traffic congestion.[57] However, these projects are not by themselves sufficient. More money is required, meaning that the Philippines must allocate a larger percentage of its GDP to road maintenance and construction before significant changes in traffic congestion can be realized. The most significant factors that are inhibiting the expansion and crippling the maintenance of the PTS are rising levels of urbanization and inadequate financial resources available for funding transportation projects.

Traffic in Mandaluyong, National Capital Region, Philippines.[x]

RAPID URBANIZATION

Rapid urbanization is causing significant traffic congestion and delays in large Philippine cities.[58] In 1990, the World Health Organization (WHO) reported that four out of 10 Filipinos lived in cities.[59] By 2030, the WHO estimates that six out of ten people will be living in cities, and by 2050, seven out of ten people.[60] This rapid population shift, particularly in major cities like Manila, is resulting in heavy traffic congestion, which in turn makes the movement of people, goods, and services increasingly difficult. Manila is now one of the densest cities in East Asia, making it challenging for the public transit commission to cope with the high volume of users. The dense population is also impacting congestion rates at international transit hubs, including shipping ports and airports.[61] Transportation problems will only increase, as some experts point toward up to 77% of Filipinos living in cities by 2030,[62] which is estimated to cause economic losses equivalent to roughly 4.6% of GDP.[63]

Although urbanization is generally viewed as a positive indicator of growth and development, the rate at which it is occurring in the Philippines is unsustainable. As cities increase in density, the quality and standard of life in these cities will decrease unless public infrastructure projects keep pace. Moreover, as cities grow denser, transportation infrastructure will only become more strained in the event of large-scale incidents or natural disasters. Consider, for example, the APEC conference in November 2015. Due to security concerns, the government closed all major roads in Manila, effectively shutting down the city because there were no effective alternative means of transporting citizens. As Manila and the Philippines grow in international stature,

A British helicopter bringing aid to the Philippines following a typhoon.[xi]

events like the APEC conference can be expected to return to the region. Unless new investments in transportation infrastructure are made, city-wide shut downs will remain common.

Mitigation Strategy

Corporations can develop their own transportation networks for employees. This can involve building bus routes directly to the workplace, constructing light rail networks, or partnering with the local government to push for more effective public transportation. However, developing a transportation network can be costly and may result in free-riding by non-employees. A better solution is for companies to fund, either in part or whole, housing developments close to their headquarters. The homes in these developments would be exclusively reserved for employees. Providing employees with access to near-by housing would alleviate any commuting risks as well as encourage employees to remain with the company in long-term.

Assisting employees by arranging housing provides them with a tangible benefit for which they will be grateful. The Philippine real estate market is currently thriving,[64] making it expensive for low-paid or young workers to find housing. This is becoming a serious problem for the business process outsourcing (BPO) industry, particularly because these companies build their workplaces in high-profile (and in turn expensive) commercial areas.[65] The BPO sector workforce is expected to double as of 2016, which will place further pressure on the housing market surrounding BPO workplaces, making it increasingly difficult for workers to find housing.[66] BPO companies can also use employee housing to promote employee loyalty since high employee turnover is a concern at BPO companies.[67]

It will be easier for companies to develop private transportation solutions for employees living in company-designated neighbourhoods. Bussing, shared carpooling programs, and even bike paths could be implemented at a relatively low-cost to bring workers from the company housing development. Bussing is likely the most realistic transportation solution as it would be easy to implement (Manila, for example, has roughly 433 privately owned bus companies that could be chartered).[68] There are also advantages to funding a bike service (which could involve either supplying bikes, or building bike lines or paths), particularly when housing developments are built or rented close to the company's headquarters. Biking allows employees to efficiently get to work while improving their health and mental well-being, and companies can leverage bike programs to build their environmental reputation.

INSUFFICIENT FEDERAL FUNDING AND LACK OF FINANCIAL RESOURCES

Transportation developments and maintenance are impeded by insufficient government funding. The Philippines currently invests 0.6% of its annual GDP in road infrastructure. This funding is insufficient and means road maintenance and the creation of new roads is essentially unachieveable.[69] Being that 22 million vehicles use Manila's roads on a daily basis, funding needs to be reallocated to infrastructure projects. In 2014, an estimated PHP$876 billion (20 billion USD) in productivity and energy was lost due to poor transportation networks.[70] This same year, infrastructure problems were reported to have surpassed corruption as the leading economic obstacle in the Philippines.[71]

Transportation is not the only part of Philippine infrastructure that needs to be updated: power failures, water shortages, and an outdated telecommunications system are other problems that have yet to be sufficiently addressed.

There has been an increased allocation of funding to the transportation commission since 2007. Despite improvements in funding, companies continue to find transportation and infrastructure an ongoing business concern.[72] The Philippine Government stated that it intended to implement 57 infrastructure projects in 2014 (including airport improvements, highways in Manila, and upgrades to the Manila's commuter train system), but as of 2016 not a single project has been started.[73] As Philippine infrastructure continues to languish, the country remains unable to fully benefit from the potential of its growing economy and young workforce.[74]

Mitigation Strategy

Inadequate infrastructure is a significant business risk. To mitigate the risk it poses, businesses operating in the same geographic regions can form a coalition to privately invest in infrastructure. Although this will require a large initial capital outlay, companies that build infrastructure will likely see a return on their investment. Smart infrastructure investments will boost the construction sector and lead to higher productivity growth.[75] An improved transportation system can facilitate employee movement, lower the cost of shipping raw materials and goods for sale, and it can build goodwill between the investing companies and the local community.

In addition to forming a private coalition, companies can also make use of public-private partnerships (PPPs). PPPs are common in the Philippines; they are a contract between a public sector authority and a private party. They have the result of speeding investment spending on infrastructure and reducing bureaucratic bottlenecks.[76] The Philippines is currently working on 47 PPP projects, and many of these are related to transportation and road networks.[77] By partnering with public agencies, companies will have more input on which roads are built and maintained. The risk (and cost) of infrastructure development is diversified, making PPPs more feasible than self-funded infrastructure projects.

A PPP between the US Pacific Command and local schools celebrating a new renovated classrooms.[xii]

Community Risks

Companies with active community engagement can improve their reputation, employee retention, and sales. By being community leaders, companies can mitigate a variety of risks. Three risks that are most relevant to companies operating in the Philippines are: poverty, displacement, and building degradation from natural disasters; instability and potential violence from the Moro Islamic Liberation Front (MILF); and the increasingly educated population. Technology firms in the Philippines must consider ways to mitigate these risks in communities in order to build trust and collaborative relationships with local groups.

NATURAL DISASTERS CAUSING POVERTY, DISPLACEMENT, AND BUILDING DEGRADATION

Philippine communities are at continual risk of building degradation and displacement as a result of natural disasters,[78] exacerbating poverty and decreasing morale where civilians are unable to repair damaged homes or unable to travel to work on damaged roadways.[79] Businesses are important components of the communities that they operate in and can have the ability to help communities prepare, respond, and recover from disasters, and in many cases they can be more effective than the government.[80]

Poverty and income inequality are serious issues that have yet to be decisively dealt with in the Philippines.[xiii]

A family living in poverty in Manila.[xiv]

Financial and bureaucratic constraints have prevented the Philippine government from adopting effective disaster mitigation strategies, as exemplified by the main disaster agency, the National Disaster Coordinating Council (NDCC), which has taken a reactionary rather than proactive approach to disasters.[81] This gap in preventative actions leaves businesses to mitigate this risk by investing in Natural Disaster Preventative Agencies (NDPA), hazard-proofing buildings, and locating in less disaster prone areas.

NDPAs exist specifically for private sector membership or as Non-Governmental Organizations (NGOs), which aim to provide aid and resources to civilians before, during, and after tropical storms or other disasters. These agencies focus on disaster management training to help communities begin the preparation of disaster plans in order to reduce the risk of potential damage when a disaster strikes. Communities that are well prepared for natural disasters will have higher health and safety standards.[82] Companies should invest in communities where a high proportion of their employees are located and disaster agencies are readily accessible. These employees would be provided with the education, resources, and training to more accurately prepare for natural disasters and avoid subsequent issues of poverty and displacement.[83]

Additionally, to prevent the likelihood of disaster or lessen potential damage, firms should locate themselves in regions less susceptible to natural disasters. For example, avoiding locations near valleys would decrease the likelihood of flooding from high rainfall or tropical storms. Further, locating in regions such as the eastern province Isabela on the island of Luzon would be beneficial, as its location is at a lower risk of natural disasters compared to areas such as Metro Manila

Mitigation Strategy

Companies should ensure that their buildings are constructed using hazard proof materials.[84] Building construction should utilize the sturdiest designs and materials to guarantee the building will withstand extreme weather conditions to avoid costly repairs.[85] Companies should also consider funding the building of hazard proof homes for their employees to prevent economic distress or displacement following a storm. Many individual companies have already made these improvements in partnership with relevant NGOs in order to provide more disaster proof shelter for employees.[86] Providing relief for employees can bolster the relationship a firm can have with the community.

INSTABILITY AND POTENTIAL VIOLENCE IN SOUTHERN PHILIPPINES

Islamic separatist group, The Moro Islamic Liberation Front (MILF) has violently longed for an Independent Islamic state for the Filipino Muslim minority in the Mindanao region of the Philippines. As the country's largest and strongest separatist group, the militant organization poses a risk to businesses and communities in the Mindanao region. Attacks by MILF have occurred against local civilians, Christian communities, and businesses in order to instill fear amongst the local population.[87] The Philippine government has been negotiating peace agreements with MILF in hopes of ending the violence, and while these talks and ceasefires still remain hopeful, violence continues to be sporadic in the region. However, this violence is isolated in the Philippines' southernmost region and can be avoided by investing in northern regions or areas with internal protection.[88]

Mitigation Strategy

MILF is concentrated in the southern Philippines, mainly on the island of Mindanao and in parts of the Sulu Archipelago and the Zamboanga Peninsula. Therefore, this violent group poses little risk to communities in other areas of the country, specifically in the north. To mitigate the risk of any violence or coercion from MILF, companies should simply locate or invest in northern regions of the Philippines, such as the island of Luzon, where the threat of terrorism and violence from MILF is almost non-existent.[89]

If a company must locate in a region more directly threatened by MILF, the business should invest in an effective security framework. This includes hiring a security firm to implement methods of external and internal protection.[90] External prevention involves investing in intelligence monitoring to use as a proactive line of defense on potential terrorist agendas. Decision-makers will be provided with information relevant to the company and can make strategic decisions to counteract any possible actions before they occur.[91] Additionally, investing in perimeter and internal protection programs such as security personnel, physical barriers, and lighting systems can allow for employees to feel safe and protected from potential incidents while at work, helping to boost employee morale and productivity.[92]

INCREASINGLY EDUCATED POPULATION

An increasing education of the Philippines population has created a migration flow of highly skilled professionals in the medical, educational, and technology professions to the Middle East and Western countries.[93] These workers are hopeful that migration will bring them opportunities of higher wages and professional development.[94] The migration of skilled workers leaves the less qualified workers behind for hire in the Philippines.[95] However, this risk can be mitigated by providing competitive wages, training programs, and benefit packages for employees in the communication and technology industry.[96] The increased presence of the technology and communications industry in the country has opened new avenues and opportunities to encourage these workers to stay within the company.[97]

Mitigation Strategy

As technology firms continue to locate in the Philippines, the opportunities available to skilled workers increase. As a result, this will limit the likelihood of these workers migrating elsewhere. Providing fair compensation and benefit packages to employees based on the country's economic standing could improve employees' standard of living and thus encourage them to remain working in the Philippines.[98] As mentioned in the Labour Risks section, there are additional measures and strategies firms can utilize to address this concern. Also, the technology and communication industry utilizes various areas of professional work; meaning workers from various fields become less inclined to migrate as opportunities present themselves at home. Therefore, the increased use and development of the technology and communications industry in the country has opened new avenues and opportunities for these workers.[99]

School children in Bagac, Bataan.[xv]

International Risks

The Philippines' close ties to the U.S. have defined the country's foreign policy objectives; however, China, as the regional powerhouse, has become more influential in recent years. The Philippines' relationships with China and the U.S. have many benefits, both in both relationships the Philippines is the weaker country. As such, there are risks related to these economic ties.

SINO-PHILIPPINE RELATIONS

China's economy has stalled in the last few years, with growth rates down from 10.6% in 2010 to 7 % in 2015.[100] According to a survey done by the American Chamber of Commerce in China, one out of four American companies active in China are moving out, or planning to move out of the country.[101] Many of these firms cite flagging growth, rising labour costs and increasingly restricted market access as reasons for the move. Over half of the companies leaving will move elsewhere in Asia, with a potential destination being the Philippines.

The move to depreciate the Chinese currency came as a result of declining exports and increasing pressure by the U.S. and the International Monetary Fund to allow the Yuan to be valued by the international market. The falling Yuan has had a negative effect on markets all over the world, especially in the Philippine economy because the Philippine Peso usually follows the general trend of the Yuan. The Philippine stock market also relies on the Chinese market so these devaluations contribute to decreasing investment and a downward trend for the stock market. There is currently no international agreement on what constitutes currency devaluation. As a result, the government of China can either strengthen or weaken the Yuan at there will, depending on political, economic, and other factors.

Mitigation Strategy

Although these decisions will have some effect on the Philippine economy, technology companies in the region should not be overly concerned with the fluctuating Yuan. The Philippine Peso is expected to remain the most resilient currency in the region this year even amongst struggling global financial markets. This is due to the current large account surplus the Philippines currently possess.

The Philippines' strong trade relationship with the U.S. provides stability and support for their economy. In comparison to Asian countries with strong trade ties to China, the Philippines should be able to easily overcome the ill-effects of China's falling currency. Japan and the U.S.

The MV *Hong Kong Express* drifting off the cost of the Philippines.[xvi]

Metropolitan Manila, National Capital Region, Philippines.[xvii]

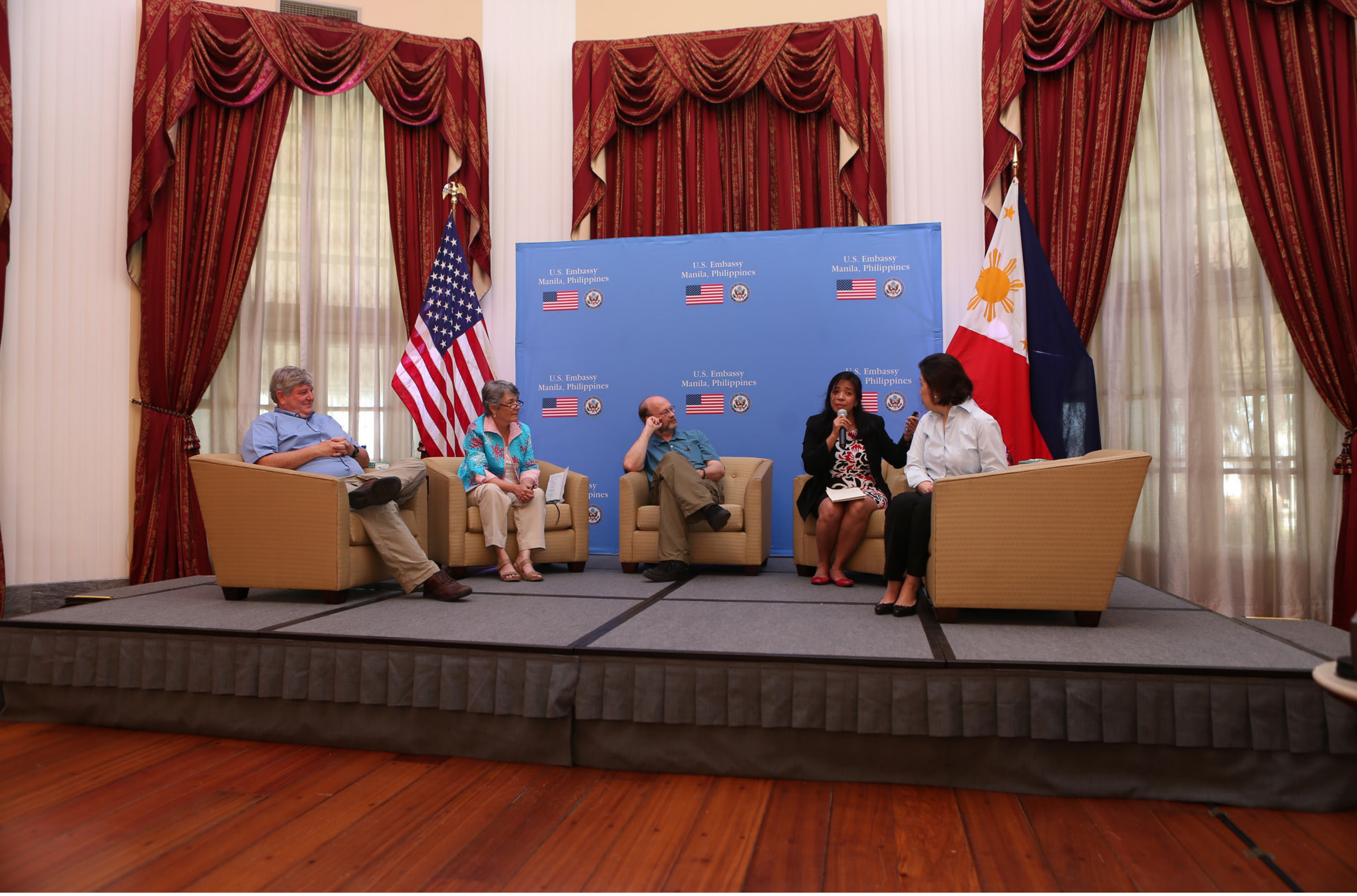
remain as the Philippines top destinations for exports so even if China's imports fall, the Philippines will not be greatly affected as they still have two of the world's largest markets as options for where they can sell their products. The unique relationship between the U.S. and the Philippines provides a stable and reliable trading partner.

As businesses continue to exit Chinese markets in search for cheaper prices, the diverse technology sector is an attractive option. Many technology businesses are solidifying long-term investments and sunk costs by locating in areas outside of Manila. The consequences of these actions are important as it signals that technology firms have a positive, trustworthy, and beneficial relationship with the Philippine markets and government. In particular, "The Silicon Gulf" is a nickname for Davao City located in Southern Mindanao region of the Philippines. Over the course of a decade, the city has been transformed from an agricultural and industrial based economy to a technological powerhouse. Davao is a competitive city where the cost of conducting business is extremely low compared to other places around the Philippines. Many of the students graduating from these schools are likely to stay in the city, seeking jobs with the ICT companies operating in the region. This makes Davao an excellent place for technology companies to invest. Davao City is located in an area of heightened civil unrest. However, the rapid interest generated by foreign companies has altered the city's policy of civilian protection. According to data released in 2015, Davao City ranked as the 9th safest city in the world.[102] As investment opportunities increase and the technology sector continues to grow, safety in the region will gradually improve even further.

U.S.-PHILIPPINE RELATIONS

The strong political and economic partnership between the U.S. and the Philippines has been both beneficial and contentious. The American economic recovery and the winner of the 2016 presidential election in the United States are two factors that will have a major impact on the social, economic and political climate in the Philippines.

The Trans-Pacific Partnership (TPP) is a U.S.-led agreement amongst twelve Pacific Rim countries. The participating countries currently account for more than



A panel discusses science and technology in Manila at a joint U.S.-Philippines Conference.[xviii]

half of global output and over 40% of world trade.[103] The objective of the TPP is to strengthen economic ties between the participating nations by cutting tariffs and fostering trade. The agreement has been the source of heavy controversy, as many believe it only benefits the U.S. at the expense of the other signatory nations. The Philippines could reduce some dependency on the U.S. in regards to trade agreements in order to protect and expand their own economy, especially the technology sector.

Mitigation Strategy

Technology companies should continue to lobby Philippine legislators to enter trade agreements with other countries besides the U.S. The TTP carries the potential to outsource business opportunities to neighbouring countries at a discounted rate. Depending on the situation of certain technological firms in the Philippines, it may be beneficial to influence the Philippine government to vote against the TPP. If the American economy enters another recession, the technology sector in the Philippines would be very vulnerable if companies relied too heavily on the U.S. To combat this concern, the Philippine Government is currently seeking free trade agreements with countries in the European Free Trade Association. Philippine Trade Secretary, Gregory Domingo, stated that six other countries have approached the Philippines to improve bilateral relationships.[104]

One potential avenue that technology firms should continue to support is the integration of the ASEAN market. Although the economic risk section outlined some pressing concerns over the AEC, it will be beneficial for the Philippines to reduce its dependency on U.S. trade relations. Already, there has been substantial progress of enhanced trade agreements between many member states, India, Korea, and Japan. The technology sector should continue to benefit from this partnership as it provides an opportunity to easily expand into other Southeast Asian countries without relying heavily on the American markets.

Appendix

COUNTRY INFORMATION

Location
Southeastern Asia between the Philippine Sea and the South China Sea, east of Vietnam.

Languages
Official Languages: Filipino (based on Tagalog) and English. Other dialects are spoken throughout the Philippines.

Dominant Religions
Christianity (92.5%), Islam (5.6%), and Other (4.3%).

Population
– 100,998,376
– Manila (capital): 2,946,000
– Population Growth Rate:1.61%.
– Urban Population: 44.4% (growing at 1.32%/yr)

Form of Government/Structure
– Unitary presidential constitutional republic
– Legislature: Congress; Upper House: Senate; Lower House: House of Representatives.

Key Figures
– President: Benigno S. Aquino III
– Vice President: Jejomar Binay
– Senate President: Franklin Drilon
– House Speaker: Feliciano Belmonte Jr.
– Chief Justice: Maria Lourdes Sereno

Legal System
Mixed system: Civil, Common, Islamic and Customary law.

Corruption
– Ranked 95th least corrupt country in 2015.
– 16% of Filipinos report paying a bribe to government officials, 10% to judiciary.

Freedom House Score
– Status (2015): Partly Free
– Freedom: 3 (1=Best, 7=Worst)
– Civil Liberties: 3
– Political Rights: 3

Life Expectancy at Birth:
– Total Population: 68.96 years
– Male: 65.47 years
– Female: 72.62 years

Health Concerns
– Ranked 160th in life expectancy at birth.
– Health expenditure is 4.4% of GDP.
– Common illnesses: bacterial diarrhea, hepatitis A, typhoid and dengue fever, malaria, leptospirosis.

Economic Indicators
– GDP (2015): $742.2 billion
– GDP's main industries are: agriculture (10.7%), industry (31.6%) and services (57.6%)
– Real growth rate (2015): 6%
– GDP per capita (2015): $7,500
– Exports $43.94 billion (2015): one of the main commodities included semiconductors and electronic products
– Main importing and exporting partners are Japan, China, and USA
– Inflation in 2015 was down to 1.8% from 4.2% in 2014

Employment Indicators
– Unemployment rate is 6.5%, underemployment rate 20%.
– 40% of employed work is in the informal sector
– 25.2% of the population is below the poverty line

Natural Disasters Annual Average
– 15 cyclone storms
– 6 landslides, destructive earthquakes and tsunamis

Environmental Concerns
– Uncontrolled deforestation, soil erosion, air and water pollution in urban centers, coral reef degradation and coastal mangrove swamp pollution.

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