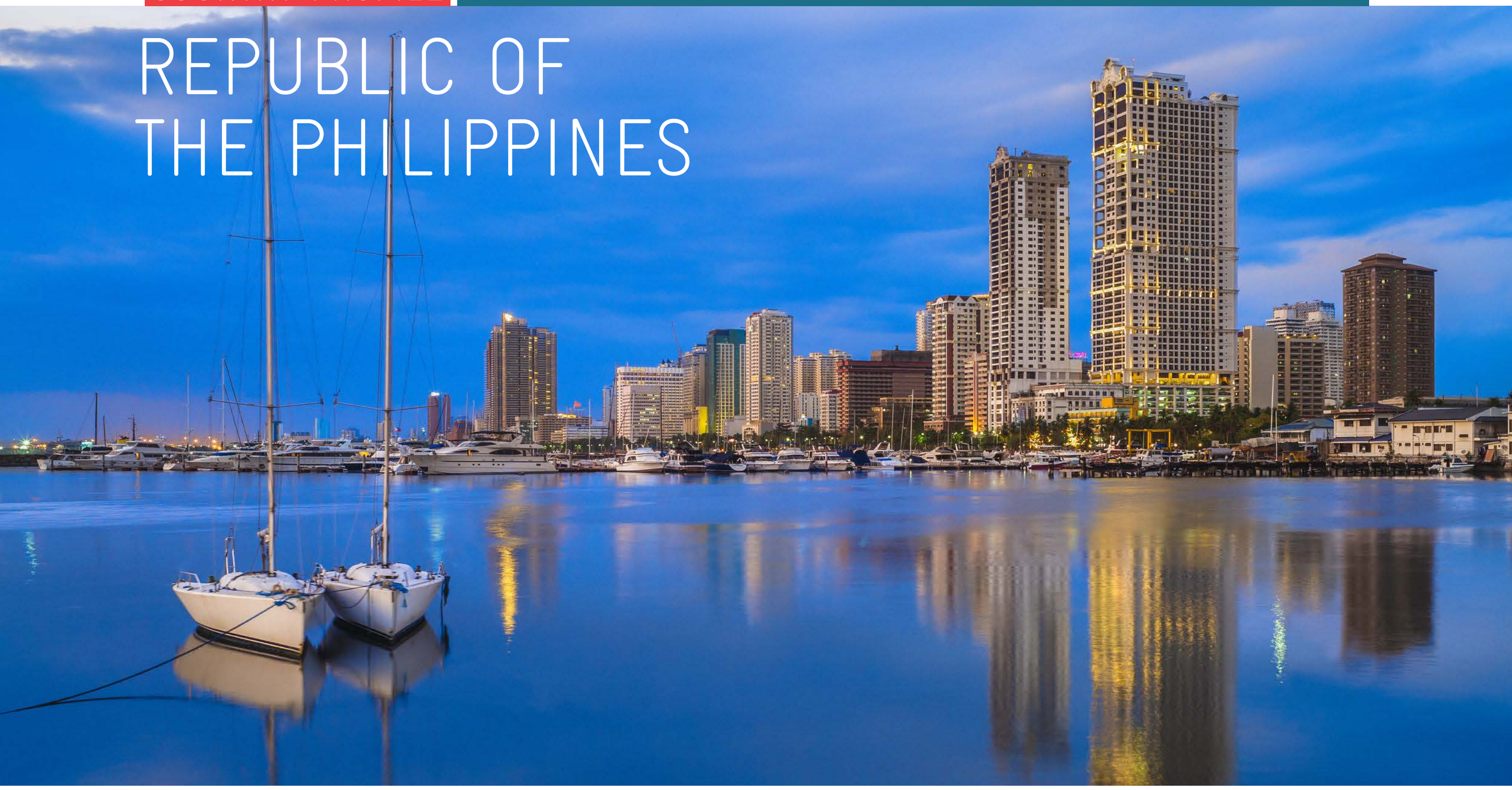
COUNTRY PROFILE

REPUBLIC OF THE PHILIPPINES



PHILIPPINES - Basic Facts

Filipino, English

Languages

(19 other languages recognized)

Capital

Manila, population

1,780,148

(Philippines Statistics Authority, 2015)

Political system

Unitary presidential constitutional republic

GDP

Nominal GDP

$ 402.638 billion

(IMF 2020)

GDP per person

$ 3,646

(IMF 2020)

GDP growth rate

6.04% in 2019

(World Economic Outlook Database 2020)

Population

106,651,394

(UNDESA, 2019)

Urbanisation

Urban population

47.1%

of total population

(2019)

Rate of urbanisation:

1.99%

annual rate of change (2015-20 est.)

www.indexmundi.com

Age structure

0-14 years	15-24 years	25-54 years	55-64 years	65 years and over
32.42%	19.16%	37.37%	6.18%	4.86%
18,060,976 | 17,331,781	10,680,325 | 10,243,047	20,777,741 | 20,027,153	3,116,485 | 3,633,301	2,155,840 | 3,154,166

www.indexmundi.com (2020 est.)

Number of registered SMEs and numbers employed in relation to the total number of registered companies

In accordance with the Magna Carta for MSMEs or Republic Act (RA) No. 6977, as amended, MSMEs shall be defined based on total assets excluding land, although the Philippine Statistics Authority (PSA), the primary agency responsible for generating national statistics, classifies enterprises by total employment:

	Micro	Small	Medium
Total Assets excluding LandTrade and Service	not more than P3,000,000 (ca. US$ 60,000)	P3,000,001–P15,000,000 (ca. US$ 60,000–300,000)	P15,000,0001–P100,000,000 (ca. US$ 300,000–2,000,000)
Total Employment	1-9	10-99	100-199

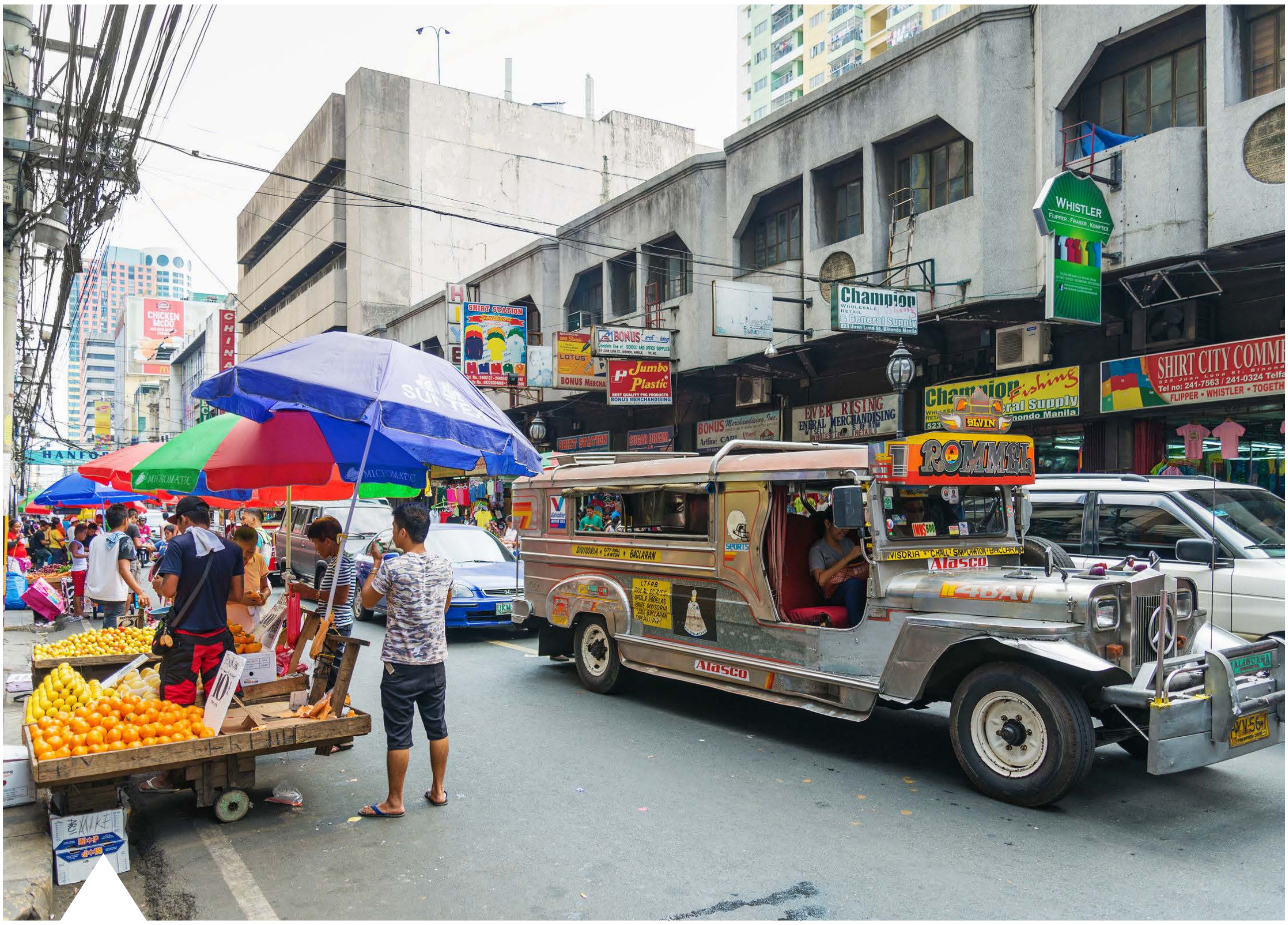
According to PSA's 2018 List of Establishments (LE), there are 1,003,111 total establishments:

Size of company	No. of companies	% of companies	No. of employees	% of employment
Micro*	887,272	88.45	2,610,221	28.86
Small	106,175	10.58	2,445,111	27.04
Medium	4,895	0.49	658,930	7.29
Large	4,769	0.48	3,328,801	36.81
Total	1,003,111	100	9,043,063	100

Summary

With a young, increasingly urban population, and a growing middle class, the Philippines is one of the most dynamic economies in the ASEAN region. Business is generally buoyant and there has been rapid development in the business process outsourcing, finance, insurance, and real estate sectors. The country increased its annual growth from 2010-2018 to 6.3% up 1.8% from the previous decade and is on course to move from its current status as lower-middle income country to upper-middle-income country in the reasonable future. Despite a brief reduction in GDP growth in 2019, the economy was expected to continue to grow around 6% per year over the next few years, despite global trade tensions. Growth has been accompanied by social measures as well and both poverty rates and wealth inequality have decreased significantly over the past decade.

However, the COVID-19 pandemic has brought the economy into recession, breaking almost three decades of growth. After one of the longest lockdowns, which affected 75% of the Philippines economy, the growth rate expectations for 2020 have been downgraded to -9.5%. Despite this lower projection, there are indications that the government is able to relax some restrictions, in line with improved healthcare system capacity, which will enable the country to get back on track to recover again. Figures from the National Economic and Development Authority (NEDA) from December 2020 suggest that the economy will see recovery in 2021, with GDP growth projected to reach up to 7.5% by the end of 2021 and up to 10% in 2022. More detailed information can be found on NEDA's website.



Overview

The Philippines is an archipelago country, formed of around 7,641 islands covering 300,000 km^2 making it one of the largest island countries in the world. Unsurprisingly, the country has a widespread, sharing maritime borders with Taiwan to the north, Japan to the northeast, Viet Nam to the west, Palau to the east, and Malaysia and Indonesia to the south. With a population of over 100 million, the Philippines is the thirteenth-largest in the world based on population and is the fourth-largest English-speaking country. The country has one of the largest diasporas in the world with around 10 million Filipinos working overseas. The population is one of the youngest in the world, with around 40% under the age of 20.

The country has around 41 million people in the active labour force, of which around 23.5% work in agriculture, generating 14% of GDP. Industry employs 14% and accounts for 30% of GDP while the remainder is in the services sector, generating 56% of GDP. The largest industries are tourism and Business Process Outsourcing (BPO) which includes knowledge process outsourcing and back offices, animation, call centres, software development, game development, engineering design, and medical transcription. For manufacturing industries, the major trading partners include the United States, due to long historical links with each other, but also Japan, China, Singapore, South Korea, the Netherlands, Hong Kong, Germany, Taiwan, and Thailand. Primary exports include semiconductors and electronic products, transport equipment, garments, copper products, petroleum products, coconut oil, and fruits.

The Philippines is politically stable and President Duterte has high approval ratings since his election in 2016. The economy has continued to grow, although not without problems and there is an increased focus on reducing crime and drug trafficking. Figures from 2018, show that unemployment fell to 5.3%, down 0.4% from the previous year, the equivalent of 2.3 million unemployed. However, the rise in job creation was behind the target and the figures hide increases in part-time employment. The number of people living in poverty has continued to decline, with the latest figures showing that around 1 in 5 is under the threshold, compared with 1 in 4 in 2012. The middle class is also expanding, but the country is still characterised by high levels of inequality.

The country's balance of payments deficit has widened significantly, rising from US$863 million in 2017 to US$2.31 billion in 2018. The current account has been in deficit between 2016-2018, rising to US$ 7.9 million (2.4% GDP) following 13 years of surpluses, higher than the central bank target figure of 1.9%. This is largely caused by machinery and equipment costs from the government's infrastructure development project "Build, Build, Build", which has not yet led to the growth figures anticipated. GDP growth slowed for the second year in a row in 2018, falling from 6.7% to 6.2%, pulled down by weaker export figures, and lower manufacturing and agriculture figures. Construction sector expenses in the public sector increased rapidly from 12.7% to 21.2% as a result of the high-spending government programme.

Net foreign direct investment (FDI), fell by 4.5% in 2018 to US$ 9.8 billion, falling slightly short of the government target of US$ 10.4 billion for the year. The Philippines remains a relative underperformer on FDI compared with most other ASEAN countries.

The government has recently introduced a number of tax reforms entitled Tax Reform for Acceleration and Inclusion (TRAIN), where the first reforms in 2017 were aimed at making a more progressive model for income taxation, simplifying estate tax, and VAT, and increased excises on certain products. A second set of measures was instigated to reduce the current 30% corporate income tax level, currently the highest in ASEAN, to reduce tax incentives in certain industries and give a tax amnesty in return for future tax incomes. The aim is to generate an extra 9.7% of GDP by 2020, raising revenues from 15.7% to 17.5% of GDP over the same period. Inflation is increasingly a problem, reaching 5.1% by the end of 2018, caused partly by the effects of the December 2017 tax reform package, which increased excise taxes on petrol and oil, soft drinks and sugared beverages, cars, tobacco, alcohol and coal. Inflation fell again during 2019, to around 3.0% and is expected to remain with the central bank target range of 2-4% until 2020, although the continued dry spell in the Philippines and the price of oil may affect this.

Despite the recent problems, the country reached a Standard and Poors (S&P) "BBB+" rating with a "stable" outlook, based on the Philippines' above-average economic growth figures and sustainable public finances. This is the highest rating the Philippines has achieved, while Fitch's and Moody's both place the country on a "BBB" level.

Opportunities and challenges

There are many good trade opportunities in the Philippines. The most obvious opportunity is through the widely publicised "Build, Build, Build" campaign, which is expected to spend around US$180 billion on **infrastructure** projects including airports, ports, bridges, roads, railways, energy plants, oil and gas pipelines, and water infrastructure. One of the central elements of the programme is the development of New Clark City, a development designed to alleviate the congestion of metropolitan Manila and creating 31,400 hectares of new city including economic and industrial zones, residential areas, and transportation. There are further "Next Wave Cities" (NWC) being built to satisfy the need for modern office space and accommodation, caused by the strong growth in the Business Process Outsourcing sector in the country. While major infrastructure contracts are often most suited to larger companies, there are many opportunities for SMEs to provide technologies, installation services, plant hire, hoardings, scaffolding, safety equipment, and so on. Within the water sector alone, there are good opportunities for the provision of systems and technologies for urban and industrial water, smart systems including water accounting and payment, as well as water treatment and monitoring.

There is also a large demand for **residential property** to house the many Overseas Filipino Workers (OFW) returning to the country bringing their earnings and the rapidly growing retiree market purchasing investment properties. The current demand is around 3 million properties, expected to rise to over 6 million by 2030, which provides opportunities for SMEs to supply building materials, furniture, and fittings. Green construction, while still in its infancy is growing and technologies that reduce energy consumption and costs are in demand.

The **retail sector** is generally strong, and the country is considered one of the key markets for global brands in the Asia Pacific region. The country has the highest household spending as a percent of gross domestic product (GDP) in East Asia, compared to other ASEAN markets such as Indonesia, Thailand, Malaysia, Singapore, as well as China according to figures from Oxford Business Group. Some of the largest shopping malls in the world are in the Philippines built by local mall chain developer, SM Retail. Apart from traditional retail, there has been a strong rise in online sales in the country, and around 43 million Filipinos visit Lazada each month.

With a very young population – a mean age in the country of 23 and an average working age of 24, the Philippines is a potentially very interesting market for products that cater to younger, increasingly affluent buyers. The **cosmetics & personal care sector** has grown consistently year on year since 2014, moving from sales of anti-aging creams to skincare and make-up and is worth around US$ 786.6m in 2020 with an annual growth rate expected of 2.6% until 2023 (Statista 2020). Consumers are well-informed, discriminating, and health-conscious looking for innovative products and packaging, in face creams, serums, masks, make-up, and treatments. While the market is mostly female-driven, the market for male personal care products is also growing quickly. A good entry point to get an idea of the market is the https://www.philbeautyshow.com/ trade fair.

The **food sector** also provides opportunities for companies and brands from the ASEAN regions. More food is imported in line with the growth of global chain supermarkets, which are competing with traditional wet markets. Major chains include Waltermart, PureGold, S&R, SM Market, Super8, Rustan, and Robinsons. A very large proportion of food is sold via convenience stores, which include Circle K, 7-Eleven, Family-Mart, Lawson, The difficulties of transporting products in the Philippines exacerbate the problems for local farmers and combined with the recent poor growing conditions, gives good opportunities for the sale of food products. The growing middle class is becoming more health and quality conscious, kept updated via social media, which is reflected in the growing interest in healthy and organic food, as well as the increase in restaurants and cafés.

Under the government's infrastructure development plans, the Philippines will spend about US$4.4 billion on ICT over the next six years to improve **cybersecurity, the cloud, and telecommunications.** The industry today has large numbers of companies from both the Philippines and large global brands in software development, animation, production and sale of hardware, and particularly business process outsourcing (BPO) The rapid increase in (BPO), started with low-cost call centres, but has increasingly turned towards high end-outsourcing, based on the large, young population of skilled IT workers and the widespread use of English. Software development is growing rapidly, and the start-up sector is particularly vibrant at present, spreading from Manila to Cebu, Davao, and many smaller cities. There are also numerous companies in the hardware sector providing components to major brands and the export of semi-conductors was the country's largest single export in 2017, contributing 21.9% of total exports (Philippines Statistics Authority).

The Philippines has great potential to expand its **tourism industry**, which attracted 7.1 million foreign visitors in 2018, an increase of 7.7% compared with the previous year. The country has some of the best diving and beach areas in the world, making it an attractive location. Most visitors were from South Korea, China, USA, Japan, and Australia, contributing over 12% of GDP. The improvement in infrastructure being developed by the government is expected to further boost this sector. This fuel demand for processed foods, high quality imported food and beverage products, sporting and leisure equipment, hotel and catering, furniture and equipment, as well as many opportunities in the service sector.

While the economy is advancing well, the Philippines also has a number of challenges. One of the main points of President Duterte's campaign was to eradicate corruption in the Philippines, where it has long been a problem. The country ranks currently 113thth out of 180 in the Transparency International Corruption Perception Index 2019. This is not helped by a court system which is generally slow and complex, which means that commercial disputes cannot be resolved on time and can take years to work their way through the system. The complexity of the legal system is mirrored in the country's overall regulatory system, where production registration and standards as well as environmental and labeling requirements make the marketing of certain products more complicated. A comprehensive list of standards and regulations can be found on http://www.bps.dti.gov.ph/index.php

The Philippine's law for government procurement, RA 9184, was revised in 2016 and is based on the best compliant price basis, but has significant documentation requirements, and the payment conditions mean that the final sum owed is only paid at the end of a warranty period, which can be several years, causing liquidity issues for many companies. In most cases, having a Filipino partner is a requirement for obtaining a government or public service contract. The government has also restricted foreign ownership in certain industries, including utilities and the media and there are several professions where foreign participation is not allowed at all.

For geographical reasons, transport is a challenge in the Philippines, and the country is behind most of ASEAN in terms of infrastructure development. Airports are typically too small for the number of users which is a hindrance to the development of business and tourism. Metro Manila suffers from serious traffic congestion and an insufficient public transport network and ports are congested and with limited capacity for transport requirements. Internet penetration is also lower than in most neighboring regions, with relatively low connection speeds and reliability.

Summary

Overall, the Philippines offers a promising future economy in many areas. Communication is generally easy as a very high proportion of the population is English-speaking and the market is well-developed, particularly within urban areas. Further information and assistance can be obtained from:

- The Philippine Chamber of Commerce and Industry http://philippinechamber.com/
- The Philippines Trade Portal will help traders to find all the information regarding import and export of goods to and from the Philippines, including information related to import/export process, regulations for specific products, statistics, relevant laws, and other useful information. http://tradelinephilippines.dti.gov.ph/
- Philippines Board of Investments http://boi.gov.ph/
- Events, retail information and contact details of major domestic chains can be found on the website of the Philippines Retail Association: https://www.philretailers.com/

Trade figures by country

Largest import partner	Trade value million USD (WITS 2018)	Partner share %
China	22,579	19.63
South Korea	11,503	10.00
Japan	11,396	9.91
USA	8,297	7.21
THAILAND	7,948	6.91

Largest export partner	Trade value million USD (WITS 2018)	Partner share %
USA	10,550	15.63
Hong Kong	9,554	14.15
Japan	9,473	14.04
China	8,698	12.89
Singapore	4,234	6.27

Trade figures by product

Largest exports by 6-digit HS code		Value USD (thousands) WITS 2018
854219	Monolithic integrated circuits, nes	13,429,647
854390	Parts of electrical machines and apparatus, having individual functions, n.e.s. in the chapter . . .	6,551,887
847193	Computer data storage units	3,352,246
847192	Input or output units	2,836,196
854430	Ignition wiring sets and other wiring sets for vehicles, aircraft or ships	1,689,674

Largest imports by 6-digit HS code		Value USD (thousands) WITS 2018
854290	Parts of electronic integrated circuits, n.e.s.	10,552,485
854219	Electronic integrated circuits (excl. such as processors, controllers, memories and amplifiers	6,360,814
271000	Petroleum oils and oils obtained from bituminous minerals (excl. crude); preparations containing ≥70% by weight of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations, n.e.s.; waste oils containing mainly petroleum or bituminous minerals	6,092,069
270900	Petroleum oils and oils obtained from bituminous minerals, crude	5,160,572
880240	Aeroplanes and other powered aircraft of an of an unladen weight › 15.000 kg (excl. helicopters and dirigibles)	1,879,358

Source: https://wits.worldbank.org/CountryProfile/en/Country/PHL/Year/2018/Summary

Import restrictions by country, e.g., quotas or non trade-barriers

The Philippines has a number of national restrictions or requirements on imports and exports including right-hand-drive vehicles, roulette wheels and gambling equipment, firearms, and explosives, toy guns, hazardous waste, laundry detergents containing hard surfactants, PCBs and others.

Some other products including rice, seafood, chemicals, medical equipment and pharmaceuticals, wood, vehicles, etc. require supplementary regulation from different government ministries. A fully searchable list of the relevant categories for both restricted and regulated products can be found on https://dti.gov.ph/resources/downloadable-forms#imports

Product and Trade indexes

(efficiency of customs clearance, openness to trade and trade tariffs)

The ASEAN Trade in Goods Agreement (ATIGA) aims to achieve free flow of goods in the region resulting in fewer trade barriers and closer economic linkages between the ten Member States, lower business costs, increased trade, and a larger market and economies of scale for businesses. The agreement was signed by the Economic Ministers of the Governments of Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam, Member States of the Association of Southeast Asian Nations (ASEAN) on 26 February 2009 at Cha-am, Thailand. From 1st January 2010, Malaysia, Brunei Darussalam, Indonesia, Philippines, Singapore, and Thailand) made a complete free trade area and have eliminated import duties on 99 percent of products in the Inclusion List (except for products listed in the Sensitive and Highly Sensitive Lists). Today, the ASEAN-6 have 99.20% of tariff lines in the Inclusion List at 0% import duty. This means that only 0.35 percent of the tariff lines in the Inclusion list incur import duties.

Form D is required in order to benefit from ATIGA preferential tariffs: download here.

A VAT of 12% is levied on the sale of all goods and services above P10,000 (US$ 200), including the imports of goods into the Philippines.

Companies operating in Special Economic Zones (SEZs) or free port zones are exempted from paying taxes and tariffs on imported raw material and manufacturing equipment. Under the current legislation, the Customs Modernization and Tariff Act, 2015, this includes:

- Clark Freeport Zone
- Poro Point Freeport Zone
- John Hay Special Economic Zone
- Subic Bay Freeport Zone
- Cagayan Special Economic Zone
- Zamboanga City Special Economic Zone and
- Freeport Area of Bataan.

Companies importing from abroad must have Import Clearance Certificates obtained from the Bureau of Internal Revenue and will require the following documents from clients:

- Packing list
- Invoice
- Bill of lading
- Import Permit
- Customs Import Declaration, and
- Certificate of Origin.

Business dynamism index

(financing to SMEs, costs of starting a business, time of starting a business)

According to figures from Transparency International in its 2019 Corruption Perceptions Index, the Philippines is the 113th least corrupt nation out of 180 countries, falling slightly from 2018. At the same time, the Philippines is the 64th most competitive nation in the world out of 141 countries ranked in the 2019 edition of the Global Competitiveness Report published by the World Economic Forum.

Figures from the end of 2019, show that the Philippines is ranked 95 among 190 economies in the ease of doing business, according to World Bank annual ratings. The rank has improved to 95 in 2019 from 124 in 2018, continuing the positive trend which started over a decade ago. There is, however, still some improvement to be made and processes such as setting up a company, obtaining construction permits, registration procedures for property are particularly lengthy processes, exacerbated by the difficulties in enforcing contracts.

The following processes are required to set up a business in the Philippines:

- Notarise articles of incorporation and treasurer's affidavit at the notary.
- Apply for company incorporation and pre-registration for Taxpayer Identification Number (TIN), Social Security System (SSS), Philippine Health Insurance Company (PhilHealth), and Home Development Mutual Fund (Pag-ibig Fund) from the Securities and Exchange Commission.
- Pay the registration fee at the Securities and Exchange Commission.
- Obtain a business permit from the Business Permits and Licensing Office – an inspection may be required.
- Obtain clearance from the local authority (Barangay).
- Buy special books of account at the bookstore – BIR Computerized System Evaluation Team is required to inspect and evaluate the company's accounts within 30 days from receipt of the application form (BIR Form No. 1900) and complete documentary requirements.
- Apply for Certificate of Registration (COR), TIN, and approval to print receipts and invoices from the Bureau of Internal Revenue.
- Print receipts and invoices at the print shop at the Bureau of Internal Revenue.
- Final Registration with the Social Security System (SSS).
- Final registration with the Philippine Health Insurance Company (PhilHealth).
- Final registration with Home Development Mutual Fund (Pag-ibig).
- Submit the Printer's Certificate of Delivery of Receipts and Invoices (PCD) and a sworn statement to the Bureau of Internal Revenue.
- A full list of the procedures can be seen here.

Some other products including rice, seafood, chemicals, medical equipment and pharmaceuticals, wood, vehicles, etc. require supplementary regulation from different government ministries. A fully searchable list of the relevant categories for both restricted and regulated products can be found here.