SUMMARY

1. Since its last Trade Policy Review in 2012, the Philippine economy has grown at an average annual rate of about 6%. Growth was driven mainly by consumption and infrastructure investment. GDP per capita in 2016 was some US$2,950, up from US$2,580 in 2012. The poverty rate declined from 25.2% in 2012 to 21.6% in 2015. Services constitute the most important sector in terms of contribution to GDP, and are also the fastest growing export sector. The Philippine Development Plan 2017-2022 focuses on making the economy more competitive, underpinned by sound regulatory practices and competition policy, and open services markets.

2. Machinery is the Philippines' main merchandise export category. Exports of electronics and electrical goods recorded significant growth during the review period, accounting for 25.6% of total exports in 2016, up from 9.6% in 2011. Exports of services and remittances have also experienced fast growth. Imports of manufactured goods have increased significantly, from 50% of total imports in 2011 to 76% in 2016. The surge of manufactures imports, in particular capital goods and consumer products, can be attributed to increasing infrastructure investment and the improvement of living standards. The United States, the European Union, Japan, China, and ASEAN countries are the Philippines' main trading partners.

3. During the review period, the Government pursued a conservative fiscal policy, aiming at strengthening resilience and building a fiscal buffer. Consequently, the total government debt to GDP ratio decreased from 41% in 2012 to 35% in 2016. In order to achieve a higher growth path, the Government has strongly increased infrastructure spending, from 2.7% of GDP in 2013 to 5% in 2016, particularly on inter-island connectivity, road connection, and addressing congestion in Metro Manila and other urban areas. Currently, the budget deficit target is set at 3% of GDP.

4. As regards monetary policy, the central bank maintains an inflation-targeting policy, with the current target set at 3%. During the review period, the Philippines received sizeable capital inflows, from remittances and portfolio investment, which resulted in excess liquidity. To improve policy transmission, the central bank has operated an interest rate corridor system since June 2016; this has narrowed the interest spread between the policy rate and the market rates.

5. Over the review period, the Philippines recorded a strong inflow of foreign direct investment (FDI) which reached US$7.9 billion in 2016, up from US$1.9 billion in 2011. The Netherlands, Australia, the United States, Japan, and Singapore were the major source countries of FDI. More than 60% of FDI was invested in the manufacturing sector. Attracting further FDI has been hampered by factors such infrastructure problems and restrictions on foreign ownership.

6. The institutional framework for trade policy remains largely unchanged, although some institutional changes did occur, notably in the area of SPS measures and agriculture. The Department of Trade and Industry remains responsible for implementation and coordination of trade and investment policies, as well as promoting and facilitating trade and investment.

7. The Philippines grants at least MFN treatment to all WTO Members. It has preferential trading agreements with 15 partners: the other nine parties of ASEAN, and six countries that have negotiated agreements with ASEAN (Australia and New Zealand, China, India, Japan, and the Republic of Korea). An agreement between the Philippines and EFTA members has been signed, but not yet ratified. FTA negotiations with the European Union are ongoing.

8. During the period under review, the Philippines provided well over 300 notifications to the WTO (including over 200 SPS notifications). Nevertheless, some notifications remain outstanding, notably in the area of agriculture. The Philippines is currently involved in one WTO dispute settlement procedure as complainant; during the review period it was not involved in any dispute settlement cases as defendant.

9. The foreign investment regime of the Philippines is governed, *inter alia*, by the 1987 Constitution and the Foreign Investments Act of 1991, which covers all activities except financial services. Under the Act, the Philippines establishes (every two years) a Foreign Investment Negative List (FINL) of activities in which FDI is restricted. The Philippines continues to limit foreign investment in a number of activities (including agriculture, fisheries, telecom services, and public utilities), but has also taken some liberalizing steps. Thus, various FDI restrictions were

eliminated for professional services (subject to certain exceptions and reciprocity), and banking services. Foreign ownership of land is not permitted, but foreign investors may lease land up to a maximum term of 75 years.

10. The Customs Modernization and Tariff Act of 2016 aims to modernize customs rules, expedite customs procedures, reduce opportunities for corruption, and improve customs service delivery. Pre-shipment inspection is mandatory for all bulk or break bulk cargo. All shipments are classified according to risk. Customs clearance times for high risk consignments (about 50% of all consignments) are between one and two days, while moderate risk consignments require about four hours for clearance. The Philippines accepted the WTO Trade Facilitation Agreement on 27 October 2016; it has also submitted a notification regarding its Category A commitments.

11. The Philippines' tariff comprises 10,813 lines at the HS 2017 eight-digit level (compared to 8,299 in 2011), with rates ranging from zero to 65%. All tariffs are *ad valorem*. The average applied MFN tariff is 7.6%, up from 6.4% in 2011. The increase in the average tariff is mainly due to transposition to HS 2017 and the splitting of lines carrying high tariffs. Tariff rate quotas apply on 77 tariff lines. 65% of tariff lines (including all agricultural lines) are bound. The simple average bound rate is 25.7%. A wide range of tariff and tax exemptions are provided under specific laws. Revenue forgone under tariff and tax concessions is considerable, amounting to PHP 549 billion in customs duties and PHP 301 billion in VAT in 2016.

12. Most imports, like domestically produced goods, are subject to value-added tax which has a standard rate of 12%. Food products and agricultural inputs are exempt from VAT. Excise taxes are levied on alcoholic beverages, tobacco products, automobiles, petroleum products, minerals, perfumes and jewellery. A vast range of goods are subject to licences or permits when imported. For certain products, multiple permits or licences are required, and informal payments have been reported by the business community.

13. In 2016, the Philippines consolidated its regulatory framework for trade contingency measures under the Customs Modernization and Tariff Act. As at end-2017, the Philippines maintained anti-dumping measures on three products (wheat flour from Turkey, and clear float glass and bronze float glass from China) and safeguard measures on three products (steel angle bars, testliner board, and newsprint). In addition, a special agricultural safeguard is in place on poultry meat.

14. Registration and documentation requirements for exporters are similar to those for importers. Only registered companies are allowed to export. No export taxes are levied in the Philippines, apart from exports of plantation logs which are subject to a tax of 20%. Minimum export prices for corn and rice are no longer applied. Export licences are required for a wide range of products. Exports of rice, corn, and sugar remain restricted and may be exported only if there is a surplus. Some tax incentives are contingent on export performance.

15. Economic zones are an important tool for export promotion in the Philippines. Incentives include corporate and income tax reductions, VAT and tariff exemptions, and simplified import and export procedures. As at October 2017, there were 376 economic zones with total employment of more than 1.3 million. Exports by Filipino-owned companies are also promoted through public loans, guarantees and insurance made available by the Philippine Export-Import Credit Agency.

16. About 80% of standards are aligned to international standards. There are 72 mandatory technical regulations, covering a wide range of goods. The Philippines Accreditation Bureau has accredited 243 conformity assessment bodies. The Philippines has reformed its food safety regime based on a "farm-to-fork" approach to enhance food safety. A new Food Safety Act was promulgated in 2013; its implementing legislation entered into force in 2015. However, the Philippines' SPS-related import requirements for food, which appear to be complex, remain largely unchanged. During the period under review, the Philippines submitted 46 TBT notifications and over 200 SPS notifications. Members have not raised any Specific Trade Concerns regarding its SPS and TBT measures.

17. The Philippines passed its first Competition Act in 2015 and established a competition authority in 2016. However, the overall competition environment remains weak in many sectors. State-owned enterprises continue to play an important role in the Philippine economy, in particular

in transport, infrastructure, and housing. The Philippines has notified the National Food Authority (NFA) as a state-trading enterprise. The NFA has the exclusive authority to import rice, corn and other grains. New legislation on public procurement entered into force in 2016. The nationality requirement for bidders continues to restrict foreign-owned entities from participating in public procurement. The Philippines is neither a signatory nor an observer of the Plurilateral Agreement on Government Procurement.

18. The legal framework on intellectual property rights has remained basically unchanged. The Bureau of Copyrights, established in 2013, is responsible for promoting awareness of IP rights and accreditation of organizations that collect royalties. Applications and registrations for most types of IP have grown strongly during the period under review.

19. Agriculture and forestry contributes around 10% to GDP. The Philippines ranks among the major world producers of bananas, coconuts, pineapples, and rice. The WTO waiver allowing the Philippines to defer the tariffication of its quantitative restrictions (QRs) on rice expired in June 2017. A bill on tariffication of the QRs is pending in parliament as at December 2017. In the meantime, the Philippines has extended its WTO waiver-related tariff concessions on rice and other commodities. Thus, as at December 2017, the Philippine rice import regime remains under the status quo. Ensuring food security remains the most important objective of agricultural policy which includes a credit programme for farmers; a livestock, dairy and poultry programme; and a government export marketing campaign for high-value crops.

20. The Philippines is a net importer of energy. The Government has issued a National Renewable Energy Programme to encourage the development of renewable energies. Local content requirements are applied to bioethanol: production must first exhaust domestic feedstock sources before using any imported equivalent. The cost of energy remains high, hindering the development of other sectors.

21. Manufacturing contributes about 25% to GDP and employs some 8% of the labour force. The strongly growing sector mainly comprises: food and beverages, furniture and fixtures, electronics, chemicals, petroleum refining, and motor vehicles. Most industries supply mainly the domestic market, except the electronics industry whose products are mostly for export.

22. The services sector contributes some 51% to GDP; the share of financial services remained at some 10% of GDP during the review period. Up to 100% foreign ownership of banks has been allowed since June 2014. Foreign banks or their branches are also allowed to participate in foreclosure proceedings and take possession of the mortgaged property, with certain restrictions. National treatment has been applied, in terms of regulatory requirements, to foreign-owned insurance companies since mid-2013, when the Insurance Code was amended.

23. In transport, the Philippines reserves cabotage for national carriers, both in aviation and maritime transport. Most Philippine bilateral air services agreements cover third and fourth freedoms. Since July 2015, international relays in maritime transport have been allowed: foreign ships may carry goods that are bound for international trade between inter-island domestic ports; the goods for international relays must be unloaded by another foreign vessel calling at that port e*n route* to the port of final destination.

24. The telecommunications sector in the Philippines is private-sector driven and dominated by two companies. Foreign ownership in telecommunications is not allowed to exceed 40%. Services providers must obtain a franchise from Congress before commencing business. In 2017, the Government issued a National Broadband Plan, with the aim of improving telecom infrastructure and promoting an open access network.

25. Tourism is considered to be central to the Philippines' social and economic development: in 2016, the sector contributed 8.6% to GDP and 12.8% to employment. During the review period, the Government adopted a number of visa facilitation measures to boost tourist arrivals; it also took steps to address infrastructure problems that affect the sector. Restrictions on foreign ownership remain in various areas of the tourism sector. While 100% foreign ownership is permitted for hotels, a minimum of 40% Filipino ownership applies to restaurants.