

# PHILIPPINES



MARKET  
INTELLIGENCE  
2019



## FOREWORD

This Market Intelligence Report is commissioned by the Construction Industry Development Board (CIDB) for the benefit of Malaysian construction and infrastructure industry players who have interest to pursue construction opportunities and projects in the Philippines. This report should serve as a valuable guide prior to embarking on any ventures in said country. The scope covered in this report has been agreed with CIDB. It shall not be taken as a comprehensive or absolute due to limitation on availability of public data.

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An aerial photograph of a stunning tropical bay in the Philippines. The water is a vibrant turquoise color, transitioning to a deeper blue as it stretches into the distance. The bay is surrounded by towering, jagged limestone cliffs covered in lush green vegetation. Several small boats are visible in the water, and a few people can be seen on the rocky shorelines. The overall scene is a breathtaking natural wonder.

*PHILIPPINES*  
*AT A GLANCE*

## 1.0 PHILIPPINES AT A GLANCE

The vastness of the country in terms of heritage, history and geographical diversity crowns the Philippines as one of the most versatile countries of Southeast Asia. Philippines is a collective group of islands with Quezon City being the Philippine Sea, Sulu Sea and Celebes Sea, Philippines is split into three geographical divisions known as Luzon, Mindanao and Visayas. Filipino, derived from Tagalog, and English are the official national language, as it is predominantly used nationwide.



## 1.0 PHILIPPINES AT A GLANCE

### 1.1 Brief History

1542

Spanish claims the islands for Spain then named "Philippines" after King Philip II of Spain; the Philippines becomes part of Spanish Empire

The battle of Manila Bay, the Spanish-American war, is stirred from an American warship blown up in Havana harbour

1898

1899

Treaty of Paris ends Spanish-American War. Emilio Aguinaldo leads guerrilla war against the United States after declaring independence

With Aguinaldo held captive by United States, William Howard Taft serves as the first U.S. governor of the Philippines

1901

1934

Philippine is set for independence by 1946 by the U.S Congress

Japanese invades the Philippines, Quezon establishes government in exile in the U.S

1941

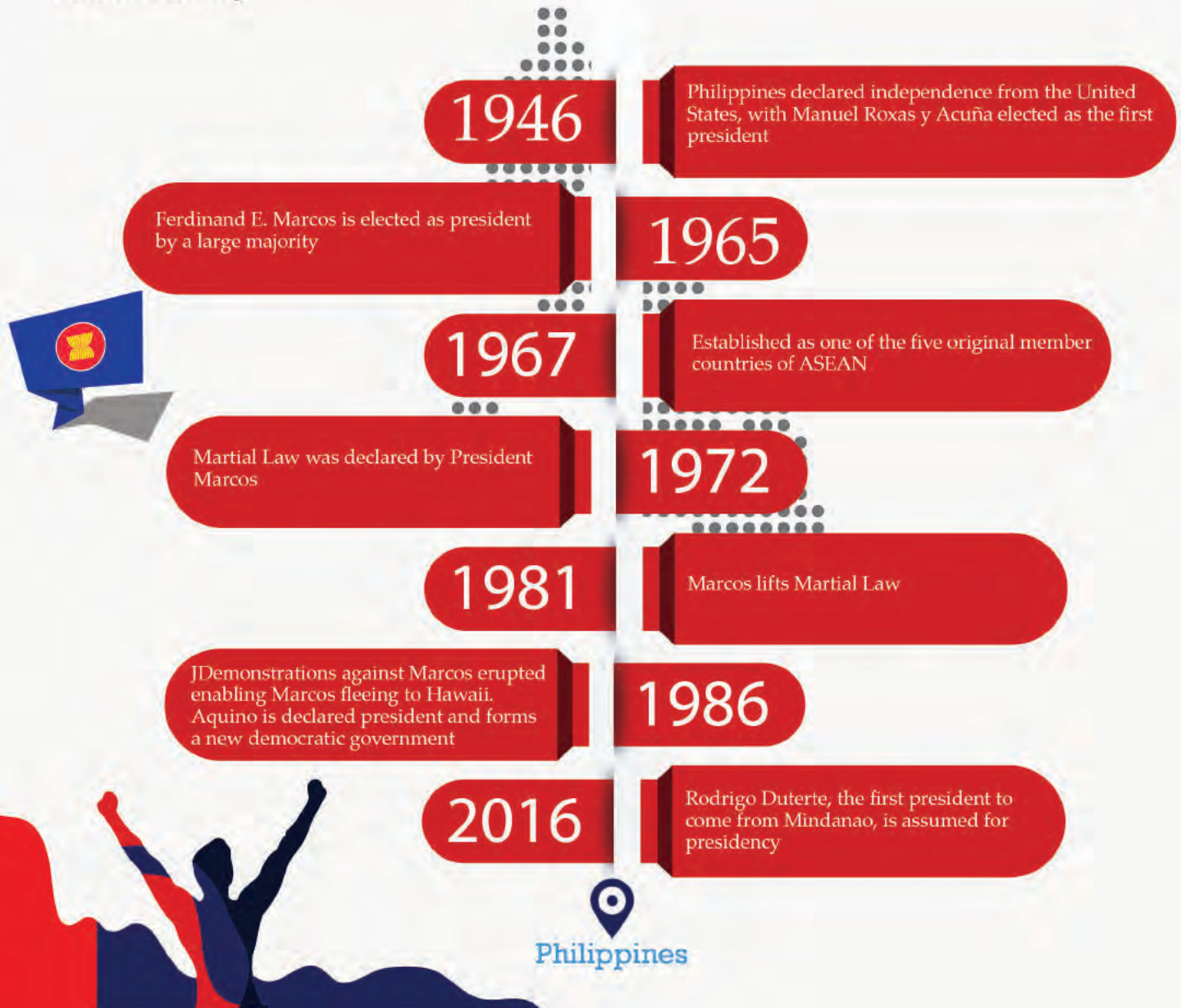
1945

Gen. MacArthur liberates Manila and President Osmeña establishes government

Philippines



## 1.0 PHILIPPINES AT A GLANCE

### 1.1 Brief History



## 1.0 PHILIPPINES AT A GLANCE

### 1.2 Facts & Figures

Indicators	Philippines	Malaysia
Flag		
Establishment	<ul style="list-style-type: none"> <li>✓ 4th July 1946 Independence from United States and establishment of Republic of Philippines</li> </ul> <p><i>National Day</i></p>	<ul style="list-style-type: none"> <li>✓ 31st Aug 1957</li> <li>✓ Independence from the British Empire proclaimed for the Federation of Malaya</li> <li>✓ 16th Sept 1963 Proclamation of Malaysia</li> </ul>
Population	106,651,922	31,620,000
Land Area	298,170km <sup>2</sup>	30,803km <sup>2</sup>
Population Density	363km <sup>2</sup>	92km <sup>2</sup>



## 1.0 PHILIPPINES AT A GLANCE

### 1.2 Facts & Figures

Indicators	Myanmar	Malaysia
Exchange Rate	-	-
Government	Unitary Presidential Constitutional Republic	Federal Parliamentary, Constitutional Monarchy
Head of State	President, Rodrigo Duterte	Monarch, Sultan Abdullah
Head of Government	President, Rodrigo Duterte	Prime Minister, Mahathir Bin Mohamad
GDP (Nominal)	US \$ 330,846 Million	US \$ 354,348 Million
GDP per Capita	US \$8,340	US \$9,944
Top 5 Export Markets	<ul style="list-style-type: none"> <li>✔ China</li> <li>✔ Hong Kong</li> <li>✔ United States</li> <li>✔ Japan</li> <li>✔ Germany</li> </ul>	<ul style="list-style-type: none"> <li>✔ China</li> <li>✔ Singapore</li> <li>✔ United States</li> <li>✔ Japan</li> <li>✔ Hong Kong</li> </ul>
Top 5 Import Markets	<ul style="list-style-type: none"> <li>✔ China</li> <li>✔ Japan</li> <li>✔ South Korea</li> <li>✔ United States</li> <li>✔ Thailand</li> </ul>	<ul style="list-style-type: none"> <li>✔ China</li> <li>✔ Singapore</li> <li>✔ United States</li> <li>✔ Japan</li> <li>✔ Thailand</li> </ul>

## 1.0 PHILIPPINES AT A GLANCE

### 1.3 Geographical Overview

#### The “Crossroads of the Pacific.”

As Southeast Asia’s grand archipelago located strategically in the east of Asia, the Philippines serve as the crossroads between major countries. The utmost north to the southernmost is estimatedly around 1,840 kilometres while the widest area measures up to 1,000 kilometres. The highest peak of the island lies in Mount Apo at 2,954 metres, while the lowest is Galathea Depth at 10,540 metres below sea level.

Climate range of the Philippines goes from dry seasons (December to May) to wet seasons (June to November). Laying in the path of storms originating from Marianas and Caroline Islands, the Philippines is prone to typhoons. Luzon and Visayas Islands are on frequent typhoon alerts while Mindanao is located out of the danger zone. While rare, typhoons still pose threats to the lands.

The islands’ terrain and soil contributes largely to the country’s flourishing agricultural industry. Ranging from dark black clays to mineral-enriched soils, the fertile lands are ideal for cultivating rice, tropical fruit trees, oil palms, vegetable crops and coffee. The Philippines is home to some of the richest natural resources in the region, where lush forests spread made ideal for timber harvesting. However, with agriculture being the fastest rising industry of the country, it has greatly contributed to the environmental degradation over time.

Southeast Asia map



## 1.0 PHILIPPINES AT A GLANCE

### 1.4 Institutional and Governance Structure

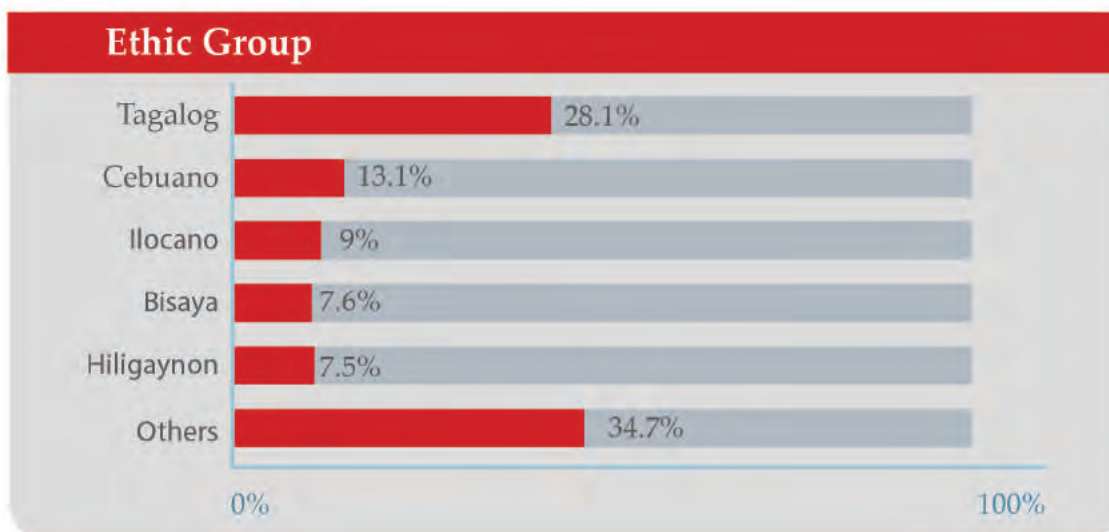
The general framework of the Philippines government comprises of three systems; presidential, representative and democratic republic. This shapes the Philippines in a position where the president, Rodrigo Duterte, is the head of the government as well as the head of the state. With this system, the legislative branch, executive branch and the judicial branch are established to administer the country with codependency.

The government is vested with executive power under the firm leadership of the president, while legislative power is granted to both the government and two-chamber congress (The Senate and House of Representatives) and judicial power is exercised by the Supreme Court.

### 1.5 Population and Demographics

Ranking in the 13th position on the 2018 Population

As a country of many islands, the Philippines range of ethnic groups are among the most diverse in all of Southeast Asia. According to the Philippines 2018 Population Census, the following shows a general breakdown of ethnicity in the country:



## 1.0 PHILIPPINES AT A GLANCE

Citizens of the Philippines predominantly are practitioners of Roman Catholicism, while Christianity comes in second highest. Nonetheless, Philippines is recognized as a secular state that is neutral towards all religious practices throughout the country. With minority groups scattered in multiple islands, some indigenous tribes even practice traditional religion in rural grounds.

### 1.6 Economics

The Philippine economy grew 6.2% in the third quarter of 2018. The posted growth is fuelled by higher investment opportunities and consumption as well as the growth of manufacturing, trade, real estate and renting business activities. It has enjoyed a string of upgrades in recent years from credit raters recognizing the country's improving fundamentals.

The rise of the nation's economy began with the government's initiative to fight corruption between the years 2010-2016, decreed by former President Benigno Aquino. By 2015, Philippines's fiscal deficit dropped from 5% of the country's GDP to only 0.9%. This allowed the country to gain a number of credit rating upgrades that have lowered the cost of borrowing funds for consumers and investors, resulting in the Philippines to achieve one of the rapid growth in a short period of time, with expectations to outperform neighbouring countries in the region.

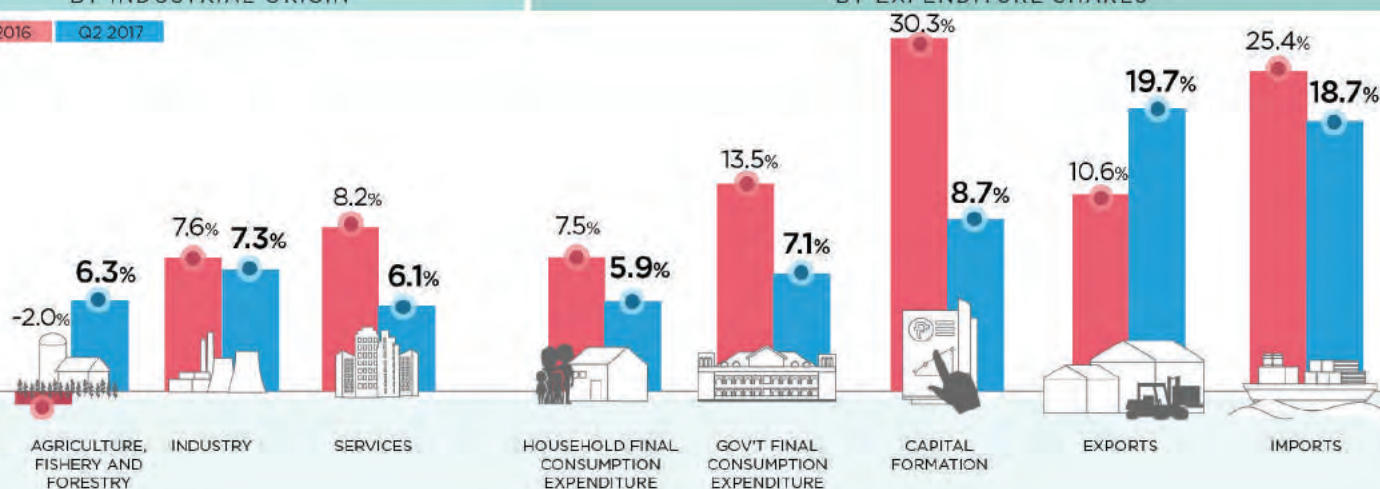
### Growth Rates

#### YEAR-ON-YEAR GROWTH RATES

##### BY INDUSTRIAL ORIGIN

##### BY EXPENDITURE SHARES

Q2 2016 Q2 2017



## 1.0 PHILIPPINES AT A GLANCE

The country has a young and growing English-speaking population, which presents a large pool of trainable workers. As the manufacturing sector is developing at a rapid pace, a boost in strong consumption spending and welcoming government policies, the Philippines are garnering appeal for foreign investments across the globe.

### Duterte's Plan on Forwarding Nationwide Infrastructure

The Philippines infrastructure sector is expected to undergo significant growth under President Duterte's new incentive, which is included in the Tax Reform for Acceleration and Inclusion bill and 2018 budget. This incentive is intended to create jobs, improve connectivity and reduce the cost of doing business in the country. President Duterte has estimated an allocation of US\$160 billion for improvements to be made on infrastructure for the next 6 years. Support from Asian countries were highly welcomed, and as of January 2017, China pledged US\$3.7 billion for 30 infrastructure projects in the Philippines while Japan has promised to allocate \$9 billion for 11 projects.

### 1.7 Current Standings

In 2018, the Philippines is awarded the 113th position out of 190 nations for the World Bank's Doing Business ranking. Malaysia, on the other hand, is ranked in the 24th position, being the second highest ranking for an ASEAN country next to Singapore.

#### Doing Business ASEAN Ranking Table

RANKING	COUNTRY
2	Singapore
24	Malaysia
26	Thailand
56	Brunei Darussalam
68	Vietnam
72	Indonesia
113	Philippines
135	Cambodia
141	Laos
171	Myanmar

Despite there being other ASEAN countries with higher rankings, it is expected for Philippines to thrive within the next few years as major progressions in multiple sectors are being pushed forward. Among the primary contributing factors that led to ease of doing business are excellent work ethics, language flexibility, highly competent and diligent workforce exhibited by the Philippines.



# PHILIPPINES CONSTRUCTION INDUSTRY BACKGROUND

## 2.0 PHILIPPINES CONSTRUCTION INDUSTRY BACKGROUND

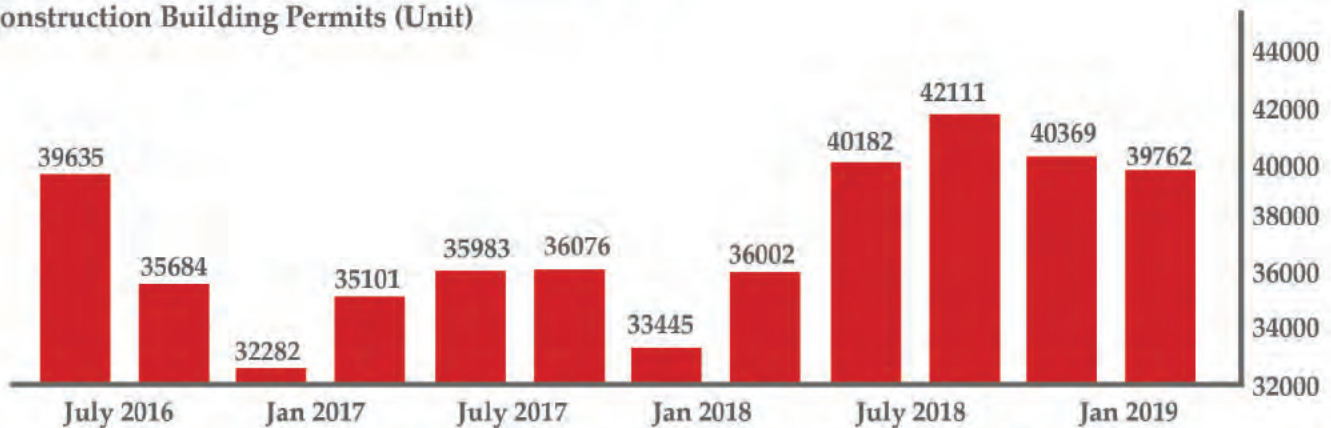
### 2.1 Market Size

As of the 1st Quarter of 2018 the infrastructure industry has performed accordingly



- 01 Contribution rate to the Philippine Economic Growth: 6.5%
- 02 Total GDP Contribution: PHP 293.1 million
- 03 Total government projects investment : PHP 146,081 million
- 04 Total private construction activities investment: PHP 309,943 million

### Construction Building Permits (Unit)



In one year, single residential projects remain dominant, with commercial buildings coming in second. As the real-estate market is growing robustly, the growth in the residential building sector will follow suit, with an estimated average of 8.9% in real terms between 2018 and 2027.

## 2.0 PHILIPPINES CONSTRUCTION INDUSTRY BACKGROUND

### 2.2 Top Sectors

#### The Rise of Infrastructure in Multiple Sectors

With the ambition to speed up infrastructural growth priority investment and development areas include Local Government Unit Public-Private Partnership (LGU-PPP) projects in these key categories:

#### Transportation Infrastructure

- Air, land and water transport
- Coastal ports
- Airports

#### Energy Infrastructure

- Liquefied natural gas (LNG) storage and regasification facilities
- Pipeline projects for oil and gas
- Bulk water treatment and supply
- Training facilities
- Testing laboratories

#### Industrial Infrastructure

- Domestic Industrial Zones
- PPP projects



## 2.0 PHILIPPINES CONSTRUCTION INDUSTRY BACKGROUND

### 2.3 Industry Players

The Filipino construction sector is diversified with a number of high-performing construction and engineering firms that facilitates all areas of development from energy and utility infrastructure to residential real-estate projects. These firms outstandingly performed in individualistic criteria, allowing the construction sector to boost continuously in the Philippines. EEI Corporation, for example, has earned years of experience of building public-private partnership (PPP) in the Philippines. While Eton Properties, despite entering the industry in less than three years, has shown tremendous success with over 30 major projects secured in a short period of time.

EEI Corporation	<ul style="list-style-type: none"><li>● Obtained 17 new projects while 25 projects are ongoing in 2015</li><li>● Awarded the quadruple A (AAAA) Contractor License Main focus is on large-scale industrial projects, transportation infrastructure, and property development projects</li></ul>
First Balfour Inc.	<ul style="list-style-type: none"><li>● 49 years in the industry</li><li>● Subsidiary of the Lopez Holdings Group</li><li>● Philippine's leading engineering and construction company</li></ul>
First Philippines Holding Corporation	<ul style="list-style-type: none"><li>● Part of the Lopez Holdings Group</li><li>● Main business activities include energy development, infrastructure, and real estate</li></ul>
Megaworld Corporation	<ul style="list-style-type: none"><li>● Handles large-scale community development and real-estate property management</li><li>● Construction of commercial, residential, leisure and educational components</li></ul>
Eton Properties Philippines Inc.	<ul style="list-style-type: none"><li>● Initiated over 30 major real-estate projects</li><li>● Focuses on residential developments, mixed-use township developments projects for office commercial use</li></ul>

## 2.0 PHILIPPINES CONSTRUCTION INDUSTRY BACKGROUND

### 2.4 Project Snapshot

Local players are striving with the merge of infrastructure projects in the Philippines as the country is conditioned with excellent hospitality and bilingual accessibility. The latest tally concludes that the project value comes in a grand total of RM1.848 billion, with Conaire Engineering in the lead by earning a total cut of RM91.31 million of the overall contribution.

Company	Project Value (RM)	No of Project
MTD Construction Sdn Bhd	702.01m	3
Alloy MTD	678m	1
UEM Group Berhad	186.2m	1
Conaire Engineering	91.31m	11
Pestech International Berhad	79.56m	2
Wijaya Building Service Sdn Bhd	30.4m	1
Kvaerner Engineering	24.83m	1
Eversendai Corporation Berhad	23.67m	2
<b>Grand Total</b>	<b>1.84b</b>	<b>18</b>

#### Philippine Contractors Registered under CIDB

Name	Donghyup (M) Sdn. Bhd
Incorporation Date	December 19, 2014
Headquarters	Johor Bahru

## 2.0 PHILIPPINES CONSTRUCTION INDUSTRY BACKGROUND

### 2.5 Industry Trends and Outlook

#### Resurgence of Energy Sectors

It is forecasted that the energy sector will remain at 11.2% growth in 2019, with an annual average of 8.6% from the year 2018 to 2027. To date, it is one of the fastest growing power sectors in Asia, as the industry value continues to skyrocket alongside water sectors and energy pipelines.

#### Coal Displacing Renewables In Southern Regions

Coal serves a unique purpose in the southern regions of the Philippines as it displaces renewable as the primary power source, particularly in the Visayas and Mindanao. It may require extensive investments to be made to boost the electrification rate to construct stronger energy infrastructure with increased reliability towards weather and natural disasters. With the escalating demand for energy in less developed areas, investments are welcomed to contribute to this purpose.

#### The Hidden Potential of Water Infrastructure

The Philippines water sector specifically in central Manila, is also due to experience an average growth of 10.8% between 2018 and 2027. The increasing rate of urban population and climate change have contributed to this growth. A rise in the water infrastructure value may appeal investors into meeting the demands.

#### Structural Trends: Strong, Sustainable Growth

In recent years, the demand of residential and non-residential buildings has skyrocketed, and is estimated to grow vigorously. With tourism supporting the economic development, the need for hotels, office buildings and other facilities will continuously grow. Within the residential component, strong demand for homes coupled with government affordable housing plans will drive construction projects over the next decade. Growth in non-residential buildings construction will also be increased by government-led social infrastructure projects, making room for healthcare and education facilities. It is forecasted that the Philippines' residential and non-residential building sectors to grow at an annual average of 9.2% from 2018 to 2027.

# INDUSTRY ASSESSMENT



## 3.0 INDUSTRY ASSESSMENT

### 3.1 SWOT Analysis

#### STRENGTHS



#### PHILIPPINES

Regulations are reformed and improvised to welcome more foreign and private-sector involvement in infrastructure as

Market structure of the power sector has resulted in the Philippines having some of the highest electricity tariffs in Asia, making it highly attractive to private players

Philippine's public-private partnership (PPP) regulations are ranked among the best in the world

#### WEAKNESSES

01

Philippines is highly dependent on imported construction equipment from its main sources: Japan, United States and Singapore

02

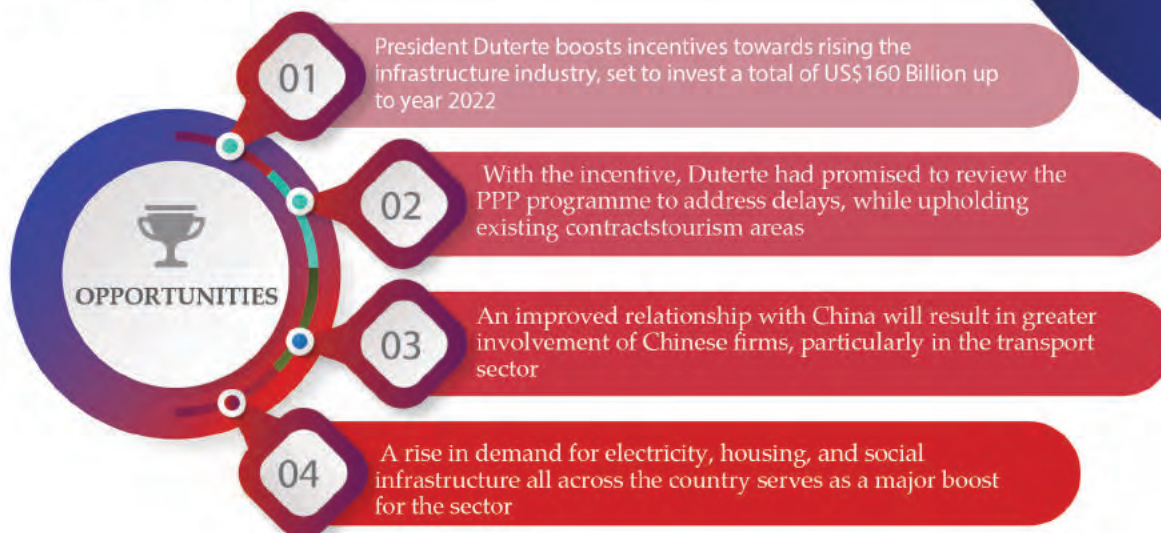
Larger business conglomerates dominate the infrastructure sector and monopolize the stakes for the financing, operation and construction of major projects

03

Despite the high rankings of PPP regulations, the institutional capacity is relatively poor with multiples PPPs have been released then withdrawn for review, delaying numerous projects in the past

## 3.0 INDUSTRY ASSESSMENT

### 3.1 SWOT Analysis



### THREATS

- 
- Corruption still remains within the Philippines, ranking at 101st position out of 176 countries in the Transparency International's 2017 Corruption Perceptions Index.
  - PPP programme has a poor track record for speedy delivery of projects, threatening potential investor interest.
  - Increased involvement of Chinese firms could pose risks to transparency and competition, as Beijing-backed bids have the potential to undercut private firms.

## 3.0 INDUSTRY ASSESSMENT

### 3.1 PEST Analysis



After the reformation from dictatorship to democracy, multiple industries have developed rapid growth, particularly infrastructure and agriculture



Government addresses major corruption issues that threatens to stunt the development of the country

#### POLITIC



Nation has been safe from political turmoil as of recent years

## ECONOMY



President Duterte has established numerous incentives to expand nationwide growth and productivity to enhance the country's economy

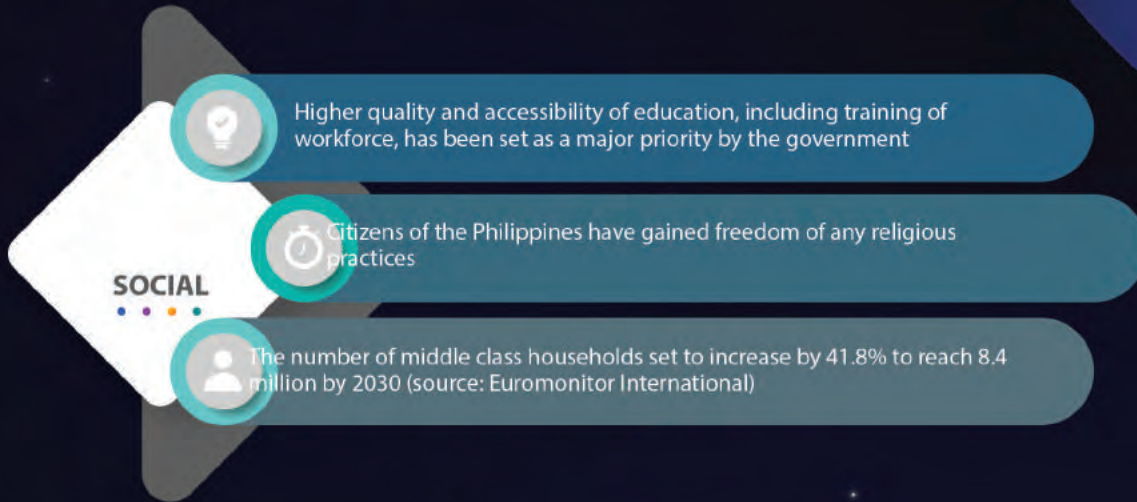
Educated workforce and strong domestic demands of the country's natural resources have rapidly sustained growth from the years 2013-2018



GDP has reached up to US\$330 Million by the end of 2018

## 3.0 INDUSTRY ASSESSMENT

### 3.1 PEST Analysis



## TECHNOLOGY

Focused on the development of agricultural technology

Rapid growth of internet usage and more facilities are provided nationwide



More than half of the country's population is using cellular phones with fluent tech literacy



*KEY LEARNINGS  
FOR MALAYSIAN  
PLAYER*



## 4.0 KEY LEARNINGS FOR MALAYSIAN PLAYERS

### 4.1 Industry Regulator

The Construction Industry Association of the Philippines (CIAP) is the primary regulator of the sector industry with key bodies that mandate specific sector categories. It comprises of:

#### 1. Philippine Construction Accreditation Board (PCAB)

A government agency under its jurisdiction that implements policies for domestic and foreign construction permits and licenses. PCAB plays a role of registering and classifying contractors, as well as issuing licenses to those qualified.

#### 2. Philippine Overseas Construction Board (POCB)

A board that manages overseas contractors' registrations and monitors overseas project development to maintain the Philippines construction quality and capabilities. POCB assists with the participation of local contractors in penetrating the international construction market.

#### 3. Philippine Domestic Construction Board (PDCB)

To formulate, recommend and implement policies, guidelines, plans and programs for the efficient implementation of public and private construction projects in the country.

### 4.2 Local Requirements and Contractual Agreements

#### Types of PCAB Contractor's License

##### 1. Regular License

It is issued to a construction firm, a Filipino proprietorship or partnership/corporation, with at least 60% Filipino equity participation and created by virtue of Philippine laws, authorizing the licensee to engage in construction contracting within the field and scope of his license classifications for as long as the license remains valid.

##### 2. Special License

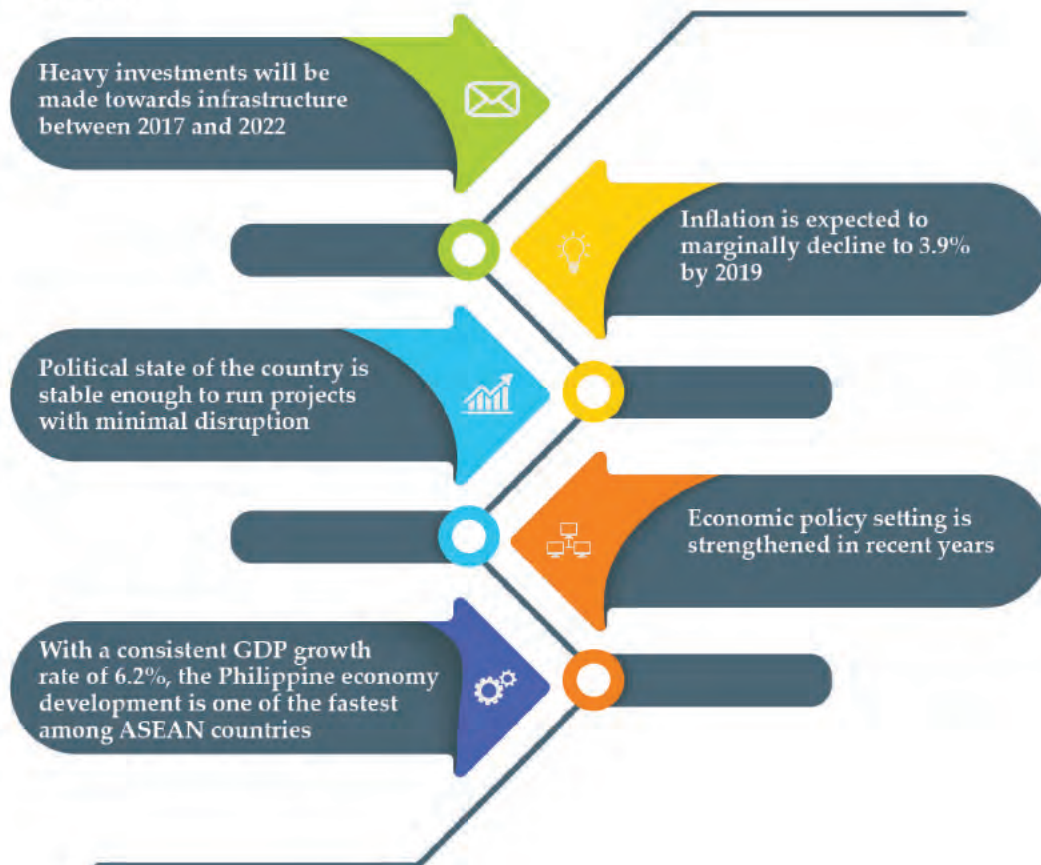
A Special License issued by the PCAB is a key requirement for all foreign entities in order to engage in any construction activities prior to bidding. License is issued on a project to project basis, provided minimum technical and financial requirements are met.

A Quadruple A category license (AAAA) is introduced by the Philippine Construction Accreditation Board (PCAB) to be issued to contractors for more than 40% foreign equity.

## 4.0 KEY LEARNINGS FOR MALAYSIAN PLAYERS

### 4.3 Doing Business in the Philippines

#### Economic Situation





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