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Doing business in the Philippines 2021

The Philippines' path to accelerated economic recovery

MAKING AN IMPACT THAT MATTERS since 1845

Foreword

RAMON M. LOPEZ
DTI Secretary

On behalf of the Department of Trade and Industry (DTI), let me offer my warmest congratulations to **Deloitte Philippines** as it publishes its **2021 Doing business in the Philippines** guide.

In recent years, our country has grown into one of the strongest economies in Asia, which can be attributed to our young and dynamic population and supported by the resurgence in the manufacturing sector. And despite the setbacks and challenges of the pandemic, we continue to see signs of recovery with the safe, gradual, and calibrated reopening of the economy.

The government recognizes the pivotal role of private sector investments in improving the country's business climate and uplifting the lives of our countrymen. That is why—guided by President Rodrigo Roa Duterte's 10-point Socio-Economic Agenda—we continue to pursue initiatives that liberalize investment rules and regulations to promote the entry of foreign investments.

Just recently, President Duterte signed the game-changing **Corporate Recovery and Tax Incentives for Enterprises Act (or CREATE)**, which will reduce investor uncertainty, address issues on transition, and remove export bias, among others. Moreover, the implementation of the **Regional Comprehensive Economic Partnership (RCEP) Agreement** will play a major role in the country's growth strategy as this establishes a modern, comprehensive, high-quality, and mutually beneficial partnership that will facilitate the expansion of regional trade and investment and contribute to global economic development. In addition, the Philippine government is continuing the rollout of the massive infrastructure program, "Build, Build, Build," which includes additional projects that are ready for implementation and are responsive to the country's post-pandemic needs.

On the part of DTI, we continue to engage in public service initiatives to accelerate our country's recovery. Through the Board of Investments (BOI), we launched "**Make it Happen in the Philippines**," a global investment campaign to promote the country as an ideal business destination in Asia. Last year, we also implemented our economic recovery plan, the **REBUILD** strategy, which stands for "Revitalizing Businesses, Investments, Livelihoods, and Domestic Demand," to jumpstart and reinvigorate the Philippine economy by revitalizing consumption and enhancing production capacity.

With this whole-of-government and whole-of-society approach, we are confident that the coming years will provide more opportunities for Filipinos. And as we build back better in a post-pandemic future, we look forward to working closely with you in creating a more conducive business environment that fosters inclusive economic growth and further enhances our country's competitiveness. Our goal is that with your support, we will be able to generate more jobs and employment for our people, which would give them a more comfortable and higher quality of life.

Mabuhay!

Preface

Eric Landicho

Managing Partner & CEO
Deloitte Philippines

When we were preparing to put together this latest edition of our **Doing business in the Philippines** report, the country was coming out of an encouraging Christmas season, at least on the pandemic front. It looked like we were managing our daily count of new coronavirus cases, and because of this, the economy was able to open up further, more people were able to return to work, and consumer activity was slowly picking up. And then the second surge happened.

It was a harsh reminder that whatever else we do to prop up our economy and get our citizens back on their feet, our focus and our priority has to be controlling the unprecedented health crisis within our borders.

Since then, vaccination efforts have been rolled out across the country, albeit in starts and stops due to supply issues. The general forecast for the Philippines is a slow road to recovery that, as with all other countries, hinges on the speed by which we inoculate at least two-thirds of our population.

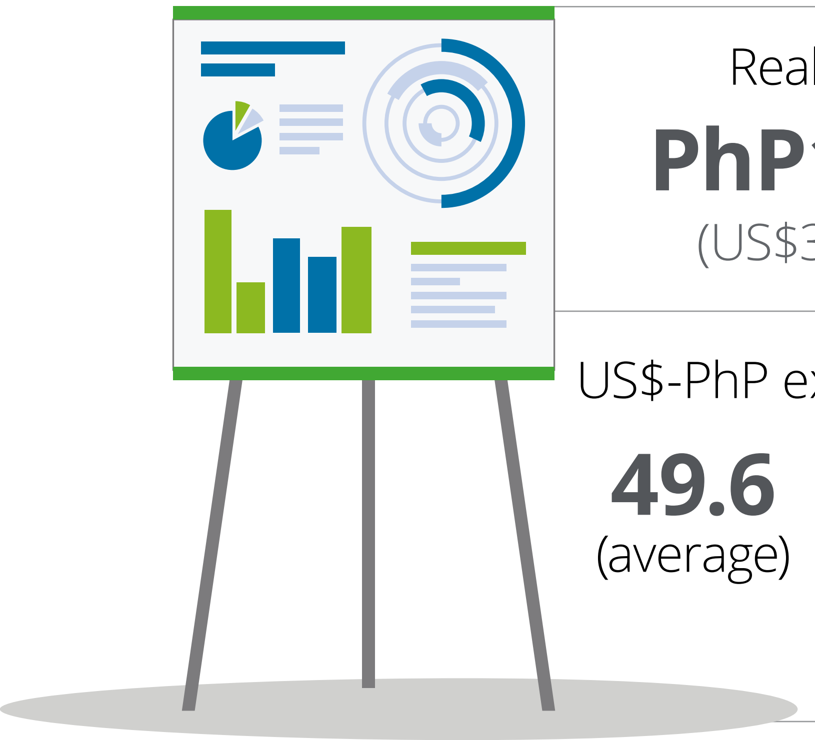
The challenge is considerable, but as we have endeavored to present in this year's report, there are opportunities, bright spots, and clear efforts to build back better.

We have included in this edition the key legislative and regulatory developments that have been enacted as a response to the pandemic, particularly those designed to improve the local investment landscape, such as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act – a time-bound package of corporate and tax reforms designed to mitigate the impact of the pandemic on foreign and domestic companies.

We focus on the sectors that have been most affected – positively and negatively – by this pandemic and the relevant forecasts as the country moves towards recovery. We take a look at the local M&A scene, which was much dampened by the pandemic but still managed to generate some valuable deals, and we give an update on the current administration's signature Build, Build, Build infrastructure program.

As always, our goal is to present a balanced picture of the Philippines' investment opportunities and growth potential, especially during this period of uncertainty. Difficult as the past year has been, there is a path to recovery and a critical component of that is getting the message out that our country is open for business.

01 The Philippines at a glance



Real GDP	Real GDP per capita	Real GDP growth rate	Inflation rate (year-end)
PhP17.5T (US$353.2B)	**PhP161,137.4** (US$3,247.2)	**-9.6%**	**3.5%**

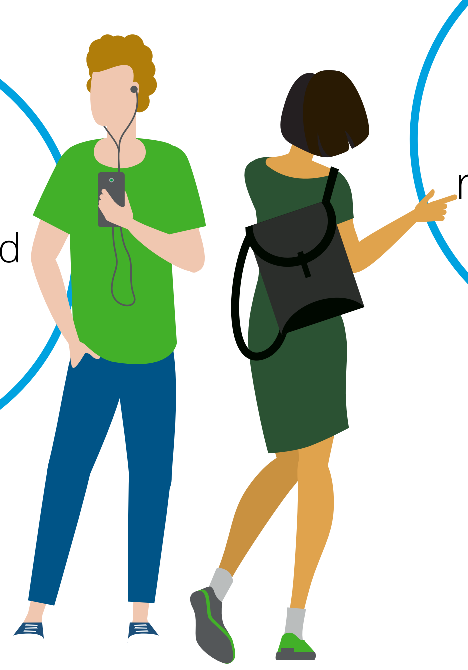
US$-PhP exchange rate

49.6 (average) **48.0** (year-end)

1.2%	91-day treasury bill rate (March 2021)
2.5%	Overnight lending facility rate (March 2021)
1.5%	Overnight deposit facility rate (March 2021)
2.0%	Overnight reverse repurchase facility rate (March 2021)

Major exports (March 2021)	Electronics, other manufactured goods, machinery and transport equipment, other mineral products, copper cathodes
Major imports (March 2021)	Electronics, mineral fuels and lubricants, transport equipment, industrial machinery and equipment, iron and steel

75.0M aged 15 years old and over (March 2021)



7.1% Unemployment rate (March 2021)

48.8M Labor force (March 2021)

109.5M Population (estimated)

02 Economic overview

The COVID-19 crisis swept through the globe in 2020, plunging several countries into recession, including the Philippines. Once counted among the world's fastest-growing economies, the country recorded a real GDP decline of 9.6 percent in 2020 as extended lockdown measures shackled private consumption and led to sharp spikes in unemployment in the middle of the year.

Despite the negative impact of the pandemic, however, the government sees the potential for "green shoots" of recovery in 2021, with the easing of restrictions and the procurement of vaccines paving the way for a strong rebound.[1]

The COVID-19 pandemic's impact on both year-on-year declining real GDP and unemployment rate peaked in 2Q20, at -17.0 percent and 17.6 percent, respectively. Strict lockdown measures enacted in response to the virus led to a sharp decline in private domestic demand and consumption, specifically of non-essential goods and services.

Similarly, the global impact of the pandemic gave rise to restrictions on international movement and travel, which, in turn, led to unprecedented trade and supply chain disruptions and the paralysis of the tourism, travel, and hospitality industries.[2]

In the same way, the closure of non-essential businesses, along with tight movement and capacity restrictions, led to a sharp rise in unemployment.[3] The Philippine stock market also took a beating, with the Philippine Stock Exchange (PSE) index falling heavily in March 2020 in response to COVID-19 uncertainties.[4]

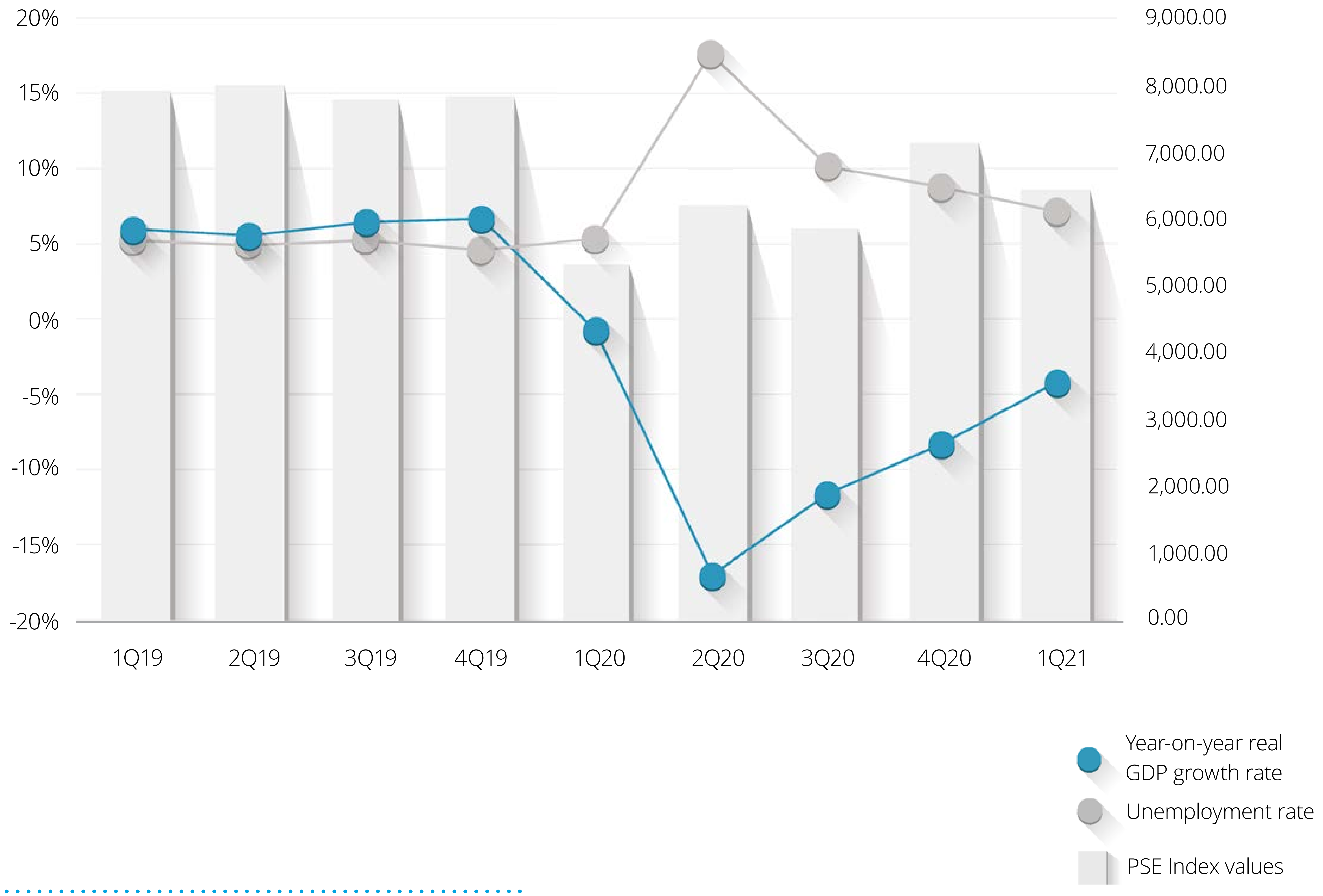
Towards the end of the year, a gradual recovery began to take shape, with the year-on-year decline in real GDP moderating to 8.3 percent by the fourth quarter, while full-year GDP decline eventually settled at 9.6 percent. Unemployment trended downwards to 8.7 percent, as several displaced workers returned to their jobs in the second half of 2020,[5] while the Philippine stock market recovered modestly to 7,139.7 by year-end, buoyed by developments on the vaccine front.[6]

This recovery continued on to the first quarter of 2021, with real GDP decline and unemployment falling to 4.2 percent and 7.1 percent, respectively. The PSE Index, on the other hand, fell slightly to 6,443.1 over concerns of a second surge in COVID-19 cases.

The government has enacted various initiatives firstly to respond to the pandemic, and then to spur the country's recovery, such as the Bayanihan to Heal as One Act, which allowed the government to boost public spending on social protection and subsidies for more vulnerable households.[7] As further support, the Bangko Sentral ng Pilipinas (BSP, the country's central bank) adopted an accommodative monetary policy, cutting policy rates to a low of 2.0 percent by year-end. This, in combination with other open-market operations, allowed the central bank to respond to the pandemic by supporting government financing, boosting liquidity, and promoting economic activity.[8]

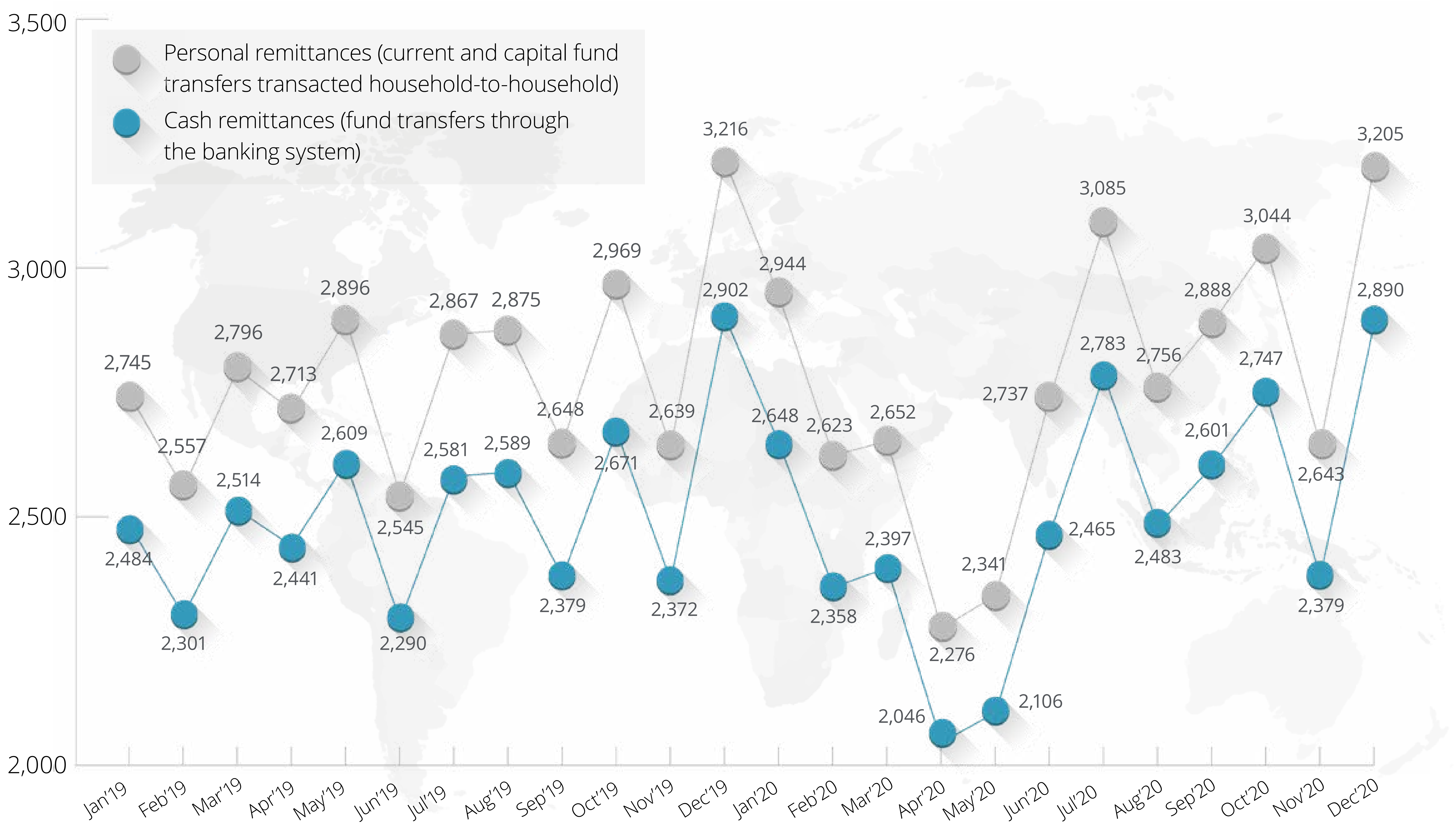
The general reopening of the economy also aided recovery efforts. The easing of quarantine restrictions, increased operational capacity, and the reopening of various non-essential businesses helped prevent further unemployment, stimulate greater consumer activity, and revitalize the Philippine economy in the later parts of the year.

COVID-19 impact on Philippine economy



Monthly remittance flows (in million US$)

The repatriation of several overseas Filipino workers (OFWs) due to global containment measures was expected to severely affect remittance flows.[9]
BSP data reveals, however, that remittances held steady in 2020, with full-year cash remittances only declining by 0.8 percent compared to 2019.



...remittances held steady in 2020, with full-year cash remittances only declining by 0.8 percent compared to 2019.

The country's recovery in 2021 hinges largely on the same question that has dominated all of 2020: how effectively can we manage the COVID-19 pandemic?

Despite prolonged lockdowns throughout the previous year, there are signs that the country's management of the virus is improving. New cases per month trended upwards—from one case in January 2020 to a peak of 127.5K cases in August 2020. This then trended downwards to 42.4K cases in December 2020, before rising slightly to 51.6K new cases in January 2021.

The detection of new COVID-19 variants in the country and the continued easing of restrictions led to a second surge, beginning in March 2021, with 170.9K new cases, and peaking in April 2021, with 290.2K new cases. The beginning of the vaccination rollout and renewed quarantine measures has led to the steady downward trend from this second surge, with 182.3K new cases recorded in June 2021.

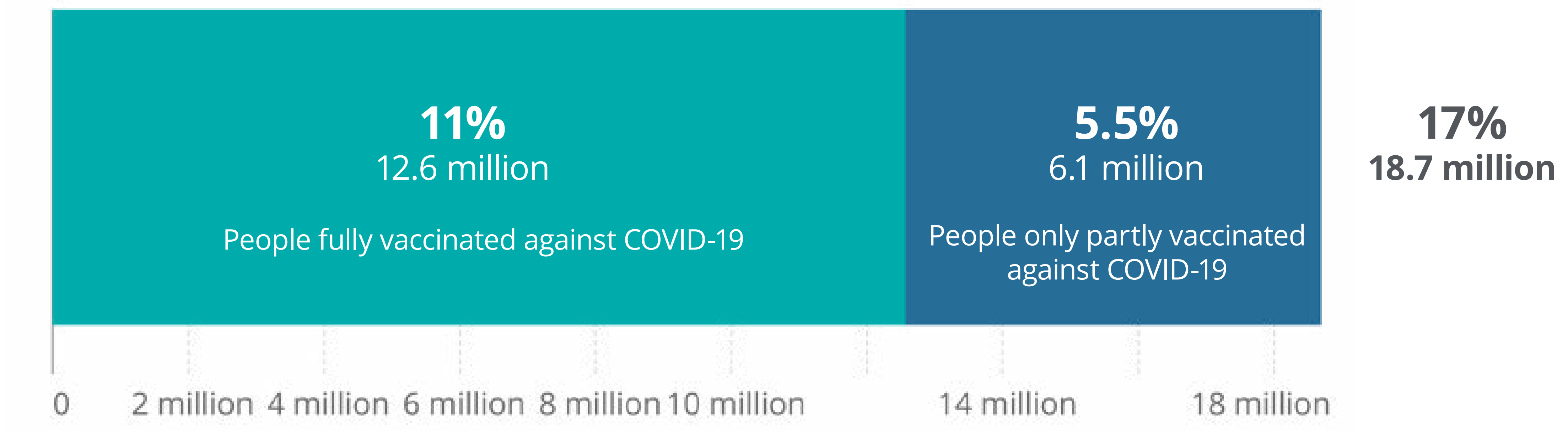
The entry of the Delta variant, however, prompted a third surge and a return to the strictest quarantine measures for several regions.

The procurement of vaccines and efficient rollout will be key to the Philippines' economic recovery effort. The government hopes to secure at least 148 million doses and inoculate 50 to 70 million people by year-end 2021, entering discussions with various vaccine companies, including AstraZeneca plc, Sinovac Biotech Ltd., Novavax Inc., and Pfizer Inc,[10] among others. In its vaccine procurement effort, the government has also worked with several international organizations, receiving aid from the Asian Development Bank (ADB)[11] and the World Health Organization's COVAX facility.[12]

The vaccination program is expected to further ease restrictions and boost private consumption and capital formation.[13] The first wave of donated vaccines began arriving in the country in February 2021, with the formal rollout to priority recipients – healthcare workers – commencing the following month. The COVID-19 Vaccination Program Act of 2021 was signed into law in February 2021 to expedite the vaccine rollout, as local government units and private entities were authorized to procure vaccines, albeit in cooperation with the Department of Health and the National Task Force Against COVID-19 through multiparty agreements.

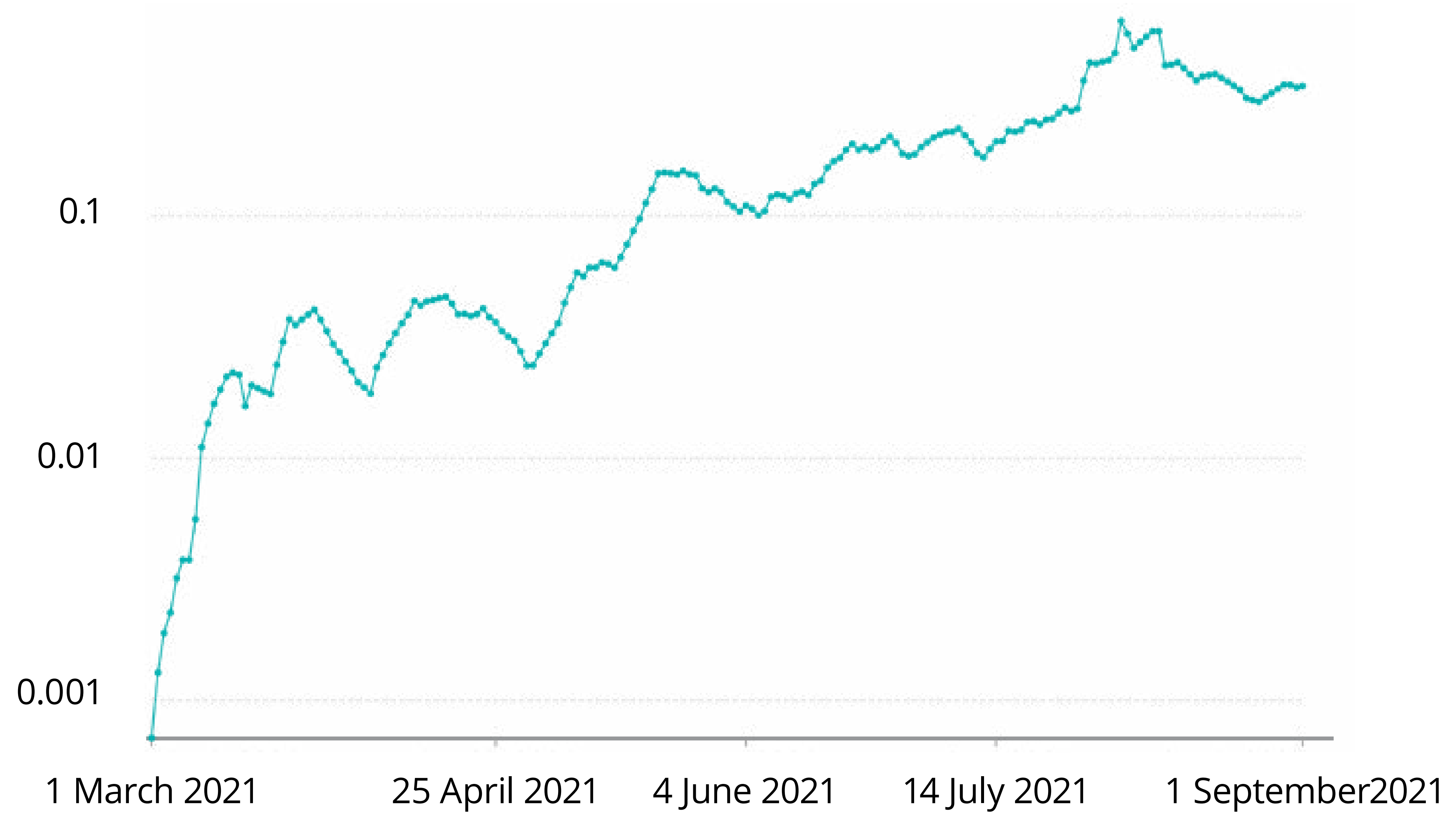
The country's prioritization plan for COVID-19 vaccination is based on the World Health Organization's Strategic Advisory Group of Experts framework; as per this framework, priority for inoculation is given to workers in the health sector, senior citizens, persons with comorbidities, and frontline personnel in essential sectors.

Share of people vaccinated against COVID-19, 15 Aug 2021[14]



Daily COVID-19 vaccine doses administered per 100 people[15]

Shown is the rolling seven-day average per 100 people in the total population. For vaccines that require multiple doses, each individual dose is counted.



The Philippines remains heavily reliant on household consumption, which accounted for 73.7 percent of GDP in 2020. Unfortunately, it declined by 7.9 percent from the previous year, largely due to the impact of the COVID-19 pandemic and the resulting lockdown measures. Government consumption, on the other hand, accounted for 15.3 percent of GDP in 2020, and registered year-on-year growth of 10.4 percent, as the government worked to mitigate the effects of the virus through large spending on various social protection and subsidy programs. While this led to the widening of the country's fiscal deficit, the nation's debt levels remain within the bandwidth of similar economies, with the World Bank maintaining the country's long-term fiscal sustainability at manageable.[16]

Gross fixed capital formation accounted for 21.4 percent of GDP in 2020, largely driven by construction (12.8 percent of GDP). However, nominally, these accounts posted sharp declines compared to previous years, with gross fixed capital formation and fixed construction capital declining by 27.5 percent and 29.7 percent, respectively, as a result of the administration prioritizing social protection and pandemic response over its signature infrastructure program, Build, Build, Build. Investment in this program is expected to resume in 2021 as the country works towards recovery.[17]

Exports account for 26.8 percent of total GDP, while imports account for -34.8 percent. The two trade accounts fell sharply in 2020, with exports and imports declining by 16.7 percent and 21.9 percent, respectively, driven by global containment measures and travel restrictions.

In terms of gross value added (GVA), the services sector remains the key driver of GDP, accounting for 60.9 percent in 2020, with industry and agriculture accounting for 29.0 percent and 10.2 percent, respectively. Due to the effects of the COVID-19 crisis, most industries registered a decline in GVA. Financial activities, information and communication, and public administration were the few sectors to buck this trend, thriving in the new normal and posting growths of 5.8 percent, 5.1 percent, and 4.4 percent, respectively. On the other hand, accommodation and food services, transportation and storage, and construction featured the largest declines, at 44.7 percent, 31.2 percent, and 26.0 percent, respectively.

Competitive Index Rankings

		2018	2019	2020
World Economic Forum	Global Competitive Index	56th out of 140	64th out of 141	n.a.
IMD International Institute of Management Development	World Competitiveness Ranking	50th out of 63	46th out of 63	45th out of 63
	World Digital Competitiveness Ranking	56th out of 63	55th out of 63	57th out of 63
	World Talent Ranking	55th out of 63	49th out of 63	48th out of 63
United Nations	E-Government Development Index	75th out of 193	n.a	77th out of 193

Investment Grade Credit Ratings

	2019	2021	
Fitch Ratings	BBB	BBB	January 2021
Standard & Poor's	BBB	BBB+ (improved)	June 2020
Moody's	Baa2	Baa2	July 2020

Forecasts

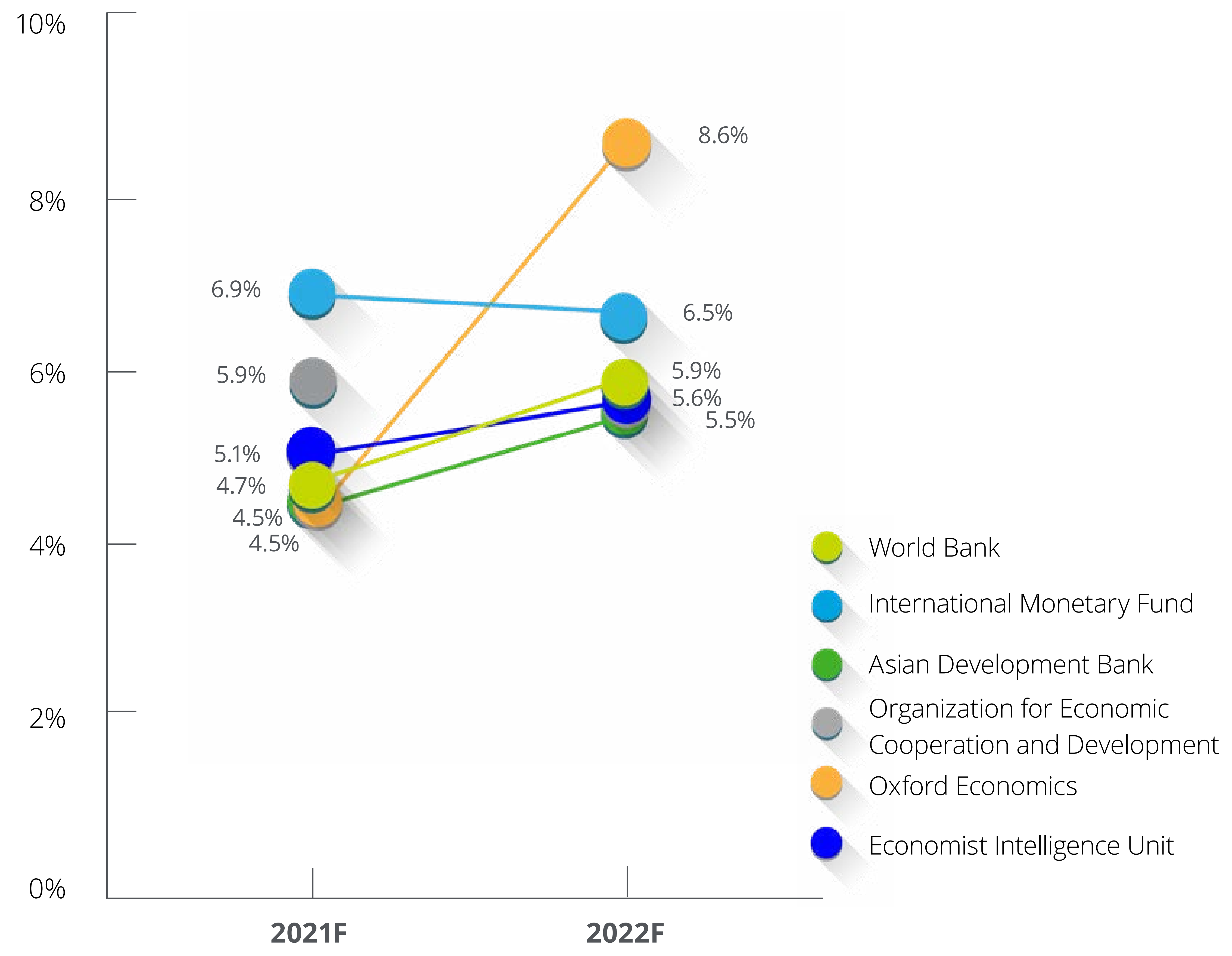
Various experts, such as researchers from the World Bank, Oxford Economics, and the Economist Intelligence Unit, are projecting a healthy recovery for the Philippines in 2021, driven by the rollout of a vaccination program and continuous efforts to manage the pandemic. As travel restrictions ease, capacities increase, and businesses reopen, the Philippine economy is expected to have a strong bounce back year.

The nation's forecasted full year GDP growth rate ranges from 4.5 to 6.9 percent in 2021. While private consumption and investment may remain below pre-pandemic levels due to lingering uncertainties from the health crisis, these are expected to return to decent growth. Similarly, heavily affected industries such as the tourism sector may not fully rebound, but will recover slowly, aided by government spending and accommodative monetary policy,[18] as well as the general reopening of both the Philippine and global economy.[19]

This growth is expected to continue into 2022 as the same experts projected full year GDP growth rates to range from 5.5 to 8.6 percent. By next year, vaccines are expected to be widely available, and overall consumer confidence, consumption, investment, and trade are expected to recover to pre-pandemic levels.[20]

Long-term forecasts are similarly robust. Oxford Economics projects a 2023-2027 average real GDP growth rate of 5.9 percent, while the Economist Intelligence Unit posits a 2023-2025 average real GDP growth rate of 6.3 percent. These bullish figures are driven by the country's strong working-age population, improved infrastructure, and steady capital accumulation, as both the Philippine and global economy recover post-pandemic.[21]

Real GDP growth forecasts by source



Forecasts

Tailwinds

The country is expected to begin its recovery from the pandemic, bolstered by the **procurement of vaccines**; the Philippine government aims to inoculate roughly two-thirds of the population by 2021.[22]

The **Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act** will cut corporate income tax rate and is expected to provide a more stable and attractive investment climate.[23]

Other legislation, such as the Financial Institutions Strategic Transfer (FIST) Act and the Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE) Act, are expected to aid in the economic recovery of other vital sectors.

The administration is expected to increase spending and expedite its **infrastructure program** through the public-private partnership (PPP) structure as the country continues to recover from the pandemic.[24]

Although the private sector may delay large-scale investment plans (e.g., vehicle purchases, expansion plans, etc.),[25] the BSP is expected to maintain an **accommodative monetary policy** to stimulate consumer spending, with additional space to ease rates in response to potential weakened economic activity or external risks. Monetary officials forecast inflation at 2.8 percent in 2021,[26] while the government's inflation target range for 2021 – 2022 is 3.0 percent ± 1 percentage point.[27]

The entry of another major internet service provider in the country has led to larger capital expenditures on the part of existing telco players, which is expected to lead to a **stronger online infrastructure** and faster internet speeds.[28] The two existing telco giants, Globe Telecom, Inc. (Globe) and PLDT Inc. (PLDT), are committed to expanding 4G and 5G networks in 2021, which will be instrumental in supporting various industries, including e-payments, e-commerce, and online education.

With the next presidential election scheduled in 2022, pre-election activities are expected to drive consumption in the second half of 2021.[29]

Headwinds

The country's delayed procurement of vaccines, relative to neighboring countries, raises concerns.[30] Potential **further waves of infections**, driven by new COVID-19 variants, would disrupt economic recovery and could lead to higher unemployment and further recession, especially if stricter lockdown measures are reimposed.[31]

The Department of Foreign Affairs estimates up to 300,000 OFWs have been repatriated due to the pandemic;[32] total remittances in 2020 remained steady, however, with full-year cash remittances declining by only 0.8 percent compared to the previous year.

Similarly, the potential resurgence of the COVID-19 virus in other major economies, such as in the United States, United Kingdom, and other European countries, may lead to lower foreign investment, declining tourism revenue, and supply chain disruptions in the Philippines.[33]

Compounding these issues is the country's exposure to natural disasters, such as typhoons, earthquakes, volcano eruptions, and tsunamis. In 2020, the government's inability to properly respond to and mitigate the effects of these disasters, given the pandemic, led to widespread agricultural losses, damages, and delays in infrastructure construction, and further disruption of economic activity.[34]

Regulations in response to the COVID-19 pandemic

Republic Act No. 11469: Bayanihan to Heal as One Act

Signed (24 March 2020)

The Bayanihan to Heal as One Act (Bayanihan Act) was the country's first response to the outbreak of the COVID-19 virus, granting the president special powers to help address and control the pandemic.

The following were the salient features of the Bayanihan Act:

- Expediting and streamlining the accreditation of testing kits, and the treatment and isolation of patients
- Providing emergency subsidies to low-income households
- Reallocation of various funds to address the COVID-19 pandemic (through subsidies given to small businesses, among others)
- Grace period for payment of loans and credit card bills

Republic Act No. 11494: Bayanihan to Recover as One Act

Signed (11 September 2020)

The Bayanihan to Recover as One Act (Bayanihan 2) replaced the Bayanihan Act, which expired in June 2020. The provisions under Bayanihan 2 extend the president's special powers in order to reduce the adverse impact of the global health crisis by extending relief to important sectors (e.g., healthcare).

The following are the salient features of Bayanihan 2:

- Stimulus package amounting to PhP140 billion of regular appropriations (for subsidies, capital infusion programs, etc.) and a PhP25.5 billion additional standby fund
- 60-day grace period for the payment of loans and 30-day grace period for the payment of rent (both residential and commercial)
- Exemption from compulsory notification of mergers and acquisitions that are below the required threshold of PhP50 billion

Republic Act No. 11534: Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

Signed (26 March 2021)

Part of the administration's tax reform initiative, the CREATE Bill was previously known as the Corporate Income Tax and Incentives Reform Act (CITIRA) Bill, before receiving several amendments in response to the health crisis. The bill, which the Department of Finance considers the "largest fiscal stimulus program," aims to help businesses affected by the COVID-19 pandemic and to attract more desirable investments in the country.

The salient features of the bill include the following (non-exhaustive):

- Decrease of corporate income tax rates from 30 percent to 25 percent (for large corporations) and 20 percent (for qualified small and medium corporations)
- Temporary reduction of minimum corporate income tax (MCIT) and percentage tax rates
- Rationalization of fiscal incentives granted to targeted investors

Regulations in response to the COVID-19 pandemic (cont.)

Senate Bill No. 1849: Financial Institutions Strategic Transfer (FIST) Act

Signed (16 February 2021)

An enhanced version of the previously enacted Special Purpose Vehicle Act of 2002, the FIST Act aims to rehabilitate the financial sector by allowing for the creation of FIST Corporations, whose purpose is to purchase non-performing assets (NPAs) from financial institutions and rehabilitate, manage, collect, and dispose of these NPAs. It is one of the priority legislations under President Rodrigo Duterte's economic recovery program.

House Bill No. 7749: Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE) Act

Approved by Lower House (1 December 2020)

The bill aims to keep micro, small, and medium enterprises (MSMEs) afloat by strengthening and empowering government financial institutions -- such as the Philippine Guarantee Corporation (PGC), Land Bank of the Philippines (Landbank), and Development Bank of the Philippines (DBP) -- to help MSMEs recover from the adverse impact of the health crisis.

Executive Order No. 104, s. 2020

Signed (17 February 2020)

Effective since early June 2020 and in response to high prices and lack of competition within the industry, the order sets a maximum wholesale price and maximum retail price on selected medicines, covering 87 medicines or 133 drug formulas. The list of drugs covered will be regularly reviewed by the Department of Health and the Department of Trade and Industry every six months from effectivity.

Other significant regulations[35]

Memorandum Order No. 50: 2020 Investments Priority Plan (IPP)

Signed (18 November 2020)

In line with Executive Order 226: The Omnibus Investments Code of 1987, the Board of Investments shall prioritize investments that promote the goals set forth in the Bayanihan Act and Bayanihan 2.

Preferred investment activities in the 2020 IPP include those related to providing essential goods and services in the fight against COVID-19, among others, and activities that promote employment opportunities. For the full list, please see the Foreign investments section.

House Bill No. 300: Amendment to the Foreign Investment Act

Approved by Lower House (9 September 2019)

In an effort to further attract foreign investment, the bill proposes to allow foreigners to own SMEs with a minimum paid-up capital of less than US$100,000 if it involves advanced technology, or employs at least 15 direct employees. Under these amendments, the practice of professions will also be excluded from the coverage of the Foreign Investment Negative List (FINL), effectively attracting more foreign professionals to the country.

House Bill No. 78: Amendment to the Public Service Act

Approved by Lower House (10 March 2020)

The bill provides for a clearer definition of 'public utilities,' specifically narrowing these down to services involving electricity distribution and transmission, and water and sewerage pipeline distribution. This allows for greater foreign investment in other businesses, particularly telecoms, which were previously considered public utilities and subject to foreign ownership restrictions.

Senate Bill No. 1840: Amendment to the Retail Trade Liberalization Act

Pending second reading (16 December 2020)

The proposed amendments aim to further liberalize the retail sector, allowing the entry of more foreign companies. Provisions include lowering the minimum paid-up capital for foreign retail investors from US$2.5 million to US$300,000, and for retailers with more than one physical store, lowering the required investment per store from US$830,000 to US$150,000.

Other significant regulations (cont.)

House Bill No. 7805: Internet Transactions Act

Approved by Lower House
(25 November 2020)

The bill recognizes the role of e-commerce in the promotion of economic growth in the country, and aims to provide regulation and compliance measures to protect stakeholders and ensure safer online transactions.

Senate Bill No. 1945: Amendment to The Anti-Money Laundering Act (AMLA) of 2001

Bicameral conference committee report ratified (20 January 2021)

The proposed amendments to the AMLA are in response to the emergent risks and challenges faced by the country's financial system, and will help the country avoid being placed on the Financial Action Task Force grey list, which would result in additional scrutiny from regulators and delayed processing of transactions.

The following are the salient amendments included in the bill:

- Increased threshold for tax crimes to PhP25 million
- Philippine offshore gaming operators and service providers included as covered persons
- Real estate developers and brokers with single transactions amounting to at least PhP5 million included as covered transactions
- Authority of Anti-Money Laundering Council to preserve, manage, or dispose of assets pursuant to freeze order, asset preservation order, and judgment of forfeiture

The Regional Comprehensive Economic Partnership (RCEP) Agreement is a free trade agreement among 15 countries (i.e., the ASEAN member states, China, Japan, the Republic of Korea, Australia, and New Zealand) that was formally signed on 15 November 2020. The RCEP Agreement brings together at least one-third of the world's population, with participating countries comprising at least 30.0 percent of global GDP.[36] The goal of the RCEP Agreement is to provide employment, boost investment opportunities, and achieve economic growth and development in the region.

Thailand, Singapore, and China have ratified the RCEP, while the Philippines is expected to complete the ratification process by end of 2021.[37] The RCEP will take effect 60 days after six ASEAN members and three other signatory countries ratify the agreement.

Expected economic benefits

A participating member of the RCEP is expected to receive the following, non-exhaustive economic benefits:

- Reduction or elimination of all tariff and non-tariff barriers to goods amongst RCEP participants
- A standardized Rules of Origin that enables more flexibility and integration of supply chains across the region
- Efficiency, transparency, and efficient customs duties procedures
- Commitments to facilitate the ease of movement of natural persons who are engaged in the trade of goods, services, or conduct of investment
- Reduction of intellectual property related barriers to trade and investment, while safeguarding intellectual property rights
- Development of businesses in the region through enhancing digitalization tools with e-commerce, as well as support of small and medium enterprises

A detailed list of economic benefits is available in the RCEP legal text.

In addition to its economic resilience, the Philippines has made significant advances in the area of corporate governance. The Securities and Exchange Commission (SEC) continuously promotes good corporate governance among Philippine corporations through initiatives such as the issuance of the Code of Corporate Governance for Public Companies and Registered Issuers in December 2019. This is part of the regulator's efforts to build a culture of transparency and honesty in disclosure.[38]

Digital disruption

According to the Harvard Business Review, the COVID-19 pandemic has changed the business rules of corporate governance, with the 'new normal' creating a complex set of stakeholder demands amidst business uncertainty.[39] Risks continue to evolve, not only due to the pandemic, but also due to other factors such as technological advances and automation. A Deloitte study of British businesses found that 95 percent of board chairs consider disruption as the main issue that needs to be addressed in the near future,[40] with the board having to adapt to technological developments, while taking a proactive approach to revising the roles and responsibilities of management.

Significant developments

Companies in the Philippines face the same challenges. Correspondingly, the SEC required publicly listed companies to submit a new Manual on Corporate Governance in 2020, with the recommendation that these organizations focus on governance responsibilities, disclosure and transparency, internal control and risk management, relationships with shareholders, and duties to stakeholders.[41]

Furthermore, the SEC began requiring public companies to start disclosing their environmental, social, and governance (ESG) performance starting 2019,[42] with a penalty for an 'incomplete Annual Report' when companies are unable to submit sustainability information with their annual report on a 'comply or explain' basis. This was intended to help companies manage their non-financial performance, while measuring and monitoring their output towards achieving comprehensive sustainability goals.

According to Nasdaq, ESG considerations have become more relevant globally as climate change and social equality dominate conversations and headlines around the world. As these issues become increasingly important in the following years, more attention will also be given to ESG data, viewed in conjunction with traditional financial measures.[43]

Corporate governance rankings (as per the World Economic Forum's Global Competitiveness Report)[44]

	Strength of auditing and reporting standards		Conflict of interest regulation		Shareholder governance	
	2018 out of 140 countries	2019 out of 141 countries	2018 out of 140 countries	2019 out of 141 countries	2018 out of 140 countries	2019 out of 141 countries
Rank	43rd	46th	121st	121st	106th	95th

Women in leadership

16th out of 153 countries

World Economic Forum’s Global Gender Gap report

28% of Filipino enterprises have a female CEO

8% higher than the average in the Asia-Pacific region

58% of total tertiary education graduates are women

higher than the 51% average in Asia-Pacific

The Philippines remains one of the region’s leaders in gender parity: In 2020, the nation ranked 16th out of 153 countries in the World Economic Forum’s Global Gender Gap report, which ranks countries based on their progress towards gender parity. In the report’s latest edition, the Philippines was the only Asian country among the top 20, scoring highly on metrics such as economic, educational, and political participation of women. However, its ranking declined from previous years, particularly in the area of educational attainment due to the lower enrollment rate of Filipino women in primary education.

Women participation in the workforce

Despite the country’s gains in gender parity, certain gaps still exist. Men still dominate business leadership posts, with only 28 percent of Filipino enterprises having a female CEO, although this is 8 percent higher than the average in the Asia-Pacific region.

In terms of talent pool, many Filipino enterprises employ women in middle and senior management positions, leading to an over-representation of women in support management functions. Women participation in the workforce is expected to continue growing in the near future, as the female talent pool continues to increase. In the Philippines, 58 percent of the total tertiary education graduates are women, higher than the 51 percent average in Asia-Pacific.[45]

Government initiatives

Several initiatives exist to promote women empowerment and gender parity in the country. In 2019, the Safe Spaces Act was signed into law, which includes provisions penalizing actions such as catcalling, wolf-whistling, misogynistic and homophobic slurs, and other forms of harassment.

The Philippine Commission on Women published the Gender Equality and Women Empowerment Plan 2019-2025, which is expected to serve as a framework for formulating gender development plans and budgets for the next four years. The plan's broad objectives include expanded economic opportunities for women, accelerated human capital development, and a significant reduction in gender-based violence.[46]

COVID-19 impact on working women

In a Deloitte Global survey of working women around the world, 82 percent of respondents said their lives have been disrupted negatively by the pandemic. Of this proportion, nearly 70 percent are now concerned about their ability to progress in their careers.[47] The health crisis has been particularly damaging to working women as they struggle to balance their work and family responsibilities in a work-from-home environment.

In the Philippines, working women have fared better in striking that balance: 64 percent of working Filipinas report that COVID-19 has adversely affected them, but only 27 percent think the disruption will prevent them from progressing in their careers.[48]

Global Gender Gap Index[49]

	2017	2018	2020
Economic participation and opportunity	25	14	14
Educational attainment	1	1	37
Health and survival	36	42	41
Political empowerment	13	13	29
Overall	10th out of 142 countires	8th out of 149 countires	16th out of 153 countires

Build, Build, Build

A key pillar of the incumbent administration's economic plan is the Build, Build, Build Program, which aims to improve transport efficiency, market opportunities, and overall productivity by ushering in the Philippines' 'golden age of infrastructure.' In 2021, the government allocated PhP1.1 trillion (US$22.3 billion) of the total national budget to the project. The higher infrastructure budget will account for 5.9 percent of the 2021 gross domestic product according to the Development Budget Coordination Committee.

According to the latest list provided by the National Economic Development Authority, the flagship infrastructure projects under Build, Build, Build have grown from 75 to 119 at a cost of PhP4.7 trillion (US$95.3 billion) as of May 2021. Apart from projects in Luzon, Visayas, and Mindanao, several projects have also been tagged as nationwide. With a focus on mass transportation, some of the highlighted projects per island under Build, Build, Build are:[50]

Luzon

- The US$6.8-billion Metro Manila Subway (Phase 1)
- The upgrade and repair of the Ninoy Aquino International Airport

Visayas

- Cebu Monorail System, a 27-kilometer rail transit system connecting various parts of the metro area of Cebu City, as well as a direct line connecting to Cebu's international airport
- Panay-Guimaras Negros Bridge (Phase 1), a 32-kilometer bridge linking three of the largest cities in the Western Visayas region

Mindanao

- Mindanao Railway, a 102-kilometer railway spanning the provinces of Davao del Norte and Davao del Sur that will reduce end-to-end travel time from 3.5 hours to 1.3 hours. The Davao City Expressway, a 29.2-kilometer road, will link the main areas of the city to centralized passenger and cargo transport hubs such as port and airport, greatly enhance traffic capacity, improve transport logistics, and ease traffic congestion.

Following the impact of COVID-19, several revisions were made to the list. The health sector gained a new government-funded project with the PhP500-million Virology Science and Technology Institute of the Philippines under the Department of Science and Technology.[51] Further, various water, internet and communication technology, and transportation projects were added to address the growing concerns raised by the pandemic.[52]

Of the 119 infrastructure flagship projects identified, 57 are being financed by loans or grants from foreign governments through the Official Development Assistance; 33 are financed privately or via public-private partnerships; and 29 are paid for using the General Appropriations Act sourced from public spending.[53]

As of May 2021, 11 projects have been completed, including the Luzon Bypass Infrastructure Project, an integral part of the National Broadband Program to improve internet connectivity; and the Angat Water Transmission Improvement Project, which will address Metro Manila's growing demand for water.[54]

Pipeline infrastructure flagship projects by sector

Sector	Number of projects	Budgeted Amount (PhPM)	(US$M)
Transport and Mobility	78	4,289,779	86,445
Urban development	14	175,376	3,534
Water Resources	11	88,181	1,777
Information and Communications Technology	9	107,029	2,157
Health	4	46,442	936
Power and Energy	3	20,291	409
Total	119	4,727,099	95,258

Pipeline infrastructure flagship projects by implementing agency

Agency	Number of projects	Budgeted Amount (PhPM)	(US$M)
Department of Public Works and Highways (DPWH)	44	1,182,142	23,822
Department of Transportation (DOTr)	39	3,020,463	60,867
DPWH / Others	6	149,424	3,011
DOTr / Others	5	100,017	2,015
Other agencies	25	275,053	5,543
Total	119	4,727,099	95,258

Project status

Status	Number of projects
Completed	11
For completion by 2021	12
For completion by 2022	17
For completion by 2023 and beyond	51
Pipeline (pending government approval)	28
Total	119

Build, Build, Build budget from 2017-2021[55]

Year	Budgeted Amount (PhP)	(US$)
2017	690.8B	13.9B
2018	886.2B	17.9B
2019	816.2B	16.5B
2020	989.3B	19.9B
2021	1,107.8T	22.3B

Target infrastructure spending, in percent of GDP[56]

Year	% of GDP
2020	4.5%
2021	5.9%
2022	5.1%

Long touted as a game-changing solution to Metro Manila's notorious traffic problem, the country's first subway system is finally in the works through a partnership with Japan.

In November 2017, President Duterte signed an agreement with then-Japanese Prime Minister Shinzo Abe to build an underground subway across NCR, with financing from Japan International Cooperation Agency's (JICA) Official Development Assistance loan. A consortium between Japanese and Philippine companies won the bid to design and build the first three of 15 planned stations.

The subway project will be 36 kilometers long and will connect the northern part of Manila in Bulacan to the Cavite area south of the Metro. The subway's route will run through seven local governments and three business districts,[57] and will eventually be connected to the existing aboveground railways (i.e., the Philippine National Railway, the Light Railway Transit System via the Common Station).

The Metro Manila Subway Project will be completed in two phases: the first phase (three stations, connecting Valenzuela City and the Ninoy Aquino International Airport in Parañaque) has been under construction since 2019, with partial operations scheduled for 2022. The subway aims to accommodate over 370,000 passengers daily, with the goal of accommodating 1.5 million upon completion.

In December 2020, the Department of Transportation (DOTr) awarded the design, supply, installation, construction, testing, and provision of 240 train cars (30 eight-car train sets) to the Japanese joint venture of Sumitomo Corporation and Japan Transport Engineering Company for the first phase of the Metro Manila Subway Project.[58] Later that month, the DOTr and the Department of Defense (DOD) agreed to allow right-of-way use through some DOD properties for the subway project,[59] securing the subway's passage through key areas in the Metro.

Metro Manila Subway Project

Phase 1 (Quezon City to Taguig)

Description	25.3 km long underground railway system from Valenzuela City to Parañaque, with a connection to NAIA
Project cost (PhP)	356.9 billion (ODA)
Construction Timeline	**Start:** 1Q 2019 **Finish:** Partial Operations: 4Q 2021 Full/Main Line Completion: 2025
Status	Mobilization of Contractor for Construction Works started on Dec. 2019
Capacity	365,000 passengers daily
Impact	It will provide shorter travel time of only 30-45 mins from North Avenue to NAIA in Pasay City.

Source: Republic of the Philippines Public-Private Partnership Center

Philippines’ subway dream

2019
21 December

Mobilization, check awarding, and Deeds of Absolute Sale signing ceremony at Depot, Valenzuela City

2020
17 January

CP101 East Valenzuela station kick-off meeting

2020
29 January

Initial Inspection of TBM Parts (16 Shield Jacks, 12 Articulation Jacks, 1 Main Bearing, 1 Cutter Reduction Gear and Motors)

MMSP Briefing for Japanese companies for remaining section contract packages

2020
31 January

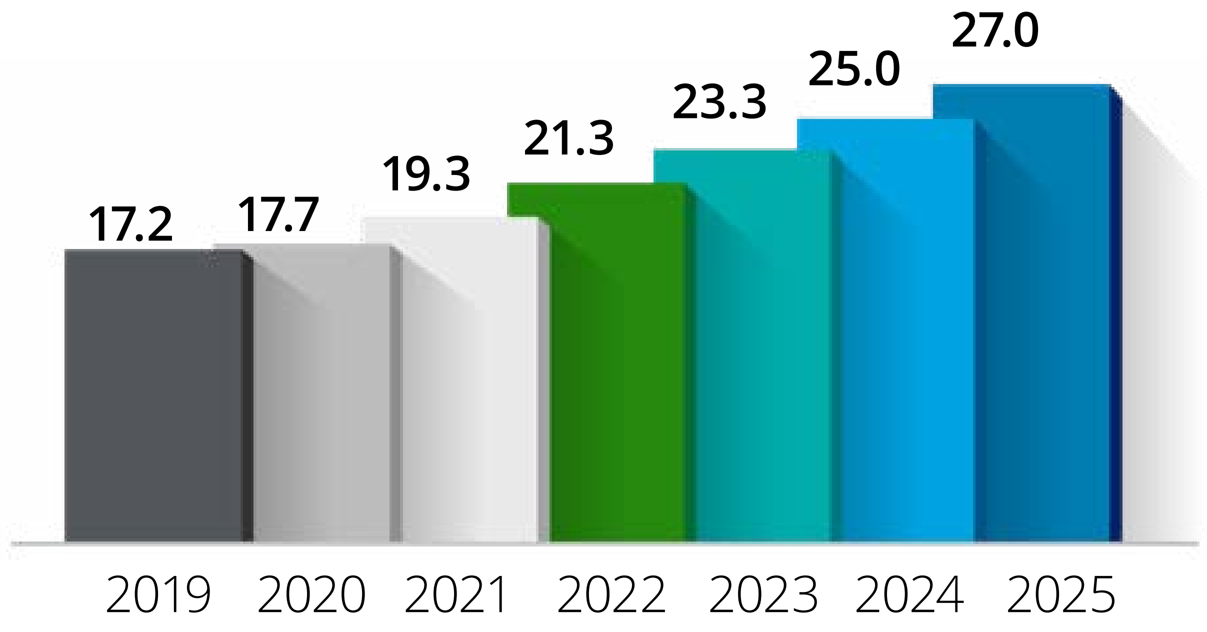
Meeting with JICA, SFTE JV, JIM Technology (TBM manufacturer) regarding Schedule of TBM Production and Delivery

Metro Manila Subway Project: Phase I (Valenzuela to NAIA)

Source: Republic of the Philippines Public-Private Partnership Center

Healthcare and pharmaceuticals

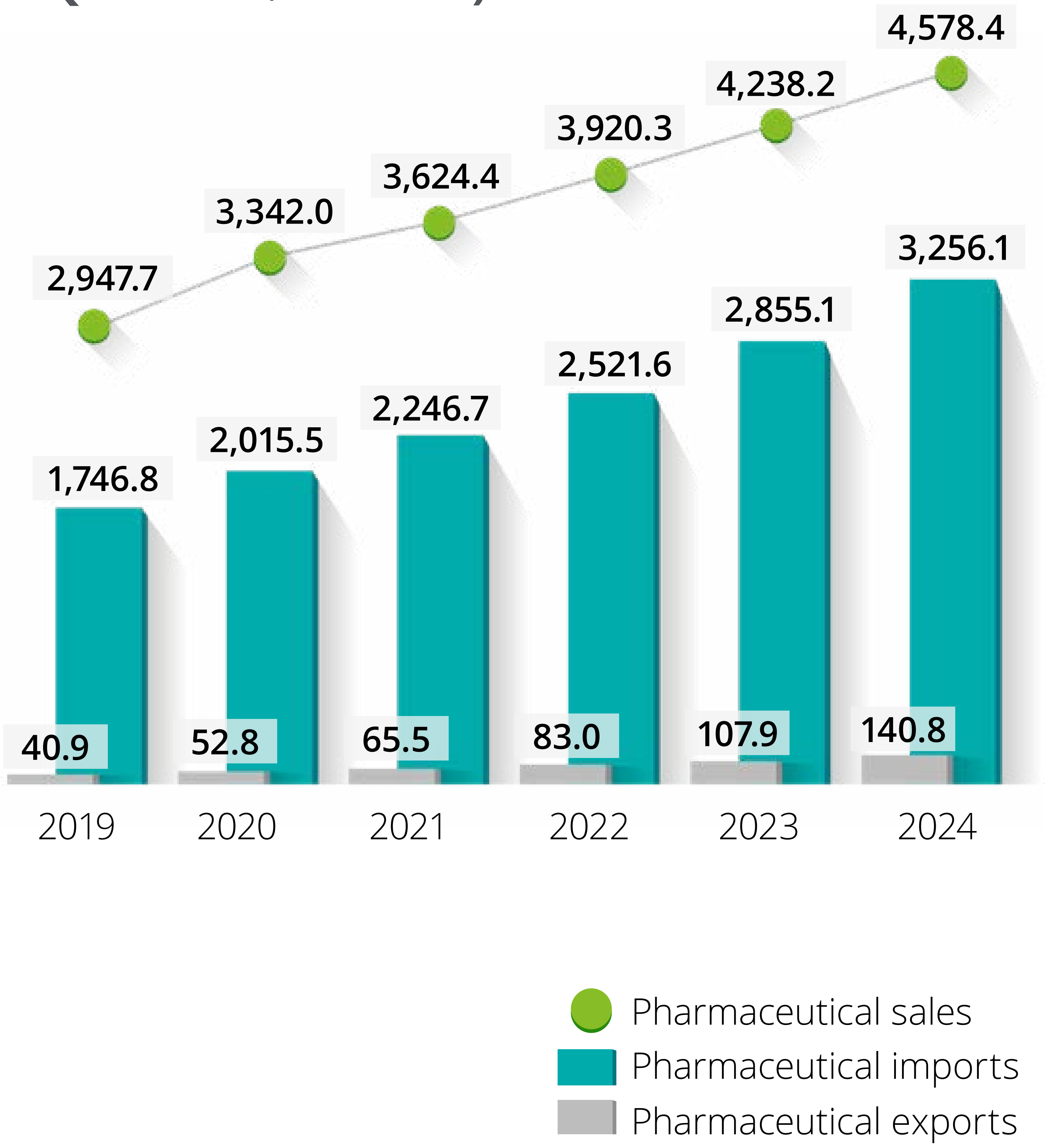
Healthcare expenditures (in US$ billions)[60]



The country's healthcare expenditures are expected to grow to up to US$27 trillion by 2025, with a compound annual growth rate of 8.8 percent from 2020-2025.

Meanwhile, the Philippines is also a growing market for pharmaceuticals, with market sales estimated to hit US$4.6 billion by 2024, according to Fitch Solutions, driven by expanding universal healthcare, government initiatives, and the growth in generic drugs. The country was ranked 11th most attractive pharmaceutical market in Asia Pacific and is the third largest pharmaceutical market in the ASEAN region.[61]

Pharmaceuticals (forecast as of 1Q21 in US$ millions)[62]

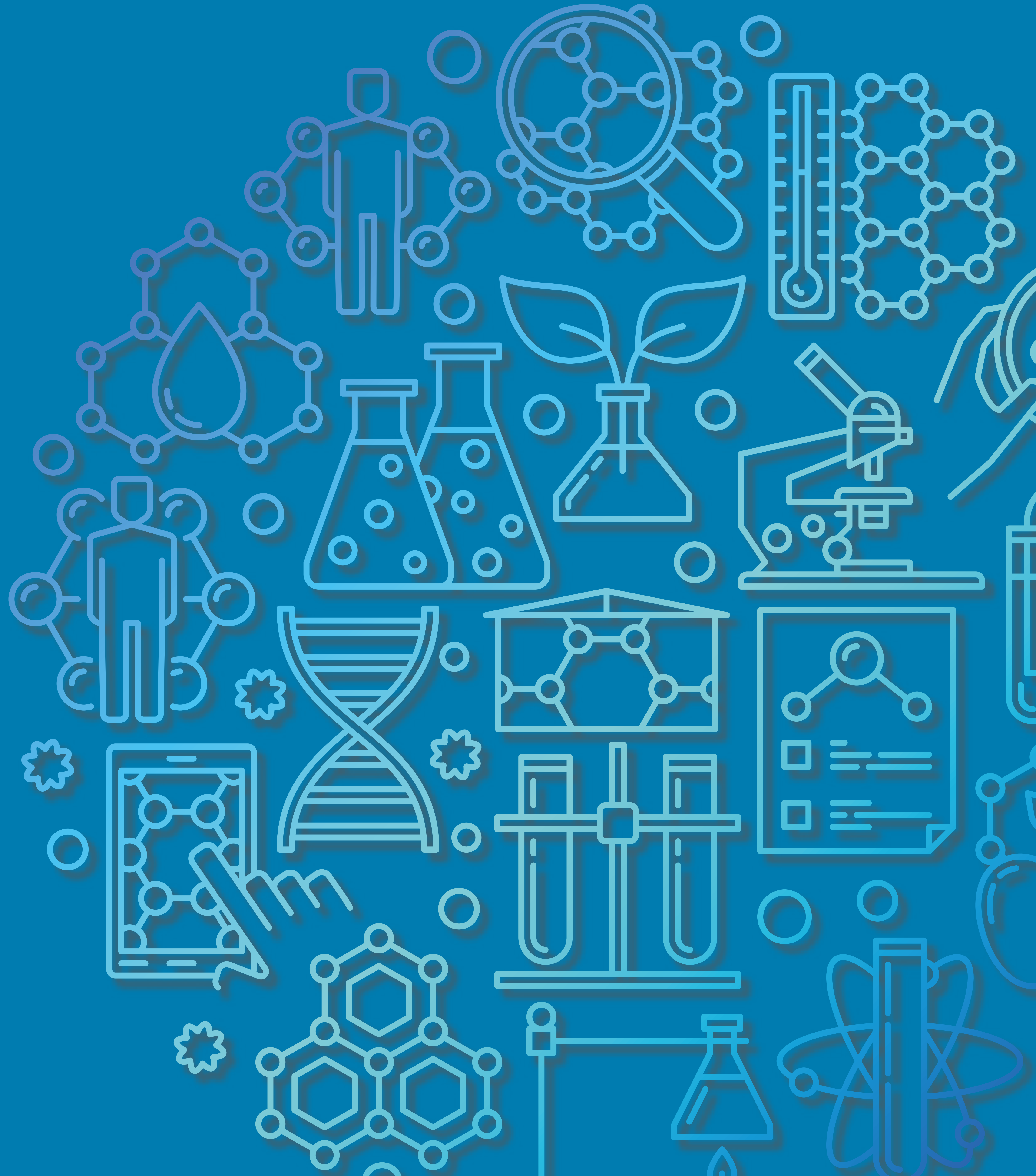


The COVID-19 pandemic has shone an even brighter spotlight on the country's healthcare and pharmaceutical sectors, as Filipinos leaned on frontliners to combat the virus. The pressure has revealed systemic weaknesses that will impact the country's ability to get to the other side of this crisis: hospitals are understaffed due to the shortage of medical workers;[63] supply chains have been disrupted due to global border restrictions;[64] and issues surrounding the Philippine Health Insurance Corporation's (PhilHealth) unpaid insurance claims have placed 300 small private hospitals at risk of closure.[65]

Surge in demand

The impact of the pandemic is expected to increase spending on healthcare benefits, with experts estimating employers' healthcare costs to increase by 8.8 percent in 2021.[66] Pharmaceutical companies have also seen a surge in demand for maintenance medicines and multivitamins due to the virus outbreak.[67] However, the government's imposition of a price ceiling on specific medicine types under Executive Order No. 104 has led to appeals from industry participants, citing increased costs and the potential for market inefficiencies.[68]

In the field of telemedicine, bright spots are emerging as demand for virtual care rose under lockdown. The Department of Health launched its 24/7 teleconsultation services through its partnership with Globe Telehealth, Inc. for COVID-19 and non-COVID-19 related concerns,[69] while telehealth platform MEDIFI grew exponentially during the quarantine, handling over 120 consultations per day.[70]



Legislation and vaccination

The Philippine government continues to put healthcare on its agenda, with President Duterte signing the Universal Healthcare Act (UHC) in 2019, effectively enrolling all Filipino citizens into PhilHealth. Certain provisions of the law, such as the increase in membership contributions, were suspended in 2021, however, due to the COVID-19 pandemic and are expected to be reviewed by Congress in light of corruption allegations levied against PhilHealth leadership.[71] The UHC Act also introduced reforms and other policies related to the country's healthcare system in an effort to streamline the responsibilities of various health agencies, address the shortage in health professionals, and make overall healthcare more affordable to the population. The administration also aims to improve healthcare facilities, particularly in rural areas, under the Philippine Health Facilities Development Plan.[72]

With regard to pharmaceuticals, laws such as the Cheaper Medicines Act and the Generics Law regulate the industry and promote consumer access to quality and affordable medicine. Further, the government aims to boost healthcare investments in the country through the development of economic zones. In 2021, the Philippine Economic Zone Authority (PEZA) granted the registration of a private entity to develop the First Bulacan Business Park (FBBP) located in Malolos. FBBP is expected to boost medical research, manufacturing, and tourism in the Philippines.[73]

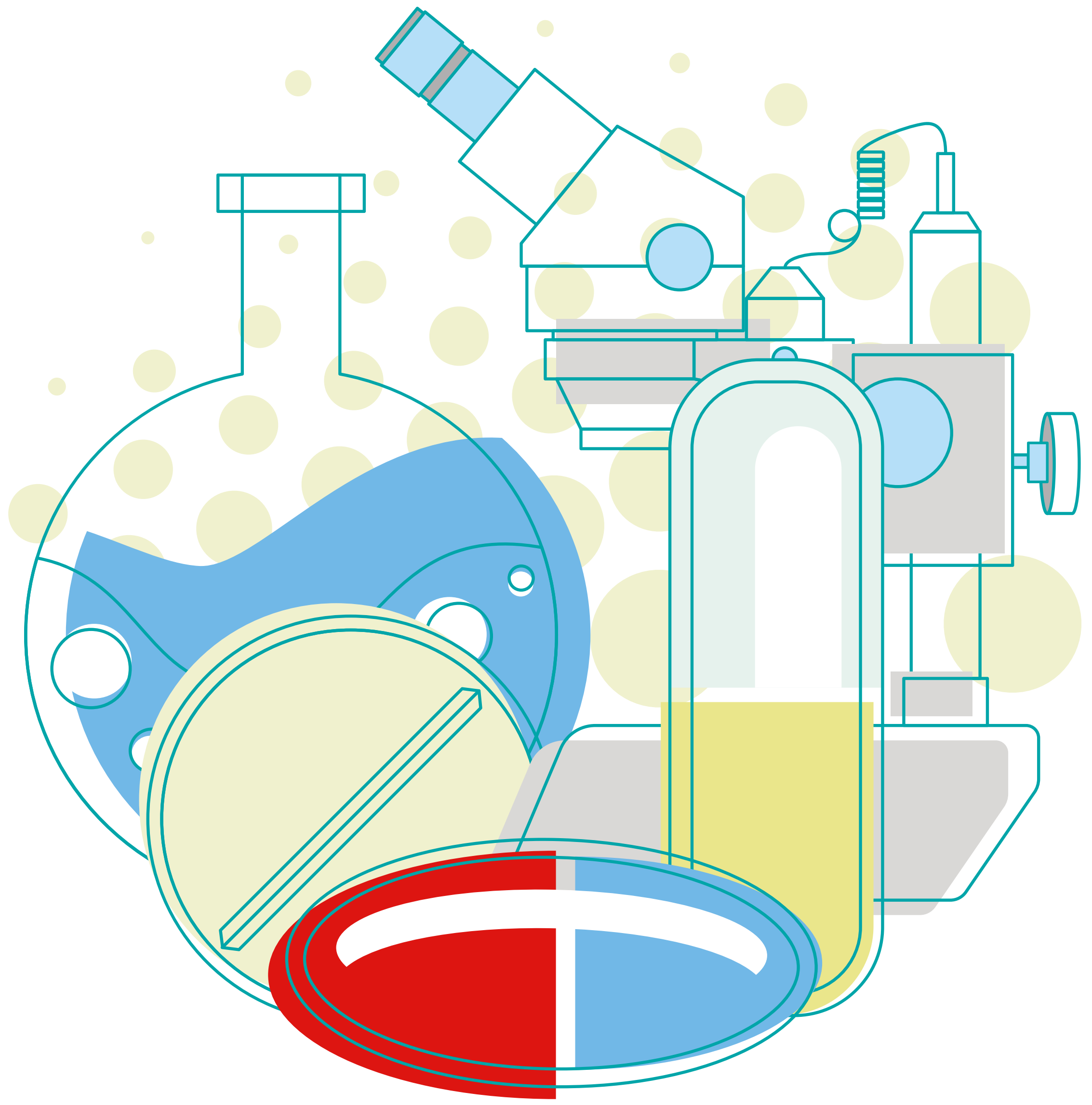
In terms of the COVID-19 vaccination agenda, the Philippine government has been in talks with several vaccine manufacturers, including US companies Pfizer and Moderna, the UK's AstraZeneca, and China's Sinovac. The government's goal is to administer the vaccines to roughly two-thirds of the population by the end of 2021. Vaccine supplies started arriving in the country in February 2021, with the formal rollout to the priority group – i.e., healthcare workers – beginning in early March 2021.

Local pharmaceutical companies are also providing support for the vaccine procurement effort. Unilab, Inc., one of the largest local pharma companies, partnered with the Department of Health to provide cold storage facilities for COVID-19 vaccines, as well as with Faberco Life Sciences, Inc., another vaccine supplier.[74]

Competitive landscape

Major pharmaceutical players, such as Unilab, Inc. and Pascual Laboratories, are diversifying into other ventures, such as healthcare and wellness services, animal health, and telemedicine.

Meanwhile, large conglomerates are also showing interest in venturing or expanding their portfolio into healthcare services. The Lopez-owned group First Philippine Holdings, Inc. owns a majority stake in Asian Eye Institute and Pi Health, Inc., and is seeking to diversify its healthcare portfolio,[75] while Ayala Healthcare Holdings, Inc. recently acquired a majority stake in Qualimed,[76] and is partnering with Globe to provide digital healthcare services to customers.[77]



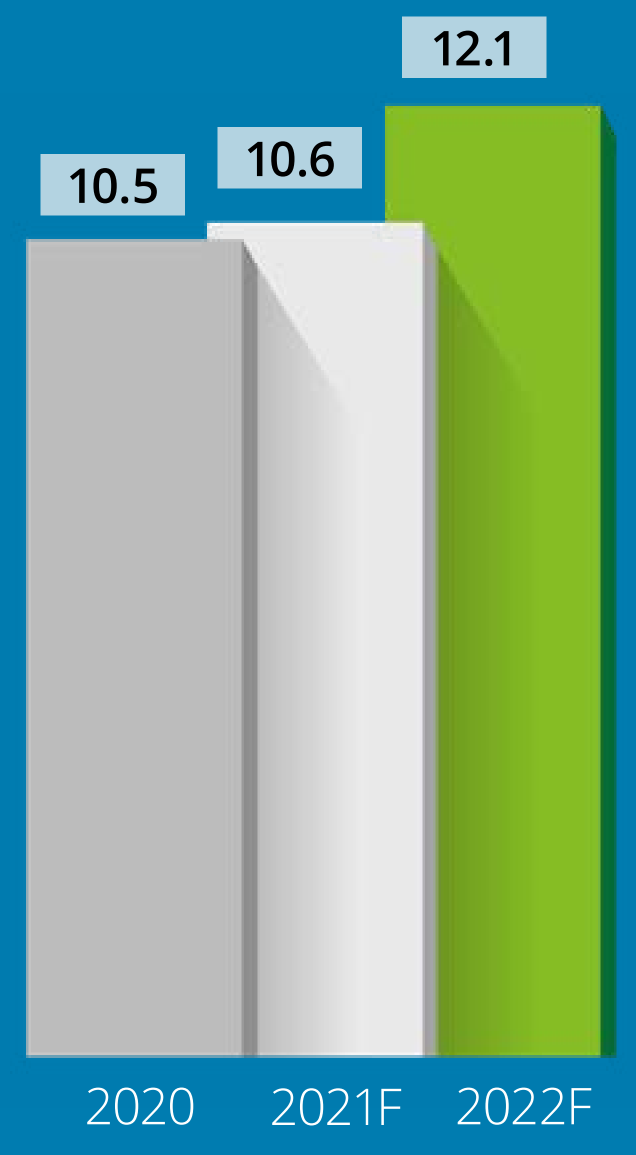
...laws such as the Cheaper Medicines Act and the Generics Law regulate the industry and promote consumer access to quality and affordable medicine.

In December 2020, the Philippines ranked 96th out of 139 countries in terms of mobile internet speed, an improvement of 14 notches from the previous month, based on the Ookla Speedtest Global Index. Advances in internet speed and connectivity notwithstanding, the country still lags behind its SEA counterparts as it has the third slowest internet speed in the region.[78]

In recent years, major telecom companies have ramped up infrastructure development in response to pressure from the government to improve services, resulting in the Philippines ranking among the top 10 countries with the largest telecom investments in 2020.[79] This has led to the rise in the gross output of the Philippine telecommunications sector, which reached US$10.5 billion in 2020 and is projected to grow to US$12.1 billion by 2022.

This growth was also driven by the country's rising population of internet and mobile users, and spurred on further by the outbreak of the COVID-19 pandemic, with quarantine measures forcing a large portion of the workforce to work remotely and through online platforms. Data indicates that the number of Filipino internet users has risen exponentially over recent years, from 23 million in 2010 to 73 million in 2020, with the average Filipino spending almost 10 hours a day online.[80]

Telecommunications gross output (in US$ billions)[81]



New entrants, foreign ownership changes to boost investments

More telecom players are expected to join Globe and PLDT after the House of Congress granted DITO Telecommunity[82] a 25-year franchise in 2020, while the National Telecommunication Commission extended the provisional authority of NOW Telecom[83] to maintain a nationwide mobile telecommunications system.

Meanwhile, House Bill No. 78, which has been approved by Congress, seeks amendments that will remove the 40.0 percent foreign ownership limit for telecommunication and transportation businesses, thereby enabling more foreign investment into the sector. The bill must still be passed by the Senate before it can be signed into law.

Increased CAPEX spending, 5G network services

Telecommunication companies have also begun rolling out their 5G network services, with major players Globe[84] and PLDT[85] aggressively launching 5G networks across the country while strengthening their 4G network services.

In line with these expansion plans, the major players within the industry are increasing their capital expenditures (CAPEX) and infrastructure budget. PLDT's CAPEX in 2019-2020 amounted to US$1.5 billion, and it is looking to spend at least US$1.8 to US$1.9 billion in 2021.[86] Globe's CAPEX, meanwhile, is expected to hit at least US$1.4 billion in 2021,[87] while new player DITO Telecommunity is poised to spend US$3.0 billion in its first year of operations.[88]

Services are also expected to improve as the Philippine government continues to prioritize the sector. The government aims to allocate at least US$270.0 million in its budget for 2021 to accelerate telecom infrastructures as part of the National Broadband Plan. Current market players will also continue to ramp up CAPEX investments as a result of pressure from government authorities and increased competition from new entrants.[89]

Competitive landscape

PLDT and Globe are the country's two major telecom players, reporting a 73.2 million and 94.2 million mobile subscriber base, respectively, as of 2019. In late 2019, Globe bought back 51.0 percent of its shares of Yondu, Inc. from Xurpas, Inc. to help in its enterprise business.[90]

NOW Telecom has partnered with the HyaleRoute group to roll out fiber-optic cable network services as part of its initial plans to become a major telco player in the country.[91] Converge ICT Solutions Inc. offers fiber network services and completed its initial public offering in 2020 worth US$723.4 million -- one of the biggest IPOs in the Philippine Stock Exchange to date.[92] Finally, DITO Telecommunity is another major player that hopes to cover 37.0 percent of the country's population within its first year of operations. Despite facing franchise and security issues, the company is expected to disrupt the current telecom market share, having already established at least 2,000 cell towers. The company has already passed its first technical audit, and will commercially roll out in waves: it began offering its services in select areas of the Visayas and Mindanao in March 2021.[93]

The growth of the telecom industry has also paved the way for a stronger fintech sector: BSP data indicates that the value of Philippine e-money transactions grew by 36.3 percent to US$28.8 billion in 2019. Despite this impressive growth, however, only 1 out of 10 Filipino adults utilize their mobile device and the internet for financial transactions, as cash is still king in the country.[94]

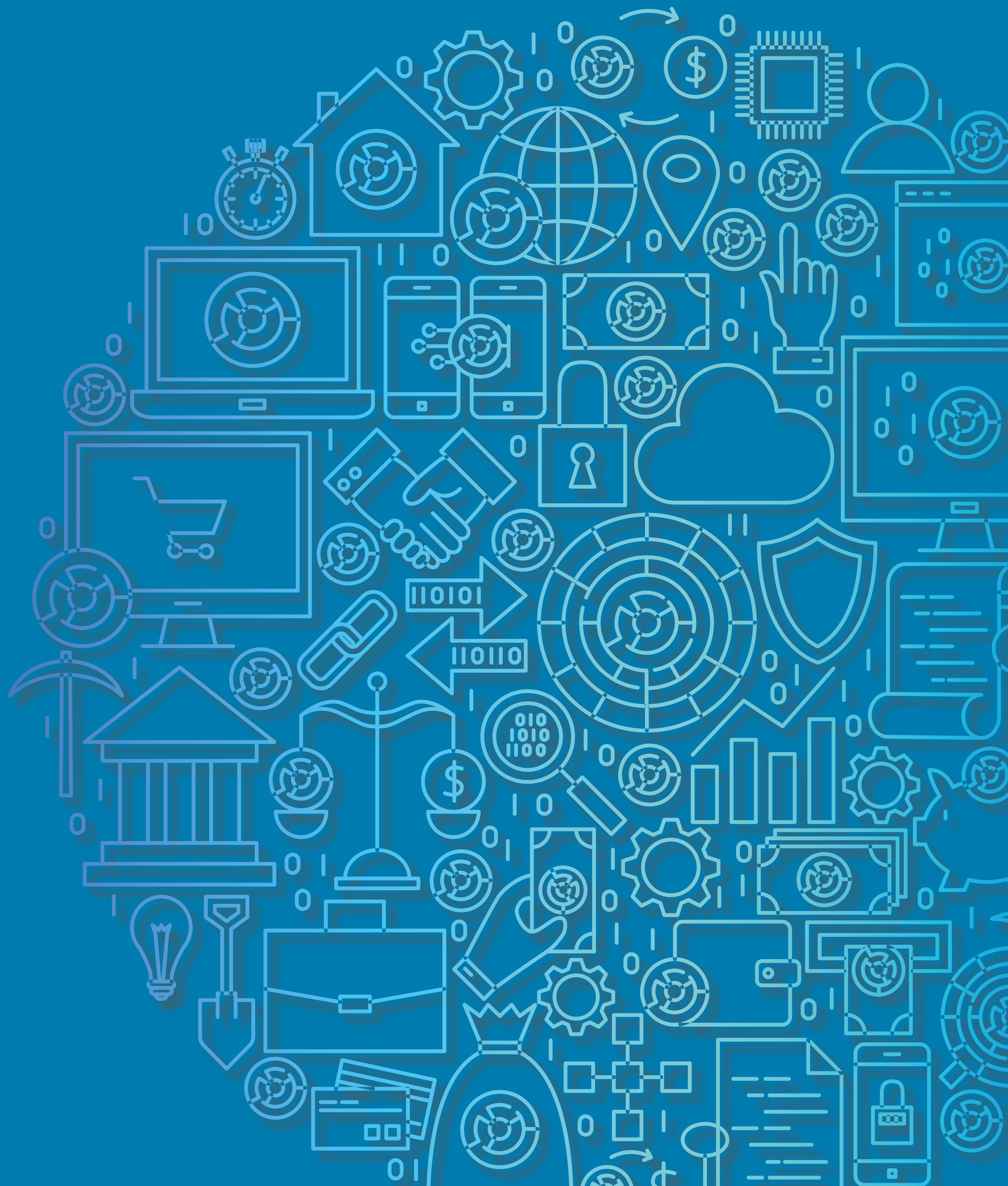
The global outbreak of COVID-19 and the ensuing lockdown measures, however, have forced both buyers and sellers to transition to digital platforms. Experts posit that e-money transactions have the potential for sustained growth, both in 2021 and in the near future.[95]

Growth as part of the 'new normal'

As the country shifts to the 'new normal', e-payment transactions have become ubiquitous. The BSP saw growth in all e-money statistics recorded as of 1Q20.

Fintech Philippines reports that 57 percent of Philippine fintech companies operate in lending, payments, and e-wallet services, with these three sectors operating as the core of the nation's fintech landscape. The remaining 43 percent operate in remittance, cryptocurrency, crowdfunding, credit scoring, and more.[96]

For its part, the BSP continues to promote both payments digitalization and financial inclusion, with the broad aim of converting at least 50 percent of the total volume of retail payments to digital form, and ensuring that at least 70 percent of Filipino adults are part of the formal financial system by 2023.[97] The central bank hopes to achieve this through various initiatives, including the development of the National Retail Payment System (NRPS) framework. The NRPS includes both PESONet and InstaPay, fund transfer services that support real time transactions, either low-value or by bulk. The planned adoption of the National QR Code Standard, which will allow merchants, including micro and small vendors, to accept payments through QR codes, as well as the recently launched EGov Pay Facility will also boost the digital landscape, with the latter enabling citizens to digitally pay government taxes and fees.[98]



The BSP has also supported the Virtual Banking Act, which seeks to build a separate regulatory and industry development governing body for virtual-only banks. In December 2020, the BSP issued the Digital Banking Framework, which details the requirements and application process for digital banks looking to enter the Philippine market, effectively opening the door for this new category of financial services provider. In support of the shift in consumer behavior, the BSP also waived fees of fund transactions made through the central bank until the end of 2021, allowing banks to focus on digitalization in preparation for the new normal.[99]

Competitive landscape

Major players in the e-payment landscape include GCash, operated by Globe Fintech Innovations, Inc., and PayMaya, operated by Voyager Innovations, Inc. In April 2020, Voyager secured US$120.0 million in new funding from partners PLDT, KKR, IFC, and Tencent, to be used for PayMaya's expansion,[100] while in January 2021, GCash raised an additional US$175.0 million in capital from Bow Wow Capital Management in exchange for a 14.0 percent stake; this raises GCash's valuation to close to US$1.0 billion.[101]

Other M&A activities in the industry include Indonesian platform Go-Jek acquiring local mobile wallet Coins.ph in January 2019, and Singaporean entity Grab securing a new round of funding in January 2021 to be used for its applications in the region, including mobile wallet GrabPay.

E-money statistics[102]

12:00

Active e-money wallets

2019	3Q20 (est.)
8.8M	**14.2M**
	61.6%↑

	1Q19	1Q20	
PESONet			
volume	2.5M	3.7M	50.7%↑
value	US$5.0B	US$8.0B	60.6%↑
InstaPay			
volume	3.7M	19.3M	421.5%↑
value	US$0.6B	US$2.4B	312.7%↑
Share of digital payments volume to total	1%	10%	
Share of digital payments value to total	8%	20%	

E-commerce

The favorable regulatory and infrastructure developments in telecoms and e-payments have paved the way for the growth of the Philippine e-commerce industry. Pre-pandemic, the gross value added of e-commerce increased by an average of 22.5 percent from 2012 to 2018.[103]

The onset of the COVID-19 pandemic in 2020 further spurred the industry, as various quarantine measures forced a shift to online platforms and digital transactions. A report by Google, Temasek, and Bain & Company indicates that approximately 37 percent of all digital service consumers in the Philippines in 2020 were new, and that about 95 percent of these new users will continue to use online transactions post-pandemic. The same report showed a growth in the gross merchandise value of e-commerce -- from US$2.6 billion in 2019 to US$3.9 billion in 2020, and projects exponential growth of US$15.0 billion by 2025.[104]

Shifting online

Data indicates that 73 million Filipinos spend almost 10 hours per day online, making them the heaviest internet users worldwide. The country's internet-savvy population and high potential for digital market growth have attracted various international tech brands such as Facebook, Google, Alibaba, Grab, and Lazada, whose e-commerce and online sharing platforms have gained strong positions in the country.[105]

This favorable environment has led the Department of Trade and Industry (DTI) to set ambitious targets for the e-commerce sector in their e-Commerce Philippines 2022 Roadmap, which sets both the administration's goals and planned approach for promoting the sector in the country.

Some of the administration's efforts to strengthen the e-commerce market include the accelerated implementation of the National Broadband Plan, the Philippine Identification System, and the BSP Digital Payments Transformation Roadmap.

In terms of legislation, Congress approved the Internet Transactions Bill last November 2020, which seeks to regulate all business-to-business and business-to-consumer commercial online transactions, including internet retail, travel services, digital media providers, ride hailing services, and digital financial services. A proposed e-commerce bureau will also serve as a "central authority" to regulate online trade and support consumers on their complaints over internet transactions.[106]

Senate Bill No. 1469, the National Digital Careers Act, has also been filed to promote and strengthen digital careers in the country, which are expected to increase due to the pandemic.[107]

Competitive landscape

As a result of shifting consumer behavior, several retail brands went digital in 2020. SM Markets, the mother brand of SM Supermarket, SM Hypermarket, and Savemore Market, launched a new e-commerce site to provide a convenient platform for consumers to purchase groceries and essentials.[108] SM Markets is under the SM Retail Inc. network, which is a subsidiary of SM Investments Corporation, the largest listed Philippine company in terms of primary market capitalization.

MerryMart Consumer Corp., a grocery chain that held an initial public offering in May 2020, has also collaborated with FoodPanda Philippines, Inc. to open online branches exclusive for online buyers.[109]

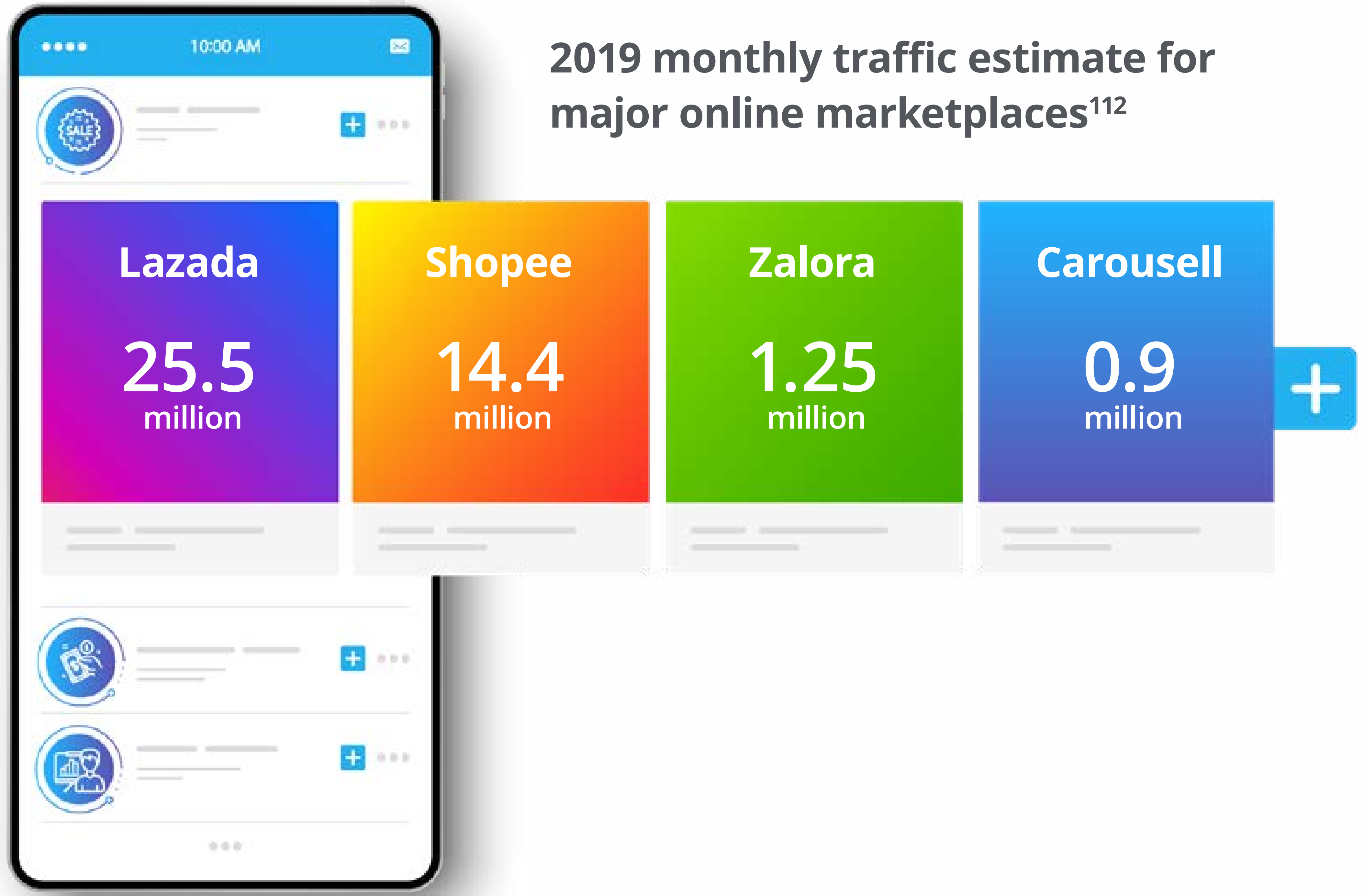
Meanwhile, online platforms such as Lazada, Shopee, Zalora, and Carousell remain the largest digital marketplaces for retailers to sell their products.

The e-commerce industry has also been an active ground for M&A activity, with private equity firm Navegar recently investing US$12.0 million in Great Deals E-Commerce Corp., a Philippine firm offering end-to-end e-commerce services, including digital content, analytics, warehousing, and fulfillment. The agreement was completed in January 2020.[110]

DTI's e-commerce targets[111]

	2020 (baseline)	2021 target	2022 target
Gross value added	US$12.1 billion	US$17.1 billion	US$24.2 billion
% share to GDP	3.4%	4.3%	5.5%
No. of e-commerce enterprises	500,000	750,000	1 million

2019 monthly traffic estimate for major online marketplaces[112]



Prior to the COVID-19 outbreak, the Philippine logistics industry was thriving: it ranked 60th out of 160 countries in the 2018 World Bank Logistics Performance Index due to the enactment of the Ease of Doing Business Law and the government's ambitious infrastructure program.[113] The sector was expected to grow at a rate of 8.2 percent to 8.8 percent from 2018 to 2024, and projected to be a US$19.5 billion to US$20.2 billion market by 2023.[114]

However, like several others, the industry has been derailed by the global pandemic, which has caused supply chain interruptions and shipment delays. Despite this, the growth of e-commerce amidst the health crisis has provided the logistics and warehousing sector a positive outlook, with the Lobien Realty Group expecting the industry to achieve the previously forecasted growth rate. JLL Philippines also provides a positive outlook: it is projecting a growth in logistics demand of 118.0 percent over the next 10 years, citing the sustained improvement of e-commerce platforms, growing external trade, and the recovery of the manufacturing sector.[115]

Manufacturing slowdown

According to the Lobien Realty Group, the negative impact of the COVID-19 pandemic on the manufacturing industry has, by extension, affected the logistics and warehousing industry. The sector suffered from lower private consumption, as household expenditures declined by 7.9 percent in 2020. The halt on external trade led to a 35.6 percent decline in merchandise exports, while imports fell by 40.6 percent, driven by the slow movement of non-essential goods. Gross value added by the transportation and storage industries declined by 31.2 percent in 2020 driven by weaker economic activity, although the consumption of essential items such as food and communication products still registered a small growth.[116]

Additionally, the Cold Chain Association of the Philippines (CCAP) projects a shortage in the cold storage supply due to the delay in the construction of cold-storage facilities amidst the pandemic. Despite this, the CCAP expects the cold chain industry to grow by 9.0 percent annually due to the high demand and consumption of meat and seafood products, as well as the increase in sales of frozen produce in supermarkets and e-commerce platforms.[117]

E-commerce: The life support of the industry

E-commerce platforms have thrived during the pandemic, highlighting the importance of supply chain and logistical reach, especially with 73 million internet users in the country ordering and purchasing items for delivery.

The management of Shopee Philippines Inc., one of the country's leading online marketplaces, cited a steep increase in nationwide orders due to the pandemic,[118] while a study from the iPrice Group, a meta-search company, revealed a 53.0 percent quarterly increase in the usage of shopping apps upon the onset of the pandemic in 2Q20.[119]

In line with the growth of e-commerce is the rise of dropshipping—the practice of having a vendor sell products and then pass the sales on to a third-party supplier who will ship the orders to the customer. This model has been a boost to the already growing number of online sellers in the country, but a bane for warehousing services as it drives down demand for inventory storage. Active dropshippers include AliExpress, Chinabrands.com, Esources, Alibaba, and Lazada.

Competitive landscape

Major players in the industry include shipping, freight, and warehouse companies (e.g., LBC Express, Inc., 2GO Express, Chelsea Logistics Corp., Airspeed, Entrego Express Corporation), as well as cold chain companies (e.g., Jentec Storage Inc., Orca Cold Chain Solutions). Conglomerates SM Investments Corporation and the Ayala Group have acquired ownership stakes in 2GO Express and Entrego Express Corporation, respectively, in recent years.[120]

Couriers such as J&T Express and Ninja Van Integrated have partnered with major e-commerce platforms such as Shopee, Lazada, and Zalora, and have benefited from the growth in online shopping. In addition, these platforms typically maintain their own logistics and courier services.

The logistics industry has also been an active ground for M&A deals: in August 2020, Singapore-based Asia Seal Pte. Ltd. acquired a 40.0 percent stake in Fastcargo Logistics Corp., which is engaged in the business of cargo loading, forwarding, and warehousing services.[121] In December 2020, leading private equity firm CVC Capital Partners announced its investment in a 40.0 percent stake in Fast Group Philippines for US$120.9 million to upgrade its technology and expand its logistics operations.[122]

The Philippine real estate sector performed well in 2019, bolstered by a healthy economy, tourist arrivals, and infrastructure development. The gross value added by the real estate sector in 2019 amounted to US$13.5 billion, while approved real estate foreign direct investment equaled US$156.4 million, as the market thrived alongside sustained demand from other industries, such as gaming and outsourcing services.[123]

The COVID-19 outbreak in 2020 severely affected the industry, as travel and movement restrictions were imposed, and overall consumer activity declined. Nonetheless, avenues for the sector's recovery exist, with demand and property development expected to recover post-pandemic.

Increased vacancy, forecasted recovery

The COVID-19 pandemic disrupted the real estate sector in various ways. The residential real estate price index, which acts as an indicator of residential property prices in the country, experienced its first year-on-year decline in the third quarter of 2020, from 131.7 to 131.2, indicating weak consumer demand as Filipinos deferred purchasing houses and lots amidst economic uncertainty.[124]

Meanwhile, global real estate services and investment firm Colliers International recorded sharp increases in Metro Manila vacancy rates across both residential and office sectors in 2020, as demand fell due to businesses closing down, firms shifting to remote work, and a slowdown in the influx of foreign employees. Supply is similarly projected to fall, as construction of real properties across both sectors was delayed throughout the year due to the pandemic.[125] Even as construction activities resumed in the latter half of 2020, limitations still led to a slowdown in industry activity.

However, the industry is expected to begin rebounding in 2021. For residential properties, rent and prices are expected to rise as the economy slowly opens up and waivers of rental payments end. The same is true for office properties, which are expected to recover as more local businesses reopen, bolstered by key sectors such as telecommunications and healthcare.

Both sectors will also benefit from the completion of projects that were delayed due to the pandemic, as real property supply is expected to increase sharply in 2021. In addition, rapid infrastructure development in the coming years will aid in boosting the property development sector.[126]

Real Estate Investment Trusts (REITs)

The government has lined up various policies and initiatives to support this forecasted recovery, one of which is the REIT Act of 2009, a law governing REITs and corporate entities that invest in real estate. Although this law was signed in 2009, strict regulations prevented its widespread implementation. In response, the government issued amendments to the REIT Act in January 2020, relaxing minimum public ownership requirements and providing certain tax exemptions.[127]

AREIT Inc., the first publicly listed Philippine REIT, is a subsidiary of one of the largest real estate firms in the country, Ayala Land. It completed its initial public offering in August 2020, estimated at US$274.1 million.[128] Another property developer, DoubleDragon Properties Corp., debuted its REIT, DDMP REIT Inc., in the Philippine Stock Exchange on 24 March 2021, with shares priced at P2.25 apiece.[129]

Competitive landscape

Major players within the real estate sector are commonly part of larger conglomerates. These include Ayala Land, Inc., SM Prime Holdings, Inc., DMCI Holdings, Inc., and Megaworld Corporation. Deals within the sector include GT Capital Holdings Inc.'s divestment of its 51.0 percent stake in real estate company Property Company of Friends, Inc. for roughly US$386.1 million worth of land in May 2019,[130] and local property developer Arthaland Corporation forming a joint venture with Japanese Mitsubishi Estate Company for the development of property in Taguig City in August 2019.[131]

Metro Manila vacancy rates (as per Colliers International)

	2020	2021	Y-o-Y movement
Residential	15.6%	16.9%	+1.3
Office	9.1%	12.5%	+3.4

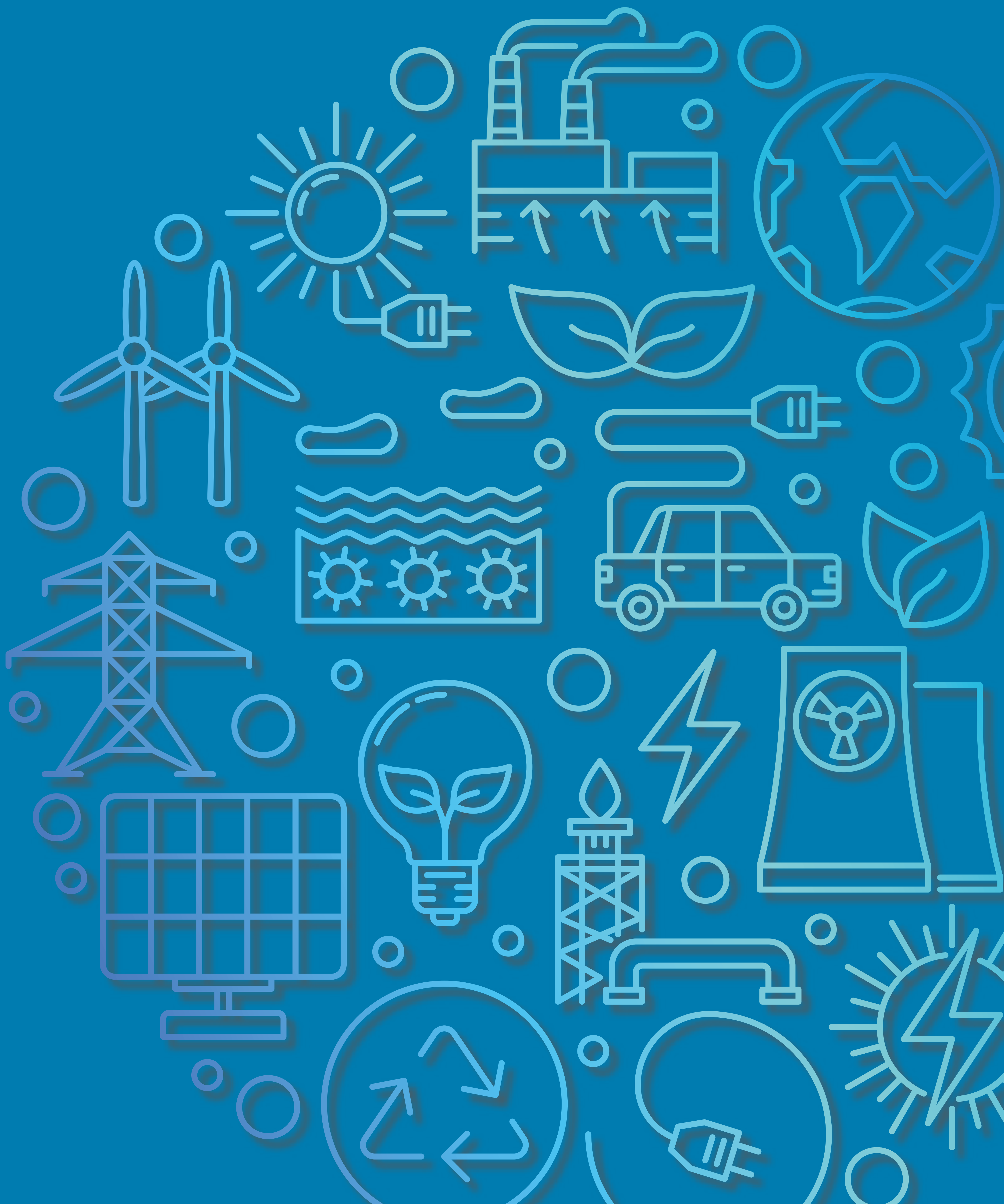
Metro Manila new supply of real property (as per Colliers International)

	1Q20	2Q20	3Q20	4Q20	Full year 2020	Full year 2021 (forecast)
Residential (units)	1,670	0	625	1,080	3,375	10,604
Office (sqm.)	93,500	57,500	77,700	189,200	417,900	886,200

As of June 2020, renewable energy accounted for 29.2 percent of the country's installed capacity and 29.7 percent of dependable capacity; the Philippines remains dependent on energy generated from coal, which accounts for 40.5 percent and 42.7 percent of the country's installed and dependable supply, respectively. With regard to renewable energy projects as of year-end 2020, committed capacity, which refers to projects with secured financing, amounted to 844 MW, while indicative capacity, referring to projects still in negotiation, amounted to 20,713 MW.[132]

Renewable energy capacity, in MW

	Supply (June 2020)		Projects (December 2020)	
	Installed capacity	Dependable capacity	Committed capacity	Indicative capacity
Hydro	3,761	3,509	144	5,474
Geothermal	1,928	1,792	140	226
Solar	1,020	817	409	10,781
Wind	443	443	132	4,192
Biomass	363	225	19	40
Total	**7,515**	**6,786**	**844**	**20,713**



The GEA policy seeks to assist renewable energy developers in accessing markets for bilateral contracts, address price volatility in the market, and promote the competitive setting of rates in the country, among others.

The Department of Energy hopes to widen the application of renewable energy in the country, with a series of initiatives and projects designed to boost the country's renewable energy output. The government has set a long-term target of 15,304 MW of installed capacity of renewable energy (approximately 35 percent of the total energy mix) by 2030.

Green Energy Auction

One of the government initiatives geared towards achieving these ambitious targets is the Green Energy Auction (GEA). Scheduled for June 2021, the GEA has the goal of creating a competitive environment while matching power distribution companies with qualified renewable energy suppliers. The auction is initially being set at 2,000 MW, although a higher capacity may be put up for auction on the basis of strong demand.[133] The GEA policy seeks to assist renewable energy developers in accessing markets for bilateral contracts, address price volatility in the market, and promote the competitive setting of rates in the country, among others.

Apart from the GEA, the country has other programs and legislations in place to promote the development, utilization, and commercialization of renewable energy resources. The Renewable Energy Act of 2008 has several provisions to this end, such as the Renewable Portfolio Standards program, which requires electric industry participants to source or produce a minimum percentage of their electricity from eligible renewable energy sources. Another example is the Feed-in-Tariff system, which incentivizes renewable energy producers by setting a fixed price for renewable energy generation. On the other hand, the National Renewable Energy Program acts as a roadmap, setting targets and outlining the broad framework and foundation for the development of the Philippines' renewable energy resources.

Competitive landscape

Publicly listed companies involved in energy generation include AC Energy Corporation, Aboitiz Power Corporation, and First Gen Corporation, all of which are members of larger conglomerates. Other large corporations, such as San Miguel Corporation, also have stakes in the energy sector. The Manila Electric Company, on the other hand, is the only electric power distributor in Metro Manila, the largest urban center in the Philippines, covering 36 cities and 75 municipalities.

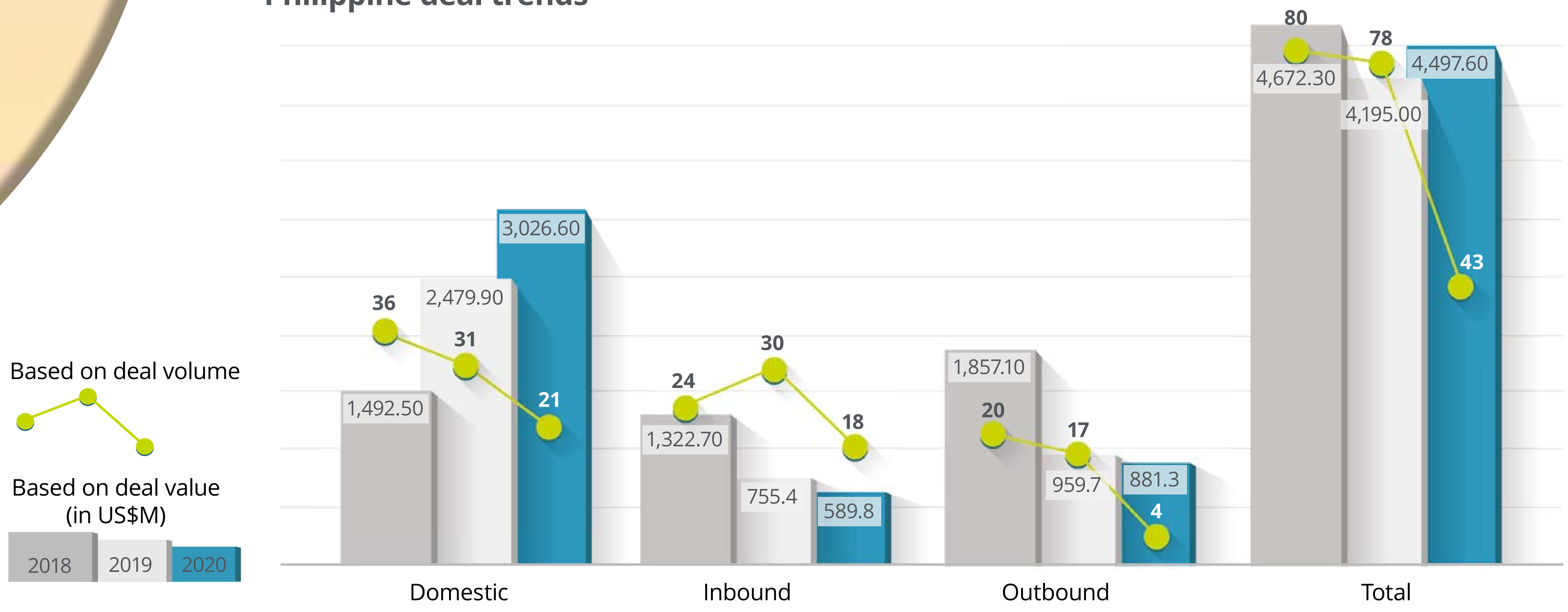
Several of these major players continue to focus on their renewable energy portfolio. AC Energy Corporation announced in April 2020 its plan to fully exit from coal investments by 2030, while First Gen Corporation affirmed that it has not invested in coal plants since 2016.[134]

M&A activities are following this trend. AC Energy Corporation formed a joint venture with Citicore Solar Energy in February 2021 for a solar plant project, while Energy Development Corporation is exploring geothermal investments in Taiwan.[135] As of October 2020, privately-owned Solar Philippines announced that it is preparing for an initial public offering.[136]

04 Mergers and Acquisitions

Deal volume from 2018 to 2020 continued to slow down as the pandemic weakened market sentiments, leading to lower number of mergers and acquisitions. Recorded deal volume in 2020 decreased by approximately 45 percent -- from 78 deals in 2019 to 43 deals in 2020. Despite the decrease in volume, disclosed deal value in 2020 was reported to have the highest average in a three-year period at US$160.6 million, compared to US$95.4 million in 2018 and US$99.9 million in 2019. The increase in average deal value in 2020 can be attributed to the high-value deals arising from the top 10 deal transactions of the year, which accounted for approximately 92 percent of the total deal value amounting to US$4,145.9 million.

Philippine deal trends[137]



Domestic

The Philippine M&A space continues to be dominated by domestic investors, although local deals are at their lowest in a three-year period, closing at 21 deals.

Domestic deals continue to drive year-on-year deal value, contributing 59.1 percent in 2019 and 67 percent in 2020, equivalent to US$2.5 billion and US$3.0 billion, respectively.

Average domestic deal value in 2020 was pegged at around US$178 million, which is 29.2 percent higher than the reported value in 2019. Growth in 2020 was driven by high-value deals initiated by existing and emerging market players from the power sector, namely Prime Metro Power Holdings Corporation, and Meralco PowerGen Corporation. The combined deal value from the power and utilities sector totaled US$2.4 billion, accounting for approximately 78 percent of total domestic deal value.

The acquisition of Prime Metro Power Holdings Corporation of the remaining 72 percent stake in Manila Water Company Incorporated emerged as the largest domestic deal announced in 2020, priced at US$1.4 billion, in a move for former-owners Ayala Corporation to divest of its water holdings.

The second largest domestic deal transaction is Meralco PowerGen Corporation's acquisition of the remaining 86 percent stake in Global Business Power Corporation for US$716.9 million, making it a wholly-owned company of Meralco PowerGen Corporation. According to MPIC president and CEO Jose Ma. Lim, the deal is expected to promote scale and operational synergy while at the same time streamline capital for MPIC's other growth areas.

Inbound

Both deal volume and deal value for inbound transactions significantly declined from 2019 to 2020. Deal volume is down by 40 percent -- from 30 deals in 2019 to 18 deals in 2020. Meanwhile, year-on-year deal value declined by 21.9 percent -- from US$755.4 million in 2019 to US$589.8 million in 2020.

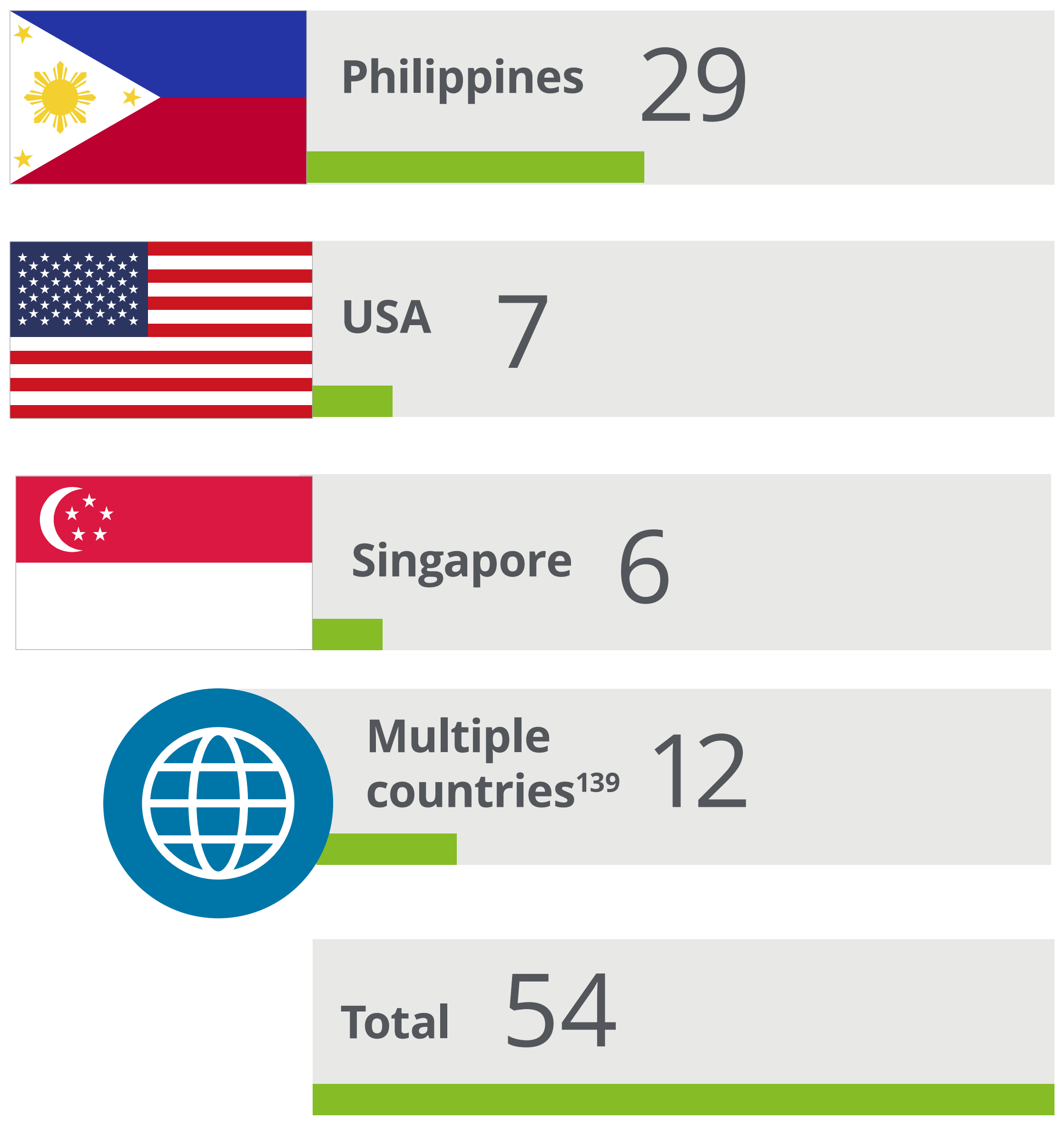
The consumer industry emerged as the most attractive in terms of deal volume, contributing 11 of the 18 total inbound deals with an aggregate deal value of US$260.5 million in 2020.

The top three bidders based on disclosed deal value come from the United States, South Korea, and Singapore. US-based global investment firm Kohlberg Kravis Roberts & Co. L.P.'s acquisition of an 11.9 percent stake in First Gen Corporation for US$192.5 million is reported to be the highest valued inbound deal. The second largest deal involved the move of multiple individual investors to acquire an 88.5 percent controlling stake of BDO Unibank's controlling stake in BDO Leasing and Finance Incorporated for US$107.1 million.

Outbound

There was a drastic year-on-year decline in outbound deal volume -- from 17 deals in 2019 down to four deals in 2020. Despite this, outbound deal value only declined by 8.2 percent, from US$959.7 million in 2019 to US$881.3 million in 2020. The deal value has been largely driven by the acquisition of an 87.2 percent stake in Infigen Energy by the consortium formed by AC Energy Incorporated and UPC Renewables China Limited for US$881.3 million.

Top 3 bidder geographies based on deal volume (2020, outbound, inbound, and domestic)[138]



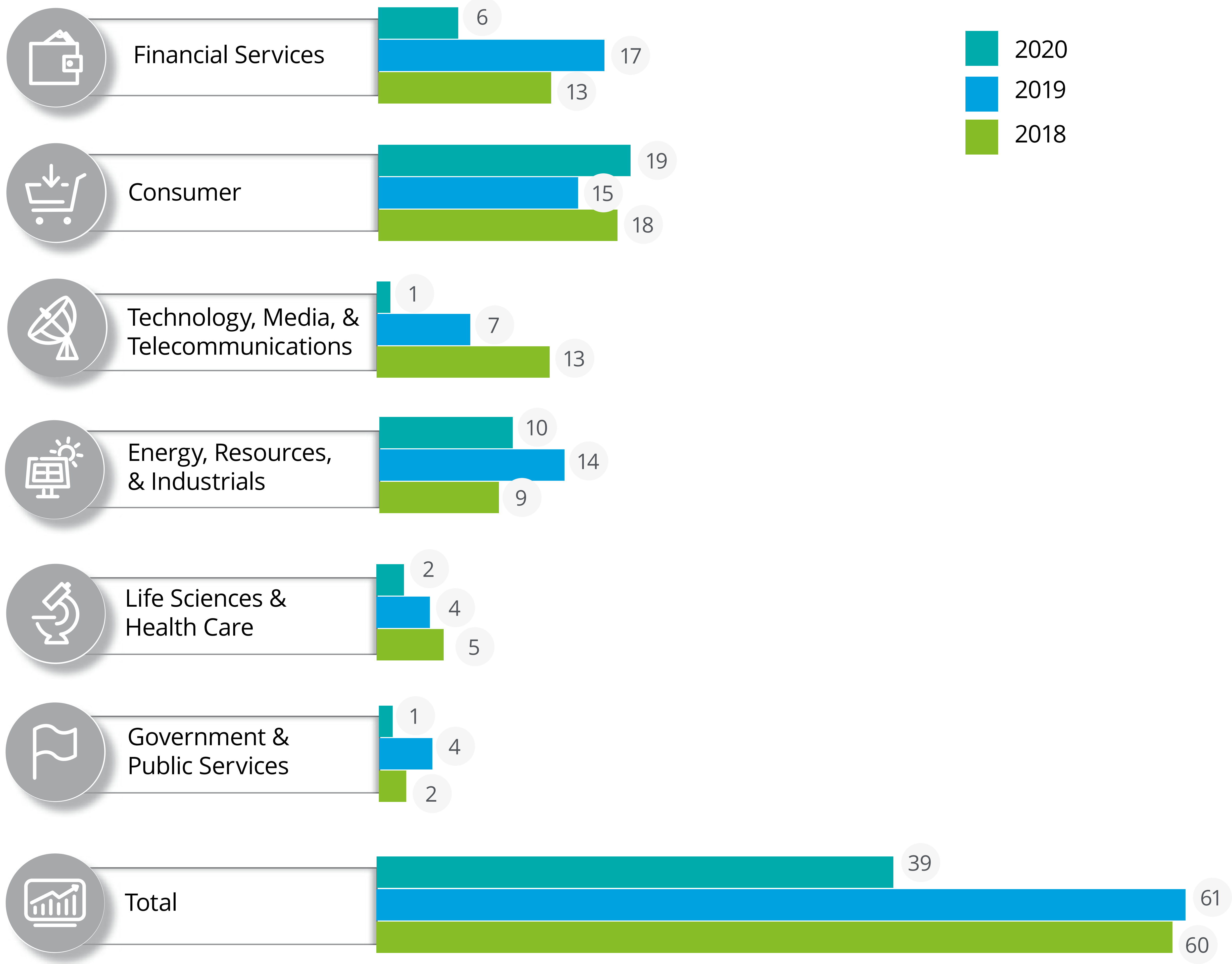
Both deal volume and deal value for inbound transactions significantly declined from 2019 to 2020… The top three bidders based on disclosed deal value come from the United States, South Korea, and Singapore.

Overall top 2 deals based on disclosed deal value[140]

Deal 1	2018	2019	2020
Announcement date	16 August 2018	15 November 2019	7 February 2020
Target company	• Coca-Cola FEMSA Philippines, Inc. (51% stake)	• OneTaipan Holdings, Inc. (67% stake) • Pacifica21 Holdings, Inc. (67% stake)	• Manila Water Company, Inc. (72% stake)
Bidder company	• The Coca-Cola Company	• Synergy Grid & Development Philippines Inc.	• Prime Metro Power Holdings Corp.
Deal value (in US$M)	**715.0**	**1,615.0**	**1,401.6**

Deal 2	2018	2019	2020
Announcement date	26 September 2018	10 May 2019	3 June 2020
Target company	• AA Thermal, Inc. (49% stake)	• Property Company of Friends, Inc. (51% stake)	• Infigen Energy Limited (87.18% stake)
Bidder company	• Aboitiz Power Corporation	• Maplecrest Group, Inc.	• Consortium formed by AC Energy Group and UPC Renewable Group
Deal value (in US$M)	**579.2**	**383.07**	**881.3**

Investments in the Philippines based on deal volume (inbound and domestic)



2020 M&A highlights: Industry focus

Energy, Resources & Industrials

- Investments in 2020 largely came from the energy, resources and industrials industry, specifically in the power and utilities sector, with total deal value reaching US$3.8 billion, which is equivalent to 84 percent of total deal value for the year.
- As an emerging conglomerate in the power and utilities sector, Prime Metro Power Holdings Corporation strengthened its portfolio in 2020 as it announced two domestic deals: the acquisition of a majority stake in Manila Water Company Incorporated and Solar Philippines Tarlac Corporation. The transactions are valued at the respective prices of US$1.4 billion for a 72 percent stake and US$30 million for a 50 percent stake, making the former the largest domestic deal in 2020.
- The consortium between AC Energy Group and UPC Renewable Group emerged as the second largest in terms of deal value amounting to US$881.3 million, which involves a takeover bid for 87.2 percent ownership of Infigen Energy, an Australia-based wind farm operator.
- Meralco PowerGen Corporation announced a huge deal with Global Business Power Corporation as it acquired 86 percent ownership of the company worth US$716.9 million.

Financial Services

- The financial services industry emerged as the second largest funded industry in 2020 despite lower aggregate deal value compared to last year -- from US$990 million to US$323.6 million, an equivalent decline of 67.3 percent. In terms of deal volume, it significantly declined as well from 20 announced deals in 2019 to just seven deals in 2020. Deals in this industry include holding companies as bidders with investments in the financial services industry.
- The largest deal is linked to First Philippine Holdings Corporation's bid to secure a stake ranging from 20 to 45.6 percent in Lopez Holdings Corporation. The investment in the Philippine conglomerate engaged in broadcasting and cable, power generation and distribution, banking and telecommunications totaled US$165.7 million.
- The acquisition of 88.5 percent ownership in BDO Leasing and Finance Incorporated, a listed Philippines-based subsidiary of BDO Unibank, by multiple individual bidders is recorded as the second highest-valued transaction amounting to US$107.1 million.

Consumer

- Despite the decline in economic activities and consumer appetite resulting from the impact of the pandemic, the country's consumer investment space successfully closed 19 of the 39 total completed deals in 2020 with an aggregate deal value of US$365.8 million. The amount is equivalent to 8.1 percent of total deal value for the year.
- Based on a single deal transaction, SEA Diner Holdings Pte Ltd led the list after acquiring 13 percent ownership in Del Monte Philippines Incorporated, a Philippines-based producer and distributor of food products. The deal was valued at US$120 million, equivalent to 32.8 percent of the total deal value of the industry for the year.
- South Korea led the list based on country of origin with an aggregate investment value of US$121.1 million, making up 33.1 percent of total consumer deal value in 2020. The top bidder from South Korea is Lotte Chilsung Beverage Co., Ltd, which acquired 42.2 percent of Pepsi-Cola Products Philippines Incorporated for US$60.2 million. This was followed by Sunjin Co., Ltd., which acquired 37.5 percent ownership in Philippine-based animal feed producer Sunjin Philippines Corporation, for US$43.6 million.

Since the passing of the Philippine Competition Act, or R.A. 10667, in 2015, the Philippine Competition Commission (PCC) has played a growing role in the M&A space, with the main task of promoting a competitive market and supporting the government's goal to ease doing business in the country.

In 2020, the PCC received 26 M&A transactions amounting to PhP909 billion (US$18.3 billion). Twenty were approved, one withdrawn, two returned, and three are at different review stages. The deal count also reflects the rulings under the Bayanihan to Recover as One Act (Bayanihan II), which states that M&A transactions valued below PhP50 billion (US$1 billion) are exempted from compulsory notification if entered into within two years from the effectivity of the said law. The said act was passed to support the post-recovery development of the economy due to the recent crisis. Under Bayanihan II, PCC's authority to initiate reviews of such transactions is suspended until September 2021.

In 2020, the sectors with the most number of transactions were electricity and gas, and transportation and storage. Manufacturing, finance and insurance, and real estate each had three transactions.[141]

In February 2020, the value thresholds to notify PCC for the transaction was revised based on the 2019 nominal GDP growth. Thresholds for the (i) Size of Party – the total assets or revenues of the Ultimate Parent Entity or at least one of the parties, and the (ii) Size of Transaction – total assets or revenues of the acquired entity, were both increased in 2020 to the following:[142]

PCC Thresholds (2019-2020)

	2019	2020
Size of party	PhP5.6B US$ 112.8M	PhP6.0B US$ 120.9M
Size of transaction	PhP2.2B US$ 44.3M	PhP2.4B US$ 48.3M

Later in June 2020, the PCC issued rules exempting from compulsory merger notification projects between government agencies and private entities under the framework of the National Economic and Development Authority (NEDA) Joint Venture Guidelines and joint ventures formed for unsolicited Public-Private Partnership (PPP) projects.[143]

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Our M&A teams advise and transact for corporate buyers and private equity investors across the M&A life cycle.

Diane Yap
Financial Advisory Leader

05 Foreign investments

The COVID-19 pandemic led to declining foreign direct investment (FDI) inflows across the region, although the Philippines remained relatively resilient, with its full year net FDI inflows declining by 24.6 percent, compared to the overall Southeast Asia contraction of approximately 31 percent.[144]

The Department of Trade and Industry remains confident in the nation's economic rebound in 2021. The Philippines' Board of Investments registered US$20.2 billion in new committed investments in 2020, which are expected to start coming in in 2021 and 2022.[145]

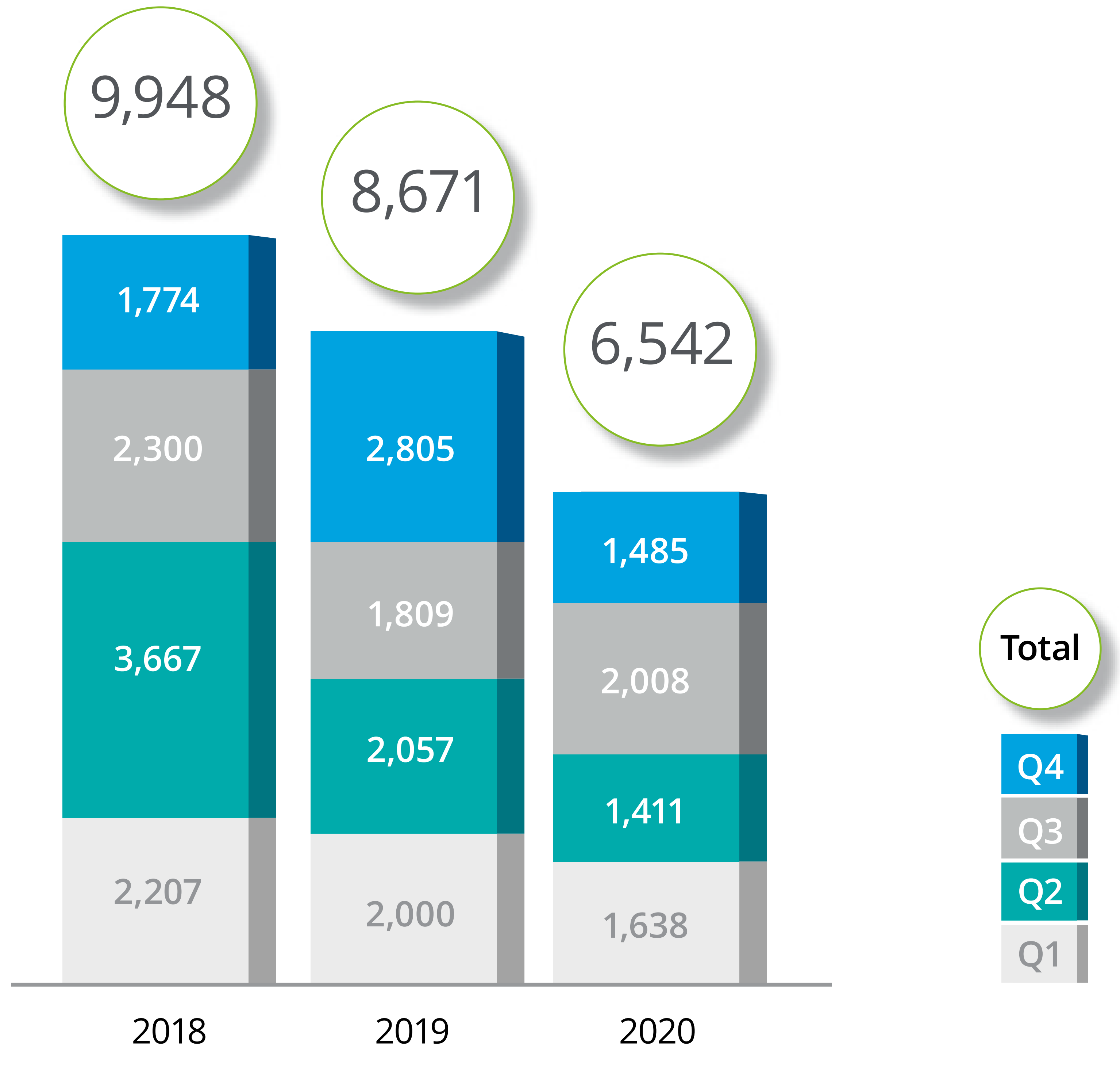
Looking at the different sectors, data on 2019 approved foreign investments indicates that these were centered on the telecommunication, power, and manufacturing sectors. The Board of Investments sees this trend continuing into 2021, forecasting stronger investments in telecoms, water and power, road, ports, and other infrastructure.[146]

Meanwhile, various initiatives are expected to bolster the country's foreign investment landscape. If passed, key economic reforms such as proposed amendments to the Foreign Investment Act, Public Service Act, and Retail Trade Liberalization Act will open up various segments to foreign investors through changes to the 11th Foreign Investment Negative List (FINL).

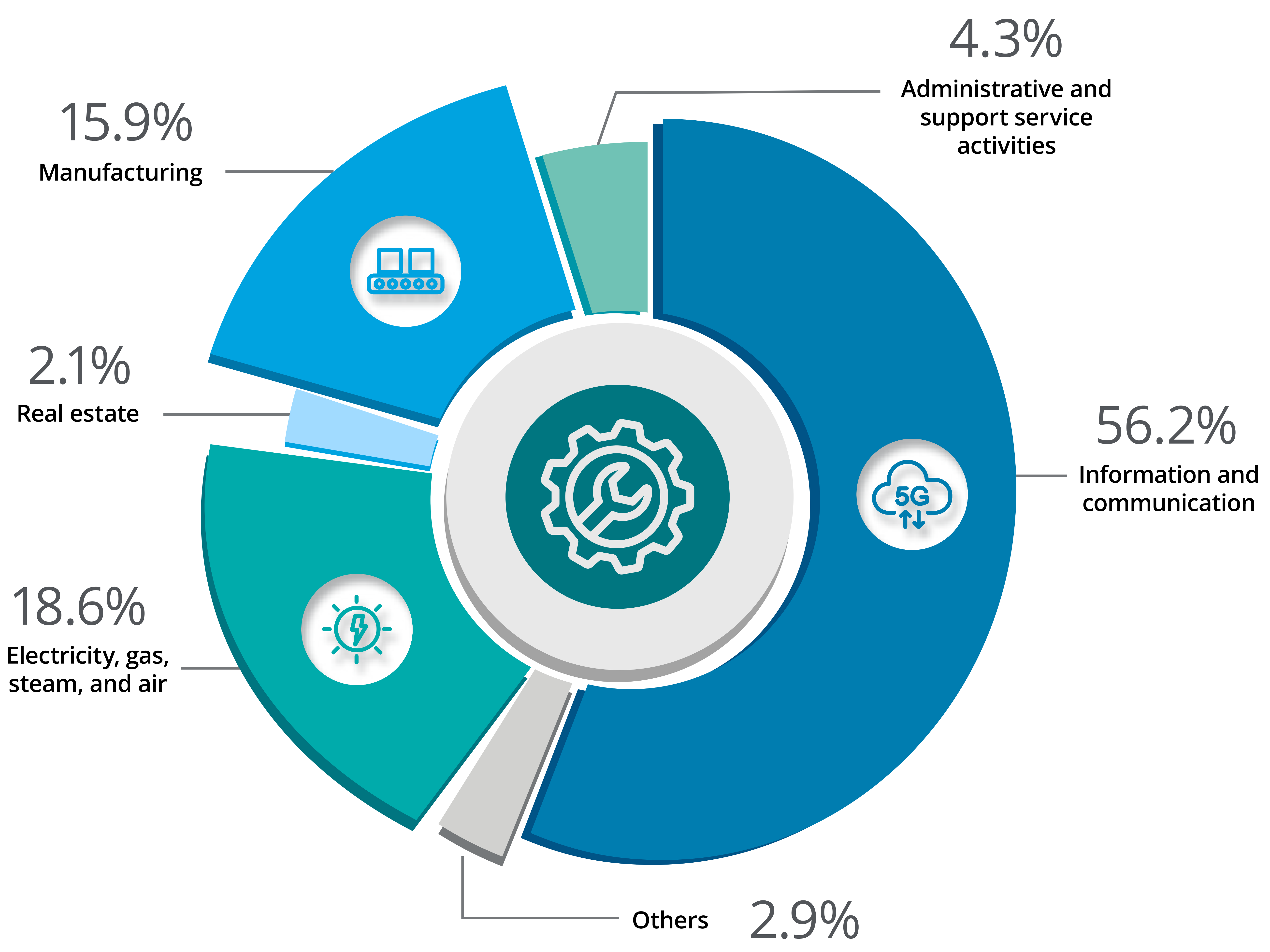
The new Investment Priorities Plan (IPP) has also been signed. The IPP is the country's policy document indicating the sectors of the economy that are considered investment and development priorities of the state, with the latest version expected to align with the country's overall economic goals.

Republic Act No. 7042: The Foreign Investments Act of 1991, as amended by Republic Act No. 8179, is the law that governs foreign investments in the Philippines, except for financial institutions, which are governed and regulated by the *Bangko Sentral ng Pllipinas*, the country's central bank. The law declares the policy of the state to attract, promote, and welcome productive foreign investments. In general, foreigners can invest up to 100 percent equity in Philippine entities, with the exceptions stated in the FINL.

Net FDI inflows (US$ in millions)



2019 approved foreign investment by industry



Foreign ownership restrictions

Signed in late 2018, the 11th FINL outlines which sectors have foreign ownership restrictions. As per the latest version of the list, 100 percent foreign ownership is now permitted for the following:

- Internet businesses
- Teaching at higher education levels (provided the subject being taught is not a professional subject)
- Training centers that are engaged in short-term high-level skills development that do not form part of the formal education system
- Adjustment companies, lending companies, financing companies, investment houses
- Wellness centers

No amendments have been made to the list since its enactment in 2018. However, House Bill No. 300 proposes amendments that will remove the practice of professions from the FINL, thereby attracting foreign professionals to the country. House Bill No. 78, on the other hand, seeks to redefine 'public utilities' as only services involving electricity distribution and transmission, and water and sewerage pipeline distribution, thereby removing the foreign ownership restrictions on telecoms.

For the complete 11th FINL, see here: https://www.officialgazette.gov.ph/downloads/2018/10oct/20181029-EO-65-RRD.pdf

11th Foreign Investment Negative List

List A: Foreign ownership limited by constitution and laws

No foreign equity

- Mass media except recording and internet businesses
- Private detectives, watchmen, security guard agencies
- Practice of professions
- Cooperatives
- Biological, chemical, and radiological weapons
- Nuclear weapons
- Firecrackers and other pyrotechnic devices
- Utilization of marine resources
- Retail trade enterprises with paid-up capital of less than US$2.5 million
- Small-scale mining
- Cockpits

Up to 25% foreign equity

- Private recruitment
- Contracts for the construction of defense-related structures

Up to 30% foreign equity

- Advertising

Up to 40% foreign equity

- Contracts for the construction and repair of locally-funded public works, with exceptions
- Private radio communications network
- Ownership of condominium units
- Ownership of private land
- Contracts for the supply of goods to government-owned or -controlled corporations
- Exploration, development, and utilization of natural resources
- Educational institutions, with exceptions
- Operation of public utilities, except power generation and the supply of electricity
- Operation of deep sea commercial fishing vessels
- Rice and corn and the by-products thereof, except retailing

List B: Foreign ownership limited for security, defense, health, morals, and protection of SMEs

Up to 40% foreign equity

- Products and ingredients requiring PNP clearance (e.g., firearms, gunpowder, etc.)
- Products requiring Department of National Defense clearance (e.g., guns, missiles, etc.)
- Dangerous drugs
- Saunas, steam bathhouses, massage clinics
- Gambling, except if covered by investment agreements with Philippine Amusement and Gaming Corporation
- Domestic market enterprises with paid-in equity capital of less than US$200,000
- Domestic market enterprises that involve advanced technology or employ at least 50 direct employees with paid-in equity capital of less than US$100,000

The IPP encourages desirable investments and employment opportunities in preferred sectors of the economy by outlining a comprehensive list of activities eligible for government incentives. These incentives include income tax holidays, duty-free importation of raw materials and equipment, and simplification of customs procedures, among others. The list is published by the Board of Investments, the lead government agency responsible for the promotion of investments in the country. An investor may register with the Board to enjoy these incentives, provided that it intends to invest in the areas specified.

Signed in November 2020, the latest version of the IPP specifically prioritizes activities that will mitigate the adverse impact of COVID-19, such as the manufacture of medical equipment, as well as activities that will generate employment opportunities outside urban areas.

Apart from the IPP, other significant incentive programs are those provided to enterprises registered with economic and freeport zone authorities, including the Philippine Economic Zone Authority, the Subic Bay Metropolitan Authority, and the Clark Development Corporation.

For the complete 2020 IPP, see here: https://boi.gov.ph/wp-content/uploads/2020/12/20201118-MO-50-RRD-2.pdf

2020 IPP preferred list of activities

Preferred activities

- Qualified activities relating to the fight against COVID-19: essential goods (medical equipment, PPEs, etc.) and essential services (laboratories, hospitals, etc.)
- Qualified manufacturing activities including agro-processing
- Agriculture, fishery, and forestry
- Mass housing
- Activities that generate employment opportunities outside urban areas, in line with the Balik Probinsya Program and other similar programs
- Healthcare and disaster risk reduction management services
- Strategic services (integrated circuits design, telecommunications, etc.)
- Energy
- Inclusive business models (i.e., providing business opportunities to MSEs)
- Infrastructure and logistics, including LGU-PPPs
- Innovation drivers (new and emerging technologies)
- Environment or climate change-related projects

Export activities

- Production and manufacture of export products
- Services exports
- Activities in support of exporters

Special laws

- Renewable energy
- Mining
- Petroleum products
- Rehabilitation, self-development, and self-reliance of persons with disability
- Publication or printing of books
- Energy efficiency and conservation
- Industrial tree plantation
- Tourism

06 Public-Private Partnership

The Philippine public-private partnership (PPP) program, governed by the PPP Center, remains bullish and is a key driver of the country's Build, Build, Build Program, contributing new PPP projects and offering viable solutions to the nation's recovery efforts amid the COVID-19 pandemic. As of December 2020, the total number of PPP projects stood at 234 at both the local and national levels, with 176 projects under implementation and 58 projects in the pipeline.

There has been an increase in PPPs from only nine in 2019 to 30 projects awarded to private sector partners under the revised 2020 Build, Build, Build Program. The largest project on the list is the PhP736 billion (US$14.8 billion) New Manila International Airport in Bulacan pitched by San Miguel Corporation, followed by the project to construct two segments of the North-South Commuter Railway, a 56-kilometer rail that will run from Metro Manila to Albay in Southern Luzon, worth PhP628.4 billion (US$12.7 billion).[147]

The total cost value of PPP projects under implementation classified as solicited, unsolicited, and for verification amounts to US$21,340 million, US$21,627 million, and US$2,220 million, respectively. As of 31 December 2020, projects under implementation in terms of total cost value are led by national government projects amounting to US$42,875 million, and local government projects amounting to US$2,312 million.

Unsolicited PPP projects dominate the pipeline portfolio, with a total estimated cost value of US$142,978 million versus solicited projects with total estimated cost value of US$1,719 million. Of the total estimated cost value, national government projects account for US$143,597 million, while local government projects account for US$1,100 million.

PPP Projects

PPP projects by status[148]

	National government projects	Local government projects	Total
PPP projects under implementation[149]			
Solicited	66	13	79
Unsolicited	14	72	86
For verification	6	5	11
Total	86	90	176
PPP projects in the pipeline[150]			
Solicited	12	11	23
Unsolicited	27	8	35
Total	39	19	58

PPP awarded projects by sector[156]

	Total
Environment	59
Power	40
Transportation	31
Property Development	15
Information Technology	13
Agriculture	13
Social	4
Tourism	1
Total	176

PPP projects under the Build, Build, Build program by status[151]

	National government projects
Unsolicited projects[152]	1
Under development[153]	4
For approval of relevant government bodies[154]	13
Under procurement[155]	1
Awarded (under pre-construction/construction)	8
Awarded (operational/completed)	3
Total	30

PPP projects under the pipeline by area

	Total
Luzon	39
Visayas	10
Mindanao	9
Total	58

PPP Projects

Cavite-Laguna Expressway

Clark Expansion Project

Mactan Cebu International Airport

Knowledge Management Division

MRT 7

Bulacan Bulk Water Supply Project

Source: Republic of the Philippines Public-Private Partnership Center

Eligible projects for PPP arrangement

The Build-Operate-Transfer Law authorizes the private sector to finance, construct, operate, and maintain infrastructure projects for a defined period of time, and provides the legal and regulatory framework for the PPP Program.

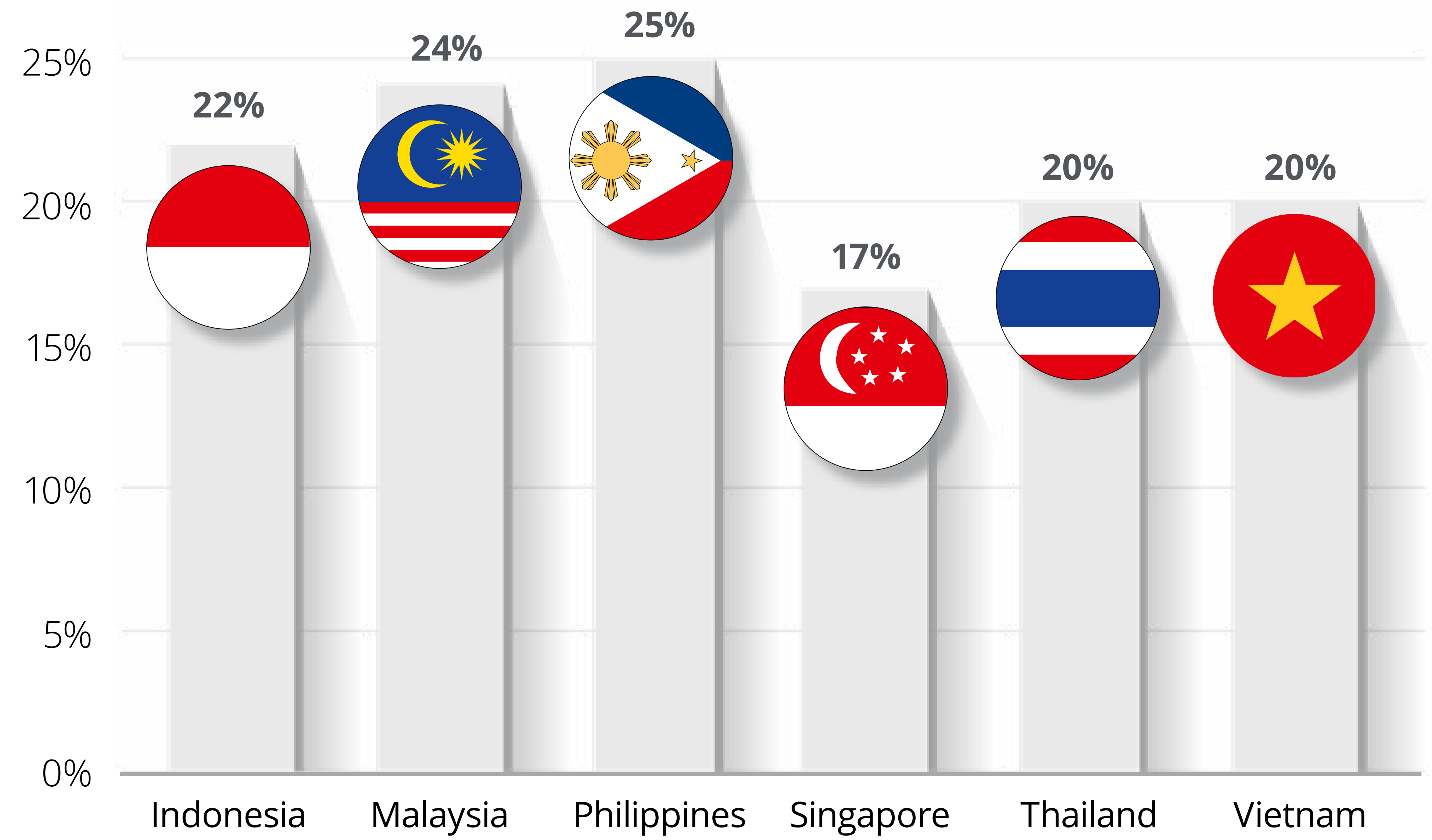
Any individual, partnership, corporation or firm, whether local or foreign, including consortia of local and foreign firms, may participate in the prequalification and bidding for the following PPP projects.[157]

- Highways, including expressways, roads, bridges, interchanges, tunnels, and related facilities
- Railways or rail-based projects that may or may not be packaged with commercial development opportunities
- Non-rail based mass transit facilities, navigable inland waterways and related facilities
- Port infrastructures such as piers, wharves, quays, storage, handling, ferry services, and related facilities
- Airports, air navigation, and related facilities
- Power generation, transmission, sub-transmission, distribution, and related facilities
- Telecommunications, backbone network, terrestrial and satellite facilities, and related service facilities
- Information technology (IT) and database infrastructure, including modernization of IT, geo-spatial resource mapping, and cadastral survey for resource accounting and planning
- Irrigation and related facilities
- Water supply, sewerage, drainage, and related facilities
- Education and health infrastructure
- Land reclamation, dredging, and other related development facilities
- Industrial and tourism estates or townships, including ecotourism projects such as terrestrial and coastal/marine nature parks, among others, and related infrastructure facilities and utilities
- Government buildings, housing projects
- Markets, slaughterhouses, and related facilities
- Warehouses and post-harvest facilities
- Public fish ports and fishponds, including storage and processing facilities
- Environmental and solid waste management related facilities such as, but not limited to, collection equipment, composting plants, landfill and tidal barriers, among others
- Climate change mitigation and adaptation infrastructure projects and related facilities

07 Taxation

On 26 March 2021, the president signed into law Republic Act No. 11534 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act. The law, which became effective on 11 April 2021, introduces reforms to the corporate income tax (CIT) and incentives systems to cushion the impact of the pandemic on taxpayers.

Comparative domestic CIT rates in the ASEAN Region for 2021



The following are the salient provisions of Revenue Regulations (RR) No. 5-2021 implementing the new income tax rates on regular income of corporations, on certain passive income, and allowable deductions under the (CREATE) Law.

Corporate income tax

	Regular Corporate Income Tax (RCIT) Rate	Regular Corporate Income Tax (RCIT) Effectivity	Minimum Corporate Income Tax (MCIT) Rate	Minimum Corporate Income Tax (MCIT) Effectivity
Domestic corporation, in general	**25%**	1 July 2020	**1%** **2%**	1 July 2020 to 30 June 2023 1 July 2023
Domestic corporations with net taxable income not exceeding PhP5M and total assets, excluding land where business is situated, not exceeding PhP100M	**20%**	1 July 2020	**1%** **2%**	1 July 2020 to 30 June 2023 1 July 2023
Proprietary educational institutions and hospitals	**1%** **10%**	1 July 2020 to 30 June 2023 1 July 2023	**not applicable**	
Resident foreign corporation (RFC)	**25%**	1 July 2020	**1%** **2%**	1 July 2020 to 30 June 2023 1 July 2023
Offshore Banking Unit (OBU)	**25%**	Upon effectivity of CREATE	**1%** **2%**	Upon effectivity of CREATE to 30 June 2023 1 July 2023
Regional Operating Headquarters (ROHQs)	**25%**	1 January 2022	**1%** **2%**	1 January 2022 to 30 June 2023 1 July 2023
Non-resident foreign corporation	**25%**	1 January 2021	**not applicable**	

Notes:

- OBUs shall be taxed as RFC upon effectivity of CREATE.
- Domestic corporations shall separately account in their Audited Financial Statements (AFS) the cost of the land on which the business entity's office, plant, and equipment are situated and shall not lump the same in one account title nor consolidate its cost with other fixed asset accounts.
- In the computation of income tax due (RCIT or MCIT), regardless of the accounting period employed, the taxable income shall be computed without regard to the specific date when sales, purchases, and other transactions occur. Income and expenses shall be deemed earned and spent equally for each month of the period.
- For taxpayers who have filed their income tax returns for calendar year 2020 and fiscal years ending from 31 July 2020 to 28 February 2021, they may amend their ITRs using the transitory rates provided in the RR. Any resulting excess/overpayment can be claimed for refund or tax credit certificate, or carried over to the next taxable year.

Reforms on taxation of passive income

Reform measure	Old rate	Revised Rate/ Reform	Applicable to
Tax on gains on sale of shares of stock not listed and traded in the stock exchange	5% - first PhP100,000 10% - over PhP100,000	**15%**	Resident and nonresident foreign corporations
Interest income on foreign currency bank deposits	7.5%	**15%**	Resident foreign corporations
Repeal of improperly accumulated earnings tax	10%	**Exempt**	Domestic corporations
Foreign-sourced dividends (subject to conditions)	RCIT (now 20/25%)	**Exempt**	Received by domestic corporations
Tax-free exchange of shares	Exempt	**Exempt** No prior ruling required	Domestic corporations

Health/COVID-19 tax relief measures

Exemption from VAT starting 1 January 2021 to 31 December 2023 of the following:

- Capital equipment, its spare parts, and raw materials necessary for the production of personal protective equipment components such as coveralls, gown, surgical cap, surgical mask, N-95 mask, scrub suits, goggles, and face shield, double or surgical gloves, dedicated shoes, and shoe covers, for COVID-19 prevention
- All drugs, vaccines, and medical devices specifically prescribed and directly used for the treatment of COVID-19
- Drugs for the treatment of COVID-19 approved by the FDA for use in clinical trials, including raw materials directly necessary for the production of drugs

- VAT exemption of medicines for cancer, mental illness, tuberculosis, and kidney diseases
- Sale or importation of prescription drugs and medicines for cancer, mental illness, tuberculosis, and kidney diseases beginning 1 January 2021

Exemption from import duties, taxes, and other fees of imported COVID-19 vaccines approved and licensed by the Department of Health (DoH) and the Food and Drug Administration (FDA)

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Senen Quizon
Principal
Tax & Corporate Services

Fiscal incentive reforms

Summary of income tax incentives for registered enterprises under CREATE

Export enterprise

Income tax incentive	Income Tax Holiday (ITH) (4-7 years)	+	Special Corporate Income Tax (SCIT) (10 years)	or	Enhanced Deduction (ED) (10 years)
Tax rate			5%		20% / 25%
Tax base			Gross income (Limited deductions)		Net Taxable Income (ED)
Coverage			In lieu of national and local taxes		Subject to local taxes

Domestic enterprise

Income tax incentive	Income Tax Holiday (ITH) (4-7 years)	+	Enhanced Deductions (ED) (5 years)
Tax rate			20% / 25%
Tax base			Net Taxable Income
Coverage			Subject to local taxes

Comparison of allowable deductions for SCIT and ED

Enhanced deductions

- Depreciation allowance: additional 10% for buildings and 20% for machineries and equipment
- 50% additional deduction on labor expense
- 100% additional deduction on research and development
- 100% additional deduction on trainings
- 50% additional deduction on domestic input expense
- 50% deduction on power expense
- 50% deduction for reinvestment allowance to manufacturing enterprise
- Net operating losses carryover (NOLCO) during the first three years from start of commercial operations may be carried forward within the next five years following the year of loss

5% Special Corporate Income Tax

- Direct salaries, wages or labor expenses
- Production supervision salaries
- Raw materials used in the manufacture of products
- Goods in process (intermediate goods)
- Finished goods
- Supplies and fuels used in production
- Depreciation of machinery, equipment and building directly and exclusively used in the rendition/production of registered activity, and of that portion of the building owned or constructed that is directly and exclusively related in the rendition/ production of the registered activity
- Rent and utility charges associated with building, equipment and warehouses, or handling of goods used directly and exclusively in the rendition/production of registered activity
- Financing charges associated with fixed assets used directly and exclusively in the registered activity the amount of which were not previously capitalized
- Service supervision salaries
- Direct materials, supplies used

Fiscal incentive reforms

Industry tiers

Tier I

Includes activities that:

- Have high potential for job creation;
- Take place in sectors with market failures resulting in under-provision of basic goods and services;
- Generate value creation through innovation, upgrading, or moving up the value chain;
- Provide essential support for sectors that are critical to industrial development; or
- Are emerging owing to potential comparative advantage

Tier II

Includes activities that:

- Produce supplies, parts and components, and intermediate services that are not locally produced or manufactured but are critical to industrial development and import-substituting activities, including crude oil refining

Tier III

Includes activities such as:

- Research and development resulting in demonstrably significant value added, higher productivity, improved efficiency, breakthroughs in science and health, and high-paying jobs;
- Generation of new knowledge and intellectual property registered and/or licensed in the Philippines;
- Commercialization of patents, industrial designs, copyrights, and utility models owned or co-owned by a registered business enterprise;
- Highly technical manufacturing; or
- Are critical to the structural transformation of the economy and require substantial catchup efforts.

Duration of tax incentives based on location and industry tiers

For exporters

Location/Industry Tiers	Tier I	Tier II	Tier III
National Capital Region	4 ITH + 10 ED/SCIT	5 ITH + 10 ED/SCIT	6 ITH + 10 ED/SCIT
Metropolitan areas or areas contiguous and adjacent to the National Capital Region	5 ITH + 10 ED/SCIT	6 ITH + 10 ED/SCIT	7 ITH + 10 ED/SCIT
All other areas	6 ITH + 10 ED/SCIT	7 ITH + 10 ED/SCIT	7 ITH + 10 ED/SCIT

For domestic enterprises

Location/Industry Tiers	Tier I	Tier II	Tier III
National Capital Region	4 ITH + 5 ED	5 ITH + 5 ED	6 ITH + 5 ED
Metropolitan areas or areas contiguous and adjacent to the National Capital Region	5 ITH + 5 ED	6 ITH + 5 ED	7 ITH + 5 ED
All other areas	6 ITH + 5 ED	7 ITH + 5 ED	7 ITH + 5 ED

- Areas recovering from armed conflict or a major disaster (as determined by the Office of the President) – additional two years of ITH
- Those relocating outside from NCR – Additional three years of ITH (commencing at the completion of relocation operations)

08 Immigration

Government agencies involved in visa/work permit applications

Department of Labor & Employment (DOLE)

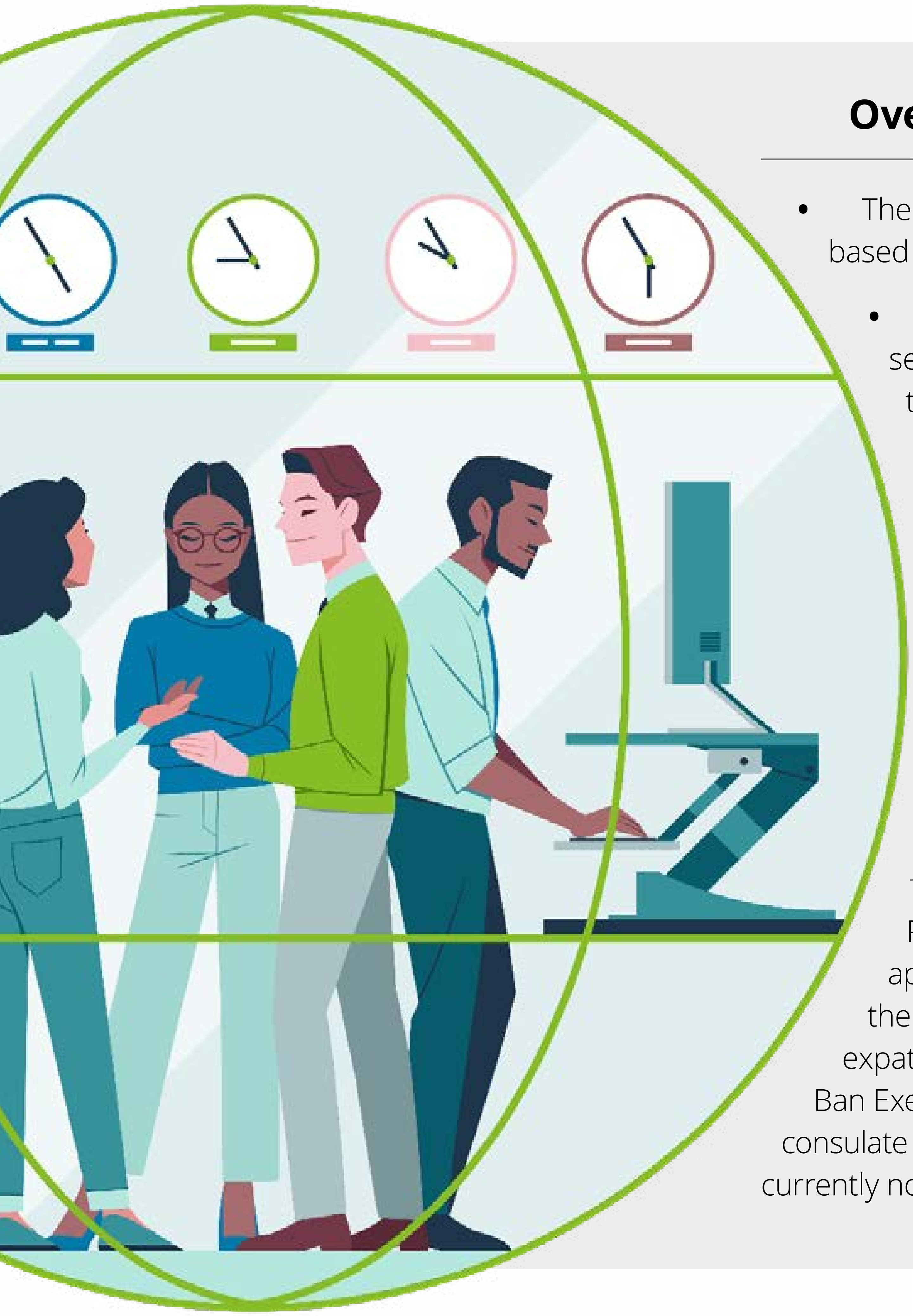
Bureau of Immigration (BI)

Bureau of Internal Revenue (BIR)

Philippine Economic Zone Authority (PEZA)

Department of Justice (DOJ)

Department of Foreign Affairs Philippine Embassy / Consular Office



Overview

- The Philippine immigration process is paper based and manually filed.
- COVID-19 protocols require foreigners to secure Entry Exemption Documents (EED) prior to entering the Philippines. Tourist visas are currently not issued.
- Type of visa or work permit to apply for is dependent on the duration of the assignment and the sponsoring entity in the Philippines.

What encompasses Visa and Immigration?

Pre-COVID-19, work permit and visa applications start when the expatriate is in the country. COVID-19 protocols now require expatriates to secure Philippine visas or a Travel Ban Exemption via the Philippine embassy or consulate in the country of departure. Tourist visas are currently not being issued.

Types of work visas for foreign nationals

The appropriate Philippine working visa is based on the company registration of the Philippine entity and the individual's length of stay. The following are the types of work visas that all foreign nationals need to secure if they intend to engage in gainful employment in the Philippines:

01. 9G Pre-Arranged Employment Visa – Most common type of working visa for subsidiaries, branches without special incentives. An Alien Employment Permit (AEP) has to be secured prior to filing for a 9G Visa application.

02. 47(a)(2) Special Non-Immigrant Visa – For foreign nationals/personnel employed with the following:
    - Philippine Economic Zone Authority (PEZA) registered enterprises and other Export/ Special Economic Zone Enterprises
    - Board of Investment (BOI) registered enterprises

03. E.O. 226 Visa or ROHQ/RHQ Special Non-Immigrant Visa – For foreign personnel of Regional/Area Headquarters (RHQ) or Regional/ Area Operating Headquarters (ROHQ). The foreigner-applicant must be an executive of the applicant-company.

04. 9(D) Treaty Traders Visa – A non-immigrant visa that foreign nationals whose countries have a bilateral trading agreement or treaty with the Philippines can avail of.

05. Special Work Permit (SWP) – For assignments that are not more than six (6) months. Must be concurrent with a valid tourist/business visa.

06. Provisional Work Permit (PWP) – Issued to foreigners who have to work pending the issuance of their actual work visa.

07. Special Temporary Permits (STP) – For Temporary Practice of Profession by Foreigners applying for registration with or without examination. This permit applies to foreign professionals looking to practice a profession in the Philippines under reciprocity or international agreements. This also applies to foreigners who will be engaged as consultants in foreign-funded, joint venture, or foreign assisted projects of the government or professionals who are to be employed by local or foreign private firms or institutions.

The following should also be noted when applying for a Philippine visa or work permit:

- The validity and type of the working permit/ visa of the applicant is based on the duration of the assignment indicated on employment contract that will be submitted to the government agencies. However, for elected roles, only one year visa validity will be given but this can be further extended or renewed.
- There is a need to obtain an Authority To Employ Foreign National with the Department of Justice (DOJ) in case the employment involves wholly or partially nationalized industries. To determine the involvement of the company, refer to the Foreign Investments Negative List of Republic Act (RA) no. 7042, also known as the "Foreign Investment Act of 1991", as amended by RA 8197.
- Submission of the Alien Employment Permit (AEP) should be done prior to the start date indicated in the contract, otherwise a penalty will be paid.
- Bureau of Quarantine (BOQ) Clearance is required for some foreign nationals as prescribed in the Immigration Law and supplementary immigration lists.
- Foreign nationals who will be practicing their profession must undergo a different process at the Professional Regulation Commission (PRC), International Affairs Office.

DISCLAIMER:
The outcome of the work permit and visa applications are subject to the review and assessment of the immigration authorities.

Requirements may change without prior notice.

The Bureau of Immigration strongly recommends that the visa applicant be present in the country when their application is received by the Bureau and until the release of their original passport with Visa stamp to eliminate delay in the process.

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We advise and assist clients in obtaining entry/exit visa and work permits required for their valid stay and employment in the Philippines.

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2021 Deloitte Global Impact Report Highlights

$50.2B aggregate global revenue

↑ 5.5% annual revenue growth

3.5% of aggregate global revenue invested in innovation

15 alliance relationships with leading technology providers

$223M societal investment

Greenhouse gas emissions (Percent reduction represents FY2021 performance vs. FY2019 baseline)

↓ 41% gross emissions reduction

↓ 92% business travel emissions per FTE reduction

↓ 44% emissions reduction per FTE

↓ 69% Scope 1 and 2 emissions reduction

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- across domestic, inbound, and outbound deal types; based on announced deals
- excludes lapsed bids
- includes minority stake deals and deals below US$5M
- excludes transactions where a Philippine entity is only a part of the sale
- includes controlling/minority stake deals
- includes step-up deals or multiple sales

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