Interview: Gregorio Navarro, Managing Partner & CEO, Deloitte Philippines

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Gregorio (Greg) Navarro, Managing Partner & CEO of Deloitte Philippines, discusses the ASEAN regionâ??s harmonization and what that means for the pharmaceutical industry, and further discusses the Philippines niche in medical tourism.

How do you expect further harmonization within the ASEAN region to affect the business climate in the Philippines?
In line with our commitment to the ASEAN Economic Community (AEC), there will be a free flow of goods and services within the community by 2016. However, we realize that there are still a lot of impediments, since every country within the community has its own laws and regulations that need to be revised or somehow addressed.
The Philippines, for instance, has very strict policies on ownership of property and certain nationalized businesses as well as exclusive Filipino right to practice a number of professions. Some of these restrictions are in the Philippine constitution. In spite of the favorable endorsements of the business community, the President has been rather hesitant to change the constitution as of now. Having said that, the various AEC councils and working groups are trying to address these various restrictions and current limitations by negotiating and concluding mutual recognition agreements (MRAs). Although MRAs may resolve some of the issues, they will probably not be able to address all of them.
Pharmaceutical companies, in turn, are anticipating that some of the rules and regulations, as well as registration procedures, will be regionalized. The large pharmaceutical corporations have seen rather profitable operations in the Philippines in the past. As a result, the government brought down prices through the enactment of RA 9502 â??Universally Accessible, Cheaper, Quality Medicines Actâ?? in 2008. Regardless of this compulsory measure, several companies have also voluntarily reduced the prices of key medicines. In spite of these changes, I believe many of these companies are still doing well in the Philippines today.
There are challenges too. The Philippine pharmaceutical industry today is valued at slightly over USD 3 billion with a growth rate of roughly three percent. The forecast for the coming years is roughly 4.6 percent annual growth. The healthcare sector is valued at roughly USD 10 billion, about 65 percent of which is privately funded. Insurance coverage or penetration is also low, and only covers around 8.5 percent of the market.
Where are the most opportunities for healthcare investors in the Philippines today?
Medical tourism is a significant opportunity, but is also an area where the industry has not yet figured out what role it wants to play. India has perfected its technology for heart surgery; Thailand and Singapore have taken the lead in cosmetics, but the Philippines needs to determine its niche. The recognition of our talent is already there, since our doctors and nurses are well trained, often abroad. One particular area of recognition in the Philippines has been dentistry. US-based Filipinos, for

instance, undergo their dental treatments in the Philippines at one tenth of the price in the US. Stem cell therapy too is becoming increasingly popular here, whereas all the large hospitals now have their own practices. While stem cell therapy in the US may cost up to USD 700,000, it may cost only USD 100,000 in the Philippines. Personally, however, I would push for low risk high return investments in dentistry.

If the current economic growth of six to seven percent will continue over the following years, the growing middle class of the Philippines will certainly give rise to further opportunities in the countryâ??s healthcare sector. Taking into account todayâ??s limited affordability and the lack of patient compliance when it comes to successfully completing treatments, there is significant room for growth in the Philippines.

What is your take on the impact of achieving universal healthcare coverage on the federal budget?

The government has managed to have people pay for their PhilHealth benefits. The model is attractive because PhilHealth coverage can be bought for PHP 50 per month. If we can index these rates to the economic growth and indices of consumer prices, we as a nation would also be able to allocate more funds to healthcare infrastructure.

Health infrastructure is a sector where we increasingly see private investors coming in. Big groups such as the Metro Pacific Investment Corporation (MPIC), Mount Grace Hospital Group and PHINMA Group are all looking into investing in hospitals. As the economy continues to improve, this sector offers tremendous growth potential.

How sustainable is the growth model for the Philippines today?

The challenge for the government and the country is to be able to sustain our growth. What we need to talk about is how to achieve â??inclusive growthâ??. Over the past three years of the Aquino administration, we have experienced a mostly jobless growth, because 70 percent of the economy is based on consumer spending.

The largest industry we have is the business process outsourcing (BPO) sector, which already employs roughly 1 million people in the country. Most of these employees are young people with disposable incomes. The second driver of expenditure comes from the eight to ten million Filipinos that work overseas. They regularly remit money back home, which on an annual basis amounts to an influx into our economy of approximately USD 20 billion. We are second or third to Mexico and India in this regard.

The question is where all these remittances should go. Inflation is around 3.2 percent and interest rates offered by banks are extremely low at less than one or two, although they lend money at six to eight percent. In the past, there have been concerns that the global financial crisis would reduce the overseas remittances. The reality, however, is that the remittances increased over the years and is still expected to continue growing. Now, we need to find a model to translate and mobilize this influx into more jobs and opportunities to our people.

What type of inclusive measures do you feel should be taken by the government to ensure sustainable economic growth?

The statistics vary, but roughly 30 percent of the population of the Philippines is poor. They live on less than USD 2 per day. In terms of absolute numbers, this translates to roughly 30 million people living below the poverty line. Our economy produces one million jobs per year, but every year more than that number enter the working age. Fifty percent of the population is below 24 years old while two thirds of the population is below 34 years old.

Every year, we have roughly 400,000 to 500,000 new graduates. As a result, many of these jobseekers look for opportunities abroad, something that also translates into a significant human resources challenge for accounting and advisory firms like ours. Across the profession, the average attrition rate sits at around 33 percent. Almost all depart for better opportunities abroad, rather than competitor firms or private industry within the Philippines.

To achieve inclusive growth we need two things: jobs and a focus on core industriesâ??agriculture tops that list. Today, the agricultural sector represents only 19 percent of our economy, while close to 40 percent of the population works on land. We still import many food items. It is only until recently

that we again become a net exporter of rice products.
Another area of the economy that could lead to a more sustainable growth is manufacturing. Even though many foreign companies have moved to China, we are seeing now some renewed interest in the country. The recent political turmoil between China and other neighboring countries, the natural calamities in Japan and Thailand, etc. have caused foreign businesses to take another look at the Philippines. In order to encourage foreign direct investments, we also need to continue investing in the energy sector to make our energy costs more affordable. The increasing cost of labor is another aspect that needs to be contained.

What is your take on the evolution of foreign direct investment (FDI) in the Philippines?

For the first half of 2013, FDI in the Philippines sat at around USD 2.2 billion, compared to USD 1.9 billion for the same time last year. It is a positive development but in absolute numbers this still does not compare to the USD 20 billion in Indonesia or even the amount Vietnam gets. Compared to the region, our FDI is still very small.
Nonetheless, the growth in FDI is a very positive development considering that the country was facing negative growth before the current administration came into power. Increasing FDI is truly a matter of good governance and creating faith in the government and leadership of a country.
Countries need reliable, consistent, cohesive and comprehensive policies in place to attract foreign investors. One cannot change policies every few years, as we have seen in the Philippines in the past. We have observed a push and pull between the Trade Industry and the Finance Departments over incentives given to FDIs. We require a central government policy and a long term roadmap as can be found in many countries that are followed by all government agencies and instrumentalities, national or local.

Foreign investors need to find answers to the questions they have when entering a market. Considering the fact that you mostly represent MNCs in this market, how do you guide them through this process?

The first thing a company needs to see is the opportunity to make a profit or some very distinct commercial advantage of locating in the Philippines. This will include availability of well-educated talent and skilled labor, strategic location in Southeast Asia, relatively young and English speaking populace, cost of doing business, etc. Our country has close to 100 million people in population, a reasonably large market, which is a key attraction to the pharmaceutical industry and other industries as well.
It is very encouraging to see the increasing level of investment coming from local companies and other local investors. In the last three years, only about 40 percent of investments were from foreign investors. The biggest investments were actually made by Filipinos. This was not the case before, when most Filipinos were investing their money abroad. The changing dynamics imply that the Filipinos have regained confidence in the country, its leadership and its economy. More than 60 percent of our stock market now also consists of investments by local investors. To me, there is no better indication of confidence in the economy than when you see Filipinos themselves investing and expanding their operations in the country.

To operate in the Philippines, Deloitte selected Navarro Amper & Co. as its partner firm. Why do you believe you were chosen?

In my view, we have a strong case for doing the right things, acting with integrity and providing excellent services to our clients. We are a prime advocate of good corporate governance, strong compliance with rules and regulations and have outstanding ethical principles and code of ethics.
Good corporate governance advocacy is a relatively new movement in the country, and we started this serious campaign less than 15 years ago. But it has gained wide acceptance and has excited the capital markets as it gains traction. I have also adopted good governance as my personal advocacy over the last 10 years. We actively support the Institute of Corporate Directors (ICD) and the Institute for Solidarity in Asia (ISA), which are private advocacy groups involved in training independent directors and reaching out to the government sector to assist in improving public governance. ISA helps local government units and national agencies in developing a road map that transcends politics and the terms of offices of the incumbent government officials, brings together all

the stakeholders in the community, and facilitates the process of developing their vision, the strategies they need to adopt, and the steps they need to undertake to achieve their vision for their communities or cities. Many of the cities have been recognized not only here but abroad as well for their roadmaps, the manner of their implementation and the results they have achieved. Because the roadmaps have the buy-in of all the stakeholders and shared by the whole community, few of them would agree to see these achievements wiped-off the map simply because a new leader or party has been elected into office.

I firmly believe that good governance goes beyond politics, beyond strategy and execution. Good governance embraces vision as well as strategy, mission as well as objectives, execution as well as results, all in the hope of achieving its ultimate objective: the welfare and improvement of the lives of our people. Good governance has to be a way of life and built into the whole governance system so that its benefits reach the lowest level of society, to reach our goal of inclusive growth for our people and prosperity for our nation.

Our good governance advocacy serves us well in operating as part of the Global Deloitte Network, serving our most valued clients and attracting the best talent.

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