

**Keynote Address, Delivered by the Honorable Leandro R. Mendoza,
Secretary, Dept. of Transportation and Communications, Philippine Ports
and Shipping Conference 2007, Manila Peninsula Hotel, Makati City, Metro-
Manila, Philippines, 07 February 2007**

Atty. Oscar M. Sevilla, General Manager, Philippine Ports Authority, conference participants, distinguished panel of speakers, guests, ladies and gentlemen...

The honor is mine to speak before you again in this gathering of policy makers and experts bound by common concerns in the shipping, transportation and logistics sector. I also anticipate potential investors in our midst today to be glued to the sessions for the next two days so that they can be on the look-out for potential and promising business opportunities, depending on their boldness and vision and the likely scenario that will be laid for them by the various distinguished speakers.

Speaking of boldness and vision, allow me, in harmony with what PPA General Manager, Atty. Oscar M Sevilla s stated in his welcome remarks, to elaborate on President Gloria Arroyo's key SONA program of transforming the Philippines into clusters of mega-regions. The President's Super Regions program is a new and bold planning and economic development approach that groups the country's regions and provinces according to their economic strengths. It is designed to be part of a massive investment program to sustain economic growth, spread progress to all areas of the country and propel the Philippines to a status comparable with developed countries in the region.

The Super Regions concept forms part of the Medium-Term Public Investment Program (MTPIP). Under this, the country's 16 regions have been grouped into four mega-regions, plus another region that cuts across the four mega-regions, to create an enlarged economic landscape based on the natural competitive advantage of these areas.

These are the North Luzon Mega-Region, the Metro Luzon Urban Beltway, the Central Philippines Mega-Region, the Mindanao Mega-Region and the cyber corridor that serves as the cyber link between these four regions. As part of the government's second phase of economic reforms, we are counting on the strong support of the business community to make the country a more appealing choice for foreign investments by modernizing transport and digital infrastructure and logistics system in a cost-effective manner to ensure efficient movement of goods and people and in the process achieve a reduction in the cost of doing business.

I would like to discuss briefly three key items relating to this bold development agenda of the government. First, government policy thrust and direction within the medium-term is to lower transportation and distribution cost. This will directly support the government's goal of reducing the incidence of poverty from the current 34% to 17%.

Second, to achieve this, the government is programming a number of major infrastructure projects under its Medium-Term Public Investment Program as spelled out in the President's 2006 SONA. I list them as follows for your information. These are the Southern Tagalog Arterial Road Project, Subic Bay Port Development Project, Subic-Clark-Tarlac Expressway, South Luzon Expressway Tollway Project, Widening of Manila North Road, Airport development projects in Iloilo, Bacolod, and Laguindingan, Northrail-Southern Linkage Project (Phase 1 and 2) and the Northrail Project (Phase 1). These projects will entail a total investment of about P372 billion pesos. By project category, road infrastructure projects will take up some 27% or P102 billion of the programmed investments. Airports, seaports and bridges have a combined share of about 17% or P64 billion, and irrigation about 3% or P13 billion.

Rail projects, noteworthy mentioning, take up the bulk of 48% or P180 billion. Specifically, Phase I of the North Luzon Railway (North Rail) project will revive and modernize rail transport north of the capital of Manila and link it with economic zones that have developed along the corridors leading to Subic in Bataan and Clark in Pampanga. As the country's first double-track railway line, the 32 kilometer line will be operated by 120 km/hour diesel trains, and reduce the commuting time from Manila to Malolos by at least half an hour by 2008. On the other hand, the North-South Linkage Project is a major component of the government's program to fast track the restoration, rehabilitation and modernization of existing lines of the Philippine National Railways (PNR) for the efficient transport of people and cargo between Metro Manila and Southern Luzon.

I am pleased to mention that all these projects for investors are meant for job and wealth creation. In particular, the Philippines is developing Subic/Clark as the most competitive international service and logistics center in Southeast Asia. It is also targeting the Diosdado Macapagal International Airport as a logistics and maintenance hub and is poised to develop the SLEX/STAR Expressway as an industrial belt south of Metro Manila.

With logistics costs making up about 20 to 30% of total purchase cost of commodities, the massive investments earmarked for these projects are therefore intended to pump prime the transport and logistics sector while addressing inefficiencies and bottlenecks. The government expects to cascade the benefits of reduced cost to the final consumer and the population at large. Admittedly, the poor quality of infrastructure is perennially cited as the main problem in our country's global competitiveness. Our infrastructure and capital outlay performance vis-à-vis other Asian countries is lowest, averaging a mere 3.3 percent of our Gross Domestic Product. We view this as the main challenge facing the transport and logistics sector in the country. With the trend veering towards integrated logistics / door-to-door delivery, the government will exert efforts to provide seamless transport network spanning our entire archipelagic

nation. We also remain optimistic that with massive infrastructure investments, government can narrow the gap with its Asian neighbors in terms of extent and quality of infrastructure and divert sizable foreign investments from other more preferred investment destinations in the region.

The government's massive investment for infrastructure runs parallel with its key agenda of investing in modern digital infrastructure. With modern digital infrastructures in place, the government hopes to capture a sizable share of trade in the ICT sector. As we are aware of, the ICT sector accounts for a significant share of investment and employment, notably in Central Philippines, one of the super regions. This situation is evident particularly in the fields of business process outsourcing (BPO), knowledge process outsourcing (KPO) and a host of other ICT-related manufacturing and professional services. Adequate investment in digital infrastructure is anticipated to enhance the country's global competitiveness and generate employment projected at over one million jobs by 2010 from business process outsourcing (BPO) alone in such key services as customer contact, back office operations, software development, medical/legal/other data transcription, animation, engineering design and digital content. With competitive English language speaking skills, the Philippines looks forward to maintain its comparative advantage vis-à-vis India and China, bearing in mind the need to address major challenges in the ICT sector such as lack of connectivity in small islands and hinterlands, low ICT awareness in the countryside, and heavy dependence on proprietary software technologies.

Lastly, on the more fundamental issue of policy interventions and strategies to address the challenges facing the transport and logistics sector in the country, allow me to cite the more important ones:

- Promoting the roll-on-roll-off ferry nautical highway system and developing maritime basins and major rivers and transport and trading areas.
- Facilitating the requirements of shipyard expansion and ensuring availability of steel at competitive prices.
- Operationalizing the Medium Term Public Investment Program (MTPIP).
- Completing the Nautical Highway and the RORO System to transport the products of Mindanao to Visayas and Luzon.
- Construction of the commuter links between Metro Manila north to Clark (e.g. Northrail) and south to Batangas Port.
- Enhancing value-added services in transport, shipping and logistics through consolidation centers, warehousing and inventory management, vendor hubs/supplier parks, customs and trade advisory services,

transport management, kitting, packaging and bundling.

- Ensuring reliable power supply and improvement of port and airport facilities to accommodate increases in passenger and cargo traffic. Reducing cost of doing business through improvement of one-stop shop for business documentation and enterprise advisory such as those under DTI, IPCs, Philexport.
- Enhancing trade Facilitation Programs such as the Single Window Concept (for import and export transactions) and Single Transport Document for multimodal transport.
- Expansion of digital transmission highway to connect unserved islands and hinterlands.
- LGU-private sector partnership in the establishment of community e-Centers as access points for information and communication services in unserved areas.
- Promotion of Open Source software

Considering these policy thrusts/interventions, the government remains optimistic that it will substantially achieve its targets, citing the encouraging and favorable macroeconomic indicators such as sustained economic growth for the last five years, low and stable interest rates, slowing inflation, strong and stable currency and the much improved fiscal situation. In short, the economic fundamentals are up in the immediate term and the government hopes to sustain this momentum in the long run.

Concluding Remarks

We recognize that logistics is a procedure to optimize all activities to ensure the delivery of cargo through the transport chains from one end to the other. The comparative efficiency of a country's trade logistics chain is of vital importance in enhancing competitiveness of its industry and commerce and determine to a large extent the efficiency and sustainability of its economy. Hence, any improvement in the transport and logistics chain should substantially result in the achievement of better service levels and seamless transport and distribution connection that should redound to the benefit of the country and its populace. This, I believe, is at the core of the Super Regions Program I just briefly discussed.

To conclude, it is my wish that this gathering would bring to a higher level our collaborative efforts in proposing and implementing concrete action plans relative to the issues, concerns and challenges facing the transport, shipping and logistics sectors for the benefit of our economies and people.

On this note, I thank all the delegates and participants to the 4th Philippine Ports and Shipping Exhibition and Conference for their invaluable contribution, insight and participation. I also wish that you will be enriched at the same time by your first-hand encounter with our country that is rich in heritage and both tourist and business potentials.

We are pleased to welcome you once more to our beautiful country as we take pride in allowing you the opportunity to experience our world-renown hospitality.

Thank you and Mabuhay!