Environmentally Friendly Building Products in Philippines: A Strategic Reference, 2007

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1 INTRODUCTION & METHODOLOGY

1.1 WHAT DOES THIS REPORT COVER?

The primary audience for this report is managers involved with the highest levels of the strategic planning process and consultants who help their clients with this task. The user will not only benefit from the hundreds of hours that went into the methodology and its application, but also from its alternative perspective on strategic planning relating to environmentally friendly building products in Philippines.

As the editor of this report, I am drawing on a methodology developed at INSEAD, an international business school (**www.insead.edu**). For any given industry or sector, including environmentally friendly building products, the methodology decomposes a country's strategic potential along four key dimensions: (1) latent demand, (2) micro-accessibility, (3) proxy operating pro-forma financials, and (4) macro-accessibility. A country may have very high latent demand, yet have low accessibility, making it a less attractive market than many smaller potential countries having higher levels of accessibility.

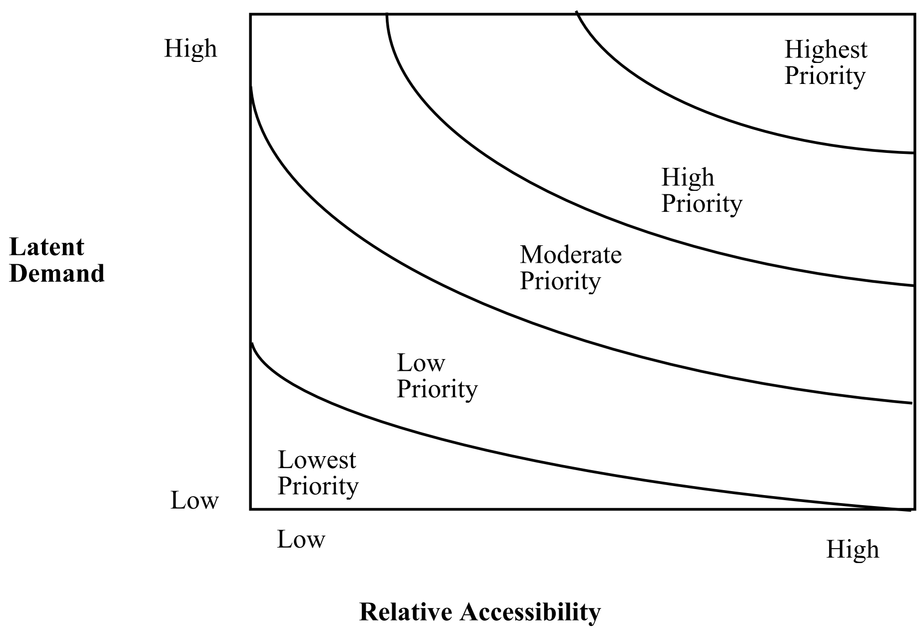
With this perspective, this report provides both a micro and a macro strategic profile of environmentally friendly building products in Philippines. It does so by compiling published information that directly relates to latent demand and accessibility, either at the micro or macro level. The reader new to Philippines can quickly understand where Philippines fits into a firm's strategic perspective. In Chapter 2, the report investigates latent demand and micro-accessibility for environmentally friendly building products in Philippines. In Chapters 3 and 4, the report covers proxy operating pro-forma financials and macro-accessibility in Philippines. Macro-accessibility is a general evaluation of investment and business conditions in Philippines.

1.2 HOW TO STRATEGICALLY EVALUATE PHILIPPINES

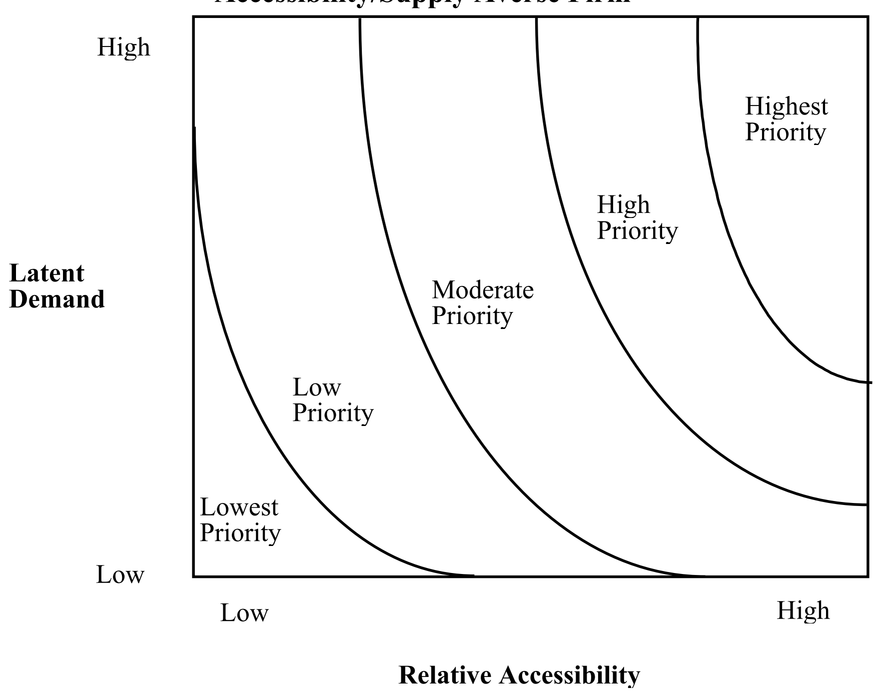
Perhaps the most efficient way of evaluating Philippines is to consider key dimensions which themselves are composites of multiple factors. Composite portfolio approaches have long been used by strategic planners. The biggest challenge in this approach is to choose the appropriate factors that are the most relevant to international planning. The two measures of greatest relevance to environmentally friendly building products are "latent demand" and "market accessibility". The figure below summarizes the key dimensions and recommendations of such an approach. Using these two composites, one can prioritize all countries of the world. Countries of high latent demand and high relative accessibility (e.g. easier entry for one firm compared to other firms) are given highest priority. The figure below shows two different scenarios. Accessibility is defined as a firm's ease of entering or supplying from or to a market (the "supply side"), and latent demand is an indicator of the potential in serving from or to the market (the "demand side").

Framework for Prioritizing Countries

Demand/Market Potential Driven Firm



Accessibility/Supply Averse Firm



In the top figure, the firm is driven by market potential, whereas the bottom figure represents a firm that is driven by costs or by an aversion to difficult markets. This report treats the reader as coming from a "generic firm" approaching the global market – neither a market-driven nor a cost-driven company. Planners must therefore augment this report with their own company-specific factors that might change the priorities (e.g. a Canadian firm may have higher accessibility in Canada than a German firm).

1.3 LATENT DEMAND AND ACCESSIBILITY IN PHILIPPINES

This report provides a detailed overview of factors driving latent demand and accessibility for environmentally friendly building products in Philippines. Latent demand is largely driven by economic fundamentals specific to environmentally friendly building products. This topic is discussed in Chapter 2 using work carried out in Philippines on behalf of American firms and authored by the United States government (typically commercial attachés or similar persons in local offices of the U.S. Department of State). I have included a number of edits to clarify the information provided. Latent demand only represents half of the picture. Chapter 2 also deals with micro-accessibility for environmentally friendly building products in Philippines. I use the term "micro" since the discussion is focused specifically on environmentally friendly building products.

Chapter 3 is also a stand-alone report that I have authored. It covers proxy pro-forma financial indicators of firms operating in Philippines. I use the word "proxy" because the provided figures only cover a "what if" scenario, based on actual operating results for firms in Philippines. The numbers are only indicative of an average firm whose primary activity is in Philippines. It covers a vertical analysis of the maximum likelihood balance sheet, income statement, and financial ratios of firms operating in Philippines. It does so for a particular Standard Industrial Classification (SIC) code. That code covers "general building contractors and operative builders", as defined in Chapter 3. Again, while "general building contractors and operative builders" does not exactly equate to "environmentally friendly building products", it nevertheless gives an indicator of how Philippines compares to other countries for a proxy adjacent category along various dimensions.

Chapter 4 deals with macro-accessibility and covers factors that go beyond environmentally friendly building products. A country may at first sight appear to be attractive due to a high latent demand, but it is often less attractive when one considers at the macro level how easy it might be to serve that entire potential and/or general business risks. While accessibility will always vary from one company to another for a given country, the following domains are typically considered when evaluating macro-accessibility in Philippines:

- Openness to Trade in Philippines
- Openness to Direct Investment in Philippines
- Local Marketing and Entry Strategy Alternatives

- Local Human Resources
- Local Risks

Across these domains, a number of not-so-obvious factors can affect accessibility and risk. These are covered in the Chapter 4, which is a general overview of investment and business conditions in Philippines. Chapter 4 is also presented from the perspective of an American firm, though is equally applicable to most firms entering Philippines. This chapter is also authored by local offices of the U.S. government, as is Chapter 2. Likewise, I have included a number of edits to clarify the provided information as it relates to the general strategic framework mentioned earlier.

2 ENVIRONMENTALLY FRIENDLY BUILDING PRODUCTS IN PHILIPPINES

2.1 LATENT DEMAND AND ACCESSIBILITY: BACKGROUND

A market for environment-friendly building products is emerging in the Philippines. Very few environment-friendly building products are presently available in the country, thus U.S. firms can reap tremendous benefits by being early entrants. Best prospects include products and systems designed to improve energy efficiency and promote water conservation. Generally, products and systems that are environment-friendly, and can also improve a company's bottom line, will have good prospects in the Philippines. It is best for a U.S. supplier of environment-friendly building products to appoint a Philippine distributor who will market the product by stressing the advantages of using the product and how the product can support the buyer's objectives and programs.

2.2 LATENT DEMAND: MARKET COMPOSITION

The Philippine market for environment-friendly building products is in its infancy stage. Government programs to promote the use of environment-friendly building products are not yet in place. There are some efforts by the government, e.g., recognizing energy-efficient companies and providing a credit facility that can be used to finance energy-efficiency projects, such as fuel switching from generator sets to biomass, retrofitting of lighting fixtures, etc., but these cover limited elements of a building only. The country does not have an accepted benchmark for the design, construction, and operation of high performance green buildings. Most building products sold in the market do have any label that shows whether they are environment-friendly or not.

Despite the present condition, a growing number of players in the construction sector are actively discussing the advantages of using environment-friendly building products. There are some architects, developers and building owners who have used these products in their projects. A major Philippine developer has expressed interest to go through the LEED (Leadership in Energy and Environmental Design) certification process. LEED is the U.S. accepted benchmark for design, construction and operation of high performance green buildings.

The most recent development towards the promotion of environment-friendly building products is the organization of the Philippine Green Building Council (PGBC). The PGBC, which was formed in the last quarter of 2006, aims to "to have a single voice in the promotion of holistic green building practices, to promote market-based green building practices, to have a non-partisan venue for the development of a green building rating system, and to facilitate the sharing of green building information and practices in the building industry."

This is an excellent time to introduce environment-friendly building products to the Philippines, as the market is in its emerging stage and U.S. firms can reap tremendous benefits by being early entrants. The demand for environment-friendly building products in the Philippines still needs to be developed but since the initial seeds have been planted and the prospects for the Philippine real estate/construction sector are bullish, the Philippines offers opportunities on the use of these products in ongoing/upcoming building projects.

The Philippine real estate/construction sector is on the upswing and its expansion is largely fuelled by:

- **Increasing Demand for Residential Real Estate Properties**: Due to the present low interest rate regime, there is a strong housing demand not only from people residing in the country but also from Filipinos working abroad or residing in foreign countries. There are at least 10 million Filipinos who are either working or permanently residing abroad. A growing number of these Filipinos are looking at real estate properties in the Philippines for their extended families, as an investment or as future retirement residence. Their requirements vary, from low-end single detached units to high-end, high rise residential condominium units.

- **Booming Call Centers/Business Processing Outsourcing (BPO) Industry**: The influx of BPO firms (Convergys, eTelecare, Teletech, IBM, Dell, Ericcson Communication, etc.) is creating exponential demand for office spaces. In 2006, the estimated number of BPO employees stood at 245,000. This year, BPOs are expected to have a total of 343,000 employees. Ayala Land, Robinsons Land, Federal Land, Filinvest Land, SM Investments Corporation and Megaworld Corporation are among the Philippine developers that are constructing buildings for BPOs.
- **Growing Shopping Mall/Retail Outlet Development**: Ayala Land, Megaworld Corporation, Robinsons Land and SM Investments Corporation are some companies that will continue constructing shopping malls and retail outlets in response to the Filipinos' propensity to go to these places.
- **Strong Public Sector Infrastructure Spending**: The Philippine government plans to undertake more infrastructure projects, including national roads, farm-to-market roads, ports, bridges, and facilities for roll-on, roll-off. These projects will often be undertaken using funding assistance from multilateral and bilateral agencies.

Because of the bullish construction/real estate outlook, demand for both imported and locally manufactured building products is expected to rise. Imports of building products are projected to grow at least 5% per year in the next two years. The following will boost demand for environment-friendly building products:

Economic values include:

- **Savings by Using Environment-Friendly Building Products**: These savings may come from improvement in energy efficiency, water conservation and reduction of operation disruptions.
- **Marketing Advantages**: The Filipinos working or residing abroad and foreign investors are accustomed to international quality and standards as well as environment-friendly products. They are expected to seek these in Philippine properties, thus developers and building owners are contemplating using or starting to use environment-friendly building products in their real estate properties to attract more tenants and investors.

There are Philippine companies that have incorporated their concern for the environment in their company's mission/vision.

Industry sources indicate that the construction sector is not familiar with many of the environment-friendly building products available worldwide. Or, if they know about some products, they may not be available locally. Thus, architects hesitate to specify them. There is also the general notion that environment-friendly building products are more expensive than the regular building products.

Among the environment-friendly building products/systems used in Philippine buildings or building units are carpets incorporating the U.S. Green Seal Standard for content and low-emitting materials; energy saving lamps; waterless urinals; non-toxic, natural, low VOC (volatile organic compound) paint; chiller loop systems; variable speed drives; electronic ballasts; skylights; and solar panels.

2.3 LATENT DEMAND: MARKET DATA

Since the market for environment-friendly building products is still at the infancy stage and Philippine data does not segregate environment-friendly building products from non-environment-friendly products, Philippine statistics on domestic production, exports, imports and market size are not available.

2.4 LATENT DEMAND: LEADING SEGMENTS

Best prospects include products and systems designed to improve energy efficiency and promote water conservation because of high utility costs.

Generally, products and systems which are environment-friendly and can improve a company's bottom line, will have good prospects in the Philippines.

2.5 KEY SUPPLIERS

Information on key suppliers is not readily available. However, it should be noted that a number of U.S. suppliers of environment-friendly building products are represented in the Philippines. Companies that exhibit at GreenBuild, a U.S. trade show that features environment-friendly building products, and are represented in the Philippines include: Andersen, Certainteed, Duro-Last, Johns Manville, Kohler, Owens Corning, Tate and Tyco.

2.6 PROSPECTIVE BUYERS

The prospective buyers of environment-friendly building products in the Philippines are:

- Developers/Building Owners attracting BPOs and Filipinos working or living abroad to rent/buy real estate properties.
- Companies that are seeking products and technologies that will reduce their utility costs.
- Companies that have included the care for the environment in their corporate social responsibility.

2.7 ACCESSIBILITY: MARKET ENTRY

Special licenses or approvals are not needed in order to sell environment-friendly building products in the Philippines.

It is best for U.S. suppliers of environment-friendly building products who are interested in the Philippine market to appoint an agent/distributor. The agent/distributor develops relationships with potential buyers as well as monitors projects. He should be able to introduce green building concepts and benefits to architects and developers. He should be able to market the product by stressing how it can support the company's objectives and programs. The products can be offered as a solution to a problem, e.g., rising cost of utilities. The agent/distributor must be able to explain how the upfront cost can be recouped and how the products can result to savings in the long-run.

Once an agent/distributor has been appointed, the U.S. company should develop the relationship by providing product literature, training its staff, and supporting promotional activities, including participation in exhibitions, advertisement in the yellow pages and other appropriate media, and sponsorship of building/construction/real estate associations' events—from seminars to golf tournaments.

2.8 MARKET ISSUES AND OBSTACLES

There are no major market issues and obstacles in exporting environment-friendly building products to the Philippines. Tariff duty on building products ranges from 1-15%.

2.9 ACCESSIBILITY: TRADE EVENTS

Philconstruct 2007(17th Philippine International Construction Equipment and Building Materials Exhibition)
November 15-18, 2007
World Trade Center Metro Manila, Roxas Blvd., Pasay City
www.globallinkph.com
jing.lagandaon@globallinkph.com

Worldbex 2008 (The 13th Philippine World Building and Construction Exposition)
March 12-16, 2008
World Trade Center Metro Manila, Roxas Blvd., Pasay City
www.worldbex.com
info@worldbex.com

2.10 KEY CONTACTS

Philippine Green Building Council
greenbuilding-philippines.blogspot.com/2007/01/philippine-property-and-construction.html
philgbc@gmail.com

United Architects of the Philippines
Green Architecture Movement
United Architects of the Philippines
www.united-architects.org
uapnational@yahoo.com
edgareformado@yahoo.com

3 FINANCIAL INDICATORS: GENERAL BUILDING CONTRACTORS AND OPERATIVE BUILDERS

3.1 OVERVIEW

Is Philippines competitive? With the globalization of markets, the increased mobility of corporate assets, and the need for productive human resources, this question has become all the more complex to answer. The financial indicators section was prepared to tackle this question by focusing on certain fundamentals: financial performance and labor productivity. Rather than focus on the economy as a whole, the analysis presented here considers only one sector: general building contractors and operative builders.

We are essentially interested in the degree to which firms operating in Philippines have fundamentally different financial structures and performance compared to firms located elsewhere. With respect to this view of competitiveness, if one were to invest or operate in Philippines, how would the firm's asset structure likely vary compared to a firm operating in some other country in Asia or average location in the world? In Philippines, do firms typically hold more cash and other short term assets, or do they concentrate their assets in physical plant and equipment? On the liability side, do firms operating in Philippines have a higher percent of payables compared to other firms operating in Asia, or do they hold a higher concentration of long term debt? The structure of the income statement is also telling. Do firms operating in Philippines have relatively higher costs of goods sold, operating costs, or income taxes compared to firms located elsewhere in the region or the world in general? Are returns on equity higher in Philippines? Are profit margins greater? Are inventories held longer? The financial indicators section was designed to answer these and similar questions that naturally affect one's decision to invest or operate in Philippines. Again, we are particularly interested in general building contractors and operative builders, and not the economy as a whole.

In many instances, people make all the difference. In addition to financial competitiveness, we consider the extent to which labor deployment and productivity in Philippines differs from regional and global benchmarks. In this case, we are interested in the amount of labor required to operate a typical business in Philippines and the likely returns on this human investment. What is the typical ratio of short-term and long-term assets to employee (employed in general building contractors and operative builders operations)? What are typical capital-labor ratios? How different are these ratios to those in Asia in general and the world as a whole? What are the average sales and net profits per employee in Philippines compared to regional benchmarks?

The goal of this section is to assist managers in gauging the competitive performance of Philippines at the global level for general building contractors and operative builders. With the globalization of markets, greater foreign competition, and the reduction of entry barriers, it becomes all the more important to benchmark Philippines against other countries on a worldwide basis. Doing so, however, is not an obvious task.

This report generates international benchmarks and measures gaps that might be revealed from such an exercise. First, data is collected from companies across all regions of the world. For each of these firms, data are standardized into comparable categories (assets, liabilities, income and ratios), by country, region and on a worldwide basis. From there, we eliminate all currency effects by standardizing within each category. Global benchmarks are then compared to those estimated for general building contractors and operative builders in Philippines.

Though we heavily rely on historical performance, the figures reported are not historical but are forecasts and projections for the coming fiscal year.

3.1.1 Financial Returns and Gaps in Philippines

The approach used in this report to evaluate operating performance for general building contractors and operative builders in Philippines is called "vertical analysis." For those unfamiliar with this type of analysis, frequently taught in graduate schools of business, the reader is recommended Jae K. Shim and Joel G. Siegel's recent book titled *Financial Management*.[1] In their discussion of financial statement analysis and ratios, Skim and Siegel (p. 42-43), describe common-size statement (vertical analysis) as follows:

> A common-size statement is one that shows each item in percentage terms. Preparation of common-size statements is known as *vertical analysis*, in which a material financial statement item is used as a base value and all other accounts on the financial statement are compared to it. In the balance sheet, for example, total assets equal 100 percent, and each individual asset is stated as a percentage of total assets. Similarly, total liabilities and stockholders' equity are assigned a value of 100 percent and each liability or equity account is then stated as a percentage of total liabilities and stockholders' equity, respectively. … For the income statement, a value of 100 percent is assigned to net sales, and all other revenues and expense accounts are related to it. It is possible to see at a glance how each dollar of sales is distributed among various costs, expenses, and profits.

The authors suggest that vertical analyses involve industry-based comparisons. Such a comparison "allows you to answer the question, 'How does a business fare in the industry?' You must compare the company's ratios to… industry norms." (p. 43-44) This approach is extended to country competitiveness (in this case Philippines) for a particular sector (in this case general building contractors and operative builders). This involves calculating country, regional and global norms. This introduction will describe the seven-stage methodology used to perform this analysis. Each stage should be seen as a working assumption behind the numbers presented in later chapters.

Stage 1. Industry Classification. This stage begins by classifying the company into an industry. For this, we have relied on a combination of the North American Industry Classification System (NAICS pronounced "Nakes"), a relatively new system for classifying business establishments, and the older Standard Industrial Classification (SIC) system. Adopted in 1997, NAICS codes are the new industry classification codes used by statistical agencies of the United States. NAICS was developed jointly by the U.S., Canada, and Mexico to provide comparability in statistics about business activity across North America. After 60 years of service, the outdated SIC system was retired on October 1, 2000, leaving only the NAICS codes for official use. The NAICS classification system adds some 350 new industries and represents a revision to over 60% of the previous SIC industries. Despite its official retirement, the SIC system is still commonly used (and often reported in firm's financial statements).

For most companies in the world, classification within either the new NAICS or older SIC systems is a rather straight forward exercise. For some, however, it can be problematic. This is true for several reasons. The first being that the SIC or NAICS classification systems are rather broad for many product and industry categories (a firm's products or services may be only a minor aspect of the classification's definition). The second is that some firms' activities span multiple codes. Finally, it is possible that a firm is classified by one source using its SIC code, and by another using its NAICS code, and by a third using both. Furthermore, some sources do not report either code, but instead use qualitative statements of the firm's activities. Nevertheless, if one wishes to pursue a vertical analysis, some classification needs to take place which selects a peer group. In making this classification, one can rely on a number of sources. In some countries, firms must "self" classify in official periodic reports (e.g. annual reports, 10Ks, etc.) to public authorities (such as the Securities and Exchange Commission). These reports are then open for public scrutiny (e.g. EDGAR filings). In other cases, commercial data vendors or private research firms provide SIC/NAICS codes for specific companies. These include:

- Bloomberg - **www.bloomberg.com**
- Datastream (Thomson Financial) - **www.datastream.com**

[1] Skim and Siegel (2000), *Financial Management* published by Barron's Educational Series, Inc. (BARON'S BUSINESS LIBRARY Series), ISBN: 0-7641-1402-6.

- Dun & Bradstreet - **www.dnb.com**
- Hoovers - **www.hoovers.com**
- HarrisInfoSource - **www.HarrisInfo.com**
- InfoUSA - **www.infousa.com**
- Investext (Thomson Financial) - **www.investext.com**
- Kompass International Neuenschwander SA. – **www.kompass.com**
- Moody's Investors Service - **www.moodys.com**
- Primark (Thomson Financial) - **www.primark.com**
- Profound (The Dialog Corporation – A Thomson Company) - **www.profound.com**
- Reuters - **www.reuters.com**
- Standard & Poor's - **www.standardandpoors.com**

It is interesting to note that commercial vendors often report different qualitative descriptions and industrial classifications from one to another. These descriptions and classifications may also be different from those reported by the firm itself. Anyone hoping to perform a benchmarking study, therefore, has to make a judgment call across these various sources in order to determine a reasonable classification. In this report, we have decided a meta-analytic process, by combining various sources (including linking a classification's keywords to qualitative descriptions of the firm's product line). In cases of inconsistency, the most recent or globally comparable available is chosen. Again, the overall goal is to classify firms, which either produce similar products, offer similar services, or are in the same stage of the value chain for a particular industrial classification. In the case of this report, the SIC code selected is: 15 which is defined as "general building contractors and operative builders". This classification should be seen as a working assumption. In order to obtain a more detailed discussion of this classification, the reader is referred to the Web sites developed by the U.S. Census Bureau: **http://www.census.gov/epcd/www/naics.html**. Basic definitions and descriptions are provided at: **http://www.census.gov/epcd/www/drnaics.htm#q1**. A full correspondence table between SIC and NAICS codes, and detailed definitions are given at **http://www.census.gov/epcd/www/naicstab.htm**.

Stage 2. Firm-Level Data Collection. A global search was conducted across over 20,000 companies in over 40 major economies, including Philippines, for those that report financials (balance sheet and income statements) and that are involved in general building contractors and operative builders. It should be noted that the public-domain financials can be either historic or projections. It should also be noted that even historic figures can be modified in the future and often represent "estimates" of performance.

Stage 3. Standardization. Once collected, public domain financial figures of firms identified in Stage 2 are standardize into comparable categories (assets, liabilities, and income). Again, these are limited to firms involved in some aspect of general building contractors and operative builders (i.e. are members of the value chain). From there, we eliminate all currency effects by standardizing within each category (creating ratios). In order to maintain comparability over time and across countries, vertical analysis is used. In the case of a firm's assets, we treat the total assets as equaling 100, irrespective of the value of the local currency. All other assets are then calculated as a percent of total assets. In this way, the structure of the firm's assets can be easily interpreted and compared with international benchmarks. For liabilities, total liabilities and equity are indexed to equal to 100. For the income statement, total revenue is indexed to equal 100, and all other figures are calculated as a percent of these figures.

Stage 4. Filtering. Not all the firms selected in Stage 2 or the ratios calculated in Stage 3 are used for the country, regional or global benchmarks, as a number of companies are purposely dropped from the analysis. This is justified by the "outlier" phenomenon that plagues such analysis. The problem lies in that any given company in the benchmarking pool may be facing some exceptional event or may be organized in an exceptional way so as to make its ratios vastly different from the norm. By including such firms, the global benchmarks can be overly skewed. In many countries, firms are organized into holding groups. These groups nominally have very few employees (e.g. 4

to 25 employees), but have extremely large assets, liabilities, or revenues. As such, the inclusion or exclusion of firms having this form of management can affect the ratios and benchmarks reported. Likewise, some firms have no net sales, no assets, no liabilities, or ratios. Others have ratios that appear implausible for a normal or viable company. In order to not allow these firms to affect the global benchmarks, only those firms with reasonable financials have been chosen. Finally, in some countries, detailed financials are not available or are not comparable to either the company in question or the global norm (e.g. various forms of depreciation). In this case, only those which exist and are comparable are reported. The details, therefore, that comprise a given ratio or set of ratios may not be reported. This may lead to the addition of several ratios, not summing to the whole.

Stage 5. Calculation of Global Norms. Once the filtering process has eliminated outliers, a final list of companies included is compiled. Based on this list, the ratios discussed in Stage 3 are calculated for every firm, and then averaged to create country, regional and global benchmarks. The world average is calculated using each country's population as a weight.

Stage 6. Projection of Deviations. The goal of this report is not only to estimate raw ratios or averages, but also to present the difference between Philippines and projected global averages for that same ratio. Furthermore, it can be insightful to know the location of each ratio within the distribution of the countries represented in Stage 5. These deviations, in fact, can be seen as projections or likely scenarios for the future. This is often true for two reasons. First, while a company's financials change from year to year, its ratios are often stable. This is especially true for the country, regional and global benchmarks which represent averages across companies. From a purely Bayesian sense, the difference between the company's recent ratios and the benchmarks are a reasonable prior for future deviations. This is true, even if the entire industry is hit by an external or exogenous shock, such as an oil crisis or economic slowdown. In other words, we assume that the structure of the variance in the industry's financials remains stable. Second, many of the data are based on preliminary reports that might be changed in future filings. As forecasts, therefore, the numbers derived from these are also forecasts of past and future performance (with associated uncertainties). The calculation of the difference between a country's ratios and the global benchmarks is meant to yield roughly approximate forecasts, or "useful measures". Within Asia, the reliability of estimates varies from one country to another for those ratios given in tables that report national averages. This is true because reliable source statistics are not available for all countries in Asia. Countries with the highest reliability, or sample sizes after filtering in Stage 4, include China, Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, and Thailand. Others are generally econometrically extrapolated using models that use country characteristics (e.g. income per capita) as independent variables (i.e. countries having similar economic structures are assumed to have similar operating ratios). Again, the forecasts are based on the assumption of relative stability. This assumption has proven extremely robust in previous applications of this methodology (i.e. today's weather is a good predictor of tomorrow's weather, but not the weather three years from now). The results reported should be viewed as those for a "proto-typical" firm operating in Philippines whose primary activity is general building contractors and operative builders.

Stage 7. Projection of Ranks and Percentiles. Based on the calculation of deviations, relative ranks and percentiles are calculated across the firms used in the benchmarks. The percentile estimates the percent of a representative sample of countries in the world having values of the ratio lower than Philippines. It is important to note that a percentile being high (or low) does not mean good (or bad) past, present or future financial performance. The reader must draw this conclusion on their own. The estimates provided were created to provide managerial insight, and not a recommendation with respect to particular investments within any country.

We graphically report, for each part of the financial statement, the larger structural differences between Philippines and the regional and global benchmarks, and provide a summary table of ranks and percentiles. These are estimates for firm which would be involved in general building contractors and operative builders. A deviation from the global norm need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or perhaps signal a country's relative strength or weakness for the coming fiscal year.

3.1.2 Labor Productivity Gaps in Philippines

In the case of labor productivity measures, this report maintains comparability over time and across countries by using a common currency (the US dollar) and relates each measure to a "per employee basis". Ratios are projected using raw financial statistics and, as ratios, are therefore comparable. Given a country's human resource ratios, the resulting figures are benchmarked across regional and global averages. The seven stage approach given above is used in a similar manner.

We then report, for each part of the financial statement, the larger labor productivity gaps that Philippines has vis-à-vis the worldwide average (for general building contractors and operative builders). Again, a gap need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or signal a firm's relative incentive to invest locally. All figures are projections, so due caution is required.

3.1.3 Limitations and Extensions

Shim and Siegal (p. 60) stress that "while ratio analysis is an effective tool for assessing a company's financial condition," operating Philippines or any other country, "its limitations must be recognized." They find that (p. 59) "no single ratio or group of ratios is adequate for assessing all aspects of a company's financial condition" operating in a particular country. The authors note the following limitations associated with ratio analyses which apply to the global benchmarking and vertical analysis presented here (p.60):

- Accounting standards or policies may limit useful comparisons across companies
- Management accounting practices across companies and countries may not be performed in the same style
- Ratios are static and do not reveal future trends
- Ratios do not indicate the quality of the components used to calculate the ratios (i.e. ratios have ambiguous interpretations)
- Reported ratios may not reflect real values
- Companies may be highly diversified, limiting the comparability of their ratios to others
- Industry averages or norms are approximate; finer industry definitions may be required for certain interpretations or comparisons
- Financial statements and resulting ratios often mean different things to different people depending on their points of view or motivations.

Again, all figures reported here are estimates, so due caution is required. The above caveats, and the fact that statements made in this report are forward-looking, requires that this point be emphasized. A number of intervening factors can have material effect on the ratios and variances forecasted. These include changes in a company's management style, exchange rate volatility, changes in accounting standards, the lack of oversight or comparability in accounting standards, changes in economic conditions, changes in competition, changes in the global economy, changes in source data quality, and similar factors.

3.2 Financial Returns in Philippines: Asset Structure Ratios

3.2.1 Overview

In this chapter we consider the asset structure of companies involved in general building contractors and operative builders operating in Philippines benchmarked against global averages. The chapter begins by defining relevant terms. A common-size statement, or vertical analysis of assets is then presented for companies operating in Philippines and the average global benchmarks (total assets = 100 percent). For ratios where there are large deviations between Philippines and the benchmarks, graphics are provided (sometimes referred to as a financial "gap" analysis). Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key vertical analysis asset ratios are highlighted across countries in the comparison group.

3.2.2 Assets – Definitions of Terms

The following definitions are provided for those less familiar with the asset-side of financial statement analysis. As this chapter deals with the vertical analysis and global benchmarking of assets, only definitions covering certain terms used in this chapter's tables and graphs are provided here . The glossary below reflects commonly accepted definitions across various countries and official sources.

- **Accumulated Depreciation - Buildings.** Accumulated depreciation is commonly understood as a contra asset account used to report the accumulation of periodic credits to reflect the use of the estimated service life of a fixed asset. Buildings are fixed assets which represent the acquisition and improvement costs of permanent structures owned or held by the company. Such structures typically include office buildings, storage quarters, or other facilities and also associated items such as loading docks, heating and air-conditioning equipment, refrigeration equipment, and all other property permanently attached to or forming an integral part of the structure. However, it generally does not include furniture, fixtures, or other equipment which are not an integral part of the building.

- **Accumulated Depreciation - Transportation Equipment.** Accumulated depreciation of transportation equipment is commonly understood to be contra asset account used to report the accumulation of periodic credits to reflect the use of the estimated service life of transportation equipment.

- **Accumulated Depreciation -Machinery & Equipment.** Accumulated depreciation of machinery and equipment is commonly understood to be contra asset account used to report the accumulation of periodic credits to reflect the use of the estimated service life of machinery and equipment.

- **Buildings.** Buildings are defined as fixed assets which represent the acquisition and improvement costs of permanent structures owned or held by the company. Such structures include office buildings, storage quarters, or other facilities and also associated items such as loading docks, heating and air-conditioning equipment, refrigeration equipment, and all other property permanently attached to or forming an integral part of the structure. However, it does not include furniture, fixtures, or other equipment which are not an integral part of the building.

- **Cash.** Cash is typically defined as money on hand, on deposit with chartered bank, or held in the form of eligible securities.

- **Current Assets.** Current assets are generally defined to be resources which are available, or can readily be made available, to meet the cost of operations or to pay current liabilities.

- **Deferred Charges.** Deferred charges are generally understood to represent the amount which has been paid for services already received by the company but has not been charged to operations.

- **Finished Goods.** Finished goods generally comprise the ready-for-sale inventory.

- **Intangible Other Assets.** Intangible assets are generally understood to be nonphysical assets such as legal rights (patents and trademarks) recorded at their historical cost then reduced by systematic amortization.

- **Investments in Unconsolidated Subsidiaries.** Investments in unconsolidated subsidiaries are typically defined as investments for the purpose of generating revenue in subsidiaries whose financial statements are not combined with the company's.

- **land.** Land is generally considered to be a fixed asset. If land is purchased, its capitalized value typically includes the purchase price plus costs such as legal fees, filling and excavation costs which are incurred to put the land in condition for its intended use. If land is acquired by gift, its capitalized value typically reflects its appraised value at the time of acquisition. Land typically does not include depletable resources.

- **long Term Receivables.** Long-term receivables are commonly defined as amounts due within a period exceeding one year from private persons, businesses, agencies, funds, or governmental units which are expected to be collected in the form of moneys, goods, and/or services.

- **Machinery & Equipment.** Machinery and equipment is commonly defined as a fixed asset classification which typically includes tangible property (other than land, buildings, and improvements other than buildings) with a life of more than one year. Such assets typically include office equipment, furniture, machine tools, and motor vehicles. Equipment may be attached to a structure for purposes of securing the item, but unless it is permanently attached to an integral part of the building or structure, it will generally be classified as equipment and not buildings. Equipment is generally defined as tangible property other than land, buildings, or improvements other than buildings, which is used in operations. Examples include machinery, tools, trucks, cars, furniture, and furnishings.

- **Prepaid Expenses.** Prepaid expenses are typically defined as those supplies and/or services (not inventory) acquired or purchased but not consumed or used at the end of the accounting period.

- **Progress Payments.** Progress payments are commonly defined as periodic payments to a supplier, contractor, or subcontractor for work as it is completed as desired, in order to reduce working capital requirements.

- **Property Plant and Equipment - Gross.** Gross property, plant and equipment generally consists of the gross book value (rather than the more commonly-used measures of fixed capital stocks in current or real value), of all commercial buildings, associated land and equipment used therein that are owned by the company and that are either used or operated by the company or leased or rented to others.

- **Property Plant and Equipment - Net.** Net PP&E equals the original cost of property, plant, and equipment (PP&E), less accumulated depreciation, depletion and amortization (DD&A).

- **Raw Materials.** Raw materials are materials which will be converted by a manufacturer into a finished product.

- **Receivables (Net).** Net receivables are defined as the net amount due to the company from private persons, businesses, agencies, funds, or governmental units which is expected to be collected in the form of moneys, goods, and/or services.

- **Short Term Investments.** Short-term investments are investments which can be typically liquidated in less than one year.

- **Tangible Other Assets.** Other tangible assets are commonly understood to be something substantial or real that is capable of being given an actual or approximate value (market or estimated), not classified elsewhere.

- **Total Assets.** Total assets are defined as the financial representation of economic resources, the beneficial interest in which is legally or equitably secured to a particular organization as a result of a past transaction or event.

- **Total Inventories.** Total inventories are defined as the total amount of goods on hand.

- **Transportation Equipment.** Transportation equipment is equipment used for the transportation of goods for sale.

- **Work in Process.** Work in progress includes goods which have been started but are not yet ready for sale.

3.2.3 Asset Structure: Outlook

Using the methodology described in the introduction, the following table summarizes asset structure benchmarks for firms involved in general building contractors and operative builders in Philippines. To allow comparable benchmarking, a common index of Total Assets = 100 is used. All figures are current-year projections for companies operating in Philippines based on latest financial results available.

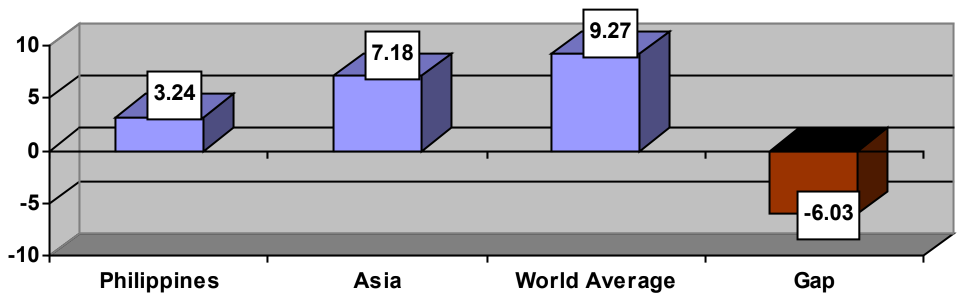
Asset Structure	Philippines	Asia	World Avg.
Cash & Short Term Investments	3.24	7.18	9.27
Cash	2.20	4.82	3.17
Short Term Investments	1.05	3.36	3.76
Receivables (Net)	23.59	17.72	16.36
Total Inventories	7.21	17.97	25.39
Raw Materials	4.26	1.48	1.02
Work in Process	8.90	10.03	9.10
Finished Goods	0.02	1.46	2.83
Progress Payments & Other	-0.03	7.16	2.31
Prepaid Expenses	0.80	0.84	0.76
Other Current Assets	8.23	5.16	6.68
Current Assets - Total	**42.81**	**48.31**	**57.93**
Long Term Receivables	10.05	2.71	1.99
Investments in Unconsolidated Subsidiaries	4.00	4.20	2.59
Other Investments	2.46	2.54	1.16
Property Plant and Equipment - Net	39.07	27.27	24.06
Property Plant and Equipment - Gross	67.88	45.05	24.04
Land	21.45	20.98	4.72
Buildings	6.18	8.89	8.28
Machinery & Equipment	12.66	10.48	6.39
Transportation Equipment	1.55	1.67	0.68
Other Property Plant & Equipment	26.04	6.97	6.32
Accumulated Depreciation - Total	28.81	13.20	6.81
Accumulated Depreciation - Buildings	4.07	3.05	1.66
Accumulated Depreciation -Machinery & Equipment	7.49	6.11	3.58
Accumulated Depreciation - Transportation Equipment	1.48	1.04	0.47
Accumulated Depreciation - Other Prop & Equip	2.94	1.45	0.77
Other Assets	4.96	3.56	5.95
Deferred Charges	0.08	0.50	0.23
Tangible Other Assets	3.16	1.55	1.84
Intangible Other Assets	1.72	1.08	2.51
Total Assets	**100.00**	**100.00**	**100.00**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

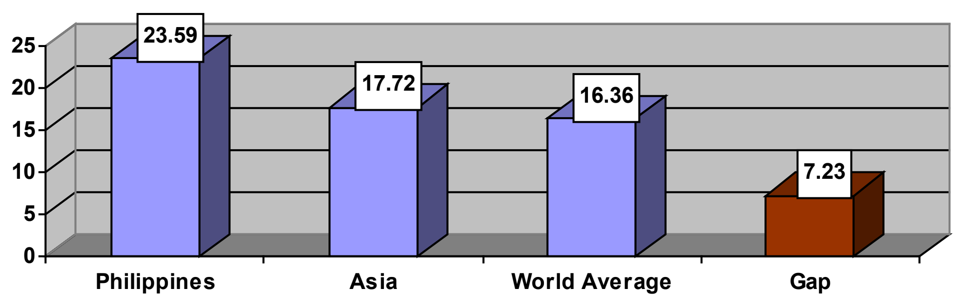
3.2.4 Large Variances: Assets

The following graphics summarize for general building contractors and operative builders the large asset structure gaps between firms operating in Philippines and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

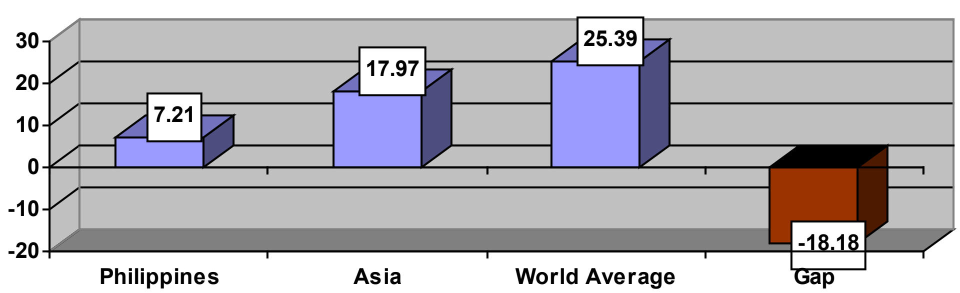
Gap: Cash & Short Term Investments



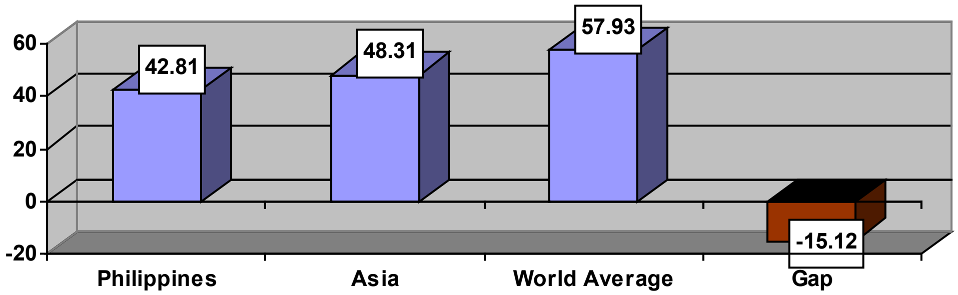
Gap: Receivables (Net)



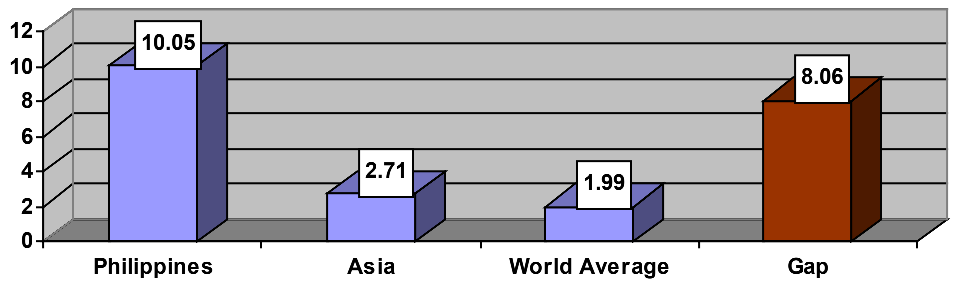
Gap: Total Inventories



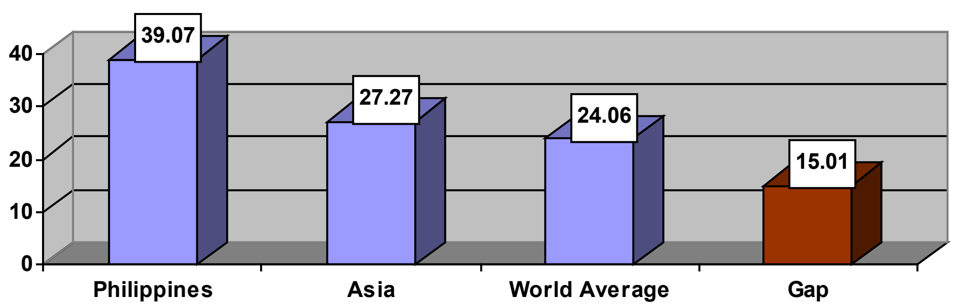
Gap: Current Assets - Total



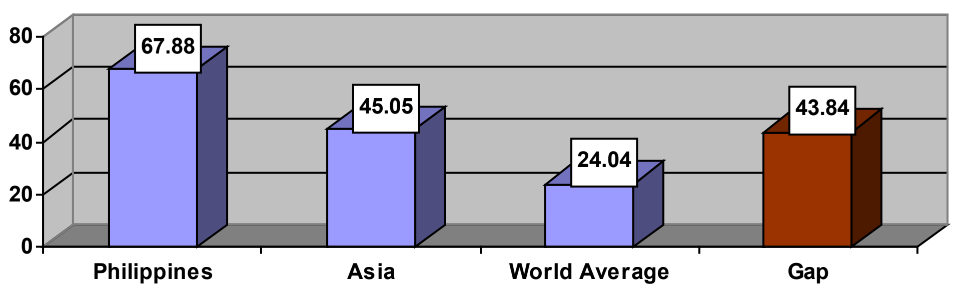
Gap: Long Term Receivables



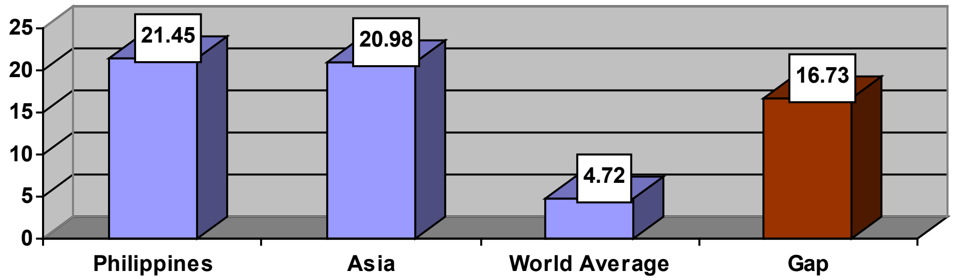
Gap: Property Plant and Equipment - Net



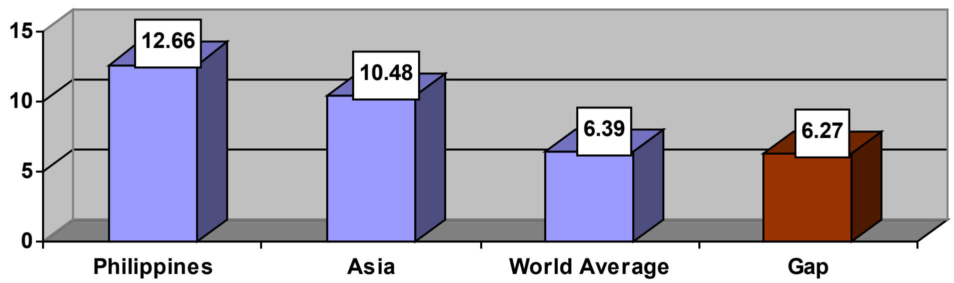
Gap: Property Plant and Equipment - Gross



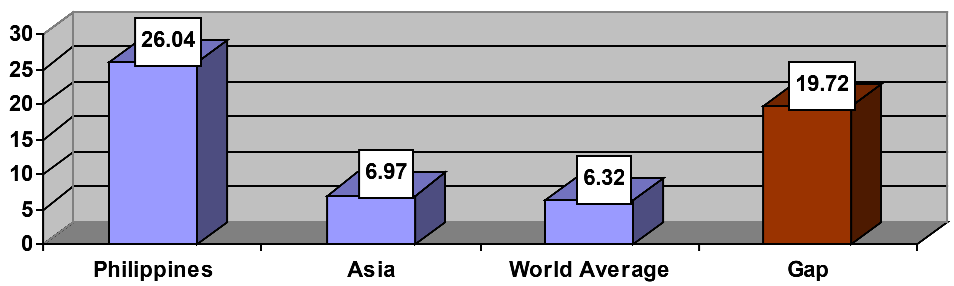
Gap: Land



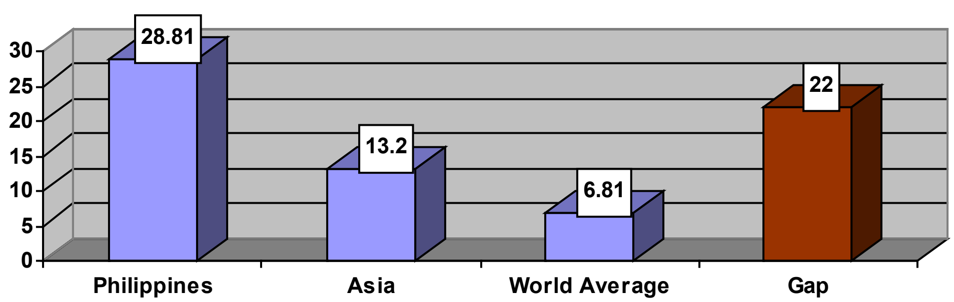
Gap: Machinery & Equipment



Gap: Other Property Plant & Equipment



Gap: Accumulated Depreciation - Total



3.2.5 Key Percentiles and Rankings

We now consider the distribution of asset ratios for general building contractors and operative builders using ranks and percentiles. What percent of countries have a value lower or higher than Philippines (what is the ratio's rank or percentile)? The table below answers this question with respect to the vertical analysis of asset structure. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance. After the summary table below, a few key vertical asset ratios are highlighted in additional tables.

Asset Structure	**Philippines**	**Rank of Total**	**Percentile**
Cash & Short Term Investments	3.24	49 of 53	7.55
Cash	2.20	40 of 48	16.67
Short Term Investments	1.05	31 of 40	22.50
Receivables (Net)	23.59	24 of 53	54.72
Total Inventories	7.21	45 of 53	15.09
Raw Materials	4.26	3 of 37	91.89
Work in Process	8.90	23 of 47	51.06
Finished Goods	0.02	31 of 37	16.22
Progress Payments & Other	-0.03	45 of 47	4.26
Prepaid Expenses	0.80	10 of 29	65.52
Other Current Assets	8.23	7 of 48	85.42
Current Assets - Total	**42.81**	**41 of 53**	**22.64**
Long Term Receivables	10.05	1 of 37	97.30
Investments in Unconsolidated Subsidiaries	4.00	24 of 47	48.94
Other Investments	2.46	13 of 40	67.50
Property Plant and Equipment - Net	39.07	6 of 53	88.68
Property Plant and Equipment - Gross	67.88	4 of 48	91.67
Land	21.45	4 of 26	84.62
Buildings	6.18	28 of 48	41.67
Machinery & Equipment	12.66	20 of 48	58.33
Transportation Equipment	1.55	17 of 32	46.88
Other Property Plant & Equipment	26.04	2 of 41	95.12
Accumulated Depreciation - Total	28.81	2 of 48	95.83
Accumulated Depreciation - Buildings	4.07	12 of 45	73.33
Accumulated Depreciation -Machinery & Equipment	7.49	23 of 48	52.08
Accumulated Depreciation - Transportation Equipment	1.48	9 of 31	70.97
Accumulated Depreciation - Other Prop & Equip	2.94	6 of 40	85.00
Other Assets	4.96	26 of 53	50.94
Deferred Charges	0.08	17 of 21	19.05
Tangible Other Assets	3.16	7 of 29	75.86
Intangible Other Assets	1.72	25 of 47	46.81
Total Assets	**100.00**		

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Cash & Short Term Investments

Countries	Value (total assets = 100)	Rank	Percentile	Region
Turkey	22.59	1	98.11	the Middle East
Mexico	22.53	2	96.23	Latin America
Poland	22.37	3	94.34	Europe
Canada	15.21	5	90.57	North America
Greece	15.16	6	88.68	Europe
Germany	15.05	7	86.79	Europe
France	14.96	8	84.91	Europe
Norway	14.27	9	83.02	Europe
Czech Republic	13.72	10	81.13	Europe
Spain	13.54	11	79.25	Europe
Argentina	12.78	12	77.36	Latin America
Switzerland	12.70	13	75.47	Europe
Denmark	12.61	14	73.58	Europe
Japan	12.10	15	71.70	Asia
China	11.07	16	69.81	Asia
Luxembourg	10.98	17	67.92	Europe
Pakistan	10.88	18	66.04	the Middle East
Malaysia	10.78	19	64.15	Asia
USA	10.41	20	62.26	North America
South Korea	10.06	21	60.38	Asia
South Africa	10.04	22	58.49	Africa
Brazil	9.10	23	56.60	Latin America
Thailand	8.85	24	54.72	Asia
Chile	8.66	25	52.83	Latin America
India	8.59	26	50.94	Asia
New Zealand	8.49	27	49.06	Oceana
Hong Kong	8.32	28	47.17	Asia
Sweden	8.05	29	45.28	Europe
Israel	8.03	30	43.40	the Middle East
Ireland	7.96	31	41.51	Europe
Belgium	7.27	33	37.74	Europe
Singapore	7.18	34	35.85	Asia
Italy	7.03	35	33.96	Europe
the United Kingdom	6.86	36	32.08	Europe
Taiwan	6.64	38	28.30	Asia
Peru	6.54	39	26.42	Latin America
Indonesia	6.14	40	24.53	Asia
Russia	5.83	42	20.75	Europe
Finland	5.36	44	16.98	Europe
Hungary	5.23	45	15.09	Europe
Netherlands	4.09	48	9.43	Europe
Philippines	**3.24**	**49**	**7.55**	**Asia**
Austria	2.36	51	3.77	Europe
Portugal	2.34	52	1.89	Europe
Australia	1.89	53	0.00	Oceana

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Cash & Short Term Investments
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Macau	12.59	1	96.15
Japan	12.10	2	92.31
Brunei	11.47	3	88.46
China	11.07	4	84.62
Malaysia	10.78	5	80.77
South Korea	10.06	6	76.92
Thailand	8.85	7	73.08
India	8.59	8	69.23
Hong Kong	8.32	9	65.38
Mongolia	7.89	10	61.54
Singapore	7.18	11	57.69
Taiwan	6.64	12	53.85
Cambodia	6.51	13	50.00
North Korea	6.35	14	46.15
Laos	6.28	15	42.31
Indonesia	6.14	16	38.46
Vietnam	5.70	17	34.62
Maldives	5.60	18	30.77
Seychelles	5.44	19	26.92
Bangladesh	4.89	20	23.08
Bhutan	4.65	21	19.23
Papua New Guinea	4.44	22	15.38
Sri Lanka	4.42	23	11.54
Nepal	4.16	24	7.69
Burma	3.26	25	3.85
Philippines	**3.24**	**26**	**0.00**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Receivables (Net)

Countries	Value (total assets = 100)	Rank	Percentile	Region
Spain	59.30	1	98.11	Europe
Poland	42.67	2	96.23	Europe
Canada	41.43	4	92.45	North America
France	40.75	5	90.57	Europe
Russia	40.67	6	88.68	Europe
Portugal	39.52	7	86.79	Europe
Malaysia	36.88	8	84.91	Asia
Hungary	36.54	9	83.02	Europe
Norway	33.39	10	81.13	Europe
Belgium	33.07	11	79.25	Europe
Czech Republic	32.42	12	77.36	Europe
Italy	31.95	13	75.47	Europe
Denmark	30.66	14	73.58	Europe
Argentina	30.20	15	71.70	Latin America
Switzerland	29.83	16	69.81	Europe
Greece	26.98	17	67.92	Europe
Sweden	26.27	18	66.04	Europe
Japan	25.82	19	64.15	Asia
Luxembourg	25.79	20	62.26	Europe
Finland	24.65	21	60.38	Europe
Thailand	24.49	22	58.49	Asia
South Korea	23.77	23	56.60	Asia
Philippines	**23.59**	**24**	**54.72**	**Asia**
Singapore	23.28	25	52.83	Asia
Austria	22.50	26	50.94	Europe
New Zealand	21.38	27	49.06	Oceana
Hong Kong	20.95	28	47.17	Asia
the United Kingdom	20.64	29	45.28	Europe
Germany	20.02	32	39.62	Europe
Netherlands	19.81	33	37.74	Europe
South Africa	19.01	34	35.85	Africa
India	18.80	36	32.08	Asia
USA	18.16	37	30.19	North America
Peru	18.10	38	28.30	Latin America
Brazil	17.23	39	26.42	Latin America
Chile	16.39	40	24.53	Latin America
Australia	13.07	42	20.75	Oceana
China	7.60	43	18.87	Asia
Pakistan	7.47	44	16.98	the Middle East
Turkey	7.31	45	15.09	the Middle East
Mexico	7.29	46	13.21	Latin America
Israel	6.31	48	9.43	the Middle East
Ireland	6.25	49	7.55	Europe
Taiwan	5.21	50	5.66	Asia
Indonesia	3.77	51	3.77	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Receivables (Net)
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Seychelles	37.96	1	96.15
Malaysia	36.88	2	92.31
Macau	29.75	3	88.46
Brunei	26.93	4	84.62
Japan	25.82	5	80.77
Thailand	24.49	6	76.92
South Korea	23.77	7	73.08
Burma	23.67	8	69.23
Philippines	**23.59**	**9**	**65.38**
Singapore	23.28	10	61.54
Mongolia	21.85	11	57.69
Hong Kong	20.95	12	53.85
India	18.80	13	50.00
North Korea	17.57	14	46.15
Cambodia	14.26	15	42.31
Laos	13.76	16	38.46
Vietnam	12.48	17	34.62
Papua New Guinea	12.28	18	30.77
Bangladesh	10.70	19	26.92
Bhutan	10.19	20	23.08
Nepal	9.12	21	19.23
China	7.60	22	15.38
Taiwan	5.21	23	11.54
Indonesia	3.77	24	7.69
Maldives	3.43	25	3.85
Sri Lanka	2.71	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Total Inventories

Countries	Value (total assets = 100)	Rank	Percentile	Region
Israel	68.47	1	98.11	the Middle East
Ireland	67.91	2	96.23	Europe
Taiwan	56.59	3	94.34	Asia
the United Kingdom	51.27	4	92.45	Europe
USA	48.46	5	90.57	North America
Finland	44.47	6	88.68	Europe
Austria	40.05	7	86.79	Europe
China	37.29	8	84.91	Asia
Pakistan	36.67	9	83.02	the Middle East
Sweden	34.68	10	81.13	Europe
Belgium	34.54	11	79.25	Europe
Italy	33.37	12	77.36	Europe
India	32.95	13	75.47	Asia
Thailand	26.90	14	73.58	Asia
Germany	25.67	15	71.70	Europe
Japan	23.55	16	69.81	Asia
South Africa	23.46	17	67.92	Africa
Brazil	21.26	19	64.15	Latin America
Chile	20.22	21	60.38	Latin America
Peru	19.87	22	58.49	Latin America
Greece	18.45	23	56.60	Europe
Australia	18.06	24	54.72	Oceana
Singapore	16.87	25	52.83	Asia
South Korea	16.72	26	50.94	Asia
Canada	16.55	27	49.06	North America
France	16.28	28	47.17	Europe
Denmark	15.89	29	45.28	Europe
Switzerland	15.18	30	43.40	Europe
Czech Republic	14.61	32	39.62	Europe
Argentina	13.61	33	37.74	Latin America
Portugal	13.23	34	35.85	Europe
Luxembourg	13.13	35	33.96	Europe
Norway	12.00	36	32.08	Europe
Malaysia	9.95	37	30.19	Asia
Poland	9.59	38	28.30	Europe
New Zealand	8.73	39	26.42	Oceana
Hong Kong	8.55	41	22.64	Asia
Russia	8.50	42	20.75	Europe
Hungary	7.64	43	18.87	Europe
Spain	7.64	44	16.98	Europe
Philippines	**7.21**	**45**	**15.09**	**Asia**
Netherlands	4.93	47	11.32	Europe
Indonesia	3.02	48	9.43	Asia
Turkey	2.83	50	5.66	the Middle East
Mexico	2.82	51	3.77	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Total Inventories
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Taiwan	56.59	1	96.15
China	37.29	2	92.31
India	32.95	3	88.46
Thailand	26.90	4	84.62
Cambodia	25.00	5	80.77
Laos	24.11	6	76.92
Mongolia	24.00	7	73.08
Japan	23.55	8	69.23
Vietnam	21.88	9	65.38
North Korea	19.29	10	61.54
Bangladesh	18.75	11	57.69
Bhutan	17.86	12	53.85
Singapore	16.87	13	50.00
South Korea	16.72	14	46.15
Nepal	15.98	15	42.31
Brunei	13.71	16	38.46
Papua New Guinea	13.49	17	34.62
Macau	13.41	18	30.77
Malaysia	9.95	19	26.92
Hong Kong	8.55	20	23.08
Seychelles	7.94	21	19.23
Burma	7.24	22	15.38
Philippines	**7.21**	**23**	**11.54**
Indonesia	3.02	24	7.69
Maldives	2.76	25	3.85
Sri Lanka	2.18	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Assets - Total

Countries	Value (total assets = 100)	Rank	Percentile	Region
Israel	88.25	1	98.11	the Middle East
Ireland	87.52	2	96.23	Europe
the United Kingdom	81.87	3	94.34	Europe
Spain	81.59	4	92.45	Europe
Poland	81.12	5	90.57	Europe
Finland	80.18	6	88.68	Europe
India	78.05	7	86.79	Asia
Sweden	78.02	8	84.91	Europe
USA	76.73	9	83.02	North America
Belgium	75.41	10	81.13	Europe
Canada	73.35	11	79.25	North America
Taiwan	72.93	12	77.36	Asia
Italy	72.86	13	75.47	Europe
France	72.14	14	73.58	Europe
Austria	71.58	15	71.70	Europe
Japan	66.80	16	69.81	Asia
South Africa	65.87	17	67.92	Africa
Norway	65.59	18	66.04	Europe
Switzerland	65.53	19	64.15	Europe
Czech Republic	64.81	20	62.26	Europe
Germany	64.75	21	60.38	Europe
Portugal	63.68	22	58.49	Europe
Greece	61.10	24	54.72	Europe
Thailand	61.09	25	52.83	Asia
Denmark	60.40	26	50.94	Europe
Argentina	60.37	27	49.06	Latin America
Russia	60.18	28	47.17	Europe
Brazil	59.68	29	45.28	Latin America
China	58.36	30	43.40	Asia
Malaysia	57.85	31	41.51	Asia
Pakistan	57.38	32	39.62	the Middle East
Chile	56.78	33	37.74	Latin America
Luxembourg	56.67	34	35.85	Europe
South Korea	55.43	35	33.96	Asia
Hungary	54.07	36	32.08	Europe
Singapore	49.26	38	28.30	Asia
Peru	45.14	40	24.53	Latin America
Philippines	**42.81**	**41**	**22.64**	**Asia**
Australia	42.74	42	20.75	Oceana
New Zealand	38.61	43	18.87	Oceana
Hong Kong	37.84	44	16.98	Asia
Turkey	37.47	45	15.09	the Middle East
Mexico	37.37	46	13.21	Latin America
Netherlands	31.77	50	5.66	Europe
Indonesia	13.75	51	3.77	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Assets - Total
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
India	78.05	1	96.15
Taiwan	72.93	2	92.31
Japan	66.80	3	88.46
Thailand	61.09	4	84.62
Macau	59.49	5	80.77
Cambodia	59.22	6	76.92
Brunei	59.18	7	73.08
China	58.36	8	69.23
Malaysia	57.85	9	65.38
Laos	57.11	10	61.54
Seychelles	56.16	11	57.69
South Korea	55.43	12	53.85
Mongolia	54.50	13	50.00
Vietnam	51.82	14	46.15
Singapore	49.26	15	42.31
Bangladesh	44.42	16	38.46
North Korea	43.82	17	34.62
Burma	42.96	18	30.77
Philippines	**42.81**	**19**	**26.92**
Bhutan	42.30	20	23.08
Nepal	37.86	21	19.23
Hong Kong	37.84	22	15.38
Papua New Guinea	30.64	23	11.54
Indonesia	13.75	24	7.69
Maldives	12.54	25	3.85
Sri Lanka	9.89	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Property Plant and Equipment - Net

Countries	Value (total assets = 100)	Rank	Percentile	Region
Indonesia	76.90	1	98.11	Asia
Netherlands	57.43	3	94.34	Europe
Australia	56.14	4	92.45	Oceana
Philippines	**39.07**	**6**	**88.68**	**Asia**
Singapore	34.77	7	86.79	Asia
Russia	33.62	9	83.02	Europe
New Zealand	32.88	11	79.25	Oceana
Denmark	32.28	12	77.36	Europe
Hong Kong	32.21	13	75.47	Asia
Czech Republic	31.08	14	73.58	Europe
Hungary	30.21	15	71.70	Europe
Argentina	28.95	16	69.81	Latin America
Switzerland	28.65	17	67.92	Europe
Malaysia	26.86	18	66.04	Asia
China	26.41	19	64.15	Asia
Pakistan	25.97	20	62.26	the Middle East
Austria	25.51	21	60.38	Europe
Germany	25.11	22	58.49	Europe
Luxembourg	24.77	23	56.60	Europe
South Africa	23.57	24	54.72	Africa
Norway	23.33	25	52.83	Europe
Thailand	23.26	26	50.94	Asia
Portugal	21.91	27	49.06	Europe
South Korea	21.78	28	47.17	Asia
India	21.68	29	45.28	Asia
Brazil	21.35	30	43.40	Latin America
Japan	20.98	31	41.51	Asia
Chile	20.32	32	39.62	Latin America
Greece	17.36	35	33.96	Europe
Peru	17.19	36	32.08	Latin America
Poland	17.06	37	30.19	Europe
Turkey	14.88	38	28.30	the Middle East
Mexico	14.84	39	26.42	Latin America
Sweden	13.81	40	24.53	Europe
Canada	13.15	42	20.75	North America
France	12.93	43	18.87	Europe
the United Kingdom	10.92	45	15.09	Europe
Belgium	10.27	46	13.21	Europe
Finland	10.04	47	11.32	Europe
Italy	9.92	48	9.43	Europe
USA	8.58	49	7.55	North America
Spain	7.85	50	5.66	Europe
Israel	5.27	51	3.77	the Middle East
Ireland	5.23	52	1.89	Europe
Taiwan	4.36	53	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Property Plant and Equipment - Net
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Indonesia	76.90	1	96.15
Maldives	70.12	2	92.31
Sri Lanka	55.30	3	88.46
Burma	39.21	4	84.62
Philippines	**39.07**	**5**	**80.77**
Singapore	34.77	6	76.92
Hong Kong	32.21	7	73.08
Seychelles	31.37	8	69.23
Macau	28.52	9	65.38
Malaysia	26.86	10	61.54
China	26.41	11	57.69
Brunei	25.87	12	53.85
Thailand	23.26	13	50.00
South Korea	21.78	14	46.15
India	21.68	15	42.31
Japan	20.98	16	38.46
Mongolia	20.75	17	34.62
North Korea	16.68	18	30.77
Cambodia	16.45	19	26.92
Laos	15.86	20	23.08
Vietnam	14.39	21	19.23
Bangladesh	12.34	22	15.38
Bhutan	11.75	23	11.54
Papua New Guinea	11.66	24	7.69
Nepal	10.52	25	3.85
Taiwan	4.36	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accumulated Depreciation - Total

Countries	Value (total assets = 100)	Rank	Percentile	Region
Germany	31.03	1	97.92	Europe
Philippines	**28.81**	**2**	**95.83**	**Asia**
Switzerland	26.06	3	93.75	Europe
Luxembourg	22.54	5	89.58	Europe
Portugal	22.42	6	87.50	Europe
Czech Republic	21.99	7	85.42	Europe
Norway	20.61	8	83.33	Europe
Thailand	20.53	9	81.25	Asia
Argentina	20.49	10	79.17	Latin America
South Africa	19.89	11	77.08	Africa
Denmark	19.04	12	75.00	Europe
Brazil	18.02	13	72.92	Latin America
Belgium	17.96	14	70.83	Europe
Italy	17.35	15	68.75	Europe
Chile	17.15	17	64.58	Latin America
Turkey	16.12	18	62.50	the Middle East
Mexico	16.08	19	60.42	Latin America
Canada	15.84	21	56.25	North America
France	15.57	22	54.17	Europe
Netherlands	15.25	23	52.08	Europe
Peru	15.17	24	50.00	Latin America
Austria	14.38	26	45.83	Europe
Finland	13.62	27	43.75	Europe
Singapore	11.55	28	41.67	Asia
Sweden	10.20	30	37.50	Europe
Japan	9.79	31	35.42	Asia
New Zealand	9.72	32	33.33	Oceana
Hong Kong	9.52	33	31.25	Asia
Greece	9.29	34	29.17	Europe
Indonesia	8.73	35	27.08	Asia
Malaysia	8.56	36	25.00	Asia
Spain	8.14	38	20.83	Europe
Australia	7.68	39	18.75	Oceana
USA	6.59	40	16.67	North America
the United Kingdom	6.33	41	14.58	Europe
South Korea	5.60	43	10.42	Asia
China	3.20	44	8.33	Asia
Pakistan	3.15	45	6.25	the Middle East
Israel	1.42	46	4.17	the Middle East
Ireland	1.41	47	2.08	Europe
Taiwan	1.17	48	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accumulated Depreciation - Total
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
Burma	28.91	1	94.44
Philippines	**28.81**	**2**	**88.89**
Brunei	23.54	3	83.33
Thailand	20.53	4	77.78
Macau	20.19	5	72.22
Mongolia	18.31	6	66.67
North Korea	14.72	7	61.11
Singapore	11.55	8	55.56
Papua New Guinea	10.29	9	50.00
Japan	9.79	10	44.44
Hong Kong	9.52	11	38.89
Indonesia	8.73	12	33.33
Malaysia	8.56	13	27.78
Maldives	7.96	14	22.22
Sri Lanka	6.27	15	16.67
South Korea	5.60	16	11.11
China	3.20	17	5.56
Taiwan	1.17	18	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Intangible Other Assets

Countries	Value (total assets = 100)	Rank	Percentile	Region
USA	9.17	1	97.87	North America
Finland	8.53	2	95.74	Europe
Greece	6.51	3	93.62	Europe
South Africa	6.48	4	91.49	Africa
Canada	6.16	5	89.36	North America
South Korea	6.14	6	87.23	Asia
Norway	6.12	7	85.11	Europe
France	6.05	8	82.98	Europe
Brazil	5.87	9	80.85	Latin America
Israel	5.77	10	78.72	the Middle East
Ireland	5.72	11	76.60	Europe
Portugal	5.61	12	74.47	Europe
Chile	5.58	13	72.34	Latin America
China	4.80	14	70.21	Asia
Taiwan	4.77	15	68.09	Asia
Pakistan	4.72	16	65.96	the Middle East
Belgium	3.31	17	63.83	Europe
Italy	3.20	18	61.70	Europe
Sweden	2.69	19	59.57	Europe
the United Kingdom	2.52	20	57.45	Europe
Australia	2.42	21	55.32	Oceana
Indonesia	2.23	22	53.19	Asia
Denmark	1.74	24	48.94	Europe
Philippines	**1.72**	**25**	**46.81**	**Asia**
Germany	1.66	26	44.68	Europe
Spain	1.23	29	38.30	Europe
Turkey	1.09	30	36.17	the Middle East
Mexico	1.09	31	34.04	Latin America
Malaysia	0.97	33	29.79	Asia
Switzerland	0.82	34	27.66	Europe
Singapore	0.73	35	25.53	Asia
Luxembourg	0.71	36	23.40	Europe
Japan	0.62	37	21.28	Asia
Netherlands	0.58	38	19.15	Europe
Russia	0.52	40	14.89	Europe
Hungary	0.47	41	12.77	Europe
Poland	0.43	42	10.64	Europe
New Zealand	0.38	43	8.51	Oceana
Hong Kong	0.37	44	6.38	Asia
Austria	0.31	45	4.26	Europe
Argentina	-0.80	46	2.13	Latin America
Czech Republic	-0.86	47	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Intangible Other Assets
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total assets = 100)	Rank	Percentile
South Korea	6.14	1	93.33
China	4.80	2	86.67
Taiwan	4.77	3	80.00
Indonesia	2.23	4	73.33
Maldives	2.03	5	66.67
Burma	1.72	6	60.00
Philippines	**1.72**	**7**	**53.33**
Sri Lanka	1.60	8	46.67
Malaysia	0.97	9	40.00
Brunei	0.74	10	33.33
Singapore	0.73	11	26.67
Japan	0.62	12	20.00
Seychelles	0.49	13	13.33
Hong Kong	0.37	14	6.67
Macau	-0.79	15	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

3.3 FINANCIAL RETURNS IN PHILIPPINES: LIABILITY STRUCTURE RATIOS

3.3.1 Overview

In this chapter we consider the liability structure of firms operating in Philippines benchmarked against global averages. The chapter begins by defining relevant terms. A common-size statement, or vertical analysis of liabilities and shareholder equity is then presented for the proto-typical firm operating in Philippines and the average global benchmarks (sometimes referred to as a financial "gap" analysis). The figure reflect firms involved in general building contractors and operative builders in Philippines. For ratios where there are large deviations between Philippines and the benchmarks, graphics are provided (total liabilities and equity = 100 percent). Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key vertical analysis liability ratios are highlighted.

3.3.2 Liabilities and Equity – Definitions of Terms

The following definitions are provided for those less familiar with the liability-side of financial statement analysis. As this chapter deals with the vertical analysis and global benchmarking of liabilities and equity, only definitions covering certain terms used in this chapter's tables and graphs are provided here . The glossary below reflects commonly accepted definitions across various countries and official sources.

- **Accounts Payable.** Accounts payable are defined as amounts owed on open account to private persons or organizations for goods or services received.

- **Capital Surplus.** Capital surplus is commonly defined as an amount of equity which is directly contributed capital in excess of the par value.

- **Common Equity.** Common equity is defined to equal the company's net worth. It typically comprises capital stock, capital surplus, retained earnings, and, in some cases, net worth reserves. Common equity is the portion of total net worth belonging to the common stockholders. Synonyms which are often used for common equity are "common stock" and "net worth".

- **Common Stock.** Common stock is defined as the securities which represent the company's ownership interest. Common stockholders typically assume greater risk than preferred stockholders; although common stockholders maintain greater control and generally greater dividends and capital appreciation. Common stock can be used interchangeably with the term capital stock when the company has no preferred stock.

- **Current Liabilities - Total.** Total current liabilities are defined as the total amount of obligations which would require the use of current assets or other current liabilities to pay.

- **Current Portion of Long Term Debt.** The current proportion of long term debt is typically defined as debt which is payable in more than one year.

- **Deferred Income.** Deferred income is commonly defined as the amount for services rendered that has not yet been received.

- **Deferred Taxes.** Deferred taxes are compulsory charges from a previous accounting period which are yet unpaid.

- **Deferred Taxes - Credit.** Deferred tax credits are defined as credits against compulsory charges from a previous accounting period which are yet unpaid.

- **Dividends Payable.** Dividends payable typically include the declared dividend dollar amount that a company is obligated to pay. The dividend payment eliminates dividends payable and reduces cash.

- **Income Taxes Payable.** Income taxes payable are understood to mean taxes which are levied by state, federal, and local governments on the company's reported accounting profit. Income taxes payable are those which are due in the current accounting period.

- **Long Term Debt.** Long-term debt is defined to be due in a period exceeding one year or one operating cycle, whichever is longer. Long-term debt can have an extended repayment period such as a many-year mortgage on land and buildings, or debt that's intended to be permanent such as bonds issued to investors.

- **Long Term Debt Excluding Capitalized Leases.** Long term debt excluding capitalized leases is defined as debt which is typically due in a period exceeding one year or one operating cycle, whichever is longer, less capitalized leases (see Long Term Debt for exceptions). Capital leases are generally recorded as assets with liability at the current value of the lease payment.

- **Minority Interest.** Minority interest is the proportional share of the minority ownership's interest (less than 50 percent) in the earnings or losses.

- **Non-Equity Reserves.** Non-equity reserves are the amount set aside for losses or liabilities which are certain to arise but cannot be quantified with certainty, and are not part of the firm's equity.

- **Preferred Stock.** Preferred stock receives payment of dividends from the company's earnings before common stock. Preferred stock generally maintains priority in the case of the company's liquidation. Usually the dividends from preferred stock are priced at a specific rate which has been determined by the board of directors.

- **Retained Earnings.** Retained earnings is an equity account reflecting the accumulated earnings of proprietary funds.

- **Shareholders Equity.** Shareholders equity is commonly defined to be the amount of total equity reserved for common and preferred shareholders.

- **Short Term Debt.** Short term debt is generally defined as debt payable within one year.

- **Total Liabilities.** Total liabilities are generally defined to include all the claims against a corporation. Liabilities include accounts and wages and salaries payable, dividends declared payable, accrued taxes payable, fixed or long-term liabilities such as mortgage bonds, debentures, and bank loans.

3.3.3 Liability Structure: Outlook

Using the methodology described in the introduction, the following table summarizes liability and equity structure benchmarks for firms involved in general building contractors and operative builders in Philippines. To allow comparable benchmarking, a common index of Total Liabilities & Shareholders Equity = 100 is used. All figures are current-year projections for companies operating in Philippines based on latest financial results available.

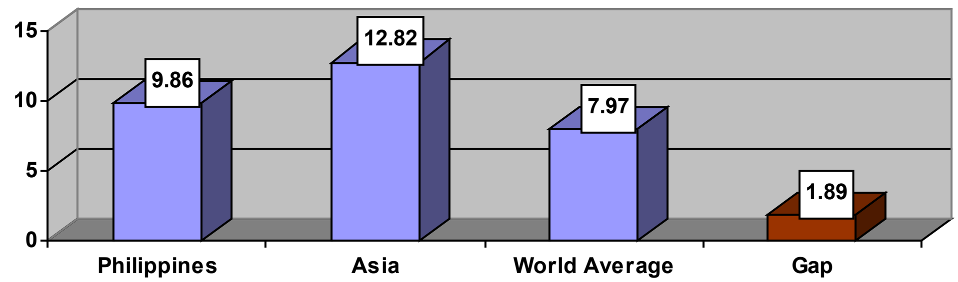
Liability Structure	**Philippines**	**Asia**	**World Avg.**
Accounts Payable	9.86	12.82	7.97
Short Term Debt & Current Portion of Long Term Debt	13.33	9.70	12.31
Income Taxes Payable	0.38	0.89	0.68
Dividends Payable	0.24	0.54	0.53
Other Current Liabilities	11.46	17.72	23.44
Current Liabilities - Total	**34.98**	**36.54**	**44.24**
Long Term Debt	22.72	13.62	12.91
Long Term Debt Excluding Capitalized Leases	22.72	13.05	12.38
Deferred Income	0.36	0.40	0.17
Deferred Taxes	0.21	0.08	0.34
Deferred Taxes - Credit	0.57	1.04	0.21
Deferred Taxes - Debit	1.19	0.92	0.32
Other Liabilities	1.87	3.86	2.75
Total Liabilities	**60.13**	**54.71**	**60.75**
Non-Equity Reserves	2.23	0.21	0.13
Minority Interest	5.64	1.33	1.82
Preferred Stock	1.53	0.16	0.09
Common Equity	31.21	28.51	29.54
Common Stock	15.37	13.21	6.80
Capital Surplus	14.86	11.16	8.34
Revaluation Reserves	8.12	2.01	0.57
Retained Earnings	-3.13	5.82	4.49
Unrealized Foreign Exchange Gain/Loss	0.52	-0.12	0.06
Unrealized Gain/Loss on Marketable Securities	-0.36	0.19	0.02
Treasury Stock	1.46	0.40	0.22
Total Liabilities & Shareholders Equity	**100.00**	**100.00**	**100.00**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

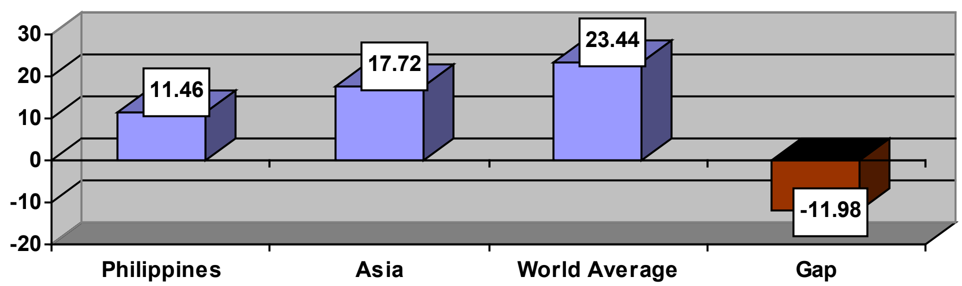
3.3.4 Large Variances: Liabilities

The following graphics summarize for general building contractors and operative builders the large liability structure gaps between firms operating in Philippines and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

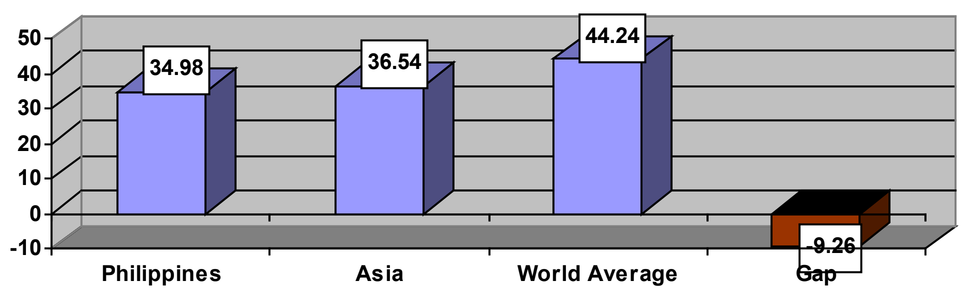
Gap: Accounts Payable



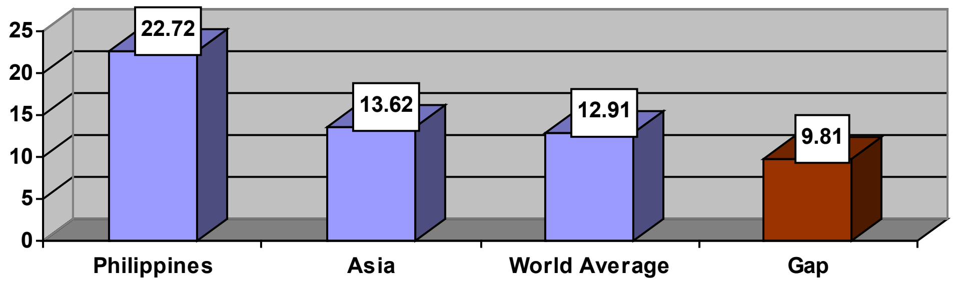
Gap: Other Current Liabilities



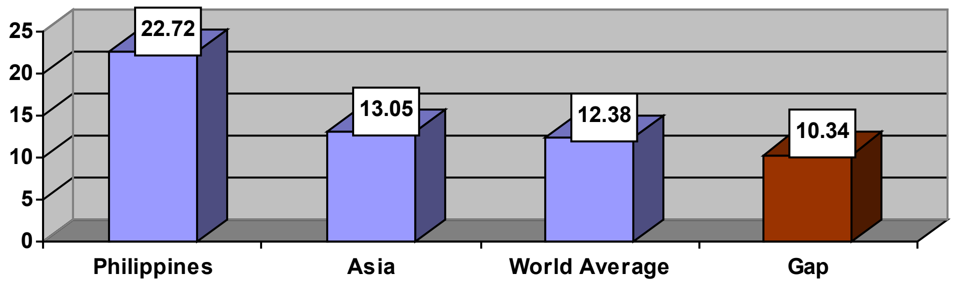
Gap: Current Liabilities - Total



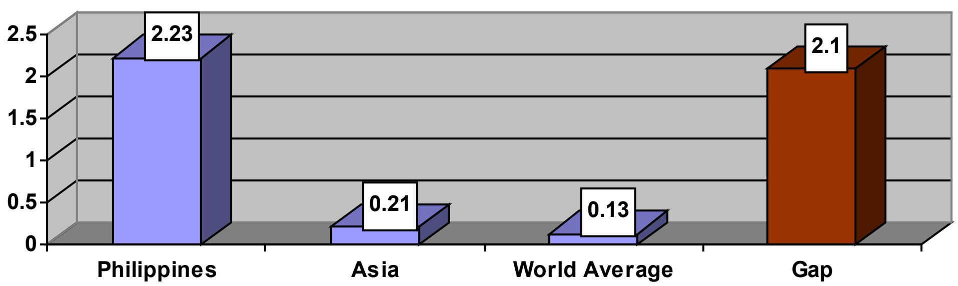
Gap: Long Term Debt



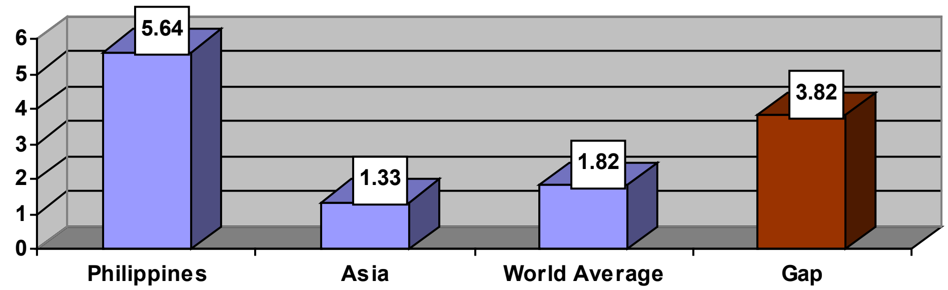
Gap: Long Term Debt Excluding Capitalized Leases



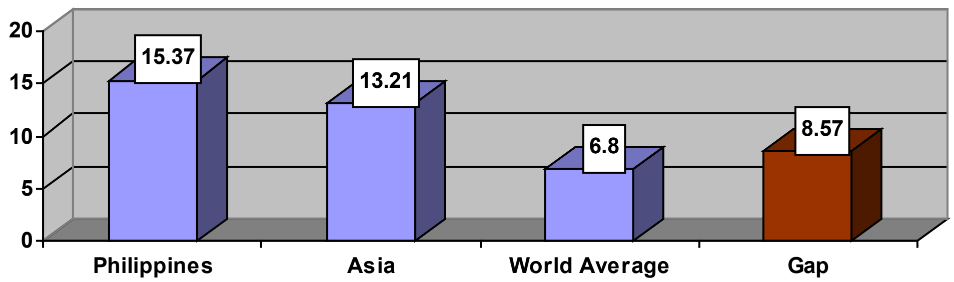
Gap: Non-Equity Reserves



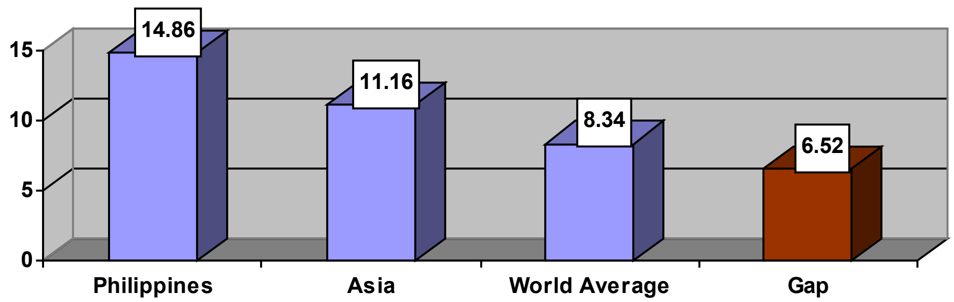
Gap: Minority Interest



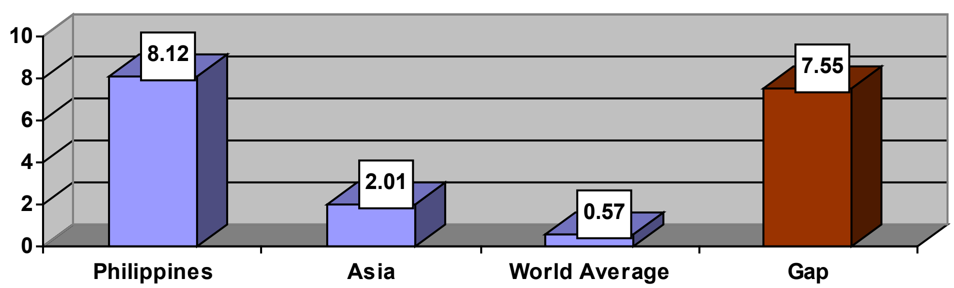
Gap: Common Stock



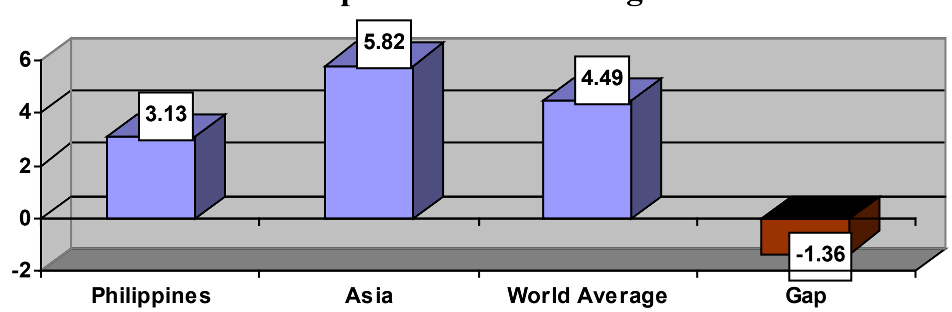
Gap: Capital Surplus



Gap: Revaluation Reserves



Gap: Retained Earnings



3.3.5 Key Percentiles and Rankings

We now consider the distribution of liability ratios for general building contractors and operative builders using ranks and percentiles. What percent of countries have a value lower or higher than Philippines (what is the ratio's rank or percentile)? The table below answers this question with respect to the vertical analysis of liability structure. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance. After the summary table below, a few key vertical liability ratios are highlighted in additional tables.

Liability Structure	Philippines	Rank of Total	Percentile
Accounts Payable	9.86	32 of 47	31.91
Short Term Debt & Current Portion of Long Term Debt	13.33	14 of 52	73.08
Income Taxes Payable	0.38	41 of 45	8.89
Dividends Payable	0.24	11 of 15	26.67
Other Current Liabilities	11.46	36 of 52	30.77
Current Liabilities - Total	**34.98**	**36 of 53**	**32.08**
Long Term Debt	22.72	5 of 53	90.57
Long Term Debt Excluding Capitalized Leases	22.72	5 of 53	90.57
Deferred Income	0.36	10 of 24	58.33
Deferred Taxes	0.21	24 of 39	38.46
Deferred Taxes - Credit	0.57	15 of 21	28.57
Deferred Taxes - Debit	1.19	7 of 17	58.82
Other Liabilities	1.87	29 of 49	40.82
Total Liabilities	**60.13**	**35 of 53**	**33.96**
Non-Equity Reserves	2.23	2 of 25	92.00
Minority Interest	5.64	5 of 46	89.13
Preferred Stock	1.53	1 of 13	92.31
Common Equity	31.21	20 of 53	62.26
Common Stock	15.37	9 of 48	81.25
Capital Surplus	14.86	8 of 37	78.38
Revaluation Reserves	8.12	2 of 28	92.86
Retained Earnings	-3.13	48 of 51	5.88
Unrealized Foreign Exchange Gain/Loss	0.52	5 of 32	84.38
Unrealized Gain/Loss on Marketable Securities	-0.36	15 of 16	6.25
Treasury Stock	1.46	6 of 17	64.71
Total Liabilities & Shareholders Equity	**100.00**		

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accounts Payable

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Spain	52.88	1	97.87	Europe
Czech Republic	44.33	2	95.74	Europe
Argentina	41.30	3	93.62	Latin America
Norway	32.51	4	91.49	Europe
Canada	28.00	5	89.36	North America
France	27.54	6	87.23	Europe
Japan	25.41	7	85.11	Asia
Singapore	23.79	8	82.98	Asia
the United Kingdom	22.91	9	80.85	Europe
South Africa	22.81	10	78.72	Africa
Portugal	22.29	11	76.60	Europe
Brazil	20.66	12	74.47	Latin America
Chile	19.66	13	72.34	Latin America
Germany	17.43	14	70.21	Europe
Malaysia	16.02	15	68.09	Asia
Belgium	15.40	16	65.96	Europe
Italy	14.88	17	63.83	Europe
Thailand	13.91	18	61.70	Asia
Denmark	13.60	19	59.57	Europe
Switzerland	13.19	20	57.45	Europe
Israel	12.46	21	55.32	the Middle East
Ireland	12.36	22	53.19	Europe
USA	11.50	24	48.94	North America
Luxembourg	11.41	25	46.81	Europe
Sweden	10.95	26	44.68	Europe
Austria	10.34	28	40.43	Europe
Taiwan	10.30	29	38.30	Asia
Peru	10.28	30	36.17	Latin America
South Korea	10.18	31	34.04	Asia
Philippines	**9.86**	**32**	**31.91**	**Asia**
China	8.52	33	29.79	Asia
Pakistan	8.38	34	27.66	the Middle East
Greece	7.76	36	23.40	Europe
New Zealand	7.20	38	19.15	Oceana
Hong Kong	7.06	39	17.02	Asia
Finland	6.10	40	14.89	Europe
Indonesia	5.24	41	12.77	Asia
Turkey	4.75	43	8.51	the Middle East
Mexico	4.74	44	6.38	Latin America
Netherlands	2.91	47	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accounts Payable
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Macau	40.69	1	94.44
Japan	25.41	2	88.89
Singapore	23.79	3	83.33
Malaysia	16.02	4	77.78
Thailand	13.91	5	72.22
Mongolia	12.41	6	66.67
Brunei	11.91	7	61.11
Taiwan	10.30	8	55.56
South Korea	10.18	9	50.00
North Korea	9.98	10	44.44
Burma	9.89	11	38.89
Philippines	**9.86**	**12**	**33.33**
China	8.52	13	27.78
Hong Kong	7.06	14	22.22
Papua New Guinea	6.98	15	16.67
Indonesia	5.24	16	11.11
Maldives	4.77	17	5.56
Sri Lanka	3.77	18	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Liabilities - Total

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Spain	75.86	1	98.11	Europe
Austria	71.63	2	96.23	Europe
Norway	66.09	3	94.34	Europe
Belgium	65.97	4	92.45	Europe
Japan	65.20	5	90.57	Asia
Italy	63.74	6	88.68	Europe
South Africa	62.93	7	86.79	Africa
Czech Republic	58.43	8	84.91	Europe
Brazil	57.01	9	83.02	Latin America
Finland	56.27	10	81.13	Europe
Portugal	55.31	11	79.25	Europe
Poland	55.05	12	77.36	Europe
Argentina	54.43	13	75.47	Latin America
China	54.29	14	73.58	Asia
Chile	54.25	15	71.70	Latin America
Pakistan	53.38	16	69.81	the Middle East
India	52.75	17	67.92	Asia
Canada	52.67	18	66.04	North America
France	51.80	19	64.15	Europe
Switzerland	51.60	20	62.26	Europe
Sweden	50.47	21	60.38	Europe
Israel	49.97	23	56.60	the Middle East
Singapore	49.78	24	54.72	Asia
Ireland	49.56	25	52.83	Europe
Russia	49.19	26	50.94	Europe
Denmark	48.70	27	49.06	Europe
the United Kingdom	48.55	28	47.17	Europe
Germany	47.29	29	45.28	Europe
Luxembourg	44.62	30	43.40	Europe
Hungary	44.20	31	41.51	Europe
Taiwan	41.30	32	39.62	Asia
South Korea	39.70	33	37.74	Asia
Malaysia	37.06	34	35.85	Asia
Greece	36.68	35	33.96	Europe
Philippines	**34.98**	**36**	**32.08**	**Asia**
Australia	34.78	37	30.19	Oceana
Thailand	30.78	38	28.30	Asia
Netherlands	28.73	40	24.53	Europe
USA	28.40	41	22.64	North America
New Zealand	28.27	42	20.75	Oceana
Hong Kong	27.70	43	18.87	Asia
Indonesia	27.55	44	16.98	Asia
Peru	22.75	48	9.43	Latin America
Turkey	14.53	51	3.77	the Middle East
Mexico	14.49	52	1.89	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Liabilities - Total
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Japan	65.20	1	96.15
China	54.29	2	92.31
Macau	53.63	3	88.46
India	52.75	4	84.62
Singapore	49.78	5	80.77
Brunei	46.59	6	76.92
Seychelles	45.91	7	73.08
Taiwan	41.30	8	69.23
Cambodia	40.03	9	65.38
South Korea	39.70	10	61.54
Laos	38.60	11	57.69
Malaysia	37.06	12	53.85
Burma	35.10	13	50.00
Vietnam	35.02	14	46.15
Philippines	**34.98**	**15**	**42.31**
Thailand	30.78	16	38.46
Bangladesh	30.02	17	34.62
Bhutan	28.59	18	30.77
Hong Kong	27.70	19	26.92
Indonesia	27.55	20	23.08
Mongolia	27.46	21	19.23
Nepal	25.59	22	15.38
Maldives	25.12	23	11.54
North Korea	22.08	24	7.69
Sri Lanka	19.81	25	3.85
Papua New Guinea	15.44	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Long Term Debt

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Indonesia	29.74	1	98.11	Asia
Netherlands	27.54	3	94.34	Europe
USA	25.42	4	92.45	North America
Philippines	**22.72**	**5**	**90.57**	**Asia**
Canada	22.26	6	88.68	North America
France	21.89	7	86.79	Europe
Australia	21.57	8	84.91	Oceana
Israel	21.35	10	81.13	the Middle East
Ireland	21.17	11	79.25	Europe
Sweden	19.59	12	77.36	Europe
Singapore	17.84	14	73.58	Asia
Taiwan	17.64	15	71.70	Asia
India	17.07	16	69.81	Asia
Finland	14.16	17	67.92	Europe
Denmark	14.04	18	66.04	Europe
Portugal	13.93	19	64.15	Europe
Russia	13.55	21	60.38	Europe
Norway	13.21	22	58.49	Europe
South Korea	12.46	23	56.60	Asia
Hungary	12.18	24	54.72	Europe
Japan	11.94	25	52.83	Asia
New Zealand	11.73	26	50.94	Oceana
Hong Kong	11.49	27	49.06	Asia
Thailand	10.44	28	47.17	Asia
Belgium	10.27	29	45.28	Europe
Italy	9.93	30	43.40	Europe
the United Kingdom	9.72	31	41.51	Europe
Malaysia	9.48	32	39.62	Asia
Turkey	9.36	33	37.74	the Middle East
Mexico	9.34	34	35.85	Latin America
Czech Republic	9.33	35	33.96	Europe
China	8.78	36	32.08	Asia
Argentina	8.69	38	28.30	Latin America
Pakistan	8.63	40	24.53	the Middle East
Germany	7.88	42	20.75	Europe
Peru	7.72	43	18.87	Latin America
Switzerland	6.58	44	16.98	Europe
Luxembourg	5.69	46	13.21	Europe
South Africa	5.16	47	11.32	Africa
Brazil	4.68	48	9.43	Latin America
Chile	4.45	49	7.55	Latin America
Austria	3.61	50	5.66	Europe
Spain	1.74	51	3.77	Europe
Poland	0.93	52	1.89	Europe
Greece	0.02	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Long Term Debt
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Indonesia	29.74	1	96.15
Maldives	27.11	2	92.31
Burma	22.79	3	88.46
Philippines	**22.72**	**4**	**84.62**
Sri Lanka	21.38	5	80.77
Singapore	17.84	6	76.92
Taiwan	17.64	7	73.08
India	17.07	8	69.23
Cambodia	12.95	9	65.38
Seychelles	12.65	10	61.54
Laos	12.49	11	57.69
South Korea	12.46	12	53.85
Japan	11.94	13	50.00
Hong Kong	11.49	14	46.15
Vietnam	11.33	15	42.31
Thailand	10.44	16	38.46
Bangladesh	9.71	17	34.62
Malaysia	9.48	18	30.77
Mongolia	9.32	19	26.92
Bhutan	9.25	20	23.08
China	8.78	21	19.23
Macau	8.56	22	15.38
Nepal	8.28	23	11.54
North Korea	7.49	24	7.69
Brunei	5.94	25	3.85
Papua New Guinea	5.24	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Total Liabilities

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Austria	88.49	1	98.11	Europe
Canada	87.71	2	96.23	North America
France	86.26	3	94.34	Europe
Belgium	83.73	4	92.45	Europe
Norway	81.25	5	90.57	Europe
Japan	81.10	6	88.68	Asia
Italy	80.90	7	86.79	Europe
Spain	79.18	8	84.91	Europe
Portugal	76.97	9	83.02	Europe
Sweden	76.59	10	81.13	Europe
Indonesia	76.15	11	79.25	Asia
Germany	75.34	12	77.36	Europe
Israel	73.12	13	75.47	the Middle East
Czech Republic	72.77	14	73.58	Europe
Ireland	72.51	15	71.70	Europe
Finland	72.26	16	69.81	Europe
India	70.50	18	66.04	Asia
Denmark	70.24	19	64.15	Europe
South Africa	70.07	20	62.26	Africa
Netherlands	69.11	21	60.38	Europe
Switzerland	68.20	23	56.60	Europe
Singapore	68.17	24	54.72	Asia
Russia	67.82	25	52.83	Europe
Argentina	67.79	26	50.94	Latin America
South Korea	66.59	27	49.06	Asia
China	64.11	28	47.17	Asia
Brazil	63.48	29	45.28	Latin America
Pakistan	63.03	30	43.40	the Middle East
the United Kingdom	61.48	31	41.51	Europe
Hungary	60.93	32	39.62	Europe
Taiwan	60.43	33	37.74	Asia
Chile	60.40	34	35.85	Latin America
Philippines	**60.13**	**35**	**33.96**	**Asia**
Luxembourg	58.98	36	32.08	Europe
USA	57.34	37	30.19	North America
Poland	55.79	38	28.30	Europe
Malaysia	48.06	41	22.64	Asia
Thailand	46.78	42	20.75	Asia
Australia	45.45	43	18.87	Oceana
New Zealand	41.98	44	16.98	Oceana
Hong Kong	41.13	45	15.09	Asia
Greece	37.32	47	11.32	Europe
Turkey	34.91	49	7.55	the Middle East
Mexico	34.82	50	5.66	Latin America
Peru	34.57	51	3.77	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Total Liabilities
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Japan	81.10	1	96.15
Indonesia	76.15	2	92.31
India	70.50	3	88.46
Maldives	69.43	4	84.62
Singapore	68.17	5	80.77
Macau	66.79	6	76.92
South Korea	66.59	7	73.08
China	64.11	8	69.23
Seychelles	63.29	9	65.38
Brunei	61.59	10	61.54
Taiwan	60.43	11	57.69
Burma	60.34	12	53.85
Philippines	**60.13**	**13**	**50.00**
Sri Lanka	54.76	14	46.15
Cambodia	53.49	15	42.31
Laos	51.58	16	38.46
Malaysia	48.06	17	34.62
Vietnam	46.81	18	30.77
Thailand	46.78	19	26.92
Mongolia	41.74	20	23.08
Hong Kong	41.13	21	19.23
Bangladesh	40.12	22	15.38
Bhutan	38.21	23	11.54
Nepal	34.20	24	7.69
North Korea	33.55	25	3.85
Papua New Guinea	23.46	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Common Equity

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Greece	60.98	1	98.11	Europe
New Zealand	55.04	2	96.23	Oceana
Turkey	54.51	3	94.34	the Middle East
Mexico	54.36	4	92.45	Latin America
Hong Kong	53.93	5	90.57	Asia
Australia	51.96	6	88.68	Oceana
Thailand	51.71	7	86.79	Asia
Malaysia	49.86	9	83.02	Asia
USA	42.14	11	79.25	North America
Peru	38.21	13	75.47	Latin America
the United Kingdom	37.10	14	73.58	Europe
Poland	33.38	15	71.70	Europe
China	32.69	16	69.81	Asia
Pakistan	32.14	17	67.92	the Middle East
Switzerland	31.74	18	66.04	Europe
South Korea	31.37	19	64.15	Asia
Philippines	**31.21**	**20**	**62.26**	**Asia**
Netherlands	30.79	22	58.49	Europe
Russia	30.35	23	56.60	Europe
Denmark	29.72	24	54.72	Europe
India	29.50	25	52.83	Asia
South Africa	28.08	27	49.06	Africa
Singapore	27.84	28	47.17	Asia
Israel	27.72	29	45.28	the Middle East
Ireland	27.49	30	43.40	Europe
Luxembourg	27.45	31	41.51	Europe
Hungary	27.26	32	39.62	Europe
Brazil	25.44	34	35.85	Latin America
Czech Republic	24.72	35	33.96	Europe
Chile	24.20	36	32.08	Latin America
Germany	23.40	37	30.19	Europe
Indonesia	23.25	38	28.30	Asia
Argentina	23.03	39	26.42	Latin America
Taiwan	22.91	40	24.53	Asia
Portugal	22.11	41	22.64	Europe
Finland	21.41	43	18.87	Europe
Sweden	21.32	44	16.98	Europe
Spain	20.05	45	15.09	Europe
Japan	18.41	46	13.21	Asia
Norway	16.06	48	9.43	Europe
Belgium	15.56	49	7.55	Europe
Italy	15.03	50	5.66	Europe
Canada	12.62	51	3.77	North America
France	12.41	52	1.89	Europe
Austria	11.48	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Common Equity
(General Building Contractors and Operative Builders)

Countries in Asia	**Value (total liabilities & equity = 100)**	**Rank**	**Percentile**
Hong Kong	53.93	1	96.15
Thailand	51.71	2	92.31
Malaysia	49.86	3	88.46
Mongolia	46.13	4	84.62
North Korea	37.09	5	80.77
China	32.69	6	76.92
South Korea	31.37	7	73.08
Burma	31.32	8	69.23
Philippines	**31.21**	**9**	**65.38**
India	29.50	10	61.54
Brunei	28.67	11	57.69
Seychelles	28.32	12	53.85
Singapore	27.84	13	50.00
Papua New Guinea	25.93	14	46.15
Indonesia	23.25	15	42.31
Taiwan	22.91	16	38.46
Macau	22.69	17	34.62
Cambodia	22.39	18	30.77
Laos	21.59	19	26.92
Maldives	21.20	20	23.08
Vietnam	19.59	21	19.23
Japan	18.41	22	15.38
Bangladesh	16.79	23	11.54
Sri Lanka	16.72	24	7.69
Bhutan	15.99	25	3.85
Nepal	14.31	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Retained Earnings

Countries	Value (total liabilities & equity = 100)	Rank	Percentile	Region
Turkey	50.26	1	98.04	the Middle East
Mexico	50.13	2	96.08	Latin America
USA	23.87	4	92.16	North America
New Zealand	22.48	5	90.20	Oceana
Hong Kong	22.03	6	88.24	Asia
the United Kingdom	21.55	7	86.27	Europe
Israel	19.05	8	84.31	the Middle East
Ireland	18.89	9	82.35	Europe
Finland	17.77	10	80.39	Europe
Malaysia	16.78	11	78.43	Asia
Taiwan	15.74	12	76.47	Asia
Denmark	15.01	13	74.51	Europe
Norway	14.33	14	72.55	Europe
South Korea	14.20	15	70.59	Asia
Thailand	12.59	16	68.63	Asia
Peru	9.31	19	62.75	Latin America
Czech Republic	8.86	20	60.78	Europe
Argentina	8.25	21	58.82	Latin America
Germany	8.23	22	56.86	Europe
Australia	7.09	23	54.90	Oceana
Japan	6.89	24	52.94	Asia
Singapore	6.22	26	49.02	Asia
Sweden	4.63	27	47.06	Europe
Spain	3.51	28	45.10	Europe
Russia	3.12	30	41.18	Europe
Switzerland	2.86	31	39.22	Europe
Hungary	2.81	32	37.25	Europe
Luxembourg	2.48	33	35.29	Europe
Austria	1.91	34	33.33	Europe
Greece	1.78	35	31.37	Europe
Canada	1.24	36	29.41	North America
France	1.22	37	27.45	Europe
China	0.78	38	25.49	Asia
Pakistan	0.77	39	23.53	the Middle East
South Africa	0.44	40	21.57	Africa
Brazil	0.40	41	19.61	Latin America
Chile	0.38	42	17.65	Latin America
Poland	0.03	43	15.69	Europe
Belgium	0.00	44	13.73	Europe
Italy	0.00	45	11.76	Europe
Portugal	-1.80	46	9.80	Europe
Philippines	**-3.13**	**48**	**5.88**	**Asia**
Indonesia	-7.08	51	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Retained Earnings
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total liabilities & equity = 100)	Rank	Percentile
Hong Kong	22.03	1	94.74
Malaysia	16.78	2	89.47
Taiwan	15.74	3	84.21
South Korea	14.20	4	78.95
Thailand	12.59	5	73.68
Mongolia	11.24	6	68.42
North Korea	9.03	7	63.16
Macau	8.13	8	57.89
Japan	6.89	9	52.63
Papua New Guinea	6.32	10	47.37
Singapore	6.22	11	42.11
Seychelles	2.91	12	36.84
Brunei	2.58	13	31.58
China	0.78	14	26.32
Philippines	**-3.13**	**15**	**21.05**
Burma	-3.14	16	15.79
Sri Lanka	-5.09	17	10.53
Maldives	-6.46	18	5.26
Indonesia	-7.08	19	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

3.4 Financial Returns in Philippines: Income Structure Ratios

3.4.1 Overview

In this chapter we consider the income structure of companies operating in Philippines benchmarked against global averages. The chapter begins by defining relevant terms. A common-size statement, or vertical analysis of income is then presented for the proto-typical firm involved in general building contractors and operative builders operating in Philippines and the average global benchmarks (total revenue = 100 percent). For ratios where there are large deviations between Philippines and the benchmarks, graphics are provided. Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key vertical analysis income ratios are highlighted across countries in the comparison group.

3.4.2 Income Statements – Definitions of Terms

The following definitions are provided for those less familiar with the income-side of financial statement analysis. As this chapter deals with the vertical analysis and global benchmarking of income, only definitions covering certain terms used in this chapter's tables and graphs are provided here . The glossary below reflects commonly accepted definitions across various countries and official sources.

- **Amortization.** Amortization generally refers to the depreciation, depletion, or charge-off to expense of intangible and tangible assets over a period of time. Amortization is commonly understood to be the taking as an expense (writing off) of the loss of value of an intangible asset such as a copyright, a patent, or a mailing list, in an accounting period.

- **Cost of Goods Sold (excluding depreciation).** For retail companies, cost of goods sold is generally defined as the equivalent of starting inventory plus purchases minus ending inventory. In manufacturing, cost of goods sold is defined to equal the starting inventory plus the cost of goods manufactured minus ending inventory. Most pure service firms do not generally have cost of goods sold.

- **Current Domestic Income Tax.** Current domestic income taxes are commonly defined as compulsory charges levied by the government where the company is located on current income.

- **Deferred Domestic Income Tax.** Deferred domestic income tax is defined as a compulsory charge from a previous accounting period which is yet unpaid to the government where the company is located on current income.

- **Depletion.** Depletion is commonly defined to be included as one of the elements of amortization, and is understood to be the portion of the carrying value (other than the portion associated with tangible assets) prorated in each accounting period for financial reporting purposes.

- **Depreciation.** Depreciation generally is defined as the expiration in the service life of fixed assets, other than depletable assets, attributable to wear and tear, deterioration, action of the physical elements, inadequacy and obsolescence. Depreciation is commonly defined as the portion of the cost of a fixed asset charged as an expense during a particular period. In accounting for depreciation, the cost of a fixed asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the cost of the asset is ultimately charged off as an expense.

- **Earnings Before Interest and Taxes (EBIT).** EBIT is a financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. In other words, operating and non-operating profit before the deduction of interest and income taxes.

- **Gross Income.** Gross income is commonly defined as all the money, goods, and property received by the company that must be included as taxable income.

- **Income Taxes.** Income taxes are defined to include those taxes levied by state, federal, and local governments on the company's reported accounting profit. Income taxes generally include both deferred and paid taxes. They are generally determined after the interest expense has been deducted.

- **Interest Expense on Debt.** Interest expenses on debt are those which are spent on current debt and added to the net income so avoid underestimating interest coverage.

- **Minority Interest.** Minority interest is the proportional share of the minority ownership's interest (less than 50 percent) in the earnings or losses.

- **Net Income Available to Common.** Net income available to common is defined as the net income available to common stockholders.

- **Net Income Before Preferred Dividends.** Net income before preferred dividends is generally calculated as the difference between total revenues and total expense prior to the granting of preferred dividends.

- **Net Sales or Revenues.** Revenues or net sales are defined as payments made to and received by an entity. May take the form of taxes, user fees, fines, fees for service, and so on.

- **Non-Operating Interest Income.** Non-operating interest income is generally understood to be any interest received (e.g., royalty, production payment, net profits interest) that does not involve the operation of the company.

- **Operating Expenses.** Operating expenses are generally defined as those incurred in paying for the company's day-to-day activities.

- **Operating Income.** Operating income is generally defined to equal operating revenues less operating expenses. It typically excludes items of other revenue and expense such as equity in earnings of unconsolidated companies, dividends, interest income and expense, income taxes, extraordinary items, and cumulative effect of accounting changes.

- **Pretax Equity In Earnings.** Pretax equity in earnings is generally defined to equal a company's proportional share (based on ownership) of the gross earnings or losses of an unconsolidated company.

- **Pretax Income.** Pretax income is generally defined as income before tax deductions.

- **Selling, General & Administrative Expenses.** Selling, general and administrative expenses are expenses independent from cost of sales for the purpose of illustrating the amount of the company's selling and administrative costs. Generally included in this figure are the costs of employees' salaries, commissions, and travel expenses; company payroll and office costs; and advertising and promotion.

3.4.3 Income Structure: Outlook

Using the methodology described in the introduction, the following table summarizes income structure benchmarks for firms involved in general building contractors and operative builders in Philippines. To allow comparable benchmarking, a common index of Net Sales or Revenues = 100 is used. All figures are current-year projections for companies operating in Philippines based on latest financial results available.

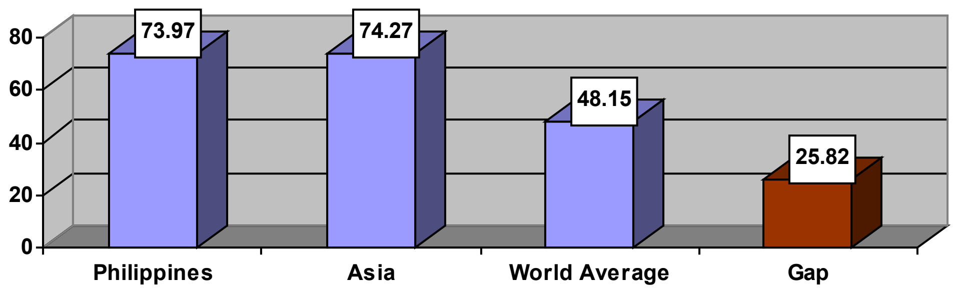
Income Structure	**Philippines**	**Asia**	**World Avg.**
Net Sales or Revenues	100.00	100.00	100.00
Cost of Goods Sold (Excluding Depreciation)	73.97	74.27	48.15
Depreciation, Depletion & Amortization	8.97	2.75	2.65
Gross Income	**17.06**	**13.56**	**13.85**
Selling, General & Administrative Expenses	9.40	6.99	6.28
Other Operating Expenses	95.50	85.41	56.54
Operating Expenses - Total	6.29	1.79	2.06
Operating Income	**4.50**	**5.03**	**7.21**
Non-Operating Interest Income	4.25	1.00	0.72
Pretax Equity In Earnings	-2.39	0.72	0.26
Other Income/Expense Net	-0.56	3.48	2.14
Earnings Before Interest and Taxes (EBIT)	**5.79**	**9.50**	**10.15**
Interest Expense on Debt	10.17	4.42	4.21
Pretax Income	**-4.37**	**5.12**	**6.08**
Income Taxes	-0.19	1.68	1.10
Current Domestic Income Tax	1.03	0.96	1.05
Deferred Domestic Income Tax	-1.87	0.37	0.12
Minority Interest	-0.42	0.12	0.15
Net Income Before Extra Items/Prefer Dividends	-3.76	3.72	4.59
Net Income Before Preferred Dividends	-3.76	5.46	5.20
Net Income Available to Common	**-3.76**	**3.72**	**4.58**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

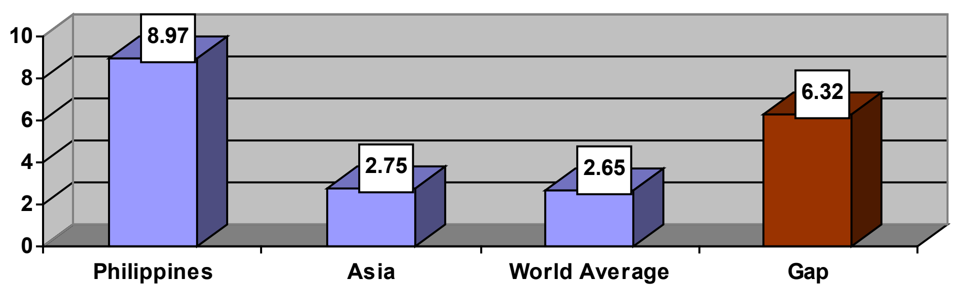
3.4.4 Large Variances: Income

The following graphics summarize for general building contractors and operative builders the large income structure gaps between firms operating in Philippines and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

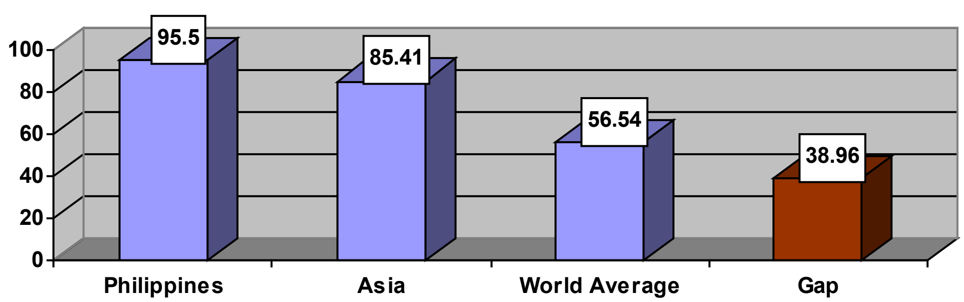
Gap: Cost of Goods Sold (Excluding Depreciation)



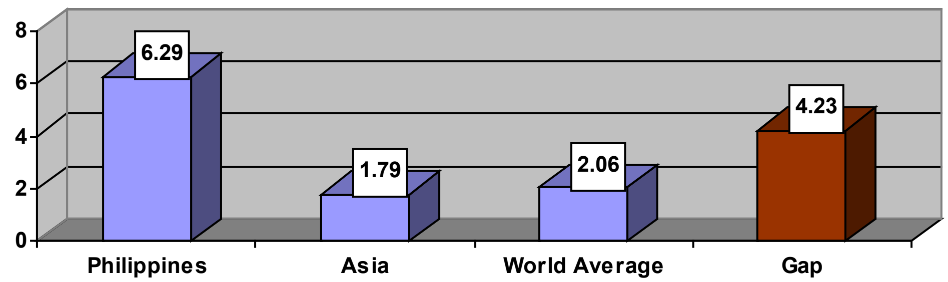
Gap: Depreciation, Depletion & Amortization



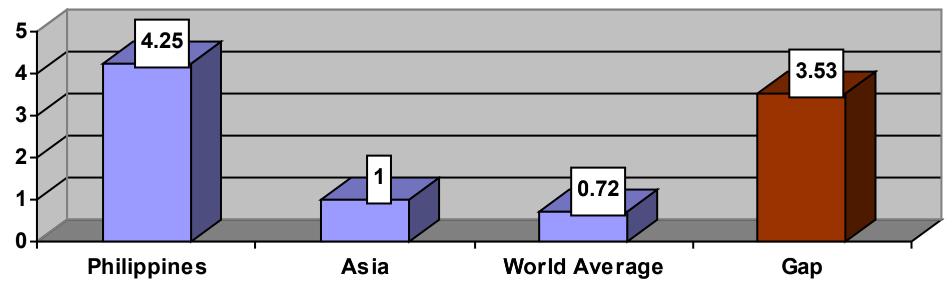
Gap: Other Operating Expenses



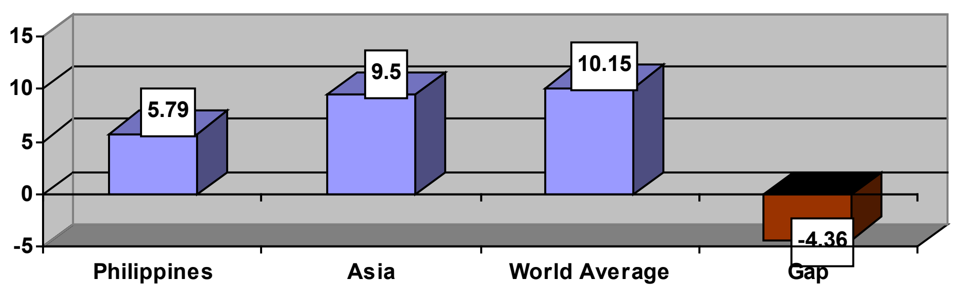
Gap: Operating Expenses - Total



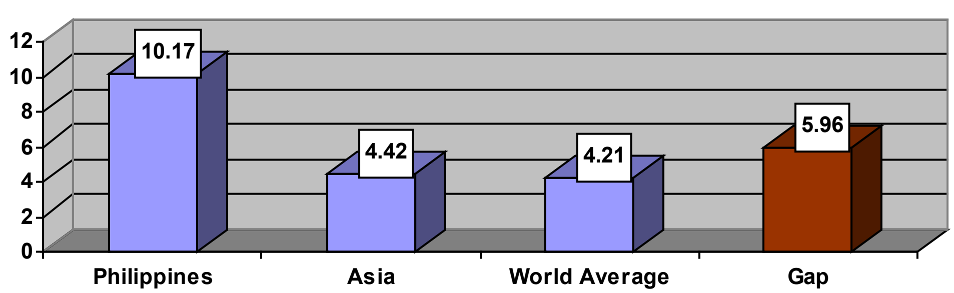
Gap: Non-Operating Interest Income



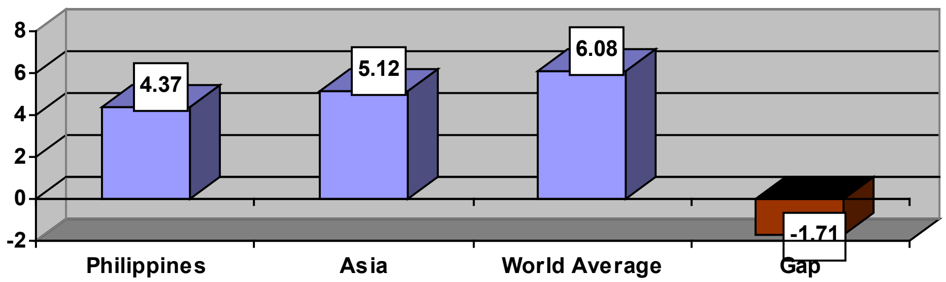
Gap: Earnings Before Interest and Taxes (EBIT)



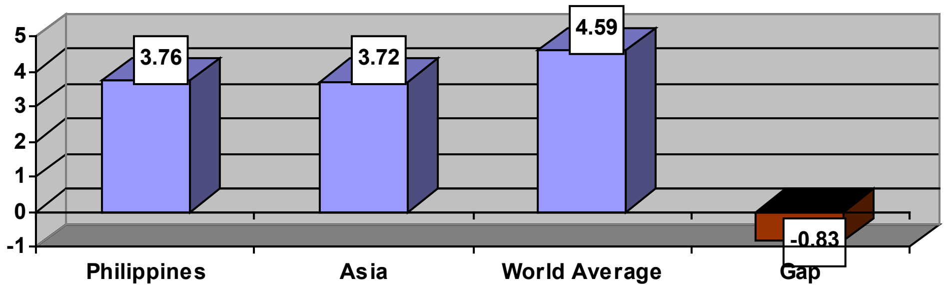
Gap: Interest Expense on Debt



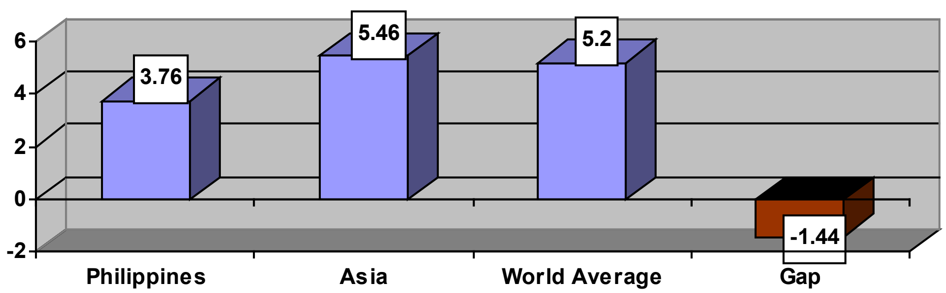
Gap: Pretax Income



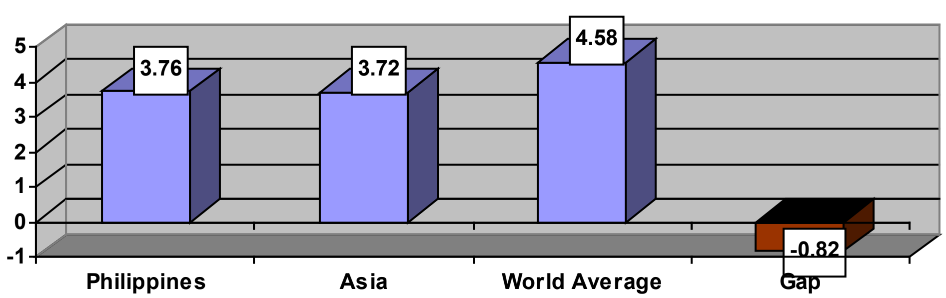
Gap: Net Income Before Extra Items/Prefer Dividends



Gap: Net Income Before Preferred Dividends



Gap: Net Income Available to Common



3.4.5 Key Percentiles and Rankings

We now consider the distribution of income ratios for general building contractors and operative builders using ranks and percentiles. What percent of countries have a value lower or higher than Philippines (what is the ratio's rank or percentile)? The table below answers this question with respect to the vertical analysis of income structure. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance. After the summary table below, a few key vertical income ratios are highlighted in additional tables.

Income Structure	**Philippines**	**Rank of Total**	**Percentile**
Net Sales or Revenues	100.00		
Cost of Goods Sold (Excluding Depreciation)	73.97	36 of 49	26.53
Depreciation, Depletion & Amortization	8.97	1 of 53	98.11
Gross Income	**17.06**	**14 of 49**	**71.43**
Selling, General & Administrative Expenses	9.40	13 of 37	64.86
Other Operating Expenses	95.50	20 of 48	58.33
Operating Expenses - Total	6.29	7 of 44	84.09
Operating Income	**4.50**	**22 of 53**	**58.49**
Non-Operating Interest Income	4.25	1 of 47	97.87
Pretax Equity In Earnings	-2.39	32 of 32	0.00
Other Income/Expense Net	**-0.56**	**52 of 53**	**1.89**
Earnings Before Interest and Taxes (EBIT)	**5.79**	**29 of 53**	**45.28**
Interest Expense on Debt	10.17	4 of 53	92.45
Pretax Income	**-4.37**	**53 of 53**	**0.00**
Income Taxes	-0.19	49 of 49	0.00
Current Domestic Income Tax	1.03	15 of 44	65.91
Deferred Domestic Income Tax	-1.87	38 of 38	0.00
Minority Interest	-0.42	46 of 46	0.00
Net Income Before Extra Items/Prefer Dividends	-3.76	52 of 53	1.89
Net Income Before Preferred Dividends	-3.76	52 of 53	1.89
Net Income Available to Common	**-3.76**	**52 of 53**	**1.89**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Cost of Goods Sold (Excluding Depreciation)

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Belgium	93.38	1	97.96	Europe
Portugal	93.28	2	95.92	Europe
Switzerland	92.96	3	93.88	Europe
Sweden	92.01	4	91.84	Europe
Italy	90.22	5	89.80	Europe
Czech Republic	90.06	6	87.76	Europe
Indonesia	89.09	7	85.71	Asia
Norway	88.64	8	83.67	Europe
Poland	88.05	9	81.63	Europe
Finland	87.85	10	79.59	Europe
Singapore	87.00	11	77.55	Asia
Japan	86.03	12	75.51	Asia
South Korea	85.74	13	73.47	Asia
Germany	85.13	14	71.43	Europe
South Africa	84.29	15	69.39	Africa
Argentina	83.89	16	67.35	Latin America
Spain	83.54	18	63.27	Europe
Netherlands	83.43	19	61.22	Europe
Canada	83.04	20	59.18	North America
Greece	82.90	21	57.14	Europe
Israel	82.75	22	55.10	the Middle East
Austria	82.61	23	53.06	Europe
Ireland	82.06	24	51.02	Europe
France	81.66	25	48.98	Europe
New Zealand	81.02	26	46.94	Oceana
Luxembourg	80.40	27	44.90	Europe
Denmark	80.33	28	42.86	Europe
the United Kingdom	79.75	29	40.82	Europe
Australia	79.55	30	38.78	Oceana
Hong Kong	79.39	31	36.73	Asia
Malaysia	78.51	32	34.69	Asia
Thailand	76.66	33	32.65	Asia
Brazil	76.37	34	30.61	Latin America
USA	76.08	35	28.57	North America
Philippines	**73.97**	**36**	**26.53**	**Asia**
Chile	72.66	37	24.49	Latin America
Turkey	70.14	38	22.45	the Middle East
Mexico	69.95	39	20.41	Latin America
Taiwan	68.39	40	18.37	Asia
China	64.16	42	14.29	Asia
Pakistan	63.08	45	8.16	the Middle East
Peru	56.64	48	2.04	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Cost of Goods Sold (Excluding Depreciation)
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Indonesia	89.09	1	94.44
Singapore	87.00	2	88.89
Japan	86.03	3	83.33
South Korea	85.74	4	77.78
Brunei	83.95	5	72.22
Macau	82.65	6	66.67
Maldives	81.23	7	61.11
Hong Kong	79.39	8	55.56
Malaysia	78.51	9	50.00
Thailand	76.66	10	44.44
Burma	74.23	11	38.89
Philippines	**73.97**	**12**	**33.33**
Mongolia	68.39	13	27.78
Taiwan	68.39	14	22.22
China	64.16	15	16.67
Sri Lanka	64.06	16	11.11
North Korea	54.98	17	5.56
Papua New Guinea	38.44	18	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Selling, General & Administrative Expenses

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Canada	16.33	1	97.30	North America
Denmark	16.30	2	94.59	Europe
France	16.06	3	91.89	Europe
China	14.76	4	89.19	Asia
Pakistan	14.51	5	86.49	the Middle East
USA	14.13	6	83.78	North America
New Zealand	11.29	7	81.08	Oceana
Hong Kong	11.06	8	78.38	Asia
Japan	9.91	9	75.68	Asia
Turkey	9.90	10	72.97	the Middle East
Mexico	9.87	11	70.27	Latin America
Norway	9.77	12	67.57	Europe
Philippines	**9.40**	**13**	**64.86**	**Asia**
the United Kingdom	8.88	15	59.46	Europe
Poland	8.50	16	56.76	Europe
Israel	7.78	18	51.35	the Middle East
Ireland	7.72	19	48.65	Europe
Greece	7.32	20	45.95	Europe
Malaysia	6.85	21	43.24	Asia
Taiwan	6.43	22	40.54	Asia
Thailand	6.15	23	37.84	Asia
Indonesia	6.02	24	35.14	Asia
Singapore	5.77	25	32.43	Asia
South Korea	5.67	26	29.73	Asia
Sweden	5.61	28	24.32	Europe
Switzerland	5.04	30	18.92	Europe
Peru	4.54	32	13.51	Latin America
Luxembourg	4.36	33	10.81	Europe
Finland	2.89	36	2.70	Europe
Germany	1.71	37	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Selling, General & Administrative Expenses (General Building Contractors and Operative Builders)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
China	14.76	1	94.12
Hong Kong	11.06	2	88.24
Japan	9.91	3	82.35
Burma	9.43	4	76.47
Philippines	**9.40**	**5**	**70.59**
Malaysia	6.85	6	64.71
Taiwan	6.43	7	58.82
Thailand	6.15	8	52.94
Indonesia	6.02	9	47.06
Singapore	5.77	10	41.18
South Korea	5.67	11	35.29
Maldives	5.49	12	29.41
Mongolia	5.49	13	23.53
Brunei	4.55	14	17.65
North Korea	4.41	15	11.76
Sri Lanka	4.33	16	5.88
Papua New Guinea	3.08	17	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Operating Expenses - Total

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Austria	13.98	1	97.73	Europe
Germany	13.27	2	95.45	Europe
Spain	11.49	3	93.18	Europe
South Africa	8.85	4	90.91	Africa
Brazil	8.02	5	88.64	Latin America
Chile	7.63	6	86.36	Latin America
Philippines	**6.29**	**7**	**84.09**	**Asia**
Finland	5.58	8	81.82	Europe
Canada	5.49	9	79.55	North America
France	5.39	10	77.27	Europe
Belgium	4.13	12	72.73	Europe
Italy	3.99	13	70.45	Europe
Australia	3.62	14	68.18	Oceana
Netherlands	3.50	15	65.91	Europe
China	3.39	16	63.64	Asia
Pakistan	3.33	17	61.36	the Middle East
Malaysia	3.32	18	59.09	Asia
New Zealand	3.31	19	56.82	Oceana
Hong Kong	3.24	20	54.55	Asia
Denmark	3.06	21	52.27	Europe
Singapore	2.64	22	50.00	Asia
Czech Republic	2.57	23	47.73	Europe
Norway	2.52	24	45.45	Europe
Argentina	2.39	25	43.18	Latin America
Switzerland	2.37	26	40.91	Europe
Luxembourg	2.05	27	38.64	Europe
the United Kingdom	1.71	28	36.36	Europe
Portugal	1.14	29	34.09	Europe
Indonesia	0.82	30	31.82	Asia
South Korea	0.27	33	25.00	Asia
Turkey	0.24	34	22.73	the Middle East
Mexico	0.24	35	20.45	Latin America
Sweden	0.17	37	15.91	Europe
USA	0.07	38	13.64	North America
Thailand	0.04	39	11.36	Asia
Peru	0.03	42	4.55	Latin America
Japan	0.00	44	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Operating Expenses - Total
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Burma	6.31	1	94.12
Philippines	**6.29**	**2**	**88.24**
China	3.39	3	82.35
Malaysia	3.32	4	76.47
Hong Kong	3.24	5	70.59
Singapore	2.64	6	64.71
Macau	2.35	7	58.82
Brunei	2.14	8	52.94
Indonesia	0.82	9	47.06
Maldives	0.75	10	41.18
Sri Lanka	0.59	11	35.29
South Korea	0.27	12	29.41
Thailand	0.04	13	23.53
Mongolia	0.04	14	17.65
North Korea	0.03	15	11.76
Papua New Guinea	0.02	16	5.88
Japan	0.00	17	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Operating Income

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Turkey	16.85	1	98.11	the Middle East
Mexico	16.80	2	96.23	Latin America
Thailand	14.11	4	92.45	Asia
China	13.83	5	90.57	Asia
Pakistan	13.59	6	88.68	the Middle East
Australia	13.39	7	86.79	Oceana
Peru	10.43	10	81.13	Latin America
Netherlands	10.17	11	79.25	Europe
Malaysia	10.12	12	77.36	Asia
Israel	9.48	13	75.47	the Middle East
Ireland	9.40	14	73.58	Europe
the United Kingdom	8.74	15	71.70	Europe
USA	8.66	16	69.81	North America
South Korea	8.17	17	67.92	Asia
Taiwan	7.84	18	66.04	Asia
India	6.29	20	62.26	Asia
Greece	5.88	21	60.38	Europe
Philippines	**4.50**	**22**	**58.49**	**Asia**
Finland	4.23	23	56.60	Europe
Canada	4.06	24	54.72	North America
France	4.00	25	52.83	Europe
South Africa	3.38	27	49.06	Africa
Spain	3.36	28	47.17	Europe
Brazil	3.06	29	45.28	Latin America
Sweden	2.97	30	43.40	Europe
Denmark	2.94	31	41.51	Europe
Chile	2.91	32	39.62	Latin America
New Zealand	2.71	33	37.74	Oceana
Hong Kong	2.66	34	35.85	Asia
Norway	2.58	35	33.96	Europe
Japan	2.45	36	32.08	Asia
Czech Republic	2.35	37	30.19	Europe
Argentina	2.19	38	28.30	Latin America
Switzerland	1.96	39	26.42	Europe
Singapore	1.70	40	24.53	Asia
Luxembourg	1.70	41	22.64	Europe
Portugal	1.62	42	20.75	Europe
Russia	0.77	44	16.98	Europe
Austria	0.76	45	15.09	Europe
Hungary	0.69	46	13.21	Europe
Poland	0.37	47	11.32	Europe
Indonesia	-1.28	50	5.66	Asia
Germany	-1.47	51	3.77	Europe
Italy	-1.61	52	1.89	Europe
Belgium	-1.66	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Operating Income
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Thailand	14.11	1	96.15
China	13.83	2	92.31
Mongolia	12.59	3	88.46
Malaysia	10.12	4	84.62
North Korea	10.12	5	80.77
South Korea	8.17	6	76.92
Taiwan	7.84	7	73.08
Papua New Guinea	7.08	8	69.23
India	6.29	9	65.38
Cambodia	4.77	10	61.54
Laos	4.60	11	57.69
Burma	4.52	12	53.85
Philippines	**4.50**	**13**	**50.00**
Vietnam	4.17	14	46.15
Bangladesh	3.58	15	42.31
Bhutan	3.41	16	38.46
Nepal	3.05	17	34.62
Hong Kong	2.66	18	30.77
Japan	2.45	19	26.92
Macau	2.15	20	23.08
Brunei	1.77	21	19.23
Singapore	1.70	22	15.38
Seychelles	0.72	23	11.54
Sri Lanka	-0.92	24	7.69
Maldives	-1.17	25	3.85
Indonesia	-1.28	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Earnings Before Interest and Taxes (EBIT)

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Indonesia	31.82	1	98.11	Asia
Turkey	21.11	4	92.45	the Middle East
Mexico	21.06	5	90.57	Latin America
Thailand	16.69	7	86.79	Asia
Greece	15.84	8	84.91	Europe
China	15.74	9	83.02	Asia
Pakistan	15.47	10	81.13	the Middle East
Australia	15.12	11	79.25	Oceana
Malaysia	14.15	12	77.36	Asia
Netherlands	12.80	15	71.70	Europe
Peru	12.33	16	69.81	Latin America
the United Kingdom	10.99	17	67.92	Europe
Israel	9.55	18	66.04	the Middle East
Ireland	9.47	19	64.15	Europe
South Korea	9.27	20	62.26	Asia
USA	9.01	22	58.49	North America
Taiwan	7.89	23	56.60	Asia
New Zealand	7.72	24	54.72	Oceana
Hong Kong	7.57	25	52.83	Asia
India	6.91	26	50.94	Asia
Canada	6.61	27	49.06	North America
France	6.50	28	47.17	Europe
Philippines	**5.79**	**29**	**45.28**	**Asia**
Austria	5.49	30	43.40	Europe
Spain	5.33	31	41.51	Europe
Finland	5.24	32	39.62	Europe
Denmark	4.91	34	35.85	Europe
Sweden	4.81	35	33.96	Europe
South Africa	4.59	36	32.08	Africa
Norway	4.18	37	30.19	Europe
Brazil	4.16	38	28.30	Latin America
Chile	3.96	39	26.42	Latin America
Portugal	3.77	40	24.53	Europe
Czech Republic	3.62	41	22.64	Europe
Singapore	3.56	42	20.75	Asia
Argentina	3.37	43	18.87	Latin America
Poland	3.06	44	16.98	Europe
Russia	2.80	46	13.21	Europe
Belgium	2.74	47	11.32	Europe
Italy	2.65	48	9.43	Europe
Hungary	2.52	49	7.55	Europe
Switzerland	2.34	50	5.66	Europe
Luxembourg	2.03	51	3.77	Europe
Germany	0.83	52	1.89	Europe
Japan	0.74	53	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Earnings Before Interest and Taxes (EBIT)
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Indonesia	31.82	1	96.15
Maldives	29.01	2	92.31
Sri Lanka	22.88	3	88.46
Thailand	16.69	4	84.62
China	15.74	5	80.77
Mongolia	14.89	6	76.92
Malaysia	14.15	7	73.08
North Korea	11.97	8	69.23
South Korea	9.27	9	65.38
Papua New Guinea	8.37	10	61.54
Taiwan	7.89	11	57.69
Hong Kong	7.57	12	53.85
India	6.91	13	50.00
Burma	5.81	14	46.15
Philippines	**5.79**	**15**	**42.31**
Cambodia	5.25	16	38.46
Laos	5.06	17	34.62
Vietnam	4.59	18	30.77
Bangladesh	3.93	19	26.92
Bhutan	3.75	20	23.08
Singapore	3.56	21	19.23
Nepal	3.35	22	15.38
Macau	3.32	23	11.54
Seychelles	2.62	24	7.69
Brunei	2.12	25	3.85
Japan	0.74	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Pretax Income

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Turkey	18.94	1	98.11	the Middle East
Mexico	18.89	2	96.23	Latin America
Greece	15.27	4	92.45	Europe
Thailand	15.16	5	90.57	Asia
Indonesia	14.26	6	88.68	Asia
Australia	13.12	8	84.91	Oceana
Malaysia	12.27	10	81.13	Asia
Peru	11.20	12	77.36	Latin America
China	10.55	13	75.47	Asia
Pakistan	10.37	14	73.58	the Middle East
the United Kingdom	8.50	16	69.81	Europe
Netherlands	8.38	17	67.92	Europe
USA	7.98	19	64.15	North America
Israel	7.41	20	62.26	the Middle East
Ireland	7.35	21	60.38	Europe
Taiwan	6.12	22	58.49	Asia
South Korea	4.86	23	56.60	Asia
New Zealand	4.10	24	54.72	Oceana
Hong Kong	4.01	25	52.83	Asia
Spain	3.90	26	50.94	Europe
India	3.63	27	49.06	Asia
South Africa	3.49	28	47.17	Africa
Brazil	3.16	29	45.28	Latin America
Denmark	3.10	30	43.40	Europe
Chile	3.01	31	41.51	Latin America
Czech Republic	2.91	32	39.62	Europe
Finland	2.89	33	37.74	Europe
Austria	2.75	34	35.85	Europe
Argentina	2.71	35	33.96	Latin America
Sweden	2.51	36	32.08	Europe
Poland	2.30	37	30.19	Europe
Canada	2.17	38	28.30	North America
France	2.14	39	26.42	Europe
Portugal	1.66	40	24.53	Europe
Norway	1.65	41	22.64	Europe
Switzerland	1.57	42	20.75	Europe
Singapore	1.38	43	18.87	Asia
Luxembourg	1.36	44	16.98	Europe
Belgium	1.35	45	15.09	Europe
Italy	1.31	46	13.21	Europe
Germany	-0.05	47	11.32	Europe
Japan	-0.16	48	9.43	Asia
Hungary	-3.08	49	7.55	Europe
Russia	-3.42	50	5.66	Europe
Philippines	**-4.37**	**53**	**0.00**	**Asia**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Pretax Income
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Thailand	15.16	1	96.15
Indonesia	14.26	2	92.31
Mongolia	13.53	3	88.46
Maldives	13.00	4	84.62
Malaysia	12.27	5	80.77
North Korea	10.88	6	76.92
China	10.55	7	73.08
Sri Lanka	10.25	8	69.23
Papua New Guinea	7.60	9	65.38
Taiwan	6.12	10	61.54
South Korea	4.86	11	57.69
Hong Kong	4.01	12	53.85
India	3.63	13	50.00
Cambodia	2.75	14	46.15
Macau	2.67	15	42.31
Laos	2.65	16	38.46
Vietnam	2.41	17	34.62
Bangladesh	2.06	18	30.77
Bhutan	1.96	19	26.92
Nepal	1.76	20	23.08
Brunei	1.42	21	19.23
Singapore	1.38	22	15.38
Japan	-0.16	23	11.54
Seychelles	-3.20	24	7.69
Philippines	**-4.37**	**25**	**3.85**
Burma	-4.39	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Income Taxes

Countries	Value (total revenue = 100)	Rank	Percentile	Region
Greece	5.35	1	97.96	Europe
Indonesia	4.74	2	95.92	Asia
Malaysia	3.75	4	91.84	Asia
Australia	3.44	5	89.80	Oceana
USA	2.98	7	85.71	North America
Netherlands	2.81	8	83.67	Europe
Turkey	2.80	9	81.63	the Middle East
Mexico	2.79	10	79.59	Latin America
the United Kingdom	2.58	12	75.51	Europe
Thailand	2.35	13	73.47	Asia
Peru	1.74	16	67.35	Latin America
South Korea	1.63	17	65.31	Asia
Israel	1.51	18	63.27	the Middle East
Ireland	1.50	19	61.22	Europe
China	1.41	20	59.18	Asia
Pakistan	1.39	21	57.14	the Middle East
Taiwan	1.25	23	53.06	Asia
Spain	1.14	24	51.02	Europe
Finland	1.12	25	48.98	Europe
Czech Republic	0.93	26	46.94	Europe
Canada	0.93	27	44.90	North America
France	0.91	28	42.86	Europe
South Africa	0.91	29	40.82	Africa
Argentina	0.87	30	38.78	Latin America
Brazil	0.82	31	36.73	Latin America
Sweden	0.81	32	34.69	Europe
New Zealand	0.80	33	32.65	Oceana
Hong Kong	0.78	34	30.61	Asia
Chile	0.78	35	28.57	Latin America
Norway	0.76	36	26.53	Europe
Poland	0.73	37	24.49	Europe
Belgium	0.59	38	22.45	Europe
Italy	0.57	39	20.41	Europe
Denmark	0.54	40	18.37	Europe
Singapore	0.50	41	16.33	Asia
Portugal	0.44	42	14.29	Europe
Germany	0.41	43	12.24	Europe
Switzerland	0.40	44	10.20	Europe
Luxembourg	0.35	45	8.16	Europe
Japan	0.28	46	6.12	Asia
Austria	0.04	47	4.08	Europe
Philippines	**-0.19**	**49**	**0.00**	**Asia**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Income Taxes
(General Building Contractors and Operative Builders)

Countries in Asia	Value (total revenue = 100)	Rank	Percentile
Indonesia	4.74	1	94.44
Maldives	4.32	2	88.89
Malaysia	3.75	3	83.33
Sri Lanka	3.41	4	77.78
Thailand	2.35	5	72.22
Mongolia	2.10	6	66.67
North Korea	1.68	7	61.11
South Korea	1.63	8	55.56
China	1.41	9	50.00
Taiwan	1.25	10	44.44
Papua New Guinea	1.18	11	38.89
Macau	0.85	12	33.33
Hong Kong	0.78	13	27.78
Singapore	0.50	14	22.22
Brunei	0.36	15	16.67
Japan	0.28	16	11.11
Philippines	**-0.19**	**17**	**5.56**
Burma	-0.19	18	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

3.5 FINANCIAL RETURNS IN PHILIPPINES: PROFITABILITY RATIOS

3.5.1 Overview

In this chapter we consider additional financial ratios estimated for firms involved in general building contractors and operative builders operating in Philippines benchmarked against global averages. The chapter begins by defining relevant terms. Estimates are then presented for the proto-typical firm operating in Philippines compared to average global benchmarks. For ratios where there are large deviations between the average firm in Philippines and the benchmarks, graphics are provided. Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key ratios are highlighted across countries in the comparison group.

3.5.2 Ratios – Definitions of Terms

The following definitions are provided for those less familiar with financial ratio analysis. As this chapter deals with the global benchmarking of ratios, only definitions covering certain terms used in this chapter's tables and graphs are provided here . The glossary below reflects commonly accepted definitions across various countries and official sources.

- **Accounts Receivables Days.** The number of days' receivable sales generally correlates to the amount of the accounts receivables to the average daily sales on account. Accounts receivables days is often determined by dividing the gross receivables by (net sales/365).

- **Cash Earnings Return On Equity (%).** Cash earnings return on equity generally measures the return of revenues to the shareholders. This ratio is generally calculated by dividing (net income before nonrecurring items minus preferred dividends) by the average common equity.

- **Cash Flow.** Cash flow is generally defined as being equal to the company's net income plus the charge-off amounts for depreciation, depletion, amortization, extraordinary charges to reserves. These are bookkeeping deductions which are not paid out as cash.

- **Current Ratio.** The current ratio is generally defined as a ratio of liquidity measuring the ability of a business to pay its current obligations when due. The current ratio is generally calculated by dividing total current assets by total current liabilities. Managers and lenders often want the current ratio to be 2.00 or greater. This ratio is often seen as an indication of short-term debt-paying ability. The higher the ratio, the more liquid the company.

- **Fixed Charge Coverage Ratio.** The fixed charge coverage ratio is generally seen as an indication of the company's ability to cover its fixed charges. This ratio is typically determined by dividing recurring earnings excluding interest expense, tax expense, equity earnings, and minority earnings plus interest from rentals by interest expense including capitalized interest and interest from rentals.

- **Gross Profit Margin (%).** The gross profit margin is typically defined to equals the difference, in percent, between net sales revenue and the cost of goods sold.

- **Inventories (# of Days) Held.** Inventory days held is generally determined by dividing the ending inventory by (the cost of goods held/365). The number of days held results in the average daily cost of goods held.
- **Inventory Turnover (%).** Inventory turnover is used as a measure of the balance of inventory. It generally compares the amount of inventory with the total sales for the year. The ratio can reflect both on the quality of the inventory and the efficiency of management. Typically, the higher the turnover rate, the greater the likelihood that profits would be larger and less working capital bound up in inventory.

- **Net Margin (%).** The net margin is the ratio of net income dollars generated by each dollar of sales.

- **Operating Profit Margin (%).** Operating profit margin percent is the ratio of operating profit to net sales. Operating profit (loss) is income or loss before taxes calculated by the difference between total revenues and total expense disregarding the effects of any extraordinary transactions.

- **Quick Ratio.** The quick ratio, also commonly known as the "acid test ratio", is a refined current ratio and is often seen as a more conservative measure of liquidity. The quick ratio is generally determined by dividing cash and equivalents plus trade receivables by total current liabilities. The ratio shows the degree to which a company's current liabilities can be covered by the most liquid current assets. Financial management texts generally conclude that any value of less than 1 to 1 implies a reciprocal dependency on inventory or other current assets to liquidate short-term debt.

- **Reinvestment Rate - Total (%).** The reinvestment rate is typically defined as the rate at which an investor assumes interest payments made on a debt security can be reinvested over the life of that security.

- **Return on Assets (%).** Return on assets is generally used to measure a company's ability to use assets to create profit.

- **Return on Equity - Total (%).** The return on total equity ratio is often seen to reflect the profitability of the company's operations after income taxes. Return on equity is often considered to be a good measure of the company's profitability. Tax laws and tax loss carryovers can affect the net income and therefore can also affect the return on equity.

- **Return on Invested Capital (%).** The ratio of return on invested capital is typically defined as an evaluation of earnings performance without regard to the method of financing. This ratio measures the earnings on investment and is an indication of how well the company utilizes its asset base. Return on investment is a type of return on capital, therefore this ratio can be an indication of the company's ability to reward investors who provide long-term funds and to attract future investors.

- **Working Capital.** Net working capital equals the difference between total current assets and total current liabilities. Working capital often reflects a company's ability to expand volume and meet obligations. Since growth is usually one goal, the amount of working capital on this year's balance sheet should be greater than that of the previous year's. This is an efficiency, or turnover, ratio which benchmarks the rate at which current assets less current liabilities are used by the company in making sales. A low ratio can indicate a less profitable use of working capital in making sales. On the other hand, a very high ratio can indicate the company is wasting current assets which could be more efficiently deployed in production and in increasing sales and profits; or that the company my be undercapitalized, and thus vulnerable to liquidity problems in a period of weak business conditions.

3.5.3 Ratio Structure: Outlook

Using the methodology described in the introduction, the following table summarizes ratio structure benchmarks for firms involved in general building contractors and operative builders in Philippines. All figures are current-year projections for companies operating in Philippines based on latest financial results available.

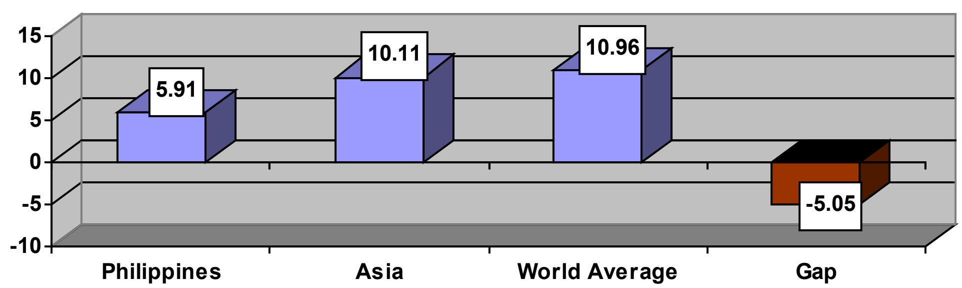
Ratios	Philippines	Asia	World Avg.
Profitability			
Return on Equity - Total (%)	-5.91	10.11	10.96
Reinvestment Rate - Total (%)	-5.91	9.29	9.44
Return on Assets (%)	0.82	6.09	6.13
Return on Invested Capital (%)	1.32	9.51	9.28
Cash Earnings Return On Equity (%)	11.86	7.75	17.19
Cash Flow % Sales	7.61	4.90	7.60
Cost Goods Sold / Sales (%)	73.97	74.27	48.15
Gross Profit Margin (%)	17.06	13.56	13.85
Selling, General & Administrative Expense/Net Sales (%)	9.40	6.96	6.26
Operating Profit Margin (%)	4.50	5.03	7.21
Operating Inc / Total Capital (%)	4.07	10.15	13.23
Pretax Margin (%)	-4.37	5.12	6.08
Net Margin (%)	-3.76	5.46	5.20
Total Asset Turnover (X) th USD	0.41	0.78	0.88
Asset Utilization			
Inventory Turnover (%)	6.10	7.74	6.47
Net Sales % Working Capital	7.35	3.72	4.91
Capital Expenditure % Gross Fixed Assets	1.65	7.19	10.25
Capital Expenditure % Total Assets	1.23	2.96	4.43
Capital Expenditure % Total Sales	3.84	4.52	9.31
Accumulated Depreciation % Gross Fixed Assets	40.31	28.05	20.06
Leverage			
Total Debt % Total Capital	46.26	36.72	40.87
Long Term Debt % Total Capital	33.80	25.93	25.88
Equity % Total Capital	53.94	56.13	62.09
Preferred Stock % Total Capital	2.02	0.24	0.16
Fixed Charge Coverage Ratio	0.49	6.83	5.00
Fixed Assets % Common Equity	179.35	105.82	87.54
Working Capital % Total Capital	12.25	19.81	24.90
Liquidity			
Quick Ratio	0.84	0.60	0.61
Current Ratio	1.27	1.22	1.36
Cash & Equivalents % Total Current Assets	7.99	15.41	17.46
Receivables % Total Current Assets	56.67	32.91	26.86
Inventories % Total Current Assets	16.54	27.99	37.58
Accounts Receivables Days	234.96	81.26	79.52
Inventories (# of Days) Held	62.46	112.51	242.39

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

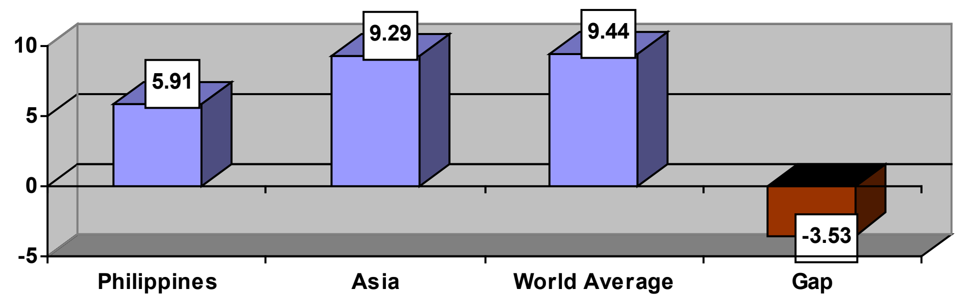
3.5.4 Large Variances: Ratios

The following graphics summarize for general building contractors and operative builders the large ratio structure gaps between firms operating in Philippines and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

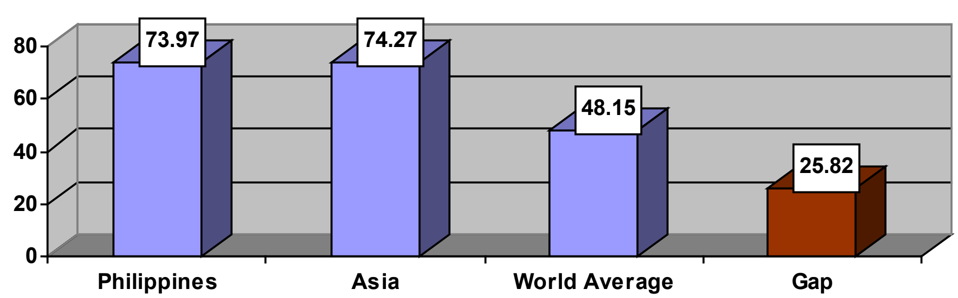
Gap: Return on Equity - Total (%)



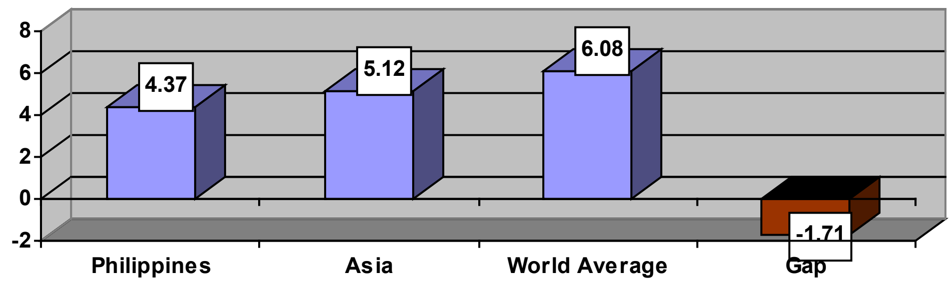
Gap: Reinvestment Rate - Total (%)



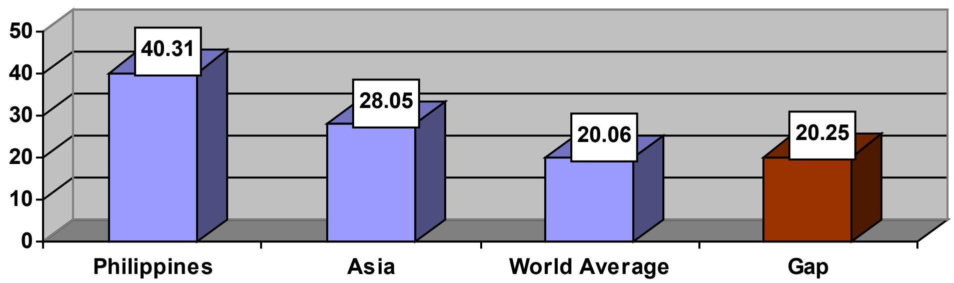
Gap: Cost Goods Sold / Sales (%)



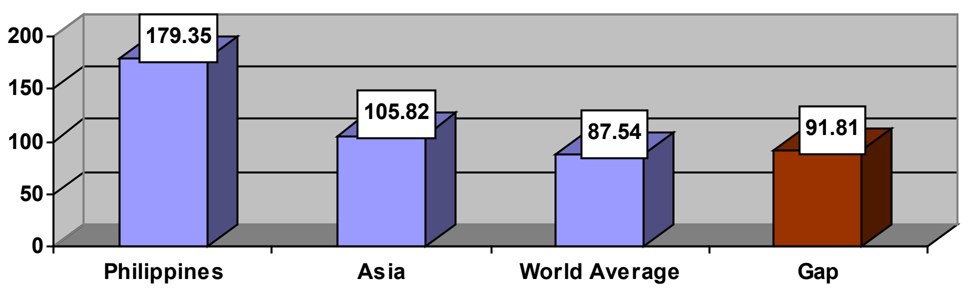
Gap: Pretax Margin (%)



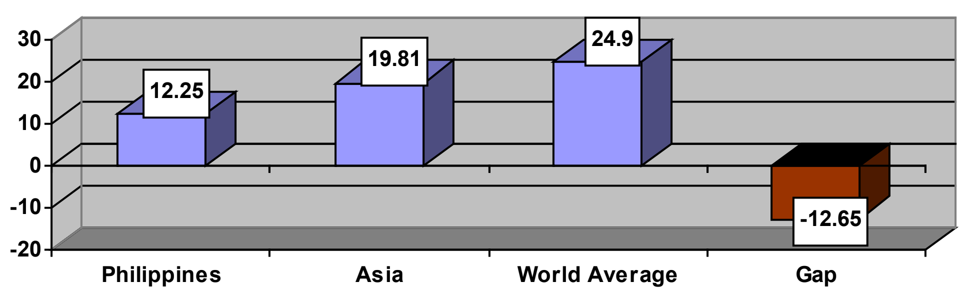
Gap: Accumulated Depreciation % Gross Fixed Assets



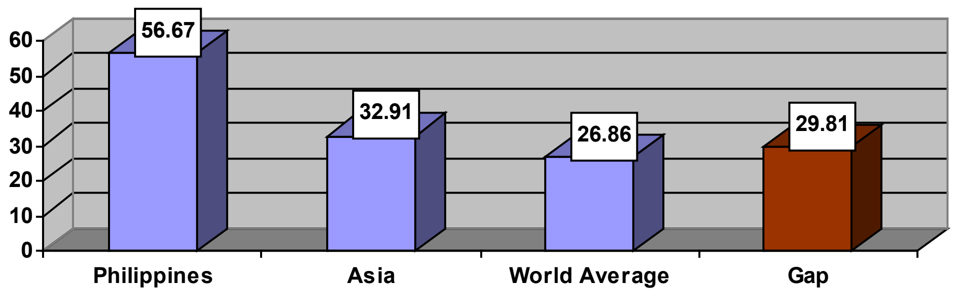
Gap: Fixed Assets % Common Equity



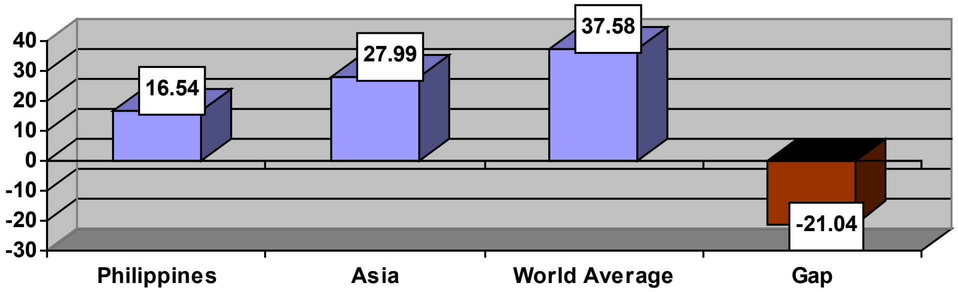
Gap: Working Capital % Total Capital



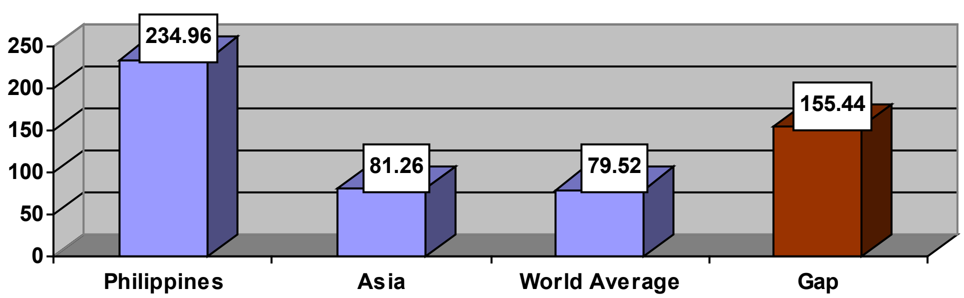
Gap: Receivables % Total Current Assets



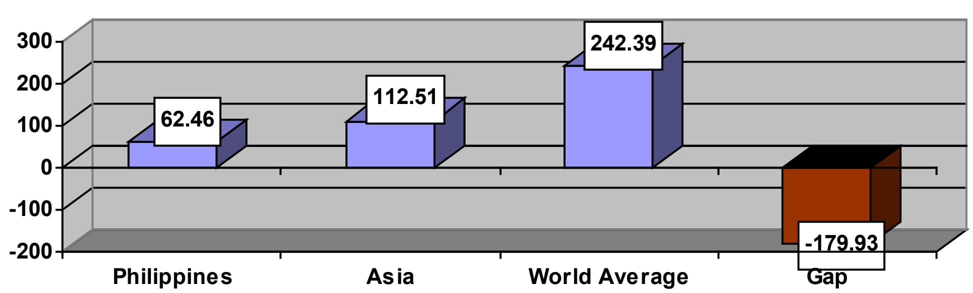
Gap: Inventories % Total Current Assets



Gap: Accounts Receivables Days



Gap: Inventories (# of Days) Held



3.5.5 Key Percentiles and Rankings

We now consider the distribution of financial ratios for general building contractors and operative builders using ranks and percentiles. What percent of countries have a value lower or higher than Philippines (what is the ratio's rank or percentile)? The table below answers this question with respect to financial ratios. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance. After the summary table below, a few key financial ratios are highlighted in additional tables.

Ratios	Philippines	Rank of Total	Percentile
Profitability			
Return on Equity - Total (%)	-5.91	49 of 53	7.55
Reinvestment Rate - Total (%)	-5.91	48 of 53	9.43
Return on Assets (%)	0.82	47 of 53	11.32
Return on Invested Capital (%)	1.32	47 of 53	11.32
Cash Earnings Return On Equity (%)	11.86	36 of 53	32.08
Cash Flow % Sales	7.61	15 of 53	71.70
Cost Goods Sold / Sales (%)	73.97	36 of 49	26.53
Gross Profit Margin (%)	17.06	14 of 49	71.43
Selling, General & Administrative Expense/Net Sales (%)	9.40	13 of 37	64.86
Operating Profit Margin (%)	4.50	22 of 53	58.49
Operating Inc / Total Capital (%)	4.07	37 of 53	30.19
Pretax Margin (%)	-4.37	53 of 53	0.00
Net Margin (%)	-3.76	52 of 53	1.89
Total Asset Turnover (X) th USD	0.41	47 of 53	11.32
Asset Utilization			
Inventory Turnover (%)	6.10	36 of 53	32.08
Net Sales % Working Capital	7.35	22 of 53	58.49
Capital Expenditure % Gross Fixed Assets	1.65	44 of 46	4.35
Capital Expenditure % Total Assets	1.23	47 of 51	7.84
Capital Expenditure % Total Sales	3.84	30 of 51	41.18
Accumulated Depreciation % Gross Fixed Assets	40.31	23 of 48	52.08
Leverage			
Total Debt % Total Capital	46.26	23 of 53	56.60
Long Term Debt % Total Capital	33.80	19 of 53	64.15
Equity % Total Capital	53.94	42 of 53	20.75
Preferred Stock % Total Capital	2.02	1 of 13	92.31
Fixed Charge Coverage Ratio	0.49	48 of 53	9.43
Fixed Assets % Common Equity	179.35	7 of 53	86.79
Working Capital % Total Capital	12.25	36 of 53	32.08
Liquidity			
Quick Ratio	0.84	19 of 53	64.15
Current Ratio	1.27	27 of 53	49.06
Cash & Equivalents % Total Current Assets	7.99	47 of 53	11.32
Receivables % Total Current Assets	56.67	8 of 53	84.91
Inventories % Total Current Assets	16.54	43 of 53	18.87
Accounts Receivables Days	234.96	1 of 53	98.11
Inventories (# of Days) Held	62.46	28 of 53	47.17

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Gross Profit Margin (%)

Countries	Value	Rank	Percentile	Region
China	32.27	1	97.96	Asia
Pakistan	31.72	2	95.92	the Middle East
Turkey	26.99	3	93.88	the Middle East
Mexico	26.91	4	91.84	Latin America
USA	22.87	6	87.76	North America
Thailand	20.30	7	85.71	Asia
the United Kingdom	19.29	8	83.67	Europe
Malaysia	18.93	9	81.63	Asia
Australia	18.30	10	79.59	Oceana
New Zealand	17.31	11	77.55	Oceana
Israel	17.26	12	75.51	the Middle East
Ireland	17.12	13	73.47	Europe
Philippines	**17.06**	**14**	**71.43**	**Asia**
Hong Kong	16.96	16	67.35	Asia
Denmark	16.87	17	65.31	Europe
Canada	15.60	19	61.22	North America
France	15.34	20	59.18	Europe
Peru	15.00	21	57.14	Latin America
Spain	14.86	22	55.10	Europe
Austria	14.75	23	53.06	Europe
Taiwan	14.27	25	48.98	Asia
Netherlands	13.67	26	46.94	Europe
South Korea	13.52	27	44.90	Asia
Greece	13.20	28	42.86	Europe
Japan	13.06	29	40.82	Asia
South Africa	12.54	30	38.78	Africa
Germany	11.82	31	36.73	Europe
Brazil	11.36	32	34.69	Latin America
Poland	10.82	34	30.61	Europe
Chile	10.81	35	28.57	Latin America
Finland	10.53	36	26.53	Europe
Singapore	10.08	37	24.49	Asia
Norway	9.10	38	22.45	Europe
Czech Republic	9.07	39	20.41	Europe
Argentina	8.45	40	18.37	Latin America
Sweden	6.51	41	16.33	Europe
Indonesia	5.56	42	14.29	Asia
Switzerland	5.17	44	10.20	Europe
Luxembourg	4.47	45	8.16	Europe
Belgium	3.61	47	4.08	Europe
Italy	3.49	48	2.04	Europe
Portugal	2.77	49	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Gross Profit Margin (%)
(General Building Contractors and Operative Builders)

Countries in Asia	Value	Rank	Percentile
China	32.27	1	94.44
Thailand	20.30	2	88.89
Malaysia	18.93	3	83.33
Mongolia	18.11	4	77.78
Burma	17.12	5	72.22
Philippines	**17.06**	**6**	**66.67**
Hong Kong	16.96	7	61.11
North Korea	14.56	8	55.56
Taiwan	14.27	9	50.00
South Korea	13.52	10	44.44
Japan	13.06	11	38.89
Papua New Guinea	10.18	12	33.33
Singapore	10.08	13	27.78
Macau	8.32	14	22.22
Indonesia	5.56	15	16.67
Maldives	5.07	16	11.11
Brunei	4.67	17	5.56
Sri Lanka	4.00	18	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Pretax Margin (%)

Countries	Value	Rank	Percentile	Region
Turkey	18.94	1	98.11	the Middle East
Mexico	18.89	2	96.23	Latin America
Greece	15.27	4	92.45	Europe
Thailand	15.16	5	90.57	Asia
Indonesia	14.26	6	88.68	Asia
Australia	13.12	8	84.91	Oceana
Malaysia	12.27	10	81.13	Asia
Peru	11.20	12	77.36	Latin America
China	10.55	13	75.47	Asia
Pakistan	10.37	14	73.58	the Middle East
the United Kingdom	8.50	16	69.81	Europe
Netherlands	8.38	17	67.92	Europe
USA	7.98	19	64.15	North America
Israel	7.41	20	62.26	the Middle East
Ireland	7.35	21	60.38	Europe
Taiwan	6.12	22	58.49	Asia
South Korea	4.86	23	56.60	Asia
New Zealand	4.10	24	54.72	Oceana
Hong Kong	4.01	25	52.83	Asia
Spain	3.90	26	50.94	Europe
India	3.63	27	49.06	Asia
South Africa	3.49	28	47.17	Africa
Brazil	3.16	29	45.28	Latin America
Denmark	3.10	30	43.40	Europe
Chile	3.01	31	41.51	Latin America
Czech Republic	2.91	32	39.62	Europe
Finland	2.89	33	37.74	Europe
Austria	2.75	34	35.85	Europe
Argentina	2.71	35	33.96	Latin America
Sweden	2.51	36	32.08	Europe
Poland	2.30	37	30.19	Europe
Canada	2.17	38	28.30	North America
France	2.14	39	26.42	Europe
Portugal	1.66	40	24.53	Europe
Norway	1.65	41	22.64	Europe
Switzerland	1.57	42	20.75	Europe
Singapore	1.38	43	18.87	Asia
Luxembourg	1.36	44	16.98	Europe
Belgium	1.35	45	15.09	Europe
Italy	1.31	46	13.21	Europe
Germany	-0.05	47	11.32	Europe
Japan	-0.16	48	9.43	Asia
Hungary	-3.08	49	7.55	Europe
Russia	-3.42	50	5.66	Europe
Philippines	**-4.37**	**53**	**0.00**	**Asia**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Pretax Margin (%)
(General Building Contractors and Operative Builders)

Countries in Asia	Value	Rank	Percentile
Thailand	15.16	1	96.15
Indonesia	14.26	2	92.31
Mongolia	13.53	3	88.46
Maldives	13.00	4	84.62
Malaysia	12.27	5	80.77
North Korea	10.88	6	76.92
China	10.55	7	73.08
Sri Lanka	10.25	8	69.23
Papua New Guinea	7.60	9	65.38
Taiwan	6.12	10	61.54
South Korea	4.86	11	57.69
Hong Kong	4.01	12	53.85
India	3.63	13	50.00
Cambodia	2.75	14	46.15
Macau	2.67	15	42.31
Laos	2.65	16	38.46
Vietnam	2.41	17	34.62
Bangladesh	2.06	18	30.77
Bhutan	1.96	19	26.92
Nepal	1.76	20	23.08
Brunei	1.42	21	19.23
Singapore	1.38	22	15.38
Japan	-0.16	23	11.54
Seychelles	-3.20	24	7.69
Philippines	**-4.37**	**25**	**3.85**
Burma	-4.39	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Quick Ratio

Countries	Value	Rank	Percentile	Region
Turkey	2.06	1	98.11	the Middle East
Mexico	2.05	2	96.23	Latin America
Greece	1.32	4	92.45	Europe
Malaysia	1.28	5	90.57	Asia
Poland	1.18	6	88.68	Europe
Canada	1.15	7	86.79	North America
France	1.13	8	84.91	Europe
USA	1.06	9	83.02	North America
New Zealand	1.06	10	81.13	Oceana
Hong Kong	1.03	11	79.25	Asia
Spain	0.96	12	77.36	Europe
Thailand	0.94	14	73.58	Asia
Russia	0.93	15	71.70	Europe
South Korea	0.91	16	69.81	Asia
Switzerland	0.91	17	67.92	Europe
Denmark	0.88	18	66.04	Europe
Philippines	**0.84**	**19**	**64.15**	**Asia**
Hungary	0.83	20	62.26	Europe
Czech Republic	0.82	21	60.38	Europe
Germany	0.79	22	58.49	Europe
Luxembourg	0.78	24	54.72	Europe
Argentina	0.76	25	52.83	Latin America
Portugal	0.76	26	50.94	Europe
Netherlands	0.75	27	49.06	Europe
Norway	0.74	28	47.17	Europe
Peru	0.69	31	41.51	Latin America
Sweden	0.69	32	39.62	Europe
Singapore	0.61	33	37.74	Asia
Belgium	0.60	34	35.85	Europe
Japan	0.60	35	33.96	Asia
Italy	0.58	36	32.08	Europe
the United Kingdom	0.57	37	30.19	Europe
Finland	0.57	38	28.30	Europe
India	0.52	39	26.42	Asia
Australia	0.51	40	24.53	Oceana
South Africa	0.45	42	20.75	Africa
Brazil	0.41	43	18.87	Latin America
Chile	0.39	44	16.98	Latin America
China	0.38	45	15.09	Asia
Pakistan	0.38	46	13.21	the Middle East
Indonesia	0.36	47	11.32	Asia
Austria	0.35	48	9.43	Europe
Israel	0.29	50	5.66	the Middle East
Ireland	0.29	51	3.77	Europe
Taiwan	0.24	53	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Quick Ratio
(General Building Contractors and Operative Builders)

Countries in Asia	Value	Rank	Percentile
Malaysia	1.28	1	96.15
Hong Kong	1.03	2	92.31
Thailand	0.94	3	88.46
South Korea	0.91	4	84.62
Seychelles	0.87	5	80.77
Burma	0.84	6	76.92
Philippines	**0.84**	**7**	**73.08**
Mongolia	0.84	8	69.23
Brunei	0.82	9	65.38
Macau	0.75	10	61.54
North Korea	0.67	11	57.69
Singapore	0.61	12	53.85
Japan	0.60	13	50.00
India	0.52	14	46.15
Papua New Guinea	0.47	15	42.31
Cambodia	0.39	16	38.46
China	0.38	17	34.62
Laos	0.38	18	30.77
Indonesia	0.36	19	26.92
Vietnam	0.34	20	23.08
Maldives	0.33	21	19.23
Bangladesh	0.30	22	15.38
Bhutan	0.28	23	11.54
Sri Lanka	0.26	24	7.69
Nepal	0.25	25	3.85
Taiwan	0.24	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Ratio

Countries	Value	Rank	Percentile	Region
USA	3.59	1	98.11	North America
Thailand	2.71	2	96.23	Asia
Turkey	2.58	3	94.34	the Middle East
Mexico	2.57	4	92.45	Latin America
the United Kingdom	2.06	8	84.91	Europe
Peru	2.00	9	83.02	Latin America
Israel	1.78	10	81.13	the Middle East
Ireland	1.77	11	79.25	Europe
Sweden	1.75	12	77.36	Europe
Greece	1.70	13	75.47	Europe
Malaysia	1.64	14	73.58	Asia
Canada	1.52	15	71.70	North America
France	1.49	16	69.81	Europe
India	1.48	18	66.04	Asia
Poland	1.47	19	64.15	Europe
Taiwan	1.47	20	62.26	Asia
Germany	1.45	21	60.38	Europe
South Korea	1.45	22	58.49	Asia
Finland	1.45	23	56.60	Europe
Switzerland	1.43	24	54.72	Europe
New Zealand	1.40	25	52.83	Oceana
Hong Kong	1.37	26	50.94	Asia
Philippines	**1.27**	**27**	**49.06**	**Asia**
Denmark	1.26	28	47.17	Europe
Luxembourg	1.24	29	45.28	Europe
Australia	1.23	30	43.40	Oceana
Russia	1.20	32	39.62	Europe
Portugal	1.15	33	37.74	Europe
Belgium	1.15	34	35.85	Europe
Czech Republic	1.13	35	33.96	Europe
China	1.11	36	32.08	Asia
Italy	1.11	37	30.19	Europe
Netherlands	1.10	38	28.30	Europe
Pakistan	1.09	39	26.42	the Middle East
Spain	1.08	40	24.53	Europe
Hungary	1.08	41	22.64	Europe
Japan	1.06	43	18.87	Asia
Argentina	1.06	44	16.98	Latin America
South Africa	1.05	45	15.09	Africa
Norway	1.03	46	13.21	Europe
Austria	1.00	47	11.32	Europe
Brazil	0.95	48	9.43	Latin America
Singapore	0.92	49	7.55	Asia
Chile	0.90	50	5.66	Latin America
Indonesia	0.50	51	3.77	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Ratio
(General Building Contractors and Operative Builders)

Countries in Asia	Value	Rank	Percentile
Thailand	2.71	1	96.15
Mongolia	2.42	2	92.31
North Korea	1.95	3	88.46
Malaysia	1.64	4	84.62
India	1.48	5	80.77
Taiwan	1.47	6	76.92
South Korea	1.45	7	73.08
Hong Kong	1.37	8	69.23
Papua New Guinea	1.36	9	65.38
Brunei	1.29	10	61.54
Burma	1.27	11	57.69
Philippines	**1.27**	**12**	**53.85**
Cambodia	1.12	13	50.00
Seychelles	1.12	14	46.15
China	1.11	15	42.31
Laos	1.08	16	38.46
Japan	1.06	17	34.62
Macau	1.04	18	30.77
Vietnam	0.98	19	26.92
Singapore	0.92	20	23.08
Bangladesh	0.84	21	19.23
Bhutan	0.80	22	15.38
Nepal	0.72	23	11.54
Indonesia	0.50	24	7.69
Maldives	0.46	25	3.85
Sri Lanka	0.36	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Inventories % Total Current Assets

Countries	Value	Rank	Percentile	Region
Israel	78.24	1	98.11	the Middle East
Ireland	77.59	2	96.23	Europe
Taiwan	64.66	3	94.34	Asia
China	59.77	4	92.45	Asia
USA	59.36	5	90.57	North America
the United Kingdom	58.94	6	88.68	Europe
Pakistan	58.77	7	86.79	the Middle East
Austria	55.95	8	84.91	Europe
Finland	54.56	9	83.02	Europe
Australia	48.18	10	81.13	Oceana
Belgium	45.92	11	79.25	Europe
Italy	44.37	12	77.36	Europe
Sweden	42.59	13	75.47	Europe
India	42.22	14	73.58	Asia
Thailand	38.87	15	71.70	Asia
Germany	38.10	16	69.81	Europe
Japan	35.53	17	67.92	Asia
South Africa	34.72	18	66.04	Africa
Brazil	31.46	20	62.26	Latin America
Chile	29.93	22	58.49	Latin America
South Korea	29.58	23	56.60	Asia
Peru	28.72	24	54.72	Latin America
Denmark	27.74	25	52.83	Europe
New Zealand	26.76	26	50.94	Oceana
Hong Kong	26.22	27	49.06	Asia
Singapore	25.76	28	47.17	Asia
Netherlands	25.55	29	45.28	Europe
Canada	23.06	30	43.40	North America
Greece	22.97	31	41.51	Europe
France	22.68	32	39.62	Europe
Switzerland	22.67	33	37.74	Europe
Czech Republic	22.45	34	35.85	Europe
Indonesia	22.00	35	33.96	Asia
Argentina	20.91	37	30.19	Latin America
Portugal	20.36	39	26.42	Europe
Malaysia	19.71	40	24.53	Asia
Luxembourg	19.60	41	22.64	Europe
Norway	19.34	42	20.75	Europe
Philippines	**16.54**	**43**	**18.87**	**Asia**
Russia	13.87	47	11.32	Europe
Hungary	12.46	48	9.43	Europe
Poland	11.82	49	7.55	Europe
Spain	9.40	50	5.66	Europe
Turkey	7.55	51	3.77	the Middle East
Mexico	7.53	52	1.89	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Inventories % Total Current Assets (General Building Contractors and Operative Builders)

Countries in Asia	Value	Rank	Percentile
Taiwan	64.66	1	96.15
China	59.77	2	92.31
India	42.22	3	88.46
Thailand	38.87	4	84.62
Japan	35.53	5	80.77
Mongolia	34.68	6	76.92
Cambodia	32.04	7	73.08
Laos	30.89	8	69.23
South Korea	29.58	9	65.38
Vietnam	28.03	10	61.54
North Korea	27.88	11	57.69
Hong Kong	26.22	12	53.85
Singapore	25.76	13	50.00
Bangladesh	24.03	14	46.15
Bhutan	22.88	15	42.31
Indonesia	22.00	16	38.46
Macau	20.60	17	34.62
Nepal	20.48	18	30.77
Brunei	20.47	19	26.92
Maldives	20.06	20	23.08
Malaysia	19.71	21	19.23
Papua New Guinea	19.49	22	15.38
Burma	16.59	23	11.54
Philippines	**16.54**	**24**	**7.69**
Sri Lanka	15.82	25	3.85
Seychelles	12.94	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accounts Receivables Days

Countries	Value	Rank	Percentile	Region
Philippines	**234.96**	**1**	**98.11**	**Asia**
Spain	182.53	3	94.34	Europe
Portugal	170.39	4	92.45	Europe
Malaysia	160.94	5	90.57	Asia
Belgium	153.22	6	88.68	Europe
Canada	149.54	8	84.91	North America
Russia	149.15	9	83.02	Europe
Italy	148.04	10	81.13	Europe
France	147.06	11	79.25	Europe
New Zealand	134.66	12	77.36	Oceana
Austria	134.07	13	75.47	Europe
Hungary	134.00	14	73.58	Europe
Hong Kong	131.95	15	71.70	Asia
Greece	111.38	16	69.81	Europe
South Korea	105.11	17	67.92	Asia
China	101.77	18	66.04	Asia
Pakistan	100.06	19	64.15	the Middle East
Japan	94.93	20	62.26	Asia
Singapore	89.70	21	60.38	Asia
Poland	87.87	22	58.49	Europe
Thailand	85.41	23	56.60	Asia
Netherlands	83.86	24	54.72	Europe
Sweden	72.55	25	52.83	Europe
Denmark	70.24	27	49.06	Europe
India	67.91	28	47.17	Asia
Finland	64.48	30	43.40	Europe
Peru	63.11	31	41.51	Latin America
Switzerland	61.72	32	39.62	Europe
Norway	59.22	33	37.74	Europe
Luxembourg	53.38	34	35.85	Europe
Czech Republic	51.82	35	33.96	Europe
Germany	50.86	36	32.08	Europe
Argentina	48.27	37	30.19	Latin America
Australia	48.27	38	28.30	Oceana
USA	46.48	40	24.53	North America
the United Kingdom	43.81	41	22.64	Europe
Indonesia	41.85	42	20.75	Asia
Turkey	40.44	43	18.87	the Middle East
Mexico	40.33	44	16.98	Latin America
South Africa	20.43	48	9.43	Africa
Israel	20.05	49	7.55	the Middle East
Ireland	19.88	50	5.66	Europe
Brazil	18.51	51	3.77	Latin America
Chile	17.62	52	1.89	Latin America
Taiwan	16.57	53	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accounts Receivables Days
(General Building Contractors and Operative Builders)

Countries in Asia	Value	Rank	Percentile
Burma	235.78	1	96.15
Philippines	**234.96**	**2**	**92.31**
Malaysia	160.94	3	88.46
Seychelles	139.18	4	84.62
Hong Kong	131.95	5	80.77
South Korea	105.11	6	76.92
China	101.77	7	73.08
Japan	94.93	8	69.23
Singapore	89.70	9	65.38
Thailand	85.41	10	61.54
Mongolia	76.20	11	57.69
India	67.91	12	53.85
North Korea	61.26	13	50.00
Brunei	55.74	14	46.15
Cambodia	51.53	15	42.31
Laos	49.69	16	38.46
Macau	47.56	17	34.62
Vietnam	45.09	18	30.77
Papua New Guinea	42.83	19	26.92
Indonesia	41.85	20	23.08
Bangladesh	38.65	21	19.23
Maldives	38.16	22	15.38
Bhutan	36.81	23	11.54
Nepal	32.94	24	7.69
Sri Lanka	30.10	25	3.85
Taiwan	16.57	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Inventories (# of Days) Held

Countries	Value	Rank	Percentile	Region
China	783.90	1	98.11	Asia
Pakistan	770.74	2	96.23	the Middle East
Austria	266.48	3	94.34	Europe
Israel	260.06	4	92.45	the Middle East
Ireland	257.91	5	90.57	Europe
Thailand	255.13	6	88.68	Asia
the United Kingdom	239.13	7	86.79	Europe
Taiwan	214.93	8	84.91	Asia
Canada	189.08	11	79.25	North America
Peru	188.51	12	77.36	Latin America
France	185.95	13	75.47	Europe
New Zealand	185.56	14	73.58	Oceana
Hong Kong	181.82	15	71.70	Asia
USA	176.77	16	69.81	North America
Finland	168.87	17	67.92	Europe
Sweden	146.96	18	66.04	Europe
Belgium	144.74	19	64.15	Europe
Italy	139.84	20	62.26	Europe
Japan	115.88	22	58.49	Asia
Germany	115.54	23	56.60	Europe
Malaysia	112.05	24	54.72	Asia
South Korea	84.72	25	52.83	Asia
Australia	78.66	26	50.94	Oceana
India	65.07	27	49.06	Asia
Philippines	**62.46**	**28**	**47.17**	**Asia**
Portugal	60.76	29	45.28	Europe
Greece	55.11	30	43.40	Europe
South Africa	48.16	32	39.62	Africa
Singapore	46.08	33	37.74	Asia
Brazil	43.63	34	35.85	Latin America
Chile	41.52	35	33.96	Latin America
Netherlands	38.95	36	32.08	Europe
Switzerland	32.31	37	30.19	Europe
Indonesia	30.55	38	28.30	Asia
Spain	30.34	39	26.42	Europe
Denmark	28.87	41	22.64	Europe
Russia	28.76	42	20.75	Europe
Poland	28.41	44	16.98	Europe
Norway	28.05	45	15.09	Europe
Luxembourg	27.94	46	13.21	Europe
Hungary	25.84	47	11.32	Europe
Czech Republic	23.48	48	9.43	Europe
Argentina	21.87	50	5.66	Latin America
Turkey	21.83	51	3.77	the Middle East
Mexico	21.77	52	1.89	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Inventories (# of Days) Held
(General Building Contractors and Operative Builders)

Countries in Asia	Value	Rank	Percentile
China	783.90	1	96.15
Thailand	255.13	2	92.31
Mongolia	227.61	3	88.46
Taiwan	214.93	4	84.62
North Korea	182.98	5	80.77
Hong Kong	181.82	6	76.92
Papua New Guinea	127.95	7	73.08
Japan	115.88	8	69.23
Malaysia	112.05	9	65.38
South Korea	84.72	10	61.54
India	65.07	11	57.69
Burma	62.68	12	53.85
Philippines	**62.46**	**13**	**50.00**
Cambodia	49.37	14	46.15
Laos	47.61	15	42.31
Singapore	46.08	16	38.46
Vietnam	43.20	17	34.62
Bangladesh	37.03	18	30.77
Bhutan	35.27	19	26.92
Nepal	31.56	20	23.08
Indonesia	30.55	21	19.23
Brunei	29.18	22	15.38
Maldives	27.86	23	11.54
Seychelles	26.84	24	7.69
Sri Lanka	21.97	25	3.85
Macau	21.55	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

3.6 PRODUCTIVITY IN PHILIPPINES: ASSET-LABOR RATIOS

3.6.1 Overview

In this chapter, we consider numerous asset-labor ratios for general building contractors and operative builders in Philippines benchmarked against global averages. Productivity and utilization ratios are presented for companies oprating in Philippines and the average global benchmarks for general building contractors and operative builders. For ratios where there are large deviations between Philippines and the benchmarks, graphics are provided (sometimes referred to as a "gap" analysis). Then the distribution of ratios is presented in the form of ranks and percentiles. Certain asset-labor ratios are highlighted across countries in the comparison group.

In the case of asset-labor ratios, this report maintains comparability over time and across countries by using a common currency (the US dollar) and relates each measure to a "per employee basis". Ratios are projected using raw financial statistics and, as ratios, are therefore comparable. Given a country's human resource ratios, the resulting figures are benchmarked across regional and global averages.

We then report the larger asset-labor ratio gaps for general building contractors and operative builders that Philippines has vis-à-vis the worldwide average. Again, a gap need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or signal a firm's relative incentive to invest locally. All figures are projections, so due caution is required.

3.6.2 Asset to Labor: Outlook

The following tables and graphs are prepared using the methodology described at the beginning of this section. All units are in thousands of US dollars per employee. All figures are current-year projections for general building contractors and operative builders in Philippines based on latest financial results available.

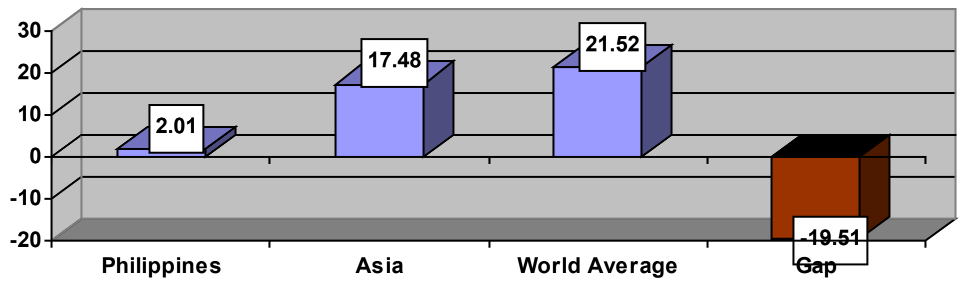
Labor-asset Ratios ($k/employee)	**Philippines**	**Asia**	**World Avg.**
Cash & Short Term Investments	2.01	17.48	21.52
Cash	1.06	16.27	8.51
Short Term Investments	0.95	8.23	8.33
Receivables (Net)	15.29	35.28	30.50
Total Inventories	2.98	74.32	100.77
Raw Materials	2.79	5.48	3.71
Work in Process	1.12	32.46	31.75
Finished Goods	0.05	9.44	8.98
Progress Payments & Other	-0.20	56.32	14.87
Prepaid Expenses	0.23	3.05	1.84
Other Current Assets	14.41	8.93	10.28
Current Assets - Total	**34.84**	**136.93**	**162.29**
Long Term Receivables	13.86	6.76	3.98
Investments in Unconsolidated Subsidiaries	2.95	13.02	6.53
Other Investments	1.84	21.38	7.04
Property Plant and Equipment - Net	25.38	44.69	36.51
Property Plant and Equipment - Gross	59.98	85.35	44.81
Land	5.83	31.59	7.46
Buildings	3.54	21.54	18.86
Machinery & Equipment	3.40	16.21	9.10
Transportation Equipment	0.87	2.64	1.19
Other Property Plant & Equipment	46.35	16.86	13.74
Accumulated Depreciation - Total	34.60	22.59	10.89
Accumulated Depreciation - Buildings	0.86	7.82	3.57
Accumulated Depreciation -Machinery & Equipment	1.59	7.42	4.07
Accumulated Depreciation - Transportation Equipment	0.31	1.29	0.70
Accumulated Depreciation - Other Prop & Equip	0.63	3.43	1.90
Other Assets	2.37	12.98	23.02
Deferred Charges	0.02	2.35	0.76
Tangible Other Assets	1.99	4.54	4.21
Intangible Other Assets	0.37	4.16	6.19
Total Assets	**76.63**	**219.88**	**236.60**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

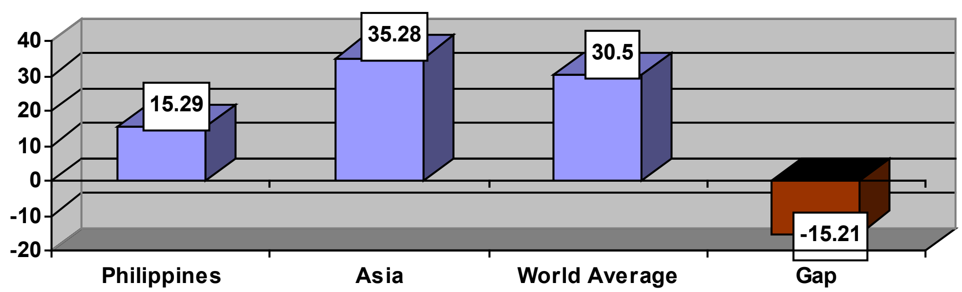
3.6.3 Asset to Labor: International Gaps

The following graphics summarize for general building contractors and operative builders the large labor-asset gaps between firms operating in Philippines and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

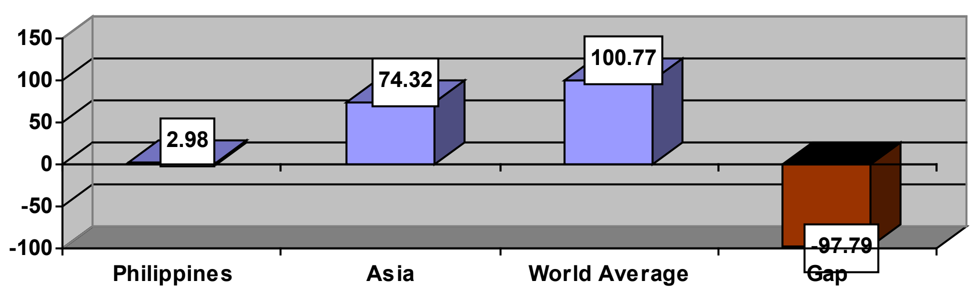
Gap: Cash & Short Term Investments ($k/employee)



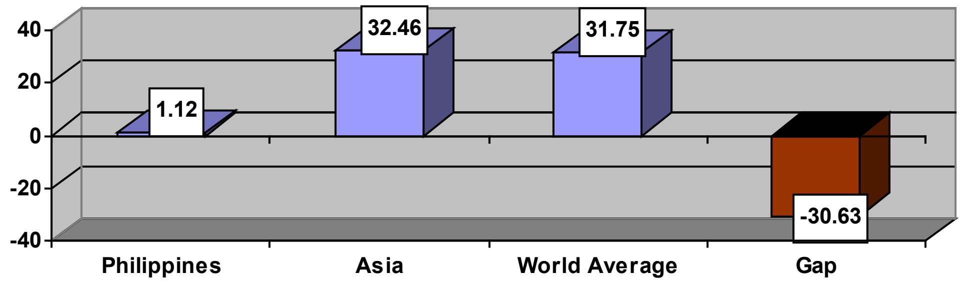
Gap: Receivables (Net) ($k/employee)



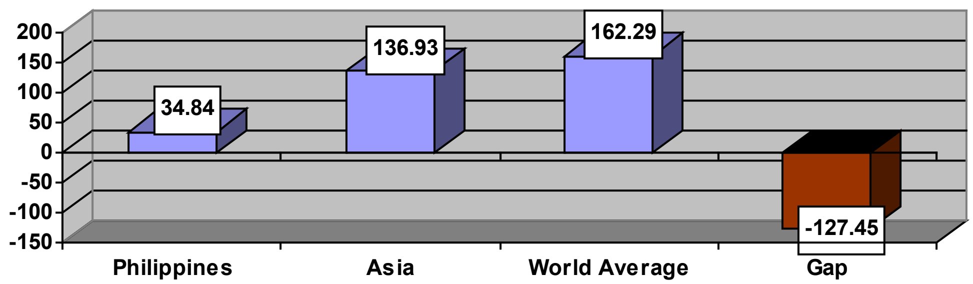
Gap: Total Inventories ($k/employee)



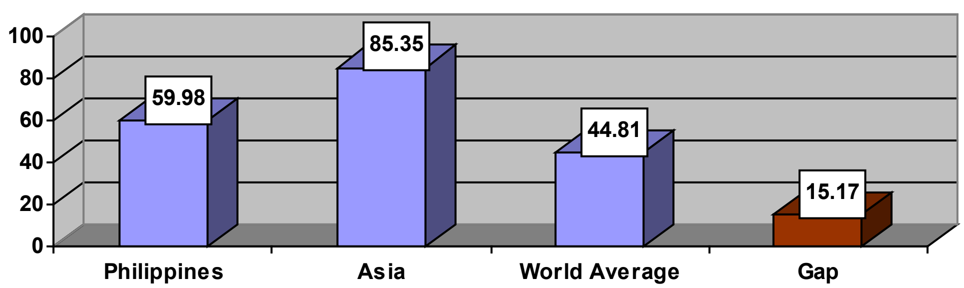
Gap: Work in Process ($k/employee)



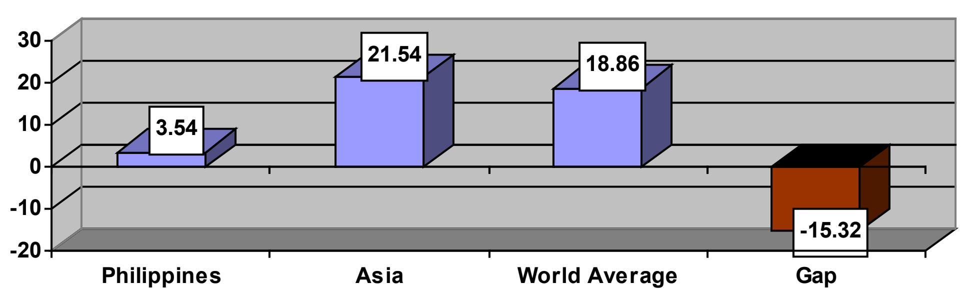
Gap: Current Assets - Total ($k/employee)



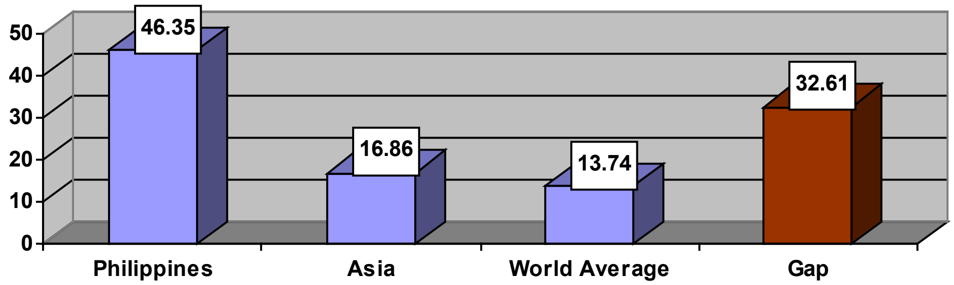
Gap: Property Plant and Equipment - Gross ($k/employee)



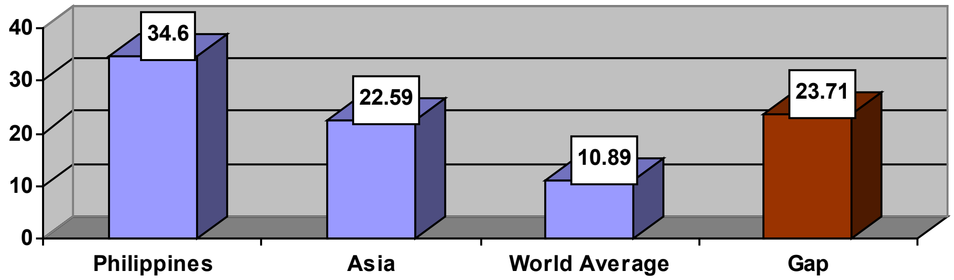
Gap: Buildings ($k/employee)



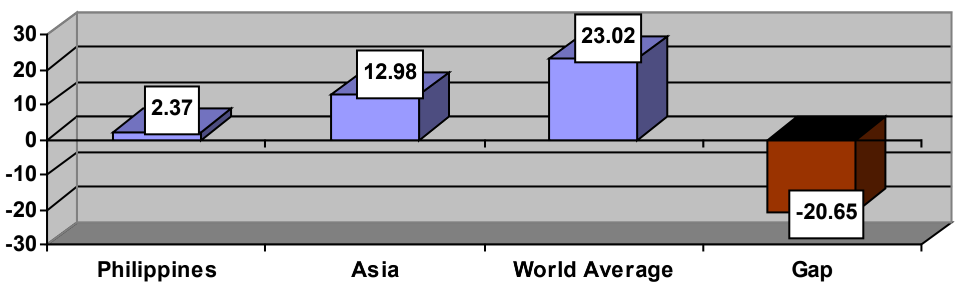
Gap: Other Property Plant & Equipment ($k/employee)



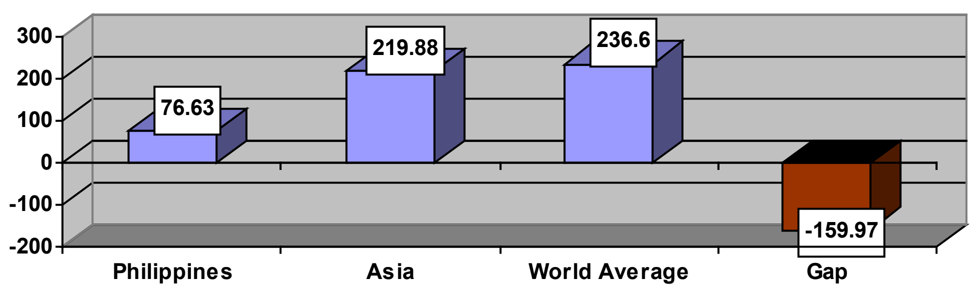
Gap: Accumulated Depreciation - Total ($k/employee)



Gap: Other Assets ($k/employee)



Gap: Total Assets ($k/employee)



3.6.4 Key Percentiles and Rankings

We now consider the distribution of asset-labor ratios using ranks and percentiles across . What percent of countries have a productivity indicator lower or higher than Philippines (what is the indicator's rank or percentile)? The table below answers this question with respect to asset-labor structure. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance or productivity. After the summary table below, a few key asset-labor ratios are highlighted in additional tables.

Asset Structure ($k/employee)	Philippines	Rank of Total	Percentile
Cash & Short Term Investments	2.01	49 of 53	7.55
Cash	1.06	44 of 48	8.33
Short Term Investments	0.95	36 of 40	10.00
Receivables (Net)	15.29	39 of 53	26.42
Total Inventories	2.98	46 of 53	13.21
Raw Materials	2.79	12 of 37	67.57
Work in Process	1.12	36 of 47	23.40
Finished Goods	0.05	36 of 37	2.70
Progress Payments & Other	-0.20	45 of 47	4.26
Prepaid Expenses	0.23	23 of 29	20.69
Other Current Assets	14.41	10 of 48	79.17
Current Assets - Total	**34.84**	**41 of 53**	**22.64**
Long Term Receivables	13.86	6 of 37	83.78
Investments in Unconsolidated Subsidiaries	2.95	36 of 47	23.40
Other Investments	1.84	23 of 40	42.50
Property Plant and Equipment - Net	25.38	27 of 53	49.06
Property Plant and Equipment - Gross	59.98	19 of 48	60.42
Land	5.83	12 of 26	53.85
Buildings	3.54	39 of 48	18.75
Machinery & Equipment	3.40	46 of 48	4.17
Transportation Equipment	0.87	27 of 32	15.63
Other Property Plant & Equipment	46.35	2 of 41	95.12
Accumulated Depreciation - Total	34.60	8 of 48	83.33
Accumulated Depreciation - Buildings	0.86	31 of 45	31.11
Accumulated Depreciation -Machinery & Equipment	1.59	45 of 48	6.25
Accumulated Depreciation - Transportation Equipment	0.31	29 of 31	6.45
Accumulated Depreciation - Other Prop & Equip	0.63	36 of 40	10.00
Other Assets	2.37	38 of 53	28.30
Deferred Charges	0.02	19 of 21	9.52
Tangible Other Assets	1.99	12 of 29	58.62
Intangible Other Assets	0.37	40 of 47	14.89
Total Assets	**76.63**	**41 of 53**	**22.64**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Cash & Short Term Investments

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	119.33	1	98.11	Asia
Japan	70.88	2	96.23	Asia
Canada	54.06	3	94.34	North America
France	53.16	4	92.45	Europe
China	40.69	5	90.57	Asia
Pakistan	40.00	6	88.68	the Middle East
USA	39.93	7	86.79	North America
the United Kingdom	35.88	8	84.91	Europe
Israel	31.33	9	83.02	the Middle East
Ireland	31.07	10	81.13	Europe
Malaysia	30.55	11	79.25	Asia
Spain	30.46	12	77.36	Europe
Greece	29.25	13	75.47	Europe
Turkey	29.21	14	73.58	the Middle East
Mexico	29.13	15	71.70	Latin America
Taiwan	25.89	17	67.92	Asia
Germany	25.12	18	66.04	Europe
New Zealand	21.11	19	64.15	Oceana
Thailand	20.79	20	62.26	Asia
Hong Kong	20.69	21	60.38	Asia
Norway	19.94	22	58.49	Europe
Switzerland	17.29	24	54.72	Europe
Sweden	16.14	25	52.83	Europe
Peru	15.36	27	49.06	Latin America
Luxembourg	14.95	28	47.17	Europe
Belgium	14.55	29	45.28	Europe
Italy	14.05	30	43.40	Europe
Singapore	13.31	31	41.51	Asia
Australia	12.88	32	39.62	Oceana
Denmark	11.20	34	35.85	Europe
Czech Republic	9.38	35	33.96	Europe
Argentina	8.74	36	32.08	Latin America
Netherlands	8.51	37	30.19	Europe
Poland	8.34	38	28.30	Europe
Finland	7.99	39	26.42	Europe
Portugal	6.72	40	24.53	Europe
Austria	6.15	41	22.64	Europe
Indonesia	5.53	42	20.75	Asia
India	5.17	44	16.98	Asia
South Africa	2.40	46	13.21	Africa
Brazil	2.17	47	11.32	Latin America
Chile	2.07	48	9.43	Latin America
Philippines	**2.01**	**49**	**7.55**	**Asia**
Russia	1.20	52	1.89	Europe
Hungary	1.08	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Cash & Short Term Investments
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	119.33	1	96.15
Japan	70.88	2	92.31
China	40.69	3	88.46
Malaysia	30.55	4	84.62
Taiwan	25.89	5	80.77
Thailand	20.79	6	76.92
Hong Kong	20.69	7	73.08
Mongolia	18.55	8	69.23
Brunei	15.61	9	65.38
North Korea	14.91	10	61.54
Singapore	13.31	11	57.69
Papua New Guinea	10.43	12	53.85
Macau	8.61	13	50.00
Indonesia	5.53	14	46.15
India	5.17	15	42.31
Maldives	5.04	16	38.46
Sri Lanka	3.97	17	34.62
Cambodia	3.93	18	30.77
Laos	3.79	19	26.92
Vietnam	3.44	20	23.08
Bangladesh	2.94	21	19.23
Bhutan	2.80	22	15.38
Nepal	2.51	23	11.54
Burma	2.02	24	7.69
Philippines	**2.01**	**25**	**3.85**
Seychelles	1.12	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Receivables (Net)

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	266.35	1	98.11	Asia
Japan	187.18	2	96.23	Asia
Spain	174.07	3	94.34	Europe
Canada	136.99	4	92.45	North America
France	134.72	5	90.57	Europe
Australia	114.28	6	88.68	Oceana
Portugal	113.48	7	86.79	Europe
Belgium	99.81	8	84.91	Europe
Italy	96.43	9	83.02	Europe
Malaysia	83.75	10	81.13	Asia
Austria	58.57	11	79.25	Europe
USA	54.35	12	77.36	North America
the United Kingdom	46.75	13	75.47	Europe
Singapore	44.75	14	73.58	Asia
Sweden	42.39	15	71.70	Europe
Norway	41.63	16	69.81	Europe
Switzerland	40.58	17	67.92	Europe
New Zealand	40.21	18	66.04	Oceana
Greece	39.94	19	64.15	Europe
Hong Kong	39.40	20	62.26	Asia
Luxembourg	35.10	21	60.38	Europe
Germany	33.35	22	58.49	Europe
Netherlands	33.16	23	56.60	Europe
Finland	33.14	24	54.72	Europe
Denmark	29.64	25	52.83	Europe
Thailand	28.52	26	50.94	Asia
China	25.72	27	49.06	Asia
Czech Republic	25.40	28	47.17	Europe
Pakistan	25.29	29	45.28	the Middle East
Israel	24.60	30	43.40	the Middle East
Ireland	24.40	31	41.51	Europe
Argentina	23.66	33	37.74	Latin America
Peru	21.07	35	33.96	Latin America
Taiwan	20.33	36	32.08	Asia
Poland	15.90	37	30.19	Europe
Philippines	**15.29**	**39**	**26.42**	**Asia**
India	11.33	41	22.64	Asia
Turkey	9.45	42	20.75	the Middle East
Mexico	9.42	43	18.87	Latin America
Russia	8.40	46	13.21	Europe
Hungary	7.54	47	11.32	Europe
South Africa	4.08	48	9.43	Africa
Brazil	3.70	49	7.55	Latin America
Chile	3.52	50	5.66	Latin America
Indonesia	3.39	51	3.77	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Receivables (Net)
(General Building Contractors and Operative Builders)

Countries in Asia	**Value ($K/employee)**	**Rank**	**Percentile**
South Korea	266.35	1	96.15
Japan	187.18	2	92.31
Malaysia	83.75	3	88.46
Singapore	44.75	4	84.62
Hong Kong	39.40	5	80.77
Brunei	36.65	6	76.92
Thailand	28.52	7	73.08
China	25.72	8	69.23
Mongolia	25.44	9	65.38
Macau	23.31	10	61.54
North Korea	20.45	11	57.69
Taiwan	20.33	12	53.85
Burma	15.34	13	50.00
Philippines	**15.29**	**14**	**46.15**
Papua New Guinea	14.30	15	42.31
India	11.33	16	38.46
Cambodia	8.60	17	34.62
Laos	8.29	18	30.77
Seychelles	7.84	19	26.92
Vietnam	7.52	20	23.08
Bangladesh	6.45	21	19.23
Bhutan	6.14	22	15.38
Nepal	5.50	23	11.54
Indonesia	3.39	24	7.69
Maldives	3.09	25	3.85
Sri Lanka	2.44	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Total Inventories

Countries	Value ($K/employee)	Rank	Percentile	Region
USA	325.56	1	98.11	North America
the United Kingdom	306.22	2	96.23	Europe
Thailand	277.26	3	94.34	Asia
Israel	267.11	4	92.45	the Middle East
Ireland	264.91	5	90.57	Europe
China	228.92	7	86.79	Asia
Pakistan	225.07	8	84.91	the Middle East
Taiwan	220.76	9	83.02	Asia
Peru	204.87	11	79.25	Latin America
Japan	190.49	12	77.36	Asia
South Korea	184.58	13	75.47	Asia
Australia	156.75	14	73.58	Oceana
Austria	104.23	16	69.81	Europe
Sweden	100.57	17	67.92	Europe
Belgium	95.24	18	66.04	Europe
Canada	92.63	19	64.15	North America
Italy	92.01	20	62.26	Europe
France	91.09	21	60.38	Europe
Finland	80.21	22	58.49	Europe
Greece	78.25	23	56.60	Europe
New Zealand	42.35	24	54.72	Oceana
Hong Kong	41.50	25	52.83	Asia
Germany	39.68	26	50.94	Europe
Malaysia	38.51	27	49.06	Asia
Portugal	36.47	28	47.17	Europe
Singapore	27.03	29	45.28	Asia
Switzerland	22.68	30	43.40	Europe
Netherlands	22.44	31	41.51	Europe
Spain	21.17	32	39.62	Europe
India	19.86	33	37.74	Asia
Luxembourg	19.62	34	35.85	Europe
Denmark	16.79	35	33.96	Europe
Norway	14.12	36	32.08	Europe
Czech Republic	9.09	37	30.19	Europe
Argentina	8.47	38	28.30	Latin America
South Africa	5.29	39	26.42	Africa
Brazil	4.79	40	24.53	Latin America
Chile	4.56	41	22.64	Latin America
Turkey	3.66	42	20.75	the Middle East
Mexico	3.65	43	18.87	Latin America
Poland	3.57	44	16.98	Europe
Philippines	**2.98**	**46**	**13.21**	**Asia**
Indonesia	2.72	47	11.32	Asia
Russia	1.76	52	1.89	Europe
Hungary	1.58	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Total Inventories
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Thailand	277.26	1	96.15
Mongolia	247.36	2	92.31
China	228.92	3	88.46
Taiwan	220.76	4	84.62
North Korea	198.86	5	80.77
Japan	190.49	6	76.92
South Korea	184.58	7	73.08
Papua New Guinea	139.05	8	69.23
Hong Kong	41.50	9	65.38
Malaysia	38.51	10	61.54
Singapore	27.03	11	57.69
Brunei	20.48	12	53.85
India	19.86	13	50.00
Cambodia	15.07	14	46.15
Laos	14.53	15	42.31
Vietnam	13.19	16	38.46
Bangladesh	11.30	17	34.62
Bhutan	10.77	18	30.77
Nepal	9.63	19	26.92
Macau	8.34	20	23.08
Burma	2.99	21	19.23
Philippines	**2.98**	**22**	**15.38**
Indonesia	2.72	23	11.54
Maldives	2.48	24	7.69
Sri Lanka	1.96	25	3.85
Seychelles	1.64	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Assets - Total

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	626.96	1	98.11	Asia
Japan	499.10	2	96.23	Asia
USA	424.80	3	94.34	North America
the United Kingdom	386.79	4	92.45	Europe
Israel	344.26	5	90.57	the Middle East
Ireland	341.41	6	88.68	Europe
Thailand	332.17	7	86.79	Asia
China	310.36	8	84.91	Asia
Pakistan	305.15	9	83.02	the Middle East
Canada	286.01	10	81.13	North America
Taiwan	284.51	11	79.25	Asia
France	281.27	12	77.36	Europe
Peru	245.44	15	71.70	Latin America
Spain	229.14	16	69.81	Europe
Belgium	210.36	17	67.92	Europe
Italy	203.24	18	66.04	Europe
Austria	186.31	19	64.15	Europe
Portugal	182.30	20	62.26	Europe
Sweden	174.65	22	58.49	Europe
Malaysia	153.98	23	56.60	Asia
Greece	148.96	24	54.72	Europe
Finland	127.38	25	52.83	Europe
Germany	103.93	26	50.94	Europe
New Zealand	103.70	27	49.06	Oceana
Hong Kong	101.62	28	47.17	Asia
Switzerland	89.27	29	45.28	Europe
Singapore	88.83	30	43.40	Asia
Norway	85.12	31	41.51	Europe
Luxembourg	77.20	32	39.62	Europe
Netherlands	66.13	33	37.74	Europe
Denmark	58.86	34	35.85	Europe
Turkey	48.43	35	33.96	the Middle East
Mexico	48.30	36	32.08	Latin America
Czech Republic	47.45	37	30.19	Europe
India	47.04	38	28.30	Asia
Argentina	44.20	40	24.53	Latin America
Philippines	**34.84**	**41**	**22.64**	**Asia**
Poland	30.24	42	20.75	Europe
Australia	28.54	44	16.98	Oceana
South Africa	16.22	45	15.09	Africa
Brazil	14.69	46	13.21	Latin America
Chile	13.98	47	11.32	Latin America
Russia	12.42	49	7.55	Europe
Indonesia	12.37	50	5.66	Asia
Hungary	11.16	52	1.89	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Assets - Total
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	626.96	1	96.15
Japan	499.10	2	92.31
Thailand	332.17	3	88.46
China	310.36	4	84.62
Mongolia	296.34	5	80.77
Taiwan	284.51	6	76.92
North Korea	238.24	7	73.08
Papua New Guinea	166.59	8	69.23
Malaysia	153.98	9	65.38
Hong Kong	101.62	10	61.54
Singapore	88.83	11	57.69
Brunei	80.61	12	53.85
India	47.04	13	50.00
Macau	43.55	14	46.15
Cambodia	35.70	15	42.31
Burma	34.97	16	38.46
Philippines	**34.84**	**17**	**34.62**
Laos	34.42	18	30.77
Vietnam	31.23	19	26.92
Bangladesh	26.77	20	23.08
Bhutan	25.50	21	19.23
Nepal	22.82	22	15.38
Indonesia	12.37	23	11.54
Seychelles	11.59	24	7.69
Maldives	11.28	25	3.85
Sri Lanka	8.89	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Property Plant and Equipment - Net

Countries	Value ($K/employee)	Rank	Percentile	Region
Australia	392.16	1	98.11	Oceana
Netherlands	320.65	2	96.23	Europe
South Korea	233.44	3	94.34	Asia
Japan	148.21	4	92.45	Asia
New Zealand	98.51	5	90.57	Oceana
Hong Kong	96.53	6	88.68	Asia
Singapore	91.75	7	86.79	Asia
Indonesia	69.17	8	84.91	Asia
Malaysia	69.12	9	83.02	Asia
Portugal	67.62	10	81.13	Europe
Austria	66.39	11	79.25	Europe
China	55.02	13	75.47	Asia
Pakistan	54.09	14	73.58	the Middle East
Switzerland	38.40	16	69.81	Europe
Germany	38.26	17	67.92	Europe
Denmark	33.64	18	66.04	Europe
Luxembourg	33.21	19	64.15	Europe
Norway	31.06	20	62.26	Europe
Thailand	29.90	21	60.38	Asia
Belgium	29.17	22	58.49	Europe
Italy	28.18	23	56.60	Europe
Canada	25.83	24	54.72	North America
Sweden	25.79	25	52.83	Europe
France	25.41	26	50.94	Europe
Philippines	**25.38**	**27**	**49.06**	**Asia**
Greece	25.21	28	47.17	Europe
the United Kingdom	24.92	30	43.40	Europe
Czech Republic	23.72	31	41.51	Europe
Spain	22.62	33	37.74	Europe
Argentina	22.10	34	35.85	Latin America
Peru	22.09	35	33.96	Latin America
Israel	20.57	37	30.19	the Middle East
Ireland	20.40	38	28.30	Europe
Turkey	19.24	39	26.42	the Middle East
Mexico	19.19	40	24.53	Latin America
Taiwan	17.00	42	20.75	Asia
USA	15.98	44	16.98	North America
India	13.07	45	15.09	Asia
Finland	10.83	46	13.21	Europe
Russia	6.94	48	9.43	Europe
Poland	6.36	49	7.55	Europe
Hungary	6.24	50	5.66	Europe
South Africa	5.80	51	3.77	Africa
Brazil	5.26	52	1.89	Latin America
Chile	5.00	53	0.00	Latin America

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Property Plant and Equipment - Net
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	233.44	1	96.15
Japan	148.21	2	92.31
Hong Kong	96.53	3	88.46
Singapore	91.75	4	84.62
Indonesia	69.17	5	80.77
Malaysia	69.12	6	76.92
Maldives	63.06	7	73.08
China	55.02	8	69.23
Sri Lanka	49.74	9	65.38
Brunei	34.68	10	61.54
Thailand	29.90	11	57.69
Mongolia	26.68	12	53.85
Burma	25.47	13	50.00
Philippines	**25.38**	**14**	**46.15**
Macau	21.77	15	42.31
North Korea	21.45	16	38.46
Taiwan	17.00	17	34.62
Papua New Guinea	15.00	18	30.77
India	13.07	19	26.92
Cambodia	9.91	20	23.08
Laos	9.56	21	19.23
Vietnam	8.68	22	15.38
Bangladesh	7.44	23	11.54
Bhutan	7.08	24	7.69
Seychelles	6.48	25	3.85
Nepal	6.34	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accumulated Depreciation - Total

Countries	Value ($K/employee)	Rank	Percentile	Region
Portugal	70.15	1	97.92	Europe
Japan	61.81	2	95.83	Asia
South Korea	58.64	3	93.75	Asia
Belgium	56.04	4	91.67	Europe
Italy	54.14	5	89.58	Europe
Germany	47.53	6	87.50	Europe
Austria	37.42	7	85.42	Europe
Philippines	**34.60**	**8**	**83.33**	**Asia**
Switzerland	30.92	9	81.25	Europe
Thailand	27.78	11	77.08	Asia
Luxembourg	26.74	12	75.00	Europe
Singapore	26.47	13	72.92	Asia
Canada	24.71	14	70.83	North America
Netherlands	24.65	15	68.75	Europe
France	24.30	16	66.67	Europe
Norway	23.77	17	64.58	Europe
Turkey	20.84	20	58.33	the Middle East
Mexico	20.79	21	56.25	Latin America
Peru	20.53	22	54.17	Latin America
Spain	20.49	23	52.08	Europe
Denmark	20.12	24	50.00	Europe
New Zealand	17.09	26	45.83	Oceana
Hong Kong	16.75	27	43.75	Asia
Malaysia	16.58	28	41.67	Asia
Sweden	15.07	30	37.50	Europe
Finland	13.27	31	35.42	Europe
Greece	12.75	32	33.33	Europe
Czech Republic	12.06	33	31.25	Europe
USA	11.33	34	29.17	North America
Argentina	11.23	35	27.08	Latin America
the United Kingdom	10.39	36	25.00	Europe
Australia	9.26	37	22.92	Oceana
Indonesia	7.85	38	20.83	Asia
South Africa	6.62	40	16.67	Africa
China	6.38	41	14.58	Asia
Pakistan	6.27	42	12.50	the Middle East
Brazil	6.00	43	10.42	Latin America
Chile	5.71	44	8.33	Latin America
Israel	5.54	46	4.17	the Middle East
Ireland	5.50	47	2.08	Europe
Taiwan	4.58	48	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accumulated Depreciation - Total
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Japan	61.81	1	94.44
South Korea	58.64	2	88.89
Burma	34.72	3	83.33
Philippines	**34.60**	**4**	**77.78**
Brunei	27.92	5	72.22
Thailand	27.78	6	66.67
Singapore	26.47	7	61.11
Mongolia	24.79	8	55.56
North Korea	19.93	9	50.00
Hong Kong	16.75	10	44.44
Malaysia	16.58	11	38.89
Papua New Guinea	13.93	12	33.33
Macau	11.07	13	27.78
Indonesia	7.85	14	22.22
Maldives	7.16	15	16.67
China	6.38	16	11.11
Sri Lanka	5.64	17	5.56
Taiwan	4.58	18	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Intangible Other Assets

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	62.86	1	97.87	Asia
USA	34.08	2	95.74	North America
Australia	33.21	3	93.62	Oceana
Canada	22.62	4	91.49	North America
Israel	22.51	5	89.36	the Middle East
Ireland	22.32	6	87.23	Europe
France	22.25	7	85.11	Europe
Taiwan	18.60	8	82.98	Asia
Portugal	14.60	9	80.85	Europe
Finland	13.13	10	78.72	Europe
Greece	12.61	11	76.60	Europe
China	9.09	12	74.47	Asia
Pakistan	8.93	13	72.34	the Middle East
the United Kingdom	8.61	14	70.21	Europe
Norway	7.24	15	68.09	Europe
Belgium	5.20	16	65.96	Europe
Italy	5.03	17	63.83	Europe
Spain	4.70	18	61.70	Europe
Malaysia	4.36	19	59.57	Asia
Sweden	4.35	20	57.45	Europe
Netherlands	4.22	21	55.32	Europe
Japan	4.08	22	53.19	Asia
Germany	2.67	23	51.06	Europe
South Africa	2.16	24	48.94	Africa
Denmark	2.08	25	46.81	Europe
Indonesia	2.00	26	44.68	Asia
Singapore	1.97	27	42.55	Asia
Brazil	1.95	28	40.43	Latin America
Chile	1.86	30	36.17	Latin America
Turkey	1.41	32	31.91	the Middle East
Mexico	1.40	33	29.79	Latin America
Switzerland	1.21	35	25.53	Europe
Luxembourg	1.04	36	23.40	Europe
Austria	0.80	37	21.28	Europe
New Zealand	0.77	38	19.15	Oceana
Hong Kong	0.75	39	17.02	Asia
Philippines	**0.37**	**40**	**14.89**	**Asia**
Poland	0.16	42	10.64	Europe
Russia	0.11	44	6.38	Europe
Hungary	0.10	45	4.26	Europe
Argentina	-0.88	46	2.13	Latin America
Czech Republic	-0.94	47	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Intangible Other Assets
(General Building Contractors and Operative Builders)

Countries in Asia	**Value ($K/employee)**	**Rank**	**Percentile**
South Korea	62.86	1	93.33
Taiwan	18.60	2	86.67
China	9.09	3	80.00
Malaysia	4.36	4	73.33
Japan	4.08	5	66.67
Indonesia	2.00	6	60.00
Singapore	1.97	7	53.33
Maldives	1.82	8	46.67
Sri Lanka	1.44	9	40.00
Brunei	1.09	10	33.33
Hong Kong	0.75	11	26.67
Burma	0.37	12	20.00
Philippines	**0.37**	**13**	**13.33**
Seychelles	0.10	14	6.67
Macau	-0.86	15	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

3.7 PRODUCTIVITY IN PHILIPPINES: LIABILITY-LABOR RATIOS

3.7.1 Overview

In this chapter we consider the liability-labor ratios of companies operating in Philippines benchmarked against global averages for general building contractors and operative builders. For ratios where there are large deviations between Philippines and the benchmarks, graphics are provided (sometimes referred to as a "gap" analysis). Then the distribution of productivity ratios is presented in the form of ranks and percentiles. Certain key liability-labor ratios are highlighted for general building contractors and operative builders across countries in the comparison group. Definitions of liability statement terms are given in Chapter 3.

In the case of liability-labor ratios, this report maintains comparability over time and across countries by using a common currency (the US dollar) and relates each measure to a "per employee basis". Ratios are projected using raw financial statistics and, as ratios, are therefore comparable. Given a country's human resource ratios, the resulting figures are benchmarked across regional and global averages.

I then report the larger liability-labor ratio gaps for general building contractors and operative builders that Philippines has vis-à-vis the worldwide average. Again, a gap need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or signal a firm's relative incentive to invest locally. All figures are projections, so due caution is required.

3.7.2 Liability to Labor: Outlook

The following tables and graphs are prepared using the methodology described at the beginning of this section. All units are in thousands of US dollars per employee. All figures are current-year projections for general building contractors and operative builders in Philippines based on latest financial results available.

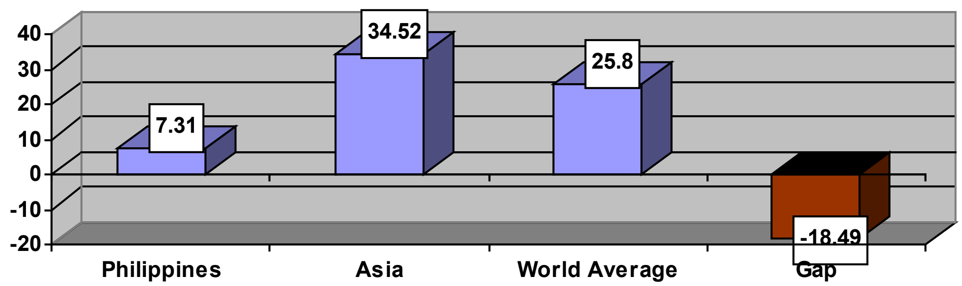
Labor-liability Ratios ($k/employee)	Philippines	Asia	World Avg.
Accounts Payable	7.31	34.52	25.80
Short Term Debt & Current Portion of Long Term Debt	8.28	30.05	40.17
Income Taxes Payable	0.07	4.85	2.45
Dividends Payable	0.48	1.28	1.12
Other Current Liabilities	12.70	33.31	48.63
Current Liabilities - Total	**28.50**	**87.12**	**114.34**
Long Term Debt	9.87	34.62	34.47
Long Term Debt Excluding Capitalized Leases	9.87	34.28	34.16
Deferred Income	0.70	0.47	0.19
Deferred Taxes	1.66	0.12	0.31
Deferred Taxes - Credit	0.07	2.04	1.03
Deferred Taxes - Debit	0.15	4.69	1.62
Other Liabilities	2.29	9.01	8.95
Total Liabilities	**43.02**	**132.71**	**159.68**
Non-Equity Reserves	0.34	0.09	0.11
Minority Interest	2.47	3.74	4.12
Preferred Stock	0.34	0.16	0.21
Common Equity	30.57	83.19	72.49
Common Stock	12.62	39.12	17.99
Capital Surplus	23.57	45.40	23.09
Revaluation Reserves	1.16	3.79	0.94
Retained Earnings	-3.57	41.88	21.19
Unrealized Foreign Exchange Gain/Loss	0.07	-0.60	-0.14
Unrealized Gain/Loss on Marketable Securities	-0.08	3.21	0.60
Treasury Stock	2.82	1.27	0.92
Total Liabilities & Shareholders Equity	**76.63**	**219.88**	**236.60**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

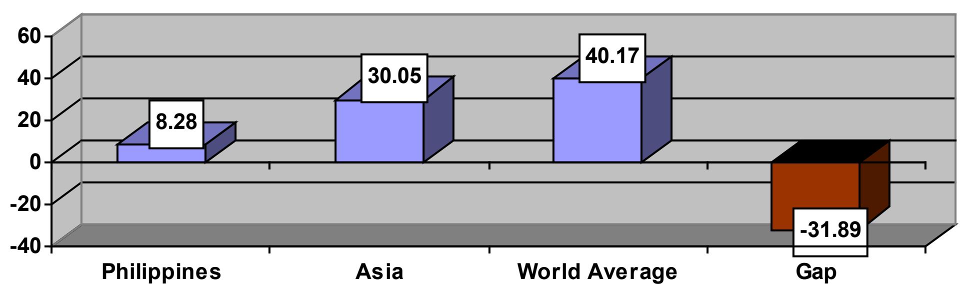
3.7.3 Liability and Equity to Labor: International Gaps

The following graphics summarize for general building contractors and operative builders the large labor-liability gaps between firms operating in Philippines and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

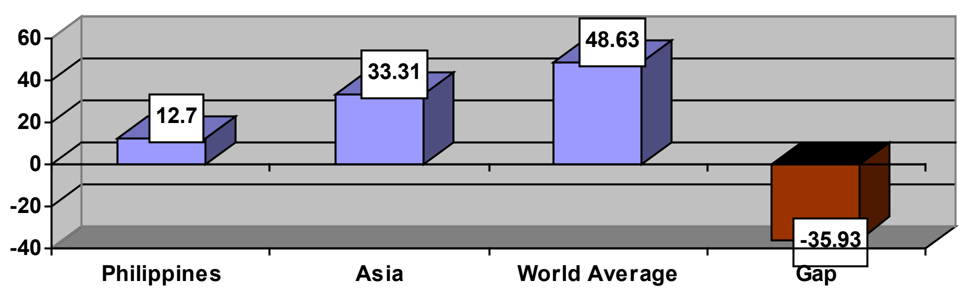
Gap: Accounts Payable ($k/employee)



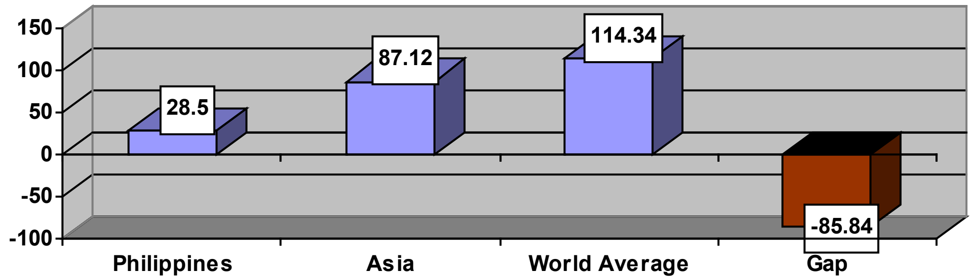
Gap: Short Term Debt & Current Portion of Long Term Debt ($k/employee)



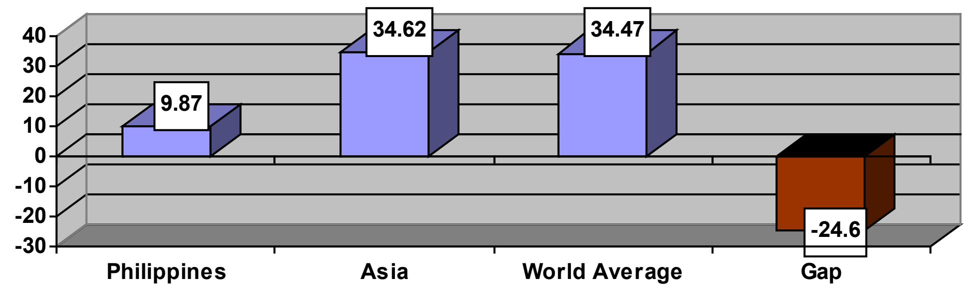
Gap: Other Current Liabilities ($k/employee)



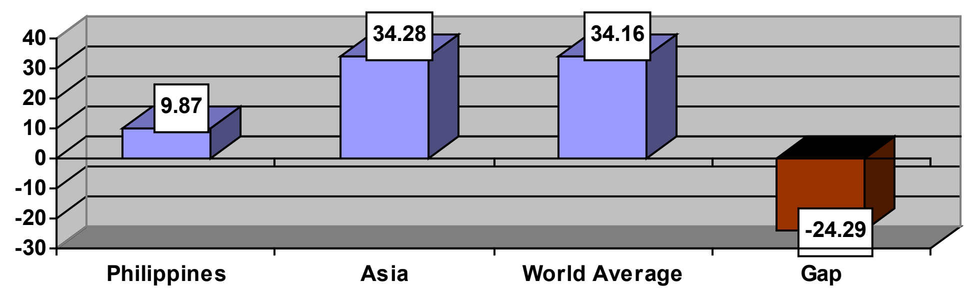
Gap: Current Liabilities - Total ($k/employee)



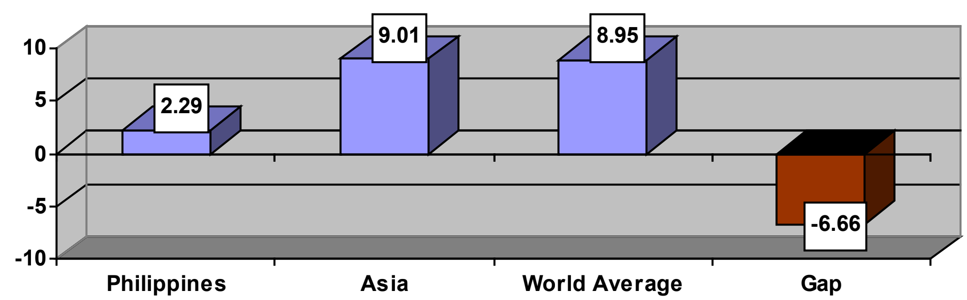
Gap: Long Term Debt ($k/employee)



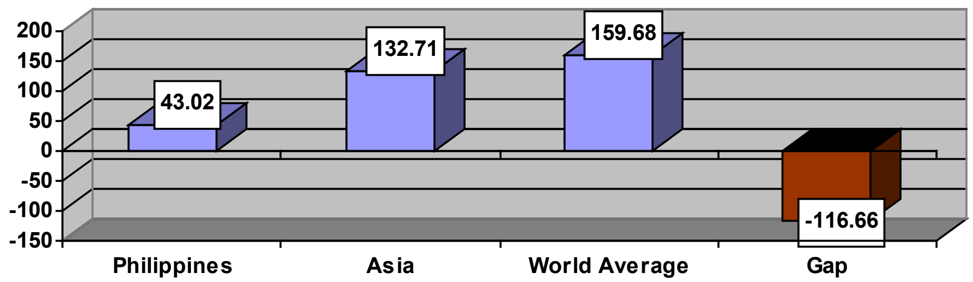
Gap: Long Term Debt Excluding Capitalized Leases ($k/employee)



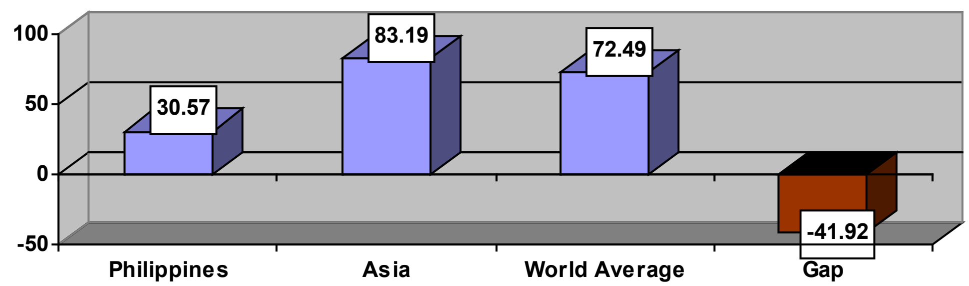
Gap: Other Liabilities ($k/employee)



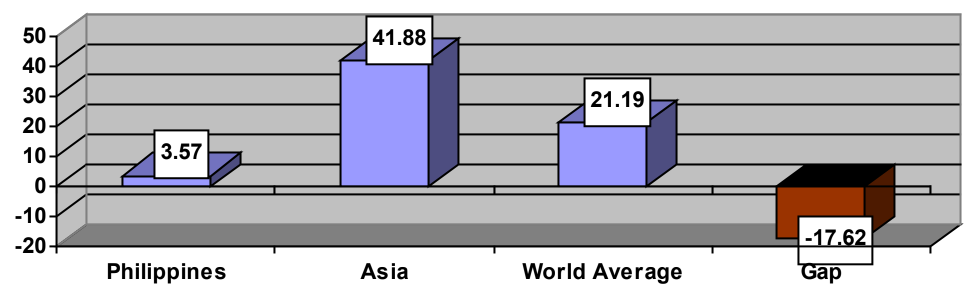
Gap: Total Liabilities ($k/employee)



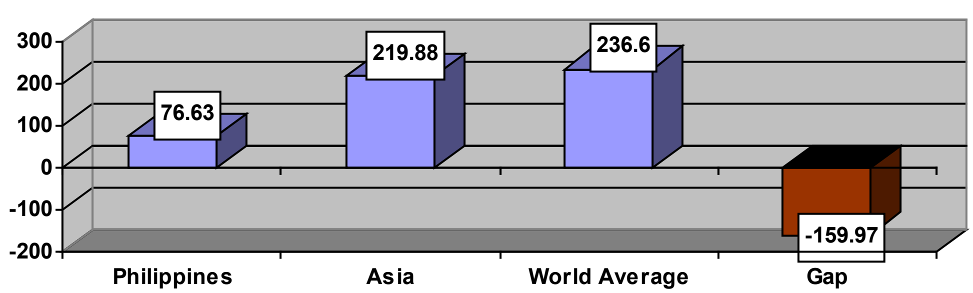
Gap: Common Equity ($k/employee)



Gap: Retained Earnings ($k/employee)



Gap: Total Liabilities & Shareholders Equity ($k/employee)



3.7.4 Key Percentiles and Rankings

We now consider the distribution of liability-labor ratios using ranks and percentiles across . What percent of countries have a value lower or higher than Philippines (what is the indicator's rank or percentile)? The table below answers this question with respect to liability-labor ratios. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance or productivity. After the summary table below, a few key liability-labor ratios are highlighted in additional tables.

Liability Structure ($k/employee)	Philippines	Rank of Total	Percentile
Accounts Payable	7.31	38 of 47	19.15
Short Term Debt & Current Portion of Long Term Debt	8.28	35 of 52	32.69
Income Taxes Payable	0.07	44 of 45	2.22
Dividends Payable	0.48	11 of 15	26.67
Other Current Liabilities	12.70	36 of 52	30.77
Current Liabilities - Total	**28.50**	**38 of 53**	**28.30**
Long Term Debt	9.87	38 of 53	28.30
Long Term Debt Excluding Capitalized Leases	9.87	37 of 53	30.19
Deferred Income	0.70	13 of 24	45.83
Deferred Taxes	1.66	15 of 39	61.54
Deferred Taxes - Credit	0.07	20 of 21	4.76
Deferred Taxes - Debit	0.15	14 of 17	17.65
Other Liabilities	2.29	29 of 49	40.82
Total Liabilities	**43.02**	**43 of 53**	**18.87**
Non-Equity Reserves	0.34	9 of 25	64.00
Minority Interest	2.47	17 of 46	63.04
Preferred Stock	0.34	9 of 13	30.77
Common Equity	30.57	36 of 53	32.08
Common Stock	12.62	24 of 48	50.00
Capital Surplus	23.57	20 of 37	45.95
Revaluation Reserves	1.16	18 of 28	35.71
Retained Earnings	-3.57	47 of 51	7.84
Unrealized Foreign Exchange Gain/Loss	0.07	10 of 32	68.75
Unrealized Gain/Loss on Marketable Securities	-0.08	14 of 16	12.50
Treasury Stock	2.82	3 of 17	82.35
Total Liabilities & Shareholders Equity	**76.63**	**41 of 53**	**22.64**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accounts Payable

Countries	Value ($K/employee)	Rank	Percentile	Region
Japan	186.12	1	97.87	Asia
Spain	148.39	2	95.74	Europe
Canada	132.04	3	93.62	North America
France	129.85	4	91.49	Europe
South Korea	122.06	5	89.36	Asia
the United Kingdom	71.85	6	87.23	Europe
Portugal	62.23	7	85.11	Europe
USA	55.62	8	82.98	North America
Israel	48.61	9	80.85	the Middle East
Ireland	48.20	10	78.72	Europe
Singapore	44.72	11	76.60	Asia
Malaysia	42.36	12	74.47	Asia
China	40.86	13	72.34	Asia
Norway	40.44	14	70.21	Europe
Pakistan	40.17	15	68.09	the Middle East
Taiwan	40.17	16	65.96	Asia
Belgium	38.70	17	63.83	Europe
Italy	37.39	18	61.70	Europe
Czech Republic	30.97	19	59.57	Europe
Argentina	28.85	20	57.45	Latin America
Germany	28.10	21	55.32	Europe
Austria	26.92	22	53.19	Europe
New Zealand	25.21	23	51.06	Oceana
Hong Kong	24.70	24	48.94	Asia
Netherlands	21.08	25	46.81	Europe
Sweden	19.94	26	44.68	Europe
Switzerland	16.97	27	42.55	Europe
Thailand	15.92	28	40.43	Asia
Greece	15.53	29	38.30	Europe
Luxembourg	14.67	30	36.17	Europe
Denmark	12.82	32	31.91	Europe
Peru	11.77	34	27.66	Latin America
Finland	9.14	35	25.53	Europe
South Africa	7.60	37	21.28	Africa
Philippines	**7.31**	**38**	**19.15**	**Asia**
Brazil	6.88	39	17.02	Latin America
Chile	6.55	40	14.89	Latin America
Turkey	6.14	42	10.64	the Middle East
Mexico	6.13	43	8.51	Latin America
Indonesia	4.71	45	4.26	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Accounts Payable
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Japan	186.12	1	94.44
South Korea	122.06	2	88.89
Singapore	44.72	3	83.33
Malaysia	42.36	4	77.78
China	40.86	5	72.22
Taiwan	40.17	6	66.67
Macau	28.42	7	61.11
Hong Kong	24.70	8	55.56
Thailand	15.92	9	50.00
Brunei	15.32	10	44.44
Mongolia	14.21	11	38.89
North Korea	11.42	12	33.33
Papua New Guinea	7.99	13	27.78
Burma	7.34	14	22.22
Philippines	**7.31**	**15**	**16.67**
Indonesia	4.71	16	11.11
Maldives	4.29	17	5.56
Sri Lanka	3.39	18	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Liabilities - Total

Countries	Value ($K/employee)	Rank	Percentile	Region
Japan	496.55	1	98.11	Asia
South Korea	443.15	2	96.23	Asia
China	263.19	3	94.34	Asia
Pakistan	258.77	4	92.45	the Middle East
Spain	212.04	5	90.57	Europe
Israel	194.95	6	88.68	the Middle East
Ireland	193.34	7	86.79	Europe
Belgium	190.77	8	84.91	Europe
Austria	186.44	9	83.02	Europe
Italy	184.32	10	81.13	Europe
Canada	174.29	11	79.25	North America
France	171.40	12	77.36	Europe
the United Kingdom	164.21	13	75.47	Europe
Taiwan	161.11	14	73.58	Asia
Portugal	159.79	15	71.70	Europe
USA	128.86	16	69.81	North America
Singapore	96.78	17	67.92	Asia
Greece	93.72	18	66.04	Europe
Sweden	93.39	19	64.15	Europe
Malaysia	90.76	20	62.26	Asia
Finland	89.14	21	60.38	Europe
Norway	86.87	22	58.49	Europe
Thailand	83.01	23	56.60	Asia
Germany	75.42	24	54.72	Europe
New Zealand	74.31	25	52.83	Oceana
Hong Kong	72.81	26	50.94	Asia
Switzerland	68.42	28	47.17	Europe
Peru	61.34	30	43.40	Latin America
Netherlands	60.47	31	41.51	Europe
Luxembourg	59.17	32	39.62	Europe
Denmark	46.29	33	37.74	Europe
Czech Republic	41.24	35	33.96	Europe
Argentina	38.42	36	32.08	Latin America
India	31.79	37	30.19	Asia
Philippines	**28.50**	**38**	**28.30**	**Asia**
Indonesia	24.78	39	26.42	Asia
Australia	23.22	42	20.75	Oceana
Poland	20.52	43	18.87	Europe
Turkey	18.78	44	16.98	the Middle East
Mexico	18.73	45	15.09	Latin America
South Africa	15.58	48	9.43	Africa
Brazil	14.12	49	7.55	Latin America
Chile	13.43	50	5.66	Latin America
Russia	10.16	52	1.89	Europe
Hungary	9.12	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Current Liabilities - Total
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Japan	496.55	1	96.15
South Korea	443.15	2	92.31
China	263.19	3	88.46
Taiwan	161.11	4	84.62
Singapore	96.78	5	80.77
Malaysia	90.76	6	76.92
Thailand	83.01	7	73.08
Mongolia	74.06	8	69.23
Hong Kong	72.81	9	65.38
Brunei	61.79	10	61.54
North Korea	59.54	11	57.69
Papua New Guinea	41.63	12	53.85
Macau	37.85	13	50.00
India	31.79	14	46.15
Burma	28.60	15	42.31
Philippines	**28.50**	**16**	**38.46**
Indonesia	24.78	17	34.62
Cambodia	24.13	18	30.77
Laos	23.26	19	26.92
Maldives	22.59	20	23.08
Vietnam	21.11	21	19.23
Bangladesh	18.09	22	15.38
Sri Lanka	17.82	23	11.54
Bhutan	17.23	24	7.69
Nepal	15.42	25	3.85
Seychelles	9.48	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Long Term Debt

Countries	Value ($K/employee)	Rank	Percentile	Region
Australia	172.06	1	98.11	Oceana
USA	163.33	2	96.23	North America
South Korea	146.41	3	94.34	Asia
Canada	132.79	4	92.45	North America
France	130.59	5	90.57	Europe
Netherlands	111.74	6	88.68	Europe
Japan	105.79	7	86.79	Asia
Israel	83.29	8	84.91	the Middle East
Ireland	82.60	9	83.02	Europe
Thailand	79.95	10	81.13	Asia
the United Kingdom	72.73	11	79.25	Europe
Taiwan	68.83	12	77.36	Asia
Peru	59.08	15	71.70	Latin America
Sweden	48.27	16	69.81	Europe
Singapore	47.53	17	67.92	Asia
New Zealand	46.16	18	66.04	Oceana
Hong Kong	45.23	19	64.15	Asia
Portugal	40.70	21	60.38	Europe
Malaysia	40.33	22	58.49	Asia
China	39.12	23	56.60	Asia
Pakistan	38.47	24	54.72	the Middle East
Indonesia	26.75	25	52.83	Asia
Belgium	25.69	26	50.94	Europe
Italy	24.82	28	47.17	Europe
Finland	21.39	29	45.28	Europe
Norway	18.67	31	41.51	Europe
Denmark	15.41	32	39.62	Europe
Germany	13.25	33	37.74	Europe
Turkey	12.11	34	35.85	the Middle East
Mexico	12.07	35	33.96	Latin America
India	10.29	37	30.19	Asia
Philippines	**9.87**	**38**	**28.30**	**Asia**
Switzerland	9.70	39	26.42	Europe
Austria	9.38	40	24.53	Europe
Czech Republic	8.55	41	22.64	Europe
Luxembourg	8.39	42	20.75	Europe
Argentina	7.96	44	16.98	Latin America
Spain	4.91	45	15.09	Europe
Russia	2.80	47	11.32	Europe
Hungary	2.51	48	9.43	Europe
South Africa	1.49	49	7.55	Africa
Brazil	1.35	50	5.66	Latin America
Chile	1.28	51	3.77	Latin America
Poland	0.35	52	1.89	Europe
Greece	0.03	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Long Term Debt
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	146.41	1	96.15
Japan	105.79	2	92.31
Thailand	79.95	3	88.46
Mongolia	71.33	4	84.62
Taiwan	68.83	5	80.77
North Korea	57.34	6	76.92
Singapore	47.53	7	73.08
Hong Kong	45.23	8	69.23
Malaysia	40.33	9	65.38
Papua New Guinea	40.10	10	61.54
China	39.12	11	57.69
Indonesia	26.75	12	53.85
Maldives	24.39	13	50.00
Sri Lanka	19.23	14	46.15
India	10.29	15	42.31
Burma	9.91	16	38.46
Philippines	**9.87**	**17**	**34.62**
Brunei	8.76	18	30.77
Macau	7.85	19	26.92
Cambodia	7.81	20	23.08
Laos	7.53	21	19.23
Vietnam	6.83	22	15.38
Bangladesh	5.85	23	11.54
Bhutan	5.58	24	7.69
Nepal	4.99	25	3.85
Seychelles	2.61	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Total Liabilities

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	730.47	1	98.11	Asia
Japan	634.60	2	96.23	Asia
Australia	343.76	3	94.34	Oceana
Canada	331.13	4	92.45	North America
France	325.64	5	90.57	Europe
China	314.58	6	88.68	Asia
Pakistan	309.30	7	86.79	the Middle East
USA	300.83	8	84.91	North America
Israel	285.23	9	83.02	the Middle East
Ireland	282.87	10	81.13	Europe
the United Kingdom	256.97	11	79.25	Europe
Netherlands	244.44	12	77.36	Europe
Belgium	243.14	13	75.47	Europe
Taiwan	235.73	14	73.58	Asia
Italy	234.91	15	71.70	Europe
Austria	230.32	16	69.81	Europe
Portugal	225.06	17	67.92	Europe
Spain	222.14	18	66.04	Europe
Thailand	166.19	19	64.15	Asia
Sweden	157.80	20	62.26	Europe
Singapore	145.63	21	60.38	Asia
Malaysia	136.79	23	56.60	Asia
New Zealand	126.25	25	52.83	Oceana
Hong Kong	123.71	26	50.94	Asia
Peru	122.80	27	49.06	Latin America
Germany	120.36	28	47.17	Europe
Finland	112.28	29	45.28	Europe
Norway	107.21	30	43.40	Europe
Greece	95.50	31	41.51	Europe
Switzerland	91.05	32	39.62	Europe
Luxembourg	78.74	34	35.85	Europe
Denmark	69.23	35	33.96	Europe
Indonesia	68.49	36	32.08	Asia
Czech Republic	52.74	38	28.30	Europe
Argentina	49.13	40	24.53	Latin America
Turkey	45.13	41	22.64	the Middle East
Mexico	45.01	42	20.75	Latin America
Philippines	**43.02**	**43**	**18.87**	**Asia**
India	42.49	44	16.98	Asia
Poland	20.79	47	11.32	Europe
South Africa	17.48	48	9.43	Africa
Brazil	15.83	49	7.55	Latin America
Chile	15.07	50	5.66	Latin America
Russia	14.00	52	1.89	Europe
Hungary	12.58	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Total Liabilities
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	730.47	1	96.15
Japan	634.60	2	92.31
China	314.58	3	88.46
Taiwan	235.73	4	84.62
Thailand	166.19	5	80.77
Mongolia	148.27	6	76.92
Singapore	145.63	7	73.08
Malaysia	136.79	8	69.23
Hong Kong	123.71	9	65.38
North Korea	119.20	10	61.54
Papua New Guinea	83.35	11	57.69
Brunei	82.22	12	53.85
Indonesia	68.49	13	50.00
Maldives	62.45	14	46.15
Sri Lanka	49.25	15	42.31
Macau	48.40	16	38.46
Burma	43.17	17	34.62
Philippines	**43.02**	**18**	**30.77**
India	42.49	19	26.92
Cambodia	32.24	20	23.08
Laos	31.09	21	19.23
Vietnam	28.21	22	15.38
Bangladesh	24.18	23	11.54
Bhutan	23.03	24	7.69
Nepal	20.61	25	3.85
Seychelles	13.07	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Common Equity

Countries	Value ($K/employee)	Rank	Percentile	Region
Australia	373.52	1	98.11	Oceana
South Korea	329.96	2	96.23	Asia
Thailand	299.94	3	94.34	Asia
the United Kingdom	227.89	6	88.68	Europe
Peru	221.63	7	86.79	Latin America
USA	207.48	8	84.91	North America
Netherlands	152.38	10	81.13	Europe
Malaysia	138.46	11	79.25	Asia
New Zealand	134.41	12	77.36	Oceana
Hong Kong	131.70	13	75.47	Asia
China	108.44	14	73.58	Asia
Israel	108.13	15	71.70	the Middle East
Ireland	107.24	16	69.81	Europe
Pakistan	106.62	17	67.92	the Middle East
Greece	102.67	18	66.04	Europe
Japan	102.04	19	64.15	Asia
Taiwan	89.36	20	62.26	Asia
Turkey	70.47	21	60.38	the Middle East
Mexico	70.28	22	58.49	Latin America
Singapore	66.70	23	56.60	Asia
Portugal	64.44	25	52.83	Europe
Canada	53.57	26	50.94	North America
Sweden	53.46	27	49.06	Europe
France	52.68	28	47.17	Europe
Spain	51.93	29	45.28	Europe
Switzerland	44.11	30	43.40	Europe
Belgium	39.05	31	41.51	Europe
Luxembourg	38.15	32	39.62	Europe
Italy	37.73	33	37.74	Europe
Germany	35.48	34	35.85	Europe
Denmark	32.31	35	33.96	Europe
Philippines	**30.57**	**36**	**32.08**	**Asia**
Austria	29.89	37	30.19	Europe
Finland	25.76	39	26.42	Europe
Indonesia	20.91	40	24.53	Asia
Norway	18.67	42	20.75	Europe
Czech Republic	18.30	43	18.87	Europe
India	17.78	44	16.98	Asia
Argentina	17.05	45	15.09	Latin America
Poland	12.44	47	11.32	Europe
South Africa	7.34	48	9.43	Africa
Brazil	6.65	49	7.55	Latin America
Chile	6.33	51	3.77	Latin America
Russia	6.26	52	1.89	Europe
Hungary	5.63	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Common Equity
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	329.96	1	96.15
Thailand	299.94	2	92.31
Mongolia	267.59	3	88.46
North Korea	215.13	4	84.62
Papua New Guinea	150.42	5	80.77
Malaysia	138.46	6	76.92
Hong Kong	131.70	7	73.08
China	108.44	8	69.23
Japan	102.04	9	65.38
Taiwan	89.36	10	61.54
Singapore	66.70	11	57.69
Brunei	39.83	12	53.85
Burma	30.67	13	50.00
Philippines	**30.57**	**14**	**46.15**
Indonesia	20.91	15	42.31
Maldives	19.06	16	38.46
India	17.78	17	34.62
Macau	16.79	18	30.77
Sri Lanka	15.04	19	26.92
Cambodia	13.49	20	23.08
Laos	13.01	21	19.23
Vietnam	11.81	22	15.38
Bangladesh	10.12	23	11.54
Bhutan	9.64	24	7.69
Nepal	8.63	25	3.85
Seychelles	5.85	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Retained Earnings

Countries	Value ($K/employee)	Rank	Percentile	Region
Thailand	152.52	1	98.04	Asia
the United Kingdom	134.65	2	96.08	Europe
USA	130.94	3	94.12	North America
South Korea	129.84	4	92.16	Asia
Peru	112.70	7	86.27	Latin America
Australia	97.45	8	84.31	Oceana
Israel	74.32	10	80.39	the Middle East
Ireland	73.70	11	78.43	Europe
Turkey	64.98	12	76.47	the Middle East
Mexico	64.80	13	74.51	Latin America
Taiwan	61.42	14	72.55	Asia
Malaysia	53.71	16	68.63	Asia
New Zealand	40.82	17	66.67	Oceana
Hong Kong	40.00	18	64.71	Asia
Japan	31.23	19	62.75	Asia
Finland	17.23	20	60.78	Europe
Denmark	15.38	21	58.82	Europe
Germany	13.65	22	56.86	Europe
Norway	12.37	23	54.90	Europe
Singapore	12.09	24	52.94	Asia
Canada	10.52	25	50.98	North America
France	10.35	26	49.02	Europe
Sweden	7.35	27	47.06	Europe
Spain	7.21	28	45.10	Europe
China	6.89	29	43.14	Asia
Pakistan	6.77	30	41.18	the Middle East
Czech Republic	6.55	31	39.22	Europe
Argentina	6.10	32	37.25	Latin America
Austria	4.98	33	35.29	Europe
Switzerland	3.78	34	33.33	Europe
Greece	3.67	35	31.37	Europe
Luxembourg	3.27	36	29.41	Europe
Russia	0.64	38	25.49	Europe
Hungary	0.58	39	23.53	Europe
South Africa	0.15	40	21.57	Africa
Brazil	0.13	41	19.61	Latin America
Chile	0.13	42	17.65	Latin America
Belgium	0.01	43	15.69	Europe
Italy	0.01	44	13.73	Europe
Poland	0.01	45	11.76	Europe
Philippines	**-3.57**	**47**	**7.84**	**Asia**
Portugal	-5.70	49	3.92	Europe
Indonesia	-6.37	51	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Retained Earnings
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Thailand	152.52	1	94.74
Mongolia	136.08	2	89.47
South Korea	129.84	3	84.21
North Korea	109.40	4	78.95
Papua New Guinea	76.49	5	73.68
Taiwan	61.42	6	68.42
Malaysia	53.71	7	63.16
Hong Kong	40.00	8	57.89
Japan	31.23	9	52.63
Singapore	12.09	10	47.37
China	6.89	11	42.11
Macau	6.01	12	36.84
Brunei	3.41	13	31.58
Seychelles	0.60	14	26.32
Philippines	**-3.57**	**15**	**21.05**
Burma	-3.58	16	15.79
Sri Lanka	-4.58	17	10.53
Maldives	-5.81	18	5.26
Indonesia	-6.37	19	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

3.8 PRODUCTIVITY IN PHILIPPINES: INCOME-LABOR RATIOS

3.8.1 Overview

In this chapter we consider the income-labor ratios for general building contractors and operative builders in Philippines benchmarked against global averages. For ratios where there are large deviations between the average firm operating in Philippines and the benchmarks, graphics are provided (sometimes referred to as a "gap" analysis). Then the distribution of ratios is presented in the form of ranks and percentiles. Certain key income-labor ratios are highlighted across countries in the comparison group.

In the case of income-labor ratios, this report maintains comparability over time and across countries by using a common currency (the US dollar) and relates each measure to a "per employee basis". Ratios are projected using raw financial statistics and, as ratios, are therefore comparable. Given a country's human resource ratios, the resulting figures are benchmarked across regional and global averages.

We then report the larger income-labor ratio gaps for general building contractors and operative builders that Philippines has vis-à-vis the worldwide average. Again, a gap need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or signal a firm's relative incentive to invest locally. All figures are projections, so due caution is required.

3.8.2 Income to Labor: Outlook

The following tables and graphs are prepared using the methodology described at the beginning of this section. All units are in thousands of US dollars per employee. All figures are current-year projections for general building contractors and operative builders in Philippines based on latest financial results available.

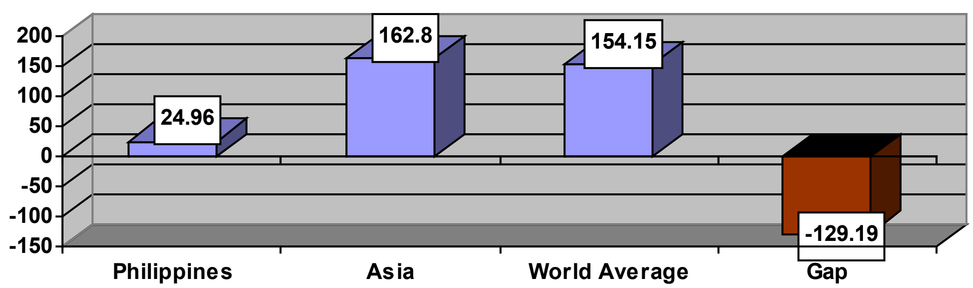
Labor-income Ratios ($k/employee)	Philippines	Asia	World Avg.
Net Sales or Revenues	24.96	162.80	154.15
Cost of Goods Sold (Excluding Depreciation)	18.17	176.53	109.36
Depreciation, Depletion & Amortization	3.40	2.53	2.24
Gross Income	**3.39**	**38.31**	**25.56**
Selling, General & Administrative Expenses	2.58	16.12	11.20
Other Operating Expenses	24.22	197.88	113.63
Operating Expenses - Total	0.94	1.63	2.00
Operating Income	**0.73**	**15.64**	**13.23**
Non-Operating Interest Income	1.08	1.20	0.80
Pretax Equity In Earnings	-0.10	0.78	0.23
Other Income/Expense Net	-0.03	1.86	1.60
Earnings Before Interest and Taxes (EBIT)	**1.68**	**17.99**	**15.11**
Interest Expense on Debt	2.25	4.21	4.43
Pretax Income	**-0.57**	**13.81**	**11.26**
Income Taxes	-0.30	4.21	2.21
Current Domestic Income Tax	0.41	1.23	2.20
Deferred Domestic Income Tax	-0.90	0.04	0.09
Minority Interest	-0.07	0.31	0.34
Net Income Before Extra Items/Prefer Dividends	-0.19	10.80	8.65
Net Income Before Preferred Dividends	-0.19	11.80	8.97
Net Income Available to Common	**-0.19**	**10.80**	**8.62**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

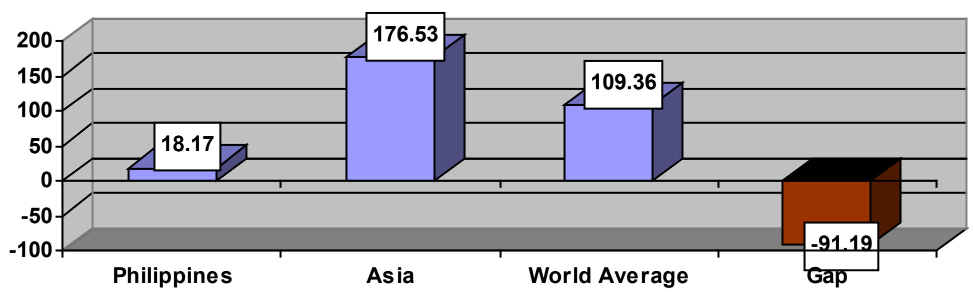
3.8.3 Income to Labor: Gaps

The following graphics summarize for general building contractors and operative builders the large labor-income gaps between firms operating in Philippines and the world average. A gap cannot necessarily be interpreted as a positive or negative reflection on performance. Gaps may signal areas of specialization, market focus, or expertise. More contextual information is required to fully interpret these gaps. The gaps highlighted here are simply those that are large.

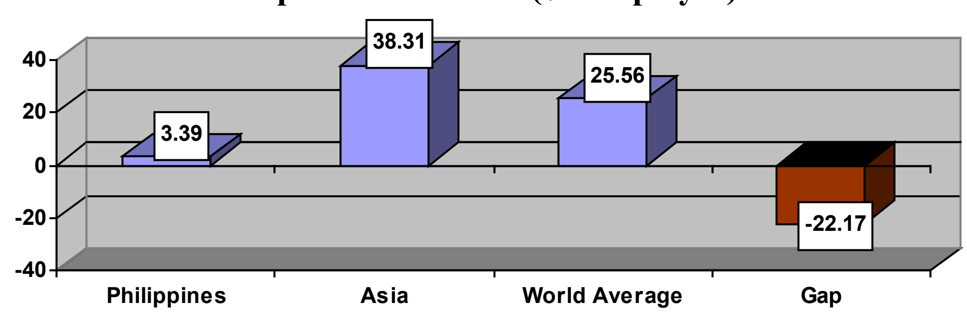
Gap: Net Sales or Revenues ($k/employee)



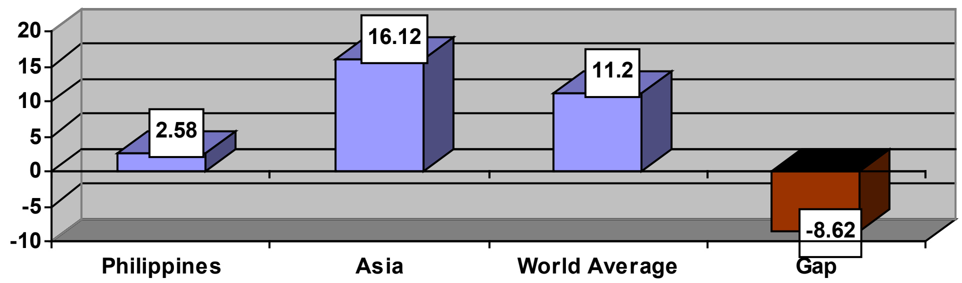
Gap: Cost of Goods Sold (Excluding Depreciation) ($k/employee)



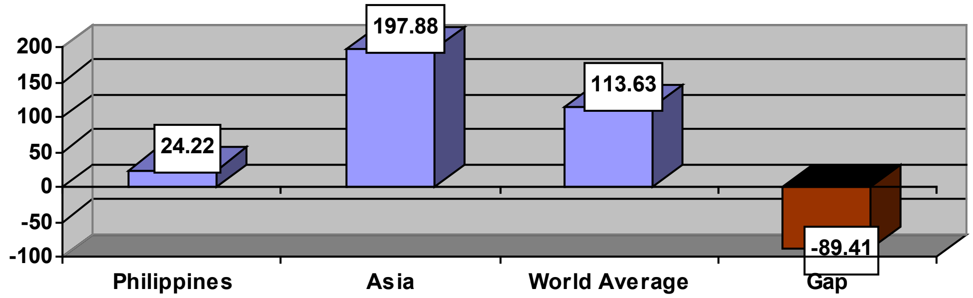
Gap: Gross Income ($k/employee)



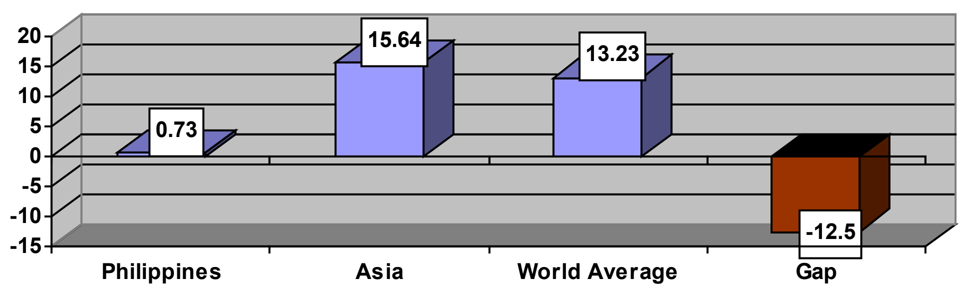
Gap: Selling, General & Administrative Expenses ($k/employee)



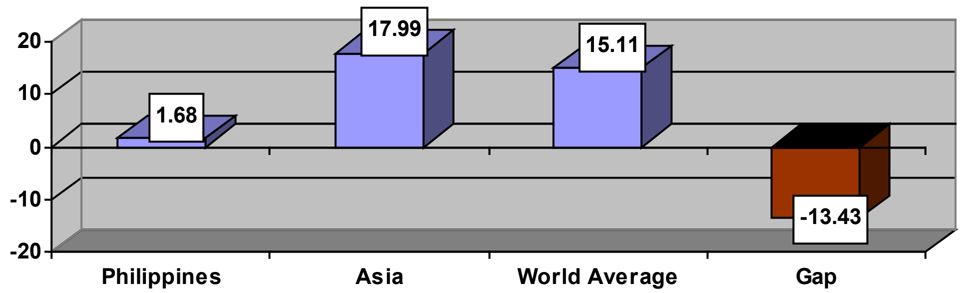
Gap: Other Operating Expenses ($k/employee)



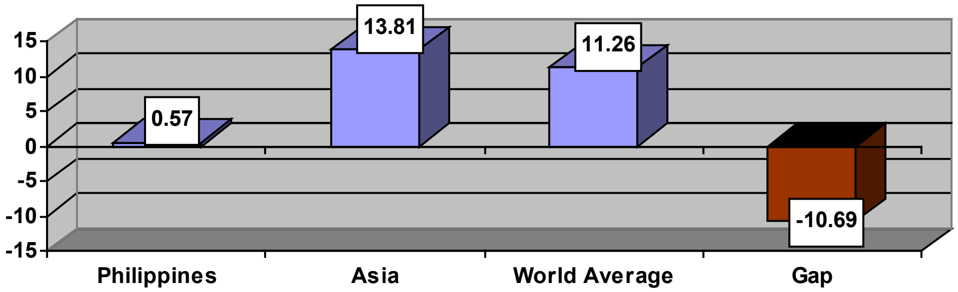
Gap: Operating Income ($k/employee)



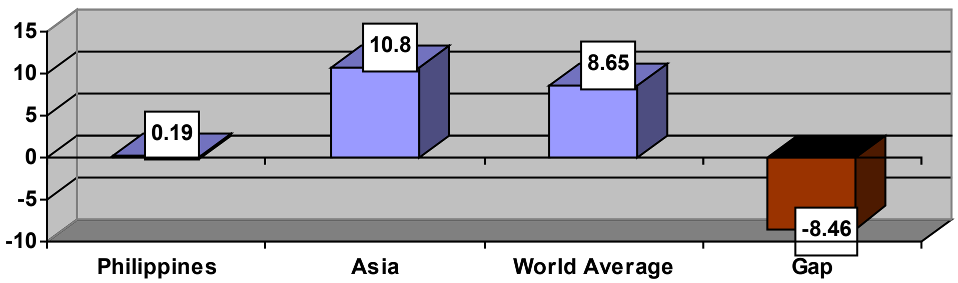
Gap: Earnings Before Interest and Taxes (EBIT) ($k/employee)



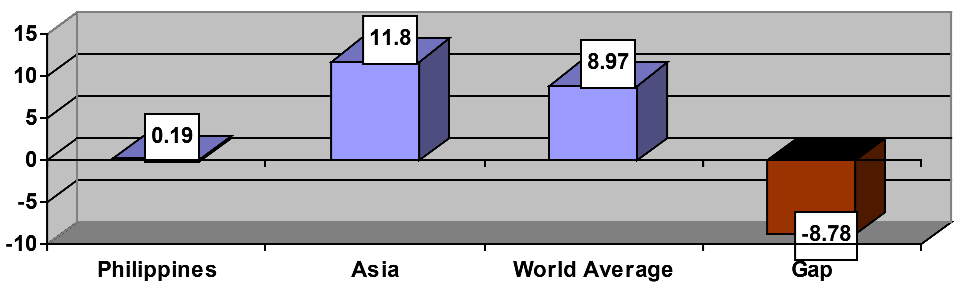
Gap: Pretax Income ($k/employee)



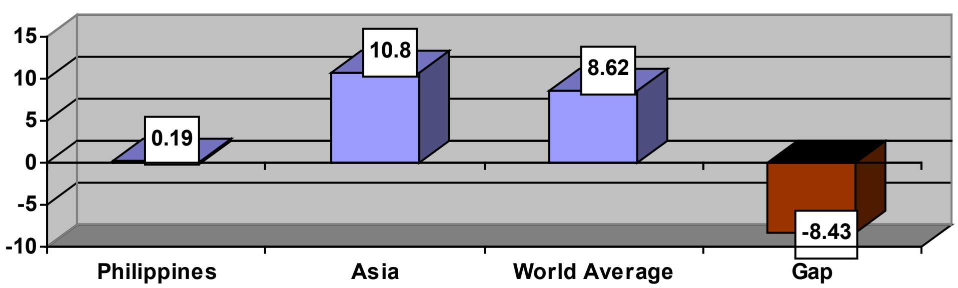
Gap: Net Income Before Extra Items/Prefer Dividends ($k/employee)



Gap: Net Income Before Preferred Dividends ($k/employee)



Gap: Net Income Available to Common ($k/employee)



3.8.4 Key Percentiles and Rankings

We now consider the distribution of income-labor ratios using ranks and percentiles across . What percent of countries have a value lower or higher than Philippines (what is the ratio's rank or percentile)? The table below answers this question with respect to income-labor ratios. The ranks and percentiles indicate, from highest to lowest, where a value falls within the distribution of all countries considered in the global benchmark (the number of countries in the benchmark per line item may vary, as indicated in the Rank). Again, a high or low figure does not necessarily indicate good or bad performance or productivity. After the summary table below, a few key income-labor ratios are highlighted in additional tables.

Income Structure ($k/employee)	**Philippines**	**Rank of Total**	**Percentile**
Net Sales or Revenues	24.96	47 of 53	11.32
Cost of Goods Sold (Excluding Depreciation)	18.17	47 of 49	4.08
Depreciation, Depletion & Amortization	3.40	24 of 53	54.72
Gross Income	**3.39**	**45 of 49**	**8.16**
Selling, General & Administrative Expenses	2.58	33 of 37	10.81
Other Operating Expenses	24.22	46 of 48	4.17
Operating Expenses - Total	0.94	29 of 44	34.09
Operating Income	**0.73**	**42 of 53**	**20.75**
Non-Operating Interest Income	1.08	19 of 47	59.57
Pretax Equity In Earnings	-0.10	30 of 32	6.25
Other Income/Expense Net	**-0.03**	**52 of 53**	**1.89**
Earnings Before Interest and Taxes (EBIT)	**1.68**	**49 of 53**	**7.55**
Interest Expense on Debt	2.25	35 of 53	33.96
Pretax Income	**-0.57**	**49 of 53**	**7.55**
Income Taxes	-0.30	47 of 49	4.08
Current Domestic Income Tax	0.41	32 of 44	27.27
Deferred Domestic Income Tax	-0.90	33 of 38	13.16
Minority Interest	-0.07	45 of 46	2.17
Net Income Before Extra Items/Prefer Dividends	-0.19	49 of 53	7.55
Net Income Before Preferred Dividends	-0.19	49 of 53	7.55
Net Income Available to Common	**-0.19**	**49 of 53**	**7.55**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Cost of Goods Sold (Excluding Depreciation)

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	888.99	1	97.96	Asia
Japan	583.04	2	95.92	Asia
USA	545.87	3	93.88	North America
Australia	401.95	4	91.84	Oceana
the United Kingdom	348.76	5	89.80	Europe
Belgium	330.48	6	87.76	Europe
Italy	319.30	7	85.71	Europe
Israel	316.02	8	83.67	the Middle East
Ireland	313.41	9	81.63	Europe
Taiwan	261.17	10	79.59	Asia
Canada	258.65	11	77.55	North America
France	254.36	12	75.51	Europe
Switzerland	235.21	13	73.47	Europe
Portugal	226.55	14	71.43	Europe
Norway	221.76	15	69.39	Europe
Spain	218.84	16	67.35	Europe
Sweden	207.45	17	65.31	Europe
Greece	206.99	18	63.27	Europe
Luxembourg	203.42	19	61.22	Europe
Germany	188.01	20	59.18	Europe
Thailand	186.26	21	57.14	Asia
Singapore	156.15	22	55.10	Asia
Netherlands	153.99	24	51.02	Europe
Finland	151.18	25	48.98	Europe
Peru	137.63	27	44.90	Latin America
Austria	135.05	28	42.86	Europe
Czech Republic	130.50	29	40.82	Europe
Denmark	129.79	30	38.78	Europe
Malaysia	123.99	31	36.73	Asia
Argentina	121.56	32	34.69	Latin America
China	80.02	34	30.61	Asia
Pakistan	78.67	35	28.57	the Middle East
New Zealand	77.50	36	26.53	Oceana
Hong Kong	75.94	37	24.49	Asia
Poland	50.12	38	22.45	Europe
Turkey	48.18	39	20.41	the Middle East
Mexico	48.05	40	18.37	Latin America
South Africa	44.59	42	14.29	Africa
Brazil	40.40	43	12.24	Latin America
Chile	38.44	44	10.20	Latin America
Indonesia	22.90	45	8.16	Asia
Philippines	**18.17**	**47**	**4.08**	**Asia**

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Cost of Goods Sold (Excluding Depreciation) (General Building Contractors and Operative Builders)

Countries in Asia	**Value ($K/employee)**	**Rank**	**Percentile**
South Korea	888.99	1	94.44
Japan	583.04	2	88.89
Taiwan	261.17	3	83.33
Brunei	212.41	4	77.78
Thailand	186.26	5	72.22
Mongolia	166.18	6	66.67
Singapore	156.15	7	61.11
North Korea	133.60	8	55.56
Malaysia	123.99	9	50.00
Macau	119.78	10	44.44
Papua New Guinea	93.41	11	38.89
China	80.02	12	33.33
Hong Kong	75.94	13	27.78
Indonesia	22.90	14	22.22
Maldives	20.87	15	16.67
Burma	18.23	16	11.11
Philippines	**18.17**	**17**	**5.56**
Sri Lanka	16.46	18	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Selling, General & Administrative Expenses

Countries	Value ($K/employee)	Rank	Percentile	Region
USA	72.11	1	97.30	North America
South Korea	58.04	2	94.59	Asia
Japan	57.18	3	91.89	Asia
Canada	43.54	4	89.19	North America
France	42.82	5	86.49	Europe
the United Kingdom	34.43	6	83.78	Europe
Israel	29.72	7	81.08	the Middle East
Denmark	29.65	8	78.38	Europe
Ireland	29.47	9	75.68	Europe
Greece	25.21	10	72.97	Europe
Taiwan	24.56	11	70.27	Asia
Thailand	21.21	12	67.57	Asia
Norway	18.38	13	64.86	Europe
Peru	15.67	16	56.76	Latin America
Sweden	14.89	17	54.05	Europe
Switzerland	13.78	18	51.35	Europe
Malaysia	12.57	19	48.65	Asia
China	12.34	20	45.95	Asia
Pakistan	12.13	21	43.24	the Middle East
Luxembourg	11.92	22	40.54	Europe
Singapore	10.94	24	35.14	Asia
New Zealand	10.92	25	32.43	Oceana
Hong Kong	10.70	26	29.73	Asia
Finland	7.30	27	27.03	Europe
Turkey	6.80	28	24.32	the Middle East
Mexico	6.78	29	21.62	Latin America
Germany	5.90	31	16.22	Europe
Poland	4.84	32	13.51	Europe
Philippines	**2.58**	**33**	**10.81**	**Asia**
Indonesia	1.55	35	5.41	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Selling, General & Administrative Expenses
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	58.04	1	94.12
Japan	57.18	2	88.24
Taiwan	24.56	3	82.35
Thailand	21.21	4	76.47
Mongolia	18.92	5	70.59
North Korea	15.21	6	64.71
Malaysia	12.57	7	58.82
Brunei	12.44	8	52.94
China	12.34	9	47.06
Singapore	10.94	10	41.18
Hong Kong	10.70	11	35.29
Papua New Guinea	10.64	12	29.41
Burma	2.59	13	23.53
Philippines	**2.58**	**14**	**17.65**
Indonesia	1.55	15	11.76
Maldives	1.41	16	5.88
Sri Lanka	1.11	17	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Operating Expenses - Total

Countries	Value ($K/employee)	Rank	Percentile	Region
Spain	34.36	1	97.73	Europe
Germany	29.04	2	95.45	Europe
Austria	22.86	3	93.18	Europe
Belgium	15.46	4	90.91	Europe
Italy	14.94	5	88.64	Europe
Canada	14.15	6	86.36	North America
France	13.91	7	84.09	Europe
Australia	11.97	8	81.82	Oceana
Netherlands	11.22	9	79.55	Europe
Finland	10.52	10	77.27	Europe
Switzerland	7.40	11	75.00	Europe
Luxembourg	6.40	12	72.73	Europe
Norway	6.27	13	70.45	Europe
Singapore	5.12	14	68.18	Asia
South Africa	4.68	15	65.91	Africa
Brazil	4.24	16	63.64	Latin America
Chile	4.04	17	61.36	Latin America
New Zealand	3.68	18	59.09	Oceana
Malaysia	3.62	19	56.82	Asia
Hong Kong	3.61	20	54.55	Asia
Denmark	3.41	21	52.27	Europe
South Korea	3.10	22	50.00	Asia
Portugal	2.75	23	47.73	Europe
the United Kingdom	2.74	24	45.45	Europe
Czech Republic	2.60	25	43.18	Europe
Argentina	2.42	26	40.91	Latin America
China	1.74	27	38.64	Asia
Pakistan	1.71	28	36.36	the Middle East
Philippines	**0.94**	**29**	**34.09**	**Asia**
Thailand	0.27	31	29.55	Asia
Sweden	0.26	32	27.27	Europe
Indonesia	0.21	34	22.73	Asia
Peru	0.20	36	18.18	Latin America
Turkey	0.17	38	13.64	the Middle East
Mexico	0.17	39	11.36	Latin America
USA	0.13	43	2.27	North America
Japan	-0.19	44	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Operating Expenses - Total
(General Building Contractors and Operative Builders)

Countries in Asia	**Value ($K/employee)**	**Rank**	**Percentile**
Brunei	6.68	1	94.12
Singapore	5.12	2	88.24
Malaysia	3.62	3	82.35
Hong Kong	3.61	4	76.47
South Korea	3.10	5	70.59
Macau	2.38	6	64.71
China	1.74	7	58.82
Burma	0.94	8	52.94
Philippines	**0.94**	**9**	**47.06**
Thailand	0.27	10	41.18
Mongolia	0.24	11	35.29
Indonesia	0.21	12	29.41
North Korea	0.19	13	23.53
Maldives	0.19	14	17.65
Sri Lanka	0.15	15	11.76
Papua New Guinea	0.13	16	5.88
Japan	-0.19	17	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Operating Income

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	75.93	1	98.11	Asia
Thailand	70.22	2	96.23	Asia
USA	67.47	3	94.34	North America
Australia	60.43	4	92.45	Oceana
Peru	51.89	7	86.79	Latin America
the United Kingdom	51.28	8	84.91	Europe
Israel	36.21	10	81.13	the Middle East
Ireland	35.91	11	79.25	Europe
Netherlands	30.24	12	77.36	Europe
Taiwan	29.93	13	75.47	Asia
Canada	18.93	14	73.58	North America
France	18.61	15	71.70	Europe
Greece	18.26	16	69.81	Europe
Malaysia	15.85	17	67.92	Asia
Japan	15.80	18	66.04	Asia
Turkey	11.57	19	64.15	the Middle East
Mexico	11.54	20	62.26	Latin America
China	10.80	21	60.38	Asia
Pakistan	10.62	23	56.60	the Middle East
Finland	9.28	24	54.72	Europe
Spain	8.41	25	52.83	Europe
Sweden	7.39	26	50.94	Europe
Norway	6.37	27	49.06	Europe
India	5.17	28	47.17	Asia
Switzerland	4.99	29	45.28	Europe
Portugal	4.56	30	43.40	Europe
Luxembourg	4.31	31	41.51	Europe
Denmark	4.25	32	39.62	Europe
Czech Republic	4.04	33	37.74	Europe
Singapore	3.93	34	35.85	Asia
Argentina	3.76	35	33.96	Latin America
New Zealand	2.51	36	32.08	Oceana
Hong Kong	2.46	37	30.19	Asia
South Africa	1.61	38	28.30	Africa
Brazil	1.46	39	26.42	Latin America
Chile	1.39	40	24.53	Latin America
Austria	1.25	41	22.64	Europe
Philippines	**0.73**	**42**	**20.75**	**Asia**
Poland	0.21	44	16.98	Europe
Russia	0.19	46	13.21	Europe
Hungary	0.17	47	11.32	Europe
Indonesia	-0.33	50	5.66	Asia
Italy	-1.98	51	3.77	Europe
Belgium	-2.05	52	1.89	Europe
Germany	-2.27	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Operating Income
(General Building Contractors and Operative Builders)

Countries in Asia	**Value ($K/employee)**	**Rank**	**Percentile**
South Korea	75.93	1	96.15
Thailand	70.22	2	92.31
Mongolia	62.65	3	88.46
North Korea	50.37	4	84.62
Papua New Guinea	35.22	5	80.77
Taiwan	29.93	6	76.92
Malaysia	15.85	7	73.08
Japan	15.80	8	69.23
China	10.80	9	65.38
India	5.17	10	61.54
Brunei	4.50	11	57.69
Singapore	3.93	12	53.85
Cambodia	3.92	13	50.00
Laos	3.78	14	46.15
Macau	3.70	15	42.31
Vietnam	3.43	16	38.46
Bangladesh	2.94	17	34.62
Bhutan	2.80	18	30.77
Nepal	2.51	19	26.92
Hong Kong	2.46	20	23.08
Burma	0.74	21	19.23
Philippines	**0.73**	**22**	**15.38**
Seychelles	0.18	23	11.54
Sri Lanka	-0.24	24	7.69
Maldives	-0.30	25	3.85
Indonesia	-0.33	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Earnings Before Interest and Taxes (EBIT)

Countries	Value ($K/employee)	Rank	Percentile	Region
South Korea	83.16	1	98.11	Asia
Thailand	75.94	2	96.23	Asia
Australia	65.02	3	94.34	Oceana
USA	64.65	4	92.45	North America
Peru	56.11	7	86.79	Latin America
the United Kingdom	55.73	8	84.91	Europe
Israel	36.47	10	81.13	the Middle East
Ireland	36.17	11	79.25	Europe
Netherlands	33.29	12	77.36	Europe
Taiwan	30.14	13	75.47	Asia
Greece	28.18	14	73.58	Europe
Canada	23.95	15	71.70	North America
France	23.55	16	69.81	Europe
Malaysia	22.23	17	67.92	Asia
Turkey	14.50	18	66.04	the Middle East
Mexico	14.46	19	64.15	Latin America
China	13.66	20	62.26	Asia
Pakistan	13.43	22	58.49	the Middle East
Spain	12.88	23	56.60	Europe
Sweden	12.09	24	54.72	Europe
Norway	10.26	25	52.83	Europe
Portugal	9.87	26	50.94	Europe
Finland	9.18	27	49.06	Europe
Austria	8.97	28	47.17	Europe
Indonesia	8.18	29	45.28	Asia
New Zealand	7.79	30	43.40	Oceana
Hong Kong	7.63	32	39.62	Asia
Denmark	7.35	33	37.74	Europe
Singapore	6.38	34	35.85	Asia
Belgium	6.00	35	33.96	Europe
Switzerland	6.00	36	32.08	Europe
Italy	5.80	38	28.30	Europe
India	5.68	39	26.42	Asia
Japan	5.49	40	24.53	Asia
Czech Republic	5.43	41	22.64	Europe
Luxembourg	5.19	42	20.75	Europe
Argentina	5.06	43	18.87	Latin America
Germany	2.88	44	16.98	Europe
South Africa	2.23	45	15.09	Africa
Brazil	2.02	46	13.21	Latin America
Chile	1.92	47	11.32	Latin America
Poland	1.74	48	9.43	Europe
Philippines	**1.68**	**49**	**7.55**	**Asia**
Russia	0.69	52	1.89	Europe
Hungary	0.62	53	0.00	Europe

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Earnings Before Interest and Taxes (EBIT)
(General Building Contractors and Operative Builders)

Countries in Asia	**Value ($K/employee)**	**Rank**	**Percentile**
South Korea	83.16	1	96.15
Thailand	75.94	2	92.31
Mongolia	67.75	3	88.46
North Korea	54.46	4	84.62
Papua New Guinea	38.08	5	80.77
Taiwan	30.14	6	76.92
Malaysia	22.23	7	73.08
China	13.66	8	69.23
Indonesia	8.18	9	65.38
Hong Kong	7.63	10	61.54
Maldives	7.46	11	57.69
Singapore	6.38	12	53.85
Sri Lanka	5.88	13	50.00
India	5.68	14	46.15
Japan	5.49	15	42.31
Brunei	5.42	16	38.46
Macau	4.99	17	34.62
Cambodia	4.31	18	30.77
Laos	4.16	19	26.92
Vietnam	3.77	20	23.08
Bangladesh	3.23	21	19.23
Bhutan	3.08	22	15.38
Nepal	2.76	23	11.54
Burma	1.69	24	7.69
Philippines	**1.68**	**25**	**3.85**
Seychelles	0.64	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Pretax Income

Countries	Value ($K/employee)	Rank	Percentile	Region
Thailand	72.50	1	98.11	Asia
USA	60.54	3	94.34	North America
Australia	60.15	4	92.45	Oceana
Peru	53.57	6	88.68	Latin America
South Korea	47.50	7	86.79	Asia
the United Kingdom	46.95	8	84.91	Europe
Israel	28.29	10	81.13	the Middle East
Ireland	28.05	11	79.25	Europe
Greece	26.63	12	77.36	Europe
Netherlands	25.23	13	75.47	Europe
Taiwan	23.38	14	73.58	Asia
Malaysia	19.28	15	71.70	Asia
Turkey	13.01	16	69.81	the Middle East
Mexico	12.98	17	67.92	Latin America
Canada	12.45	18	66.04	North America
France	12.24	19	64.15	Europe
China	9.17	21	60.38	Asia
Pakistan	9.01	22	58.49	the Middle East
Spain	8.68	23	56.60	Europe
Sweden	6.35	24	54.72	Europe
Finland	5.32	25	52.83	Europe
Portugal	4.54	26	50.94	Europe
Denmark	4.53	27	49.06	Europe
Austria	4.49	28	47.17	Europe
Czech Republic	4.28	29	45.28	Europe
Switzerland	4.17	30	43.40	Europe
Norway	4.09	31	41.51	Europe
Argentina	3.99	32	39.62	Latin America
New Zealand	3.96	33	37.74	Oceana
Hong Kong	3.88	34	35.85	Asia
Indonesia	3.66	35	33.96	Asia
Luxembourg	3.61	36	32.08	Europe
India	2.98	38	28.30	Asia
Belgium	2.62	40	24.53	Europe
Italy	2.54	41	22.64	Europe
Singapore	2.14	42	20.75	Asia
South Africa	1.66	43	18.87	Africa
Brazil	1.51	44	16.98	Latin America
Chile	1.43	45	15.09	Latin America
Poland	1.31	46	13.21	Europe
Germany	0.92	47	11.32	Europe
Philippines	**-0.57**	**49**	**7.55**	**Asia**
Hungary	-0.75	50	5.66	Europe
Russia	-0.84	51	3.77	Europe
Japan	-1.35	53	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Pretax Income
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
Thailand	72.50	1	96.15
Mongolia	64.68	2	92.31
North Korea	52.00	3	88.46
South Korea	47.50	4	84.62
Papua New Guinea	36.36	5	80.77
Taiwan	23.38	6	76.92
Malaysia	19.28	7	73.08
China	9.17	8	69.23
Macau	3.93	9	65.38
Hong Kong	3.88	10	61.54
Brunei	3.77	11	57.69
Indonesia	3.66	12	53.85
Maldives	3.34	13	50.00
India	2.98	14	46.15
Sri Lanka	2.63	15	42.31
Cambodia	2.26	16	38.46
Laos	2.18	17	34.62
Singapore	2.14	18	30.77
Vietnam	1.98	19	26.92
Bangladesh	1.70	20	23.08
Bhutan	1.61	21	19.23
Nepal	1.45	22	15.38
Philippines	**-0.57**	**23**	**11.54**
Burma	-0.57	24	7.69
Seychelles	-0.78	25	3.85
Japan	-1.35	26	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Income Taxes

Countries	Value ($K/employee)	Rank	Percentile	Region
USA	23.31	1	97.96	North America
Australia	16.85	2	95.92	Oceana
South Korea	15.26	3	93.88	Asia
the United Kingdom	14.37	4	91.84	Europe
Thailand	13.50	5	89.80	Asia
Peru	9.97	8	83.67	Latin America
Greece	9.31	9	81.63	Europe
Netherlands	8.84	10	79.59	Europe
Malaysia	5.93	12	75.51	Asia
Israel	5.76	13	73.47	the Middle East
Ireland	5.72	14	71.43	Europe
Canada	5.31	15	69.39	North America
France	5.22	16	67.35	Europe
Taiwan	4.76	17	65.31	Asia
Spain	2.17	18	63.27	Europe
Japan	2.13	19	61.22	Asia
Finland	2.05	20	59.18	Europe
Sweden	1.97	21	57.14	Europe
Turkey	1.92	22	55.10	the Middle East
Mexico	1.92	23	53.06	Latin America
Norway	1.78	25	48.98	Europe
Czech Republic	1.36	26	46.94	Europe
Argentina	1.27	27	44.90	Latin America
Indonesia	1.22	28	42.86	Asia
Belgium	1.16	29	40.82	Europe
Singapore	1.16	30	38.78	Asia
Switzerland	1.12	32	34.69	Europe
Italy	1.12	33	32.65	Europe
Portugal	1.12	34	30.61	Europe
Luxembourg	0.97	35	28.57	Europe
Germany	0.91	36	26.53	Europe
Denmark	0.86	38	22.45	Europe
New Zealand	0.81	39	20.41	Oceana
Hong Kong	0.80	40	18.37	Asia
South Africa	0.48	41	16.33	Africa
Brazil	0.44	42	14.29	Latin America
Chile	0.41	43	12.24	Latin America
Poland	0.41	44	10.20	Europe
Austria	0.07	45	8.16	Europe
Philippines	**-0.30**	**47**	**4.08**	**Asia**
Pakistan	-1.12	48	2.04	the Middle East
China	-1.14	49	0.00	Asia

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

Income Taxes
(General Building Contractors and Operative Builders)

Countries in Asia	Value ($K/employee)	Rank	Percentile
South Korea	15.26	1	94.44
Thailand	13.50	2	88.89
Mongolia	12.04	3	83.33
North Korea	9.68	4	77.78
Papua New Guinea	6.77	5	72.22
Malaysia	5.93	6	66.67
Taiwan	4.76	7	61.11
Japan	2.13	8	55.56
Macau	1.25	9	50.00
Indonesia	1.22	10	44.44
Singapore	1.16	11	38.89
Maldives	1.11	12	33.33
Brunei	1.01	13	27.78
Sri Lanka	0.88	14	22.22
Hong Kong	0.80	15	16.67
Philippines	**-0.30**	**16**	**11.11**
Burma	-0.30	17	5.56
China	-1.14	18	0.00

Source: Philip M. Parker, Professor, INSEAD, copyright 2007

4 MACRO-ACCESSIBILITY IN PHILIPPINES

4.1 EXECUTIVE SUMMARY

Beyond the immediate challenge of allocating scarce resources among competing needs, effective revenue mobilization remains crucial to sustaining a responsible deficit-reduction plan that supports the needs of a growing population, addresses serious infrastructure deficiencies, and harnesses the human-resource capabilities demanded by intensifying global competition. Balance of payments vulnerabilities also remain. While trade liberalization presents vast opportunities, intensifying global competition and the emergence of low-wage export economies also pose challenges. In addition, lingering security and peace-and-order concerns are discouraging foreign investment.

While the Philippines economy faces serious challenges, it is still an excellent market for American exporters. Owing to a close relationship and extensive immigration over the last 100 years, Filipinos are knowledgeable about U.S. products and services and as a result have an affinity for them. Moreover, as the Philippines is the world's third largest English speaking nation, U.S. exporters seldom encounter language problems here.

4.2 ECONOMIC FUNDAMENTALS AND DYNAMICS

Looking forward, the Philippines faces important challenges. Perhaps the most pressing -- and persistent -- is the need to increase government revenues to allow for sustainable economic development. Achieving longer-term fiscal viability will require stronger political will, especially where perceived corruption and inefficient tax collection have increased public resistance to paying taxes and eroded the intended gains of past restructuring efforts. Beyond the immediate challenge of allocating scarce resources among competing needs, effective revenue mobilization remains crucial to sustaining a responsible deficit-reduction plan that supports the needs of a growing population, addresses serious infrastructure deficiencies, and harnesses the human-resource capabilities demanded by intensifying global competition. Balance of payments vulnerabilities also remain. While trade liberalization presents vast opportunities, intensifying global competition and the emergence of low-wage export economies also pose challenges.

The intensifying competition for investments entails the steady pursuit of structural reforms which will eliminate bottlenecks to growth, lower the costs of doing business in the country (including pushing forward with the implementation of the Electric Power Industry Reform Act, EPIRA), and promote good public and private sector governance. The challenges are compounded by peace-and-order worries and the government's need to focus time and resources to securing peace and development in the southern Philippines.

4.2.1 Government Intervention Risks

Free market forces generally determine prices of goods and services, although basic public utilities (such as transport, water and electricity) and sensitive agricultural products (such as rice) are subject to government control or oversight. Government regulation of prices of petroleum products ended in July 1998 with the full deregulation of the oil industry under the "Downstream Oil Industry Deregulation Act of 1998," but the issue remains politically and socially sensitive. In response to public resistance to oil price increases, the government has sometimes stepped in to apply "moral suasion" on oil companies to keep price increases to a minimum (resulting in alleged cost "under-recoveries").

4.2.2 Adequacy of the Infrastructure System

The infrastructure requirements of the Philippines remain large, including those that provide links to agriculture, industrial development and major tourism areas. Cognizant of the huge investment requirements, the Arroyo government will continue to rely on the private sector support in terms of financing, construction, operation, maintenance and rehabilitation of major infrastructure in power, water, and transportation through partial or total cost recovery from user charges. The Build-Operate-Transfer (BOT) scheme will be sustained in an effort to support the country's infrastructure development plan.

The power sector is continuously undergoing reforms following the passage of the Electric Power Industry Reform Act (EPIRA) of 2001. The EPIRA paves the way for the privatization of the National Power Corporation (NPC), the creation of the National Transmission Company (TRANSCO) and the sale of NPC's generation assets through the Power Sector Assets and Liabilities Management Corporation (PSALM).

4.2.3 Regional Economic Integration

As a member of the Association of Southeast Asian Nations (ASEAN), the Philippines is to be committed to reduce tariff and non-tariff barriers and investment restrictions within the ASEAN Free Trade Area (AFTA). Under these commitments, the six original ASEAN members agreed to accelerate the tariff reductions in each country's AFTA Common Effective Preferential Tariff (CEPT) Inclusion List. CEPT duty rates are lower than or equal to the MFN rates accorded other trading partners (like the United States).

Philippine participation in the ASEAN Investment Area (AIA) does not provide any significant market access improvements for U.S. investors in the Philippines, at least in the immediate to medium term. While the objective of the AIA is to accord ASEAN investors national treatment for investments made in ASEAN countries, this benefit is limited by the ability of member countries to take exemptions from this commitment.

There is no common definition of "ASEAN investor;" each country continues to apply its own definition. The Philippine AIA commitments include nothing that promises changes in existing legislative or constitutional restrictions on national treatment. Manufacturing is the only sector for which ASEAN countries have filed lists of exemptions, but, from a practical standpoint, the Philippines does not maintain restrictions on investment in this area.

4.3 POLITICAL RISKS

4.3.1 Political System

The Philippines has a presidential form of government, patterned after the U.S. system, with mandated separation of powers among the executive, legislative, and judicial branches. The political agenda is typically steered by the President's administration, but the legislative branch also plays an active role in policy formulation and implementation.

A multi-party system results in a constantly fluid network of alliances that can shift according to the issue. The dominant party in the pro administration camp is the LAKAS-NUCD-KAMPI coalition. Other major parties include the Nationalist People's Coalition, Aksiyon Demokratiko, Liberal Party, Reporma, PROMDI, and Kilusang Bagong Lipunan.

The Senate, the upper house in the bicameral legislature, is comprised of 24 members nationally elected for six-year terms, half of which are elected every three years. Senators voting for the winning Senate President are termed

Majority, while the rest are Minority. Maneuvering to gain a majority is common, with efforts directed at possible defectors. Senators are limited to two six-year terms. The 223 members of the House of Representatives comprise the Lower House of Congress, of which 211 are district representatives, 12 are party list representatives, and 5 spots are vacant. Representatives can serve three three-year terms.

Presiding over the Judiciary, the Supreme Court is composed of 15 judges. Special courts of note are the Sandiganbayan, a special anti-graft court, and the Sharia Islamic Law District Courts in Mindanao. Persistent reports of inefficiencies, severe shortages of judges and prosecutors nationwide, and a weak record of prosecution plague the court system.

4.4 MARKETING STRATEGIES

4.4.1 Creating a Sales Office

A business enterprise must comply with the following requirements before it can start operations:

- Apply for registration of the business name with the Bureau of Domestic Trade
- Register with the Securities and Exchange Commission if a partnership or a corporation
- Apply for a Barangay (i.e., precinct or ward) permit and Mayor's permit to operate in a chosen locality of business secure municipal license (Export Processing Zone Authority enterprises excluded)
- Register with the Bureau of Internal Revenue to obtain Tax Account No., Value-Added-Tax Registration No., and individual residence certificates for owners/incorporators
- Register employees with the Social Security System, Medicare, and Department of Labor and Employment

The essential forms of business organization in the Philippines are sole proprietorships, partnerships, and corporations. Other less common business forms include joint stock companies, joint accounts, business trusts, and cooperatives.

Multinational firms, depending upon the nature of its intended activity in the Philippines, may establish and register any of the following: a branch, a subsidiary, a licensing and franchising agreement, a joint-venture agreement, and a regional headquarters. Under R.A. 8756, regional headquarters will not be subject to income tax and shall be exempt from value-added tax (VAT). Regional operating headquarters will also be subject to a lower tax rate of 10% of their taxable income and 10% VAT. To complement the activities of regional headquarters, their investors are allowed to establish regional warehouses to house their supplies. Under certain conditions, these supplies may be exempted for customs duty, internal revenue tax, export tax, and local taxes.

Foreign personnel working for regional headquarters will also be issued multiple entry special visas within 72 hours upon submissions of complete documents to the Bureau of Immigration (BI). They are also exempted from payment of attendant fees and enjoy tax and duty free important of personal and household effects.

4.4.2 Creating a Joint Venture

A common method for enterprises embarking on business operations in the Philippines is through joint ventures with local enterprises. Philippine laws on joint venture corporations limit the foreign entity's equity participation to 40%.

The Documentation, Information and Technology Transfer Bureau of the Intellectual Property Office, an agency under the Office of the President, is the government office mandated to register technology transfer agreements. Effective January 1, 1998, the Philippine Government no longer requires submission of licensing/technology transfer arrangements for approval and registration by the Intellectual Property Office. However, to ensure compliance with Sections 87 and 88 of the Intellectual Property Code, voluntary submission is strongly encouraged since non-conformance with Section 87 on Prohibited Clauses and Section 88 on Mandatory Provisions automatically renders the arrangement unenforceable. The Intellectual Property Office may allow exemption from conformance with Section 87 and 88 after an evaluation thereof under the provisions of Section 91 on Exceptional Cases.

The Intellectual Property Code of the Philippines defines technology transfer arrangements as contracts or agreements involving the transfer of systematic knowledge for the manufacture of a product, the application of a process, or rendering of a service including management contracts; and the transfer, assignment or licensing of all forms of intellectual property rights, including licensing of computer software except computer software developed for mass market. Distributorship agreements will be included in the coverage if this includes the licensing of trademarks. The provisions of the Intellectual Property Code cover retainerships of firms or individual technicians who render management and technical consultancy services.

4.4.3 Agents and Distributors

Agent/distributor arrangements are common in the Philippines. Given Filipino affinity for American products, Filipino companies generally are eager to pursue discussions once they have examined a U.S. firm’s product literature and have determined that there is a market for the product. U.S. manufacturers and their Filipino agents/distributors are bound by a contract that typically contains the following key elements:

- **General Provisions**: Identification of parties to the contract, duration of the contract, conditions for cancellation, definition of covered goods, definition of territory or territories, and whenever necessary, sole and exclusive rights;
- **Rights and Obligations of Manufacturer**: Conditions of termination, protection of sole and exclusive rights, sales and technical support, tax liabilities, conditions of sale, delivery of goods, prices, order refusal, inspection of distributor’s books, trademark/patent protection, information to be supplied by the distributor, advertising and sales promotion, responsibility for claims/warranties, and inventory requirements;
- **Rights and Obligations of Distributor**: Safeguarding manufacturer’s interest, payment arrangements, contract assignment, customs clearance, observance of conditions of sale, after-sales service, and information to be supplied to the manufacturer.

There are no Filipino laws that impede termination of an agent/distributor contract, should either party wish to do so. Contracts usually specify that 30 days’ notice must be given in the event of cancellation. Standard agent’s commission range from 5 to 10% but can vary.

There is no typical profile of a Filipino agent or distributor. Firms can range in size from small (fewer than 25 employees handling only a few specialized products on behalf of a limited number of manufacturers) to large trading companies handling a wide range of products and suppliers. Some Filipino firms focus only on the Metro Manila area, whereas others also service provincial commercial centers or hubs such as Cebu, Davao, Iloilo, and Baguio.

Any Filipino agent/distributor should be registered with the Philippine Securities and Exchange Commission (SEC) if it is a corporation or with the Department of Trade and Industry (DTI) for sole proprietorships.

U.S. firms selecting a Philippine representative should consider, along with the usual factors, the following: (a) whether the distributor has sufficient financial strength to maintain appropriate stock, provide effective after sales service, and allow competitive payment terms; and (b) whether the representative’s geographic sales area include strategic markets in the Visayas and Mindanao area. U.S. firms seeking agents or distributors in the Philippines are encouraged to use the services of the U.S. Commercial Service, Manila, such as the International Partner Search (IPS), the International Company Profile (ICP) or the Gold Key Service (GKS).

4.4.4 Hiring Local Counsel

It is usually advisable to have contracts and agreements executed in the Philippines so that the laws of the Republic of the Philippines will govern the interpretation of these documents, and in the event of litigation the venue will likewise be the Philippines. However, litigation in the Philippines is frequently subject to lengthy delays, so it may be advisable to consider expressly providing for arbitration of contractual disputes. The U.S. Embassy American Services Branch (ASB) authenticates legal documents notarized by Embassy accredited Philippine lawyers.

The use of a local attorney and accountant is highly recommended for U.S. firms who wish to establish an office in the Philippines. These professionals can also facilitate access to and coordination with various government agencies including taxation, business policy and trade, investments, environmental regulations, etc.

For firms maintaining operations in the Philippines, it is advisable to subscribe to the services of a local attorney and accountant, either on retainer basis or direct hire, depending on the nature of the work involved. Leading law and accounting firms, some of whom are members of the American Chamber of Commerce in the Philippines, render excellent business and commercial advice. A list of lawyers and accountants is available at the U.S. Embassy.

4.4.5 Checking Bona Fides

U.S. companies may contact the following to check the bona fides of banks, agents, business partners, contractors and subs, and customers:

Asian Risk Management
Unit 1705 Echelon Tower
2100 A. Mabini St.
Malate, Manila 1004
Phone: (632) 400-6744; 521-4910 (Trunk line)
Fax: (632) 525-6468
E-mail: rheafner@ibahn.net
Contact: Robert L. Heafner, President

Credit Information Bureau, Inc.
3308 Zapote St., Makati City
Phone: (632) 899-0015
Fax: (632) 890-0036
E-mail: cibi-info@cibi.net.ph
Contact: Dr. Cayetano Paderanga, Jr., President
Mamerto B. Santos, Marketing Manager

Leverage International (Consultants) Incorporated
CPO Box 3395 Makati
8/F Ste. 84 Legaspi Suites
178 Salcedo St., Legaspi Village
Makati City 1229
Phone: (632) 810-1389; 818-6828; 813-2473; 813-2473

Fax: (632) 810-1594
E-mail: lvrge@netasia.net
Web site: **www.leverage-international.com**
Contact: Cecilia A. Sanchez, Chair & Chief Executive Officer

4.4.6 Distribution Channel Options

Philippine distribution and sales channels vary from product to product. Stocking distributors import consumer goods for resale to retailers. Capital equipment imports usually go through an agent or distributor before reaching the end-users. Some end-users, however, import directly. The use of local agents or distributors affects greatly the chances of the company selling the product or winning the project, as agents are important market links. It is the agent who can monitor on a regular basis the development of the bidding process as well as the procurement opportunities. It is important that U.S. suppliers support their Philippine representatives through frequent contacts, regular training and promotional assistance.

If the customer imports directly from foreign suppliers and opens the L/C, the local rep or agent gets a commission for the sale (indent sale). Distributors handle after-sales service support.

There are currently two types of importers in the Philippines -- stocking distributors and indentors. During the past years when the interest rates were high, most importers switched from being stocking distributors to becoming indentors. Stocking distributors are bound by a contract to buy and sell the prescribed number of items as stated in the agreement with foreign suppliers. Indentors, on the other hand, act as a broker between foreign suppliers and end-user, saving on capital outlays for expensive equipment and avoiding stocking products that do not sell because they are too expensive. Usually, a buyer who orders from an indentor already has the financing for the goods.

Infrastructure projects such as transportation projects are open to internationally competitive bidding. U.S. firms submit their bids directly to the government implementing agency. A local agent is also an effective marketing tool. In selecting local firms as agents, U.S firms should consider whether the local firm is licensed or registered by the implementing agency or has done similar projects.

Despite the presence of a local agent, it is very important that the foreign manufacturers visit the country, especially before, during and after the pre-qualification process. Foreign suppliers must establish a strong personal relationship with the customer.

Metropolitan Manila is the country's nerve center of industrial and financial activity, transportation and communications, trade, and educational services. Approximately 85% of Philippine foreign trade passes through the Port of Manila; 90% of imports enter this Port for distribution to other principal cities via trucks and inter-island vessels. Most of the Philippine's national importers and distributors are in Manila.

Airfreight is a recent trend in domestic distribution. DHL, FedEx and UPS all have joint-venture partners to service the growing domestic demand.

Makati City is the central business area in the country and the most prosperous of the Metro Manila suburbs. In addition to small manufacturing plants, there are also a considerable number of distribution centers, trading firms, government offices and commercial banks. Makati City is also a shopping area for higher income residents.

In addition to Manila, the other major interregional centers are Cebu City, Iloilo, Davao, and Zamboanga. Cebu City, the third largest city in the Philippines, is the prime trading center in the southern part of the archipelago. Its hinterland is mainly accessible by boat. Iloilo shares with Cebu the servicing of the country's central area. Davao, the second largest city in the Philippines, enjoys a near trade monopoly in Southern Mindanao, due mainly to the presence of land and water connections with nearby provinces. Zamboanga functions partly as an interregional center. Transportation to the hinterland is almost entirely by water since there are only a few roads along the peninsula.

4.4.7 Franchising Activities

Franchising allows a foreign company (franchiser) to “operate” locally by appointing its franchisee. The franchiser collects a fee for the use of any or all forms of its intellectual property rights, such as its name, trademarks and system. Philippine retail laws (Retail Trade, Republic Act 1180) prohibit foreign equity positions in franchises. Nevertheless, many foreign franchises, mostly American, are operating in the Philippines through licensing arrangements.

The government liberalized trade practices are embodied in the Intellectual Property Code of the Philippines, also referred to as Republic Act No. 8293. Under the law, which took effect on January 1, 1998, franchisers do not have to register their franchise agreements as long as these agreements do not contain any of the prohibited clauses under Section 87 and contains all the mandatory provisions under Section 88 of the IP Code. The new law also removed the ceiling on royalties. Royalty payments may be remitted through any Authorized Agent Bank (AAB) of the Bangko Sentral ng Pilipinas (Central Bank).

Master Franchise fees vary from $100,000-$400,000, depending on the type of business. Royalties depend on the agreement between the parties. Higher operating costs such as rent and imported goods, however, still confront franchise operators.

The prohibited clauses under Section 87 are:

- Those which impose upon the licensee the obligation to acquire from a specific source capital goods, intermediate products, raw materials, and other technologies, or of permanently employing personnel indicated by the licensor
- Those pursuant to which the licensor reserves the right to fix the sale or resale prices of the products manufactured on the basis of the license
- Those that contain restrictions regarding the volume and structure of production
- Those that prohibit the use of competitive technologies in a nonexclusive technology transfer arrangement
- Those that establish a full or partial purchase option in favor of the licensor
- Those that obligate the licensee to transfer for free to the licensor the inventions or improvements that may be obtained through the use of the licensed technology
- Those that require payment of royalties to the owners of patents for patents which are not used
- Those that prohibit the licensee to export the licensed product unless justified for the protection of the legitimate interest of the licensor such as exports to countries where exclusive licenses to manufacture and/or distribute the licensed product(s) have already been granted
- Those which restrict the use of the technology supplied after the expiration of the technology transfer arrangement, except in cases of early termination of the technology transfer arrangement due to reason(s) attributable to the licensee
- Those which require payments for patents and other industrial property rights after their expiration, termination arrangement
- Those which require that the technology recipient shall not contest the validity of any of the patents of the technology supplier

- Those which restrict the research and development activities of the licensee designed to absorb and adapt the transferred technology to local conditions or to initiate research and development programs in connection with new products, processes or equipment
- Those which prevent the licensee from adapting the imported technology to local conditions, or introducing innovation to it, as long as it does not impair the quality standards prescribed by the licensor
- Those which exempt the licensor for liability for non-fulfillment of his responsibilities under the technology transfer arrangement and/or liability arising from third party suits brought about by the use of the licensed product or the licensed technology
- Other clauses with equivalent effects

The following are the mandatory provisions required under Section 88:

- The laws of the Philippines shall govern the interpretation of the same and in the event of litigation, the venue shall be the proper court in the place where the licensee has its principal office
- Continued access to improvement in techniques and processes related to the technology shall be made available during the period of the technology transfer arrangement
- In the event the technology transfer arrangement shall provide for arbitration, the Procedure of Arbitration of the Arbitration Law of the Philippines or the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) or the Rules of Conciliation and Arbitration of the International Chamber of Commerce (ICC) shall apply and the venue of arbitration shall be the Philippines or any neutral country
- The Philippine taxes on all payments relating to the technology transfer arrangement shall be borne by the licensor.

4.4.8 Direct Selling and Direct Marketing Options

In the Philippines, there is a distinction between direct selling and direct marketing. The basic difference lies on the intimacy of contact. Whereas direct marketing is usually done through phone, e-mail, direct mail or courier, direct selling involves personal contact with a potential customer. Direct selling agents typically visit customers at home, at the workplace or other points of contact other than a permanent retail establishment.

The direct selling medium covers a wide array of products including but not limited to cosmetics, apparel, food supplements, fashion jewelry, books, appliances, home items, personal care products, toys, and the like. A direct selling agent can present to one or several customers at a time.

In recent years, the multi-level marketing approach to direct selling has become an increasingly popular mode of selling products in the Philippines. This approach involves a "downline" system where an agent recruits other agents and gets a share of the earnings or commissions from each of the recruits, as well as from other people that those recruits were able to bring to the network.

U.S. firms such as Tupperware, Avon, Sara Lee, High Desert, Forever Living, Encyclopedia Britannica, Herbalife, Amway and Sunrider, have established distributorship networks in the country. Forever Living and Amway, for instance, are active proponents of multi-level marketing. Other direct selling companies include Golden Neo-Life, Barclay-Elle Marge, Nu Skin, Neways, Futurenet and Mary Kay.

Meanwhile, direct marketing offers the advantage of personalized communications, as it aims to reach a specific individual and usually, a response is elicited from the target. Compared with traditional advertising (i.e., print, radio and TV) which basically creates awareness for the product, direct marketing is able to monitor response rates and at certain instances, even actual purchase or subscription. Direct mail (either by post or courier service) is still one of the more popular avenues for direct marketing in the Philippines. In recent years, however, the local market has been exposed to a wider array of direct marketing media such as product sampling, business reply envelopes, fax-back forms, marketing via E-mail and the Internet, telemarketing, leafleting, establishment of membership clubs, and lately, even Short Message System or SMS.

Depending on the nature of the product and the objective of the marketing effort, direct marketing can reach different market segments – from low-end consumers (e.g., the market for general food and other consumer products) to high-end and more sophisticated clientele (e.g., business executives and the more affluent households). Several companies - both local and multinational – are now seeing the advantages of the direct marketing medium to complement their advertising and promotional efforts.

The Consumer Code of the Philippines covers the legalities of direct marketing and restricts direct marketing, like franchising, to 100% Filipino-owned corporations. Foreign firms can engage in wholesale activities, however, and then sell to Philippine distributors.

4.4.9 Selling Strategies

There are several invaluable sales tools that U.S. suppliers should employ in order to maintain market leadership. Number one is exercising due diligence in selecting local distributors, agents, or representatives, since they are crucial market links. The U.S. Commercial Service in Manila assists U.S. exporters locate representatives overseas though various programs such as the International Partner Search, Gold Key Service, International Company Profile, among others. After selection, U.S. suppliers must provide full support to their local representatives.

U.S. suppliers should visit the Philippines at least once each year to understand market trends and developments; to show support for their local representatives; and to visit customers. Local representatives should make regular customer calls to identify sales targets and opportunities. Training programs for customers and distributors, advertising and product promotion support, and participating in trade fairs, exhibitions and product seminars are also important for U.S. firms to maintain leadership in this highly competitive market.

4.4.10 Pricing Issues

Typical markups reach an average of 30% of invoice value. The rate allows distributors, wholesalers and retailers to recover expenses incurred in importing equipment, raw materials or finished goods. The expense account includes import duties, VAT, discounts to customers, commissions to company-employed agents and independent provincial dealers, warehousing fees, shipping charges (some are charged to the importer), and other Bureau of Customs fees.

Retailers explain that most non-food retail items carry a 20 to 30% profit margin.

U.S. products have become more expensive due to the higher exchange rate. Importers suggest longer-term credits. For example, U.S. suppliers should extend a 60-day term to 120 days, or a 90-day term to 180 days so that importers can also extend similar longer credit terms to their clients.

4.4.11 Advertising and Trade Promotion

The Philippines is a brand-conscious market. Advertising plays a significant part in promoting the sale of most consumer goods. Most of the leading advertising agencies in the country are affiliated with international agencies.

Through the years, advertising in the Philippines has gone beyond the traditional tri-media outfits (i.e., print, TV and radio). Local advertisers now also make use of electronic billboards, web advertising, mass transit or public transport advertising, special events and product launches, direct marketing and other tools to promote their products. Although some advertisements utilize Western image models or concepts, some market segments are "localized" versions of product advertising and brand building. The use of celebrity endorsers or other high profile personalities is tried-and-tested formula for local advertising.

According to the National Telecommunications Commission (NTC), broadcast media in the Philippines is comprised of about 372 AM radio stations, 580 FM radio stations, 223 TV stations (VHF and UHF), 27 TV relay stations, 2 Pay TV stations, 58 TV translator stations, 3 TV stations operating at 40 GHz, 1373 cable stations (CATV), 3 Local Multipoint Distribution System (LMDS) stations, and 8 Multi-Channel, Multi-point Distribution System (MMDS) stations all over the Philippines.

Print media includes about 34 daily newspapers (including broadsheets and tabloids), and more than a 100 magazines and publications covering a diverse range of themes (entertainment, leisure and lifestyle, sports, hobbies and recreation, business and trade, religion, fashion, culinary, specific market segments, health, travel, IT, agriculture, etc.) and come in weekly, fortnightly, monthly, bi-monthly or annual issues. Provincial newspapers and regional publications are also available.

Local organizers have initiated a good number of trade shows and exhibitions. These trade promotion activities cater to a wide array of sectors including construction, health and lifestyle, furniture and home décor, food and food equipment, regional products, giftware, franchise opportunities, education, industrial goods, automotive, maritime and defense, sporting goods, apparel, telecommunications and IT, among others. Popular venues for holding these events include shopping malls, trade halls (e.g., World Trade Center and the Philippine Trade Training Center) and convention centers. The U.S. Commercial Service Manila also participates in some of the more prominent local trade shows and regularly informs U.S. companies when such opportunities arise.

Supplying

Next to price, after-sales service and support are extremely important factors to marketing success in the Philippines. It is imperative for U.S. vendors to provide this support during and after the warranty period in order to satisfy their customers. The proximity of Taiwan, Japan and other Asian nations presents a strong challenge to U.S. competitiveness. U.S. firms with substantial sales in the Philippines usually establish a branch office, which could provide after sales service and support to their local distributors or resellers.

4.4.12 Government Procurement

The Philippine Government and state-owned corporations are large direct importers of many essential products, including road building and maintenance equipment, cement, machinery and equipment for various government projects, and military and defense equipment.

The major government purchasers are the National Power Corporation, National Electrification Administration, National Housing Authority, National Irrigation Administration, Local Water Utilities Administration, Department of Transportation & Communication, Department of Public Works & Highways, and the Department of National Defense (DND).

Large projects financed partly or wholly with funds from international institutions as well as from bilateral and other similar foreign sources are open to international competitive bidding. Foreign suppliers or contractors could either bid directly or through a local agent or distributors. Generally, these projects require prospective bidders to simultaneously submit their eligibility and bid requirements. The bidding process uses the two-envelope system. The first envelope will be opened to determine the bidders' compliance with the project's specific requirements. The Bids and Awards Committee (BAC) will disqualify a bidder with incomplete documents. The second envelope will be opened only for bidders who have complied with the submission of the requirements in the first envelope. After opening the second envelope, the PBAC will evaluate the complying bids. Based on the detailed evaluation, bids will be ranked in the ascending order of the total calculated bid prices. The total calculated bid price is the price evaluated and corrected for errors, discounts, foreign exchange adjustments and other minor modifications. The BAC will then check the responsiveness of the lowest calculated bid price to the project's requirements. The contract will be awarded to the lowest calculated responsive bid.

The Procurement Service (PS) of the Department of Budget and Management (DBM) handles the common supplies and locally funded purchases of all government units. The PS was created in 1978, and directed the establishment of an integrated and centralized procurement system for the national government and its instrumentalities. The integrated procurement system is implemented by three inter-dependent entities - the Procurement Policy Board, the Inter-Agency Bids & Awards Committee and the Procurement Service. The governing council, now the Procurement Policy Board is headed by the DBM Secretary as Chairman and, as members, the Secretaries of Finance, National Defense, Trade and Industry, Health, Education, Public Works and Highways and a representative of the Philippine Institute of Certified Public Accountants. An Inter-Agency Bids and Awards Committee is composed of a DBM representative as Chairman, and as members, a representative each from the DOF, DTI, the client-agency for whom a major bid is called and the PS Director in an ex-officio capacity. A COA representative sits as resource person in all its meetings. The Procurement Service implements policy decisions of the Board and executes awards issued by the IABAC. It has seven fully operational divisions. It has 137 plantilla positions that can only be staffed by contractual personnel. The PS also has its own Resident COA Auditor.

4.5 IMPORT AND EXPORT REGULATION RISKS

4.5.1 Adherence to Free Trade Agreements

AFTA

As a member of the Association of Southeast Asian Nations (ASEAN), the Philippines is committed to reduce tariff and non-tariff barriers and investment restrictions within the ASEAN Free Trade Area (AFTA). Under these commitments, the six original ASEAN members agreed to accelerate the tariff reductions in each country's AFTA Common Effective Preferential Tariff (CEPT) Inclusion List. CEPT duty rates are lower than or equal to the MFN rates accorded to other trading partners (like the United States).

Companies with operations in at least two ASEAN member countries can potentially benefit from special accelerated CEPT preferential duty rates under the ASEAN Industrial Cooperation (AICO) scheme. Interested companies must apply to the Philippine Board of Investments (BOI), which will consider the request. Applications are subjected to a public hearing process. Most of the products in the projects approved to date are in the automotive and consumer products sectors.

APEC

As a member of the Asia Pacific Economic Cooperation (APEC) forum, the Philippines has committed to participate in the move toward the establishment of free trade in the region. Developed economies are expected to establish free and open trade by the year 2010; developing economies like the Philippines have until 2020 to eliminate barriers.

The Philippines agreed to participate in the eight Early Voluntary Sectoral Liberalization (EVSL) initiatives (now called Accelerated Tariff Liberalization, ATL) endorsed at the 1997 APEC Leaders Meeting in Vancouver. However, the Philippines lodged extensive reservations, including on the principle of tariff elimination. Philippine officials have stated that they could not agree to eliminate tariffs for both policy and revenue reasons. The Philippines also requested flexibility on end dates. Between 1997 to 2002, the simple average applied tariff was reduced to 5.27%. The simple average applied tariffs on EVSL sectors also was reduced significantly:

- Environmental goods, 2.56%
- Fish and fish products, 6.02%
- Toys, 5.50%
- Gems and jewelry, 4.59%
- Medical equipment and instruments, 2.57%
- Forest products, 5.77%
- Oilseeds and oilseed products, 5.29%
- Chemicals, 2.67%
- Natural and synthetic rubber, 2.26%
- Fertilizers, 1.10%
- Food sector, 8.21%
- Energy sector, 4.27%
- Automotive, 7.21%
- Civil aircraft, 3.82%

4.5.2 Tariff and Non-Tariff Barriers

Agriculture Tariffs and Quotas

The Philippines maintains high tariff rates on sensitive agricultural products, including grains, livestock and meat products, sugar, potatoes, onions, and coffee. Among these, fifteen items (at the four-digit HS level) are subject to a minimum access volume (MAV) and tariff-rate quota (TRQ) scheme, where imports outside of the quota are taxed at a higher rate. Several products with significant market potential are subject to TRQs, including corn (at an in-quota rate of 35%, and 65% outside of the quota), poultry meat (45% and 60%), and pork (30% and 60%).

Safeguards, Antidumping, and Countervailing Duties

The Safeguard Measures Act (Republic Act 8800), effective August 10, 2000, authorizes the Commissioner of Customs to raise a tariff or, in the case of an agricultural good, impose a quantitative restriction, to protect a domestic industry from an import surge. The Secretary of Trade and Industry or Secretary of Agriculture makes a preliminary determination on a case and may direct the Commissioner of Customs to implement a provisional safeguard measure. The Tariff Commission then undertakes a formal investigation and makes a recommendation to either Secretary on whether to apply a safeguard measure. The relevant Secretary based on that recommendation, then directs the Commissioner of Customs to implement a safeguard, to last one to four years, with extensions possible for an additional six years. Republic Act R.A. 8752, the Anti-Dumping Act of 1999, provides similar protection to a local industry harmed by an import sold cheaper in the Philippines than in its own market, or at a price below total cost. Likewise, E.O. 1073 of 1985, on countervailing duties, establishes a mechanism for the protection of Philippine industry harmed by an import that is manufactured abroad with the benefit of certain subsidies.

4.5.3 Restrictions on Imports

The following commodities may not be imported into the Philippines:

- Dynamite, gunpowder, ammunition and other explosives, firearms and weapons of war, and parts thereof, except when authorized by law
- Chlorofluorocarbons (CFCs) and halons, effective January 1, 1999. In the EMB/DENR announcement furthering implementation of R.A. 6969, the only exception is for CFCs to be used for servicing old equipment, for which importation and consumption may be allowed until the year 2010
- Written or printed articles in any form containing any matter advocating or inciting treason, rebellion, insurrection, sedition or subversion against the government of the Philippines, or forcible resistance to any law of the Philippines, or containing any threat to take the life of, or inflict bodily harm upon any person in the Philippines
- Written or printed articles, negatives or cinematic films, photographs, engravings, lithographs, objects, paintings, drawings or other representation of an obscene or immoral character
- Articles, instruments, drugs and substances designed, intended or adapted for producing unlawful abortion, or any printed matter which advertises or describes or gives directly or indirectly information where, how or by whom unlawful abortion is produced
- Roulette wheels, gambling outfits, loaded dice, marked cards, machines, apparatus or mechanical devices used in gambling or the distribution of money, cigars, cigarettes or other articles when such distribution is dependent on chance, including jackpot and pinball machines or similar contrivances, or parts thereof
- Lottery and sweepstakes tickets, except those authorized by the Philippine government, advertisements thereof, and lists of drawings therein
- Any article manufactured in whole or in part of gold, silver or other precious metals or alloys thereof, the stamps, brands or marks of which do not indicate the actual fineness of quality of said metals or alloys
- Any adulterated or misbranded articles of food or any adulterated or misbranded drug in violation of the provisions of the “Food and Drugs Act;”
- Marijuana, opium, poppies, coca leaves, heroin or any other narcotics or synthetic drugs that are or may hereafter be declared habit-forming by the President of the Philippines, or any compound, manufactured salt, derivative, or preparation thereof, except when imported by the government of the Philippines or any person duly authorized by the Dangerous Drugs Board, for medicinal purposes only
- Opium pipes and parts thereof, of whatever material
- Used clothing and rags (R.A. 4653)
- Toy firearms and explosives (Letter of Instruction 1264 dated July 31, 1982)
- Right-hand drive vehicles (R.A. 8506 dated February 13, 1998)
- Laundry and industrial detergents containing hard surfactants (R.A. 8970 dated July 24, 2000)

4.5.4 Import Tariffs and License Requirements

Almost all products, including imports, are subject to a 10% value-added tax (VAT). The VAT is imposed on imports for resale or reuse. Exemptions from the VAT include the sale or importation of agricultural and animal food products in their original state; the sale or importation of feeds, seeds, and fertilizers; the sale and importation of coal, natural gas, and certain petroleum products subject to excise tax; and the importation of passenger and/or cargo vessels of more than 5,000 tons to be operated by the importer. The VAT is based on the valuation determined by the Bureau of Customs (BoC) for the application of customs duties, plus those duties themselves, excise taxes, and other charges (other charges refer to charges on imports prior to release from customs custody, including insurance and commissions).

Certain products, whether domestically manufactured or imported, are subject to excise tax. These include alcohol products, tobacco products, petroleum products, mineral products, fireworks, cinematography films, automobiles, artificial sweeteners, jewelry, perfumes/toilet waters, and yachts/similar vessels.

On September 16, 2002, the Bureau of Internal Revenue (BIR) and the Bureau of Customs issued Joint Memorandum Circular Number 1-2002, indicating imported articles that are exempt from the imposition of value-added tax under Section 109 of the Tax Code of 1997. As such, the prescribed Authority to Release Imported Goods (ATRIG) shall no longer be issued by the BIR prior to the release of these articles from the BoC. The following are the articles that have been exempted:

- Live animals, and unprocessed meat carcass/es or parts thereof (whether fresh, frozen, chilled, salted, dried or boneless), except race horses, game cocks or chicken for cock fighting, and pets
- Live marine food products or unprocessed meat/parts thereof (whether fresh, chilled or frozen, dried, salted, shelled or filleted), except ornamental and aquarium fishes
- Unprocessed vegetable products (whether whole, cut, sliced, broken, dried, fresh, chilled, frozen, shelled, skinned or split)
- Unprocessed edible fruits and nuts (whether fresh or dried, shelled or peeled), but not bottled, powdered or canned
- Unprocessed cereals
- Unprocessed seeds, miscellaneous grains, medicinal herbs and plants.

Documents such as health certificates from the country of origin, veterinary quarantine clearance (VQC) from the Bureau of Animal Industry (BAI), import permits from the BAI, and other relevant certificates must be submitted to the Bureau of Customs before the above-mentioned imported articles are released.

U.S. producers of distilled spirits and automobiles have raised concerns about certain discriminatory aspects of the Philippines' excise tax system. For example, the tiered excise tax structure for automotive vehicles is based on engine displacement rather than vehicle value. The excise tax structure for distilled spirits has the effect of subjecting most imported distilled spirits to a higher excise tax than that applied to distilled spirits produced from indigenously available materials.

4.5.5 Licenses Required for Imports

A broad range of commodities require import clearance/licenses from appropriate government agencies prior to importation into the Philippines.

The National Food Authority (NFA) remains the sole importer of ordinary rice and continues to be involved in imports of corn. Private grain dealers may import premium or fancy rice only with an Import Clearance issued by the NFA. As noted above, fifteen tariff lines of agricultural commodities (at the 4-digit HS level) are currently subject to minimum access volume (MAV) tariff-rate quotas (TRQs). Administrative Order (A.O.) 9 of 1996, as amended by A.O. 8 of 1997 and A.O. 1 of 1998, established the rules by which these TRQs are implemented and import licenses are allocated.

Section 61 of the Philippine Fisheries Code, Republic Act (R.A.) 8550 permits importation of fresh, chilled, or frozen fish and fish products only when certified as necessary by the Secretary of Agriculture and upon issuance of an import permit by the Department of Agriculture. Fisheries Administrative Order (FAO) 195, Series of 1999, issued by the Department of Agriculture on September 20, 1999, implements Section 61. One of the criteria the Secretary is mandated to consider in determining whether to approve imports is whether “there is serious injury or threat of injury to domestic industry that produces like or directly competitive products.”

The DENR allows the importation of wood materials (including logs and lumber, plywood and veneer, poles and piles) by a holder of the Timber License Agreement (TLA), Industrial Forest Management Agreement (IFMA), Wood Processing Plant Permit (WPPP) or Certificate of Registration (CR) as furniture manufacturer, agent, contractor, or dealer of logs and lumber. However, it is worth highlighting that the holder should have his TLA, IFMA, WPPP or CR registered with the Philippine Wood Producers Association (PWPA), and subsequently stamped by the Office of the Regional Executive Director/DENR as a valid Authority to Import. Aside from the Authority to Import, the Bureau of Plant Industry’s Plant Quarantine Officer requires the importer to submit the Phytosanitary Certificate pertaining to the imported wood materials issued by the country of origin. DENR’s revised regulations governing the entry and disposition of imported wood materials (A.O. 99-46) took effect on December 6, 1999.

Administrative Order No. 8, which took effect on May 14, 2002, provides the rules and regulations for the importation of biotech plants and plant products for direct use as seeds, feeds, food, and further processing. Importation may be allowed only if these products are authorized for commercial distribution as food or feed in the country of origin, and upon presentation by the importer of documents showing that its use will not pose significant risks to human and animal health. The Bureau of Plant Industry, as the main regulator, issues the five-year permits either for contained use or for direct use as food, feed, and further processing. Products approved for importation will be included in the approval registry for direct use. Importers of products included in this registry will no longer be required to secure an import permit but would need to give notice to the BPI of the arrival of their shipments within fifteen days of actual arrival. A transitory period during which imported products are subject to the usual sanitary and phytosanitary and customs regulations ended on June 30, 2003.

The National Telecommunications Commission (NTC) authorized the use of satellite-based cellular phones (Global Mobile Personal Communications by Satellite--GMPCS), effective April 15, 1999. Prior to importation of handsets for this purpose, cellular phone service providers or authorized equipment dealers importing GMPCS handsets into the country are required to obtain an import certification from the NTC.

Points of contact to apply for clearance/permits to import the regulated commodities list above, and several additional commodities subject to import licensing, are listed here:

Commodity Group	Government Agency Issuing Clearance
Acetic anhydride	Mr. Joey Lina O-I-C Chairman Control, Regulation and Intelligence Division Dangerous Drugs Board A. Francisco Gold Condominium EDSA Corner Mapagmahal Street Quezon City, Manila Phone: (632) 925-03-30 *31 Telefax: (632) 925-03-32
Rice and corn	Mr. Conrado Ibanez Director Directorate for Marketing Operations National Food Authority Matimias Building 101 E. Rodriguez, Sr. Ave. Quezon City Phone: (632) 712-1564 Telefax: (632) 712-1708/ 1372 (long distance)
Sodium cyanide	Ms. Angelita Bravante Chief Chemical Substance Management Section Environmental Management Bureau (EMB) Dept. of Environment and Natural Resources (DENR) DENR Compound, Visayas Ave. Diliman, Quezon City Phone: (632) 920-2273; 928-1214 Fax: (632) 920-2263
Penicillin/derivatives	Ms. Jessusa Joyce Cirunay Chief Regulation Division 1 (for finished products) Bureau of Food and Drugs Filinvest Corporate City Alabang, Muntinlupa Phone: (632) 807-2843 Telefax: (632) 807-8275 Ms. Ofelia Abla Chief Regulation Division 2 (for raw material imports) Bureau of Food and Drugs Filinvest Corporate City Alabang, Muntinlupa Tel. (632) 807-2843; 807-0701

Fishery products	Atty. Annaliza B.A. Vitug O-I-C, Fisheries Regulation and Quarantine Division Bureau of Fisheries and Aquatic Resources 4th Flr Arcadia Building 860 Quezon Avenue, Quezon City Phone: (632) 372-5046 Telefax: (632) 373-74-53
Biotech seeds	Mr. Luben Marasigan O-I-C, Plant Quarantine Service Bureau of Plant Industry 692 San Andres St., Manila Phone: (632) 523-9132 Telefax: (632) 524-2812
Coal and coal derivatives	Ms. Zenaidah Moncada Director Oil Industry Management Bureau (OIMB) Dept. of Energy PNPC Complex, Merritt Road Fort Bonifacio, Taguig, Metro Manila Phone: (632) 840-2114 Fax: (632) 840-2095 Mr. Charles Cordero Supervising Science Research Energy Industry Admin. Bureau (EIAB) Department of Energy PNPC Complex, Merritt Road Fort Bonifacio, Taguig, Metro Manila Phone: (632) 840-2158 Fax: (632) 840-2095
Color reproduction machines	Mr. Francisco Donozo O-I-C Identification and Records Division National Bureau of Investigation (NBI) NBI Bldg, Taft Ave., Manila Phone: (632) 523-2437 Telefax: (632) 526-1216 Ms. Teresita Manique Director Cash Department Bangko Sentral ng Pilipinas 2/F, Room 203, Multi-Storey Building, A. Mabini St., Manila Phone: (632) 525-3082 Telefax: (632) 536-6007

Chemicals for the manufacture of explosives	Mr. Geary Barias Chief Firearms and Explosives Division Philippine National Police Camp Crame, Quezon City Phone: (632) 724-8710 Telefax: (632) 724-8710
Pesticides including agricultural chemicals	Mr. Jose Maria Perez, Executive Director Ms. Bella Fe Carmona, Chemist III Pesticides Regulatory Division Fertilizer and Pesticide Authority 4/F Building B, NIA Complex E. de los Santos Ave. Quezon City Phone: (632) 922-3364 Telefax: (632) 922-3364
Motor vehicles, parts and components; Truck and automobile tires and tubes, all sizes, used; and No-dollar imports of used motor vehicles	Mr. Luis M. Catibayan O-I-C Bureau of Import Services Dept. of Trade and Industry Services Oppen Building 349 Sen. Gil Puyat Ave. Makati City Phone: (632) 890-5418 alt. (632) 896-4430 TeleFax: (632) 895-7466
Warships of all kinds	Asst. Sec. Cezar Bello O-I-C Installation and Logistics Dept. of National Defense Camp Aguinaldo, Quezon City Phone: (632) 911-6244 Telefax: (632) 911-6227
Radioactive materials	Vangeline Parami O-I-C Nuclear Regulations, Licensing and Safeguards Division Philippine Nuclear Research Institute Commonwealth Ave., Diliman Quezon City Phone: (632) 920-1088 Telefax: (632) 920-8796

Legal tender Philippine currency in excess of P10,000	Ms. Celia Gonzales Director International Operations Department Bangko Sentral ng Pilipinas Rm. 301 5-Storey Building A. Mabini St., Manila Phone: (632) 536-6077 Telefax: (632) 536-0053
Global personal communication handsets for commercial sale	Engineer Efren Cabanlig Director Radio Regulation Licensing Dept. National Telecommunication Commission NTC Building, BIR Road, East Triangle, Diliman, Quezon City Phone: (632) 924-4024 Telefax: (632) 924-3787 Engineer Dante Vengua Division Chief Radio Regulation Licensing Dept. National Telecommunication Commission NTC Building, BIR Road, East Triangle Diliman, Quezon City Phone: (632) 924-4079 Telefax: (632) 924-3787
Wood materials (including logs and lumber, plywood and veneer, poles and piles)	Mr. Romeo T. Acosta Director Forest Management Bureau FMB Bldg., Visayas Ave. Diliman, Quezon City Phone: (632) 925-2138 Fax: (632) 920-0374

4.5.6 Customs Regulations and Contact Information

All importers or their agents must file import entries with the Bureau of Customs (BOC), which then processes these entries through its Automated Customs Operating System (ACOS).

ACOS uses a computer system to classify shipments as low-risk (green lane), moderate risk (yellow lane) or high risk (red lane). Shipments channeled through the yellow lane require a documentary review, while red lane shipments require physical inspection at the port. Green lane shipments are not subject to any documentary or inspection requirements. BOC has also added a “Super Green Lane” for the largest importers.

4.5.7 Clearance Requirements

CMO 37-2001, "Revised Cargo Clearance Procedures," replaces CMO 3-2000 and outlines the documentary requirements and processing steps necessary to clear imports through BOC, except those made through the Super Green Lane. CMO 37-2001 states that the following documents will be used in clearing imports at the BOC:

- Import Entry and Internal Revenue Declaration (IEIRD) Form (BC Form 236), which includes the Supplemental Declaration of Valuation (SDV) form. The guidelines for completing the IEIRD form are included in CMO 1-96A;
- Bill of Lading or Air Waybill or House Bill of Lading, where applicable;
- Commercial Invoice;
- Packing List; and
- Other additional documents as may be required.

CMO 37-2001 also states that "the IEIRD shall be based on self-assessment" and that "the declarant shall compute the duties and taxes using the applicable valuation method." At ports of entry equipped with the automated clearance system (ACOS), entries are supposed to be filed electronically. Entries are classified by a computerized selectivity system into either "green lane entries" or "selected entries," based on enforcement or valuation concerns. "Selected entries" go through the "yellow" or "red" lanes.

4.5.8 Valuation on Imports

CAO 5-2001 specifies valuation methods that must be applied in sequence. Method 1 is transaction value. It specifies that, if the buyer and seller are related, use of transaction value is acceptable if the circumstances surrounding the transaction demonstrate that the relationship did not influence the price, or the transaction value closely approximates: the transaction value in sales to unrelated buyers of identical or similar goods; the deductive value of identical or similar goods; or the computed value of identical or similar goods. If the dutiable value cannot be determined under this first method, the transaction value shall be the value of identical goods for export to the Philippines and exported at or about the same time as the goods being valued. CAO 5-2001 goes on to outline four other sequential valuation methods: the transaction value of similar goods; deductive value; computed value; and the "fall back" valuation methodology.

CMO 37-2001 defines the composition and role of the "Valuation and Classification Review Committee" (VCRC) at each port of entry, chaired by the Deputy Collector for Assessment at that port. All entries tagged by the computerized selectivity process as "selected entries" for valuation reasons will be forwarded to the VCRC for review. Other entries may also be forwarded for review. The VCRC will determine if there is a genuine valuation issue, and when such an issue exists determine whether delay will ensue in the determination of customs value. The VCRC will calendar all cases referred to it within three days of receipt, and the VCRC is to resolve all cases within 20 days of scheduling.

CMO 37-2001 also defines procedures for the tentative release of shipments under bond, pending resolution of valuation issues. All requests for tentative release must be approved by the VCRC. Tentative release is not allowed in cases where the shipment is the subject of an alert/hold order or has incurred a violation that would merit issuance of a seize order. The amount of the guarantee "shall be equivalent to the difference between the duties and taxes based on the importer's declaration and those computed using one of the applicable methods of valuation.

CMO 3-2002 establishes an appeals mechanism. Section II of CMO 3-2002 states that importers, upon payment of a Docket Fee (based on a sliding scale established in CAO 1-96A) may file a formal protest with the Collector of Customs through the Law Division of the port concerned.

Section II also states, "the Collector shall form a panel of experts to hear the case . . . composed of a hearing officer from the law division and [customs officials] from the assessment unit." The officials involved in the initial assessment are not supposed to be chosen as members of the panel. The following procedural timeline applies to appeals cases handled in this manner:

- Within 30 days of the first hearing (up to a maximum of 60 days in certain cases), panel recommends decision to the Collector of Customs, through the Chief of the Law Division.
- Within 15 days after receiving the recommendation, Collector of Customs renders decision on the appeal.
- If decision is "adverse to the government," decision is elevated to Commissioner of Customs for review, within five days.
- If importer is dissatisfied with Collector's decision, he may, within 15 days, file a notice of appeal to the Collector. Collector immediately forwards case to the Commissioner for review. Commissioner will consider appeal, but only upon payment by importer of an additional docket fee. Appeal will be deliberated on "by a permanent board of three to be created by the Commissioner of Customs." Board will be chaired by an attorney from the Appellate Division, Legal Service, and includes two valuation experts from the import and assessment service.
- The Commissioner should render a decision on the appeal within 30 days of receipt of the case from the District Collector. If no decision is rendered within 30 days, the decision of the District Collector is considered upheld.
- If the Commissioner "renders a decision which is adverse to the government," within five days of the decision, the case must be elevated to the Secretary of Finance for automatic review.
- If the Secretary of Finance upholds a decision adverse to the importer, the importer may file a case before the Court of Tax Appeals.

Super Green Lane

On May 10, 2000, BOC began to operate a "Super Green Lane" (SGL), promising qualified importers immediate, no-questions-asked clearance of goods, other than goods subject to import licenses and other controls. Cleared goods may be subject to random post-entry inspections, but only at the importer's premises. In addition to duties and taxes, BOC is authorized to charge a P2500 ($60) fee, on a per-importation basis, for goods cleared through the SGL. Executive Order 230 provides the legal basis for the SGL, while CAO 2-2000 contains implementing regulations.

CAO 2-2000 outlines criteria used to determine qualified companies: that the importer has not been subject to disciplinary action or penalties by the BOC; that subject imports are not prohibited; and that the importer has been transacting with the BOC for at least one year and falls within the top 1000 importers in terms of duties and taxes paid. Eligible importers need to qualify annually, sign a memorandum of agreement with the BOC, and file import declarations electronically through BOC's electronic data interchange (EDI) system (CMO 22-99 outlines procedures and guidelines for the remote lodgment of import entries). Those accredited will receive a "Certificate of Qualification."

Importer Classification Board

The Department of Finance (DOF) and Department of Trade and Industry (DTI) Joint Order 2-99 established an importer accreditation program to classify importers according to risk. Section 1 of JO 2-99 states that most importers (except those in economic zones and in certain other instances) shall be required "to secure classification" from an "Importers Classification, Monitoring, and Review Board" (ICMRB). The Board classifies importers as "low risk", "medium risk" or "high risk." Section 4.5 of JO-2-99 states that, to be classified as "low risk," an importer must have a three-year track record of imports; no violations over a three year period of customs, internal revenue or trade laws; net assets of not less than one million pesos ($20,000); and “no confirmed adverse information on the applicant or its broker relating to their import-export activities.” Imports of firms classified as “low risk” are to be channeled through the green lane. If a firm is not classified as “low risk,” its shipments will be channeled through the yellow or red lanes. Certification of firms is valid for a three-year period, although firms may apply for an upgrading of the classification at any time. Importers who fail to apply for classification are not precluded from importing; however, all their imports will be channeled through the red lane.

All importers, including those using the SGL, will have to go through the importer accreditation program and be classified as “low risk.” Those importers outside the top 120 importers (or eventually outside the top 1000), if accredited as “low risk,” will have imports coursed through the normal green channel, not the SGL.

4.5.9 Customs Contact Information

Queries related to valuation and clearance:

Bureau of Customs (BOC)
Napoleon L. Morales, District Collector
Port of Manila
South Harbor, Port Area, Manila
Telefax: (632) 525-7606

Queries related to tariff nomenclature and classification:

Tariff Commission
Ed Maralit, Director
Research and Investigation Department
5th Floor, Philippine Heart Center Bldg.
East Ave., Quezon City
Phone: (632) 926-7476
Fax: (632) 921-7960
E-mail: tarcm@mydestiny.net, tarcm@pworld.net.ph

4.5.10 Entering Temporary Imports

Many articles that enter the Philippines on a temporary basis are exempted from import duties. Section 105 of the Tariff and Customs Code of the Philippines lists articles exempted from the payment of import duties if such articles will be exported. The list includes:

- Equipment for use in the salvage of vessels or aircraft
- Articles brought into the Philippines for repair, processing or reconditioning to be re-exported upon completion of the repair, processing or reconditioning
- Articles used exclusively for public entertainment, and for display in public expositions, or for exhibition or competition for prizes, and devices for projecting pictures and parts
- Articles brought by foreign film producers directly and exclusively used for making or recording motion picture films on location in the Philippines.

The Bureau of Customs requires a bond, usually amounting to one and one-half times the ascertained duties, taxes and other charges on the article, on the condition that the article will be exported. The duties, taxes and other charges will have to be paid within six months from the date of the import entry. The Commissioner of Customs may extend the time for exportation or payment of duties, taxes and other charges.

The Commissioner of Customs with the approval of the Secretary of Finance prescribes the requirements for temporary goods entry.

4.5.11 Special Import Requirements and Certifications

Imports are classified as follows:

- **Freely Importable Commodities** -- These are commodities the importation of which is neither regulated nor prohibited as defined below. The importation may be without the prior approval of or clearance from any government agency.
- **Regulated Commodities** -- These are commodities the importation of which requires clearances/permits from appropriate government agencies including the Central Bank (CB). They are enumerated under the provisions of CB Circular 13-89.
- **Prohibited Commodities** -- These are the commodities the importation of which is not allowed under existing laws.

The importation status of any commodity (whether prohibited, regulated or freely importable) may be checked/verified with the Bureau of Customs (BOC), Department of Trade and Industry (DTI) - Bureau of Import Services (BIS) (**www.dti.gov.ph/bis**), Bangko Sentral ng Pilipinas (BSP) or any of its authorized agent banks, and the Department of Agriculture for importation which require the issuance of the Minimum Access Volume Import Certificate such as the importation of swine, chicken etc.

Import documents required for all shipments to the Philippines are:

- Commercial invoice
- Bill of lading or air way bill for air shipments
- Certificate of origin (if requested)
- Packing list
- Various special certificates required due to the nature of goods being shipped and/or requested by the importer/bank/letter of credit clause, e.g., (a) Bureau of Food and Drugs (BFAD) license, (b) Commercial Invoice of Returned Philippine Goods and (c) Supplemental Declaration on Valuation, Temporary Assessment Notice, Final Assessment Notice, Import Entry and Internal Reserve Declaration.

4.5.12 Import Requirements for Food Products

The Philippines is a signatory to the World Trade Organization and has lifted quantitative restrictions on imports of food products except for rice. Rice may be imported only by the Philippine Government through the National Food Authority, formerly an attached agency of the Department of Agriculture, now seated in the President's Office for Food Security. The Philippines replaced the previous import restrictions with quota rate tariffs on some sensitive agricultural products. Quarantine Clearances that serve as import licenses are required prior to the importation of fresh fruits and vegetables as well as all kinds of meat and meat products and now for fisheries products. All other food product imports do not have licensing requirements except where permits are required for commodities entering duty-free or are taking advantage of an in-quota tariff on items such as live swine, frozen pork, frozen poultry, fresh/chilled potatoes, coffee beans, corn, coffee extract.

Import Regulations for Processed Food Products

Philippine food regulations generally follow the U.S. Food and Drug Administration policies and guidelines as they pertain to food additives, good manufacturing practices and suitability of packaging materials for food use. Hence, compliance with U.S. regulations for packaged foods, particularly for labeling will almost always assure compliance with Philippine regulations. All food products offered for sale in the Philippines must be registered with BFAD. Registration of imported products may only be undertaken by a Philippine entity, although some documentation and, for certain types of products, samples need to be provided by the exporter. Products have been divided into two categories with distinct sets of registration requirements and procedures.

Category I:

- Bakery & bakery related products
- Non-alcoholic beverages & beverage mixes
- Candies & confectionery products
- Cocoa & cocoa related products
- Coffee, tea & non-dairy creamer
- Condiments, sauces & seasonings
- Culinary products
- Gelatin, dessert preparation & mixes
- Dairy products
- Dressings & spreads
- Flour/flour mixes & starch
- Fish & other marine products
- Fruits, vegetable & edible fungi (prepared)
- Meat and poultry products (prepared)
- Noodles, pastas & pastry wrapper
- Nut & nut products
- Native delicacies
- Oils, fats & shortening
- Snack foods & breakfast cereals
- Sugar & other related products

Category II:

- Alcoholic beverages
- Food supplements

- Tea (herbal)
- Bottled drinking water
- Foods for infant & children
- Foods for special dietary use
- Transgenic food products (use of genetic engineering/biotechnology)
- Ethnic food products with indigenous ingredient(s) not common in the Philippines

An application for registration should be filed by the Philippine importer for the importation and distribution/offer for sale for each class per brand of product. Only products with a valid Certificate of Product Registration from BFAD will be allowed for sale in the Philippines.

Requirements for the Registration of Food Products

Category I:

- Letter of application for registration from importer/distributor
- Accomplished Affidavit of Undertaking, typewritten and notarized
- Accomplished product list by product classification, three (3) copies
- Valid License to Operate (from BFAD) with name of supplier/source(s) of imported food products
- Copy of Sales Invoice
- One sample of each product in commercial presentation and a copy of the label that is in conformance with Codex Labeling Regulations and BFAD requirements. In lieu of product sample, a colored picture of each product may be submitted. A sticker indicating the name and address of the importer must be attached if such information is not printed on the label.
- Registration fee of Pesos 25 per product

Category II:

- Letter of application for registration from importer/distributor
- Valid License to Operate (LTO) as an importer/distributor (issued by BFAD)
- Product Information:
    - List of ingredients in decreasing order of proportion. For additives with prescribed limit, the amount added must be indicated.
    - Finished product specification (physico-chemical and microbiological)
- Samples of the product in its commercial presentation for laboratory analysis.
- Loose label and labeling materials to be used for the products.
- Estimated shelf-life, parameters used and methods for determining shelf-life.
- Brief description/flow diagram of the method of manufacture
- Certificate of analysis. Include analytical methods used. Additional requirements for food supplements may apply as necessary.
- Registration fee of Pesos 25 per product plus cost of laboratory analysis.

Laboratory testing by BFAD for products under category II is mandatory to determine the safety of the product and to assure that there will be no misbranding or adulteration of products. Products under Category I may be subject to random examination at any time during the validity of the registration and the cost of laboratory analysis shall be charged to the importer.

A Certificate of Product Registration (CPR) shall be issued by BFAD and shall be valid for two (2) years. Subsequent renewal of CPR shall be valid for a period of three (3) years.

Exporters should also note that a Philippine importer needs to secure a License to Operate from BFAD, which is actually a pre-requisite for the registration of any food products. The License lists names of foreign suppliers or sources of the products being registered. Thus, the importer is required to obtain from the exporter and submit to BFAD the following: (1) a copy of the Foreign Agency Agreement duly authenticated by the Philippine Consulate in the country of origin; and (2) a Certificate of Status of Manufacture by the exporter issued by the Government Health Agency from the country of origin which should also be authenticated by the Philippine Consulate.

Import Regulations for Fresh Produce and Meat

The Bureau of Plant Industry (BPI) of the Philippine Department of Agriculture regulates imports of fresh fruits and vegetables. All imports of fresh produce require phytosanitary clearances from BPI which also serve as import licenses. These clearances are applied for by the Philippine importer for each shipment. Shipments of fresh fruits and vegetables should be accompanied by a USDA Phytosanitary Certificate (PC) issued at the port of origin. The freight container number and corresponding seal number should be listed on the PC under distinguishing marks. Shipments from the U.S. may transit through Hong Kong, Taiwan, etc., however, container seals should remain intact. Breakage of container seals before verification by BPI on arrival may subject shipment to re-exportation or precautionary fumigation. The BPI also conducts random checks on shipments.

Formal approval for imports for Florida oranges, tangerines and grapefruit was secured in 1999 with the approval of a protocol for these products. The protocol allows imports from areas controlled for the Caribbean fruit fly in Florida.

Sensitive Agricultural Products

Tariff rates for sensitive agricultural products were established in Executive Order 313 of March 1996 which set varying in-quota and out-quota rates for products considered important to domestic agriculture, including pork, poultry, corn, and fresh potatoes. In-quota rates apply to products imported within established *minimum access volumes* (MAV). Any imports in excess of the MAV would be assessed the out-of-quota rate. Most of the MAV products are those for which the Government committed to WTO to provide minimum market access in exchange for the lifting of quantitative import restrictions. The administration, including allocation, of minimum access volumes is handled by a MAV Management Committee. The licensing procedures followed by the Philippines for these two commodities are specified in bilateral MOU agreement. The MOU amended previous regulations that the U.S. found to be ineffective because the previous licensing scheme allowed the bulk of the allocations to given to local pork producers and poultry integrators. Please contact our office for further information on minimum access volumes and current MAV license holders.

4.5.13 Import Requirements for Pharmaceutical Products

Any person who desires to import pharmaceutical products should secure a license to operate from the Bureau of Food and Drugs (BFAD) and submit the documents as specified in the checklist of requirements. The Bureau of Food and Drug (BFAD) is the government agency tasked with the administration and enforcement of laws pertaining to the manufacture and sale of food, drug and cosmetics in the Philippines.

After the issuance of the license to operate, all imported finished products (in original packaging) intended to be distributed commercially should be submitted to Products Services Division for registration and submit the documents as specified in the checklist of requirements. All raw materials are exempted from registration.

In case of antibiotics, in addition to product registration, each batch should be submitted for batch certification before distribution.

For penicillin-containing pharmaceutical products, a holder of a valid license to operate as drug distributor/importer should apply for permit to import and submit all documents as specified in the checklist of requirements.

4.5.14 Labeling Issues

Every imported or locally manufactured product must display the following information:

1. Registered trade or brand name
2. Duly registered trademark
3. Duly registered business name
4. Address of the manufacturer, importer or repacker of the consumer product in the Philippines
5. General make or active ingredients
6. Net quantity of contents, in terms of weight, measure or numerical count in the metric system
7. Country of manufacture, if imported
8. If a consumer product is manufactured, refilled or repacked under license from a principal, the label shall state such facts.

The following additional information may also be required by the responsible government agency:

- Whether the product is flammable or inflammable
- Directions for use, if necessary
- Warning of toxicity
- Wattage, voltage or amperes
- Process of manufacture used, if necessary

Once a product has been certified as having passed the requirements of the relevant Philippine National Standards (PNS) prescribed by the Bureau of Product Standards of the Department of Trade and Industry, marking must comply with the marking requirements of the PNS, Department Administrative Order 01:1997 – Revised Rules and Regulations Concerning the Philippine Standards (PS) Quality and/or Safety Certification Mark Scheme and Department Administrative Order 5:2001 – Revised Rules and Regulations Concerning the Issuance of the Import Commodity Clearance.. Exemptions from specific marking requirements may include: articles that cannot be marked prior to shipment without injury or at prohibitive expense; crude substances, crude products, and products imported for use by the importer and not for resale in its imported form; or products produced 20 or more years ago. For these items, the container must indicate the country of origin and product name. Mislabeling, misrepresentation or misbranding may subject an entire shipment to seizure and disposal.

Agricultural Items

Processed packaged food products are required to comply with the regulations of the Philippine Bureau of Food and Drugs (BFAD). All labeling must be in English.

Pharmaceuticals

The "Generics Act" of 1988, which its authors state is intended to promote the use of generic pharmaceuticals, requires that the generic name of a particular pharmaceutical must appear above its brand name on all packaging.

Textile and Garment Labeling

A reasonably legible label, with letters not less than 1.5 mm in size, on which the information is stamped, printed, woven or indicated in tags, is mandatory for the following:

- Finished textile fabrics in rolls or folds
- Textile piece goods
- Ready-made garments
- Household and institutional linens such as bed sheets, towels, napkins, and placemats
- Textile products such as handkerchiefs, umbrellas, socks, hosiery, neckties and scarves

Mislabeling, misrepresentation, or misbranding may subject the entire shipment to seizure and disposal.

Method of Labeling for Ready-Made Garments

The label must be durable enough to withstand normal laundering, and shall include the manufacturer's name or trademark or both; the percent fiber content by mass, using the generic name of the fiber in the order of predominance; and the country of origin (the address of manufacturer may also be indicated in the packaging). Labels for blouses, dresses, jackets, robes, nightgowns, shirts and sweaters must be affixed at the center back neckline, or at any other appropriate place, such as side seam, facing of front placket, etc. Labels for pants, skirts, pajamas, shorts, tights, or half-slips, must be affixed at any appropriate place, such as the inside waistband or inner facing of the ply.

Method of Labeling (for Textile Fabric)

For finished textile fabrics in rolls or in folds, the label, which includes the trademark, the percent fiber content by mass, using the generic name of the fiber in the order of predominance, and the country of origin, must be woven into the selvedge not more than two meters apart, regardless of the width of the fabric. When it is not practical or possible to conform to the previous requirement, an alternative method shall be to print or stamp the required information on the outer-edge portion of the fabric roll or fold and, in addition, to attach tags at the beginning and end of the roll or folds. For textile piece goods, a tag must be attached to the goods when there is no label on the selvedge. In cases where tags are to be attached by the purchaser (retailer), the name of the store must be indicated.

Labels are not mandatory for special items made of textiles, such as narrow fabrics, artificial flowers, purses, doilies, bags, hats, belts, gloves, and other garments or clothing accessories not specified above.

4.5.15 Warranty and Non-Warranty Repairs

The government imposes 1-3% duty and a 10% value added tax on most replacement parts.

4.5.16 Free Trade Zone Options

The Special Economic Zone Act (R.A. 7916, 1995) grants preferential tax treatment to enterprises located in special economic zones (also referred to as ecozones). Pursuant to R.A. 7916, ecozones may contain any or all of the following: export processing zones, free trade zones, and certain industrial estates. The Philippine Economic Zone Authority (PEZA) manages four government-owned export-processing zones and administers incentives available to firms located in some 40 privately owned and operated zones. Any person, partnership, corporation, or business organization, regardless of nationality, control and/or ownership, may register as an export processing zone enterprise with PEZA.

Enterprises located in ecozones that are designated export processing zones are considered to be outside the customs territory of the Philippines and are allowed to import capital equipment and raw material free from customs duties, taxes, and other import restrictions. Goods imported into free trade zones may be stored, repacked, mixed, or otherwise manipulated without being subject to import duties. Goods imported into both export-processing zones and free trade zones are exempt from the government's Selective Preshipment Advance Classification Scheme (SPACS). An ecozone may simultaneously be registered as both an export-processing zone and a free trade zone, although the registered enterprise cannot receive incentives under both categories. A developer may register his project as an ecozone, and at the same time locate inside that ecozone as an enterprise, but under separate names.

Incentives for firms in export processing and free trade zones include:

- Exemption from corporate income tax (four years for nonpioneer and six years for pioneer, renewable up to an additional two years)
- After the expiration of the income tax exemption, a special 5% tax rate in lieu of national and local income taxes (with the exception of land owned by developers, which are subject to real property tax)
- Tax credits for import substitution
- Exemptions from wharfage dues, export taxes and other fees
- A tax credit on domestic capital equipment
- Tax and duty-free importation of breeding stocks and genetic materials
- Tax credits on domestic breeding stocks and genetic materials
- Additional deductions for labor costs and training expenses
- Domestic sales allowance equivalent to 30% of total export sales
- Permanent resident status for foreign investors and immediate family members
- Permission to hire foreign nationals
- Simplified import procedures

PEZA Board Resolution No. 99-264 provides for the registration as ecozones of information technology (IT) parks with a minimum area of five hectares. Upon registration, IT park developers, locators and utilities enterprises are eligible to receive the same package of investment incentives PEZA extends to registered economic zones. PEZA's Guidelines for the Establishment and Operation of Information Technology (IT) Parks defines IT as a collective term for various technologies involved in processing and transmitting information, which include computing, multimedia, telecommunications, and microelectronics. IT parks located in the National Capital Region (Metropolitan Manila) may serve only as locations for service-type activities, with no manufacturing operations.

Two other privately-owned ecozones are independent of PEZA oversight: the Zamboanga City Economic Zone and Freeport, located in Zamboanga City, Mindanao; and the Cagayan Special Economic Zone and Freeport, covering the city of Santa Ana, Cagayan Province, and adjacent islands. The incentives available to investors in these zones are provided for by R.A. 7903 and 7922, respectively, and are very similar to those provided by PEZA under R.A. 7916.

In addition, the special economic zones located inside the two principal former U.S. military bases in the Philippines are also independent of PEZA and subject to separate legislation under the Bases Conversion Development Authority (created under R.A. 7227). These are the Subic Bay Freeport Zone (SBFZ) in Subic Bay, Zambales, and the Clark Special Economic Zone (CSEZ) in Angeles City, Pampanga. Firms operating inside the SBFZ and CSEZ are exempt from import duties and national taxes on imports of capital equipment and raw materials needed for their operations within the zone. Both the SBFZ and the CSEZ are managed as separate customs territories. Products imported into the zones are exempt from the government's Selective Preshipment Advance Classification Scheme, with the exception of products imported for sale at duty-free retail establishments within the zones. Firms operating in the zones are required to pay only a 5% tax based on their gross income. Both zones boast their own international airports, power plants, telecom networks, and housing complexes

4.5.17 Warehouses

The Bureau of Customs is responsible for licensing, supervising and controlling all Customs Bonded Warehouses. The Customs Bonded Warehousing scheme allows tax- and duty-free importation of raw materials that are manufactured into finished products in a warehousing facility established for the purpose. The finished products should be exported within a specified period. The importation goes through the normal processing of the Bureau of Customs (BOC) except that taxes and duties ascertained on the raw materials are not collected. Instead, the importer posts a re-export bond equivalent to the assessed taxes and duties to allow the release of shipment from the BOC. The types of warehouses are as follows:

- Garments/Textile Manufacturing Bonded Warehouse (GTMBW) - for imported garments and textiles, raw materials, including packing and labels for processing into finished products
- Miscellaneous Manufacturing Bonded Warehouse (MMBW) - for imported materials, except garments and textiles, but including packing and labels for the purpose of processing them into finished products
- Common Bonded Manufacturing Warehouse - for importer-manufacturers who do not have a warehousing facility of their own thus, share the warehouse with other companies
- Public Bonded Warehouse (PuBW) - for general imported cargoes and baggage either for local consumption, re-exportation, transfer under bond to another bonded warehouse; for locally produced articles for export, as well as for storage of seized, abandoned and/or unclaimed merchandize
- Private Bonded Warehouse (PBW) - licensed to receive, store and release its own importations only
- Multinational Regional Bonded Warehouse (MRBW) – operated by a multinational company having its regional or area headquarters in the Philippines; serves as a supply depot for the storage, deposit and safekeeping of spare parts or manufactured components, and raw materials, including and package, covering, brands, labels, and warehouse equipment as may be allowed by the Department of Trade and Industry (DTI) for use exclusively on the stored goods that are to be re-exported under the supervision of the Collector of Customs for distribution to its Asian-Pacific markets.
- Special Customs Bonded Warehouse – for imported finished articles for subsequent sale to Duty Free Shops and Special Economic Zone locators.
- Airline Bonded Warehouse – privately-owned warehouse authorized by the BOC and subject to its supervision and control, to receive, store and issue aircraft spare parts and/or in-flight equipment, supplies, stores and commissary items for use of planes engaged in international commercial flights, including bonded warehouses established for the purpose of servicing the catering needs of such international flights.

- Industry-Specific Customs Bonded Warehouse (CBW) – authorized to import under bond the raw material requirements of export producers in the industry groups to cater initially to microelectronics, food products, motor vehicle parts and components, and raw materials for furniture and home furnishing.

4.5.18 Local Standards

The Bureau of Product Standards (BPS) is the Philippines' National Standards Body. A governmental agency under the Department of Trade and Industry (DTI), it develops, implements and promotes standards as prescribed in Republic Act 4109 (Charter of BPS) and the Consumer Act of the Philippines (Republic Act 7394).

The BPS formulates Philippine National Standards (PNS) or adopts relevant international or foreign standards to help industries produce quality products or services and raise productivity. The standards also help consumers evaluate product quality. Some aligned standards focus on quality management systems (ISO 9000) and environmental management systems (ISO 14000) that apply to both the manufacturing and services sectors.

Moreover, the BPS operates a product certification scheme under which a manufacturer obtains a license to use the Philippine Standard (PS) Quality and/or Safety Marks for its capability to consistently manufacture products in accordance with a specific Philippine National Standard (PNS) or an internationally or foreign standard acceptable to BPS. To upgrade the National Product Quality Certification Scheme, Department of Administrative Order (DAO) No. 1 series of 1997 was released to enable Philippine enterprises achieve world-class standards and gain access to international markets. A significant initiative of this scheme is the alignment of the company's Quality Management System (ISO 9000 requirements) as well as the expansion of the PS Certification Mark Scheme to foreign companies.

The BPS issues the Import Commodity Clearance (ICC) to importers of products covered by mandatory Philippine National Standards after the import shipments have been evaluated by BPS as meeting the requirements of the applicable Philippine standard. BPS subjects import shipments to sampling, testing and evaluation based on the requirements of Department Administrative Order (DAO) No. 5 series of 2001.

Mandatory standards cover 87 specific products. These products include lighting fixtures, electrical wires and cables, cement, pneumatic tires, fire extinguishers, liquefied petroleum gas, sanitary wares, toys and household appliances among others.

The BPS offers its clients third-party testing of products through its BPS Testing Center to verify conformity to buyer-seller specifications and to support the PS and ICC certification mark scheme and the research requirements of standards development.

The BPS accredits testing and/or calibration laboratories under its BPS Laboratory Accreditation Scheme (BPSLAS), and conformity assessment bodies (Quality System Certification Bodies) under its BPS Accreditation Scheme (BAS). An information program is being implemented to promote standardization. It provides the following services:

- Technical Help to Exporters
- Standards Data Center
- Sales
- Publications
- Trainings/Seminars

Basic information on the BPS services are available at the BPS Homepage (**www.sequel.net/~dtibpsrp; www.dti.gov.ph/bps**).

The BPS signed Mutual Recognition Agreements (MRAs) with a number of countries such as Indonesia (DSN) on the recognition of standardization, accreditation, certification, metrology, technical information and training; Japan (JET), on factory inspection and testing, and Australia (SAQAS), on certification. BPS operates a National Registration Scheme for Quality Auditors (NRSQA) for the registration of provisional auditor and lead auditor engaged in the assessment of quality system for ISO 9000 certification, product standards certification, laboratory accreditation, and accreditation of certifying bodies.

Only the modern metric system (SI units) can be used to measure any product, commodity, material and utility. It is also the only system that can be used in any commercial transaction, contract and other legal instrument, official record and document. The Philippine government prohibits importation of non-metric measuring devices, instrumentation and apparatus without prior clearance from BPS.

To achieve its objectives in standardization and certification, BPS has established networks with local government agencies, regional and standardization bodies and specialist regional bodies. This includes the International Organization for Standardization (ISO), International Electrotechnical Commission (IEC), International Accreditation Forum (IAF), Asia Pacific Economic Cooperation (APEC), ASEAN Consultative Committee on Standards and Quality (ACCSQ) and Pacific Accreditation Cooperation (PAC), among others. It also supports the WTO Agreement on Technical Barrier and Trade, otherwise known as Standards Code. As such, BPS has been designated as the notification authority and focal inquiry point on standards, technical regulations and conformity assessment procedures. BPS's involvement with the said bodies/organizations aims to strengthen the country's technical infrastructure for its conformity assessment, testing and calibration, and standards information services.

4.6 INVESTMENT CLIMATE

4.6.1 Investment without Incentives

The Foreign Investment Act (R.A. 7042, 1991, amended by R.A. 8179, 1996) liberalized the entry of foreign investment in the Philippines. Foreign investors, like their domestic counterparts, must register with Securities and Exchange Commission (in the case of a corporation or partnership) or with the Department of Trade and Industry's Bureau of Trade Regulation and Consumer Protection (in the case of a sole proprietorship). Investors generally find this process to be slow, but routine and nondiscriminatory.

Foreign Investment Negative List

The 1991 Foreign Investment Act (FIA) contains two "negative lists" that outline areas where foreign investment is restricted. The restrictions stem from a constitutional provision, Section 10 of Article VII, which permits the Philippine Congress to reserve to Philippine citizens certain areas of investment.

List A restricts foreign investment in certain sectors because of constitutional or other constraints. For example, the practice of licensed professions such as engineering, medicine, accountancy, environmental planning, and law is fully reserved for Filipino citizens. Also reserved for Filipino citizens are enterprises engaged in retail trade (with paid-up capital of less than $2.5 million, or less than $250,000 for retailers of luxury goods), mass media, small-scale mining, private security, cock fighting, utilization of marine resources, and manufacture of firecrackers and pyrotechnic devices. Up to 25-percent foreign ownership is allowed for enterprises engaged in employee recruitment and for public works construction and repair (with the exception of BOT and foreign-funded or -assisted projects, that is, foreign aid, where there is no upper limit). Foreign ownership of 30 percent is allowed for advertising agencies, while 40- percent foreign participation is allowed in natural resource extraction (although the president may authorize 100-percent foreign ownership), educational institutions, public utilities, commercial deep sea fishing, government procurement contracts, rice and corn processing (after 30 years of operation, before which time 100-

percent foreign participation is allowed), and ownership of private lands. Enterprises engaged in financing and investment activities, including securities underwriting, are also limited to 60-percent foreign ownership.

List B restricts foreign ownership (generally to 40-percent) for reasons of national security, defense, public health, safety, and morals. Sectors covered include explosives, firearms, military hardware, massage clinics, and gambling. This list also seeks to protect local small- and medium-sized firms by restricting foreign ownership to no more than 40-percent in nonexport firms capitalized at less than $200,000.

In addition to the restrictions noted in the “A” and “B” lists, the Philippines generally imposes a foreign-ownership ceiling of 40 percent on firms seeking incentives with the BOI under the annual investment priorities plan. While there are exceptions to the ceiling, divestment to reach the 40 percent level is required within 30 years of the initial investment, or longer as allowed by the BOI. As a general policy, the Philippine Department of Labor and Employment allows the employment of foreigners provided there are no qualified Philippine citizens who can fill the position. The positions of elective officers (i.e., president, general manager and treasurer) are exempt from the labor market test.

Financial Services

The Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines (R.A. 7721, 1994) limited to ten the number of new foreign banks that could open full-service branches in the Philippines. All ten licenses have been issued. These foreign banks are limited to putting up six branches each, although the four foreign banks operating in the Philippines prior to 1948 were allowed to open up to six additional branches. While a relaxation from the previous 40 percent ceiling, R.A. 7721 limits foreign ownership in locally-incorporated banks to 60 percent. Foreign investors that do not meet the criteria stipulated in R.A. 7721 and its implementing regulations are limited to 40 percent ownership.

The General Banking Law (R.A. 8791, signed in May 2000 to succeed the 1948 General Banking Act) provides a seven-year window during which foreign banks may own up to 100 percent of one locally-incorporated commercial or thrift bank (with no obligation to divest later). This represents a temporary relaxation from the 60 percent foreign ownership cap that would otherwise apply. R.A. 8791 imposed a three-year freeze on new bank licenses (i.e., investments must be made in existing banking institutions), reflecting the government’s current emphasis on consolidation. Even before the law’s passage, the Bangko Sentral ng Pilipinas has imposed a “moratorium” on new bank licenses since September 1999 (with the exception of micro-finance institutions). A “macro” limitation on foreign ownership requires that majority Filipino-owned banks should, at all times, control at least 70 percent of total banking system resources. Rural banking remains completely closed to foreigners.

The insurance industry was opened up to 100 percent foreign ownership in 1994. However, minimum capital requirements increase with the degree of foreign ownership.

Land Ownership

The 1987 Constitution bans foreigners from owning land in the Philippines. The Investors’ Lease Act (R.A. 7652, 1994) allows foreign companies investing in the Philippines to lease land for 50 years, renewable once for another 25 years, for a maximum 75 years.

Public Infrastructure

The Build-Operate-Transfer (BOT) Law (R.A. 6957, as amended by R.A. 7718, 1993) provides the legal framework for BOT projects and similar private sector led infrastructure arrangements. The BOT and similar schemes are generally open to both domestic and foreign contractors/operators. Consistent with constitutional limitations on foreign investment in public utilities, franchises in railways/urban rail mass transit systems, electricity distribution, water distribution and telephone systems must be awarded to enterprises that are at least 60 percent Filipino-owned. American firms have won contracts under BOT and similar arrangements, including in the power generation and water distribution sectors. Developers of BOT and similar projects valued at over one billion pesos may register for incentives with the Board of Investment.

4.6.2 Conversion and Transfer Policies

There are generally no restrictions on the full and immediate transfer of funds associated with foreign investments (i.e., repatriation and remittances), foreign debt servicing, and the payment of royalties, lease payments, and similar fees. To obtain foreign exchange from the banking system for such purposes, the Bangko Sentral specifies certain registration and/or documentation requirements. However, a number of foreign firms find current BSP documentation and registration requirements governing foreign exchange purchases for import-payment purposes cumbersome and the processing time (at least 15 days) slow, reportedly resulting in payment delays to foreign suppliers. There is no difficulty in obtaining foreign exchange, and foreign exchange can be bought and sold outside the banking system. Neither is there mandatory foreign exchange surrender requirements imposed on export earners. The exchange rate is not fixed and varies daily in response to market forces.

4.6.3 Expropriation and Compensation

Philippine law guarantees investors freedom from expropriation, except for public use or in the interest of national welfare or defense. In such cases, the government offers compensation for the affected property. Most expropriation cases involve right-of-way and acquisition for the implementation of major public sector infrastructure projects. In the event of expropriation, foreign investors have the right under Philippine law to remit sums received as compensation in the currency in which the investment was originally made and at the exchange rate at the time of remittance.

There are laws that mandate divestment (to 40 percent foreign equity) by foreign investors. The Omnibus Investment Code (1987) specifies a 30-year divestment period for nonpioneer foreign-owned companies that qualify for investment incentives. Companies that export 100 percent of production are exempt from this divestiture requirement. The Retail Trade Liberalization Act (R.A. 8762, 2000) requires foreign-owned retail establishments that do not specialize in luxury products to offer at least 30 percent of their equity to the public within eight years from the start of operations.

4.6.4 Legal System

As in the United States, the Philippine judiciary is constitutionally independent from the executive and legislative branches. Unlike in the U.S. however, the Court of Appeals and the Philippine Supreme Court are not particularly selective in the cases they hear and tend to review most cases that are elevated to them. Many cases are, therefore, eventually elevated to the Supreme Court. This factor, along with rules of court that offer defense attorneys numerous delaying tactics and other administrative procedures that introduce delay, means that cases proceed extremely slowly through the justice system. Both foreign and domestic investors have expressed concern about the propensity of courts to issue temporary restraining orders (TROs) and to stray beyond matters of legal interpretation into policymaking functions.

Some observers charge that judges rarely have any background in or thorough understanding of economics, business or a competitive economic system, and that some decisions have strayed from the interpretation of law to policymaking. Also troubling are charges that judges are bribed to issue decisions favorable to a particular interest.

The Philippines is a member of the International Center for the Settlement of Investment Disputes (ICSID) and of the Convention on the Recognition and Enforcement of Foreign Arbitrage Awards. However, Philippine courts have, in several cases involving U.S. and other foreign firms, shown a reluctance to abide by the arbitral process or its resulting decisions.

Competition Law

The 1987 Constitution provides the government with the authority to regulate or prohibit monopolies, and it also bans combinations in restraint of trade and unfair competition. However, there is no comprehensive competition law to implement this constitutional provision. Instead, there are a number of laws dealing with competition, including the Revised Penal Code (R.A. 3815, 1930), Act to Prohibit Monopolies and Combinations in Restraint of Trade (R.A. 3247, 1961), Civil Code (R.A. 386, 1949), Corporation Code (1980) Price Act (R.A. 7581, 1991) and Consumer Act (R.A. 7394, 1932). These laws are rarely enforced, due to a lack of interest and/or competence on the part of enforcement agencies to challenge well-entrenched economic and political interests. The end result is high barriers to entry across many sectors for both domestic and foreign investors.

Bankruptcy Laws

The Securities Regulation Code (R.A. 8799, July 2000) transferred jurisdiction over debt-payment suspension and corporate rehabilitation cases filed after June 2000 from the Securities and Exchange Commission (SEC) to regional trial courts (RTCs) designated by the Supreme Court as commercial courts. The government plans to institute training programs and workshops to improve the courts' ability to handle cases involving the Securities Regulation Code.

While a significant step forward, recent reforms have focused mainly on the procedural aspects of adjudicating debt relief and corporate rehabilitation cases. These efforts are embodied in the SEC's Rules of Procedure on Corporate Recovery (finalized in January 2000 with foreign donor assistance); and, subsequently, in the RTCs' Interim Rules on Corporate Rehabilitation (built on the SEC rules and approved in December 2000). To expedite resolution, the rules provide for specific periods and deadlines for compliance with procedural requirements (including court approval/disapproval of a rehabilitation plan). However, in some cases judges reportedly have not enforced the deadlines stipulated in the rules. Investors have also expressed concern over a "cram down" provision that allows the courts to approve a rehabilitation plan despite opposition from majority creditors "if, in its judgment, the rehabilitation of the debtor is feasible and the opposition of the creditors manifestly unreasonable."

Beyond procedural improvements, the Philippine bankruptcy/insolvency system appears to need to be rationalized and updated. The current legal framework is a mixture of outdated and sometimes inconsistent laws and judicial pronouncements. These include the Insolvency Law (Act 1956, 1909) for insolvency and debt payment suspension cases; P.D. 902-A (1976, as amended) for corporate rehabilitation; provisions of the Civil Code and Corporation Code; and various Supreme Court rulings.

4.6.5 Performance Requirements and Incentives

General Investment Incentives

Book I, Investment with Incentives, of the Omnibus Investment Code (1987) describes incentives available to qualified firms engaged in sectors and geographic areas included in the annual Investment Priorities Plan, administered by the Department of Trade and Industry's Board of Investments (BOI). The 2002 plan identifies the following as promotion targets: agribusiness, energy sources, logistics, drugs and medicines, engineered products, information and communications technology, infrastructure, mass housing projects, research and development activities, social service, tourism, and education and training. Screening mechanisms for companies seeking investment incentives appear to be routine and nondiscriminatory, but the application process can be complicated. Incentives granted by the BOI often depend on actions by other agencies, such as the Department of Finance.

Firms that are eligible to receive incentives are divided into those considered "pioneer" and "nonpioneer." "Pioneer enterprises" refers to companies that manufacture goods not yet produced in the Philippines on a commercial scale; that employ a formula, process, or production scheme not yet tried in the country; that produce nonconventional fuels or manufacture equipment that utilizes nonconventional energy sources; or that engage in certain agricultural, mining, and forestry activities. Pioneer enterprises enjoy more liberal incentives than "nonpioneer" firms, including a longer income tax holiday privilege and no divestiture requirement.

"Nonpioneer" companies are those enterprises in preferred activities that do not qualify for "pioneer" status. These activities are generally opened up to foreign equity beyond 40 percent only if, after three years, domestic capital proves inadequate to meet the desired industry capacity.

The basic incentives offered to all BOI-registered companies include:

- Income tax holiday: Six years for new pioneer firms and four years for new nonpioneer firms; three years for registered expanding firms (limited to incremental sales revenue).
- Additional deduction for wages: For the first five years from registration, deduction from taxable income equivalent to 50 percent of the wages of additional direct-hire workers, provided the project meets a prescribed capital equipment-to-labor ratio set by the BOI. Firms that benefit from this incentive cannot simultaneously claim an income tax holiday.
- Tax and duty exemption on imported breeding stocks and genetic materials and/or tax credits on local purchases thereof (equivalent to the taxes and duties that would have been waived if imported), for purchases made within ten years from a company's registration with the BOI.
- Importation of consigned equipment for ten years from date of BOI registration, subject to posting a re-export bond.
- Employment of foreign nationals: Enterprises may employ foreign nationals in supervisory, technical, or advisory positions within a five-year period from registration (extendible for limited periods at the discretion of the BOI) under simplified visa requirements. Government regulations require the training of Filipino understudies for the positions held by foreigners. If foreign controlled, registered firms may indefinitely retain foreigners in the positions of president, treasurer, general manager or their equivalents.
- To encourage the regional dispersal of industries, BOI-registered enterprises that locate in less-developed areas are automatically entitled to "pioneer" incentives. In addition, such enterprises can deduct from taxable income an amount equivalent to 100 percent of outlays for infrastructure works. They may also deduct 100 percent of incremental labor expenses from taxable income for the first five years from registration (double the rate allowed for BOI-registered projects not located in less developed areas).

Incentives for Exporters

In addition to the general incentives available to BOI-registered companies, a number of incentives provided under Book I of the Omnibus Investment Code apply specifically to registered export-oriented firms. These include:

- Tax credit for taxes and duties paid on imported raw materials used in the processing of export products
- Exemption from taxes and duties on imported spare parts (applies to firms exporting at least 70 percent)
- Access to customs bonded manufacturing warehouses

Firms that earn at least 50 percent of their revenues from exports may register for incentives under the Export Development Act (EDA, R.A. 7844, 1994). Exporters registered under the EDA may also be eligible for BOI

incentives, provided the exporters are registered according to BOI rules and regulations, and the exporter does not take advantage of the same or similar incentives twice. Incentives under the EDA include a tax credit that ranges from 2.5 percent to 10 percent of annual incremental export revenue.
The BOI has been flexible in enforcing individual export targets, provided that exports as a percentage of total production do not fall below the minimum requirement (50 percent for local firms and 70 percent for foreign firms) needed to qualify for BOI incentives. BOI-registered foreign-controlled firms that qualify for export incentives are subject to a 30-year divestment period, at the end of which at least 60 percent of equity must be Filipino-controlled. Foreign firms that export 100 percent of production are exempt from this divestment requirement.

Performance Requirements and Local Sourcing Requirements

Performance requirements, usually based on an applicant's approved project proposal, are established for investors who are granted incentives, and vary from project to project. In general, the BOI and the investor agree on yearly production schedules and, for export-oriented firms, export performance targets. The BOI requires registered projects to maintain at least 25 percent of total project cost in the form of equity.

The BOI generally sets a 20 percent local value-added benchmark when screening applications. The BOI is flexible in enforcing local value-added ratios registrants commit to in their approved project proposal, as long as actual performance does not deviate significantly from other participants in the same activity.

Incentives for Regional Headquarters and Warehouses

Book III of the Omnibus Investment Code (1987, amended by R.A. 8756, 1999) provides incentives for multinational enterprises to establish regional or area headquarters (RHQs) and regional operating headquarters (ROHQs) in the Philippines. Incentives to the RHQs include exemption from income tax and from local licenses, fees, and dues (except real property taxes on land improvement and equipment), as well as tax and duty-free importation of training and conference materials. ROHQs enjoy many of the same incentives as RHQs but, being income generating, are subject to a 10 percent value-added tax and a preferential 10 percent corporate income tax. In addition, eligible multinationals establishing ROHQs invest at least U.S.$200,000 yearly to cover operations.

Privileges extended to foreign executives working at RHQs and ROHQs include tax and duty-free importation of household effects, multiple entry visas for the executive and his/her family, as well as exemption from various types of government-required clearances and from fees under immigration and alien registration laws.

Multinationals establishing regional warehouses for the supply of spare parts, manufactured components, or raw materials for their foreign markets also enjoy fiscal incentives on imports that are re-exported. Re-exported imports are exempt from customs duties, internal revenue taxes, and local taxes. Imported merchandise intended for the Philippine market is subject to applicable duties and taxes.

Government-Financed Research and Development Programs

Regulations specify that government agencies generally must engage firms that are at least 60 percent Filipino-owned for locally-funded consulting requirements, including research and development projects. Foreign companies may, however, participate in locally-funded government research and development programs if the skill required is not available locally. Projects funded by foreign aid donors are not subject to these limitations.

4.6.6 Right to Private Ownership and Establishment

The government respects the private sector's right to freely acquire or dispose of properties or business interests, although acquisitions, mergers, and other combinations of business interests involving foreign equity must comply with foreign nationality caps specified in the Constitution and other laws.

There are a few sectors closed to private enterprise, generally for reasons of security, health, or public morals. The government controls and operates the country's casinos through the Philippine Amusement and Gaming Corporation (PAGCOR) and runs lotto/sweepstake operations through the Philippine Charity Sweepstakes Office (PCSO).

Private and government-owned firms generally compete equally, although there are exceptions. For example, government-owned banks corner the bulk of public sector deposits. The National Food Authority, a government agency, is the sole importer of ordinary rice. In some cases, government procurement guidelines-specifically for rice, medicines, and infrastructure projects-favor Philippine over foreign-controlled firms. In the insurance sector, current regulations specify that only the state-owned Government Service Insurance System (GSIS) may provide insurance coverage for government-funded and BOT projects. As a general rule, Philippine-controlled firms should service locally-funded government consulting requirements.

4.6.7 Protection of Property Rights

Although the Philippines has established procedures and systems for registering claims on property (including intellectual property and chattel/mortgages), delays and uncertainty associated with a cumbersome court system continue to concern investors.

Intellectual Property Risks

In order to protect their products from intellectual property rights (IPR) infringement, U.S. manufacturers and suppliers should register their copyrights, trademarks, and patents with the Intellectual Property Office (IPO), located at the IPO Building, 351 Sen. Gil J. Puyat Avenue, Makati City, telefax: (632) 897-1724, E-mail: dittb@ipophil.gov.ph; mail@ipophil.gov.ph, Web site: **www.ipophilippines.gov.ph** Manufacturers and importers are also encouraged to register copyrights, trademarks, and patents with the Bureau of Customs, to facilitate enforcement of rights. A list of Philippine lawyers and law firms specializing in intellectual property law is available from the U.S. Embassy Foreign Commercial Service (manila.office.box@mail.doc.gov).

In addition to its commitments under the WTO TRIPs Agreement, the Philippines is a party to the Paris Convention for the Protection of Industrial Property, Berne Convention for the Protection of Literary and Artistic Works, Berne Treaty on the International Recognition of the Deposit of Microorganisms, Patent Cooperation Treaty, and Rome Convention. Although the Philippines is a member of the World Intellectual Property Organization, it has not yet fully ratified the WIPO Performances and Phonograms Treaty or the Copyright Treaty. In the USG view, these two treaties are not self-effecting and Philippine Senate ratification is required.

The Intellectual Property Code (R.A. 8293, 1997) provides the legal framework for IPR protection in the Philippines. Key provisions of the Intellectual Property Code are summarized here:

- Patents: The Philippines uses a first-to-file system, with a patent term of 20 years from date of filing, and provides for the patentability of micro-organisms and nonbiological and microbiological processes. The holder of a patent is guaranteed an additional right of exclusive importation of his invention. A compulsory license may be granted in some circumstances, including if the patented invention is not being worked in the Philippines without satisfactory reason, although importation of the patented article constitutes working or using the patent.
- Industrial Designs: The registration of a qualifying industrial design shall be for a period of five years from the filing date of the application. The registration of an industrial design may be renewed for not more than two consecutive periods of five years each.
- Trademarks, Service Marks, and Trade Names: Prior use of a trademark in the Philippines is not a requirement for filing a trademark application. Well-known marks need not be in actual use in Philippine commerce or registered with the Bureau of Patents, Trademarks, and Technology Transfer. A Certificate of Registration

(COR) shall remain in force for ten years. A COR may be renewed for periods of ten years at its expiration upon request and payment of a prescribed fee.

- Copyright: Computer software is protected as a literary work; exclusive rental rights may be offered in several categories of works and sound recordings; and terms of protection for sound recordings, audiovisual works, and newspapers and periodicals are compatible with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement).
- Performers Rights: The qualifying rights of a performer… shall be maintained and exercised fifty years after his death." However, ambiguities exist concerning exclusive rights for copyright owners over broadcast and retransmission.
- Trade Secrets: While there are no codified rules on the protection of trade secrets, Philippine officials assert that existing civil and criminal statutes protect trade secrets and confidential information.

The Electronic Commerce Act (R.A. 8792, 2000) extends the legal framework established by the IP Code to the Internet. Other important laws defining IPR in the Philippines are the Plant Variety Protection Act (R.A. 9168, 2002), which provides plant breeders intellectual property rights consistent with the 1991 Union for the Protection of New Varieties of Plants Convention, and the Integrated Circuit Act (R.A. 9150, 2001), which provides TRIPs-consistent IPR protection for the layout-designs of integrated circuits.

Deficiencies in the Intellectual Property Code and other IPR laws remain a source of concern. Weaknesses include ambiguous provisions on the rights of copyright owners over broadcast, rebroadcast, cable retransmission, or satellite retransmission of their works; burdensome restrictions affecting contracts to license software and other technology; and weak regulation of the production of optical disks.

Status of IPR Enforcement

Significant problems remain in ensuring the consistent and effective protection of intellectual property rights. U.S. distributors report high levels of pirated optical discs of cinematographic, musical works, and computer games, and widespread unauthorized transmissions of motion pictures and other programming on cable television systems.

Serious problems continue to hamper the effective operation of agencies tasked with IPR enforcement. Resource constraints, already a problem, have been exacerbated by general government budgetary shortfalls. In general, government enforcement agencies are most responsive to those copyright owners who actively work with them to target infringement. Enforcement agencies generally will not proactively target infringement unless the copyright owner brings it to their attention and works with them on surveillance and enforcement actions. Joint efforts between the private sector and the National Bureau of Investigations and Videogram Regulatory Board have resulted in some successful enforcement actions. The designation of 34 courts to handle IPR violations has done little to streamline judicial proceedings, as these courts have not received additional resources and continue to handle a heavy non-IPR workload. On June 17, the Supreme Court issued a Resolution that eliminates the special IP courts and replaces them with Special Commercial Courts, which will hear and decide cases on intellectual property and cases formerly handled by the Securities and Exchange Commission. The Resolution took effect on July 1, 2003. Delays in the issuance of warrants are a problem and arrests are infrequent. In addition, IPR cases are not considered major crimes, and take a lower precedence in court proceedings. Because of the prospect that court action will be lengthy, many cases are settled out of court. As a result, the Philippines suffers from a low conviction rate.

Under the Intellectual Property Code of the Philippines, the IPO has jurisdiction to resolve certain disputes concerning alleged infringement and licensing.

In addition to the IPO, agencies with IPR enforcement responsibilities include the Department of Justice; National Bureau of Investigation; Videogram Regulatory Board (for piracy involving cinematographic works), the Bureau of Customs, and the National Telecommunications Commission (for piracy involving satellite signals and cable programming). The Presidential Interagency Committee on Intellectual Property Rights (PIAC-IPR), which once served as the coordinating body for these enforcement efforts, was disbanded in May 2002.

4.6.8 Transparency of the Regulatory System

Regulatory agencies in the Philippines are generally not statutorily independent, but are attached to cabinet departments or the Office of the President. As part of the process of developing or changing regulations, the law requires that agencies proceed through a public consultation process, often involving public hearings. In most cases, this ensures some transparency in the process of developing regulations. New regulations are supposed to be published in national newspapers of general circulation, often before taking effect. Enforcement of regulations, once issued, is often weak and sometimes inconsistent.

Many U.S. investors find business registration, customs, immigration, and visa procedures in the Philippines burdensome and a source of frustration. Some agencies (such as the Securities and Exchange Commission, Board of Investment, Department of Foreign Affairs) have established express lanes or “one-stop shops” to reduce bureaucratic delays, with varying degrees of success.

Both foreign and domestic investors have expressed concern about the propensity of courts to issue temporary restraining orders (TROs) and to stray beyond matters of legal interpretation into policymaking functions. Investors also complain that entrenched economic interests are able to manipulate the regulatory process to protect market position. For example, spectrum allocation and licensing in the telecommunications sector are often well guarded by incumbent firms, despite regulations that require transparent distribution of these rights.

4.6.9 Capital Market Risks

The Philippines is open to foreign portfolio capital investment. Foreigners may purchase publicly or privately issued domestic securities, invest in money market instruments, and open peso-denominated savings and time deposits. Like direct equity investments, however, portfolio investments in publicly listed firms may be constrained by applicable foreign ownership ceilings stipulated under the Foreign Investment Act (FIA) and other laws. While the securities market is growing, it remains small and relatively underdeveloped, not yet able to offer investors a wide range of choices. Except for a number of major firms/conglomerates, long-term bonds and commercial papers are not yet major sources of long-term capital.

Some firms classify their publicly listed shares as “A” (exclusively for Filipinos) and/or “B” (for foreigners and Filipinos). Foreigners may invest in “A” shares, but only through Filipino-controlled trusts. While the practice of classifying shares was common until the early 1990s, most newly-listed companies no longer classify shares into “A” and/or “B” because the Foreign Investment Act has since lifted the 40 percent general ceiling previously imposed on foreign investments. However, listed firms engaged in activities where foreign investment caps still apply (i.e., banking, utilities, real estate, exploration of natural resources, etc.) find the classification convenient for compliance purposes.

Prospects for a more transparent equities and securities market have improved with the July 2000 passage of the Securities Regulation Code (SRC, which rewrote the 1982 Revised Securities Act). The Philippine Stock Exchange took the first step towards the bourse’s demutualization (a major reform stipulated in the SRC) by converting to a stock corporation on August 8, 2001. The PSE eventually intends to offer its shares to the public to comply with an SRC provision preventing any one industry or business group (including brokers) from controlling more than 20 percent of an exchange’s voting rights. Other SRC provisions strengthen investor protection by: codifying the full disclosure approach to the regulation of public offerings; tightening rules on insider trading; segregating broker-dealer functions; outlining rules on mandatory tender offer requirements; significantly increasing sanctions for violations of securities laws and regulations; and mandating steps to improve the internal management of the stock exchange and future securities exchanges. However, like other legal cases, prosecuting stock market irregularities also are subject to delays and uncertainties in the Philippine legal system.

Credit Policies

Credit is generally granted on market terms. However, there are existing laws that require financial institutions to set aside loans for certain preferred sectors which may translate to increased costs and/or credit risks. The Agri-Agra Law (P.D. 717, as amended) requires banks to set aside 25 percent of loan portfolios for agricultural (15 percent) and agrarian reform (10 percent) purposes. To facilitate compliance, alternative modes of meeting the agri-agra lending requirement include low-cost housing, educational and medical developmental loans, and investments in eligible government securities. The Magna Carta for Small Enterprises (R.A. 6977, 1991; amended by R.A. 8289, 1997) requires banks to set aside eight percent of their loans for small and medium-sized businesses. Most banks are able to comply with these targeted-lending requirements. Liberalized regulations since 1997 allow foreign firms to obtain peso credits without having to comply with stipulated debt-to-equity ratios.

Accounting Standards

Generally Accepted Accounting Principles (GAAP) in the United States significantly influenced the development of the Philippines' GAAP. The primary source of accounting standards in the country are embodied in the Statements of Financial Accounting Standards (SFAS) issued by the Accounting Standards Council (ASC), as approved and endorsed by the Professional Regulation Commission's Board of Accountancy. A number of the larger local accountancy companies are affiliated with international accounting firms (among them, Price Waterhouse Coopers, Ernst & Young, and Klynveld Peat Marwick Goerdeler).

4.6.10 Political Violence

Politically motivated attacks against American business people and facilities are rare. Nevertheless, kidnapping for ransom, bombing incidents, and threats do occur. Terrorist groups, criminal gangs, communist insurgents, and Islamic separatists operate in many regions of the country.

Kidnapping for ransom represents the greatest threat to the personal safety of business people working in the Philippines. Terrorist organizations and Islamic separatist groups operating in the southern provinces, and communist insurgents and criminal gangs operating in various areas nationwide, target wealthy Filipinos (often of Chinese descent), government officials, military personnel, and other prominent individuals, sometimes including foreigners. The goal of such groups is usually to obtain money, although politically motivated kidnappings also occur. These groups also demand "revolutionary taxes" from local, and, at times, foreign businesses and business people, and sometimes infrastructure installations such as power grids, telecommunications towers, and bridges to emphasize their demands.

4.6.11 Corruption

Corruption is a pervasive and long-standing problem in the Philippines. The Philippine Revised Penal Code, Anti-Graft and Corrupt Practices Act, and Code of Ethical Conduct for public officials are in place and are intended to combat suspected corruption and related anti-competitive business practices. The Office of the Ombudsman investigates cases of alleged graft and corruption involving public officials. The Sandiganbayan (anti-graft court) prosecutes and adjudicates cases filed by the Ombudsman.

There is a Presidential Commission Against Graft and Corruption. Soliciting/accepting and offering/giving a bribe are criminal offenses, punishable with imprisonment (6-15 years), a fine and/or disqualification from public office or business dealings with the government. As with many other laws, enforcement of this provision has been inconsistent.

In the past, the U.S. Embassy and the American Chamber of Commerce in Manila have had modest success in representing U.S. business interests in cases where U.S. firms seemed disadvantaged because of reportedly questionable public bidding procedures. The Philippines is not a signatory of the OECD Convention on Combating Bribery.

4.6.12 Bilateral Investment Agreements

As of June 2003, the Philippines had signed bilateral investment agreements with Argentina, Australia, Austria, Bahrain, Bangladesh, Belgium, Canada, Cambodia, Chile, China, the Czech Republic, Denmark, Finland, France, Germany, India, Indonesia, Islamic Republic of Iran, Italy, Republic of Korea, Kuwait, Mongolia, Myanmar, Netherlands, Pakistan, Romania, Russian Federation, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, Venezuela, and Vietnam. The general provisions of the bilateral investment agreements include the promotion and reciprocal protection of investments; nondiscrimination; the free transfer of capital, payments and earnings; freedom from expropriation and nationalization; and recognition of the principle of subrogation.

Taxation

The Philippines has a tax treaty with the United States for the purpose of avoiding double taxation, providing procedures for resolving interpretative disputes, and enforcing taxes of both countries. The treaty also seeks to encourage bilateral trade and investments by allowing the exchange of capital, goods and services under clearly defined tax rules and, in some cases, preferential tax rates.

In recent years, the more common treaty disputes between U.S.-owned companies and the Philippine government’s Bureau of Internal Revenue (BIR) involve the interpretation of permanent establishments, business profits, and the final withholding tax on dividends and royalties paid to U.S. residents.

Most Favored Nation Clause (Royalties)

In a case involving the BIR and a U.S. firm, the Philippine Supreme Court ruled with finality that the 10 percent preferential tax rate for royalties under the Philippine-Germany tax treaty could not be applied to U.S. residents under the Philippine-U.S. tax treaty’s most favored nation (MFN) clause. The BIR, however, has since issued a long line of rulings that U.S residents may enjoy a 15 percent preferential tax rate on Philippine-sourced royalty income, in accordance with the provisions of other bilateral tax treaties (including those with the Netherlands, Russia, Israel, Denmark, and Finland).

U.S. recipients of royalty income may be entitled to an even more preferential rate under the Philippine-China tax treaty, which went into effect on January 1, 2002. The said treaty allows a lower rate of 10 percent with respect to royalties arising from the use of (or right to use) any patent, trademark, design, model, plan, secret formula, or process; or from the use (or the right to use) industrial, commercial, and scientific equipment, or information concerning industrial, commercial, or scientific experience. The treaty provides, among others, that for as long as the transfer of technology is subject to approval under Philippine law, the 10 percent rate shall apply only to contracts that have been approved by Philippine competent authorities. In September 2002, the BIR issued a revenue memorandum circular confirming that the 10 percent preferential tax rate for royalties under the Philippine-China tax treaty could be applied to U.S. residents under the Philippine-U.S. tax treaty’s MFN clause. Entitlement to the lower rate, however, still requires prior clearance by the BIR through the latter’s International Tax Affairs Division. Several U.S. companies have reportedly applied with the BIR for the said 10 percent preferential tax treatment.

Inter-Company Transfer Pricing

Transfer pricing remains as one of the contentious issues between multinational companies and the BIR. The Tax Code of the Philippines authorizes the BIR Commissioner to allocate income or deductions between/among related organizations or businesses, whether or not organized in the Philippines, if such allocation is necessary to prevent tax evasion. In 1998 and 1999, the BIR issued audit guidelines for the determination of an arm's length price for related-party transactions, including arm's length interest rates on inter-company loans and advances. However, tax practitioners have noted that the BIR guidelines are limited in scope and lack clarity and detail which, together with the lack of local precedents, renders them subject to issues on interpretation and application. The BIR has reiterated its intention to issue more comprehensive and detailed transfer-pricing regulations (possibly with provisions for unilateral and/or bilateral advance pricing arrangements) and has been gathering materials and resources towards this objective.

In connection with inter-related transactions, the Philippine Court of Tax Appeals (CTA), in a decision rendered in late 2002, upheld the power of the BIR Commissioner to impute interest income to a lender on advances granted interest-free to its affiliates and accordingly upheld the deficiency income tax assessment on imputed interest income against the lender.

Value Added Tax (VAT)

Beginning January 1, 2003, Value-Added Tax (VAT) has been imposed on sale of services by persons engaged in the practice of profession or calling and professional services rendered by general professional partnerships; services rendered by actors, actresses, talents, signers and emcees; radio and television broadcasters and choreographers; musical, radio, movie television and stage directors; and professional athletes, as well as services rendered by customs, real estate, stock, immigration and commercial brokers.

VAT has also been imposed on services of banks, non-bank financial intermediaries and finance companies beginning January 1, 2003.

4.6.13 OPIC and Other Investment Insurance

The Philippines currently does not provide guarantees against losses due to inconvertibility of currency or damage caused by war. An updated agreement between the Overseas Private Investment Corporation (OPIC) and the Philippine Board of Investments entered into force on February 15, 2000. The Philippines is a member of the Multilateral Investment Guaranty Agency (MIGA).

The estimated annual dollar equivalent of expenditures in Philippine pesos by U.S. government agencies is about U.S.$55 million. Local currency purchases are made as needed by soliciting competing quotes from commercial banks.

4.6.14 Labor

American managers operating in the Philippines will find a large, highly motivated work force that is easy to recruit and train. Overseas Filipino Workers (OFWs) account for 10 percent of the labor force. Plant managers are generally pleased with Filipino workers and often cite productivity and receptivity to training as a positive factor. Special zones and low wages are other positive factors for investors.

High Trainability

Literacy in both English and Filipino is relatively high. Employers give good marks to the general quality of Filipino secondary education, even in schools distant from Manila. Most young Filipino workers can read and speak English reasonably well and have close cultural affinity with the U.S., such that managers can use American training materials and instructors in the first phases of new production. English proficiency in the younger generations, however, appears to be declining. To combat this, President Arroyo recently announced English instruction as a top priority for the Department of Education.

High Productivity

Employers find that Filipino workers respond well to productivity goals and wage incentives for increasing their output. Exceptions can often be attributed to lack of modernized equipment, poor training, and high levels of contractual labor.

Special Economic Zones

Special Economic Zones (SEZs) continue to play a significant role in attracting new investors to the country. SEZs normally include their own labor centers for assisting investors with recruitment, coordinating with the Department of Labor and Employment (DOLE) and Social Security Agency, and mediating labor disputes. The SEZs have helped produce rapid growth in new jobs as both Filipino and foreign firms seek the tax and other advantages of these areas devoted to fostering export industries.

Low Wages

Multinational managers report that their total compensation packages tend to be lower than other neighboring countries, a good value for their mid-level management and skilled staff in the Philippines.

Regional Wage and Productivity Boards meet periodically in each of the country’s 16 administrative regions to determine minimum wages. In recent years, the regional boards have adjusted the minimum wage rate about once annually. The National Capital regional board sets the national trend. Other regions set their minimum wage at about 50 to 140 pesos less than Manila’s. The regional boards grant various exceptions, depending on the type of industry and number of employees at a given firm.

Labor-Management Relations

The Philippine Constitution establishes the right of workers to form and join trade unions. Many employers indicate a productive working relationship with local trade union leaders, with the exception of radical unions engaged in political activism. The mainstream trade union movement recognizes that its members’ welfare is tied to the productivity of the economy and competitiveness of firms. The impact of globalization and freer trade continue to force unions to modify their bargaining and organizing approach. Frequent plant closures in industries adversely affected by lower trade barriers have made many unions more willing to accept productivity-based employment packages.

The trade union movement is divided and rarely speaks with a single voice. Much depends on the personal leadership style of local union leaders. Many employers fear that all unions are “radical,” based on sensationalistic news reports; however, the leading mainstream union federations enjoy a good working relationship with employers, including those in SEZs. Companies with mainstream unions enjoy higher productivity and long-term industrial peace.

Worker Rights

Although the Philippines is a signatory to all ILO conventions on worker rights, deviations from adherence exist. The DOLE estimates 60-70 percent of workers who should be covered by the minimum wage are actually underpaid. Non-payment of social security contributions, bonuses, and overtime are particularly common. The law provides for a comprehensive set of occupational safety and health standards, although workers do not have a legally protected right to remove themselves from dangerous work situations without risking loss of employment. The DOLE has responsibility for safety inspection, but a severe shortage of inspectors makes enforcement extremely difficult. Reports have surfaced of forced labor in connection with drugs and prostitution.

Although labor laws apply equally to SEZs, relatively few unions exist in the majority of SEZ areas to the consternation of trade union leaders. Unions report facing the same types of barriers to organizing inside the zones as outside, including "company unions" designed to thwart genuine worker representation. Illegal discovery tactics and dismissal of union members are often cited as barriers to organization. The quasi-judicial National Labor Relations Commission reviews allegations of intimidation and discrimination in connection with union activities, although effectiveness of enforcement is reportedly questionable.

4.6.15 Capital Outflow Policy

Outward capital investments from the Philippines do not require prior Bangko Sentral approval in each of the following cases:

- Outward investments are funded by withdrawals from foreign currency deposit accounts
- Funds to be invested are not purchased from the banking system
- If sourced from the banking system, the funds to be invested are less than U.S.$6 million per investor per year

4.7 TRADE AND PROJECT FINANCING

4.7.1 Foreign Exchange Control Risks

The BSP liberalized the acceptable modes of payment for exports and imports under a succession of new regulations issued since 1992. For monitoring purposes, the Bangko Sentral requires pre-registration of imports under Documents Against Acceptance (D/A) and Open Account (O/A) arrangements for an importer to be able to obtain foreign exchange from the banking system for payment.

4.7.2 Financing Export Strategies

Domestic Capital

Most corporate clients raise capital by borrowing directly from banks or trust funds. Most commercial bank loans are short to medium-term, subject to renewal/rollover. Long-term loans at relatively more attractive rates are readily accessible generally to more established borrowers with proven track records. Venture-capital corporations and government banks cater more readily to small-and-medium enterprises (SMEs), but their resources are limited. Although growing, micro-finance currently constitutes a small share of banks' loan portfolios.

The Philippine securities market is growing, but remains relatively small and underdeveloped. Longer-term private commercial paper and bond markets are not yet major sources of capital, although the government has made progress in introducing longer-term treasury issues. The equities market is thin, highly concentrated, and prone to volatility.

Foreign Loans

While regulations have substantially eased, the Bangko Sentral ng Pilipinas continues to monitor and/or regulate certain foreign borrowings to ensure that they can be serviced with due regard for the economy's overall debt servicing capacity. Certain loans of the private sector must be approved by the Bangko Sentral regardless of maturity, the source of foreign exchange for debt service and/or any other consideration. These are: private sector debt guaranteed by the public sector or covered by foreign exchange guarantees issued by local banks; loans granted by foreign currency deposit units funded from or collateralized by offshore loans or deposits; and loans with maturities of more than one year obtained by private banks and financial institutions for relending. Private sector foreign loans outside these categories that will not be serviced with foreign exchange purchased from the banking system do not require prior Bangko Sentral approval. Subject to certain conditions (among others the disposition of the loan proceeds, type of borrower and/or source of credit), certain foreign loans (such as most short-term loans and private sector loans extended by foreign companies to their local subsidiaries) which will be serviced using foreign exchange purchased from the banking system also need not be approved by the BSP, but should be registered for access to foreign exchange from banks.

4.7.3 Export Financing Options

Obtaining attractive, competitive financing very frequently is the key to concluding business deals in the Philippines. Supplier financing and trade financing are very important in this market given the shortage of affordable available financing to support imports. Commercial banks presently charge an average international rate ranging from 12% to 14%, inclusive of Value-Added Tax (VAT). As a consequence, government and private importers of goods and services often buy goods or services combined with a financing package and not necessarily those with the best quality or the most appropriate items.

Limited financing is available from foreign currency deposit units in local commercial banks, but generally long-term dollar financing is not easy to find in the Philippines. Companies generally rely on U.S. Export Import Bank (Ex-Im Bank) financing to purchase the equipment they will be sourcing from the United States. The U.S. Commercial Service and Ex-Im continue to cooperate in disseminating information on Ex-Im Bank programs. CS Manila also works with U.S. banks to generate interest for Ex-Im's various programs.

The Asian Development Bank, Asia's premier non-profit financial institution, is headquartered in Manila. Since 2001, the bank has maintained a Philippine Country Office to further enhance its interface with the Philippine government. The Philippines has been an ADB member since 1966 and is one of the bank's most active borrowers.

ADB has lent actively to all sectors in the Philippines. Consistent with ADB's poverty alleviation theme, priority areas in the Philippines are basic education and health services, urban development, power, roads, environmental management, and financial market development.

In addition to public sector lending, ADB has also lent directly to the private sector since 1983. ADB's private sector lending aims to mobilize additional investment and financing for projects. The Philippines has the largest share ($512.74 million) of ADB's private sector lending of which the North Luzon expressway project is a recent example.

Procurement under ADB projects is limited to its member countries. The bank's current 61-country membership includes developing countries from South and Southeast Asia, Central Asia and the Pacific Islands, and 16 non-regional members. The U.S. and Japan are the largest shareholders (currently with a 13% voting share each).

By Congressional mandate, the U.S. Department of Commerce maintains a Commercial Liaison Office for the ADB. The office is fully integrated into the U.S. Commercial Service – a network of over two hundred offices worldwide whose mission is to promote U.S. exports. The office has operated since 1992 and helps U.S. companies access, enter and expand in the Asian markets that benefit from ADB's approximately $6 billion annual lending program. The ADB Commercial Liaison Office works closely with the U.S. Director's Office at the Asian Development Bank, which facilitates the office's interaction with the ADB, and with the Commercial Service in the Philippines and in other regional posts.

The ADB Commercial Liaison Office is a partner to American firms who seek to take advantage of commercial opportunities created by the ADB's lending operations. The office offers various services for free such as advance project information and updates, counseling, advocacy and outreach. The contact information is:

American Business Center
25th Floor, Ayala Life-FGU Building
6811 Ayala Avenue
Makati City, Philippines 1226

U.S. mailing address:

PSC 500 Box 33
FPO AP 96515-1000.
E-mail: manila.adb.office.box@mail.doc.gov
Telephones: (632) 887-1345(-6)
Fax: (632) 887-1164

4.7.4 Banks with Correspondent Banking Arrangements

Three Philippine commercial banks have branches in the United States. Reflecting a long history of economic and political ties, all commercial banks in the Philippines have correspondent U.S. banking relationships too numerous to list. The best way for a firm to determine whether its U.S. bank has a correspondent bank in the Philippines is to check with the U.S. bank.

U.S. Financial/Lending Institutions Operating in the Philippines

Citibank, N.A.
8741 Paseo de Roxas
Makati City
Phone: (632) 894-7701
Fax: (632) 894-7703
Contact: James Hunt, Country Corporate Officer

Bank of America
Philamlife Tower, 8747 Paseo De Roxas
Makati City
Phone: (632) 815-5409; 815-5000; 815-5623
Fax: (632) 815-5224
Contact: Mrs. Isabelita Papa, Branch Manager

Local Representative Offices of MDBs/IFIs

International Finance Corp. (IFC)

11th Floor, Tower One
Ayala Triangle, Ayala Avenue, Makati City
Phone: (632) 848-7333
Fax: (632) 848-7339
Contact: Vipul Bhagat, Country Manager

International Monetary Fund (IMF)
Central Bank of the Philippines
A. Mabini St., Manila
Phone: (632) 400-4985
Fax: (632) 536-0038
Contact: Vikram Haksar, Residence Representative

World Bank
23rd Floor, Taipan Place
Ortigas Center, Pasig City
Phone: (632) 637-5855
Fax: (632) 637-5870
Contact: Robert Vance Pulley, Country Director

4.8 TRAVEL ISSUES

4.8.1 Local Business Practices

The Philippine business environment is highly personalized. Business matters are always best dealt with on a face-to-face basis under a warm and pleasant atmosphere. Where the Western businessperson thinks that time is gold and wants to get to the point immediately, the Filipino likes to be indirect, talk about mutual friends and family, exchange pleasantries, and share a joke or two. Only after establishing a cordial atmosphere will people negotiate. No matter what the final result, the discussions should always end cheerfully. Americans adapting to this cultural practice will have an advantage. To a Filipino, cultivating a friend, establishing a valuable contact and developing personal rapport are what make business wheels turn.

The Filipino way of doing business is a confluence of the East and West.

In setting up appointments, especially in government offices, it is most advantageous if a “go-between” or someone with previous connections to that office can make some form of introduction on behalf of the requesting party. Mid-morning or afternoon meetings are preferred, and a follow up call to confirm the meeting a day before is recommended. Allow for at least fifteen minutes leeway before your Filipino contact arrives for an appointment. For VIPs, waiting time could be longer.

After the requisite small talk following the introductions, a typical business meeting would focus mainly on the agenda at hand. Specific conclusions would not necessarily be achieved during the initial meeting, but Filipinos would usually be amenable to follow up discussions or negotiations. A formal agreement or contract may take a longer time to be finalized compared with what Westerners are used to.

Moreover, as in most Asian cultures, Filipinos would rather avoid “loss of face” or public humiliation. Therefore, Filipino contacts prefer an atmosphere of calm and restraint, avoid direct confrontation, and would typically offer a polite reply coupled with a smile rather than an outright negative feedback to the other party’s ideas. A “yes” may mean a lot of things therefore one should be aware of the subtleties of a particular conversation.

Philippine business has its own etiquette. For example, as a show of respect, Filipinos usually address people by their titles (e.g., Architect Cruz, Attorney Jose, Dr. Romero) although the professional might request a more informal approach (e.g., addressing them by their nicknames) after the formal introduction. In dealing with high-ranking government and military officials, it is best to address them by their formal titles (e.g., Secretary Flores, General Alfonso, Director Santos, Admiral Lopez, etc.)

Handing out business cards (preferably bearing your position or title) is standard procedure, although the manner in which the cards are exchanged tend to be rather informal as compared with other cultures. If a Filipino contact gives you a personal number (e.g., home or mobile) aside from what is indicated on the business card, it is usually an invitation to call, and is a good sign for establishing cordial relations.

The U.S. businessperson should avoid, as much as possible, personally grappling with the bureaucracy. Customs, for instance, requires dozens of signatures to clear air cargo. The Filipino approach to the problem is to use staff capable of moving through the bureaucracy. Whether getting a driver's license or registering a car, the U.S. business executive will benefit by delegating the chore to that person paid to negotiate through a sea of desks, with a smile and a knack for delivering token gifts or keepsakes.

Observing office etiquette is also important. When reprimanding employees, take them aside and do it privately. Be as gentle as possible and always make it a point to end the meeting with some show of personal concern for his family to make him feel he is still part of the team and that the criticism is not personal. Again, this is consistent with avoiding "loss of face".

English is the official business language, so Americans may not find a difficult time to strike up a conversation. Most correspondences, contracts, and other documents are written in English. Among Filipinos, however, it is common to hear "Taglish" (a combination of Tagalog, a regional dialect from which the Filipino language is largely based, and English, or shifting back and forth between the two languages) during informal conversations. Body language and hand gestures (e.g., a raised eyebrow, a faint smile, a scratch in the head) are also integral to how Filipinos express themselves. Texting, or sending short messages through mobile phones, has now become a choice medium.

Business lunches and dinners are usually arranged personally over the phone and confirmed by the secretary. The person who invites customarily pays. A guest does not order the most expensive items on the menu, unless the host insists otherwise. It is also customary to have a drink before sitting at a dining table. A pleasant atmosphere and a minimum of formality is the tone. Business is not usually discussed until after establishing a convivial ambience, usually after soup or appetizer. Dress is according to venue.

Filipinos tend to be lax in replying to RSVPs. Telephone follow-ups are best, about three days before. Party hosts usually have staff track down guests for a confirmation reply. In a formal occasion, seating is arranged. There is usually a head table for the VIPs. A guest speaker is often the highlight of the dinner. Light entertainment is not unusual. In most instances, important guests accept requests to sing. Americans with vocal talents can score in the Philippines.

Christmas is also a time to show appreciation to people with whom you have regular dealings with, e.g., the security guard, doorman, messenger, as well as good customers and clients, through token gifts. Gifts could range from baskets of goodies to company giveaways to plain calendars or office items with your company logo.

Office hours for business firms and the Philippine Government normally are from 8:00 a.m. to 5:00 p.m., with a one-hour lunch break. Most banks are open from 9:00 a.m. to 3:00 p.m. It is best to attempt to accomplish business objectives in midmorning or late afternoon. Many business deals are completed informally during meals, entertainment, or over a round of golf. Offices are generally closed on Saturdays and Sundays.

Summer-weight clothing normally worn in temperate zones is suitable for the Philippines. It is acceptable for businessmen to conduct calls in short or long-sleeved shirt and ties without a coat. Either a two-piece suit or the native "barong tagalog" (a lightweight, long-sleeved shirt worn without a tie) are acceptable, ordinary business attire. Light suits and dresses are appropriate for women.

4.8.2 Visas

General Provisions

- Persons may come and stay in the Philippine for business, pleasure or health reasons, without a visa for not more than 21 days and are exempt from payment of immigration fees and charges. This may be extended for another 38 days through a visa waiver. Thereafter, they may apply for the regular monthly extensions for a maximum stay of one year and fifty-nine days.
- Temporary visitors who have been allowed to stay in the country for more than six (6) months may apply for Alien Certificate of Registration (ACR) and Certificate of Residence as Temporary Visitor (CRTV) with the main office of the Bureau of Immigration (BI) or with its sub-ports, which have territorial jurisdiction over these aliens.

Special Provisions

- SPECIAL INVESTOR'S RESIDENT VISA (SIRV)** - May be issued to an alien (including his spouse and unmarried children under 21 years of age) who will invest at least $75,000.00 in an existing or new corporation provided this corporation is a publicly listed corporation; a company engaged in Investment Priority Plan (IPP) projects or engaged in the manufacturing and service sectors.
    - Such persons can reside in the Philippines while the investment remains. SIRV allows them to acquire permanent resident status.
    - Holders of SIRV's must secure an ACR (Alien Certificate of Registration), CRTV (Certificate of Residence/Temporary Visitor), Emigration Clearance Certificate (ECC) and Special Return Certificate (SRC) and pay all required alien and immigration fees.
- Citizens of the U.S., Japan, & Germany (which have treaties of commerce, trade, amity and/or navigation with the Philippines) may apply for an International Treaty Trader or International Treaty Investor Visa or Employee Of An International Trader Or Investor Visa provided they have substantial investments in the Philippines or they conduct substantial trade with the Philippines or its nationals.
- Foreign business people may enter under Prearranged Employment Status. Foreign technicians, however, can enter on this basis only if they possess skills not available in the Philippines. Prearranged employment status entitles the visitor to stay for a period of one year. The prearranged employment visa is normally granted co-terminus with the Alien Employment Permit (AEP) issued by the Department of Labor and Employment. The stay may be renewed annually with the Bureau of Immigration.
- An alien who is admitted as a nonimmigrant can apply for permanent resident status without departing the Philippines.

4.8.3 Work Week and Holidays

Many private and government offices are open 8:00 a.m. to 5:00 p.m. or from 9:00 a.m. to 6:00 p.m., Mondays to Fridays. Some private companies hold office on Saturdays from 9:00 a.m. to 12:00 noon. Eight hours per day or 48 hours per week is the maximum period an employee may be required to work at his regular pay rate.

All offices close during the following public holidays:

- January 1, New Year's Day
- April 9, Bataan & Corregidor Day and Heroism Day
- Easter Holidays, which include Maundy Thursday and Good Friday
- May 1, Labor Day
- June 12, Independence Day
- August 27, National Heroes Day
- November 1, All Saints' Day
- November 30, Bonifacio Day
- December 25, Christmas Day
- December 30, Rizal Day

June 24, Manila Day, is observed only in the City of Manila while August 19, Quezon Day, is observed only in Quezon City. In addition, special public holidays such as Election Day and EDSA Revolution Day may be declared by the President and are observed nationwide.

The U.S. Mission in the Philippines observes the following U.S. public holidays: New Year's Day, Martin Luther King Day, President's Day, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, and Christmas Day.

4.8.4 Infrastructure for Conducting Business

In the Philippines, one can generally travel to most parts of the country either by land, air or sea.

When traveling by land, the quality of the road network varies tremendously. Distances that might be covered quickly in the United States can take much longer in the Philippines, due to poor road quality and congestion. An extensive road network links practically the whole of the archipelago.

In major urban areas like Makati City, use of accredited hotel taxis with the assistance of the hotel are more dependable than taxis hailed on the street. Hotel taxis charge a flat rate for travel to specified locations.

Car rentals are also available with or without a driver although the cost is much higher than in U.S. standards. U.S. franchisees such as Avis, Hertz and Budget operate in the Philippines and accept international driver's license up to 60 days.

Meanwhile, the country has about 87 airports but only a few meet U.S. standards. There are four (4) major international airports, two of which are located in former U.S. military installations (Subic and Clark), the rest are mostly regional airports serving domestic routes. Recently, there have been several airport development and upgrade/improvement projects underway, which is expected to improve the local air transportation sector.

Maritime transport is a major conduit for moving goods and people. Inter-island vessels or ferries ply major island routes. Being an archipelago, the Philippine port system has more than 1,000 ports, about a dozen of which are major international ports that serve as cargo and/or passenger terminals. Recently, some roll-on, roll-off (RORO) terminals have been constructed as part of the Arroyo administration's nautical highway project to connect major tourism and trade destinations.

Visitors to the Philippines have a wide choice of hotels, condotels and apartments for short stays. There are about 15 de luxe hotels operating in Metro Manila. All hotel rates are quoted in dollars, exclusive of a 10% service charge and 10% expanded value-added tax, plus a 3.5% government tax.

For expatriates staying for longer periods, well-appointed residences, pension houses, town homes and condominium units are accessible, but rental rates vary depending on location and amenities offered. Serviced apartments are likewise becoming more popular for long-staying guests.

While doing business in the Philippines on a temporary or short-term basis, American businesspeople can also avail of temporary staff performing administrative and clerical work, as well as business centers which offer a variety of services including use of office equipment, conference and training rooms, messenger services, and the like. Rental or lease rates are usually available on a daily, weekly, monthly or annual basis.

The Philippines has the largest number of educational institutions in Asia. It has several international schools and a number of private schools for American, British, German, French, and Japanese children in the primary and secondary levels.

For personal needs, supermarkets, malls and smaller shopping centers, fashion boutiques, and a variety of shops are in abundance. Malls have become a "one-stop shop" where one can find almost anything, even indoor ice-skating rinks.

Sanitary conditions in the Philippines are not on par with those in the U.S. Bottled water is recommended for drinking, and first-time visitors are discouraged from consuming street food. The air in Metro Manila is heavily polluted.

For medical or health care needs, there are several modern and well-equipped hospitals and medical facilities in most urban areas, many with U.S.-trained doctors and specialists. Medical fees are reasonable and pharmaceuticals are widely accessible.

For entertainment and recreation, there is a wide choice of movie houses, theaters, and social clubs. Out-of-town trips to popular tourist destinations can also be arranged quite easily although infrastructure varies.

Personal services such as fitness clubs, beauty salons, spas and others are easily obtainable. Tailors abound, and laundry and dry-cleaning facilities are available. Similarly, sporting facilities such as golf courses and scuba diving sites are abundant.

There are numerous restaurants offering a variety of cuisines. Business entertainment normally takes place in restaurants, hotel lounges, or watering holes. Popular fast food chains in the U.S. are also readily available.

The Philippine Postal Corporation (Philpost) provides for surface, airmail, and Express Mail Service (EMS), as well as domestic regular, priority, and express mail, postal money order service, and registered and special delivery mail. Airmail letters between the Philippines and the U.S. usually arrive within seven to ten days. Courier services such as DHL, TNT Skypack, Federal Express, and UPS are best to transmit important, urgent documents to and from the Philippines.

The U.S. Commercial Service in Manila also offers a Business Support Network (BSN), featuring American and Philippine-based firms that offer products and professional services to facilitate U.S. exports. The BSN can be found at **www.buyUSA.ph**. The network includes companies engaged in consulting and legal services, travel facilitation, hotel accommodations, advertising, and other services.

Requirements for Temporary Entry of Personal Laptops, Software, Exhibit Materials and Related Items

The Philippine Bureau of Customs requires a traveler to fill out a Re-export Commitment Form and imposes a corresponding cash bond for exhibit materials; articles brought into the Philippines for repair, processing or reconditioning; software; and laptop computers (in commercial quantity).

A cash bond computed based on duties/taxes and other charges are paid to the Bureau of Customs. The cash bond ensures that the traveler will bring the items back when he leaves the country.

A business person hand-carrying a personal laptop computer, however, does not have to post a cash bond upon establishing that the item is part of personal effects and is not new.

4.8.5 Country Data

- Population: 82 Million
- Religion: Catholic
- Government System: Presidential
- Languages: Filipino, English
- Length of Work Week: 8 hours per day or 48 hours per week maximum

4.9 KEY CONTACTS

4.9.1 U.S. Embassy Contacts

U.S. Embassy Manila
Ambassador Francis J. Ricciardone
1201 Roxas Blvd., Manila
Phone: (632) 523-1001
Fax: (632) 522-4361

U.S. Commercial Service
David W. Fulton, Counselor for Commercial Affairs
Jay R. Field, Commercial Officer
25/F Ayala Life-FGU Center, 6811 Ayala Avenue
Makati City
Phone: (632) 888-4081 to 98
Fax: (632) 888-6606
E-mail: Office.Manila@mail.doc.gov

Foreign Agricultural Service (FAS)
David Miller, Agricultural Counselor
Jude Akhidenor, Agricultural Attaché
Michael Woolsey, Agricultural Trade Office Director
25/F Ayala Life-FGU Center, 6811 Ayala Avenue
Makati City

Phone: (632) 523-1001 ext. 5630; 887-1137/53
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E-mail: alexanderc@fas.usda.gov
Millerdavid@fas.usda.gov
Woolsey@fas.usda.gov
agmanila@fas.usda.gov

Animal Plant Health Inspection Service
Gary Timmons, Attaché
Phone: (632) 840-3197
Fax: (632) 830-2376
E-mail: Gary.e.Timmons@aphis.usda.gov

Joint U.S. Military Assistant Group to the Republic of the Phils.
(JUSMAG)
Col. Mathias Velasco, Chief
1201 Roxas Boulevard, Manila
Phone: (632) 523-1319
Fax: (632) 338-4126
E-mail: velascomr@state.gov

U.S. Agency for International Development (USAID)
Michael Yates, Director
Francis Donovan, Deputy Director
8/F PNB Financial Center
Roxas Boulevard, Pasay City
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Fdonovan@usaid.gov

U.S. – Asian Environmental Partnership (USAEP)
Office of Technology Cooperation
Dr. Marie Ricciardone, Program Manager
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Asian Development Bank - FCS Liaison (FCS-ADB)
Frank Foster, Senior Commercial Officer
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Defense Attaché Office (DAO)
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4.9.2 AMCHAM and Business Councils

The American Chamber of Commerce of the Phils, Inc. (AMCHAM)
Robert Sears, Executive Director
2nd Floor, Corinthian Plaza, Paseo de Roxas, Makati City
Phone: (632) 811-3192; 818-7911
Fax: (632) 811-3081; 811-3184; 811-3241
E-mail: amchamrp@mozcom.com

Philippines-U.S. Business Council
Ramon R. del Rosario Jr., Chairman
c/o AB Capital and Investment Corporation
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E-mail: rrdelrosario@abcapital.com.ph

4.9.3 Trade and Industry Associations

Air & Waste Management Association (AWMA)
Cesar Pacheco, Chairman
c/o Enviro-Services, Inc.
25 M. Osorio St., BF Homes
Parañaque, Metro Manila
Phone: (632) 825-5222/565-5143
Fax: (632) 825-0975

Association of Firearms and Ammunition Dealers of the Philippines (AFAD)
Demetrio R. Tuazon, President
Suite 200 PBD Bldg.
27 Don Alejandro Roces Ave., Quezon City
Phone: (632) 373-3088 loc. 148, 414-3062
Fax: (632) 414-3062

Association of International Business Executive of the Philippines
Ram Sitaldas, President (election on October 2003)
Rm. 810 Peninsula Court Bldg.
8735 Makati Avenue, Makati City
Phone: (632) 867-1761
Fax: (632) 867-1761
E-mail: aibep@yahoo.com

Agricultural Machinery Manufacturers and Distributors Association (AMMDA) Foundation, Inc.
Dennis L. Tan, President
c/o CLF Building, 1167 Chino Roces Avenue
Phone: (632) 896-5556 to 59; 411-4994; 371-1936
Fax: (632) 890-7202; 890-7192; 371-5712
E-mail: ammda@compass.com.ph; mwdist@compass.com.ph

Chamber of Customs Brokers, Inc.
Diosdado M. Santiago, President
Rm 107, Port of Manila Bldg.
South Harbor, Manila
Phone: (632) 895-5735; 527-5340
Fax: 527-5340
E-mail: ccbi@netgazer.com.ph

Chamber of Furniture Industries of the Philippines (CFIP)
Chit M. Ledonio, Executive Director
Unit 9 F Strata 100 Building
Emerald Avenue, Pasig City
Phone: (632) 631-2834; 631-3428; 632-9007; 637-2742
Fax: (632) 631-2977
Telefax: (632) 637-2743
E-mail: info@cfipnet.com; pifs@cfipnet.com

Chamber of Real Estate & Builders Associations, Inc. (CREBA)
Florentino Dulalia, National President (election on November 2003)
3rd Floor, CREBA Center
Don Alejandro Roces Ave. corner South "A" St., Quezon City
Phone: (632) 373-2266 to 73
Fax: (632) 373-2271; 373-2274
E-mail: creba@globe.com.ph

Chemical Industries Association of the Philippines
(Samahan sa Pilipinas ng mga Industriyang Kimika)
J. M. Mantaring, President
Issay Espejo, Board Secretary
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Telefax: (632) 814-0970
E-mail: kimika@tri-isys.com

Computer Distributors and Dealers Association of the Philippines (COMDDAP)
Salvador Lastrilla, President
7th Floor, SEDCCO I Bldg., Rada corner Legaspi St.
Legaspi Village, Makati City
Phone: (632) 810-3814; 892-7947
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Confederation of Filipino Consulting Organizations, Inc. (COFILCO)
Ernesto de Castro, President
Unit 813 Future Point Plaza Cond., 112 Panay Avenue, Quezon City

Phone: (632) 412-3012
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Council of Engineering Consultants of the Philippines (CECOPHIL)
Eric R. Ruiz, President
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Legaspi Village, Makati City
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E-mail: cecophil@dccd.com

Federation of Filipino-Chinese Chambers of Commerce & Industry, Inc. (FFCCCII)
Robin Sy, President
6/F Federation Center Building
Muelle de Binondo, Manila
Phone: (632) 241-9201 to 05
Fax: (632) 242-2347
Federation of Security Organization of the Philippines (FISOP)
Eduardo Fulgencio, President
Suite 1206, Ermita Center Bldg.
138 Roxas Blvd., Ermita, Manila
Phone: (632) 526-5378; 523-3512; 524-2301; 524-6128
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Filipino-Chinese Federation of Business & Professional Women of the Philippines
(FIL-CHI)
Myrna T. Yao, President
25 Quezon Avenue, Quezon City
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Fax: (632) 740-4676
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Filipino-Indian Chamber of Commerce (Phil.), Inc.
Vishnu Hathiramani, President
Room 1803 Cityland Tower 1
6815 Ayala Avenue North, Makati City
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E-mail: ficc@vasia.com

Hospital, Medical, Laboratory Equipment & Supply Importers Association of the Philippines, Inc. (HOMLESIAP)
Enrique Lim, President
c/o 3-I Philippines, 704 Aurora Blvd., Quezon City
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Fax: (632) 721-5211; 721-7012

Hotel and Restaurant Association of the Philippines (HRAP)
Larry J. Cruz, President
Suite 200 Hotel Intramuros de Manila
Plaza San Luis Complex
Cabildo cor. Urdaneta Sts.

Intramuros, Manila
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Fax: (632) 527-9927
E-mail: hrap@info.com.ph

Integrated Telecommunications Suppliers Association of the Philippines (ITESAP)
Jimmy Tinio, President
c/o PETEF, 7/F PSBank Tower, Tindalo St. corner
Sen. Gil Puyat Avenue, Makati City
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Fax: (632) 813-6397
E-mail: itesap@info.com.ph

Institute of Integrated Electrical Engineers of the Philippines, Inc. (IIEEP)
Miguel H. Lagman, President
IEEE National Headquarters, IIEE Bldg.
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E-mail: iiee@skyinet.net

Kapisanan ng mga Brodkaster sa Pilipinas (KBP)
(Association of Broadcasters of the Philippines)
Jose Antonio K. Velasco, President
Cerge M. Remonde, Chairman
Joselito Yabut, Director
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Legaspi Village, Makati City
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Fax: (632) 815-1989, 815-1993
E-mail: kbp@pacific.net.ph
Web site: **www.kbp.org.ph**

National Confederation of Constructors Association of the Philippines (NCCAP)
Wilfredo Castor, President
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Phone: (632) 920-9449; 928-3187
Fax: (632) 928-3187

Pharmaceutical and Healthcare Association of the Philippines (PHAP)
Leo P. Wassmer, Jr., Executive Vice President & CEO
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Phone: (632) 815-0325; 816-7334; 816-7373; 816-0618
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Philippine Association of Medical Technologists (PAMET)
Shirley F. Cruzada, President
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Philippine Association of Electrical Industries, Inc.
Leonardo Chua, President
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Philippine Chamber of Commerce and Industry (PCCI)
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Philippine Chamber of Food Manufacturers, Inc. (PCFMI)
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Philippine Constructors Association (PCA)
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Philippine Electronics and Telecommunications Federation (PETEF)
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Philippine Exporters Confederation Inc. (PHILEXPORT)
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ITC Complex corner Gil Puyat Avenue, Roxas Blvd., Pasay City
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Philippine Food Processors & Exporters Confederation (PHILFOODEX)
Jesus Tanchanco, Sr., President
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Ramon Magsaysay Ave.

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Fax: (632) 925-3518
E-mail: pfdex@philonline.com

Philippine Franchise Association (PFA)
Ma. Alegria S. Limjoco, President
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Philippine Hospital Association (PHA)
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The Philippine Hotel Federation, Inc.
Patricio L. Lim, President
9th Floor, BA Lepanto Bldg.
Paseo de Roxas St., Makati City
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Fax: (632) 818-9377
Philippine Independent Power Producers Association (PIPPA)
Ernesto Pantangco, Executive Vice President
c/o First Private Power Corporation
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Philippine Institute of Architects (PIA)
Orlando C. Villarin, President
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Evelyn B. Salire, Secretary General
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Safety Organization of the Philippines, inc. (SOPI)
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Society of Philippine Electrical Contractors & Suppliers, Inc. (SPECSI)
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United Architects of the Philippines (UAP)
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Water Environment Association of the Philippines (WEAP)
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Women's Business Council – Philippines
Lorna Kapunan, President

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4.9.4 Filipino Government Agencies

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Armed Forces of the Philippines (AFP)
General Narciso L. Abaya, AFP, Chief of Staff
Gen. Headquarters, AFP
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Bangko Sentral ng Pilipinas (BSP)
(Central Bank of the Philippines)
Rafael Buenaventura, Governor
A. Mabini St., Malate, Manila
Phone: (632) 523-8808; 524-7011
Fax: (632) 536-0076

Build-Operate and Transfer Center
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Fax: (632) 521-4285
E-mail: noelk@botcenter.gov.ph

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Bureau of Food and Drugs (BFAD)
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Bureau of Internal Revenue (BIR)
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Fax: (632) 527-4853
Web site: **www.ppa.com.ph**

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4.9.6 Washington-Based U.S. Government Contacts

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TPCC - The Trade Information Center
Gary Bouck, Philippine Commercial Information
Chris Johnston, Asia Team Leader
International Trade Administration
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1401 Constitution Ave., N.W.
Ronald Reagan Building
R-TIC
Washington, D.C. 20230
Phone: 1-800-USA-TRADE
Fax: (202) 482-4473
E-mail: TIC@ita.doc.gov
Web site: **www.export.gov/tic**

U.S. Department of State
Office of the Coordinator for Business Affairs
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Leslie Burket or Patricia Perkins
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