SUMMARY

1. The Philippines economy has performed well since its third TPR in 2005, based on a relatively open trade regime. Nonetheless, the economy is operating below potential due to the slow pace of reform while some of the key constraints on overall growth remain (e.g. inadequate infrastructure, low investment, and governance issues). Improved productivity is essential for the Philippines to compete with low-cost neighbouring economies, and additional steps are needed to promote more competition, improve human capital, eliminate limitations on foreign investment, reduce incentives, and reform state-owned institutions. It is also hoped that the Government's recently launched public-private partnerships initiative will encourage investment in major infrastructure projects.

2. During 2005-11, the Philippines had an annual real GDP growth rate of 5%, moderate inflation (5% on average during the period), and a surplus in its external account in part due to high remittances inflows (about 10% of GDP). Growth has been broad-based across private consumption, investment, and exports, and was helped by fiscal stimulus implemented in 2008 and 2011 in response to the global economic crisis. Persistent fiscal deficits and the resulting large public debt continue to pose the greatest risk to macro-stability.

3. The Philippines was the world's 37th largest exporter and the 29th importer of goods in 2010. In services trade, it ranked 27th among exporters and 36th among importers. The Philippines' outward-orientation makes it vulnerable to external shocks but has also contributed to the resilience of the economy in adapting to challenges. Greater trade diversification would help the Philippines, since it relies heavily on manufactured products (85% of exports and 67% of imports).

4. The Philippines continues to encourage investment in "preferred" areas, which are listed in the Investment Priority Plan (IPP). Tax and other incentives, often contingent on export performance and Filipino ownership, are still provided in an effort to attract investment. Additional incentives have recently been introduced, e.g. to support biofuel production and organic agriculture. The authorities acknowledge the need to rationalize the incentives system and a bill is being considered in Congress.

5. Measures have been taken over the review period to improve the business environment but there remains considerable scope for improvement. Moreover, the Philippines maintains its overall policy of ensuring that key sectors are effectively controlled by Filipinos and remain restricted for foreign investors, notably agriculture, fisheries, and a large number of services. As a result, FDI inflows are low compared with other countries in the region. While the Government has expressed concern, no concrete changes are foreseen to open up these sectors to foreign investment.

6. Foreign investment is encouraged in some sectors, particularly manufacturing, which mainly takes place within export processing zones (EPZs), where substantial fiscal incentives are offered. While this policy has supported manufacturing employment and exports, it adds pressure on the budget deficit and discourages efficiency.

7. The Philippines ratified the Fourth Protocol to the GATS on basic telecommunications in 2006 and the Fifth Protocol on financial services in 2011. Its record on making notifications to the WTO has been solid, except in agriculture. Over the review period the Philippines was involved in two WTO disputes, one as complainant and one as defendant.

8. As a member of ASEAN, the Philippines is committed to deepening economic integration among members, including removing obstacles to trade and improving trade facilitation. The Philippines, both unilaterally and through ASEAN, has continued to pursue a policy of negotiating regional trade agreements (RTAs) of varying scope with the focus on Asia-Pacific.

9. Over the review period, new RTAs have entered into force between ASEAN and: Australia and New Zealand; China (services); India; Japan; and Korea. In addition, a bilateral agreement between the Philippines and Japan entered into effect, bringing the total number of the Philippines' preferential partners to 15. Only under ASEAN has tariff liberalization been fully implemented, and this is putting pressure on the non-competitive sectors of the Philippine economy, particularly sugar. Most of these RTAs contain services commitments, which are much more extensive than those taken by the Philippines under the GATS.

10. Trade policy has not undergone major changes since 2005; the tariff remains the main policy instrument. With the adoption of the 2007 ASEAN Harmonized Tariff Nomenclature, the Philippines' tariff was simplified and now comprises 8,299 lines at the HS eight-digit level (compared with 10,688 in 2004). The simple average MFN applied tariff (6.4%) is 19.3 percentage points lower than the simple average bound rate (25.7%), giving the authorities ample scope to raise applied tariffs. Tariffs average 10.2% (10.3% in 2004) on agriculture (WTO definition), and 5.8% on non-agricultural products (7% in 2004). All tariff lines, applied and bound, are *ad valorem*. About 40% of tariff lines are unbound.

11. On aggregate, the tariff displays mixed escalation, negative from first-stage processed products (average tariff rate of 6.7%), to semi-finished goods (average rate of 4.9%), and positive from semi-finished to fully processed products (average 7%). At a more disaggregate level, positive tariff escalation is most pronounced in textiles and leather, followed by wood and furniture, paper and printing, chemicals, and non-metallic mineral products, thereby providing higher levels of effective protection to those industries than that reflected by the nominal rates.

12. Customs procedures have been automated through the Electronic-to-Mobile (E2M) system to streamline the payment and clearance processes at the Bureau of Customs. Under ASEAN, the Philippines is in the process of finalizing a "national single window" in order to expedite intra- and extra-ASEAN trade.

13. The Philippines' import licencing system remains complex, with fees varying by product. Imports of some goods are prohibited and a few very sensitive goods, notably rice, are subject to import quotas. The rice quota was to be phased out by 2005, but the Philippines obtained a seven-year extension (until 30 June 2012) within the WTO.

14. National standards and technical regulations appear to follow international guidelines whenever possible, and the number of national standards that correspond to international standards has increased since 2005. SPS regulations appear to be stringent.

15. Since 2005, the Philippines has initiated three anti-dumping investigations (13 cases during 1999-2003), with one definitive measure applied against clear float glass from Indonesia. It has not initiated any countervailing actions since 1999. The Philippines has seven definitive safeguard measures in force, and a special safeguard measure is on frozen chicken.

16. Prohibited and regulated exports include endangered wildlife species and live animals. Only plantation (non-native) logs are subject to an export tax (20% f.o.b).

17. Participation by foreigners in the government procurement regime remains restricted, and seems to depend upon the source of the funds for the project and the domestic availability of the procured goods and services. The Philippines is neither a signatory nor an observer to the plurilateral Government Procurement Agreement.

18. The Philippines does not have a general competition law, but several laws deal with competition. The Department of Justice has recently been designated as the Competition Authority. Legislation on IPRs is comprehensive and steps have been taken to improve its enforcement.

19. The Philippines' agriculture sector is dominated by small farms with low mechanization. This was largely the result of a major on-going land distribution programme, and poses a significant barrier to competitiveness. In value terms, the Philippines' main crops are rice, banana, coconut, corn, and sugarcane. While coconut oil is exported, rice, sugar, and corn are largely produced for domestic consumption, and a variety of measures are in place to protect and achieve self-sufficiency in these products. These include price support for rice and corn (which has been highly costly), high tariffs, rice import quotas, as well as import and export restrictions. Initiatives to assist agricultural producers include: various incentives; a new requirement that all banking institutions (government and private) must set aside at least 25% of their total loanable funds to agriculture and fisheries credit; and to assist sugar producers, a requirement for a 10% locally sourced bioethanol blend in gasoline, and 2% in diesel.

20. The Philippines fisheries sector comprises commercial fisheries, municipal fisheries, and aquaculture. Commercial fishing is allowed in waters that are 16 km or more from the shoreline: foreign equity in deep-sea-fishing vessels is capped at 40%, and all fishermen must be Filipino citizens. Imports of fresh, chilled or frozen fish (except when imported for canning and processing) are allowed only when deemed "necessary", and a certificate of necessity is required. Fish exports require a permit.

21. The Philippines' banking system was resilient in the face of the global financial crisis: the major banks remained well capitalized and liquid. Initiatives are being undertaken to encourage weaker rural banks to merge with stronger ones. Foreign participation in the banking sector is subject to significant restrictions: 70% of the banking system's assets must be held by domestic banks that are majority Filipino-owned. Foreign direct investment in the banking sector may in practice only take the form of investment of up to 60% of the voting stock of an existing domestic bank.

22. The insurance sector in the Philippines is small, with deposits amounting to just over 1% of GDP. There are no limits on foreign equity participation, and foreign insurance companies may operate as branches, subsidiaries or joint ventures, provided they have been ranked among the world's 200 largest foreign companies for the past ten years. However, new minimum paid-up capital requirements serve to keep lower value companies either fully or substantially owned by Filipinos. Reinsurance services may be obtained from abroad upon the authorization of the Insurance Commission. However, 10% of outward reinsurance placements must be ceded to the partly Government-owned National Reinsurance Corporation.

23. The legal and regulatory environment for telecommunications remains the same as at the time of the Philippines previous Review. However, there are a number of ICT-related Bills pending in Congress. Foreign equity in telecom companies, both basic and value-added, is limited to 40%. A Congressional franchise is required in order to provide basic telecom service. No entity is permitted to have a franchise in both telecommunications and broadcasting. Foreign equity in private radio communications networks is limited to 20%, and broadcasting and TV are reserved for

Filipinos. The fixed-line market remains dominated by the Philippine Long Distance Telephone Company (PLDT); there are two main mobile providers. The review period has seen a massive surge in cellular use, and tariffs have gone down. However, prices for fixed and broadband services are relatively high.

24. The main change to the Philippines' maritime transport sector over the review period was the completion of a nautical highway roll-on-roll-off transport system, which allows for the continuous movement of cargo using land and water transport. According to the authorities, this has reduced freight costs, which were reported as high in the previous TPR. Ownership restrictions on maritime transport remain in place. Nationally registered ships must be at least 60% Filipino-owned with 100% Filipino crew. In addition, while there is some flexibility in their application, other requirements include Government cargo reservation; a requirement that cabotage be provided by Philippine ships registered to provide domestic shipping; and a rule that Philippine registered vessels must be repaired, altered, and dry docked at domestic shipyards. The Philippines allows private ownership and operation of ports, although foreign equity in port ownership is limited to 40%. Some state-owned ports, including the Philippines principal port in Manila, are operated by private companies under concession agreements: these companies must be at least 60% Filipino-owned. Customs brokers must also be Filipinos.

25. In air transport, there has been a steady increase in passenger movements over the review period. Fourteen new air services agreements have entered into force since 2005, most of which have mainly restrictive features. However, in 2011, flexibility was given to negotiating entities to pursue a more liberal approach. Cargo and passenger transport is also being liberalized within ASEAN. Foreign equity in domestically licenced airlines is still capped at 40%, and cabotage is restricted to domestic airlines. Philippine Airlines (PAL) remains the dominant Filipino carrier for international passenger transport, while the market share for domestic services is more evenly distributed. A major challenge facing the Philippines has been its downgrading or blacklisting on security grounds by the United States, EU, and ICAO. While the recently created Civil Aviation Authority of the Philippines is responsible for operating most airports, private management of one secondary airport has been concessioned to the private sector, and another is foreseen. Self, mutual and third-party handling at airports are permitted.

26. The Philippines tourism sector is considered to be central to its social and economic development, and the Government's objective is to double tourist arrivals by 2016. Infrastructural weaknesses, particularly highways, hotels, and tourist facilities, have been identified as the main bottlenecks to tourism development. Taxes on airlines are also considered to be a disincentive for long-haul carriers. In order to promote the hotel industry, the Government enacted a Tourism Act in 2009. This develops the concept of the Tourism Enterprise Zone for which special incentives are offered, including a tax credit for locally sourced goods.

27. The Philippines Professional Regulation Commission (PRC) is responsible for regulating and licensing 46 professions, through sector-specific professional regulatory boards and the respective profession-specific laws. Law, the only profession not regulated by the PRC, is the responsibility of the Supreme Court. The Constitution limits the practice of professional services to Filipinos, except in cases prescribed by law, and there is flexibility under the Labour Code and under the PRC Modernization Act to enable foreign professionals to practice in the Philippines. A notable recent development has been the inclusion of specific commitments on professional services in the Philippines' RTAs. Negotiations to implement these commitments have only advanced between ASEAN countries who have concluded framework agreements to facilitate mutual recognition agreements for seven professional services.