



ASEAN Business Guide

Philippines

2018 edition



ASEAN Business Guide

This country report is extracted from *ASEAN Business Guide: The economies of ASEAN and the opportunities they present.*



PHILIPPINES

The new administration of President Rodrigo Duterte inherited a robust economy with good economic fundamentals. At the start of his term, President Duterte was quick to present his 10-point economic agenda with a focus on reducing government bureaucracy, improving infrastructure development and enhancing human capital investments, while undertaking a careful review of the current tax system and introducing a tax reform program. With these, most Filipinos have remained hopeful and positive about the country's economic growth.

In recent years, the country has grown into one of the strongest economies in Asia. The World Bank indicated that the Philippine economy will continue to lead growth among East Asia economies because of robust domestic consumption, government spending and improved transparency of building regulations.¹ Furthermore, according to the World Bank, the government's commitment to further increase public infrastructure investment is expected to sustain the country's growth momentum through 2018, thereby reinforcing business and consumer confidence.²

With domestic consumption on the rise and business confidence among the highest in emerging markets in the Southeast Asian region, the consumer markets sector is a positive growth story in the Philippines today. Nielsen's 2016 Global Consumer Confidence report stated that the country is one of the four strong member states in the Asia Pacific region, along with India, Indonesia and Vietnam, which have seen "increased foreign direct investment combined with strong domestic demand."

These are very exciting times for the country as it moves to the next phase of its growth. We at KPMG in the Philippines are very optimistic that the effective implementation of the government's development plans and initiatives can create a more conducive business environment, foster inclusive economic growth and further enhance our country's competitiveness.



Sharon G.
Dayoan

Chairman and CEO
KPMG in the Philippines

PHILIPPINES

KEY COUNTRY FACTS



The Philippines is an archipelago of more than 7,000 islands, rich in natural resources such as copper and fruit. English language skills as well as the cultural ties from more than 10 million Filipinos living overseas, one of the world's largest diasporas, make the Philippines a popular choice for international businesses and investors.

Although the agricultural sector remains the largest employer, the Philippines is also home to a rapidly-growing electronics industry and its economy is increasingly dominated by services and manufacturing.



GOVERNMENT

A republic with a presidential form of government wherein power is equally divided among its three branches: executive, legislative and judicial



POPULATION

103.4
MILLION (2017)



CURRENCY

Philippine Peso (PHP)



LANGUAGES

Filipino (official), English

RELIGIONS

Christianity, Islam

Source: Official Gazette (n.d.). Philippine Government, Worldometers (n.d.). Philippines Population, National government portal, Republic of the Philippines

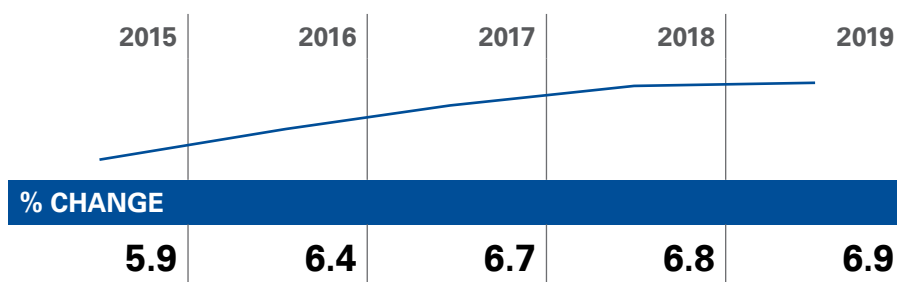
CONSUMPTION-DRIVEN ECONOMY

The Philippines' sustained economic growth in the past five years is testament to the country's resilience amid challenges in the global economy. The World Bank's country director has dubbed the Philippines as Asia's rising tiger.³ Most measures of the macroeconomy have shown considerable progress: from a pick-up in economic growth to lower unemployment and benign inflation. The country also maintains a stable economic outlook affirmed by Moody's investment-grade credit score of Baa2⁴ and Standard & Poor's BBB.⁵

The remarkable turnaround in the Philippines' economic fortunes in recent times has led to increased optimism by both local and foreign observers. Steady economic expansion, with GDP growth outpacing population growth, has led to rising household incomes. Better employment figures and steady inflow of remittances, as well as low and stable inflation, have supported sustained growth in household consumption. As a result, consumption spending has been the main driver of economic expansion.

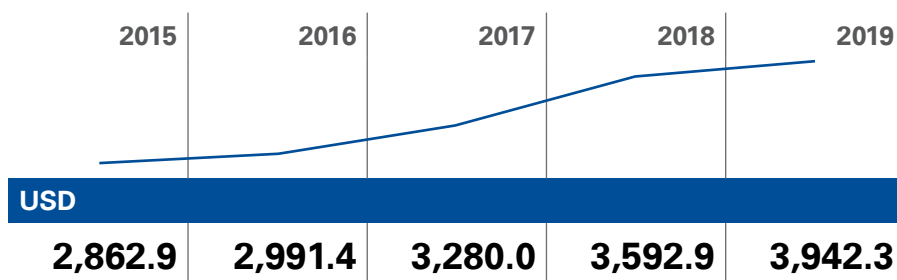
Economic Performance

GDP constant prices*



Source: International Monetary Fund, World Economic Outlook Database

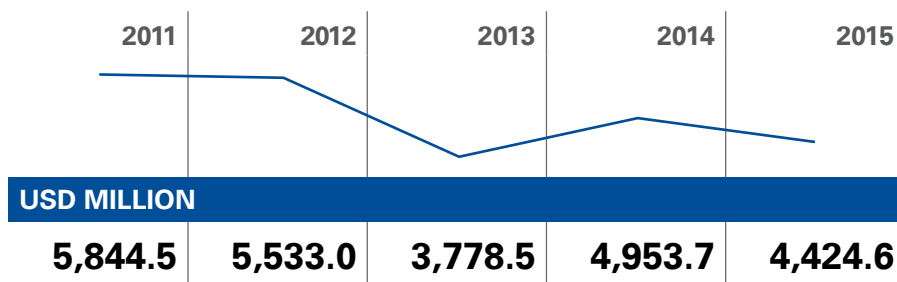
GDP per capita, current prices (CAGR 8.33%)



Figures after 2016 are estimates

Source: International Monetary Fund, World Economic Outlook Database

Foreign direct investment inflows



Source: Philippine Statistics Authority

Main FDI investors



Netherlands
USD 985.3 mil



Australia
USD 645.5 mil



United States of America
USD 626.3 mil



Japan
USD 539.5 mil



Singapore
USD 479.5 mil

Source: Philippine Statistics Authority,
Foreign Investments: Fourth Quarter 2016

EMERGING GLOBAL MARKET

The Philippines is one of the fastest-growing economies in the region. Located in the heart of Asia, it is accessible within a couple of hours from major capitals and serves as an important entry point to Southeast Asian countries. The Philippines also takes pride in its skilled and well-educated workforce. With its high literacy rate and mastery of the English language, the country continues to produce globally competitive professionals and has transformed into a predominantly service-based economy.⁶ These, combined with a favorable regulatory environment and inclusive growth, are helping transform the country into an investment hub in the region.

The economy is experiencing nascent structural transformation as growth becomes increasingly driven by investment against a background of greater regional integration and economic liberalization.

Political stability



- The 10-point socioeconomic agenda of this administration highlights continuity in macroeconomic policies, push for tax reforms, relaxation of constitutional restrictions on foreign ownership and infrastructure spending, among others

Regulatory environment



- The Department of Trade and Industry (DTI) has eased some trade restrictions and regulatory requirements to boost foreign direct investment
- Foreign investments have been liberalized through reforms which include updating Foreign Investment Negative List and reviewing corporate and personal tax rates⁷
- Currently reviewing proposed amendments to Foreign Investment Act including expansion of foreign ownership⁸
- The new administration has signaled openness to reforming the income tax system that would lower tax rates and adjust them to inflation⁹

Diversified economy



- The new administration has promised sweeping changes, with a priority on:
 - Promoting the emergence of new growth centers beyond the primate city through public investments in infrastructure
 - Diversifying sources of growth, plugging gaps in infrastructure and increasing industrial production
 - Decongesting the capital city and spreading out economic activity across the nation as well as investing in the provinces
 - Managing metropolitan areas in an efficient and coordinated manner to produce better outcomes following the rapidly growing urban areas

Rankings

+ All rankings are global unless otherwise indicated

Source: *Doing Business 2018*, The World Bank; *CG Watch 2016*, CLSA, Asian Corporate Governance Association; *Corruption Perceptions Index 2016*, Transparency International; *Global Competitiveness Index 2017-2018*, World Economic Forum; *Global Innovation Index 2017*, Cornell University, INSEAD and WIPO

Index	Ranking ⁺
Ease of Doing Business	113
Corporate Governance Watch (Asia)	10
Intellectual Property Protection	71
Transparency of Government Policymaking	81
Corruption Perceptions Index	101
Global Competitiveness Index	56
Global Innovation Index	73

Opportunity for disruptive growth



- Widespread use of digital technology among individual consumers is an opportunity for businesses to improve their market presence
- Online shopping and e-commerce platforms are poised to overtake brick-and-mortar retailers
- Signs of a significant shift in consumer behavior arise with the increasing number of tech-savvy consumers

Globally competitive workforce



- The country boasts a highly skilled and productive workforce with high English proficiency and a globally recognized education
- The country's young, growing population provides a large talent pool
- The Philippines is one of the five best-educated ASEAN countries, according to the United Nations Development Programme (UNDP)¹⁰

Tax regime



- Personal income is taxed at progressive rates from 5% to 32%
- Corporate tax rate is 30%
Exemptions from corporate tax are available for preferred areas or activities duly registered with the Board of Investments (four to six years), and for certain renewable energy projects (seven years)
- Value added tax is 12%
- Tax and other incentives include:
 - 5% modified gross income on corporations registered with the Philippine Economic Zone Authority (PEZA) or the Bases Conversion Development Authority (BCDA)
 - Duty free importation of equipment and materials for training and conferences
 - Reduced personal tax rate for expatriates
 - Multiple Entry Special Visa for foreign personnel
- More than 40 avoidance of double taxation treaties

Trade agreements



- The Philippines has signed one bilateral and seven regional free trade agreements (FTA).¹¹

Bilateral FTA

Agreement signed between the Philippines and a single trading partner

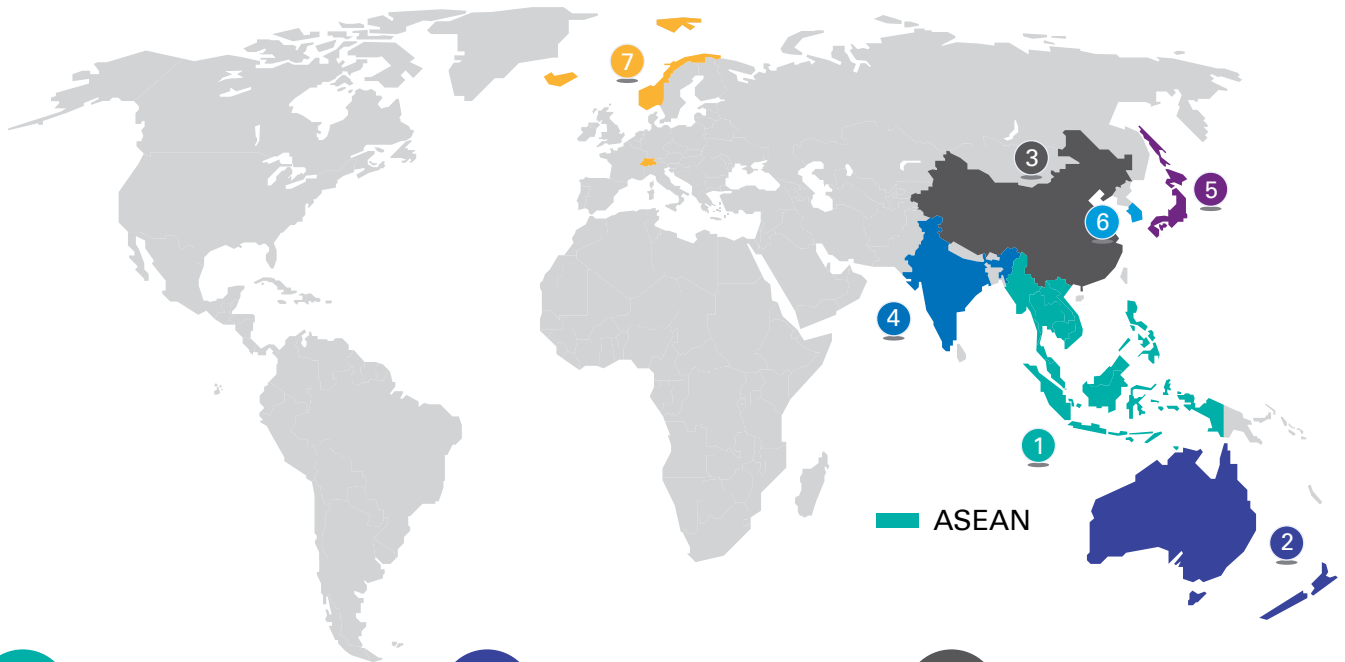


Philippines-Japan Economic Partnership Agreement¹²

- Covers tariffs elimination or reduction for 95% of industrial and agricultural products
- Provides bilateral economic assistance in ten fields within the context of Official Development Assistance

Regional FTAs¹³

Agreements signed between the Philippines and a group of trading partners



1 ASEAN Free Trade Area

- Elimination of tariffs on more than 99% of products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

2 ASEAN-Australia-New Zealand Free Trade Agreement

- Elimination of tariffs on more than 90% of the products with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

3 ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of the products
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

4 ASEAN-India Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 80% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

5 ASEAN-Japan Comprehensive Economic Partnership

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

6 ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

- Elimination of tariffs on at least 90% of product lines with the exception of exclusions
- Allows for back-to-back shipment of goods between member countries
- Allows for third-party invoicing of goods
- Allows for ASEAN cumulation

7

Philippines-European Free Trade Association (EFTA) Free Trade Agreement¹⁴

- Covers trade in goods and services, investment, competition, protection of intellectual property rights, government procurement, and trade and sustainable development
- Elimination of all customs duties on industrial products by EFTA
- Gradual lowering and elimination of duties on the vast majority of such products by the Philippines



Concluded / signed FTA¹⁵

- ASEAN - Hong Kong, China Free Trade Agreement



FTAs under negotiation¹⁶

- Philippines-European Union Free Trade Agreement
- Regional Comprehensive Economic Partnership

A GROWTH STORY

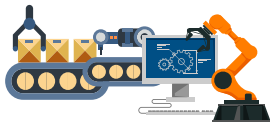
The Philippine economy, as measured by its GDP, has performed remarkably well on a number of fronts. Despite external headwinds, bouts of fiscal underspending and natural calamities, the country has consistently grown in the past several years.

Domestic liquidity growth was driven largely by the Overseas Filipino Workers (OFW) phenomenon. Remittance inflows from OFW helped relieve unemployment, boost household incomes and spending, and stabilized the country's external finances.

On the demand side, remittances have long been a driver of consumption and the economy's growth. On the supply side, the services sector is supported by the information technology-business process outsourcing, finance, real estate and tourism industries. These, and the advantages brought by trends in demographics and urbanization, provide new stabilizers for the country's economy amid possible external shocks and global economic uncertainty.

In 2015, increased investments in public construction and durable equipment led to a 14-percent expansion of fixed capital formation. The new administration, through the Department of Budget and Management (DBM), has promised to bring the country to the "Golden Age of Philippine construction" in the next six years.¹⁷ The agriculture and manufacturing industries are also showing promising outlooks. According to the Department of Agriculture, the government is closing the agriculture gap through increased support of agricultural research and development.¹⁸ Efforts are also being directed at expanding the manufacturing industry and pushing the Philippines to top the global shipbuilding market.¹⁹

Emerging industries



Manufacturing

- Promising industries include aerospace, shipbuilding and automotive
- Competitive advantage of readily available skilled workers, areas to set up shipyards and liberalized imports of raw materials
- The Philippines, according to the DTI, is the fourth largest shipbuilder in the world after Korea, China and Japan



Agriculture

- Increased government support for agricultural research and development
- Refocusing on agriculture and industry as well as generating new sources of growth through massive construction activity in the provinces



Construction

- The new administration, through DBM, has promised a "Golden Age of Philippine construction"
- The government has placed a renewed focus on infrastructure development complemented by public-private partnerships and sustained expansion in residential and commercial developments



Services - Business Process Outsourcing

- Healthcare outsourcing, finance and accounting, software development and legal outsourcing are the fastest growing sectors in the industry

Endnotes

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Contact Us



Sharon G. Dayoan
Chairman and CEO and
Head of Audit

T: +63 835 4603
E: sdayoan@kpmg.com



Henry D. Antonio
Vice Chairman and Head of
Advisory

T: +63 835 4602
E: hantonio@kpmg.com



Emmanuel P. Bonoan
Vice Chairman, COO and
Head of Markets

T: +63 835 4601
E: ebonoan@kpmg.com



Ma. Carmela M. Peralta
Head of Tax

T: +63 835 4626
E: mperalta@kpmg.com

KPMG HAS A PRESENCE IN EVERY ASEAN NATION

25
Offices

over 8,000
Staff

more than 300
Partners



BRUNEI
1 office



CAMBODIA
1 office



INDONESIA
1 office



LAOS
1 office



MALAYSIA
9 offices



MYANMAR
1 office



PHILIPPINES
5 offices



SINGAPORE
1 office



THAILAND
1 office



VIETNAM
4 offices

KPMG SERVICES

Audit

- Fundamental to a risk-based audit approach is understanding the way our clients run their businesses and drive performance.
- KPMG focuses on the areas which are critical to our clients in delivering their strategies and meeting goals.
- KPMG's extensive experience and proprietary tools have enabled us to provide seamless services to clients across industry sectors and geographical boundaries.

Tax

- Against a backdrop of increasing complexity in the business and tax landscapes, clients will need to weigh its tax options against many factors, such as tax ramifications against the financials, increased information sharing between tax authorities, evolving regulations, global competitions and new economies.
- Through two main service lines: tax consulting and tax planning and compliance, KPMG's tax practice consistently provides proactive advice and quality service. Our tax consulting service lines cover mergers & acquisitions & government incentives, global transfer pricing services, global indirect tax services, financial services tax and international tax. Our multi-national clients enjoy this single point of contact in Asia Pacific for all regional tax issues.
- In addition, our tax planning & compliance services include global mobility services, global immigration services network, global compliance management services, dispute resolution & controversy, tax management consulting and property tax / stamp duty advisory. With KPMG's vast network, clients' business commitments and tax needs will be best served by KPMG member firms in the region.

Advisory

- KPMG's Advisory team works with a range of clients, helping them meet challenges associated with growth, performance and governance.
- Our professionals can cover both operational and transactional activities.
- Our Advisory practice assembles skilled and experienced professionals in multi-disciplinary groups tailored to the needs of individual clients and their unique circumstances.
- In our clients' interests, we also draw on the capabilities and knowledge resources of KPMG's global network.
- We offer our clients a single point of contact to help streamline the relationship and enhance its productivity and usefulness to them.
- We understand and respect clients' needs and aspirations. Clients can draw from a range of management and risk consulting services covering a broad spectrum of business activity.

Contributors to the research, analysis, and development of this paper:

Managing Partners, Head of Markets and teams from KPMG member firms in ASEAN, Sreetama Ray, Chris Zaharatos

For further information about this guide and how KPMG member firms can help your business, please contact asean@kpmg.com.sg

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