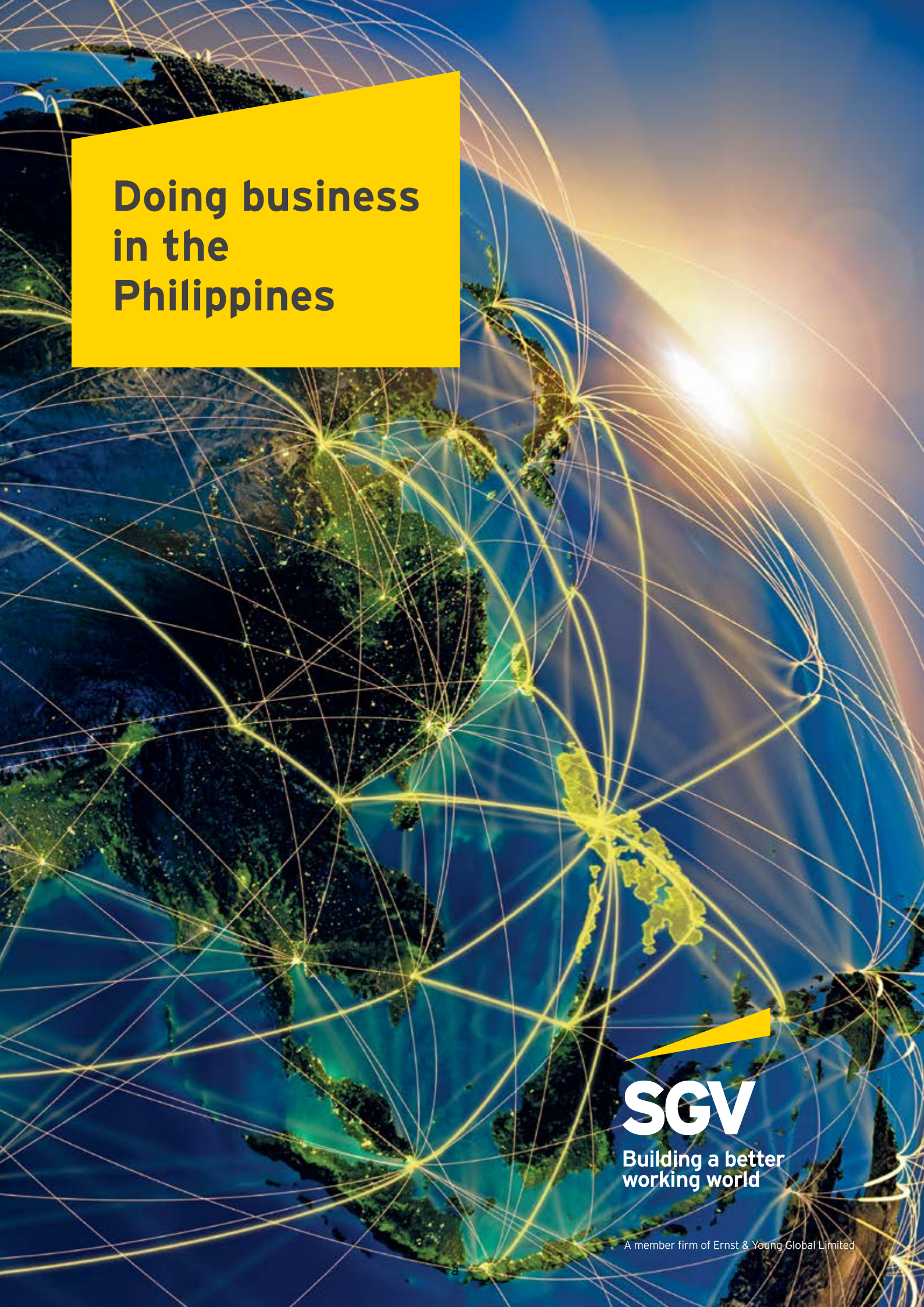
Doing business in the Philippines



SGV

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MESSAGE

As one of the fastest growing economies in the Asia-Pacific region, the Philippines, under the administration of President Rodrigo Duterte, aims at sustaining the country's sound macroeconomic fundamentals and investor confidence through its 10-point socio-economic agenda. Towards this end, the Department of Trade and Industry (DTI) commits to uplift the quality of life of Filipinos by advancing sustainable and inclusive economic growth that generates employment and entrepreneurship *(Trabaho at Negosyo)* opportunities to address inequality, ensuring prosperity for all.

To reach the country's fullest potential, the government upholds a comprehensive national strategy that focuses on creating globally competitive, value adding and innovative industries, wherein the country has existing and potential comparative advantage. DTI places high importance on the government's partnership with the private sector to accelerate the realization of objectives. It also strives hard to keep an enabling business environment, especially in view of the challenges posed by today's regional integration.

As the Philippines assumes chairmanship of ASEAN's 50th anniversary this year, this publication material, ***"Doing Business in the Philippines"***, presents itself as a timely and relevant information source that significantly highlights the country's economic outlook, labor force, investor-related laws, industry trends and challenges, as well as developments reflecting the country's new leadership. DTI is confident that SGV and Co. will remain faithful to its mission of guiding potential investors looking to set up operations in the Philippines.

To fast-track efforts in boosting key growth industries, the government strengthens its meaningful collaboration with the business community, in pursuit of the shared goals of sustaining economic momentum and realizing a truly inclusive, innovation-led growth that spurs economic prosperity from the bottom of the pyramid.

RAMON M. LOPEZ
Secretary

MALACAÑAN PALACE
MANILA

MESSAGE

I extend my heartfelt thanks to the **SGV & Co.** as you come up with your yearly publication, ***Doing Business in the Philippines***.

Peace, order, and stability are the foundations upon which strong and progressive nations are built. Without these prerequisites buttressing our economy and protecting our people, opportunities will not arise, gains will be lost, and meaningful development will never occur. Because of this, the government has focused its first few months in office tackling the scourge of illegal drugs, criminality, and corruption.

As we address these issues that stifle the momentum of our growth, we will also pursue initiatives that promote competitiveness and ensure ease of doing business. We will also put into place predictable and stable macroeconomic policies; relax restrictions on ownership; and facilitate investments in sectors like manufacturing, agriculture, and tourism. We will also ensure that only the most trusted, respected, and qualified people will occupy key positions in government, and that constant collaboration and dialogue between industry leaders and government becomes the norm throughout my term.

I, therefore, welcome everyone to come and do business in the Philippines. Key demographic and macroeconomic indicators presented in this publication will show that we are a country that is poised to make several giant leaps in the next few years. Invest here and I assure you that you will greatly prosper if you help us in realizing our people's great potential.

RODRIGO ROA DUTERTE

MANILA
December 2016

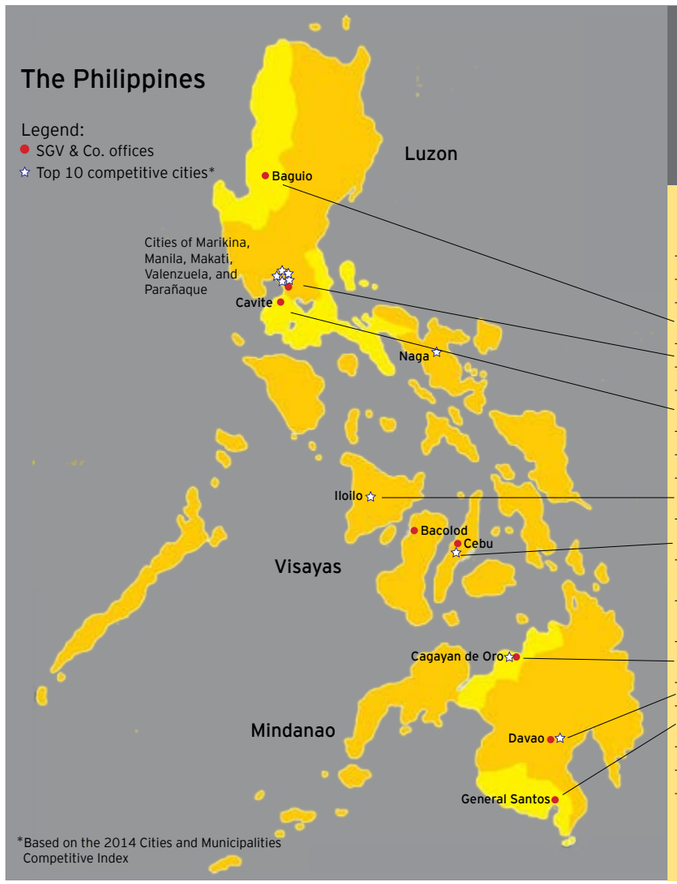
THE PRESIDENT OF THE PHILIPPINES

Why you should invest in the Philippines

Teeming with natural resources and boasting of staggering landscapes, the Philippines does not disappoint those who go the extra mile to reach it. Indeed, nothing compares to the abundance of diverse natural resources offered by the Philippines. However, it is the Filipino that makes the country truly wonderful. Even when faced with adversity, Filipinos are the warmest and most easygoing people anywhere and are noted for their courtesy, hospitality and, most of all, talent. Highly competent, multi-skilled and trainable, the Filipino worker can surpass any other in dedication and hard work. The country is blessed with an educated, multi-cultural, bilingual and skilled labor force.

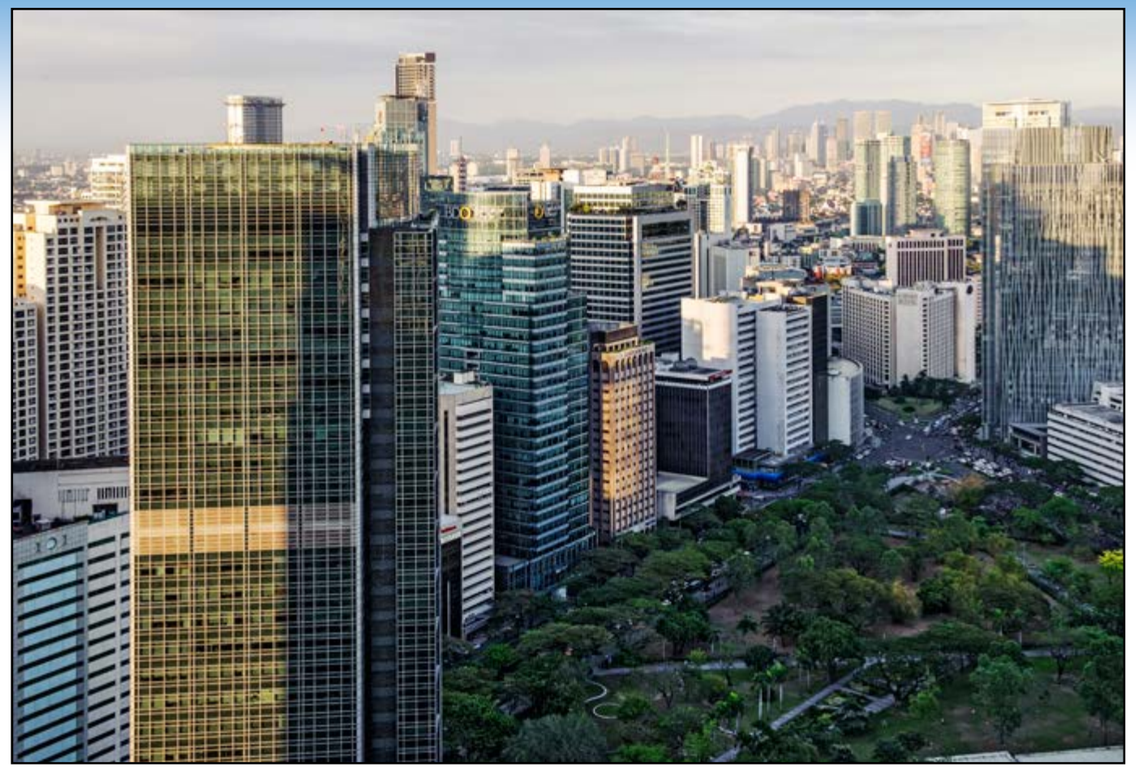
In the *2017 World Bank – International Finance Corporation Doing Business Report*, the Philippines has once again improved its ranking, placing 99th compared to 103rd in the previous year. Since 2011, the country has climbed 49 spots in the Doing Business Report.

The 2017 report measured regulatory factors that have an impact on the areas of the life of a business. The Philippines boosted its ranking in protecting minority investors, dealing with construction permits, paying taxes and enforcing contracts. The country also sustained its position in registering property and trading across borders. These indicators show that the Philippines has a low-cost, economically sound, and cosmopolitan environment in which to do business.



Regional economic growth targets
According to the Philippine Development Plan (PDP), the country's high growth path is expected to be manifested in all regions with the support of regional development councils.

Regions	2012 (Baseline)	2016 (PDP Target, upper range)
Region I: Ilocos	5.2	9.2
Region II: Cagayan Valley	8.2	5.7
Cordillera Administrative Region	1.0	6.5
National Capital Region	7.3	8.4
Region III: Central Luzon	6.3	9.0
Region IV-A: CALABARZON	7.0	7.6
Region IV-B: MIMAROPA	4.2	6.2
Regio V: Bicol	7.1	8.0
Region VI: Western Visayas	7.5	8.8
Region VII: Central Visayas	9.3	12.5
Region VII: Eastern Visayas	(6.2)	5.6
Region IX: Western Mindanao	12.4	7.5
Region X: Northern Mindanao	7.4	9.5
Region XI: Davao Region	7.4	8.7
Region XII: SOCCSKSARGEN	8.1	10.1
Region XIII: CARAGA	10.6	10.8
ARMM	1.2	3.4



Economy overview

The Philippine economy grew 6.6% in the last quarter of 2016, for a full-year growth of 6.8%. The posted growth is fueled by higher investment opportunities and consumption as well as the growth of manufacturing, trade, and real estate, renting, business activities. It has enjoyed a string of upgrades in recent years from credit raters recognizing the country's improving fundamentals. The Philippines continues to enjoy investment grade status since its upgrade by Fitch Ratings, Standard & Poor's (S&P), and Moody's Investor Service in 2013.

In December 2016, growth in foreign workers' remittances continued to rise, supporting private consumption at the start of 2017. In terms of major sectors, industry had the fastest growth at 7.6% from 6.5% growth in the previous year. Services grew 7.4%, while the agriculture sector reported a 1.1% growth rate. Philippine merchandise export sales amounted to US$4.87 billion in December 2016, a 4.5% increase from the recorded value in December 2015. The increase was attributed to five major commodities including coconut oil (146.5%), other mineral products (104.5%), metal components (66.4%), chemicals (42.15%) and other manufacturers (35.8%). Japan remains the top destination of Philippine-made goods, followed by the United States and Hong Kong.

The National Capital Region continues to be the leading growth area in terms of population, residential projects and commercial projects. Cavite, Bulacan, Laguna and Pangasinan in Luzon complete the top five in population growth.

Cavite, Laguna and Rizal – all in Luzon, and Cebu in the Visayas complete the top five in the residential projects list. Aklan and Cebu in the Visayas, Pampanga in Luzon and Davao del Sur in Mindanao complete the top five in the commercial projects list.

Source: Philippine Statistics Authority

President Duterte's 10-Point Socioeconomic Agenda

The new administration under President Rodrigo Duterte presented the 10-point socio-economic agenda during a business forum in June 2016

Labor force

In October 2016, the preliminary results of the Labor Force Survey showed a 95.3% employment rate with 41 million employed. The services sector accounted for 54.9% of the total employed persons, followed by the agriculture sector at 27.0% and industry at 17.2%.

The labor force participation rate in October 2016 was reported at 63.6%, given the labor force population of 68.7 million. Meanwhile, the unemployment rate fell to 4.7% from 5.4% in the September quarter.

Source: Philippine Statistics Authority

Offshoring and outsourcing

The Philippines is among the world's top outsourcing destinations, thanks in large part to low business costs and a large pool of university-educated, English-speaking and highly adaptable workers.

The Philippine business process outsourcing sector grew at 19% a year from 2011 to 2015. The IT and Business Process Association of the Philippines (IBPAP) targets US$40 billion in revenues and a 15% global market share in 2022. In its Philippine IT – Business Process Management (BPM) Roadmap 2022, it also aims for 1.8 million direct jobs in the sector and a total of 7.6 million direct and indirect IT-BPM employment. The World Bank also anticipates the sector's expected revenues of US$35 billion in 2018 to overtake the projected value of remittances.

Collectively, the industry provides services for a wide range of prominent Fortune 1000 firms in North America, Asia, and the European Union. The Philippines remains to be the global leader for voice business process management services and the second-preferred location for non-voice services, showing capability in areas such as healthcare, IT, finance and accounting, human resources and creative processes.

In 2016, a Tholons study ranked Metro Manila second and Cebu seventh among the "Top 10 Outsourcing Destinations," while Davao City, Sta. Rosa, Bacolod, Iloilo City, Dumaguete, Baguio, and Metro Clark were in the Top 100. The IT-BPAP also seeks to provide 500,000 jobs outside of Metro Manila by 2022.

Among the activities eligible for Philippine Economic Zone Authority (PEZA) incentives are: IT-enabled services such as BPO, call centers, data encoding, transcribing and processing; software development and application; and content development for multimedia or internet purposes.

As of October 2016, the PEZA reported that there are 243 operating IT Parks or Centers. These zones serve as a one-stop-shop for e-services investors who may want to locate in the Philippines. Manila, Baguio, Cebu and Davao are acknowledged as the country's information and communications technology (ICT) hubs. Outside Metro Manila, there is also the rapid development of regional ICT hubs in locations such as Bacolod, Bohol, Cagayan de Oro, Clark, Dumaguete, Iloilo, Legaspi, Lipa, Naga and Rizal. Many of these, along with those cited by the Tholons report, have also been proclaimed by the IBPAP as Next Wave Cities beyond the capital that are conducive for investment.

Sources: Tholons, IT and Business Process Association of the Philippines, World Bank, Philippine Economic Zone Authority

Tourism

Tourism is another bright spot in the economy. The Philippine Department of Tourism has reported 6 million inbound visitors in 2016, a 25% increase from 4.8 million in 2014. Also, that inbound visitor receipts grew by PhP21.68 billion (or US$433.6 million) from its PhP19.18 billion earnings in July 2015.

There are 10 international airports in the country with several slated for major renovations via Public Private Partnerships (PPPs). Key gateways include those in Manila, Cebu, Davao,

Clark, Pampanga and Laoag. The Ninoy Aquino International Airport is the country's main airport. It has five terminals, some servicing domestic routes, and other servicing international flights to Asia, the Middle East, Europe, and North America.

The country has been upgraded to a Category 1 rating in Aviation Safety by the US Department of Transportation's Federal Aviation Administration, allowing local airline companies to expand their operations in the US.

The European Union (EU) has also allowed local carriers Philippine Airlines and Cebu Air, Inc. to fly into European airspace as recognition of the airlines' commitment to safety and full compliance with international aviation safety standards.

The Mactan International Airport in Cebu has regular flights from Busan, Doha, Taiwan, Hong Kong, Singapore and various other cities in Korea, China and Japan. The Davao International Airport has regular flights from Indonesia and Singapore, and seasonal flights from Macau.

The Clark International Airport in Clark has regular flights from Hong Kong, Doha, Dubai, Macau, Singapore and various cities in Korea and Malaysia. The Subic International Airport in Zambales has regular flights from Korea and Macau, while Laoag International Airport in Ilocos Norte has regular flights from Macau. Kalibo International Airport in Aklan has regular flights from Taiwan and various cities in China and Korea.

Other international airports in the country are the Puerto Princesa International Airport in Palawan, Zamboanga International Airport and General Santos International Airport, which are both in Mindanao.

By sea, major cruise ships and international container vessels call at the port of Manila. Inter-island ships connect Manila to major ports in other provinces.

Source: Philippine Department of Tourism

Manufacturing

The National Statistical Coordination Board reported that manufacturing growth has continued to accelerate. The manufacturing industry posted a 14.4% growth in 2016. This comes as the government has rolled out the inter-agency Philippine Manufacturing Industry Roadmap, which aims to have the industry account for 30% value added to the economy and generate 15% of total employment by 2025 compared to 22% and 8%, respectively, back in 2012.

Phase I of the roadmap from 2014 to 2017 focuses on automotive and aerospace parts, electronics, garments, food, resource-based industries, chemicals, furniture, tool and die, and shipbuilding. Phase II from 2018 to 2021 shifts to high value added activities and investments in upstream industries such as chemicals, iron and steel, med-tech basic and fabricated metal, link and integrate industries, small- and medium-sized enterprises and large firms, and the innovation ecosystem. From 2022 to 2025, Phase III will move to high-tech activities, transport, electronics and chemicals as well as participate as manufacturing hubs in regional and global production networks for automotive, electronics, machinery, garments and food.

Foreign direct investment (FDI) in the Philippines as of November 2016 has reached US$6.97 billion, which is an increase of 25.4%, compared to the US$5.56 billion for the same period last 2015, with a bulk of equity capital investments channeled to manufacturing, among other sectors. This growth in FDI is expected to continue, as a result of the Philippine economy's upgrade into investment grade territory.

Sources: Philippine Department of Trade and Industry, Philippine Statistics Authority, Bangko Sentral ng Pilipinas

Construction

The construction sector remains a top growth contributor on the back of strong private real estate development activity as well as the government's Public-Private Partnership program, strategic infrastructure projects, and disaster reconstruction.

In the fourth quarter of 2016, the construction industry grew by 11.1%, compared with the 8.2% growth in the past year. Public investment in infrastructure expanded by 23%, which is higher than the 20.1% growth rate in the third quarter, while the private sector grew significantly by 16.2%. The outlook for the Philippine construction industry remains positive as it is expected to continuously grow over the forecast period between 2016 and 2020. BMI Research, in its Philippines Infrastructure Report Q1 2017, expects the construction industry to record 9% real growth in 2017 and 8.5% in 2018, taking into consideration the new administration's plan to spend more than US$144 billion in infrastructure between 2016 and 2022 as well as the US$24 billion worth of financing and investment deals signed in October 2016 during the President's visit to China. Industry growth would root from the country's development plan, Vision 2021, as well as population growth, urbanization, and favorable government policies with regards to PPPs. A total of 26 major PPP projects are to be awarded by December 2017.

Sources: BMI Research, PPP Center website, Philippine Statistics Authority

Mining

According to the Philippine Department of Environment and Natural Resources (DENR), the country's estimated mineral reserves are placed at about 14.5 billion metric tons of metallic minerals and about 67.66 billion metric tons of non-metallic minerals. It is also the fifth mineralized country in the world, third in gold reserves, fourth in copper and fifth in nickel.

In the mining statistics released by the Mines and Geosciences Bureau in February 2017, the gross production value in mining amounted to a total of PhP100.6 billion.

The Philippines currently hosts 41 operating metallic mines consisting of 27 nickel mines, six gold mines (with silver as co-product), three copper mines (with gold and silver as co-products), four chromite mines and one iron mine.

Sources: Philippine Department of Environment and Natural Resources, Mines and Geosciences Bureau

Renewable energy

The 2012-2030 Philippine Energy Plan prepared by the government estimates that under a low carbon scenario, renewable energy's contribution to the country's total power mix will grow by an annual average of 3.2% and comprise a 37.1% share. The Philippines is already the world's second largest producer of geothermal energy, with a still untapped resource potential of 2,600 megawatts. There is an untapped potential of 70,000 megawatts for wind energy and 13,097 megawatts for hydropower.

A total of 724 renewable energy service contracts with aggregate potential capacity of 14,498 megawatts were awarded as of the first half of 2016, while the total installed capacity was 4,132.5 megawatts. Of these contracts, 398 were hydropower projects and 160 were solar projects, 144 of which were on-grid and 16 were own-use.

The Philippines has a high-profit potential from biodiesel exports and is a large producer of coconut and sugarcane, two major sources of biofuels. With a total of 11 ethanol plants operating in the Philippines this year, the production is estimated at 322 million liters.

Source: Philippine Department of Energy

Agriculture

The Philippines has about 10 million hectares of agricultural land and is a major exporter of banana, coconut, pineapple and fishery products. Sugarcane and coconut are major sources of renewable biofuels such as bio-ethanol and coco-diesel. Also, the agriculture sector accounts for 27.0% of the total labor force. In the fourth quarter of 2016, the sector posted a performance growth of 1.11%. The crops subsector accounted for 50.98% of the total agricultural production, with a gross value amounting to PhP268.8 billion. Production increase was noted among banana, pineapple, abaca, peanut, cassava, sweet potato, tomato, eggplant and calamansi. Livestock (17.85%), poultry (15.03%), fisheries (16.41%) also contribute to the total agricultural output.

Source: Philippine Statistics Authority

Investment Policy and Incentives

Investments are most welcome in the Philippines. There are only certain areas of economic activity where foreign ownership restrictions apply.

Philippine laws and regulations guarantee the basic rights of all investors and enterprises, including the following:

- Freedom from expropriation without just compensation
- Right to remit profits, capital gains, and dividends within the guidelines of the Bangko Sentral ng Pilipinas, the country's monetary authority
- Right to repatriate the proceeds of the liquidation of investments
- Right to obtain foreign exchange to meet principal and interest payments on foreign obligations

There are a number of laws governing investments in the Philippines. Presently, there are proposals to consolidate all the incentive laws into one law to rationalize the grant and administration of fiscal and non-fiscal incentives given by various incentive bodies.

The major investment laws are discussed as follows.

Foreign Investments Act (FIA) of 1991 (or Republic Act No. 7042 as amended by RA No. 8179)
The Foreign Investments Act (FIA) of 1991 liberalized the entry of foreign investments into the Philippines.

Under the FIA, foreign companies are generally allowed to conduct business in the Philippines subject to restrictions spelled out in the Foreign Investments Negative List (FINL), which the government periodically updates. The FINL is a shortlist of areas of economic activities where foreign investments are restricted or limited. It has two components:

List A contains areas of activities reserved to Philippine nationals by mandate of the Constitution and other specific laws.

List B contains the areas of activity and enterprises where foreign ownership is limited pursuant to law. Among these are defense- or law enforcement-related activities and those with implications on public health and morals. This list includes small- and medium-sized domestic market enterprises with paid-in equity capital less than the equivalent of US$200,000, unless they involve advanced technology as certified by the Department of Science and Technology or they employ at least 50 direct employees, in which case a minimum paid-up capital of US$100,000 is allowed.

Omnibus Investments Code of 1987 or Executive Order (EO) No. 226, as amended by Republic Act (RA) No. 7918
Implemented by the Board of Investments (BOI), the Omnibus Investments Code of 1987 provides a comprehensive set of incentives for local and foreign enterprises engaged in activities considered by the government as high priority for national development.

To qualify for BOI incentives, an enterprise must engage in an area of activity listed in the government's Investment Priorities Plan (IPP). The IPP for 2017-2019 is currently being finalized by the government and will focus on the development and promotion of innovative, inclusive industries, enhance employment, entrepreneurship under a modern incentives regime.

Previously, if an enterprise is not listed in the IPP, it is also entitled to incentives if either of the following criteria is met:

- At least 50% of production is for export (for Filipino-owned enterprises)
- At least 70% of production is for export (for enterprises with more than 40% foreign equity)

BOI-Registered Enterprises enjoy both fiscal and non-fiscal incentives.

Fiscal incentives include an income tax holiday for six years for newly registered pioneer projects, four years for non-pioneer firms, and three years for expansion or modernization projects; income tax deduction for labor expenses; tax credits and special exemptions, among others.

For non-fiscal incentives, BOI-registered companies can enjoy simplified customs procedures; unrestricted use of consigned equipment; and the option to employ foreign nationals, among others.

Special Economic Zone Act of 1995 (RA No. 7916, as amended by RA No. 8748)
This law was passed in 1995 to encourage economic growth through the development of special economic zones called Ecozones. The Philippine Economic Zone Authority (PEZA) implements this law and also grants incentives to qualified enterprises that locate in the Ecozone.

Ecozones are areas earmarked by the government for development into balanced agricultural,

Source: Subic Bay Metropolitan Authority

industrial, commercial, and tourist/recreational regions. These include industrial estates, export processing zones, free trade zones, tourism ecozones, and IT buildings and parks.

Each Ecozone is to be developed as an independent community with minimum government interference. It shall administer its own economic, financial, industrial, and tourism development without help from the national government. It shall also provide adequate facilities to establish linkages with surrounding communities and other entities within the country.

The enterprises that may be located in Ecozones include export enterprises, free trade zone enterprises, service enterprises, pioneer enterprises, utilities enteprises, and IT enterprises, among others.

Incentives Available to Ecozone Enterprises
Ecozone enterprises are entitled to a number of favorable incentives, depending on the nature of their activities. These include a special tax rate of 5% of modified gross income in lieu of all national and local taxes after the income tax holiday, tax- and duty-free importation of equipment, raw materials and other supplies; income tax holiday; additional deductions and exemptions, among others.

Bases Conversion and Development Act of 1992 (RA No. 7227)

Subic Special Economic and Freeport Zone
Passed in 1992, this law created the Bases Conversion and Development Authority, the Subic Bay Metropolitan Authority (SBMA), and the Subic Special Economic and Freeport Zone (SSEFZ) consisting of the City of Olongapo and the Municipality of Subic, Province of Zambales, the lands occupied by the former Subic Naval Base and its contiguous extensions as embraced, covered, and defined by the 1947 Military Bases Agreement between the Philippines and the United States of America, and within the territorial jurisdiction of the Municipalities of Morong and Hermosa, Province of Bataan.
The vision for the 67,000-hectare Subic Bay Freeport (SBF) is to create a self-sustaining industrial, commercial, financial, and investment center in addition to its international seaport, which can anchor 600 ships.

Clark Special Economic and Freeport Zone
In 2007, RA No. 7227 was amended by RA No. 9400 to include additional special economic zones including the Clark Special Economic and Freeport Zone (CSEFZ) covering the lands occupied by the Clark Military reservations and its contiguous extensions as embraced, covered and defined by the 1947 Military Bases Agreement between the Philippines and the USA, as amended, located within the territorial jurisdiction of Angeles City, municipalities of Mabalacat and Porac, Province of Pampanga, and the municipalities of Capas and Bamban, Province of Tarlac.

Similar to the SSEFZ, the CSEFZ is a former US military facility converted into civilian use. The intention was to utilize the 4,400-hectare main zone and 27,600-hectare sub zone as a progressive urban center targeting IT-enabled industries, aviation, logistics tourism and related enterprises. The CSEFZ includes the Clark International Airport.

Registered enterprises in these special economic zones enjoy various investment incentives including access to first-class commercial, residential, and tourist facilities; tax- and duty-free importation; and a special tax rate of 5% of modified gross income in lieu of national and local taxes.

An Act Providing for the Terms, Conditions, and Licensing Requirements of RAHQs, ROHQs, and RWs (RA No. 8756)
RA No. 8756 signed into law on 23 November 1999, provides, among others, the rules and guidelines on the establishment and maintenance of multinational companies' Regional or Area Headquarters (RAHQs), Regional Operating Headquarters (ROHQs), and Regional Warehouses (RWs).

ROHQs are branches established in the Philippines by multinational companies that are allowed to derive income by providing qualifying services to their affiliates in the region. These services include general administration and planning, business planning and coordination, sourcing/procurement of raw materials and components, and corporate finance advisory services, among others.

RAHQs are branches established in the Philippines by multinational companies and whose headquarters do not earn or derive income from the Philippines. They act as supervisory, communications, and coordinating centers for their subsidiaries, affiliates, and branches in the region.

RWs may engage in serving as a supply depot for the storage, deposit, safekeeping of spare parts, components, semi-finished products, and raw materials; in filling up transactions and sales made by their head offices or parent companies; and in serving as a storage or warehouse of goods purchased locally by the home office for export abroad.

The RHQ license and the ROHQ license of non-banking and non-financial institutions are secured from the SEC, upon the favorable recommendation of the BOI. Banks and financial institutions secure the ROHQ license from the SEC and the BSP, also upon favorable recommendation of the BOI. The primary implementing agency for the establishment and supervision of RWs outside the Ecozones is the BOI.

Tax Treatment and Incentives of RAHQs and ROHQs
RA No. 8756 provides favorable tax treatment and other non-fiscal incentives for both the RAHQs/ROHQs and their non-Filipino and Filipino employees. These incentives include exemption from all kinds of local taxes, fees, or charges imposed by a local government unit, except real property tax on land improvements and equipment, as well as tax- and duty-free importation of equipment and materials for training and conferences needed solely used for the RHQ/ROHQ functions, and which are not locally available, subject to prior BOI approval.

Expatriate employees of RHQs and ROHQs will enjoy incentives such as a multiple-entry visa, 15% preferential tax on gross compensation income of managerial and technical positions, tax- and duty-free importation of personal and household effects and travel tax exemption.

Investor's Lease Act (RA No. 7652)
RA No. 7652 allows foreign investors to lease commercial lands in the Philippines for a maximum of 75 years (previously 50 years).

Under this law, any foreign investor infusing capital into the country can lease private lands, in observance of Philippine laws and the following:
1. Lease contract shall first be for 50 years, renewable only once for another 25 years.
2. Leased area will be used solely for investment.
3. Lease contract will conform with the Comprehensive Agrarian Reform Law and the Local Government Code.

Export Development Act of 1994 (RA No. 7844)
This law provides incentives to exporters to encourage investments in the export sector. Exporters are generally defined as earning at least 50% of their normal operating revenue from the sale of products or services abroad.

Features of the Export Development Act (EDA)
The following are the key features of EDA:
- Institutionalization of the Export Development Council (EDC) to direct the export offensive
- Privatization of export promotion functions that can be undertaken by the private sector, including the establishment of world-class Philippine Trade Centers
- Setup of a privately led export financing institution whose services shall be devoted to supporting the financing needs of the export sector
- Granting to exporters of much needed fiscal incentives, most of them patterned after, but not as extensive as those in newly industrializing economies

Incentives Available to Exporters Registered under EDA
EDA incentives are granted in addition to existing incentives from other government agencies such as the BOI and PEZA.

Amended Build-Operate-Transfer (BOT) Law (RA No. 7718)
The BOT Law spells out the policy and regulatory framework for the participation of private sector entities in the development of infrastructure projects and the provision of services that are normally the responsibility of the government.

Taxation

The Philippine Constitution mandates that the rule of taxation shall be uniform and equitable, and that Congress shall evolve a progressive system of taxation. The Tax Reform Act of 1997 (Republic Act No. 8424) was passed to promote sustainable economic growth by rationalizing the Philippine Internal Revenue System, including tax administration. Amendments to the Tax Reform Act of 1997 have been made, the most recent and significant of which is RA No. 10378, which provides for the exemption of international carriers from the 2.5% Gross Philippine Billings tax provided the home country of the international carrier will agree to give a similar tax exemption to Philippine carriers.

Proposed comprehensive tax reform

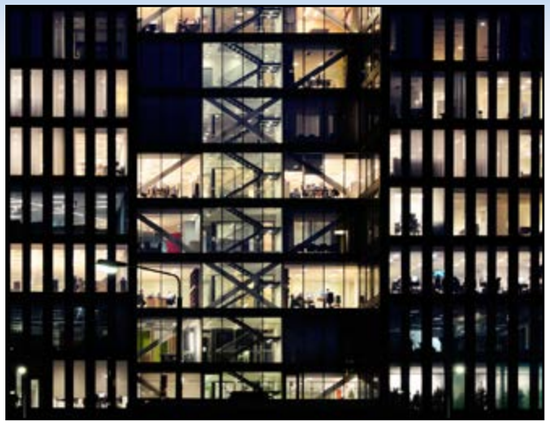
The current administration has also proposed a comprehensive tax reform plan that is expected to be legislated in 2017, as the government seeks to vastly improve the efficiency of the tax system and raise much-needed funds to support massive investment goals. This proposed tax reform consists of six tax packages or proposals, including the reduction of personal and corporate income tax, along with proposed offsetting measures.

Income taxation

Corporations

Classification
Domestic corporations, which are corporations incorporated under the laws of the Philippines, are taxed on their worldwide net taxable income. Resident foreign corporations are taxed on net taxable income derived from Philippines sources. Non-resident foreign corporations, on the other hand, are taxed on gross income derived from the Philippines. A resident foreign corporation is an entity created under the laws of a foreign jurisdiction that is engaged in trade or business in the Philippines. Any other foreign corporation is considered as a non-resident.

Income tax rates for domestic and resident foreign corporations
The corporate income tax rate is 30% of net taxable income. However, part of the ongoing tax reform is a proposal to lower the rate to 25%. Royalties, interest, dividends, and other passive income of domestic and resident foreign corporations are subject to different rates.



Special income tax rates for certain domestic and resident foreign corporations
Proprietary educational institutions and non-profit hospitals are subject to 10% tax on net taxable income. Foreign currency deposit units (FCDUs) and offshore banking units (OBUs) are exempt from all taxes on income from foreign currency transactions with non-residents, and other FCDUs and OBUs, local commercial banks, and branches of foreign banks duly authorized by the Bangko Sentral ng Pilipinas (the Philippines' Central Bank). The interest income of FCDUs and OBUs from foreign currency loans granted to residents other than FCDUs and OBUs are subject to a final tax of 10%. International carriers are subject to 2.5% final tax on Gross Philippine Billings but they would be exempted if their home countries would provide a similar tax exemption to Philippine carriers. Regional or area headquarters of multinational companies are exempt from income tax while the regional operating headquarters of multinational companies are subject to 10% tax on net taxable income.

Tax incentives like income tax holiday or preferential tax rates (5% on gross income) are available for enterprises in the Ecozones, the Subic Bay Special Economic and Freeport Zone and the Clark Special Economic and Freeport Zone.

Branch profit remittance tax (BPRT)
Remittances by branches of foreign corporations in the Philippines (except those activities registered with the Philippine Economic Zone Authority and other companies within the special economic zones such as the Subic Bay Metropolitan Authority and Clark Development Authority) to their head offices are generally subject to 15% BPRT.

Other taxes imposed on corporations
Corporations are also liable for minimum corporate income tax, fringe benefits tax and improperly accumulated earnings tax.

Minimum corporate income tax (MCIT). A 2% MCIT on annual gross income is imposed on corporations with zero or negative taxable income or whose regular corporate income tax (RCIT) liability is less than the MCIT beginning on the fourth taxable year following the year they started business operations. Any excess of the MCIT over the RCIT shall be carried forward and credited against the RCIT for the three immediately succeeding taxable years.

However, the Secretary of Finance may suspend the imposition of the MCIT upon the submission of proof by the applicant-corporation, verified by the Commissioner of Internal Revenue's authorized representative, that the corporation sustained substantial losses on account of a prolonged labor dispute, force majeure, or legitimate business losses.

Fringe benefits tax. Fringe benefits granted to supervisory and managerial employees are subject to a 32% tax on the grossed up value of the fringe benefit.

Improperly accumulated earnings tax. A 10% tax is imposed on the improperly accumulated earnings of domestic corporations, except in the case of publicly held corporations, banks, and other non-bank financial intermediaries and insurance companies. When a corporation allows its earnings or profits to accumulate beyond its reasonable needs, it shall be assumed that the purpose is to avoid tax on stockholders, unless proven to the contrary.

Tax on non-resident corporations
Generally, non-resident foreign corporations are taxed at 30% of the gross amount of Philippine source income such as dividends, rents, royalties, compensation, and remuneration for technical services. This tax is withheld at source. There are preferential income tax rates for some types of non-resident corporations, as well as those entities that are covered by specific tax treaty rates entered into by the Philippines.

Individuals

Classification
For income tax purposes, individuals are classified as:

Resident citizens. Resident citizens are taxed on their compensation, business, and other income derived from sources within and outside of the Philippines.

Non-resident citizens. Non-resident citizens, including those working and deriving income from abroad such as overseas contract workers and seamen who derive compensation for services rendered abroad as members of a complement of vessels engaged exclusively in international trade, are taxed only on income derived from sources within the Philippines.

Resident aliens. Resident aliens are taxed only on income derived from sources within the Philippines.

Non-resident aliens engaged in trade or business in the Philippines. Non-resident aliens engaged in trade or business in the Philippines are taxed in the same manner as citizens and resident aliens but only on Philippine-source income.

Non-resident aliens not engaged in trade or business in the Philippines. Non-resident aliens not engaged in trade or business in the Philippines are taxed on the gross amount of Philippine-source income.

Income tax rates for individuals
Citizens, non-resident citizens, resident aliens, and non-resident aliens engaged in trade or business in the Philippines are generally subject to graduated tax rates on income from 5% to 32%. There is a pending bill in Congress that will adjust the rate of income tax on individuals. Compensation paid by OBUs, regional or area headquarters, regional operating headquarters of multinational companies, and petroleum contractors and subcontractors to qualified non-Filipino employees and, in certain cases, to Filipino employees are taxed at 15%. Non-resident aliens not engaged in trade or business in the Philippines are generally subject to a flat income tax rate of 25% on gross income.

Generally, an individual is taxed on two main categories of income: income from employment and income from business or exercise of a profession. Royalties, interest, dividends and other passive income of individuals are subject to different tax rates.

Exemptions
Citizens and resident aliens are entitled to a personal exemption of PhP50,000 and an additional exemption of PhP25,000 for each qualified dependent child, not exceeding four dependents. The additional tax exemption for each dependent shall be claimed only by the husband unless he waives the right in favor of his wife. Married individuals shall compute their individual income tax separately. Married individuals who do not earn purely compensation income are required to file a tax return to include the income of both spouses, unless it is impractical for both spouses to file one tax return.

Non-resident aliens engaged in trade or business in the Philippines are entitled to personal exemptions (but not to additional exemptions) only by way of reciprocity.

Tax treaties
Specific types of income are exempt from income tax or subject to preferential tax rates under treaties binding on the Philippine government, subject to prior filing of an application for availment of exemption or preferential tax treaty rates with the Bureau of Internal Revenue (BIR). The tax treaties of the Philippines with the following countries are in force:

Australia
Austria
Bahrain
Bangladesh
Belgium
Brazil
Canada
China
Czech Republic
Denmark
Finland
France
Germany
Hungary
India
Indonesia
Israel
Italy
Japan
Korea
Kuwait
Malaysia
Netherlands
New Zealand
Nigeria
Norway
Pakistan
Poland
Qatar
Romania
Russia
Singapore
Spain
Sweden
Switzerland
Thailand
Turkey
United Arab Emirates
United Kingdom and Northern Ireland
United States
Vietnam

Withholding tax system

Creditable withholding tax (CWT). Certain income payments made by a resident to another resident are subject to specified withholding tax rates. The Tax withheld is creditable against the income tax liability of the income recipient.

Withholding tax on wages. This is the tax withheld from individuals receiving purely compensation income. Employers are required to withhold the tax due on salaries and wages paid to their employees. Subject to certain conditions, employees may no longer be required to file income tax returns at the end of the taxable year. Employers are, however, required to furnish the BIR with the Employer's Certificate of Compensation Payment/ Tax Withheld from their employees.

Final withholding tax (FWT). Under the FWT system, the amount of income tax withheld by the withholding agent is constituted as a full and final payment of the income tax due from the payee on the said income. For instance, dividends, interest or royalties paid to non-residents are subject to FWT.

Value-added tax (VAT)

In general, sale of goods, sale of services and lease of properties, as well as importation of goods are subject to 12% VAT. The Tax Code also provides for transactions that are subject to 0% VAT as well as transactions that are exempt from VAT.

Excise tax
Excise taxes are imposed on certain goods (such as cigarettes, liquor, petroleum products, mineral products, and motor vehicles) manufactured or produced in the Philippines for domestic sale or consumption or for any other disposition. Excise taxes are also imposed on certain imported goods, in addition to the VAT and customs duties. RA No. 9224 rationalized the excise tax on automobiles based on the manufacturer's or importer's selling price, net of excise and VAT. A bill is pending in congress to impose excise tax to sugary products.

RA No. 10351 revised the rates and bases of excise tax on alcohol and tobacco products and the BIR issued RR No. 17-2012, Revenue Memorandum Circular (RMC) No. 3-2013 and RMC No. 10-2013 to implement the provisions of RA No. 10351.

Percentage tax
Persons or entities not subject to VAT, including domestic common carriers of passengers, international carriers on their transport of cargo from the Philippines to another country, and those in the amusement business, are subject to percentage tax on gross receipts or gross income.

Stock transaction tax (STT)
The STT is imposed on the sale, barter, exchange, or other disposition of shares through the facilities of the Philippine Stock Exchange (PSE) other than the sale by a dealer in securities at the rate of one-half of 1% of the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged or otherwise disposed.

Initial public offering (IPO) tax
A tax is also imposed on the sale, barter, exchange, or other disposition through the IPO of shares of stock in closely held corporations in accordance with the proportion of shares of stock sold through the IPO. A closely held corporation is any corporation of which at least 50% in value of the outstanding capital stock or at least 50% of the total combined voting power of all classes of stock entitled to vote is owned directly or indirectly by or for not more than 20 individuals.

The IPO tax shall be at the following rates, in accordance with the proportion of shares sold, bartered, or exchanged to the total outstanding shares of stock after the listing in the local stock exchange:

Up to 25%	4%
Over 25% but not over 33.33%	2%
Over 33.33%	1%

The IPO tax shall be paid by the issuing corporation in a primary offering or by the seller in a secondary offering. The tax base shall be the gross selling price or gross value in money of the shares of stock sold, bartered, exchanged, or otherwise disposed of.

Documentary stamp tax (DST)
The DST is an excise tax on documents, instruments, loan agreements, lease agreements, shares of stocks, bonds, mortgage, insurance policies, and papers, and on acceptances, assignments, sales and transfers of the obligation, right or property incident thereto. This tax is imposed on the maker, signor, issuer, accepter, or transferor of the document.

Certain industries, including banks and select financial institutions, shipping and airline companies, pre-need companies and educational institutions are mandated to use the web-based eDST System beginning 1 July 2010.

RA No. 9648 exempts from DST any sale, barter or exchange of shares of stock listed and traded through the PSE.

RA No. 9243, or the Act Rationalizing the Provisions of the DST, lists additional transactions exempt from DST, provides lower DST rates for investments in shares, and specifies the new DST base for insurance policies, annuities and pre-need plans and a uniform DST rate on debt instruments. RR No. 13-2004 implements the provision of the said act.

Customs duty
Goods imported into the Philippines are generally subject to customs duty (aside from 12% VAT and excise tax on certain goods). For customs purposes, the value of imported goods is generally based on their transaction value, i.e., the price paid or payable for the goods when sold for export to the Philippines, with certain specified adjustments. The applicable duty rate (most-favored nation [MFN] rate) will depend on the appropriate classification of the goods under the Customs Modernization and Tariff Act (CMTA) of 2016, which adopted the classification provisions of the Tariff and Customs Code of the Philippines (TCCP). The duty rate generally ranges from 0% to 30%. Preferential rates under the ASEAN Trade In Goods Agreement (formerly AFTA), among other free trade agreements, are generally lower than the MFN rates.

Certain importations are exempt from the imposition of custom duty, such as conditionally-free and duty-exempt importations, items entered into a customs bonded warehouse, and importations under special laws. Under the CMTA, importers and their brokers are required to keep records of importations within three years from the date of importation of the goods. The Bureau of Customs may conduct a post-clearance audit on the importers'/brokers' books for a period of three years to determine compliance with customs rules and to assess any deficiency customs duty and taxes on importation.

Local taxes
Under the Local Government Code, local government units (LGUs) such as provinces, cities and municipalities are given the authority to tax certain activities and business conducted within their jurisdiction unless otherwise expressly exempt by law. LGUs are also authorized to levy an annual ad valorem tax on real property such as land, building, machinery, and other improvements, as well as transfer tax on the sale, donation, barter, or on any other mode of transfer of real property. However, the taxing powers of LGUs do not extend to the levy of income tax, custom duties, DST, estate tax, and gift tax, among others.

The Investments Priorities Plan (IPP)

The 2017 IPP was approved by the President Rodrigo Duterte in Memorandum Order No. 12 dated 28 February 2017, and took effect 15 days after its publication on 3 March 2017.

The Board of Investments (BOI) has identified 10 preferred activities for investments in line with the President's zero+10-point SocioEconomic Agenda, Ambisyon Natin 2040, and the Philippine Development Plan 2017-2022.

Significant adjustments from the 2014 IPP have been introduced in the new IPP with the inclusion of more Micro-Small-Medium Enterprise (MSME)-oriented, innovation-driven, and health and environment conscious activities. The 2017 IPP also reflects the administration's industrial policy to bring investments outside of Metro Manila, to favor new players in the industry, and to promote inclusive and participative economic growth across various sectors.

The list of preferred activities continues to prioritize investments in manufacturing particularly in industrial goods and agro-processing. Commercial production includes not only agriculture and fishery, but also forestry products. Priority strategic services now include telecommunications and state of the art engineering, procurement and construction (EPC) with the exclusion of ship repair. For housing, the price ceiling was reduced from PhP3 million to PhP2 million. Priority on health facilities now includes drug rehabilitation centers. Pipeline projects for oil and gas were also added in priority infrastructure.

The ARMM List did away with consumer manufactures but added banking, non-bank financial institutions and facilities, and energy in its priority activities.

PRIORITY INVESTMENT AREAS

I. Preferred Activities

1. All Qualified Manufacturing Activities including Agro-Processing
   - Manufacture of industrial goods
   - Processing of agricultural and fishery products, including Halal and Kosher food into semi-finished/intermediate goods or finished products.
   - Manufacture of modular housing components and machinery and equipment including parts and components

   Except for modernization projects, only projects located outside Metro Manila may qualify for registration.

2. Agriculture, Fishery and Forestry
   - Commercial production of agricultural, fishery and forestry products
   - Production of seeds and seedlings
   - Establishment of nurseries and hatcheries
   - Other support services and infrastructures such as facilities for drying; cold chain storage; blast freezing; bulk handling and storage; harvesting, plowing, spraying and dusting; packing houses; trading centers; ice plants in less developed areas; AAA slaughterhouse; and AAA dressing plant.

   Except for modernization projects for agricultural support services and infrastructure, only projects located outside Metro Manila may qualify for registration.

3. Strategic Services
   - Integrated circuit design
   - Creative industries/knowledge-based services
     a. IT business process management for the domestic market (i.e. contact centers, data analytics)
     b. Animation, software development, game development, health information management systems, and engineering design
     c. Digital or technological start-ups/activities
   - Maintenance, repair and overhaul of aircraft
   - Charging/Refueling stations for alternative energy vehicles, except LPG-run vehicles
   - Industrial Waste Treatment
   - Telecommunications (only new players may qualify for registration).
   - State-of-the-art engineering, procurement, and construction

4. Healthcare Services including Drug Rehabilitation Centers

   Subject to positive list of locations as endorsed by the Department of Health (DOH)

5. Mass Housing (Development of mass housing units based on a price ceiling of PhP2,000,000)

   Only mass housing projects outside Metro Manila may qualify for registration, except for in-city low-cost housing projects for lease.

6. Infrastructure and Logistics, including Local Government Unit Public-Private Partnership (LGU-PPP) Projects.
   - Airports and seaports
   - Air, land and water transport
   - Liquefied natural gas (LNG) storage and regasification facilities
   - Pipeline projects for oil and gas
   - Bulk water treatment and supply
   - Training facilities
   - Testing laboratories
   - Domestic Industrial Zones
   - PPP projects

7. Innovation Drivers
   - Research and development (R&D) activities
   - Conduct of clinical trials
   - Establishment of Centers of Excellence, innovation centers, business incubation hubs and fabrication laboratories/co-working spaces
   - Commercialization of new and emerging technologies and products of the Department of Science and Technology (DOST) or government-funded R&D

8. Inclusive Business Models

   Medium and large enterprises (MLEs) in agribusiness and tourism sectors that provide business opportunities to micro and small enterprises (MSEs) as part of their value chains.

9. Environment or Climate Change-Related Projects
   - Manufacture/assembly of goods and establishment of energy efficiency-related facilities
   - Green ship recycling based on international standards
   - Establishment of privately-owned materials recovery facility

10. Energy
    - Power generation projects utilizing conventional fuels, waste heat and other wastes
    - Establishment of battery energy storage systems

II. Export Activities

1. Production and manufacture of export products
2. Services exports

   Contact centers and non-voice business processing activities that will be located in Metro Manila may no longer be qualified for incentives by year 2020.

3. Activities in support of exporters

III. Special Laws

1. Industrial Tree Plantation (Presidential Decree (PD) No. 705 – Revised Forestry Code of the Philippines)
2. Mining (Republic Act (RA) No. 7942 - Philippine Mining Act of 1995) - limited to capital equipment incentive
3. Publication or Printing of Books/Textbooks (RA No. 8047 - Book Publishing Industry Development Act)
4. Refining, Storage, Marketing and Distribution of Petroleum Products (RA No. 8479 - Downstream Oil Industry Deregulation Act of 1998)
5. Rehabilitation, Self-Development and Self-Reliance of Persons with Disability (RA No. 7277 - Magna Carta for Persons with Disability)
6. Renewable Energy (RA No. 9513 - Renewable Energy Act of 2008)
7. Tourism (RA No. 9593 - Tourism Act of 2009)

IV. ARMM List

The 2017-2019 ARMM List contains the following priority investment areas:

1. Export Activities
   - Export trader and service exporters
   - Support activities for exporters
2. Agriculture, Agri-business/Aquaculture & Fishery
3. Basic Industries
4. Infrastructure and Services
5. Industrial Service Facilities
6. Engineering Industries
7. Logistics
8. BIMP-EAGA Trade and Investment Enterprises
9. Tourism
10. Health and Education Services and Facilities
11. Halal Industry
12. Banking, Non-Bank Financial Institutions and Facilities
13. Energy

The ASEAN Economic Community

The Philippines is one of the five founding members of the Association of Southeast Asian Nations (ASEAN), along with Indonesia, Malaysia, Singapore and Thailand. The country is assuming the chairmanship of the ASEAN and hosting the ASEAN Summit in 2017, the 50th anniversary of the group.

Established on 8 August 1967, the ASEAN is guided by its basic principles of cooperation, amity and non-interference and seeks to:

- Accelerate economic growth, social progress, and cultural development in the region
- Promote regional peace and stability
- Promote active collaboration and mutual assistance on matters of common interest
- Provide assistance to each other in the form of training and research facilities
- Collaborate more effectively for the greater utilization of agriculture and industry, the expansion of trade, the improvement of transportation and communications facilities and the raising of the living standards of the people
- Promote Southeast Asian studies
- Maintain close and beneficial cooperation with existing international organizations with similar aims and purposes

The launch of the ASEAN Economic Community (AEC) in pursuit of the region's goals gives rise to the formation of an economic powerhouse. Collectively, at US$2.4 trillion, they are ranked as the sixth largest economy in the world and the third largest in Asia with an average annual real growth rate of 5.2% between 2007 and 2015. Total trade increased by US$700 billion in the same period and in 2015, foreign direct investment amounted to US$120 billion, with intra-ASEAN trade comprising the largest share of the region's total trade and inflows. The region also represents the third largest market base in the world in 2015 with more than half under the age of 30 and 47.7% living in urban areas.

Initially released by the ASEAN Secretariat in November 2007, the AEC Blueprint sets out broad and comprehensive directions to guide the formal establishment of the AEC on 31 December 2015. The Blueprint is mainly built on four pillars: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy.

The first pillar seeks to create a single market and production base through the free flow of goods, services, investment, skilled labor and freer flow of capital. The second pillar aims to foster business-friendly and innovation-supporting regional environment through the implementation of common frameworks, standards and mutual cooperation across many areas, such as in agriculture and financial services, competition policy, intellectual property rights and consumer protection. It also reinforces enhanced transport connectivity and infrastructure networks. The third pillar seeks to fulfill equitable economic development by reducing barriers between and among Member States, and to achieve higher levels of economic dynamism through creative initiatives that encourage small and medium enterprises to participate in regional and global value chains. The fourth pillar involves an outward perspective of the AEC to fully integrate into the mainstream global economy through a coherent approach towards external economic relations, and with improved participation in global supply networks.

AEC 2015: Milestones

The ASEAN Secretariat reports the following key achievements under AEC 2015:

1. **More liberalized market:** Intra-ASEAN import tariffs have been virtually eliminated and formal restrictions in the services sector gradually removed, providing its peoples with greater opportunities in trading and doing business within the region.

2. **Reduced trade costs:** Cross-border trading processes have been simplified, including in customs procedures and rules of origin, harmonization of technical regulations and mutual recognition arrangements.

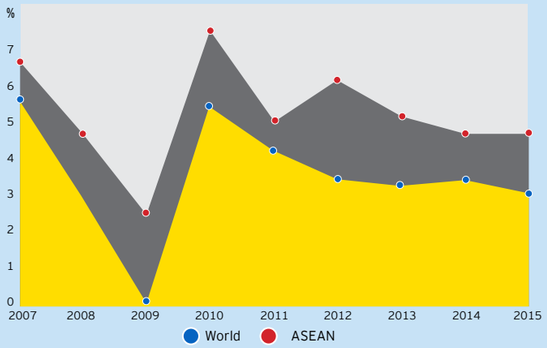
3. **Improved investment regimes:** ASEAN has become a more attractive investment destination for international and domestic investors alike.

4. **Enhanced mobility of skilled people:** Cross-border movement of skilled people and professionals has been facilitated.

5. **Free trade and comprehensive economic partnership agreements:** ASEAN businesses are provided with more opportunities to expand their reach in the external markets, and strengthen their role in regional and global value chains.

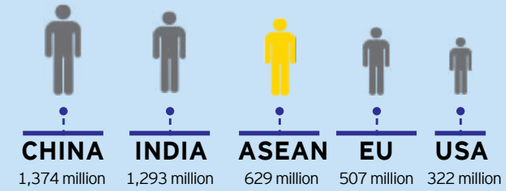
6. **A business-friendly and innovation-supportive environment:** This is achieved through the adoption of common frameworks, standards and mutual cooperation in various areas, such as in agriculture and financial services, and in competition policy, intellectual property rights, consumer protection as well as SME development.

Economy



Source: ASEAN Secretariat and WEO-IMF

Population



Source: ASEAN Secretariat and UN Population Division

7. **Physical improvements in transportation and other infrastructure networks:** These improvements have facilitated cross-border transportation and contributed to the reduction of overall costs of doing business, providing ASEAN peoples and business the opportunity to work together more productively.

8. **Narrowing the development gap:** Along with the process of regional integration, initiatives that help narrow the development gap among and within ASEAN Member States have also been put in place.

AEC 2016-2025: Looking Ahead

The need to maintain relevance in today's evolving global economy led to the establishment of the AEC in 2015. To sustain the AEC 2015 dynamic process, the AEC Blueprint 2025 has been incorporated to serve as a guide for ASEAN economic integration from 2016 to 2025. It forms part of ***ASEAN 2025: Forging Ahead Together.***

The new Blueprint is envisioned to strengthen AEC by 2025 with the following characteristics and indicators:

1. **A Highly Integrated and Cohesive Economy** – trade in goods and services, investment environment, financial integration, inclusion and security, facilitating movement of skilled labor and business visitors, and enhancing participation in global value chains

2. **A Competitive, Innovation, and Dynamic ASEAN** – effective competition policy, consumer protection, strengthening intellectual property rights cooperation, productivity-driven growth, innovation, research and development, and technology commercialization, taxation cooperation, good governance, effect, efficient, coherent and responsive regulations and good regulatory practice, sustainable economic development, and global megatrends and emerging trade-related issues.

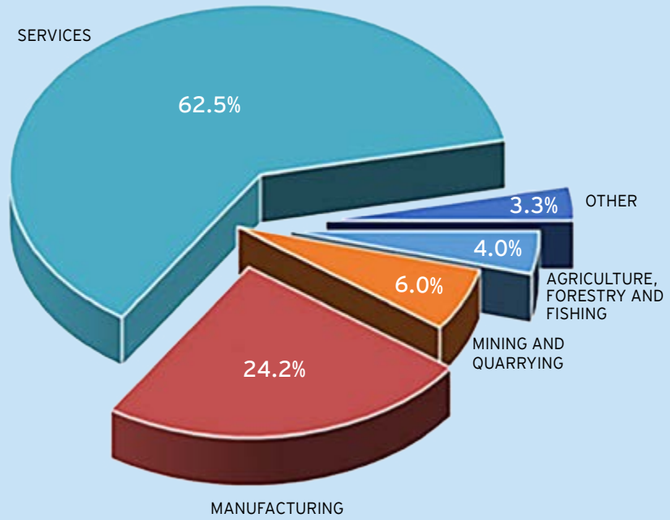
3. **Enhanced Connectivity and Sectoral Cooperation** – transport, information and communications technology, e-commerce, energy, food, agriculture and forestry, tourism, healthcare, minerals, and science and technology.

4. **A Resilient, Inclusive and People-Oriented, People-Centered ASEAN** – strengthening the role of micro, small and medium enterprises, and the private sector, public-private partnership, narrowing the development gap, contribution of stakeholders on regional integration efforts.

5. **A Global ASEAN** – more strategic and coherent approach towards external economic relations, review existing FTAs, enhance economic partnerships, engage with regional and global partners, continue supporting multilateral trading system and promoting global and regional institution engagements, and actively participating in regional fora.

In the years to come, ASEAN, with the help of the post-2015 agenda, will aim to continue what AEC 2015 has started. Furthermore, aside from expecting new challenges and opportunities, ASEAN will ensure the success of the community building process through efficient institute, adequate resources, and effective planning and monitoring.

ASEAN attracted US$120 billion of FDI in 2015, 62.5% of which were in the services sector.



Major trading partners

Major sources of FDI

Source: ASEAN Secretariat

EY ASEAN Leaders

ASEAN Regional Managing Partner
Max Loh
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Setting up business in the Philippines

The new administration has committed to making setting up a business in the Philippines faster and easier, reducing red tape and streamlining processes. The requirements for setting up a business will depend on the type and location of the entity. It will also require registration with various government agencies, including the Securities and Exchange Commission (SEC), the Department of Trade and Industry (DTI), the Bureau of Internal Revenue (BIR) and local government units, as appropriate. If the business qualifies for incentives, it must also be registered with incentives promotion agencies such as the Philippine Economic Zone Authority and the Board of Investments as discussed in page 7.

Securities and Exchange Commission
The SEC is the government agency responsible for registering, licensing, regulating, and supervising all corporations and partnerships organized in the Philippines, including foreign corporations licensed to engage in business or to establish branch offices in the Philippines.

The SEC is mandated to implement the following Philippine laws among others:

PD No. 902-A and the Securities Regulation Code (SRC)
PD No. 902-A dealt with the reorganization of the SEC and conferred upon it the power to hear and decide on cases involving corporate fraud, intra-corporate disputes, election cases involving officers and directors, suspension of payments proceedings, and rehabilitation proceedings.

With the enactment of the Securities Regulation Code, however, Rule 5.2, Title II thereof removed all jurisdiction of the SEC over all cases enumerated above and transferred jurisdiction to hear and decide these cases to the regular courts. With the realignment of its powers, the SEC then shifted its focus to the promotion of capital market development, in accordance with the mandate of the Securities Regulation Code.

Corporation Code of the Philippines (Batas Pambansa Blg. 68)
The Corporation Code is the primary law that governs the relationship of a corporation with its shareholders from the setting up of the corporation to its dissolution. It provides the basic rules under which a private corporation as an investment vehicle is governed.

Express registration
To facilitate registering new corporations, the SEC operates an "express lane," with application forms specially prepared for specific types of business. Filing normally takes one day, provided all necessary documents and prior clearances from other agencies are submitted in the morning.

Department of Trade and Industry
After registration with the SEC, all corporations organized under the Corporation Code are encouraged to register their business name with the DTI.

The DTI-National Capital Region (DTI- NCR) is one of the primary government agencies tasked with the promotion as well as the registration of the trade and industry sector in the Metro Manila area.

Among the services of the DTI-NCR is the registration of business names as provided under RA No. 3883. Business name registration involves the submission of copies of the corporation's articles of incorporation, by-laws, and SEC certificate of registration to the DTI and the payment of a registration processing fee. A business name registration is valid for five years.

Bureau of Internal Revenue
The BIR is tasked to administer the collection of internal revenue taxes pursuant to the Tax Code.

All taxpayers are required to secure from the BIR a unique Taxpayer Identification Number (TIN) which will be indicated on all tax returns filed with the BIR.

Taxpayers will also have to register with the BIR Revenue District Office (RDO) having jurisdiction over the place of business of the taxpayer. The book of accounts, invoices, and receipts of a taxpayer will have to be registered with the RDO before these are used.

Local government
The Philippines is divided into provinces, municipalities, and chartered cities, each enjoying a certain degree of local autonomy. The *barangay* is the basic political unit.

Republic Act No. 7610, otherwise known as the Local Government Code of 1991, provided for a more responsive and accountable local government structure. Local governments were given more powers, authority, responsibilities and resources through a system of decentralization. Each unit is allowed to levy and collect taxes and other fees, in accordance to the power delegated to them under the Code. All business establishments are required to get licenses and permits from the barangay, municipality or city and province where the business is located. The local government unit imposes taxes, fees or charges to generate revenue through an appropriate ordinance. Each municipality or city has its own revenue code which provides for the registration procedures and taxation of businesses in the locality.

Local government units also have the power to impose and collect real property taxes from real property owners or those enjoying the use of real properties.

Competitive human capital resources

The Philippines offers a highly educated and literate workforce, with most people having a good command of the English language. The UNESCO Institute for Statistics records an adult literacy rate of 96.62% among Filipinos aged 15 years and older while according to the UN Population Division, the median age is 24.2. The country's labor market is one of the most competitive in the world, ranked 4th out of 61 economies in the 2016 *International Institute of Management Development (IMD) World Competitiveness Report*.

In the latest *World Talent Report* also released by the IMD, which focuses on countries' ability to develop, attract and retain talent based on three factors, the Philippines ranked 23rd in the readiness factor. Among all criteria, the country performed well in terms of the availability of skilled labor (4th), the availability of competent senior managers (14th), language skills (18th), and the international experience of senior managers (21st). It also ranked in the upper half of economies when it comes to the sufficiency of apprenticeships (23rd) and the importance given to employee training in companies (25th) under the appeal factor.

Out of 138 countries, the country ranked well in the higher education and training pillar of the *World Economic Forum's Global Competitiveness Index 2016-2017*, with the extent of staff training (31st), quality of management schools (41st), quality of the education system (44th), and local availability of specialized training services (48th) as contributing factors. It is also on track to meet its Philippine Development Plan targets related to enhancing the knowledge and skills of the workforce as higher education graduates as well as technical vocational education and training (TVET) graduates continue to increase.

Priority courses or degree programs were identified and are being promoted by the Commission on Higher Education (CHED) based on national development plans and manpower demands until 2018 as well as a study by the Department of Labor and Employment determining the 275 in-demand and 102 hard-to-fill occupations aligned with the future employment requirements of key industries until 2020. These are in the fields of agriculture, engineering, science and math, information technology, teacher education, health sciences, arts and humanities, social and behavioral sciences, business administration, architecture, maritime industry and communication.

Since 2010, there has been a total of 10,543,440 TVET graduates from the Technical Education Skill and Development Authority's institution-, enterprise- and community-based programs, and online programs as of May 2016. Of these graduates, 6,002,843 have been certified as highly qualified to work both in the Philippines and abroad, with an average certification rate of 88.3% over six years.

Sources: UNESCO Institute for Statistics, UN Population Division, IMD World Competitiveness Report and World Talent Report 2016, World Economic Forum Global Competitiveness Report 2016-2017, National Economic and Development Authority, Commission on Higher Education, Technical Education Skill and Development Authority

The Philippines at a Glance

Land area:	298,170 sq. km
Water area:	1,830 sq. km
Major Islands:	Luzon, Visayas, Mindanao
Capital:	Manila
Population:	100,699,000[a] (estimate)
Median age:	24.2[a] years old
Languages:	Filipino, English, and various ethnic languages including Cebuano, Ilocano, Hiligaynon/ Ilonggo, Bicol, Waray, Pampango and Pangasinense
Form of Government:	Constitutional Republic, Unitary presidential
Parliament:	The Congress consists of the House of Representatives and the Senate
Religion:	Roman Catholic – 80.6% Islam – 5.6% Evangelicals – 2.7% Iglesia ni Cristo – 2. 5% Non-Roman Catholic and Protestant – 1.2% Aglipayan – 1% Others – 6.3% None – 0.1%[b]
Independence Day:	June 12
Currency:	Philippine Peso (PhP) US$1 = PhP49.95 JPY1 = PhP0.44 GBP1 = PhP61.60 CNY1 = PhP7.27 EUR1 = PhP53.25 HKD1 = PhP6.44 (exchange rates as of 20 January 2017)[c]
GDP:	US$741 billion (PPP)[d]
GDP per capita:	US$7,359 (PPP)[d]
GDP growth per sector:	Industry – 7.6% Services – 7.4% Agriculture – 1.1% (4th quarter of 2016)[b]
OFW remittances:	US$22.12 (Jan-Oct 2016)[c]
Labor force:	43.2 million[b]

Sources:
[a] UN Population Division
[b] Philippine Statistics Authority
[c] Bangko Sentral ng Pilipinas
[d] UNESCO Institute for Statistics

Cost of power
General Power (GP)

Generation Charge (per kWh)	
13.8 kv and below	PhP4.81
34.5 kv	PhP4.81
115 kv / 69 kv	PhP4.81

Transmission Charge (per kW)	
13.8 kv and below	PhP341.66
34.5 kv	PhP382.02
115kv / 69 kv	PhP299.16

Distribution Charge (per kW)	
13.8 kv and below	PhP205.83
34.5 kv	PhP205.83
115kv / 69 kv	PhP161.50

Source: Manila Electric Railroad and Light Company (Meralco)
www.meralco.com.ph, May 2015
http://corporate-downloadables-rates-archive-summary-of-schedule.s3.amazonaws.com/1430877161.b7b60f02e3050902a1f-8d8a73f6eb822.pdf

Cost of Telecommunication (Business):
Business landline: PhP1,259.02/month

International Calls - PLDT Rates:
ASEAN/Hongkong/Japan/Macao/South Korea
US$0.15/min.

Australia/New Zealand/USA/Canada/France
Germany/Italy/Spain/U.K./China/India
Kuwait / UAE / Bahrain / Saudi Arabia
US$.040/min.

Source: Philippine Long Distance Telephone Company (PLDT)
http://www.pldt.com.ph

Monthly cost of office rental (Makati Central Business District):

Average Class A Net Rent : PhP950 -PhP1,200/sqm per month (US$27.13)
CBD Cap Rate/ Prime Yield : 8.2-9.2%

Source: *Global Office 2013 Outlook*, Colliers International, 2013

Principal exports: electronic products, other manufactures goods, machinery and transport equipment, woodcrafts and furniture, ignition wiring set and other wiring sets used in vehicles, aircrafts and ships, chemicals, articles of apparel, other mineral products, metal components and coconut oil

Principal imports: electronic products, mineral fuels, lubricants, and related materials, transport equipment, industrial machinery and equipment, other food and live animals, iron and steel, cereals and cereal preparations, miscellaneous manufactured articles, telecommunication equipment, plastics in primary and non-primary forms.

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