THE PHILIPPINES

MAKE IT HAPPEN

Executive Director Evariste M. Cagatan

Board of Investments

03 August 2022

Looking back, major and game-changing policy reforms and accelerated program interventions in the past five years of the Duterte administration, **helped position the country towards a stronger post-pandemic recovery, leading to a more vibrant trade, investment and industry sector.**

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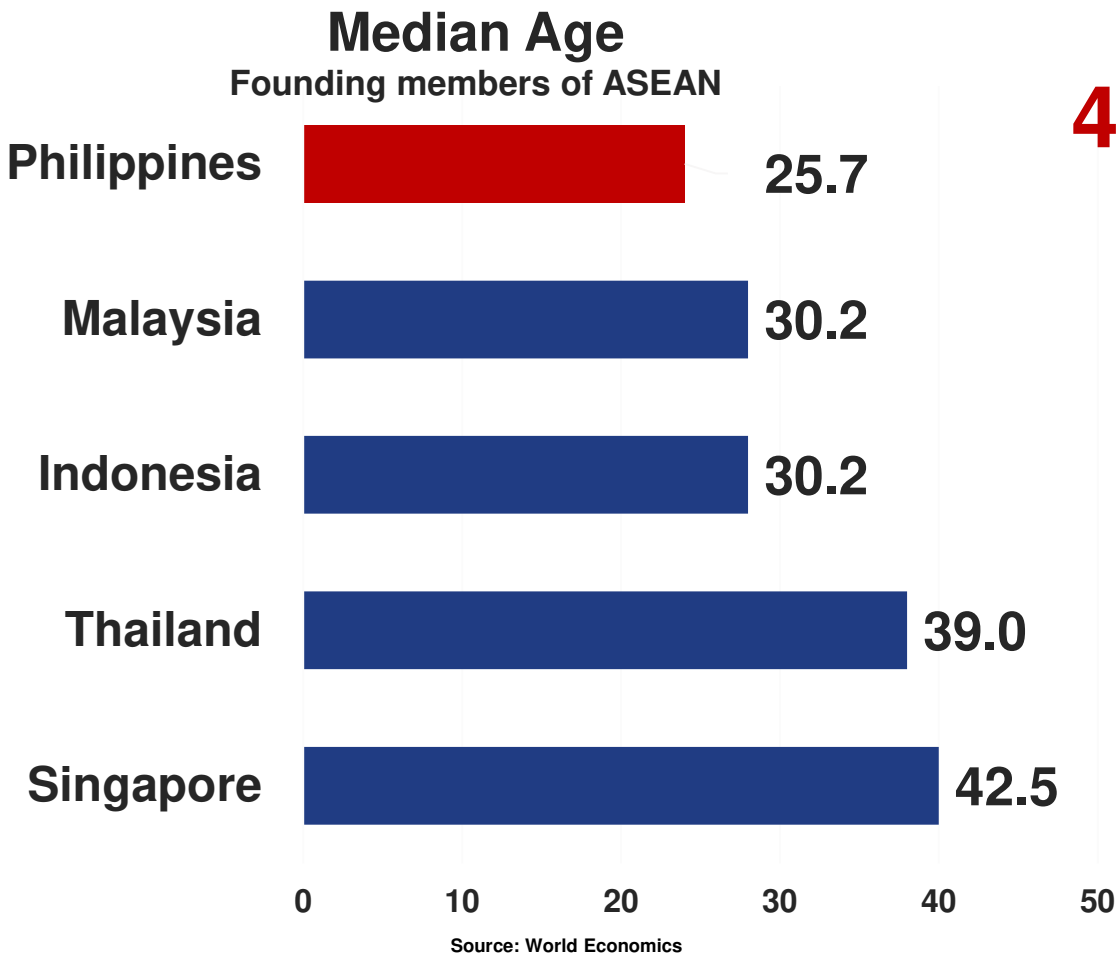

49 million human resource pool

2021 population of 110 Million at 1.63% annual growth rate

- young
- technology savvy
- adaptable
- English language proficient

Source: Philippine Statistics Authority

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Ease of Doing Business in the Philippines

The passage of the EODB act led to a drastic improvement in the delivery of government services

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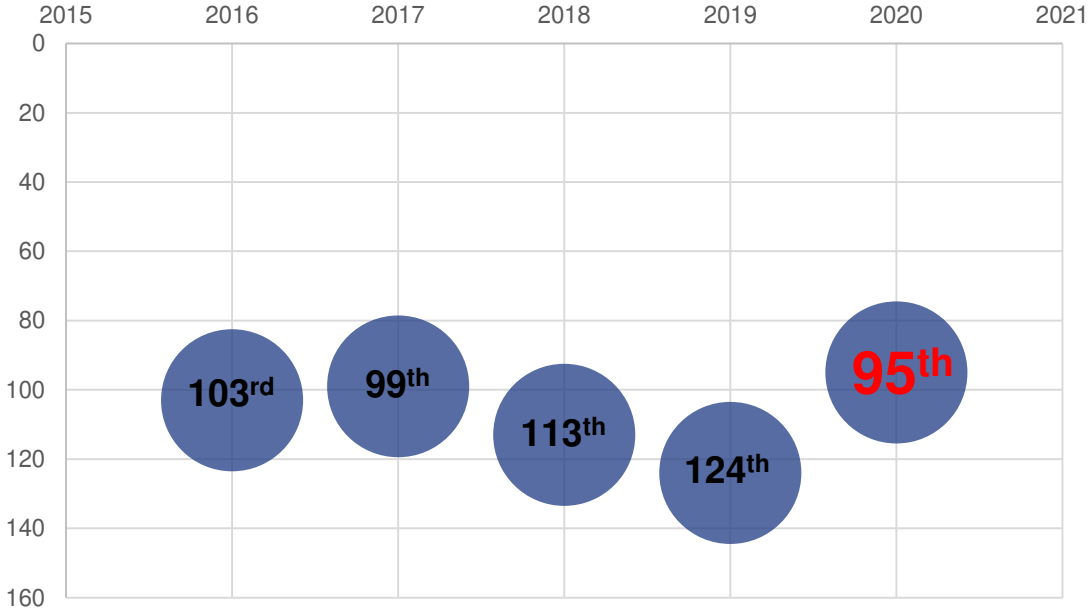
PH Performance in the EODB Ranking



Source: World Bank

PH's strong macroeconomic fundamentals continue to attract positive investment prospects

Japan Credit Rating Agency	Moody's	R&I	S&P Global Rating
Affirmation of A- Stable Outlook	**Upgrade to Baa2 Rating Stable Outlook**	**Affirmation of BBB+ Stable Outlook**	**Affirmation of BBB+ Rating Stable Outlook**
12 April 2022	14 April 2022	19 April 2022	25 March 2022

64th	48th	95th	7th	57th
	From 52nd (2021)	From 124th (2019)		
2019 Global Competitiveness Index	2022 World Competitiveness Yearbook	2020 Ease of Doing Business Rankings	Best Place to Invest Post-COVID: CEO Magazine.	2021 IMD's World Talent Rankings

significant strides in global rankings

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Major Economic Reforms

Corporate Recovery and Tax Incentives for Enterprises **(CREATE)** Act Republic Act No. 11534	Signed into law on 26 March 2021
Amendments on Retail Trade Liberalization Act **(RTLA)** Republic Act No. 11595	Signed into law on 10 December 2021
Amendments on Foreign Investments Act **(FIA)** Republic Act No. 11647	Signed into law on 02 March 2022
Amendments on Public Services Act **(PSA)** Republic Act No. 11659	Signed into law on 21 March 2022

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Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

Menu of Incentives

- 4-7 years Income Tax Holiday (ITH);
- 5% Special Corporate Income Tax (SCIT) based on Gross Income Earned, in lieu of all national and local taxes **OR** Enhanced Deductions
  - 10 years for export market activities (ED/SCIT)
  - 5 years for domestic market activities (ED)
- Duty exemption on importation of Capital Equipment, raw materials, spare parts, or accessories
- VAT exemption on importation and VAT Zero-rating on local purchases

Enhanced Deductions:

- Depreciation allowance of assets-additional 10% for buildings; and additional 20% for machineries and equipment
- 50% additional deduction on labor expense
- 100% additional deduction on R&D
- 100% additional deduction on training expense given to Filipino employees
- 50% additional deduction on domestic input expense
- 50% additional deduction on power expense;
- Deduction for reinvestment allowance to manufacturing industry - the amount reinvested to a maximum of 50%
- Enhanced *NOLCO*

Other key features of the Act:

- Removal of export and nationality bias
- Reduction of CIT Rate from 30% to 25% (large enterprises); to 20% (SMEs) effective 1 July 2020
- President's flexibility in **granting incentives up to 40 years** for highly desirable projects with minimum investment capital of P50 billion (US$1B) or at least 10,000 job generation

Strategic Investment Priority Plan (SIPP)

SIPP is a list of priority industries, projects and activities that can be granted fiscal incentives by the government under the CREATE Act.

SIPP is an important tool towards achieving the country's goals:

- To sustain momentum towards recovery, particularly in urgently creating jobs
- To competitively provide for the Filipinos' basic needs
- To hasten transformation into a modern and efficient economy with highly-developed infrastructure
- To attract investments that promote innovation, research and development, and use of latest technology
- To position the Philippines as regional hub for carbon-reducing activities

Sample Activities - TIER 1

All activities listed in the 2020 IPP including:

1. All Qualified Manufacturing including Agro-processing
   - Manufacturing of cement
2. Agriculture,Fishery, Forestry
   - Commercial production of Cavendish banana
   - Operation of poultry hatchery
3. Infrastructure and Logistics including LGU-PPS
   - Air transport
   - Water transport
4. Export Services
   - IT Export Services

Sample Activities - TIER 2

1. Industrial Value-chain gaps
   - Iron and Steel production
   - Copper and Nickel production

2. Green Ecosystems
   - Electric Vehicle (EV) assembly, manufacture of EV parts, components and systems
   - Establishment and operations of EV infrastructure (i.e. charging stations)

3. Health related activities
   - Manufacture of vaccines

3. Defense related activities
   - Manufacture of handguns
   - Shipbuilding vessels for the Philippine Navy

4. Food Security related activities
   - Integrated dairy production and processing

Sample Activities - TIER 3

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1. Activities adopting advanced digital production technologies of the 4th Industrial Revolution
   - Establishment and operations of hyperscalers and data centers
2. Highly technical manufacturing and production of innovative products
   - Household appliance manufacturing with integrated R&D
   - Establishment of an R&D center for automation manufacturing of telecom and broadband equipment
   - Camera components manufacturing with integrated R&D

Liberalized Retail Sector:

Lower Capital Requirement for Investors in the Retail Trade

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Previous Investment Requirement	New Investment Requirement	For multiple branches, minimum investment per store
USD 2,500,000	USD 500,000	USD 200,000

Philippines can be a second home for foreign startups involved in advanced technology under the Foreign Investments Act

Capital Requirement

USD 100,000

Local Employees

15

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Public Service Act (RA No. 11659)

Allows 100% foreign ownership of public services in the Philippines

Open for 100% Foreign Equity	60% Filipino, 40% Foreign Equity
❑ Telecommunications ❑ Shipping ❑ Air carriers ❑ Railway ❑ Subways ❑ Airports ❑ Toll Roads	❑ distribution of electricity; ❑ transmission of electricity; ❑ petroleum and petroleum products pipeline transmission systems; ❑ water pipeline distribution systems and wastewater pipeline systems, including sewerage pipeline systems; ❑ seaports; ❑ public utility vehicles

Free Trade Agreements and Trade Concessions

FTAs:
RCEP, US, and EU GSP, SKorea, JPEPA, EFTA

Preferential Trade Agreement:
India

IPPA:
UAE, Israel, and Taiwan

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PH: From ranking 6th to 4th in Southeast Asia

Average Flows of Inward Foreign Direct Investment (FDI) to ASEAN Countries (in million US$)

Host Country	2012-2016 Average	Rank	2017-2021 Average	Rank
Brunei Darussalam	470.6	10	426.8	10
Cambodia	1,747.1	8	3,354.4	7
Indonesia	15,991.0	2	20,739.6	2
Lao PDR	757.8	9	1,169.7	9
Malaysia	10,770.5	3	7,909.2	5
Myanmar	2,147.1	7	2,110.5	8
Philippines	**5,278.0**	**6**	**9,243.3**	**4**
Singapore	63,452.8	1	87,452.2	1
Thailand	9,244.9	5	6,568.0	6
Viet Nam	10,173.6	4	15,436.0	3
Grand Total	**119.998.7**		154,409.8	

Source: ASEAN Stats Data Portal

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Growth in FDI Annual average from USD 5.3 billion (2012-2016) to USD 9.2 billion (2017-2021)

Period	Total FDI *(in USD million)*	Annual Average *(in USD million)*
2012-2016	26,390.1	**5,278.0**
2017-2021	46,216.6	**9,243.3**

Top 5 PH FDI Sources for 2021 (in USD million)	
Singapore	**761.0**
Japan	581.23
USA	150.05
Hong Kong	66.28
Germany	32.76

Top 5 Industries for FDI to PH for 2021 (in USD million)	
Manufacturing	550.78
Electricity, Gas, Steam and Airconditioning Supply	485.92
Financial and Insurance Activities	269.06
Real Estate Activities	139.47
Information and Communication	53.11

Source: Bangko Sentral ng Pilipinas

Major Singaporean Investors in PH

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Telecommunication Towers and Fiber optic:

ATC PHILIPPINES

PFOCN

FRONTIER TOWER ASSOCIATES PHILIPPINES

SKYTOWERS INFRA

Renewable Energy:

H&WB Asia Pacific (Pte Ltd) Corporation
Energy Frontier

SHIZEN INTERNATIONAL

Sinocalan Power Corporation

PH Investment Opportunities for Singaporean Investors

- Manufacturing (smart manufacturing, e-Vehicles, aerospace, electronics)
- Services (general shared services, IT-BPM, engineering and architecture services; creative services including animation, software, and graphic design); strategic and digital services including Internet of Things (IoT), cybersecurity)
- Logistics
- E-commerce and E-Commerce ecosystem enablers (end-to-end logistics, e-marketplaces, payment platforms, cyber security)
- Infrastructure and PPP projects; Smart Cities
- Renewable Energy
- Hyperscalers and Data Center
- Agribusiness and food processing (including halal and value-added processing)

Push for smart manufacturing and digitalization to develop a more modern Philippines

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1

Industry 4.0 Workshops

Introduce Industry 4.0 tools and concepts to government, industry, and academe to achieve critical mass

2

Industry 4.0 Firm Assessment

Provide Industry 4.0 assessment using the Smart Industry Readiness Index (SIRI)

SMART INDUSTRY READINESS INDEX

3

Industry 4.0 Roadmaps

Outlining a clear roadmap towards Industry 4.0-ready factory based from the SIRI assessment

4

Industry 4.0 Pilot Factory & SME Academy

Host demonstrations, simulations and case applications of Industry 4.0 technologies

5

Pursuing & Sustaining Industry 4.0

- CREATE Incentives
- SMART Link
- Philippine Skills Framework
- Center for AI Research

Source: Department of Trade and Industry – CIG

Transitioning to Electric Vehicles

- **Tariff modification for EVs** from 30% to 0%
- **EV Development Act signed by PRRD**

Activities critical to industry development and priorities for incentives for domestic and export markets

Electric Vehicles Assembly
Manufacturing of
E-jeepneys
E-trucks
E-buses
E-UVs
E-Cars
E-Tricycles and
E-Motorcycles

Automotive Electronics and other parts Manufacturing
Products for Advanced Driver Assistance Systems
High-precision sensors
AI-enabled parts; Augmented Reality/Virtual Reality Technology-enabled parts;
Electric motor powertrains
Metal forging

EV Battery, Charging, Energy Storage Systems, and Recycling
Battery and Parts
Charging Equipment
Energy Storage Systems utilizing local minerals in the Philippines for higher value upgrading, including recycling.

Engineering Service Outsourcing
Engineering Service Outsourcing; R&D; Automotive systems design & modelling; AI applications in autonomous vehicles

We are positioning the Philippines as a regional manufacturing hub for EV and EV parts in ASEAN. We recognize that the future of transportation will be autonomous, connected, electric, and shared.

ELECTRIC VEHICLE INCENTIVE STRATEGY (EVIS)

- Information, Education, and Communication
- Research and Development
- Regulations and Standards
- Fiscal and Non-Fiscal Incentives
- Human Resource Development

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The Philippines continues to be recognized in the global aerospace industry as a developing player in the aerospace industry value chain

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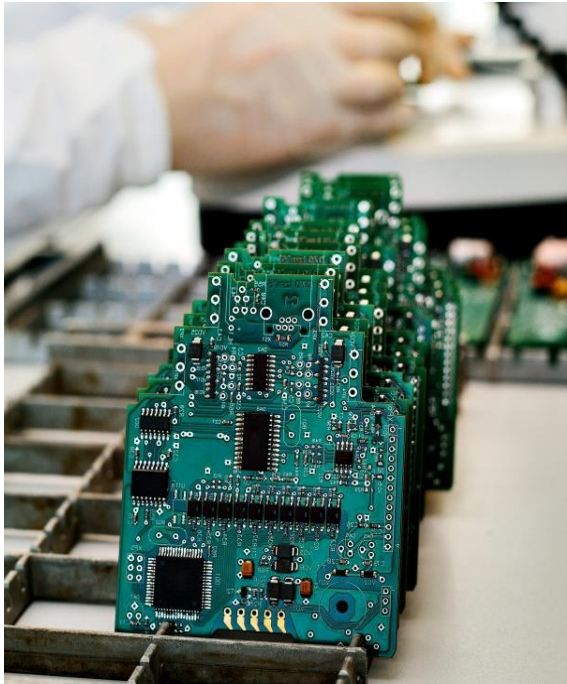
- Host to 3 aerospace Original Equipment Manufacturers (OEM) producing requirements for commercial aircraft industry
  - Developing local supply chain capability;
  - Exported around US$349M in aerospace parts in 2021
- Host to 2 major MRO brands servicing commercial aviation industry, both domestic and international
- Employs approximately **7,548 employees** as of December 2021

The Electronics and Semiconductor Industry remains the top contributor to our total exports, accounting around 61.5% or US$45.92B in 2021

- 2nd largest contributor to the country's manufacturing GVA, around **11.6%** of the total manufacturing GVA
- Currently home to about **500 semiconductor and electronics companies**, and employing about 3.2M direct and indirect workers
- Successful hub for Semiconductor Manufacturing Services (SMS) and Electronics Manufacturing Services (EMS)
- Emerging player in IC design with growing base of competitive IC design companies with around **1,500 – 2000 IC Design engineers employed**
- A developing medical devices manufacturing industry supported by existing supply chain for manufacturing.



Improvement of broadband and interconnectivity through liberalized satellite services

Low earth orbit satellites (SpaceX) with increased investments in technology

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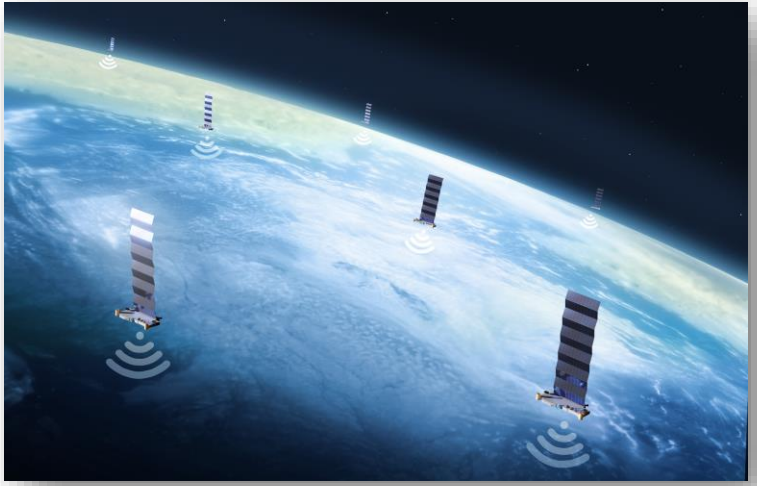

PH: THE NEXT STRATEGIC HYPERSCALER HUB IN APAC

An underserved market with tremendous potential

Data Center Projected Supply Growth (3-5years CAGR)

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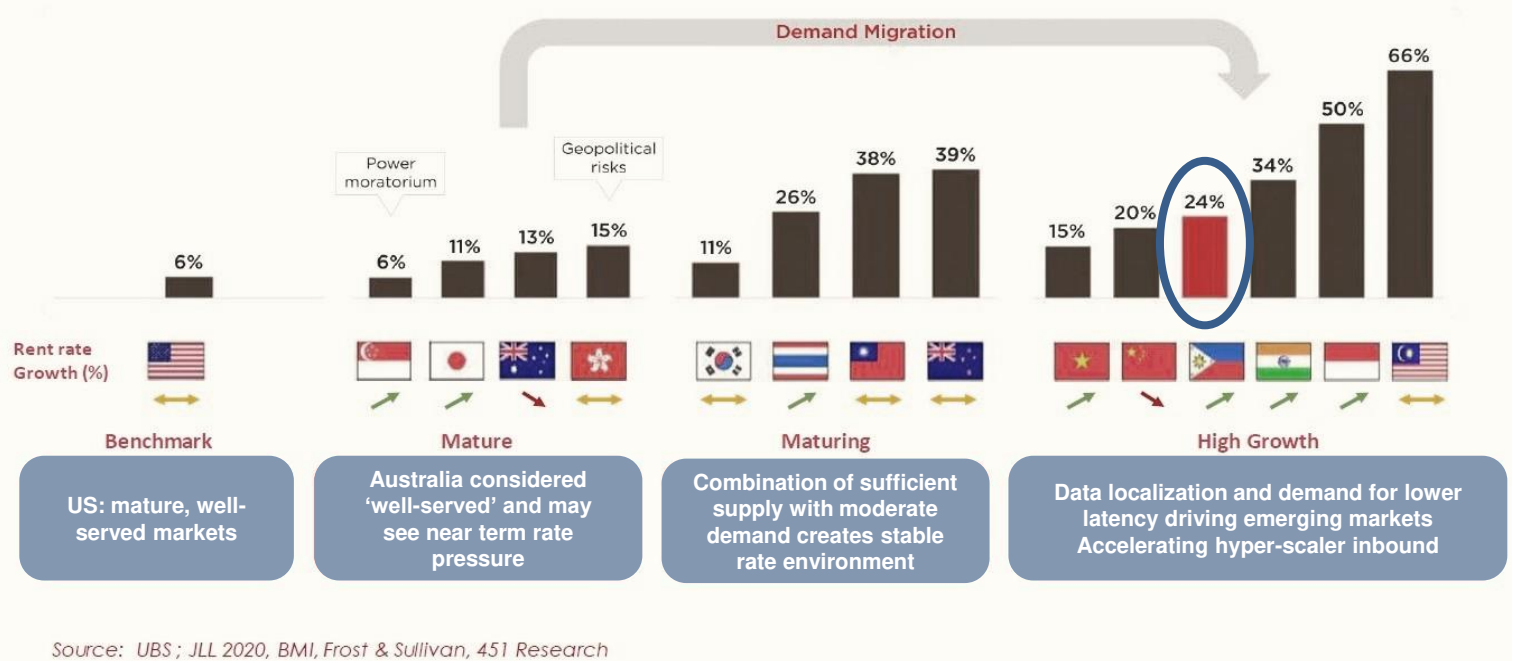

Growth of eCommerce in the PH

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According to e-Conomy SEA 2021, the Philippines Gross Merchandise Value (GMV) grew by 93%. From $9B GMV in 2020 to $17B in 2021 making the **Philippines the fastest growing internet economy in Southeast Asia.**

Based on DTI preliminary report, total number of eCommerce merchants based on data received from digital platforms **grew from 500k in 2020 to 2M merchants in 2022** with an estimated 6M social sellers

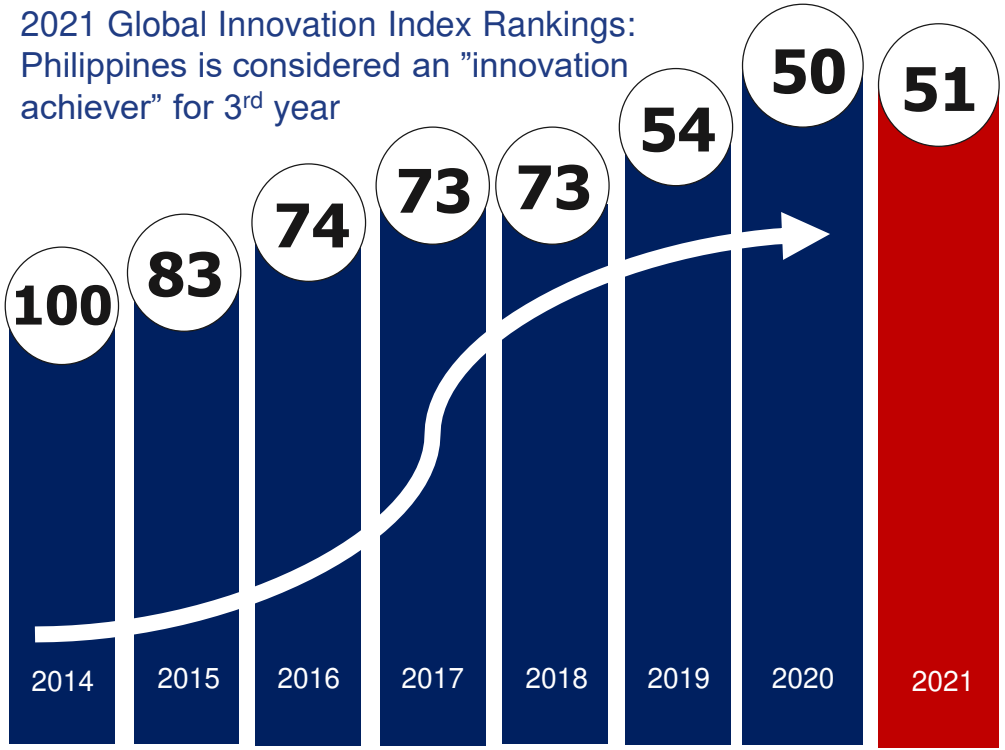
Innovation in the Philippines remained resilient despite COVID-19 setbacks

GII: Philippines continues to perform above expectations for its level of development

Philippines Strengths:

Indicator	Global Rank
High-tech imports, % total trade	1
High-tech exports, % total trade	1
Firms offering formal training, %	8
Utility models by origin/bn PPP$ GDP	8
Creative goods exports, % of total trade	10
ICT Services exports, % of total trade	13
Graduates in science and engineering, %	19
GDP/unit of energy use	21
Applied tariff rate, weighted avg., %	22
Domestic market scale, bn PPP$	27

2021 Global Innovation Index Rankings: Philippines is considered an ”innovation achiever” for 3rd year



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Industry 4.0 Skills Roadmap

We stay the course and pursue the industry modernization plans amidst the pandemic.

The need to capacitate industries to embrace industry 4.0 technologies to enable **advanced** industrial development.

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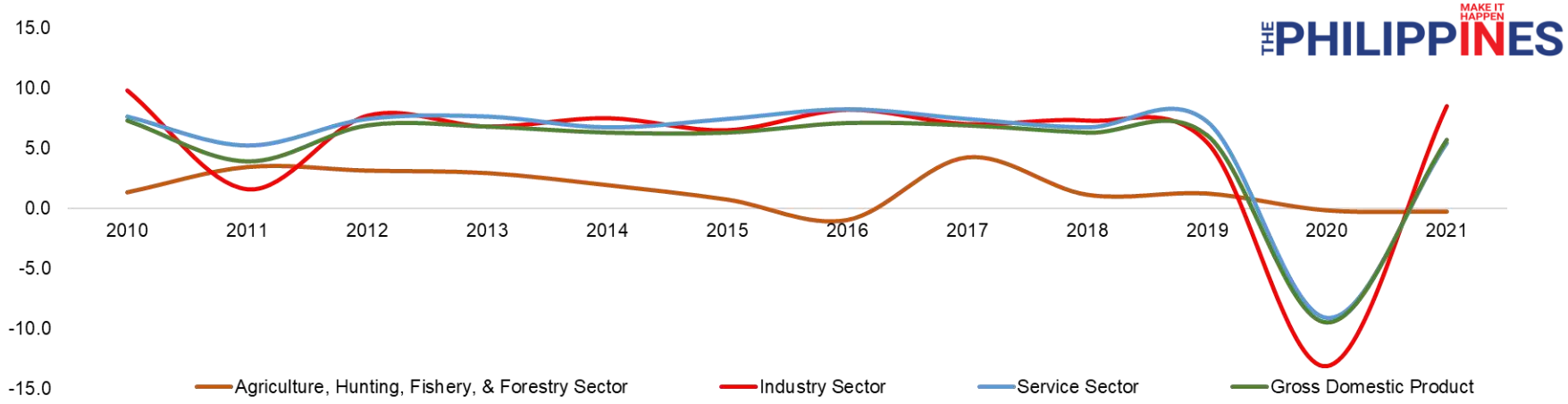
Despite the negative impact of COVID-19, average sectoral growth from 2016-2021 remained positive;



AVERAGE GROWTH PERFORMANCE

Source: National Income Accounts, Philippine Statistics Authority

Period	Agriculture	Industry	Services	GDP
2010 – 2015	2.2	6.7	7.0	**6.3**
2016 – 2019	1.4	7.0	7.4	**6.6**
2021	-0.3	8.5	5.4	**5.7**
2022	0.2	10.4	8.6	**8.3**

2022 Q1 GDP surpassed pre-pandemic 2019 Q1 level; 8.3% growth rate also faster than 2019

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Q1 GDP 2019-2022

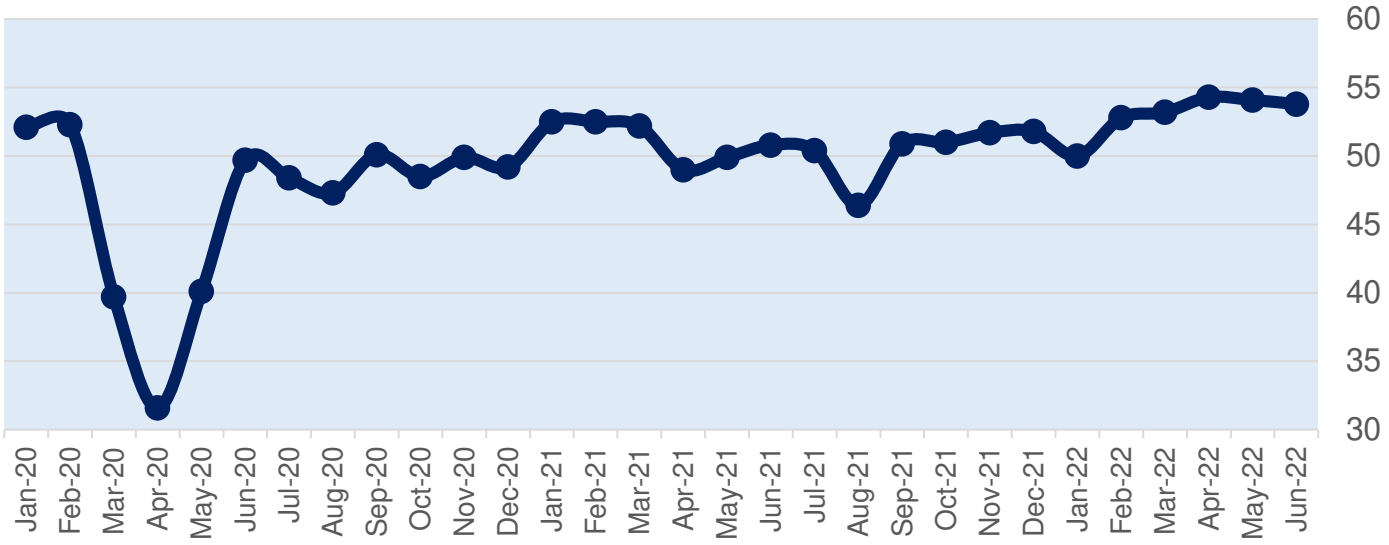
At constant 2018 prices, in million Php

	'19	'20	'21	'22
GDP	4,463,186	4,433,805	4,265,322	4,618,133

	'18-'19	'19-'20	'20-'21	'21-'22
GDP Growth Rate	5.9%	-0.7%	-3.8%	8.3%

Source: Foreign Trade, Philippine Statistics Authority

PH Purchasing Managers' Index (PMI) reading is the 3rd fastest in ASEAN



- The PMI regained its health albeit marginally signals the country's **path to recovery in the manufacturing sectors.**
- The shift of the NCR+ Bubble towards General Community Quarantine (GCQ), and the eventual easing of alert levels nationwide provided an avenue for stakeholders to **resume operations and productions to reduce backlogs.**
- Despite disruptions in some manufacturing activities due to Typhoon Odette, and surge in Omicron, **overall outlook remained positive** as hopes of returning to normalcy **anchored on the success of the vaccination efforts.**
- Government still **expects improvements** in the measure as it continuous to **implement programs under REBUILD and CREATE Act.**

Source: Purchasing Managers' Index, S&P Global

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"Our country must become an investment destination, capitalizing on CREATE Law and economic liberalization laws such as PSA and FIA."

Ferdinand Romualdez Marcos, Jr.
17th President of the Republic of the Philippines

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Thank you!

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