



TRADE POLICY REVIEW

REPORT BY

THE PHILIPPINES

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by The Philippines is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on The Philippines.

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1 MACROECONOMIC OUTLOOK AND DEVELOPMENTS IN THE ECONOMY

1.1 Overall Economic Performance

1.1. The Philippine economy from 2010 to 2016 recorded the highest average real Gross Domestic Product (GDP) growth since the 1980s at 6.3%. The country's growth performance peaked in 2010 registering a growth of 7.6%. However, the economy's performance eased in 2011 as the industry sector recorded considerable slowdown in growth in 2011 following slower production in the manufacturing sector on the back of the lingering global uncertainties. The economy, however, recovered in 2012 and has since continued its strong growth trajectory. The growth pattern remained strong for real Gross National Income (GNI) since 2012 with an average of 6.7% from 2012 to 2016.

1.2. The composition of the country's economic growth is also worth noting. On the demand or spending side, the contribution of investments to the economy has increased. For the whole of 2016, investment as a share of GDP (in real terms) reached 28% in 2016 from 17% in 2009. On the supply or production side, the resurgence of industry (especially manufacturing) from an average contribution to growth of 1.2 percentage points during the period 2000-2009 to 2.4 percentage points in 2010-2015, and 2.8 percentage points in 2016. This implies that the quality of economic growth is improving and has been instrumental in generating more employment.

1.3. Meanwhile, the most recent performance of the economy continued to be strong with a full year real GDP growth of 6.9% in 2016. This is near the upper-bound of the government approved target of 6.0 to 7.0% for the period. The vigorous growth was achieved notwithstanding the lacklustre performance of agriculture and fishery.

Table 1.1 Selected macroeconomic indicators

	2010	2011	2012	2013	2014	2015	2016
Real GNI (growth rate in %)	7.0	3.0	7.1	7.8	6.0	5.8	6.7
Real GDP (growth rate in %)	7.6	3.7	6.7	7.1	6.1	6.1	6.9

Source: Philippine Statistics Authority

1.2 Sectoral Growth

1.4. In 2016, the full year output growth was primarily contributed by services (7.4%) and industry (8.4%) sectors while agriculture and fishery output (-1.3%) declined due to the impact of El Nino during the first half and typhoons in the last quarter of the year. Nonetheless, the significant expansion from manufacturing which increased by 7.0% from the 5.7% in 2015, more than offset the decline in agricultural production. Meanwhile, among the top contributors of the services sector to the economy's performance include public administration and defence and compulsory social security (which grew by 7.2% in 2016 from 7.1% in 2015); real estate renting and business activities (8.9% from 7.1%); financial intermediation (7.6% from 6.1%), and public administration and defence including social security (7.2% from 1.2%).

1.5. On the other hand, domestic demand was visibly strong with its 11.0% growth, which was boosted by household consumption (7.0% in 2016 from 6.3% in 2015), sustained government consumption (8.4% from 7.6%), and the continued strong expansion in investment (23.7%). Notable expansions were also recorded in durable equipment, consumption of food and non-alcoholic beverages, and construction.

1.6. During the past medium term, some aspects of the country's economic growth are worth noting, in particular, the increasing contribution of investment on the demand side. In detail, investment as a share of GDP reached 28.0% in real terms from 17.0% in 2009. On the supply side, there is the growing significance of industry, especially manufacturing, and within the services sector, business process management and tourism-related subsectors. These are markers of structural transformation that is taking place in the Philippine economy, which is crucial for sustaining growth and generating quality jobs.

Table 1.2 Trade performance

(growth rate in % constant 2000 prices)

	2010	2011	2012	2013	2014	2015	2016
Total Exports	21.0	-2.5	8.6	-1.0	12.6	8.5	10.7
Exports of Goods	24.7	-7.1	10.3	-0.4	13.9	6.6	9.2
Exports of Services	6.5	18.3	2.3	-3.3	7.4	16.5	16.2
Total Imports	22.5	-0.6	5.6	4.4	9.9	14.6	18.5
Imports of Goods	23.4	0.6	3.0	3.6	9.7	14.0	20.8
Imports of Services	18.9	-5.4	17.0	7.8	10.7	16.9	10.0

Source: Philippine Statistics Authority

1.3 External Trade

1.7. Exports of goods and services recorded a 12.6% growth rate in 2014. The year 2016 represents the third consecutive year of positive growth. Goods constituted nearly four-fifths of total revenues, although it was the growth in services that buoyed up external trade amid volatilities in global demand.

1.8. Manufacturing dominated goods exports with a share of 83%. Increasing export of minerals has fairly reduced this share from 93% in 2000. The real dent in the share of manufacturing, however, was caused by the slump in electronics. Since the 1980s, electronics constituted the bulk of manufactured exports and dictated the performance of the export sector. In recent years, however, demand for electronics in the global market has been faltering and dragging the overall growth of Philippine exports. While there are significant improvements in exports of chemical products, wood manufactures and processed food and beverages, these are largely overshadowed by the decline in revenues from electronics.

1.9. In contrast, the phenomenal growth of the information technology-business process management sector (IT-BPM) that began in early 2000 has yet to be matched by other services sectors. In 2014, exports of computer and information services and other business services – technical and trade-related, collectively labelled here as IT-BPM, amounted to US\$17.3 billion or 70% of total services exports. The other services with substantial shares are travel (19%) and transport (7%). Export revenues from telecommunication services have been fluctuating but generally declining due to new technologies and market liberalization.

Table 1.3 Philippine exports of merchandise and services

(US\$ billions; %)

	2011	2012	2013	2014	Compound Annual Growth Rate (CAGR)	
					2006-14	2010-14
Goods	48.04	52.99	56.70	62.10	3.4	4.8
Services	18.88	20.44	23.33	24.84	10.6	8.7
Total	66.92	72.43	80.03	86.94	5.1	5.8

Source of basic data: Philippine Statistical Authority (PSA) and Bangko Sentral ng Pilipinas (BSP)

1.10. Several factors account for the weaker performance of Philippine exports. One factor is the concentration of revenues in few goods and services, which exposes the sector to shocks in demand and supply of these products. More than two-thirds of goods exports are accounted for by the top 10 products which include semiconductor, electronic data processing, machinery and transport equipment, woodcrafts and furniture and chemicals. Yet this is already an improvement from 2006 when the top 10 represented 77% of revenues. There is also scope to diversify in services exports. The share of IT-BPM has been steadily increasing from 51% in 2006 to 70% in 2014 as revenues from this industry more than tripled from US\$5.7 to US\$17 billion in the same period.

1.11. In the medium- and long-term, the Government plans to continue to fully integrate the Philippine economy into the global production network. Programmes are underway to provide an enabling domestic business environment that facilitates trade and promotes competition so as to improve on the delivery of social infrastructures, open up access to public goods and promote innovation.

2 DOMESTIC POLICIES AND INITIATIVES TO SUSTAIN LONG-TERM GROWTH AND IMPROVE THE BUSINESS ENVIRONMENT FOR INCLUSIVE GROWTH

2.1. The Philippines continues to benefit strongly from strong domestic and external demand, including by sound domestic macroeconomic fundamentals and an accelerating economic recovery. According to the World Economic Forum's latest Global Competitiveness Report 2017-2018, the Philippines ranks 56th out of a total of 137 countries, one notch higher than the previous year's result. In terms of the ease of doing business in the country, the Philippines has been able to move up 49 spots in the 2017 World Bank-International Finance Corporation Doing Business Report since 2011.

2.1 Domestic Policies and Initiatives

2.1.1 Structural Reforms

2.2. To create an environment for inclusive growth and in pursuit of a globally competitive economy, the current Administration launched the 0+10-Point Socioeconomic Agenda which pursues the realization of inclusive development and the AmBisyon Natin 2040 which sets out collective long-term vision and aspirations of Filipino in the next 25 years. With these national goals, the Philippine Development Plan 2017-2022 was launched to operationalize the achievement of both campaigns. Furthermore, the Philippine Development Plan espouses a national spatial strategy that describes the geographic development challenges and opportunities in population and economic growth. The national spatial strategy provides the basis for policies on urban development, infrastructure development, disaster mitigation, and environmental resource protection and conservation. It recommends sustainable human settlements, efficient production, and effective service delivery systems.

2.3. These form part of the domestic agenda tasks under the Philippine Development Plan and are a strong and positive indication of the Philippines' resolve for creating a more open, well-functioning, transparent and competitive environment.

2.4. The Philippines is also pushing for the country's National Quality Infrastructure Strategy. The objective is to elevate the quality of the products and services produced in the country and to ensure consumer safety. The Philippines is taking a significant step towards raising global competitiveness and keeping up with the economic reforms being instituted by its neighbours. The National Quality Infrastructure Act or Senate Bill was filed on 20 July 2016.

2.5. In line with the infrastructure investment agenda, the Build Build Build (BBB) Program was launched in 2016 to accelerate infrastructure development and investment to support economic and social growth. The BBB identified high impact projects to be implemented within and outside the National Capital Region such as railways, urban mass transport, airports and seaports, roads and bridges, among others. The programme is set to roll until 2022 envisioning the increase of productive capacity of the economy, create jobs, increase incomes, and strengthen the investment climate leading to sustained inclusive growth.

2.2 Enhancing Competition Policy and the Regulatory Environment

2.6. In order to ensure that the Philippines continues to make strides in improving its policy environment, a number of reform measures and new policies were established.

2.7. A major breakthrough of the Philippines that took Congress almost two decades is the enactment on 21 July 2015 of Republic Act No. 10667 or the Philippine Competition Act which created the Philippine Competition Commission. Consistent with the national government's goals for inclusive growth, the law is expected to further promote consumer protection and provide for the effective enforcement of anti-trust laws to accelerate investment and boost job creation. To

support the Philippine Development Plan 2017-2022, the Philippines also formulated a National Competition Policy which provides for a guiding framework for fair market competition.

2.8. To help ensure continued growth in the country through market competition and lower business transaction costs, the Cabotage Law was amended with the signing on 21 July 2015 of Republic Act 10668 or the Foreign Ships Co-Loading Act. The law lifts long-standing cabotage restrictions imposed on foreign operators by allowing foreign vessels to transport and co-load foreign cargoes for domestic transshipment.

2.9. To promote foreign participation in the banking and financial sectors, Republic Act 10641 (an Act Allowing the Full Entry of Foreign Banks in the Philippines) was signed into law on July 2014, amending provisions of Republic Act 7721 (an Act of Liberalizing the Entry and Scope of Operations of Foreign Bank in the Philippines) signed in 1994. The law further opened up the banking sector to more offshore players. Since its establishment, the Philippines has approved the entry of foreign banks from Japan, the Republic of Korea, Chinese Taipei and Singapore.

2.10. To identify and eliminate regulations and laws that hamper doing business in the country, the Philippines rolled out "Project Repeal" in June 2016 to cut red tape and streamline business transactions and processes. The project supports the Government's policy of eliminating laws that place a heavy regulatory burden on businesses and improve the country's overall competitiveness. Improvements are planned in more complex areas of competitiveness such as in infrastructure, government bureaucracy, tax rates and tax regulations, including education, research and development, and disaster response.

2.2.1 Trade Facilitation

2.11. In order to simplify processes and remove unnecessary administrative costs, Republic Act 10863 or the Customs Modernization and Tariff Act was signed into law on 13 May 2016 after five years in the legislative process. The law amended Presidential Decree No. 1464 or the Tariff and Customs Code of the Philippines to simplify, modernize customs rules and procedures, as well as import clearances and valuations procedures, and align these with international best practices. Its implementation is expected to result in integrity and improvements in customs service delivery and supply chain performance. The Law also mandates the use of information and communications technology to ensure efficiency and transparency within the Bureau of Customs. It also increases the de minimis value of goods undergoing formal customs entry from PHP 10 to PHP 10,000. The Bureau of Customs is in the process of drafting the Implementing Rules and Regulations of the said Act.

2.2.2 Data Privacy

2.12. As the Philippines embraces innovation, policies to cultivate the digital economy were adopted. To prioritize the protection of sensitive personal data being stored in a digital platform, as well as the need for accountability of both public and private sectors handling confidential information, Republic Act 10173 or the Data Privacy Act of 2012 was signed into law on 15 August 2012. The Law sets penalties for unauthorized use of personal and sensitive information of up to six years imprisonment and PHP 4 million in fine. If the offender is a government employee, he or she could be barred from occupying government positions.

2.13. As a comprehensive privacy law, the Act also established the National Privacy Commission under the Department of Information and Communications Technology, the latter an executive department created in 2016 (see 2.5 below). The National Privacy Commission is mandated to enforce policies that balance the right of the private person to privacy with the need to speed up the utilization of the internet while ensuring the free flow of information in promoting innovation, growth and national development. The commission monitors and ensures the country's compliance with international principles and standards for personal data protection.

2.2.3 Tax Reform

2.14. In pursuit of a simpler, more efficient, and more equitable tax system to finance and implement the 10-point socioeconomic agenda, an effort to redesign the current tax system is currently undergoing the legislative process. The Tax Reform for Acceleration and Inclusion, or

TRAIN, will consist of low rates and a broad base to promote investments, job creation, higher and sustained growth, and poverty reduction. TRAIN will propose amendments on several provisions of the 1997 National Internal Revenue Code (Tax Code) specifically on lowering of personal income tax, simplifying estate and donor's tax, expanding the value-added tax (VAT), increasing the excise tax on petroleum products, vehicles and sugar-sweetened beverages and certain administrative procedures.

2.3 Manufacturing resurgence

2.15. The future holds promise as the Philippines' economic performance continues to be driven by the faster growth of its industries and services. In 2016, growth of industries recorded at 8.4% while services recorded a 7.4% growth. Industries accounted for 33.9% while services recorded a share of 57.3% of the country's GDP in 2016.

2.16. In 2014, the Philippines launched a new industrial strategy focused on upgrading and transforming the country's manufacturing sector. The strategy aims to develop competitive, innovative, job-generating and inclusive industries particularly in these priority sectors where the Philippines has existing and potential comparative advantage to generate employment and promote entrepreneurship:

- a. electronic and semiconductor manufacturing services;
- b. automotive and auto parts;
- c. aerospace parts;
- d. chemicals;
- e. shipbuilding particularly, RoRo (roll-on, roll-off) as well as small and medium-sized vessels;
- f. design-oriented furniture and garments;
- g. tool and die;
- h. agribusiness particularly, food and resource-based processing;
- i. Information Technology-Business Process Management (IT-BPM) particularly, higher earning and more complex non-voice services, business process outsourcing (BPO), and knowledge process outsourcing (KPO) segments in medical, financial, and legal services, game development, engineering design in manufacturing, software development and shared services;
- j. tourism;
- k. construction; and
- l. transport and logistics.

2.17. In addition, the Philippine Development Plan and Investment Priorities Plan aim to expand economic opportunities in the industry and services sectors and to encourage investments in targeted areas to provide inclusive growth and spread economic opportunities to a broader segment of the population, especially micro, small and medium enterprises (MSMEs), women, youth and vulnerable groups.

2.18. Alongside the country's vibrant services sector, the manufacturing sector is seen as an essential driver to economic growth. In the fourth quarter of 2016, the gross value added in manufacturing rose to 7.0%, higher than the 6.1% of the same period in 2015. In particular, the Philippine food manufactures continues to be the largest contributor of the country's manufacturing sector.

2.4 Services

2.4.1 Information Technology-Business Process Management (IT-BPM)

2.19. The Philippines' Information Technology-Business Process Management (IT-BPM) industry has been one of the country's best-performing and employment-generating service industries over the past several years. For 2016, the IT-BPM industry has generated US\$22.9 billion and directly employed 1.15 million full-time employees. The IT-BPM industry employs one of the highest percentages of female workers, registering an estimated 53% of all employees. This percentage is significantly higher than the national figure which stands at 39.6%.

2.20. The Philippines will continue to tap and move up the IT-BPM industry's global value chain to take advantage of the significant growth potential of services exports. This will be complemented by increasing the country's market share in international tourism, as well as health and education services; promote creative industries; and develop the potential of the Philippines in digital trade and e-commerce. To support these priorities, services-related statistics will be developed to support plan implementation and monitoring.

2.21. The Philippines is addressing the issue of internet access and connectivity options to augment the existing telecom infrastructure, highlighting the need to adjust market structures to foster competitive behaviour among service providers to bring down prices and stimulate the demand for value-added services to drive future broadband development. The Government has also instituted the development of suitable locations or Next Wave Cities as a way of generating more employment and business opportunities in the countryside. The collaborative engagements between government and the private sector to enable physical and social ecosystem ensures wider portfolio of locations and improve chances of attracting more locators in the sector.

2.22. One of the salient features of the overall growth strategy is its emphasis on investment. In particular, driving this area of the economy is the Comprehensive National Industrial Strategy. Since 2014, the strategy has produced several industrial roadmaps. The industrial strategy aims for a stronger linkage of agribusiness, manufacturing and services. Apart from the IT-BPM sector, which has remained a major growth driver of the country, the services roadmap focuses on the development of labour-intensive sectors like tourism, construction, ship repair, aircraft MRO (maintenance, repair and overhaul), logistics and infrastructure investments. The industrial strategy is targeted for implementation until the end of 2025. Based on data thus far, the industrial strategy has yielded investments and accelerated expansions in the recent years.

Table 2.1 Investment performance

(growth rate in % constant 2000 prices)

Item	2010	2011	2012	2013	2014	2015	2016
Capital Formation	31.6	2.8	-4.3	27.9	4.2	18.4	23.7
A. Fixed Capital	19.1	-1.9	10.8	11.8	7.2	16.9	25.2
1. Construction	17.5	-8.2	17.4	10.3	8.5	11.0	15.1
2. Durable Equipment	25.5	2.7	7.0	15.0	6.3	23.0	34.5
3. Breeding Stock & Orchard Dev't	0.3	-0.3	1.4	-1.5	-1.3	2.0	3.6
4. Intellectual Property Products	2.9	11.4	17.5	16.6	25.9	27.6	34.2
B. Changes in Inventories	101.5	3849.8	-311.2	-144.0	-75.9	197.1	-46.1

Source: Philippine Statistics Authority

2.4.2 Financial services

Microfinance

2.23. The Bangko Sentral ng Pilipinas (BSP; Central Bank of the Philippines) declared microfinance as its flagship programme for poverty alleviation in the year 2000. Since then, it has been proactive in the development of microfinance in the banking system in terms of: (a) policy and regulatory environment; (b) training and capacity building within the BSP and the banking sector; and (c) promotion and advocacy. As a result, microfinance has become fully mainstreamed in the banking sector and more innovative products have been developed by the market to respond to the demand for a wider range of products beyond microcredit. These include micro-agri loans (Circular 748), housing microfinance (Circular 678), micro-deposit (Circular 694), and microinsurance (Circular 683). In 2016, there were 168 banks with microfinance operation serving 1.7 million clients with outstanding microfinance loans amounting to PHP 13.7 billion.

2.24. The success of microfinance efforts emboldened the BSP move towards the broader goal of financial inclusion. To provide greater access to financial services especially to those who are traditionally underserved and un-served, the BSP has enabled the establishment of micro-banking offices or MBOs (Circular 694) which are designed to be set up in areas where it is not feasible to establish a regular branch. In 2016, there were 691 micro-banking offices present in 418 cities and municipalities, of which 81 are being served by micro-banking offices alone. The BSP has also developed an enabling environment for a retail electronic payments system through electronic money (Circular 649) which can provide a channel for transactions and financial services. To date,

there are 35 e-money issuers (29 banks, 6 non-banks) and a wide agent network of more than 19,000 active cash-in and cash-out centres. In 2015, there were 327 million transactions in e-money.

2.25. Building on the gains of its policy initiatives, the BSP continues to create an enabling regulatory environment for financial inclusion. This time, it is setting its sights on digital innovations as the primary catalyst to reach greater scale. Digital financial inclusion offers the promise of expanding the reach of financial services in the country at a much lower cost benefitting both the consumers and the providers. Precursor to the establishment of a digital finance ecosystem is the issuance of Circular 940 which allows banks to use third party cash agents as a cost-efficient service delivery channel. With cash agents, banks will be able to strategically leverage on innovative digital banking solutions to onboard clients and expand their market, even in the low-income areas long considered as unviable by bigger banks.

2.26. In light of the importance and multi-dimensional nature of financial inclusion, the BSP led the implementation of the National Strategy for Financial Inclusion (NSFI) to help raise the level of awareness on financial inclusion issues, build trust among various stakeholders, identify the best modalities for coordination, and ensure relevance at the national level. The National Strategy for Financial Inclusion aims to systematically accelerate the level of financial inclusion in the Philippines through greater collaboration between public and private sector stakeholders. It provides a platform for public-private partnerships to harmonize initiatives and foster a more efficient process to achieve the shared vision of financial inclusion that contributes to inclusive growth.

Banking Services

2.27. To promote foreign participation in the banking and financial sectors, Republic Act 10641 (An Act Allowing the Full Entry of Foreign banks in the Philippines) was signed into law in July 2014, amending provisions of Republic Act 7721 (An Act of Liberalizing the Entry and Scope of Operations of Foreign Bank in the Philippines) signed in 1994. The Law further opened up the banking sector to more offshore players. Since its establishment, the Philippines has approved the entry of foreign banks from Japan, the Republic of Korea, Chinese Taipei, and Singapore. R. A. No. 7721 as amended by R.A. No. 10641 also provides the legal framework to enable the Philippines to participate and implement the ASEAN Banking Integration Framework (ABIF). With these laws as a guide, the BSP may engage in bilateral ABIF negotiations with other ASEAN Member States to agree on reciprocal arrangements that will facilitate the entry of Philippine banks in the other ASEAN Member States, and entry of banks from one ASEAN Member State into the Philippines. On 6 April 2017, the BSP signed a Declaration of Conclusion of Negotiations with Bank Negara Malaysia, and Letter of Intent with Bank of Thailand. Talks are underway with State Bank of Viet Nam, and Otoritas Jasa Keuangan (OJK) on a possible ABIF agreement.

2.4.3 Tourism

2.28. Keeping pace with the growth of the BPO-IT sector, the Philippines continues to be a favoured and emerging tourism destination. The contribution of tourism to the economy was estimated at 8.6% in 2016. The tourism direct gross value added amounted to PHP 1,243.5 billion in 2016, higher by 13.7% compared to previous year's PHP 1,093.4 billion. Projects are underway to further tap local resources to attract domestic and international tourists, particularly through improvements in infrastructure (airports, rail and road connectivity) as well as tourist services and facilities.

2.4.4 Logistics

2.29. The Philippines seeks to reinvigorate its logistics sector to have a better chance in its bid to be a choice business destination in the Asia-Pacific region and to better support the ease of doing business in the country. In an effort to improve its maximum productive capacity, expenditures on public infrastructure will be increased to at least 5% of GDP annually. Demand for construction-related manufactures such as basic metals, fabricated metal products, and transport equipment, among others, is expected to grow.

2.30. In addition, a number of improvement projects for the port system, including the Roll-on-Roll-off (RoRo) network and conduct of feasibility and engineering studies, were undertaken to ensure efficient operations and prepare the country's port system for regional integration with the rest of the ASEAN.

2.31. The Philippines also seeks to improve backbone services, such as financial, telecommunications, distribution, transport, and logistics services to facilitate the movement of people, goods, services, knowledge, and ideas as well as link firms, especially MSMEs, to domestic and global markets. Investments in adequate infrastructure and logistics will also boost the country's overall competitiveness, improve connectivity and reduce costs.

2.5 Innovation and Development

2.32. The Philippines has made considerable efforts in promoting a greater dive into innovation and fostering an enabling policy and regulatory environment particularly for its business sector. Several roadmaps were rolled out linked with improving the country's competitiveness, productivity, and overall economic growth. These include, among others, the Philippine E-commerce Roadmap 2016-2020 launched in December 2014; the Philippine Roadmap for Digital Start-ups: 2015 and Beyond in August 2015; the Philippine IT-BPM Roadmap 2022 in October 2016; and the National Broadband Plan in August 2017. As mentioned briefly above, the Department of Information and Communications Technology was created in May 2016 to plan, develop and promote the country's information and communications technology agenda in support of national development.

2.33. In August 2016, the Department of Trade and Industry launched the QBO Innovation Hub which caters for startups and innovation entrepreneurs and aims to link innovators, investors, academic institutions, start-up mentors, funders and enablers, as well as various industry partners and stakeholders from both public and private sectors. Steps are being undertaken to strengthen linkages with the academe and industry partners in pursuing leading-edge, commercial-ready innovations.

2.6 Enhancing the Participation of Micro, Small, and Medium Enterprises (MSMEs) in Global Markets

2.34. With a supportive market environment in the background, domestic producers could thrive, find their niche, and take advantage of scale and scope economies in the global value chain. In the Philippines, as of 2015, MSMEs accounted for 61.6% of total employment generated and approximately 35% of GDP. Their progress will directly contribute to the attainment of inclusive growth. With this in mind, the Philippines continues to push the MSME agenda and seeks to address key challenges in their development and search for prosperity.

2.35. The Go Negosyo Act was signed into law on 15 July 2014 and took effect on 13 January 2015 to strengthen MSMEs' development and boost job creation. Following created Negosyo (business) Centers in cities and municipalities to provide accessible services for MSMEs and facilitate hassle-free transactions. In 2016, the Philippines established a total of 298 Negosyo Centers.

2.36. With a view to making growth more inclusive, the Microfinance NGOs Act was signed into law in November 2015. In 2016, its implementing rules and regulations were signed. The Act provides opportunities for financial assistance to Filipino businesses and entrepreneurs who would otherwise be turned away by financial institutions because of their perceived "unbankability".

2.37. In line with the current administration's directive to provide affordable micro-financing programmes for MSMEs, the Philippines established the Pondo sa Pagbabago at Pag-asenso (P3, or fund for change and progress) programme to provide microenterprises an alternative source of financing that is easy to access and is made available at a reasonable cost. The programme is also expected to give a boost to the development of the MSME sector. It was designed to bring down interest rates of microfinance services and products to cater to micro-entrepreneurs or enterprises. Under the 2017 General Appropriations Act (GAA), the Government has included an initial funding of PHP 1 billion for financial assistance for micro and small businesses in the next five years.

2.38. The Philippines is working towards improving the microfinance industry, particularly in terms of credit access, usage and quality of microfinance products, and the impact on the borrower or consumer welfare.

2.7 Standards and Technical Regulations

2.39. The Consumer Act of the Philippines mandates the Department of Agriculture, Department of Health and the Department of Trade and Industry to develop and implement quality and safety standards for consumer products, including performance or use-oriented standards, codes of practice and methods of tests. There are also specific laws that mandate different agencies to develop and implement standards for sectors such as energy (Department of Energy), environment (Department of Environment and Natural Resources) and telecommunications (National Telecommunication Commission), among others.

2.40. The Bureau of Philippine Standards (formerly known as the Bureau of Product Standards) of the Department of Trade and Industry, as established by the Standards Law, is the recognized National Standards Body and acts as the national repository of Philippine National Standards. As such, it promulgates draft standards as Philippine National Standards developed by standards-setting bodies such as the Department of Agriculture and the Department of Health.

2.41. As of 1 October 2017, there are 10,091 Philippine National Standards developed, 79.92% or 8,065 of which were aligned with international standards.

2.42. From this total number of formulated PNS, the Bureau of Product Standards declared 72 under its list of Philippine National Standards for mandatory certification. The products which are regulated and subjected to tests and inspections by the standards body are included in the said list for mandatory certification.

2.43. Aside from acting as the national repository, the Bureau of Product Standards develops technical regulations to implement the requirements specified in the Philippine National Standards. It regulates electrical and electronic products such as household appliances, lamps and related products, wiring devices, and wires and cables. It also regulates mechanical/building and construction materials; and chemical and other consumer products. Regulated products must undergo mandatory product certification where importers may opt to utilize either of the two product certification schemes: Import Commodity Clearance Scheme or Philippine Standard (PS) Quality and/or Safety Certification Scheme.

2.44. Aside from the Bureau of Product Standards, the other government agencies involved in the regulation of products are the Department of Health's Food and Drug Administration, the Department of Agriculture's Bureau of Agriculture, the National Telecommunications Commission and the Department of Environment and Natural Resources' Environment Management Bureau.

2.45. The Bureau of Philippine Standards is the designated WTO-Technical Barriers to Trade (TBT) National Enquiry Point and the National Notification Authority, ensuring that technical regulations that may have significant effect on trade of other WTO members are notified to the WTO Secretariat. In this regard, the Philippines have notified 70 technical regulations since 2011 which were implemented by several regulatory agencies.

3 INDUSTRY AND TRADE POLICY DEVELOPMENTS

3.1 The Philippines and the WTO

3.1. The Philippines has been a WTO Member since 1 January 1995 and a Member of the GATT since 27 December 1979.

3.2. The Philippines is a signatory to the following subsequent WTO covered agreements:

3.1.1 Multilateral Agreements

3.1.1.1 2005 Protocol Amending the TRIPS Agreement

3.3. WTO Members on [6 December 2005](#) approved changes to the WTO's intellectual property (TRIPS) Agreement in order to make permanent a decision on patents and public health originally adopted in 2003. This was formally built into the TRIPS Agreement after acceptance of the Protocol amending the TRIPS Agreement by two-thirds of the WTO's Members. The amendment took effect on 23 January 2017 and replaced the [2003 waiver](#) for Members who have accepted the amendment.

3.4. The Philippines accepted the Protocol on 30 March 2007.

3.1.1.2 2014 Protocol concerning the Trade Facilitation Agreement

3.5. On 27 November 2014, the GC [adopted](#) the Protocol of Amendment to insert the WTO Trade Facilitation Agreement into Annex 1A of the WTO Agreement ("the Protocol"), and opened it for acceptance by Members. According to the WTO Agreement, a Member formally accepts the Protocol by depositing an "[Instrument of Acceptance](#)" for the Protocol with the WTO.

3.6. As stipulated in the Protocol, it shall enter into force in accordance with Article X:3 of the WTO Agreement. Namely, the Protocol shall take effect upon acceptance by two-thirds of the Members for the Members that have accepted the Protocol; thereafter, the Protocol shall take effect for each other Member upon acceptance by it.

3.7. The Philippines accepted the Protocol on 27 October 2016.

3.1.2 Plurilateral Agreements

3.1.2.1 Information Technology Agreement

3.8. The Information Technology Agreement (ITA) was concluded by 29 participants at the Singapore Ministerial Conference in December 1996. Since then, the number of participants has grown to 82, representing about 97% of world trade in IT products. The participants are committed to completely eliminating tariffs on IT products covered by the Agreement. At the Nairobi Ministerial Conference in December 2015, over 50 Members concluded the expansion of the Agreement, which now covers an additional 201 products valued at over US\$1.3 trillion per year.

3.9. The Philippines, as an active Member of the WTO, ensures that its stakeholders are consulted through the WTO National Advocacy and Consultations Programme. Furthermore, the country has been actively supporting an advocacy on micro, small and medium-sized enterprises (MSMEs) with the vision to enable MSMEs to be active players in the global market via continuing discussions on the role and importance of the MSMEs in the economic environment.

3.2 Participation in the Doha Development Agenda (DDA) Negotiations

3.10. The Philippines is of the view that the WTO, given its multilateral nature, offers the widest possibility for stronger sets of alternatives to fully address trade issues while factoring in capacity constraints brought about by differences in the levels of economic development among its Members. Thus, the country is committed to the preservation of the DDA mandates and to eventually complete an ambitious and balanced agenda with the economic development of its Members being made central. This necessarily includes keeping the principle of the single undertaking intact.

3.2.1 Agriculture

3.11. The Philippines supports the importance of the inter-linkage of commitments in the three pillars – market access, export subsidies, and domestic support – to attain overall balance of reform commitments and make the multilateral trading system, through the WTO, fair, market-oriented and sustainable.

3.12. The Philippines believes that the agriculture negotiating elements prescribed in the DDA must be pursued. The DDA's development objectives and promises, through the integration of meaningful special and differential treatment mechanisms, are fundamentally important in improving agriculture production and trading prospects of the developing countries. They are likewise essential in attaining food security, livelihood security and rural development.

3.13. In view of the foregoing, the Philippines is committed to preserving the remaining trade policy space for agriculture, specifically for strategic sensitive sectors. The country believes that recent developments in the area of export subsidies must be upheld by those heavy subsidizers by amending their commitments on export subsidies in accordance with the ministerial mandate delivered in Nairobi. It is also deeply committed to pursue the Special Safeguard Mechanism (SSM) as a meaningful remedy to effectively and expeditiously counter import surges and/or price declines.

3.2.2 Services

3.14. The Philippines is committed to according appropriate consideration to the needs of MSME service suppliers and will continue to push for the exercise of options by member countries (i.e. where commitments will be made, apply horizontal limitations to all services; invoke general exceptions to justify existing regulations or to enact new ones in pursuance of legitimate public policy concerns; and invoke restrictions to safeguard the balance-of-payments). The Philippines supports the importance of maintaining the request-and-offer approach to ensure market access in sectors of interest to the Philippines and to preserve the flexibility of the Philippines to determine sectors and modes to commit.

3.2.3 Intellectual Property

3.15. During the period under review, the Philippines enacted laws and promulgated rules and regulations to ensure adequate and effective protection and enforcement of intellectual property rights. Republic Act (R.A.) No. 8293, or the Intellectual Property Code of the Philippines (IP Code), the primary statute on intellectual property, has been amended, the latest of which is through the passage of Republic Act No. 10372 of 2013.

3.16. Republic Act No. 10372 took effect on March 2013 and introduced the following salient provisions: (a) establishment of a Bureau of Copyright and Other Related Rights within the Intellectual Property Office of the Philippines (IPOPHL), which shall be responsible, among others, for the accreditation of collective management organizations or societies designated by copyright holders to collectively manage their economic or moral rights on their behalf; (b) granting of related rights for performances fixed in audiovisual works or fixations; (c) inclusion of a copyright limitation in favour of blind, visually- and reading-impaired persons; (d) enumeration of acts constituting copyright infringement to also include those benefiting from the infringing activity of another person, with notice of the infringing activity and the right and ability to control the activities of the infringer, and those who knowingly induces, causes or materially contributes to the infringing conduct of another; and (e) awarding of double the amount of damages and imposition of the maximum penalty for copyright infringement committed through the circumvention of technological protection measures or the alteration of rights management information.

3.17. The following laws were also passed to complement the IP Code and strengthen the IP regime of the Philippines: (a) Republic Act No. 10175 or the Cybercrime Prevention Act of 2012, which among others, prohibits and penalizes cybersquatting and violations of laws committed by, through, and with the use of information and communication technologies; (b) Republic Act No. 10515 or the Anti-Cable TV & Cable Internet Tapping Act of 2013, which among others, prohibits and penalizes the theft of cable TV and cable internet signal; (c) Republic Act No. 10365 or the Act Amending the Anti-Money Laundering Act, which among others, provides that violations of the IP Code are considered as unlawful activities for purposes of anti-money laundering offenses; and (d) Republic Act No. 10863 or the Customs Modernization and Tariff Act of 2016, which prohibits, among others, the importation or exportation of IPR infringing goods and provides for the power of the Bureau of Customs to effect seizures of infringing goods and its disposal.

3.18. On the negotiation in the TRIPs Council for the establishment of a multilateral system of notification and registration of geographical indications for wines and spirits, the Philippines

maintains its support for the position that participation to the multilateral register should be on a voluntary basis, and that the implementation of the system should not impose undue financial and administrative burdens and costs on developing and least developed countries. In addition, the multilateral register should not prejudice existing intellectual property rights, such as trademarks and service marks, and whenever a conflict with a third party arises, the same should be resolved in accordance with national legislation.

3.19. The Philippines also continues to support the commitment to address implementation concerns provided it does not result in a reversal in the whole of the commitments made and implemented under the Uruguay Round. It also believes in strengthening the S&D provisions and that there should be no carve out provisions for selected developing countries only.

3.2.4 Rules

3.20. The Philippines continues the work at maintaining the existing investigative procedures and discretion of authorities in pursuing trade remedies such as anti-dumping and countervailing duties. It also strives to work towards the development of further disciplines on subsidy practices, especially by developed countries. The Philippines supports the development of predictable disciplines on fisheries subsidies to reverse over-capacity and over-fishing but artisanal or community fishing must be exempted. On regional trading agreements (RTAs), the Philippines is of the view that any resulting rules on RTAs should be able to accommodate existing RTAs and provide the leeway to negotiate other bilateral and/or regional FTAs and EPAs particularly in respect of any agreed disciplines on transparency and related definitions on "substantially all trade".

3.2.5 Trade Facilitation

3.21. The Philippines' Instrument of Acceptance of the Protocol Amending the Marrakesh Agreement Establishing the WTO was signed by the Office of the President on 19 October 2016 and deposited with the WTO on 27 October 2016, making the Philippines the 95th WTO Member to ratify the TFA. To date, 122 WTO Members have accepted the Protocol of Amendment to insert the TFA into Annex 1A of the WTO Agreement.

3.22. The Philippines notified 28 provisions under Category A1 (Annex A) to the WTO on 31 July 2014. Categories B2 and C3 commitments are being finalized by the Bureau of Customs (BOC). Further, the Philippines will need to facilitate the creation of its National Committee on Trade Facilitation (NCTF) to oversee both domestic coordination and the implementation of the TFA, with BOC as the lead agency in coordination with the TCWM members.

3.2.6 Dispute Settlement Understanding

3.23. DS371 (Thailand – Customs and Fiscal Measures on Cigarettes from the Philippines) is a WTO dispute settlement case filed by the Philippines against Thailand in September 2008 for a violation of the WTO Customs Valuation Agreement (CVA). In its November 2010 ruling, the Panel found Thailand liable for improperly rejecting an importer's declared transaction values for cigarettes imported from the Philippines and then for determining alternative customs values, in violation of the WTO CVA. The Panel also found that Thailand acted inconsistently with the provisions of the General Agreement on Tariffs and Trade (GATT). In May 2016, the Philippines requested consultations with regard to the first compliance proceedings pursuant to Article 21.5 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU). The Philippines requested the establishment of a compliance panel, which was established in December 2016. To ensure that the hard-won WTO ruling in favour of the Philippines will not be nullified, the Philippines pursued supplemental compliance proceedings against Thailand in relation

¹ Under Article 14.1(a): (Categories of Provisions) of the WTO TFA, Category A are those commitments which can be implemented upon entry into force of the WTO TFA in the case of developing countries. For LDCs, these will be implemented within one year after entry into force of the WTO TFA.

² Under Article 14.1(b): (Categories of Provisions) of the WTO TFA, Category B are those commitments which will need additional time to implement (i.e., for developing countries and LDCs).

³ Under Article 14.1(c): (Categories of Provisions) of the WTO TFA, Category C are those commitments which will need additional time with corresponding technical assistance to implement (i.e., for developing countries and LDCs).

to the Thai "2002-2003 Charges" and DS371. The DSB final report is expected to be issued in the first quarter of 2018.

3.24. Presently, the Philippines is involved in one active case (DS 371) and is a third party to seven cases.

3.3 Bilateral and regional trade relations

3.25. The Philippines has adopted a parallel three-pronged strategy to increase the country's presence in the European region. Two of these strategies capture the country's interest in the European Union (EU) through the inclusion of the Philippines in the list of beneficiaries under the EU Generalised System of Preferences (GSP)-Plus and the ongoing negotiations for an FTA. To have a wider reach in the region, the Philippines, as its third strategy, has also negotiated an FTA with the European Free Trade Association (EFTA).

3.26. The exploratory FTA scoping meetings between the Philippines and the EU started in 2013. It includes discussions on the objectives and key principles of the FTA negotiations. The launch of the FTA negotiations was announced by both sides on 11 December 2015.

3.27. Two rounds of negotiations have been held. The areas covered so far are: trade in goods (text and market access); sanitary and phytosanitary measures; rules of origin; customs and trade facilitation; services; investments; intellectual property rights; government procurement; trade and sustainable development; and legal and institutional issues (LII).

3.28. The Philippines also signed a bilateral FTA with the European Free Trade Association on 28 April 2016.

3.29. The Philippines' ASEAN chairmanship coincides with a historic milestone event, namely the 50th anniversary of the founding of the Association of Southeast Asian Nations (ASEAN). The theme "Partnering for Change Engaging the World" reflects the Philippine Government's advocacy to promote unity with and among ASEAN member states and its global partners.

3.30. Leaders from twenty countries from the ASEAN Member States, Australia, China, India, Japan, New Zealand, Republic of Korea, Russia, United States, Canada, European Union, and the United Nations Secretary General gathered in Manila in 10-14 November for the 31st ASEAN Summit and Related Summits. The Philippine Chairmanship of ASEAN also coincided with important anniversaries such as the ASEAN's 40th Anniversary Commemorative Summits with the United States of America, Canada and the European Union; 20th ASEAN Plus Three Commemorative Summit; the 20th ASEAN-China Summit, 19th ASEAN-Republic of Korea Summit; 20th ASEAN-Japan Summit; 12th East Asia Summit; 15th ASEAN-India Summit; and the 9th ASEAN-UN Summit.

3.31. On the sidelines of the 31st ASEAN Summit and Related Summits on 12 November 2017 in Manila, the signing of the ASEAN-Hong Kong, China Free Trade Agreement and ASEAN-Hong Kong Investment Agreement took place. These two Agreements are part of the region's continuous efforts in expanding external economic relations to foster greater trade opportunities for the ASEAN Economic Community. This will ensure more opportunities for ASEAN products by providing greater market access for their products and sustained flow of foreign direct investments. Further, these agreements would provide job opportunities for people and enhance collaboration among businesses, particularly MSMEs.

3.32. The ASEAN-Hong Kong, China Free Trade Agreement is ASEAN's sixth free trade agreement with external partners, after ASEAN-China FTA, ASEAN-Korea FTA, ASEAN-Japan Comprehensive Economic Partnership, ASEAN-India FTA and ASEAN-Australia-New Zealand FTA. It covers trade in goods, rules of origin, non-tariff measures, customs procedures and trade facilitation, trade remedies, technical barriers to trade, sanitary and phytosanitary measures, trade in services, intellectual property rights, and economic and technical cooperation.

3.33. Hopes are high for the Agreement to provide more opportunities for MSMEs as well as to the country's export industries given Hong Kong, China's role as gateway to the China market and inbound tourism arrivals.

3.34. The ASEAN Consensus on the Protection and Promotion of the Rights of Migrant Workers was also signed by the Heads of States/Governments. The signing of the ASEAN Consensus is a historic milestone as 2017 marks the 50th anniversary of ASEAN and the tenth year since the adoption of the ASEAN Declaration on the Protection and Promotion of the Rights of Migrant Workers, known as the Cebu Declaration.

3.35. The ASEAN Consensus stipulates the general principles, fundamental rights of migrant workers and members of their families, specific rights of migrant workers, obligations and commitments of ASEAN Member States. It aims to establish a framework for closer cooperation among member states on addressing migrant workers' issues in the region.

4 FUTURE POLICY DIRECTIONS

4.1. By the end of 2022, more Filipinos will be closer to achieving their *AmBisyon for a Matatag, Maginhawa at Panatag na Buhay* (Ambition/Vision for a stable, comfortable and secure life). Inclusive growth, a high-trust and resilient society, and a globally competitive knowledge economy will be attained through the emphasis on *Malasakit*, *Pagbabago* and *Patuloy na Pag-unlad*.

- *Enhancing the social fabric (Malasakit)*. The aim is to regain peoples' trust in public institutions and cultivate trust in fellow Filipinos. Public offices will be people-centered, efficient and clean while administration of justice will be swift and fair. Filipinos will be more aware of, and will learn to value, the country's diverse cultures and shared heritage.
- *Inequality-reducing transformation (Pagbabago)*. For each economic sector, this means more opportunities for growth of output and income; lagging sub-sectors and economic groups like small farmers and fisherfolk, and MSMEs, will benefit. Individuals and people groups will have more options to develop their full potential and vulnerability of individuals will be reduced. Communities will be more resilient in line with the new urban agenda of integrated neighborhoods and sustainable communities.
- *Increasing potential growth*. Growth can be further enhanced by reaching for and harvesting the demographic dividend. A vibrant knowledge economy will propel the country on a higher growth path, since it produces higher value output and is more resilient to geo-climatic changes.
- *Enabling and supportive economic environment*. Inclusive growth will be achieved with an enabling and supportive economic environment. Macroeconomic stability will be maintained; fiscal prudence will be observed; strategic trade policy will be implemented. Policies, laws and regulations will be reviewed and measures will be undertaken to enhance market competition.
- *Foundations for sustainable development*. All of these will be underpinned by ensuring national security against internal and external threats. At the same time, territorial integrity and sovereignty will be upheld and protected. The next six years will be characterized as the "golden age of infrastructure" in the Philippines. An important partner of development is the environment and natural resources sector, and maintaining its integrity is crucial for the long term.
- *Migration and development*. The current Philippine Development Plan gives deliberate attention to the special circumstances of Overseas Filipinos and their families, in pursuit of the national policy to empower Overseas Filipinos towards inclusive and sustainable development.

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