The Philippines is an archipelago comprising over 7,600 islands and a population of over 109 million (World Bank, 2020). It is an upper-middle-income country and its main economic sectors are on food processing, cement production, iron and steel, and telecommunications. The Philippines is the second largest producer of coconut, behind Indonesia. The country’s mineral reserves of copper, gold, and zinc are said to be largely unexploited. Industry sector (including manufacturing) contributes 29.2% of GDP and employs 18.3% of the workforce in 2020. About 64% of its population are of working age.

Industrial food processing is one of the Philippines’ main manufacturing activities. However, big industries are still dominated by production of cement, glass, chemicals products and fertilisers, iron, steel, and refined oil products.
Manufacturing sector contributed 17.7% to GDP (of USD 361.5 billion) in 2020, with the top five subsector being: food, radio and telecommunications equipment, chemical/chemical products, petroleum products, and beverage.

Large multinational corporations have established food manufacturing facilities in the Philippines, such as Nestlé Philippines, Inc. and the Philippines own San Miguel Pure Foods Company, Inc. and Subsidiaries. The Philippines produces about 80% of its food supply and imports the remaining 20%. Filipinos have general preference for convenient, ready-to-eat, and imported foods. Approximately 90% of the food manufactured is consumed domestically. The food processing sector is the main employer in the manufacturing sector.

The chemical and chemical products manufacturing sector cater for agriculture, food, and plastics, thus, producing fertilizers, alcohol, resins, drugs, and perfumes.

Manufacturing exports are mainly from the electronics and semiconductors representing 60.1% share of the total export revenue in 2020.

Other large players in the manufacturing sector are Universal Robina Corporation and Subsidiaries, Monde Nissin Corporation and Subsidiaries, Unilever Philippines Inc., Texas Instruments Philippines Inc., Toshiba Information Equipment (Philippines), Inc., Syngenta Philippines, Inc., and Petron Corporation.

### Table 1: Manufacturing Subsector GDP in 2019 (USD billion)

<table>
<thead>
<tr>
<th>Subsectors</th>
<th>USD billion (2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>food manufacturing</td>
<td>32.3</td>
</tr>
<tr>
<td>chemical and chemical products</td>
<td>7.9</td>
</tr>
<tr>
<td>computer, electronic and optical products</td>
<td>6.7</td>
</tr>
<tr>
<td>beverage industries</td>
<td>2.9</td>
</tr>
<tr>
<td>basic metals</td>
<td>1.7</td>
</tr>
</tbody>
</table>
MANUFACTURING HUBS IN THE COUNTRY

Manufacturing is the main sector in 74 of the 407 economic zones especially in Region IV (CALABARZON), National Capital Region or NCR (Metro Manila), Region III (Central Luzon), Central Visayas (mainly in Cebu), and Region XI (mainly in Davao).

A large part of the manufacturing facilities is concentrated in NCR followed by CALABARZON, mainly in Cavite, Laguna, and Batangas. The Investment Capital of South Luzon Sta. Rosa in Laguna province is considered home to major food and beverage corporations and automobile manufacturers.

MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN THE MANUFACTURING SECTOR

According to the Department of Trade and Industry (DTI) of the Philippines, the top five (5) industry sectors in terms of the number of MSMEs (957,620) in 2020 were: (1) wholesale and retail trade, repair of motor vehicles and motorcycles; (2) accommodation and food service activities; (3) manufacturing; (4) other service activities; and (5) financial and insurance activities. Larger firms see the MSMEs as important partners for export revenue through subcontracting arrangement or as suppliers to exporting companies.

Table 2: 2020 Sectoral Distribution of MSMEs in the Philippines

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent of total registered MSMEs in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles</td>
<td>46.74</td>
</tr>
<tr>
<td>Accommodation and Food Service Activities</td>
<td>14.07</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11.64</td>
</tr>
<tr>
<td>Other Service Activities</td>
<td>6.55</td>
</tr>
<tr>
<td>Financial and Insurance Activities</td>
<td>4.78</td>
</tr>
</tbody>
</table>

Source: Philippines Statistics Authority

The majority of value-added MSMEs belong to the manufacturing sector, such as those in food and beverages, textiles, apparel, wood and its products, paper and its products, chemical and its products, rubber and plastic products, machinery, and equipment.
DTI is implementing the Inclusive Innovation Industrial Strategy (i3S), the country’s new innovation-centered and science- and technology-based industrial policy. The strategy puts innovation at the front and center of government’s policies and programs in collaboration with the industry and the academe.

It aims to grow globally competitive and innovative industries that will thrive in a dynamic industry ecosystem. The new industrial policy has six strategic actions, namely:

1. **Embrace Industry 4.0** through supporting the digital transformation and smart manufacturing initiatives of manufacturers from awareness, assessment, roadmap development, simulation, up to eventual adoption, covering all facets of production, financial support and incentives, technology expertise, and more importantly skills and people development;

2. **Integrate production systems**, by linking manufacturing to agriculture and services, enhancing forward and backward linkages, filling in supply chain gaps, and deepening their participation in regional and global value chains;

3. **Build vibrant national and regional innovation and entrepreneurship ecosystems** through government-academe-industry partnerships, business matching, mentorships, access to shared service facilities such as R&D laboratories, co-working spaces, startup incubation and acceleration, access to funding and financial assistance, training centers, and other related innovation programs and services;

4. **Upskill and reskill the workforce** through upgrading education curricula, training the workforce for emerging Industry 4.0 skills, aligning the skills and competencies of education and tech-voc graduates to industry demands, and solving jobs and skills mismatches;

5. **Create an enabling business environment** through promoting ease of doing business, enacting legislative and policy reforms to liberalize investment policies and encourage foreign and domestic investments, and providing the necessary physical, digital, and quality infrastructure; and

6. **Develop innovative MSMEs**, through the adoption of digital tools and entering the digital economy, and grow innovative startups, that will address market gaps and societal needs, especially by utilizing emerging technologies like Robotics, Artificial Intelligence (AI), Cloud, and Internet of Things, among others.

The Comprehensive National Industrial Strategy (CNIS) aims to improve human capital, innovation, and research and development and promotion and marketing programmes to attract investors in key sectors including manufacturing. The CNIS aims to address gaps in the supply chain and expand industry participation in global value chains to attract more investments.

Investment in automotive sector should consult the Comprehensive Automotive Resurgence Strategy (CARS) aimed at scaling up the manufacturing of automotive, improving competitiveness, and increasing the value addition of the parts and components manufacturers in the automotive industry of the country. Other programs with incentives for investors are the Manufacturing Resurgence Program (MRP) and the Securing Manufacturing Revitalization and Transformation (SMART) Program.

The SMART Program aims to ensure that the manufacturing sector will respond to the needs of Industry 4.0 technologies through research, development, and innovations, adoption of new processes, products, and services, and development of new business models.

The Philippine Economic Zone Authority (PEZA) offers attractive package to investors to encourage export-oriented manufacturing businesses to expand the global business networks of the manufacturing industry.
The Corporate Recovery and Tax Incentives for Enterprises (CREATE), enacted in 2021, governs the new fiscal incentive regime for domestic and foreign investments. It has lowered the Corporate Income Tax (CIT) rate from 30% to 25% for domestic corporations with a net taxable income of more than PHP5 million, foreign corporations, and non-resident foreign corporations, and to 20% for domestic corporations with total assets, excluding land, of not more than PHP 100 million and net taxable income of PHP 5 million and below.

It has also rationalized, simplified, and unified the menu of incentives being offered by all Investment Promotion Agencies (IPAs) in the Philippines. Registered business enterprises may now avail of four to seven years of Income Tax Holiday (ITH) plus either a 5% Special Corporate Income Tax (SCIT) based on gross income earned, in lieu of all national and local taxes, or avail of enhanced deductions from eligible expenses, both for up to 10 more years. The law also provides for the duty exemption on importation of capital equipment, raw materials, spare parts, or accessories, and VAT exemption on importation for exporters and VAT zero-rating on local purchases.

The law provides for the creation of the Strategic Investment Priorities Plan which will identify the priority industries for incentives based on market orientation (domestic or export), regional location, and technology- or R&D-intensity, among other baseline indicators.

DTI, through the Anti-Red Tape Authority (ARTA), is the lead implementor of the “Ease of Doing Business and Government Efficiency Act of 2018” or Republic Act No. 11032, which streamlines business processes and promotes business competitiveness from business registration, business processes, and customs administration.

Moreover, to date, the country boasts of its membership to eight (8) key regional Free Trade Agreements (FTAs), one of which is the recently concluded Regional Comprehensive Economic Partnership. These are also complemented by the strong bilateral FTAs, with key markets such as Japan and the European Free Trade Association. This will ultimately increase the market access, improve trade and investment, enhance transparency, integrate supply chains, and strengthen economic cooperation.

The Philippine Development Plan 2017-2022 recognizes that expanding economic opportunities will be best achieved through accessing new technology and innovation, building innovative talent, and encouraging entrepreneurship that uses technology-enabled business models to leverage opportunities and growth of MSMEs.

The Philippine Innovation Act (PIA) or Republic Act No. 11293 mandates all Philippine government agencies to generate and scale up actions in all levels and areas of education, training, research, and development towards promoting innovation and internationalization activities of MSMEs as drivers of sustainable and inclusive growth.

The Innovative Startup Act provides benefits and removes constraints to encourage the establishment and growth of innovative startups through special visas and simplified business registration, venture capital funding, and incubation and acceleration programs, among others.

The country’s National AI Roadmap positions the Philippines as a regional center of excellence in AI research and development. Through the Center for AI Research (CAIR), local and multinational manufacturing companies and MSMEs, in the Philippines and abroad, can explore various world-class AI R&D projects with the Philippine government, its researchers, and its linkages with universities and research institutes.

Key reforms are also underway in liberalizing the investment environment for both foreign and domestic investors, through the: Public Services Act, which aims to liberalize key public utility sectors such as telecommunications and transportation; the Retail Trade Liberalization Act, which aims to lower the minimum paid-up capital for foreign investments in the retail sector; and the Amendments to the Foreign Investment Act, which will relax the ownership restrictions for more sectors in the economy.
Republic Acts 5186 and 6135

Republic Act 5186 and Republic Act 6135 (Export Incentives Act) were implemented to encourage foreign investments. Investors enjoy various fiscal incentives, such as accelerated depreciation, tax exemption on imported capital equipment, and exemption from all revenue taxes except income tax.

The Special Economic Zone Act allows investors and businesses in the economic zone to enjoy a reduced tax rate of 5% after the first four to six years of tax exemption. No taxes imposed on imports of raw materials, capital equipment, machinery, and spare parts. Businesses are also able to claim tax credits for exports that use local raw materials via the Export Development Act of 1994 in addition to incentives under the Board of Investment incentives.

Investors can expect to benefit from various policy initiatives to improve the business environment and ease of doing business by simplification of regulatory procedures. DTI has initiated the Inter-Agency Business Process Interoperability (IABPI) to streamline and fully automate export and import procedures.

OPPORTUNITIES FOR MARKET ENTRY AND INVESTMENTS

The Manufacturing Industry Roadmap, which promotes the Philippines as one of the best options for a global manufacturing hub, highlights infrastructure improvements, innovative technologies, and highly skilled and trainable workforce.

The new industrial policy of the Philippines is focusing on the development of 15 strategic industries for domestic and export markets, which will be prioritized in terms of government support and incentives:

- automotive and automotive parts (including electric vehicles and their parts and components)
- chemicals, pharmaceuticals, and medical devices
- agribusiness
- furniture and garments
- creatives
- iron and steel and tool and die
- electronics and electrical
- shipbuilding and shiprepair
- IT-BPM
- e-commerce and digital economy
- climate change and mobility solutions
- aerospace and aircraft maintenance
- construction
- transport and logistics
- tourism

Investors should take into account the Philippines special program for electric vehicles, which includes the eco-PUV (public utility vehicle) modernization program aimed at replacing outdated PUVs such as jeepneys. There are incentive programs offered by the government for the production of electric vehicles, and thus, the development of battery.
ISSUES AND CHALLENGES

Private sector associations have expressed concerns over higher minimum wages and foreign ownership limitations. In addition to high electricity cost, poor infrastructure, slow broadband connections, regulatory inconsistencies, and corruption are the major disincentives to investment.

Manufacturing processes dependent on imported raw materials suffered from the impact of changing prices and global policies. The Philippines traffic congestions are also key concerns among investors.

Investors can expect further improvements in infrastructure as the Philippines plans to spend more than USD 180 billion up to year 2022 to upgrade its infrastructure, in addition to its Build, Build, Build program.

RECOMMENDATIONS

Manufacturing sector players, especially for consumer goods, need to move up the value addition to face off stiff competition including within ASEAN region from Thailand and Viet Nam.

Private sector associations could continue to advice the government on issues, such as high utility costs, upskilling human resources, and scaling up high-value manufacturing activities.

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