

January 8, 2018

## JAZA's New Year Message to the Ayala Group



**Dear colleagues and friends,**

Welcome to the start of 2018 and I hope you have all had the chance to get some rest in the company of family and friends. A big thank you, upfront, for working to ensure the continued growth and relevance of the Ayala group.

I write this note as part of a new tradition that I wanted to implement this year. So many events happen in any given year and there is never much time to synthesize and bring some coherence and closure to all these thoughts. Today is an attempt, on my part, to try to look back at the year that passed and identify some key themes in the hope of both bringing closure to my thoughts and setting some values based goals for the year ahead. These thoughts will remain broad, macro focused and cover both global and national themes that are relevant to us. Here goes.

As we reflect on the past twelve months, we see trends that persist - both social and economic - that affect many sectors of society. We are increasingly globally interconnected and many of these themes cut across nation states. I believe that it is important for us to take stock of these key trends, and understand how they shape and influence our path forward both as professionals and as stewards of our institutions.

Let me draw attention today to five themes that are the most relevant and that have had a disproportionate impact on our societies in 2017.

**First**, let me touch on the rise of populism which has been driven, to a large extent, by both perceived and real increasing social and economic inequity. **Second**, let me expand on the intertwined themes of globalization and technological advancement, two trends that have been at the center of public debate but whose effects have been, in my opinion, misunderstood. **Third**, let me emphasize our need to continue to retool and upgrade our workforce in order to successfully navigate the employment challenges brought about by technological advancements and to remain relevant to the changing nature of our industries. **Fourth**, the need for infrastructure to support our many social and economic requirements remains of unprecedented importance. **Finally**, let me highlight the indispensable role that the private sector plays in defining and executing on a more comprehensive economic social contract, where businesses build trust and relevance by being contributors to society and not just contributors to a more limited grouping of stakeholders.

**Let me start with the first theme, namely the rise of populism.** The heightened social tensions we are experiencing in various parts of the world have revealed a frustration with the status quo and a diminished faith in traditional institutions, both public and private, in providing solutions to our many needs as societies.

The UK's vote to withdraw from the European Union was, in large part, attributed to migrants taking jobs away from British citizens. Similarly, the rise in US protectionism was driven by the loss of domestic jobs to cost-competitive markets. Here at home, we all know how the election of President Duterte, an unorthodox leader for the Philippines, was fueled by the frustration of many citizens over their desire for employment, for an upgrade in the many services they expect from the private and public sectors, and for their desire to participate more formally in the economic growth of the country.

While these events were unrelated, and occurred in different parts of the world, they all represent a frustration on how the perceived benefits of a growing and expanding global economy have not been equally distributed to citizens. Lack of sufficient opportunity, uneven wealth and income gaps, and a desire for fair progressive employment seemed to be shared themes across many nation states. I believe we all have to reflect on these frustrations, be agents for progressive change and contributors, through our institutions, to helping alleviate these concerns.

**This brings me to my second point – namely that globalization, which is increasingly pervasive in our modern world, has been at the center of public debates and has been perceived to have had a negative effect on society.** Interestingly, I see this as a problem of the developed world and the narrative has been most visible in the media, policy discussions and leadership initiatives of the more advanced economies of the west.

The opposite is true here. Globalization has, in many ways, been a boon for the Philippines. A McKinsey study cites that with the global flows of goods, services, finance, data, and people, world GDP is over 10 percent higher, than if economies had remained closed.

The Philippines is an excellent success story of how the liberalization of borders has benefited emerging markets, giving rise to the IT-BPM

sector and the overseas Filipino service sector phenomenon that have been consistent drivers of our economic growth over the past decade.

The interconnected economic environment has also encouraged regional cooperation and integration (ASEAN and APEC are prime examples) and encouraged intra-regional investment, trade, labor mobility, and overall ease of doing business.

However, like the businesses we manage, globalization encourages the most efficient allocation of resources; including labor, capital, and land and it has created both winners and losers in the process. Skilled workers in developed economies have suffered the most from the offshoring of jobs to more cost-competitive markets like ours.

## At the Ayala group, we strive to do our share in helping our workforce prepare and adjust to the changing landscape.

Winners, in turn, in this scenario have been the factory and service sector workers in countries that have benefited the most from the geographical reorientation of manufacturing and technology driven services over the past few decades; these include China, South Korea, Thailand, Vietnam, India and even the Philippines, among others. This has led to strong criticism of globalization creating stark inequalities among geographies, with high productivity and income concentrated in specific centers and regions.

While I believe the Philippines has been a winner in navigating some of these disruptive trends, it is also important to note that a much more critical trend driving the disruption of employment around the world is technological advancement. Robotics, mechanization, advanced telecommunications, digitalization and artificial intelligence are gaining traction in various industries not only for their ability to enable or perform routine physical tasks faster and more cost effectively, but also for their increasing cognitive competency.

Research conducted by MIT cites that globalization is accountable for only half of the 5 million factory jobs lost in the US since it started trade with China in the 2000s. The remaining jobs disappeared as a result of automation. Strikingly enough, US manufacturing even posted an annual growth of 2 percent from 2006 to 2013. On the other hand, companies that invested in automation have doubled their productivity, implying that the manufacturing sector has increased productivity without employing more people.

This component of the trend, namely technological advancement, can also come back to disrupt industries in our own country. We cannot rest easy.

However, on the positive side, analysts believe that while some jobs are threatened by redundancy, a host of new occupations will be created. The concern about labor displacement stems largely from the mismatch between prevalent skills today and the skills needed for disruptive jobs. The situation may have also been exacerbated by the accelerated pace at which technology has developed in the past decade alone.

**In summary, and as a third point, it is important to understand that we will always face challenges and I strongly believe that, as a country and as a company, we can navigate the employment challenges brought about by technological disruptions by retooling and reskilling our labor force, while also re-examining our existing educational curricula.**

As upskilling begins on the level of basic, secondary, and tertiary education, there is a need for strong involvement of all stakeholders to ensure that the required proficiency in technology, science, engineering, and mathematics, as well as the emphasis on creativity and critical thinking are all embedded in our curricula.

To complement this, I believe it is imperative that we design our technical and vocational education system to address the required skillsets in an era of technological disruption. With lack of sufficient access to affordable quality education leading to massive dropout rates across all educational levels in the country, a good number of Filipinos rely on vocational training as their ticket to employment. To ensure their relevance in the job market, we need to overhaul our technical and vocational training system to match the skills required in an automated and digitized environment. Our Ayala group can and has played a role in this regard.

At the Ayala group, we strive to do our share in helping our workforce prepare and adjust to the changing landscape. We entered the education space four years ago when the impact of technological trends was not as pronounced as it is today. Even back then, we observed the astounding mismatch between the skills learned in school against those that are required by employers. Our presence in a wide range of industries gives us a good understanding of the skills gap employers face today. We aim to bridge these gaps by leveraging the complementary strengths of the academic institutions we invest in with our group's deep industry experience in high-growth service and manufacturing industries such as banking, telecom, retail, tourism, construction, property, and IT-BPM.

Long before the impact of technological disruptions on employment was pushed to the spotlight, I am proud to see that our group has always provided opportunities for career growth and lifelong learning for our employees, across industries, and continuously focused on upgrading their knowledge and skills.

I know this is taking place group wide; whether it be in construction, telecommunication, manufacturing or financial services, just to name a few. In our construction industry alone we work with Tesda to create employment opportunities for close to 70,000 individuals through technical training centers. Bottom line, we need to continue



integrating this focus on re-tooling and life long education into all our business platforms if we are to remain relevant as a business group.

**The fourth point I want to make is accelerating the development of much-needed physical infrastructure that supports the connectivity and mobility that are critical to sustaining our economic growth.**

As you know, we have always supported the country's efforts on infrastructure development and have aligned our group's strategy to support the government's agenda. Efficient infrastructure not only enhances trade and investments, but also facilitates the growth of our urban economies.

In addition, as our cities become highly urbanized, it is equally critical to enable mobility to manage density, create access, and connect people, goods, and services. Urban cities are vital in creating a critical mass of consumers, talent, and resources. It fosters the creative combustion that brings life, new ideas, entrepreneurial vigor, diverse cultures and viewpoints, an innovative verve, and increased productivity to urban centers. However, the benefits from urban cities can only be fully extracted with extensive infrastructure, efficient urban planning and the connectivity that progressive telecommunication services bring. We intend to continue working to improve and contribute to many aspects of this physical infrastructure, including the distribution of services such as water and telecommunications, as far as our capital will allow while remaining a progressive force in urban redevelopment and renewal.

**The fifth and final point I want to make is the indispensable role that the private sector plays in developing and contributing to a more comprehensive social contract in the economic sector and integrating this into its business models.**

To remain relevant, to continue building trust with communities, businesses must contribute to society as a whole, and ensure the progressive development of the markets they serve. Recent years have shown us that the wider public is increasingly demanding more from private enterprises in this regard and we must not be deaf to this call.

We must remain progressive contributors to the changes that are needed. Businesses cannot survive in communities that are rife with inequity and suffer from both social and physically degraded environments. Ignoring the challenges faced by both global and national communities today threatens our ability to create long-term value and jeopardizes enterprises, markets, and entire societies. In the Philippines, our need to address economic inclusivity and build on sustainable business practices remains of paramount importance.

The shifts we have seen in the global landscape, as well as the prevailing trends that have affected business and society, have made it clear that the Ayala group's role in society must continue to evolve.

## We must remain progressive contributors to the changes that are needed.

We have already taken many steps to contribute productively and promote inclusiveness in this regard by diversifying into products and services that cater to a wider segment of society; by entering new sectors with gaps in accessibility, affordability, and capacity that, at the same time, meet the basic needs of communities; and by adapting to the demands of technology and digital disruption. Given the wealth of talent that the Ayala group has, I believe that, as we remain attuned to the changes taking place in the world, we will continue to find more and improved ways to adapt and remain relevant to our markets while also contributing to the changing needs and demands of our society in progressive ways.

Across our group, we will continue to put the resources, knowledge, expertise, and talent that we have towards providing products and services that meet the real needs of Filipinos. I want to thank you all for sharing this commitment to nurturing and executing on strategies that encourage and promote sustainability as defined by the United Nations Sustainable Development Goals, and allocating capital to address the many needs brought about by our growing economy and population.

I also thank you for your spirit of corporate wide engagement and for your increasing creative development of group synergies across a spectrum of products and services. We all learn from each other and build on each other's strengths to better serve our varied communities.

I encourage you all to keep this commitment to productive, inclusive and progressive engagement alive. Most important of all, stay positive and optimistic as we work to find solutions to unlocking the many opportunities that exist to improve people's lives.

We look forward to working with you in the year ahead, and wish you all much personal and professional fulfillment in 2018.

**Jaime**