Attracting Direct Foreign Investment: Business Process Outsourcing in the Philippines[1]

When K.S. Kumar went to the Philippines in 2006 to investigate the possibility of expanding his firm's operations there, he found a warm and welcoming place and was impressed by his hosts' English fluency and business savvy. But he knew the decision facing him would turn on more concrete measures: prices, location and reliability. As the executive vice president and head of global operations for Sutherland Global Services (SGS), a business process outsourcing (BPO) company, Kumar had to decide: Should his company expand in this new, untested location, or should it focus on a safer option, India, where the company had started out and succeeded?

By 2006, after two decades of operation, SGS had become a major player in the BPO industry, employing nearly 30,000 people worldwide. SGS hired cheap labor in the developing world to help U.S. and European companies perform basic office functions, such as bookkeeping, sales and technical support, at a fraction of what it would cost to perform these functions in-house. The model had served SGS well, and the company was growing quickly. Now Kumar's team needed to come up with an expansion strategy. One important client had suggested that the Philippines, where SGS had a small investment, would be a better place to expand than India, where SGS already conducted the majority of its operations.

In deciding what to do, Kumar would have to assess the factors that made SGS successful. Among them were low-cost labor, employees who spoke English well, business-friendly government policies and good access to infrastructure. He would have to take stock of the business environments in India and the Philippines and compare them. He would look at measures of political stability, utility cost, infrastructure and available workforce. His team would have to determine how it should expand and what environment would better support the global competitiveness of SGS.

One component nagged Kumar as he pondered his choice: political stability. The Philippines had a reputation for corruption. The company's leadership team was uncertain about whether the government, with power over regulations and incentives that were essential to the success of foreign-owned businesses, would facilitate or impede an SGS expansion. To be sure, the government was taking steps to make its regulations and enforcement more transparent, but Kumar needed to decide if those steps reassured him. Would the Filipino government be an honest and helpful broker?

Fresh off his visit to the Philippines, Kumar sat down to deliberate with Dilip R. Vellodi, the founder and CEO of SGS. The board meeting was just a few weeks away, and it was up to Kumar and Vellodi to decide which strategy to pitch.

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[1] Neil Shenai and Julia Oliver prepared this case under the supervision of Professors Roger Leeds and Francis Fukuyama of the Johns Hopkins School of Advanced International Studies (SAIS). This case was developed solely as a basis for class discussion. It is not intended to serve as a source of primary data or an illustration of effective or ineffective management.

Business process outsourcing: Industry background

The BPO industry emerged during the 1990s, when advances in technology reduced the cost of moving information between distant countries. U.S. companies could suddenly employ firms such as SGS to conduct their back-office operations in India at a fraction of what they had been paying in the United States. Among the services commonly offered by BPOs are "call center" functions, such as customer service or technical support; back-office jobs, such as accounting or payroll processing; data transcription services; and software development.

When such outsourcing is successful, U.S.- or Europe-based firms gain seamless access to a technologically savvy workforce with strong interpersonal and language skills. The firms not only save money but they see higher productivity. Outsourcing functions such as accounting, payroll and customer service allows firms to focus more energy and money on their particular, money-making specialty (computer manufacturing, clothing design, architecture, etc.).

There are many risks associated with BPO, however. Outsourcing is a controversial decision for a firm to make, in part because it is perceived to move semi-skilled jobs overseas. It is also often associated with poor service. The problem of poor service can be partly explained by the way the BPO industry is structured: BPO employees (in India or the Philippines, for example) are employed by the BPO company (such as SGS), not directly by the firm that benefits from their services (Verizon, for example). Because of this, the employees are more loyal to the BPO company than to the client. In addition, there might be a large cultural gap between the client's customer base and the BPO employees providing customer service (from India or the Philippines). If there is a misunderstanding, the customers might complain that the BPO employees have an accent that is difficult to understand or that they don't have the power to take appropriate action to fix problems. Essential to a BPO company's success is its clients' confidence in the quality of the labor force it offers.

Other risks of international outsourcing are related to the common risks of working in developing countries, where wages are low but institutions are relatively weak. In particular, macroeconomic instability—high unemployment, currency fluctuations or inflation due to poor economic management, for example—might affect the dependability of the workforce. Political uncertainty associated with corruption or a lack of transparency in government also might affect the environment in which the business operates.

Governments of host countries such as the Philippines or India can help mitigate some of these risk factors. They can recognize the importance of macroeconomic stability, including responsible monetary and fiscal policies, for foreign investors. They can invest in a good education system and partner with businesses on job-specific training. On a more targeted level, they can provide technical assistance and security services to BPOs. Importantly, they can provide tax breaks and offer other financial incentives to attract BPO companies and investments.[i]

Sutherland Global Services: An outsourcing success story

In 1986, CEO Dilip Vellodi founded Sutherland Global Services (SGS) in Rochester, New York. Starting with a small team of fellow entrepreneurs, he quickly built the business into a thriving global entity. By 2006, SGS had worked for more than 60 Fortune 1000 companies. The outsourcing firm boasted twenty-four "delivery centers," or call centers, and operations in five countries—India, the Philippines, Mexico, Canada and the United States—dedicated to providing customer service and back-office support for clients (see Exhibit 1).[ii]

The company had built a reputation for tailoring a set of integrated services to the specific needs of different industries, including healthcare, mortgage banking and electronic retail. SGS would provide for a healthcare company, for example, an integrated package of account management, technology support, and customer care. That package would have been developed through working with other, similar healthcare companies, and would be different from a package of the same services provided to an online retail company.

The SGS business model depended heavily on human capital; that is, on factors such as the education level, extroversion and fluency in English of the workforce it hired. Employees needed to deal with difficult customers while simultaneously meeting requirements for call volume. The skills with which SGS employees handled these pressures had serious business implications, both for SGS and its clients. In 2003, for example, Dell Computer Corp. drew media attention when, after a critical volume of customers complained about call-center service in India, the company was forced to route certain calls to U.S. locations. [iii]

To build the quality of its employees, SGS had made a significant investment in India. Through a partnership with a prestigious management institute in Bangalore, it provided courses on technical training, leadership development, sales and customer support. This helped ensure that SGS employees in India understood the industry and could provide quality service to SGS clients. In the Philippines, this effort was far less developed. SGS had started to collaborate with the government to offer a scholarship program for training in subjects related to the BPO industry, but this program had not yet begun.

A need to expand

By 2006, SGS was growing, as was the demand for BPO services. The company's leadership recognized that the time was right to open more call centers. SGS had succeeded in India, and that was one place it could expand. But if SGS grew operations in India, it would be joining a glut of many similar companies. In fact, India held about 46 percent of the market for the BPO industry.[iv] As the concentration of BPO operations grew in India, SGS clients were putting pressure on the company to diversify; they worried that their business was vulnerable to a single country's political and economic health. It would be much better, they argued, to divide that risk between two or more countries.

In 2004, at the behest of an influential client, a large payments-processing company, SGS opened up its first facility in Makati, near Manila. SGS found that the workforce was energized and richly engaged in the work. This initial success prompted Vellodi to ask Kumar whether the company should expand operations in the Philippines. Kumar approached this question with an open mind. The government offered many lucrative incentives in special economic zones and showed its appreciation for foreign investment through an official investment promotion plan. In addition, several non-public advocacy agents were available to ease an expansion. He also considered cultural and other "soft" factors that could predispose Filipinos to being successful call-center employees.

But there were drawbacks to the relatively untested environment, too. The country was known for political corruption, though SGS had encountered few corrupt officials in its time there. Road infrastructure was less sophisticated than it was in India, and utility costs were high in the Philippines. Starting a systematic analysis of the costs and benefits of expanding, Kumar appraised the political environment, the infrastructure in place and government's capacity to help enable SGS' expansion.

Corruption in the Philippines: a deterrent to FDI

The Philippines' embrace of foreign investment in the 1990s came on the heels of the rocky, two-decade reign of President Ferdinand Marcos, a period that marked the country with an unshakable reputation for corruption. In response to political violence, the Marcos administration placed the country under martial law for the greater part of the 1970s. During this period Marcos severely limited press freedoms and other liberties, abolished congress and ordered the arrest of opposition leaders. Corruption ran rampant and often involved foreign aid. As Aquino put it, Marcos and his cronies

> . . . stole high and low, from both rich and poor. They treated the Philippine treasury as if it were their personal checking account. The consuming preoccupation with wealth accumulation was abetted by multi-million [dollar] international loans and massive U.S. foreign assistance packages that were meant for economic development. These resources provided easy opportunities for massive graft. . . . In the end, the Philippines had been bled of billions of dollars and had become the 'basket case of Asia' by the late 1970s.[v] (Aquino, 1987: 116–117)

Marcos and his family are estimated to have stolen between $5 billion and $10 billion from the Filipino government.[vi] Needless to say, this was not an environment that invited investment by foreign companies, even after Marcos was ousted in 1986. In the 1980s, efforts to stem corruption were largely thwarted by a lack of political will and the persistence of low salaries for civil servants.[vii] In the 1990s and into the 2000s, the Philippines still ranked among the most corrupt Asian countries, according to the World Bank and Transparency International.

This pattern was a worry for Kumar as he considered an SGS expansion in 2006. Out of 61 countries ranked by the Institute for Management Development, a prestigious Swiss business school, the Philippines ranked only 51 in terms of transparency and was third-worst in performance of both customs authorities and public service.[viii] If SGS put more resources in the Philippines, would the company be held hostage to constant requests for bribes? More importantly, with such a lack of transparency in government, how would his company know what new laws were underway? Would it be able to trust that the existing laws favoring BPOs would remain in place?

The Philippines' efforts to attract foreign investment

As a lower-middle-income country with an annual per capita GDP of approximately $1,700, the Philippines had cheap labor but a need for good, well-paying jobs. It also was highly dependent on the global economy: exports accounted for some 40 percent of the country's $100 billion nominal GDP. Investment by foreign companies had been a crucial driver of economic growth in the Philippines since the mid-90s, when the Filipino government had recognized the importance of foreign direct investment (FDI) for economic growth. In particular, realizing that the country's low-cost labor, decent level of education and unique ties to the West, including ties to the U.S. military, made the country competitive in the global services market, the government used targeted incentives to attract companies in the BPO industry. These incentives mimicked those that India and many other countries, among them many of the Philippines' neighbors, had used successfully. The government had also put in place a number of measures to reassure investors and attract their business. In fact, Kumar learned during his visit that President Gloria Macapagal-Arroyo had agreed to put $22.1 million into a fund to accelerate the government's anti-corruption campaign.

As part of its strategy to attract FDI, the Filipino government established an investment board to be a point of contact and source of information for foreign businesses. An arm of the Department of Trade and Industry, the Board of Investments led government efforts to promote private-sector growth. It established government priorities and coordinated incentives offered to individual firms. Many of its senior-level staff members had received technical degrees in the West. The board championed the BPO industry, had the ear of the president and provided a bridge between the Filipino government and Western business.

For companies such as SGS, the board offered marketing help, targeted tax reductions and help in lobbying the government for favorable policies. This helped reduce regulatory uncertainty. In addition, by designating BPO a "priority investment industry," the board helped lay the regulatory groundwork that would make expansion easier for companies such as SGS.[ix]

Another technique the government used to attract investment was to create "economic zones," or demarcated geographic areas in which the government offered tax breaks and low regulations to foster an environment favorable to businesses. The government understood that attracting companies to do business in the Philippines would help ensure job creation and economic growth. Military coups and corruption had undermined foreign companies' trust in the government historically, but officials were confident that that trust could be re-built.

Already, attracting FDI had yielded numerous benefits for the Philippines. Foreign-owned businesses:

- Employed Filipinos, driving income growth and fueling personal consumption. The employment opportunities provided by foreign companies also helped to ensure social stability.
- Helped promote regional development. Although Manila is in large part a modern, cosmopolitan city, FDI helped raise the level of development in outlying regions.
- Facilitated the transfer of knowledge between domestic and foreign companies. As the World Bank says, these knowledge transfers could help FDI eventually catalyze "organic" or domestic-led growth in the Philippines.

Special Economic Zones

A cornerstone of the Philippines' FDI strategy was the use of special economic zones, which allowed the government to provide a "free-trade" environment in a geographically delimited area for specific businesses without dismantling the system of protection in the economy as a whole.

In general, economic zones have risen in popularity worldwide because of the benefits they bring to the host country. SEZs offer countries a place to experiment with reforms without disrupting the overall economy—giving specialized tax breaks or offering flexibility for companies to repatriate profit, for example. They provide targeted "pressure valves" to relieve unemployment; foreign investment, especially that which relies on a local labor force, creates jobs quickly. Through the targeted incentives that they make possible, SEZs attract businesses that otherwise might think twice about locating in a developing country.

The Filipino government had watched foreign direct investment drive the phenomenal economic growth across Southeast Asia in the late 1980s and developed its special economic zone (SEZ) program in the mid-1990s as part of an export-led growth program.[x] The government's new strategy diverged from the protectionist policies of the Marcos administration, which the country's leaders and supporters in the World Bank and the United States believed had been holding the country back. The government hoped to attract foreign investment with the new approach and lower unemployment rates across the country. Through the program, foreign investors were given tax breaks and access to inexpensive Filipino labor. In return, they brought large amounts of capital into the designated zones, creating more than 4 million jobs. (Exhibit 3)

The zones were managed through a hybrid, public/private system. The legislature created two quasi-public bodies that oversaw the creation of SEZs, either in targeted areas or through the conversion of defunct U.S. military bases. These bodies, the Philippines Economic Zone Authority (PEZA) and the Base Conversion and Development Authority (BCDA), approved more than 200 SEZs between 1995 and 2005.[xi]

The conversion of military bases began in 1992 and included the former U.S. naval base in Subic Bay, Angeles Airbase near Manila and Fort John Hay in the country's north. The value of the existing infrastructure at Subic when the United States turned over the base was estimated at $8 billion.[xii] The base itself included a total of 6,600 hectares, with 210 set aside for industrial estates. Existing airport and harbor facilities, as well as general infrastructure, provide a good incentive for development in the area. This was where the SGS facility was located.

How SEZs attracted investment in the Philippines

The SEZs included a variety of incentives to attract foreign investment. Some examples of the incentives offered to foreign investors are listed below:

- Importation of capital equipment, raw materials, spare parts and supplies, all tax- and duty-free;
- Income tax holiday of 4–6 years;
- A special tax rate of 5% in lieu of all national and local taxes;
- Tax credits for income substitution; and
- Discounted prices on "underutilized" land.

Qualified foreign investors operating in the SEZs also could obtain exceptions to local hiring laws and other, non-fiscal benefits. For example, foreign nationals could be employed in executive, supervisory, technical or advisory functions—something not normally permitted—provided that each person in such a role trained two Filipino understudies. In addition, the customs procedure for goods imported and exported by companies in SEZs was simplified.
The Filipino government also assumed responsibility for the security of the perimeters of the SEZs. It assigned national security forces to patrol the periphery of these areas, but instructed these guards not to interfere with the transport of goods into and out of the zone. The government provided security forces that oversee safety and security inside the zones.

Source: Saunders and Brown, 2012.

Of course, the SEZ strategy poses difficult local sovereignty issues, as regional governments do not have the right to tax or otherwise intervene in SEZs. Moreover, the zones are particularly vulnerable to the whims of government. A simple legislative act could wipe out an SEZ, leaving companies doing business there to deal with new regulations and taxations imposed by the central government. As Kumar knew, the Filipino government's low level of transparency meant that an SEZ could be dismantled before any foreign company saw the move coming.

Examples of other companies that located operations in the Philippines

In 1995, FedEx decided to locate its operations in Subic Bay. Some of the factors in the decision were:

- The Philippines' bilateral relations with the United States.
- Subic Bay's strategic location in Asia—all major Asian cities are less than four hours away by air.
- Minimal infrastructure investments because of existing facilities.
- Vast skilled, English-speaking workforce.

Intel established its first assembly and manufacturing plant in Manila in the 1970s and by 2001 employed 5,984 people in the Philippines. According to Craig Barrett, Intel's CEO in the early 2000s, the company had remained for so long because the benefits of operating in the Philippines outweighed the drawbacks. "Intel has been in the Philippines for the past 27 years. We've seen coups and martial law, and changes in government, and volcano eruptions, and earthquakes. But the Philippines continues to make products at a competitive value that is world class in quality."

Source: Makabenta, 2002.

Other Incentives

In addition to creating the Board of Investments and the SEZs, the Philippines enlisted numerous private organizations to woo companies such as SGS. For example, in part because BPO depends on a robust, English-speaking workforce, Filipino universities created and deployed a curriculum rich in English-language and technical training that would lay the groundwork for the next generation of Filipino call-center workers. Private organizations such as the Business Processing Association of the Philippines (BPAP) tried to help SGS and other BPO companies find the specific SEZs that would suit their needs. They also helped to advocate for BPO companies in the policy arena.[xiii] Additionally, the Technical Education and Skills Development Authority (TESDA), run by the government, subsidized the education and training of workers for business-process outsourcing. In theory, this would allow BPO companies to employ local managers, rather than depending on their own management teams flown in from abroad, helping companies like SGS to cut costs and maintain their cultural integration in the Philippines.[xiv]

India's attraction

Though the Philippines had introduced many enticing policies and was making a clear effort to create a welcoming environment for new business, India had passed the test of time. It had been a pioneer in the offshore outsourcing market in the 1990s, offering low-cost, highly skilled technical staffing for U.S.-based companies. The Indian government had been supportive from the beginning, creating software technology parks that managed efficient Internet technology infrastructure, provided easy access to government services and promoted the export of software services. These parks also posed no limits on foreign ownership of businesses and exempted BPO companies from taxes on export profits until 2009.[xv] In addition, India had a wealth of well-educated, English-speaking students and a technology-savvy business community.

By 2005, the global BPO market was worth $67 billion, and India accounted for 46 percent of that market, largely due to its reputation for delivering high-quality software services.[xvi] The BPO industry in India had gained high maturity and offered an increasingly wide range of services. The country's firms were quickly moving up the value-chain toward knowledge processing outsourcing (KPO) activities, such as market analysis, research, procurement and logistics. These might be skills that SGS could tap into as it expanded. A large portion of the Philippines' workforce had a tertiary education, but India's workers had a wider range of technical training and experience. SGS could benefit from this pool of workers with skills that went beyond English proficiency.

While India's salaries were rising, they were still lower than those in the Philippines (Exhibit 2). In addition to a sophisticated, low-cost labor force, India also offered good, cheap infrastructure, such as electricity, telephone and Internet services. This was a weak spot for the Philippines, which had electricity and telephone costs that were above the median among emerging BPO providers in Asia and other regions. For some, however, the Philippines made up for these costs with its low real-estate prices; office space in the Philippines cost just 32 percent of what it cost in India.[xvii]

A culture of service

BPO, particularly in call centers, requires workers to be patient with customers, and SGS offered a mix of technical support and customer service that required employees to think on their feet and respond to demanding customers in a timely fashion. From the onset of the initial SGS investments in the Philippines, the company's executives had noticed the country's strong culture of service.[xviii] The burgeoning workforce that SGS had in place there seemed to have natural customer-service and problem-solving skills. Indeed, one of the first things that Kumar and his team noticed about the Philippines was the hospitality of the people.

Decades of American military occupation had left a strong affinity for American culture among the locals. For example, professional basketball players like Kobe Bryant and Kevin Garnett reached iconic status among Filipinos, and earnest job applicants would often ask prospective employers about their favorite basketball team. SGS executives believed that this cultural affinity could help the Philippines relate to their largely U.S.-based clientele.[xix]

More generally, Filipinos had a healthy trust of foreigners and a willingness to serve and work hard. But Kumar and his team noticed that this eagerness was a double-edged sword. They worried that although Filipinos were excellent workers on their call-center floors, many lacked the managerial expertise to rise up the ranks in SGS and manage their peers. Determining whether this could be remedied would be an important determinant of SGS' ultimate decision (Exhibit 4).

The Ultimate Decision

Mr. Kumar faced a choice between several options. He could scale up operations in the Philippines in the hopes of creating a large counterweight to India in the SGS portfolio. Or he could maintain the original SGS investment in the Philippines as a small complement to India, continuing to monitor the progress the government made on anti-corruption efforts and educational initiatives. If he chose to maintain the company's status in the Philippines, he could instead expand in India, where the company had a solid base and network.

In the Philippines, Kumar saw both great risks and great opportunities. The constellation of alliances across the public and private sectors within the Philippines provided attractive investment incentives to the BPO industry, and the government worked with universities and the private sector to attract SGS. However, Kumar also realized that much of the Philippines' advantage could be undone by creeping petty corruption, by more serious corrupt influences or by an unforseen change in the legislation on SEZs. While BPO remained a popular and lucrative industry in the Philippines, potential profit margins for SGS could erode if wages rose or if political and economic instability threatened reliable revenue streams.

It was up to Kumar and his team to make sense of the constraints above to recommend an appropriate course of action to the SGS CEO and board. Did the economic zone program offer appropriate incentives to SGS to scale up operations in the Philippines? Although the Philippines was offering Kumar a fantastic deal in the near-term, was there any guarantee that the Filipino government would not retract the offer upon an SGS investment? His answers to these questions and more would determine the course of SGS.

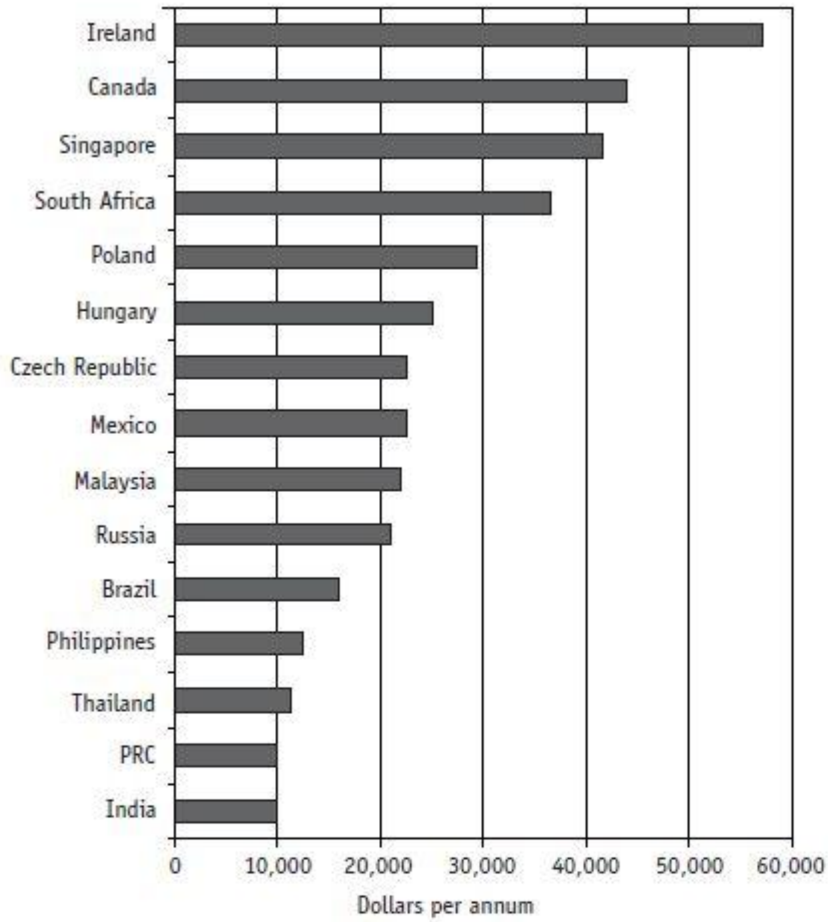
Exhibits

Exhibit 1: *SGS* clients and locations

	Customer Lifecycle Management			Backoffice Lifecycle Management		
Client	Account Management	Customer Care	Technical Support	Back-Office Processing	Corporate Services	Right-Shore Delivery
Fortune 50 IT Company						
Leading global Telco						
World's #1 software company						
Fortune 1000 security software company						
Leading financial and tax support company						
Leading PC manufacturer						
Leading e-Retail company						
Leading IT Hardware Company						
Fortune 500 US based ISP						
Leading Bank with high credit cards focus						
#1 Online retail company						
Leading anti-virus software company						
Leading Satcom company						
Leading Insurance Company						
Largest private labeled mortgage processor						
Leading Online movie rental company						
Largest Document Management Company						
Fortune 500 telecom solutions provider						
Leading Pay-for-Support (IT) Company						

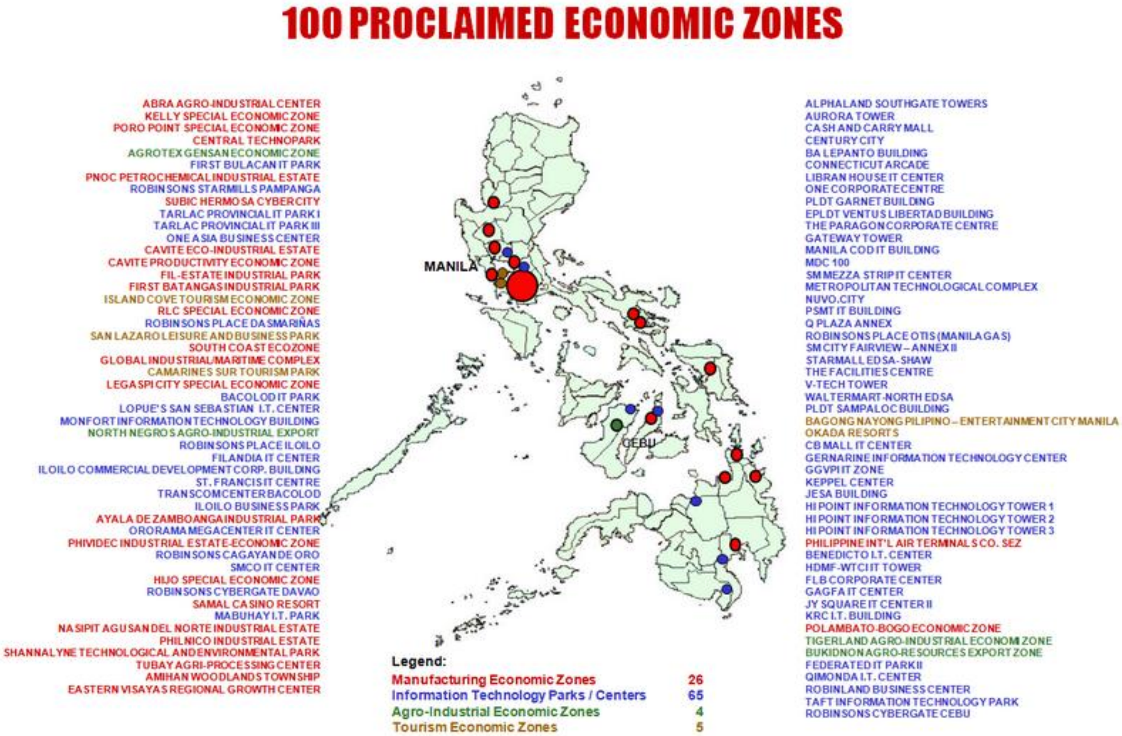
Source: Frost & Sullivan, 2007

Exhibit 2: Average Salaries of Key Offshore Destinations



Source: Magtibay-Ramos, 2007.

Exhibit 3: Map of Economic Zones in the Philippines



Source: PEZA (2008)

Exhibit 4: Filipinos on a SGS production floor

Source: Sutherland Global Services

Exhibit 3: PEZA accommodation of IT parks

Republic of the Philippines
PHILIPPINE ECONOMIC ZONE AUTHORITY
Roxas Boulevard corner San Luis Street
Pasay City

CERTIFICATE OF BOARD RESOLUTION

This is to certify that at the Board Meeting of the Philippine Economic Zone Authority (PEZA) held on **29 September 2005**, during which a quorum was present, the following resolution was approved:

RESOLUTION NO. 05-341

RESOLVED, That the minimum area requirement for the establishment of Information Technology (IT) Buildings **outs**ide Metro Manila and Cebu City is hereby reduced from 5,000 square meters to 2,000 square meters.

JENNY JUNE G. ROMERO
Acting Corporate Secretary

Source: PEZA (2008).

Exhibit 4: Selected Macroeconomic Data and Forecasts

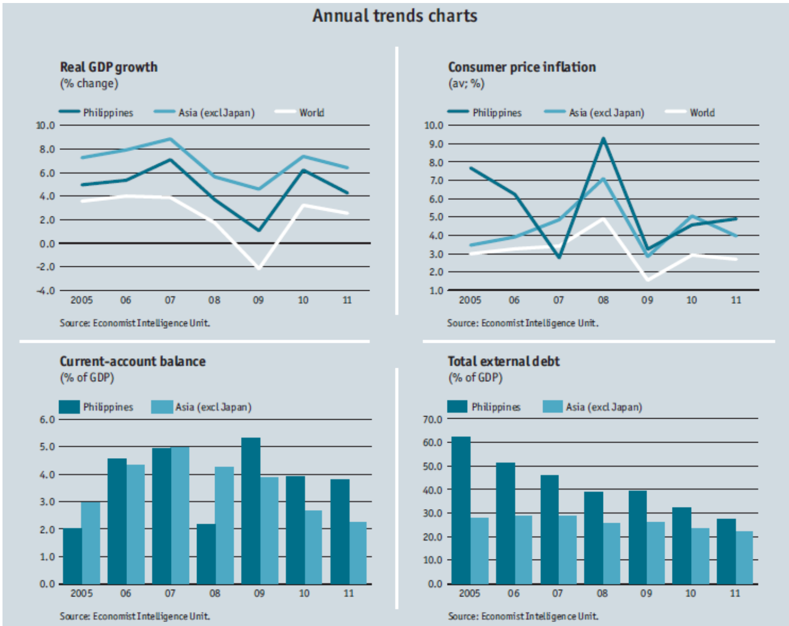
Annual data and forecast

	2005[a]	2006[a]	2007[a]
GDP			
Nominal GDP (US$ bn)	98.8	117.5	144.1
Nominal GDP (P bn)	5,444	6,031	6,649
Real GDP growth (%)	5.0	5.3	7.1
Expenditure on GDP (% real change)			
Private consumption	4.8	5.5	5.8
Government consumption	2.3	10.4	6.6
Gross fixed investment	-6.6	3.9	10.9
Exports of goods & services	4.8	13.4	5.5
Imports of goods & services	2.4	1.9	-4.2
Origin of GDP (% real change)			
Agriculture	2.0	3.8	4.9
Industry	3.8	4.5	6.8
Services	7.0	6.5	8.1
Population and income			
Population (m)	90.4[c]	92.3[c]	94.2[c]
GDP per head (US$ at PPP)	2,767[c]	2,950[c]	3,184[c]
Fiscal indicators (% of GDP)			
Central government revenue	14.6	16.2	17.1
Central government expenditure	17.3	17.3	17.3
Central government balance	-2.7	-1.0	-0.2
Public debt	71.4	63.9	55.8
Prices and financial indicators			
Exchange rate P:US$ (av)	55.09	51.31	46.15
Exchange rate ¥:P (av)	2.00	2.26	2.55
Consumer prices (av; %)	7.7	6.2	2.8
Producer prices (av; %)	9.0	11.2	-0.7
Stock of money M1 (% change)	9.2	24.7	15.2
Stock of money M2 (% change)	9.6	21.8	10.5
Money market interest rate (av; %)	6.2	5.3	3.4
Current account (US$ m)			
Trade balance	-7,773	-6,732	-8,391
Goods: exports fob	40,263	46,526	49,512
Goods: imports fob	-48,036	-53,258	-57,903
Services balance	-1,340	137	2,249
Income balance	-294	-1,255	-892
Current transfers balance	11,391	13,197	14,153
Current-account balance	1,984	5,347	7,119
External debt (US$ m)			
Debt stock	61,658	60,282	65,910
Debt service paid	9,962	13,699	10,136
Principal repayments	6,403	9,800	6,340
Interest	3,559	3,899	3,796
International reserves (US$ m)			
Total international reserves	18,494	22,966	33,752

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

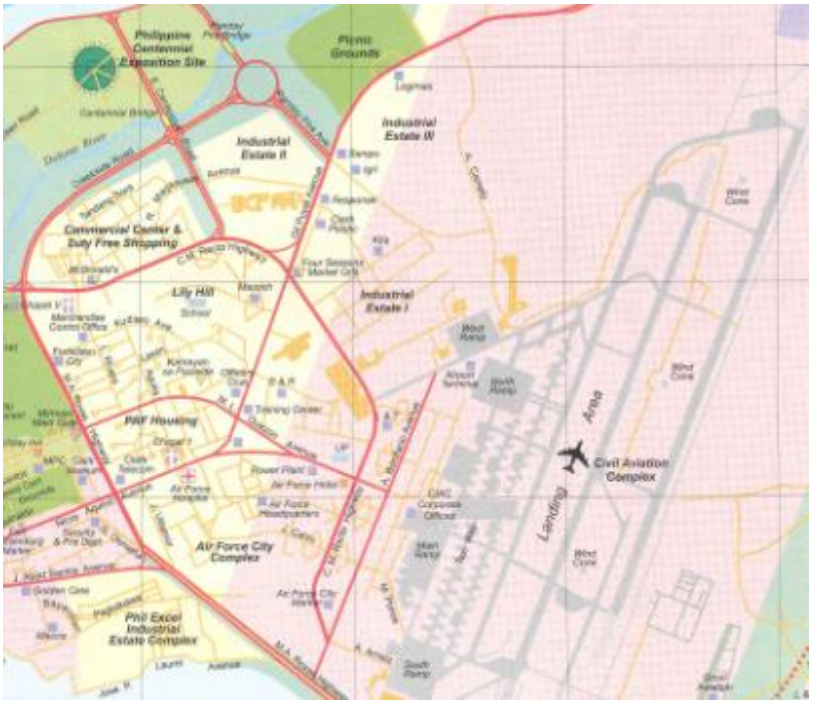
Source: Martin (2010).

Exhibit 5: Annual Trends and Charts



Source: Martin (2010).

Exhibit 6: Prospective Economic Zone: Clark, Philippines Economic Zone Map



Source: PEZA (2008).

Exhibit 7: IT Incentives in Economic Zones

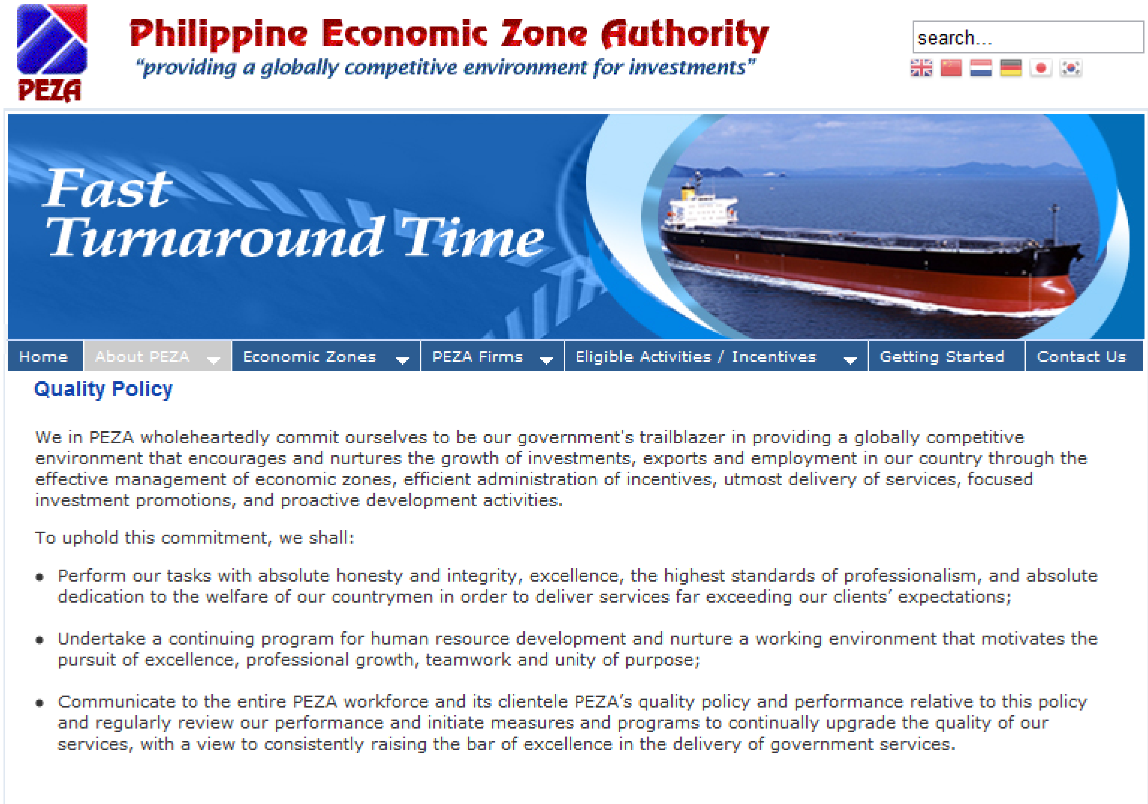
IV. Incentives for PEZA-Registered IT Enterprises

PEZA shall grant registered IT Enterprises the following incentives

- Income Tax Holiday for four (4) years for Non-Pioneer IT Enterprises, or six (6) years for Pioneer IT Enterprises;
- After the ITH period, the option to pay a special 5% tax on gross income earned, in lieu of all national and local taxes, except real property taxes on land owned by developers;
- Exemption from payment of import duties and taxes on imported machinery and equipment and raw materials;
- Additional deduction equivalent to 50% of training expenses, chargeable against the 3% share of the national government in the special 5% tax on gross income;
- Permanent resident status for foreign investors with initial investments of US$ 150,000.00 or more;
- Employment of non-resident aliens required in the operation of IT Enter-prises; and
- Other incentives, as may be determined by the PEZA Board.

Source: PEZA (2008).

Exhibit 8: PEZA Quality Policy



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Quality Policy

We in PEZA wholeheartedly commit ourselves to be our government's trailblazer in providing a globally competitive environment that encourages and nurtures the growth of investments, exports and employment in our country through the effective management of economic zones, efficient administration of incentives, utmost delivery of services, focused investment promotions, and proactive development activities.

To uphold this commitment, we shall:

- Perform our tasks with absolute honesty and integrity, excellence, the highest standards of professionalism, and absolute dedication to the welfare of our countrymen in order to deliver services far exceeding our clients' expectations;
- Undertake a continuing program for human resource development and nurture a working environment that motivates the pursuit of excellence, professional growth, teamwork and unity of purpose;
- Communicate to the entire PEZA workforce and its clientele PEZA's quality policy and performance relative to this policy and regularly review our performance and initiate measures and programs to continually upgrade the quality of our services, with a view to consistently raising the bar of excellence in the delivery of government services.

Source: PEZA (2008)

Exhibit 9: Board of Investments Mission

About Us

The Philippine Board of Investments (BOI), an attached agency of Department of Trade and Industry (DTI), is the lead government agency responsible for the promotion of investments in the Philippines.

Taking the lead in the promotion of investments, BOI assists Filipino and foreign investors to venture and prosper in desirable areas of economic activities. The BOI is your one-stop shop in doing business in the Philippines.

Advisory, Actualization and Aftercare

Find out how to go through business procedures and requirements. We can get practical answers to your questions on how to do business in the Philippines from them. We will direct you in every step of the way in putting up the business of your choice.

Our service is continuing. Do you want to know how can you benefit from your expansion or diversification of products or services? We do 'Aftercare'. We offer coordination of activities to create an investor-friendly business environment. At BOI, we value effective partnerships.

Knowledge-based Research & Information

Get the latest industry updates and information from us. We are in the forefront of the development and promotion of industries. We provide timely information relevant to your portfolio.

Marketing & Promotions

We organize missions locally and internationally to offer as much exposure to your company so you can link with other businesses. This option may pave the way for expanding your capital and production capacity.

Incentives

Know the compote of perks in setting up your business here in the Philippines. Check out how you can avail of tax holidays and tax and duty exemption of imported capital equipment, among others.

Policy Advocacy

Never lose track of policies that affect your business. We provide information and briefing sessions to let your know of any policies that affect your business. We can also be your conduit for your feedback and reactions. After all, we listen much as we propose investment-friendly solutions.

Source: Board of Investments (2011).

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