

Address of Jaime Augusto Zobel de Ayala II
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Esteemed officers and members
of the Philippine Economic Society,
distinguished guests, ladies and gentlemen:

Good morning and thank you for inviting me to address your 44th Annual Meeting. It is certainly an honor for me to be here and I am delighted to share some thoughts with you today.

As you mark your 44th year, we stand once again at a crucial stage in our national life. Our country and our economy are both experiencing a period of resurgence and dynamism. Our economic growth, as measured by GDP, is hitting the higher end of our targets. The fiscal situation of the government has greatly improved and inflation remains low and stable. The stock market and our currency are stronger than they have been in years. And international organizations, including the credit-rating agencies, have responded to these indicators with a positive vote of confidence in our nation's future.

Significantly, what is happening in the economy is being matched by good news in other fields as well. Within the span of just a week Ronnie Alcano and Manny Pacquiao honored our country and our people by winning world titles in billiards and boxing. A Filipina, Monique Lhuillier, who has made her mark as Hollywood's hottest fashion designer this year, was recently in town. So lifting was all this news that it moved one Inquirer columnist to declare: "All the current pessimism about the country has been pushed off stage...From the pool halls to the fashion malls to the boxing ring, the smell of roses is in the air."

It would be nice to just bask in the glow of these encouraging developments. But we would be remiss in our respective callings -- you as economists and me as a business executive -- if we do not go beyond exultation into careful analysis of the national situation.

The plain fact is that, amidst these happy developments, we are wise to be reminded that times like this have come and gone before in our country. We experienced a similar surge of optimism, in the early years of martial law, when economic growth initially spurted. We saw this in the first flush of the EDSA revolution when our economic fortunes were dramatically revived. And we also felt the tide rising during the Ramos Presidency when FVR recited the mantra of Philippines 2000. Yet each time, those seeming turning points for the economy proved to be unsustainable and especially vulnerable to external and internal shocks.

The Challenge of Sustaining Present Economic Gains

I raise this point not to dampen spirits at this anniversary but to encourage all of us to remain focused on sustaining and strengthening this current period of national dynamism and productivity. No subject I dare say is more important and compelling for government, business and society today. For if we can find the answer to this question, we can then open the door to sustainable growth and development for our country.

I feel very uncomfortable lecturing on economic models or policy. Rather, I will share some thoughts from the perspective of the private sector – how we perceive the challenge, what we believe are the most important issues to release national energies for economic effort, and the role of private enterprise in achieving our ambitious goals.

I know that a lot of things have been already said in public forums and in the media about the many good things happening in the economy today. And they have ranged from the very optimistic to the openly cynical. My own sense is that we need a more incisive analysis of our situation that is forward looking. We have to go beyond the surface of the problems and challenges to the arena where good policies combined with energetic and viable action that our future based can truly result in change.

At the outset, I want to say that I count myself among those remain optimistic and positive about our economy and our country today.

However, it is my responsibility, in the private sector, to never relax and to keep my focus firmly on the horizon. We are always at crossroads. While the general business and macro environment is more positive than it has been in years, the situation is still a tenuous one given the many competitive global forces around us. Now is the time for decisive action. We again have the unique opportunity to prove that the Philippine story is worth investing in.

I see three areas where purposeful action can help strengthen and sustain the present period of national productivity and dynamism.

The Importance of Growth and FDI

The first area I want to touch on is the importance of sustainable economic growth, and the role of foreign direct investment in achieving our desired growth rates. In our own corporate planning at Ayala, we have come to the conclusion, with the help of some global research conducted by the consulting group McKinsey, that sustained growth plays a fundamental key role in long-term value creation at the corporate level. Managing costs and implementation skills will only get you so far. I believe that the situation on a country level is a perfectly analogous one.

We need to create value for our country, and for each and every one of our citizens. We need to find a way to grow per-capita incomes at a faster and more fundamental rate to prevent us from falling farther behind our peers. The medium-term Philippine development plan calls for poverty to be reduced to 18% by 2010, down from a current estimate of 33%. This is an ambitious target and studies have shown that we need GDP to grow at 3% per annum on a per capita basis to achieve this target of poverty reduction. This is ambitious because historically, since the 1990's to the present, we have only achieved average GDP growth rates of 1.8%, again on a per capita basis.

In its latest country outlook report on the Philippines, the Asian Development Bank concurs that the poverty reduction goals can be met with sustained GDP growth rates of 7-8% and further cites that one of the keys is achieving significant growth in investment that would create “a virtuous cycle of higher rates of productivity, wages, and labor absorption.”

I firmly believe that even as we in the private sector are doing all that we can to grow our enterprises and re-invest in our country, we need a very strong push to attract our share of foreign direct investment. Our consumer demand driven equation can only take us so far. Even with our stronger fiscal numbers, our government and local private sector do not have all the resources to implement our infrastructure needs. The same ADB report in fact states that it would take a tripling in the growth rate of our country’s capital stock, from a historical average of 3% to 10% per annum, to achieve our growth targets. The many benefits of FDI for developing country economies are well documented and have resulted in positive externalities beyond the economic dimensions.

Our neighbors and peers, countries like China, India, Thailand, and now Vietnam, have all grown into Asian tigers on the back of foreign direct investment. As a result, the rate at which their per capita incomes have increased has greatly accelerated with Thailand, Vietnam and Indonesia all achieving per capita income levels in 2005 that are 6 times what they were in 1980, compared with a mere doubling for the Philippines over that same time period. I would even argue that a strong and concerted push on our part to give our role in making ASEAN a more cohesive entity can only help in this regard.

But this is not new to anyone in this room, and rather than harp on what has gone wrong in the past, I would rather focus on what can be done moving forward. I believe that what is critical at this stage – given that there have already been significant strides made in some areas and confidence has already been building up -- is to get some quick and visible wins which will keep our momentum going. We need to signal to foreign investors that we are open for business, that we are serious about reform, and that we can create and sustain a business-friendly environment which will continue to attract and retain long term capital.

Both the government and the private sector need to work together on this. For its part, the government already deserves significant credit for the extent of fiscal reform that it has accomplished. Fiscal measures enacted, such as the EVAT, have already strengthened our revenue generation and reduced our projected deficit, a development that has been recognized by institutional investors and the credit ratings agencies. In my view, there are two things that the government can do to continue building on this momentum.

The first is to implement the power sector reform successfully. Napocor continues to be a heavy drag on our government budget and its continued losses alone can wipe out the gains from EVAT. We need to attract significant investment into generation and successfully privatize the Transco assets. This has been talked about in numerous forums so I won’t go into this in detail, but suffice it to say that this is one of the strongest positive signals that we could send. Successful power sector reform would have multiple benefits. It would reduce the deficit further, and cheaper and better quality power can help reinvigorate our manufacturing sector, especially in globally competitive areas like electronics. It can also increase disposable household incomes, which can help sustain consumer spending and the retail sector.

As with power, so with other vital sectors of infrastructure in our country. Weak or poor infrastructure is often cited as one of the main reasons why we keep slipping in the various global competitiveness rankings. Even if it is resource constrained, government can still provide an attractive public-private partnership model to enable much needed investment to flow into infrastructure building. In our own experience within the Ayala Group, the success of Manila Water and Globe Telecom are partly ascribed to the workable regulatory framework that has been set in place to ensure that the welfare of government, private investment, customers, and the rest of the stakeholders are all carefully considered and balanced.

Likewise, we have to pay attention when the Global Business Policy Council's FDI Confidence Index says that "government regulation and legal decisions" is the single most highly-cited risk to a firm's operations. Judicial intervention in disputed contracts is certainly a right granted by the Constitution, but the system must not be abused and cases need to be resolved with utmost urgency.

For our part, the private sector needs to aim for some big-wins in major high-growth sectors, such as business process outsourcing, electronics manufacturing and healthcare. These are strategic sectors that play to the country's human capital strengths and are already globally recognized and highly-valued. At the Ayala Group, we recognize the importance of these sectors and BPO and electronics manufacturing, in particular, will play a major role in achieving our own growth targets over the medium-term.

Managing by Global Standards

The second point I want to stress is the need for a national mindset to manage by global standards. I always find it painful to see us fare poorly in global competitiveness rankings. I have come to the conclusion that this is primarily because we are not measuring ourselves by global yardsticks. In both our private and public sectors, many of us are still in denial about the reality of the global economy. Some still try to head it off by lobbying for protection to keep the world at bay. And most continue to hold on to the performance standards of a bygone time.

The stark reality is that we have to bring ourselves up to speed with the world, otherwise the parade will pass us by. Our laws and policies must measure up to best practices in other countries. And our companies and institutions must perform according to the standards that their counterparts all over the world must meet. Anything that gets in the way of this will lead to weakness.

At the private sector level, we have to address ourselves individually and collectively to the challenge of improving productivity and competitiveness at the firm level. And we have to work with government in creating the conditions that set the stage for good performance.

But apart from just managing by the numbers, I am a firm believer that achieving desirable levels of productivity and competitiveness at the firm level requires businesses to be more attuned to the needs, both social and economic, of a developing nation. Private enterprise certainly cannot operate in a vacuum and it is not only of moral, but also of practical, interest to ensure the prosperity and development of the markets it serves.

Businesses are now increasingly regarded as having an implicit social contract with society and now, more than ever, they need to take into account the social impact of their business activities. It becomes increasingly important today for the private sector to successfully align its business objectives with the broader national development agenda.

I am encouraged by the response of the private sector thus far in helping bring about positive social change through a wide range of corporate social responsibility programs institutionalized at the firm level. But to my mind, the private sector is far more capable and well-positioned to catalyze social and national development. Within the private sector, there is enough wealth of talent, managerial caliber, and innovative skills that can help spread development across a broader section of the country's population. Much of the root cause of economic disequilibrium in our society today is the pervasive inequity in opportunity and access to even the most basic of products and services. While this may be a task typically left to public institutions, the private sector is not helpless in democratizing access to these basic services.

I believe that businesses can channel their innovative skills towards developing products and services that can provide the broader population, including marginalized and underprivileged sectors of society, equal access to these opportunities. In this way, they can be empowered to determine their own social and economic futures, and have a good chance of creating a sustainable solution to the development needs of our nation.

In our own experience within the Ayala group, we are only beginning to discover how each of our businesses can make a difference in the social and economic lives of the people we serve by consciously adapting our business models to the needs of a much broader segment of the population, including low-income sectors. We acknowledge the great influence of Professor Prahalad's "doing business at the bottom of the pyramid" theory. Its main thesis is that individuals and families in the lower economic strata need products and services just as much, if not more, than the upper economic members of society. The challenge is to find ways of serving their needs in a manner that is affordable, accessible, and viable.

Many companies, for example, such as those in our group responsible for water distribution and telecom services, are finding out that the needs of low-income families can be the foundation of a sustainable business model. While delivering services to these low-income sectors, new models of engaging communities to solve business problems are developing. In our water distribution business for example, it is the "barangay" unit itself (in many lower income areas) that collates the billing of customers on behalf of the company. Community development skills at the organizational level have been key to our success.

These new business models have resonance in many other developing countries where low-income groups account for a large percentage of the population. There are many other areas of social development where business solutions not only yield tremendous social benefits, but can also be value enhancing for the risk capital that stockholders put to work.

Another interesting way of building up the scale of social development while encouraging economic growth is by investing in programs or projects which create new wealth and production in the way that Grameen and other microfinance projects have done. This represents business at the bottom of the pyramid carried out by people at the bottom of the pyramid. It not only creates wealth and improves lives materially, but the entrepreneurial activity has a way of strengthening the social fabric by enhancing social relationships and getting people engaged as equity partners in their own futures. Our telecom subsidiary, Globe Telecom, for example, has empowered over 650,000 individuals as resellers of “telecom minutes” through their “autoload” system. This group generates the equivalent of over 40 billion pesos a year with over 10% margins for the re-sellers.

There are many ways, we feel, where this can be replicated in our other areas of business and we are constantly looking for ways to integrate this new model as we go through our own internal strategic planning process.

In this context, I believe the private sector can play a significant part in creating sustainable intervention mechanisms that address the growth and development objectives of our nation while remaining profitable enterprises.

Education, Health and Nutrition

As a final pillar for sustainable growth, we have to turn more attention and resources to the further modernization of education, health and nutrition services in our country. It sounds like a cliché now but it bears stating again and again that our human resources are our biggest and most important capital today.

Large and ever larger shares of our national income are being derived from the capabilities of our human resources. Remittances from our overseas workers, revenues from business process outsourcing, and income from service sectors like tourism are already among the top sources of foreign exchange for our country.

Demographics, without question, explain part of our national dynamism today. The demographic dividend – to cite a Harvard study - is kicking in and starting to contribute to our economic development. With about 62 percent of our population of working age and nearly 10 million of our people working abroad, our country and our economy are reaping returns not known in previous decades. However, it only remains a “dividend” if we can harness it productively. It becomes a liability if growth is not leveraged

The diaspora of global Filipino service providers has much to do with the resurgence in economic activity that we are seeing today and they will continue to be an important component of our economic transformation. We have seen the benefits of this within our own respective businesses where sales of homes and condominium units to Filipino expatriates have more than doubled over the past 2 years and today account for nearly 40% of Ayala Land’s sales. Similarly, our remittance operations at BPI have seen a rise in share of fund repatriation and, since last year, have captured the biggest share of the remittance market. These trends have served as an impetus for us in the Ayala group, as well as many businesses today, to create products and services that cater to the needs of the overseas Filipinos and their families left back home, sparking a new wave of innovation and value-generating activities.

As the Filipino service provider rises to global prominence, constituting a major cog in the new global service economy, our workers at home are also doing more work for the global economy as many companies from the US and Europe outsource manufacturing and service work here. Much as India has done, so are we rising as a major outsourcing destination in the world.

All this is vivid indication that we can become a major player in the world service economy. We have only seen the initial stages of the global redistribution of jobs. In the future, there will be more demand for migrant labor and more outsourcing of business activities. This will have far-reaching impact on the modernization and development of our country and our work force should be primed for this.

To fully reap the dividend, however, it is not enough for us to keep sending our workers abroad and to rely on cheap labor. We have to invest in our people's education, training and health, so that they can be more productive, both here at home and abroad. And it is not just any kind of education that is needed; it is education and training in the skills and knowledge needed in the new economy, particularly in setting high standards of service, in the sciences and engineering, and in fostering a stronger culture of entrepreneurship.

This will require much more commitment than we have traditionally made in this field. We need not only more resources, we need better teachers and training facilities. And we need the public and private sectors to collaborate in meeting this challenge.

It is encouraging in recent times to see many private sector groups move to invest in colleges and universities and take the lead in their modernization.

A Strategy for National Competitiveness

All this is to say that we need a strategy and a program for national competitiveness in order to sustain and even heighten the present level of economic dynamism. We need to commit ourselves to the challenge of competition in the world economy. And we have to draft a clear strategy for going forward as a nation.

I believe that the elements of that strategy can be found in the learnings many in the private sector have gained by years of engaging in the global economy.

First, we have learned from the experience of our peers that our goals of accelerating per capita income growth and reducing unemployment and poverty can only be met by sustaining economic growth rates that are significantly higher than that of our population growth. In addition, the key is to create and signal a pro-business environment that allowed them to attract and retain foreign direct investment. This requires the pro-active and aggressive exploration of innovative public-private models for privatization and infrastructure development.

Second, we have learned, that the only way we can truly compete in the world is by working according to global standards. In both our private and public sectors, we must set the bar higher not lower, and apply ourselves to hurdling it.

And we have learned, finally, that we cannot compete effectively in the world unless all our people have the chance and the capacity to do better and that we, in the private sector, have all the resources and means to empower our people to do so. Our people – here at home and abroad – are the most important resource we have for meeting this challenge of competition and development.

The global economy reinforces every day the lesson that in this era of rapid change, we have to commit ourselves to the process of reinventing ourselves and remaining relevant. Economic development is an act of will by those who want it.

Nothing I have said here tonight is particularly new or original – especially to this group of professional economists. But my main concern nowadays is to galvanize national action and build on our gains rather than just rely on the middle ground of achievement. In the increasingly competitive world of business, timing is critical and can be the fine line between success and failure. We again have this unique window of opportunity to create a “tipping point” for national progress, but it will require quick and decisive action. It is important we all put our minds to creating a path that helps us jump ahead, rather than plod along.


Thank you.



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