INVESTMENT POLICY AND REGULATORY FRAMEWORK
PHILIPPINES

I. Economic Performance[1]

Year 2017

The Philippine economy has exhibited remarkable growth in the recent years. By the end of 2016, the country grew by 6.8% in GDP and in 2017, attained a full-year growth of 6.7%, keeping the Philippines' position as one of the fastest-growing economies in Asia. In spite of being a post-election year, the country only experienced a very moderate decline vis-à-vis 2.9 and 3.9 percentage points decline in 2005 and 2011, respectively, which are also post-election years.

The robust growth in the last quarter of 2017 was backed by public spending hitting 14.3 percent, an increase from 4.5 percent in 2016. This increase in public spending is very much in line with the government's commitment to the timely delivery of public services and social protection programs, including assistance to victims of typhoons as well as in the Marawi conflict, public scholarship programs, and health expenditure programs.

On the expenditure side, external demand improved with growth in exports of goods bouncing back to 20.2 percent in the fourth quarter from 17.2 percent in Quarter 3. This offsets the services exports sector's slowdown of 12.6 percent from 19.9 percent in the previous quarter. A major contributing factor to this decline was miscellaneous services, which includes the BPO industry – business processing outsourcing. This is an indication that the current market profile of the BPO sector is ripe to move into higher value added services.

Domestic demand growth also strengthened to 7.3 percent in the fourth quarter from 6.4 percent in the third quarter. Fixed investments growth remained positive and accelerated to 9.3 percent with growth in durable equipment improving further to more than 12.1 percent. This is indicative of businesses' continued confidence in the long-term prospects of the Philippine economy. The country also recorded stronger public construction spending at 25.1 percent that offset the 2.9 percent contraction in private sector, keeping the overall construction growth positive, in line with the 'Build Build Build' program. Further, on the supply side, improvements were recorded in utilities and mining. Growth in services was supported by transport and communications, trade, and

[1] Information and data were sourced from the official website of the National Economic and Development Authority (NEDA).

public administration, defense, and social security. Meanwhile, for Agriculture, it recorded 2.4 percent growth in the fourth quarter, recovering from a decline of 1.3 percent in the same period in 2016.

Year 2018

For the first half of 2018, the economy grew at a respectable rate of 6.3 percent, slower than the 6.6 percent in the first half of the previous year. This is due to prudent and judicious policy decisions for the environment, made by the government for long-term, sustainable, and resilient development.[2]

The growth of Philippine economy is increasingly being driven by investments vis-à-vis consumption on the demand side and the industry sector – manufacturing, in particular on the supply side, which in effect have broadened and diversified the sources of the country's economic growth. Manufacturing resurgence is likely to continue as foreign investors are recognizing the potential of the Philippines as a manufacturing hub.[3]

II. Investment Policy and Regulatory Framework in 2017/2018

Inclusive Innovation Industrial Strategy (I^3S)[4]

The Philippines' Inclusive Innovation Industrial Strategy (I^3S) *[read as I Cube S]* is a new industrial policy of the government aimed at growing innovative and globally competitive manufacturing, agriculture, and services while strengthening their linkages into domestic and global value chains.

The vision of I^3S is to develop globally competitive and innovative manufacturing, agriculture, and services industries with strong forward and backward linkages. This directly aligns with the Philippine Development Plan (PDP) 2017-2022 which lays down the foundations for the achievement of inclusive growth in the country by expanding economic opportunities in industry and services through 'trabaho at negosyo' (employment and business). The I^3S prioritizes the growth and development of 12 major industries covering automotive, electronics and electrical, aerospace parts, chemicals, iron and steel and tool and die, garments, textiles, and furniture, shipbuilding, tourism, IT-business process management particularly knowledge process outsourcing and E-commerce, agribusiness, construction, and infrastructure and logistics.

[2] Speech of Socioeconomic Planning Secretary Ernesto M. Pernia, PhD, 18 September 2018, BSP Assembly Hall
[3] Ibid
[4] PH-DTI Policy Briefs Series No. 2017-05

Tax Reform for Acceleration and Inclusion (TRAIN)[5]

The goal of the first package of the Comprehensive Tax Reform Program (CTRP) or the Tax Reform for Acceleration and Inclusion (TRAIN) is to create a more just, simple, and more effective system of tax collection. One of the features of TRAIN 1 is the lowered personal income tax for 99% of the tax payers, except those belonging to the richest class. Minimum wage earners are also exempted from paying income tax. In addition, the program also increased the threshold for Value Added Tax (VAT) exemption to PhP 3 million from PhP 1.9 million to encourage more micro and small businesses.

Tax Reform for Attracting Better and Higher Quality Opportunities (TRABAHO) Bill

The TRABAHO Bill is another fiscal measure of the government which is aimed at rationalizing fiscal incentives being given by the different Investment Promotion Agencies (IPAs). One specific provision of this measure targets the gradual cut of corporate income taxes starting 2021, which will eventually bring down the current 30% to 20% by 2029.

In terms of incentives menu for IPA-registered projects, the Bill proposes to include reduced income tax rate, duty-free importation of capital equipment, vat-zero rating or refund, among others. Further, the grant of incentives will be targeted, time-bound, and transparent.

Another major feature of the proposed TRABAHO Bill is the formulation of a Strategic Investments Priorities Plan (SIPP), which will have to be reviewed every three (3) years. The SIPP will include activities that are covered by the PDP or its equivalent and other government programs. Further, it will take into account a) substantial amount of investments; b) considerable generation of employment; c) adopt inclusive business activities and value-added production by MSMEs; c) use of modern or new technology; d) adoption of adequate environmental protection systems; e) address missing gaps in the supply/value chain or move up the value chain or product ladder; or f) promotion of market competitiveness.

Inclusive Business

The Philippines, through the promotion of Inclusive Business (IB), sets an example of how the private sector can support inclusive growth. Businesses can be more 'inclusive' by providing employment, goods, services and livelihoods in a commercially viable manner to people living at the base of the economic pyramid (defined as those earning less than USD 8 a day).[6] By doing so, they are directly contributing to a range of

[5] PH-Department of Finance website
[6] "Inclusive Businesses helping achieve SDGs in the Philippines, " UNDP Philippines

Sustainable Development Goals (SDGs) such as SDG 1: No Poverty, SDG 3: Good Health and Well-Being, and SDG 8: Decent Work and Economic Growth.

The support of the Philippine government in promoting IB cannot be over emphasized with its inclusion in the country's existing Investment Priorities Plan (IPP). The IPP is a three-year rolling plan which contains specific activities which are being promoted for both foreign and local investment. Last year during the Philippines' Chairmanship of ASEAN, the country hosted the conduct of an ASEAN IB Summit which was aimed at introducing and building IB cases in the region.

Ease of Doing Business (EODB)

The Philippine government recognizing the need to facilitate the "doing business" in the country recently enacted the Ease of Doing Business (EODB) and Efficient Government Service Delivery Act of 2018 under RA 11032. This measure will simplify requirements and procedures that will reduce red tape and expedite transactions in government.

The Act shall apply to all government offices including local government units (LGUs), government owned or controlled corporations (GOCCs) and other government instrumentalities whether located in the Philippines or abroad, that provide services covering business and non-business related transactions. In particular, all applications or requests shall be acted upon within the prescribed processing time which generally shall not exceed three working days for simple transactions and seven working days for complex ones.

III. Summary

As the Philippines continue to aspire for greater economic development, it is also its paramount consideration that its industrial and investment policies impacts on and contributes to the attainment of inclusive economic growth and ultimately their contribution to the broader goals of sustainable development. Further, the country as the proponent of the promotion of the development of Micro Small and Medium Enterprises (MSMEs), recognizing this sector's contribution to the economic growth of a nation, continuously implement programs and projects aimed at sustaining and expanding the growth of this important sector. Needless to say, the Philippines will continue to contribute and share in the global objectives of sustainable development.