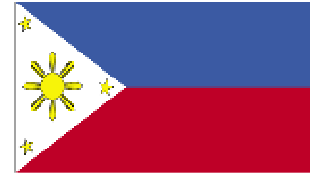




COUNTRY REPORT ON THE PHILIPPINES



1. GEOGRAPHY

- Total land area: 300,000 km² (approx. 484 times that of Singapore's)
- Capital: Manila
- There are a total of 79 provinces (see Appendix B) and 117 chartered cities

2. SOCIO-DEMOGRAPHY

- **Population:** 89 million (approx. 22 times that of Singapore's)
- **Ethnic Groups:** Tagalog (28%), Cebuano (13%), Ilocano (9%), Bisaya/Binisaya (8%), Hiligaynon Ilonggo (8%), Bicol (6%), Waray (3%) and others (15%)
- **Languages:** Filipino and English are the official languages. Other dialects include Tagalog, Cebuano, Ilocano, Hiligaynon/Ilonggo, Bicol, Waray, Pampango and Pangasinan
- **Religions:** Roman Catholic (81%), Evangelical (3%), Iglesia ni Kristo (2%), Aglipayan (2%), other Christian denomination (5%), Muslim (5%) and others (2%)



Source: CIA, World Factbook

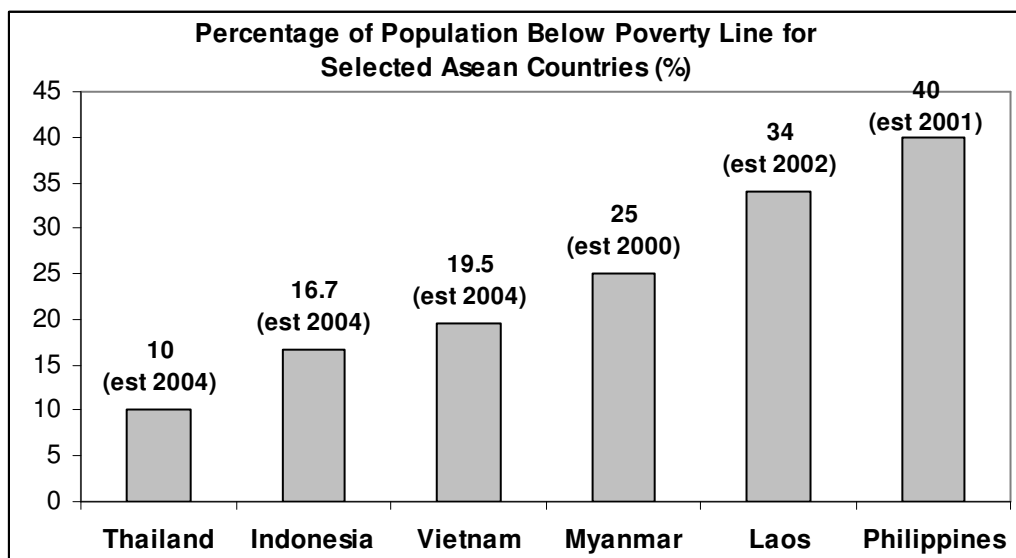
3. GOVERNMENT, POLITICAL AND LEGAL SYSTEMS

- The President (currently Gloria Macapagal-Arroyo) is both the Chief of State and Head of Government
- The President is assisted by Vice President (currently Manuel de Castro) and a Cabinet of Ministers, appointed by him/her, but only with the approval of the Commission of Appointments
- The president and vice president are elected by popular vote for a single 6-year term
- The Congress is the legislative branch of the government and is made up of:
 - The Senate, which occupies 24 seats, of which half is elected by popular vote every 3 years to serve a 6-term and
 - The House of Representatives consisting of 212 members representing the respective districts and are elected by popular vote to serve a 3-year term
- The legal system is based on Spanish and Anglo-American laws and accepts compulsory International Court of Justice jurisdiction (with reservations)

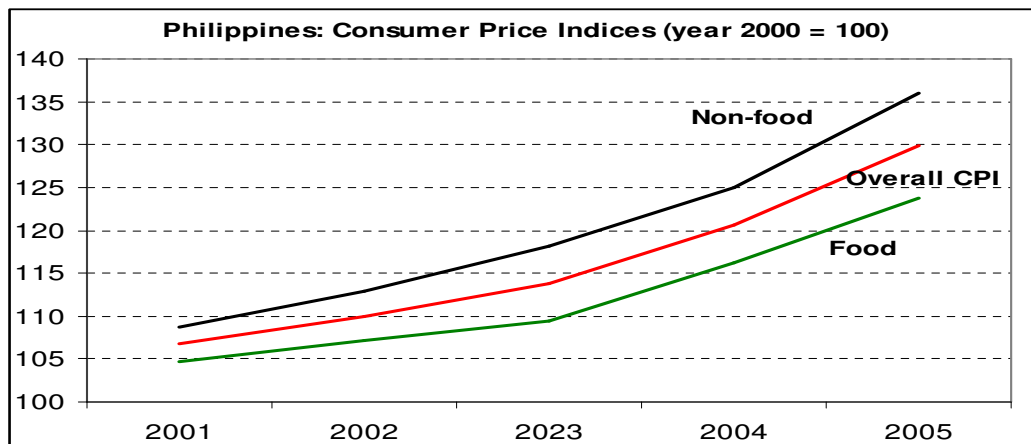
4. ECONOMY

A. Overview

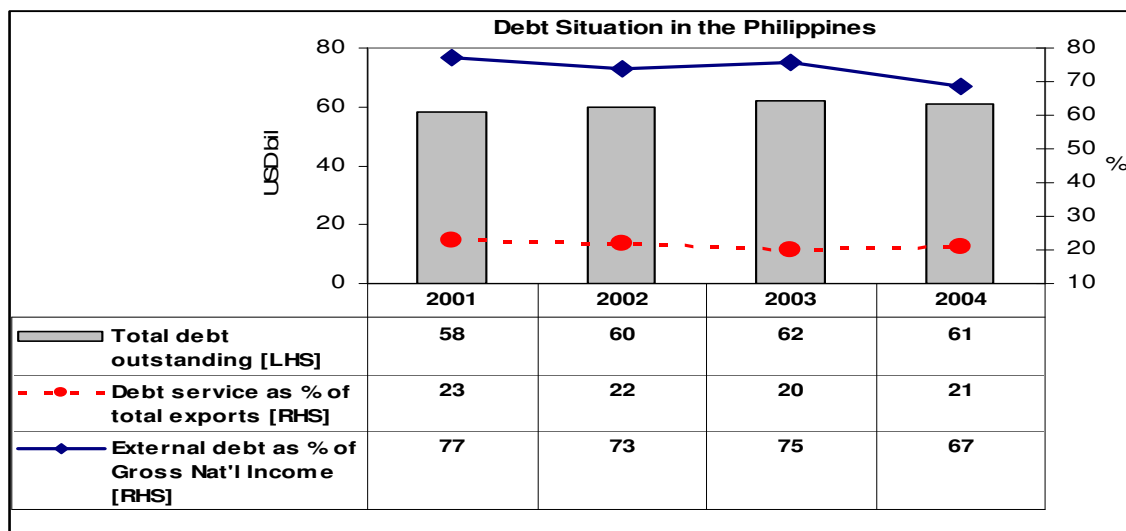
- Whilst the Philippine economy suffered minimal impact from the Asian crisis of 1997-1998, mitigated by the relatively huge remittances from its citizens who worked overseas, the country continues to be dogged by a high incidence of poverty (and unequal income distribution), high inflation and relatively huge fiscal deficit



Source: CIA



Source: Asian Development Bank



Source: Asian Development Bank

B. Economic Policy (the Medium-Term Philippine Development Plan 2004-2010)

- The current administration unveiled the Medium-Term Philippine Development Plan (MTPDP) 2004 to 2010 in mid-2004 when it took office
- Key reforms include:
 - Achieving growth targets from strong investment spending and exports;
 - Implementing economic policies to address declining competitiveness;
 - Decentralizing development and vigorously supporting micro, small and medium enterprises (MSMEs) and agribusiness;
 - Reducing high unemployment and rural poverty and
 - Maximizing the country's natural resources and geographical advantage through wealth-creating projects in (i) mining, (ii) exploration of oil/gas wells, (iii) land reclamation, (iv) reforestation and maximizing use of upland resources and (v) development of Subic-Clark as the logistics center of Asia

GDP Growth Targets based on MTPDP 2004 to 2010

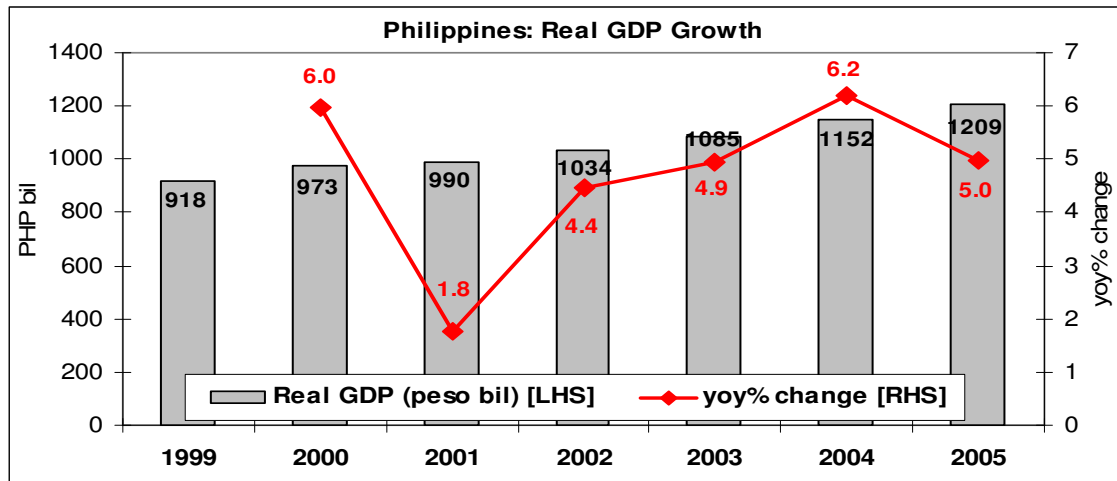
	2004	2005	2006	2007	2008	2009	2010
MTPDP targets	5.2 to 6%	5.5 to 6.4%	6.5 to 7.5%	6.9 to 7.8%	7 to 8%	7.2 to 8.2%	7.2 to 8.2%
Actual	6.2%	5.0%	5.6% (1H)	-	-	-	-
ADB forecast			5.4%	5.3%	-	-	-

Source: www.gov.ph, www.adb.org and CEIC

- For more details on the MTPDP 2004-2010, refer to www.gov.ph/cat_economy

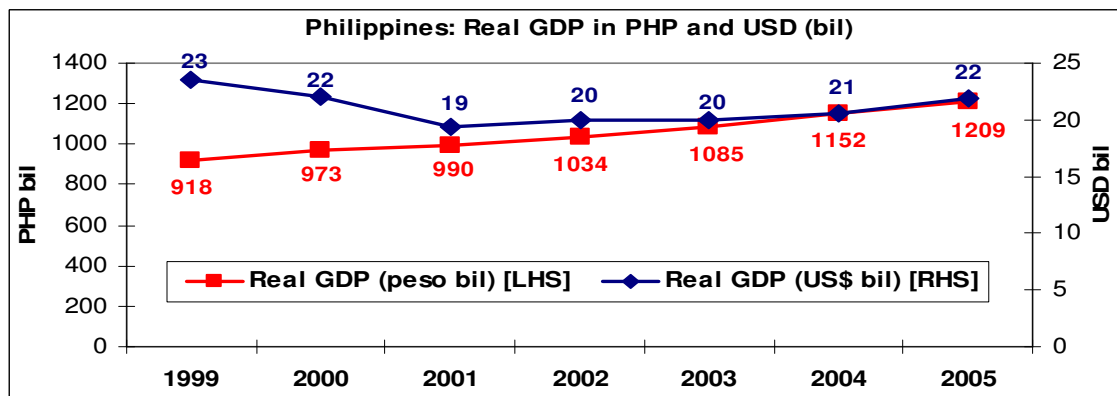
C. Gross Domestic Product

- GDP has grown steadily since year 2001. Average annual growth between 2003 and 2005 was 5.4%. 1H 2006 GDP grew by 5.6%



Source: CEIC

- Economic output in US dollar terms has remained relatively steady, at an average of \$21 billion per annum, since year 2000 on the back of a gradually weakening peso



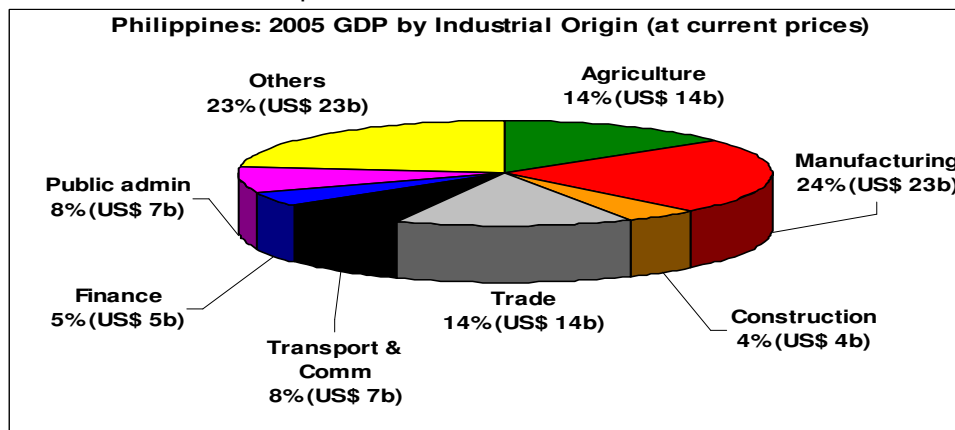
Source: CEIC

- The economy has benefited from strong growth in exports in 1H2006. Merchandise exports rose 17% in 1H2006 compared to +4% in 1H2005. This was due to strong growth in electronic exports. Growth in this segment was fuelled by semiconductor exports (+13% in 1H2006 compared to 1% in 1H2005).
- Merchandise imports rose 8.4% in 1H2006, reflecting higher domestic economic growth, higher world oil prices and the import intensity of electronic products. The merchandise trade deficit narrowed to US\$1.8 billion in 1H2006 from a year earlier.
- The economic outlook for 2006 has improved. Growth in 2H2006 will be supported by growth in agricultural production, export growth and an improved fiscal position.
- Growth for 2007 is expected to be the same as 2006, assuming that the country's fiscal position will improve, hence increasing investor confidence. From the production side, growth will be fuelled by the services sector (+6%, trend rate). The export-oriented manufacturing sector will benefit from continued albeit slower expansion of world trade. Agricultural sector is expected to grow at its trend rate of +4%. Demand will be driven by personal consumption, supported by remittances.



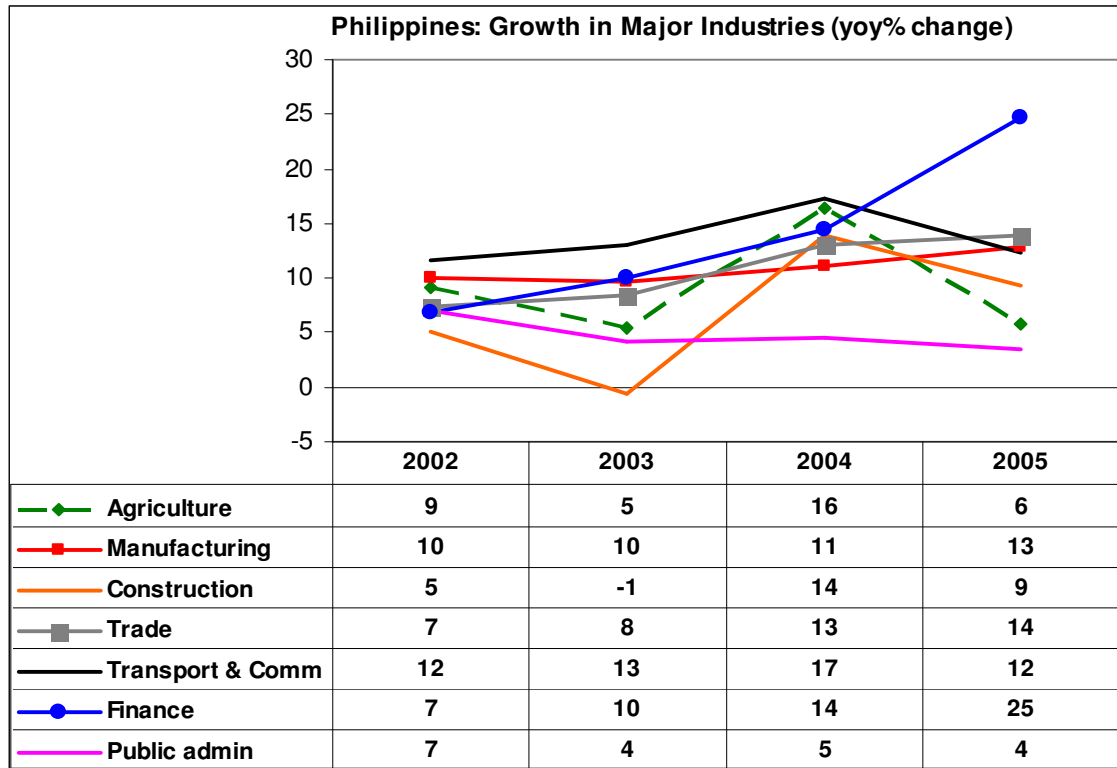
Source: Asian Development Bank

- The manufacturing industry is the leading contributor to the nation's GDP, making up 24% of the total output in 2005



Source: CEIC

- The manufacturing industry grew by an average of 11% between 2002 and 2005



Source: CEIC

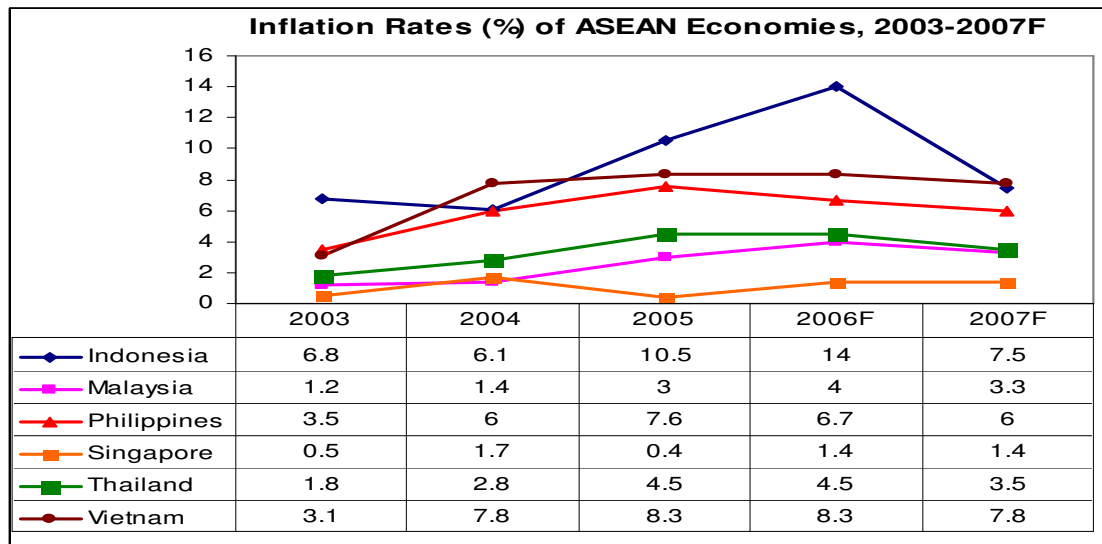
- Metro Manila contributed almost 1/3rd of the total economic output in 2005

2005 GDP by region	USD bil	as % of total
Metro Manila	386	32
Southern Tagalog	185	15
Central Luzon	102	8
Western Visayas	88	7
Central Visayas	86	7
Northern Mindanao	58	5
Southern Mindanao	56	5
Central Mindanao	42	3
Ilocos Region	36	3
Bicol Region	34	3
Western Mindanao	32	3
Cordillera	27	2
Eastern Visayas	27	2
Cagayan Valley	24	2
CARAGA	16	1
ARMM	10	1

Source: CEIC

D. Inflation

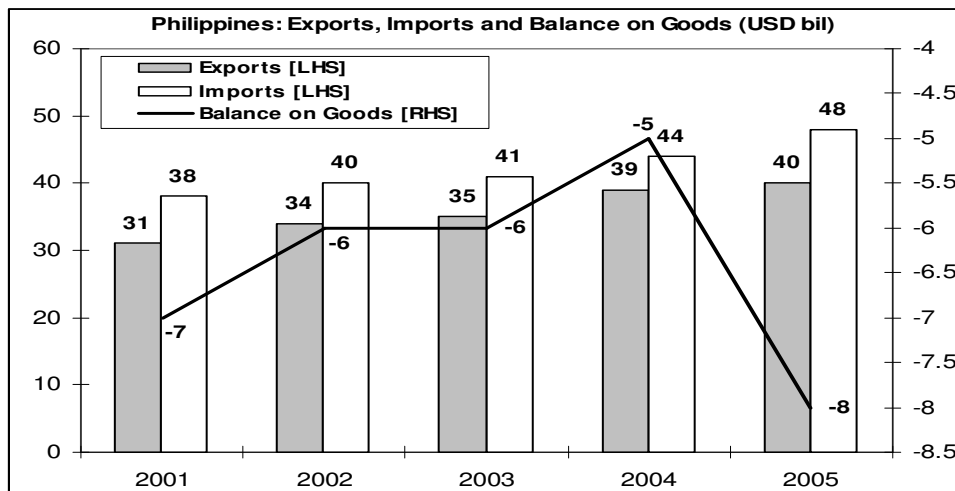
- Consumer price inflation slowed to 7% in the first 7 months of 2006. The increase in agricultural farm production mitigated the overall increase in prices.
- Full year inflation has been lowered to 6.7% from the previous estimate of 6.8%. Going forward, inflationary pressure is likely to ease as oil prices stabilize. Other mitigating factors include an unchanged VAT (at 12%) and an increased in food and agricultural production.



Source: Asian Development Bank

E. Foreign Trade

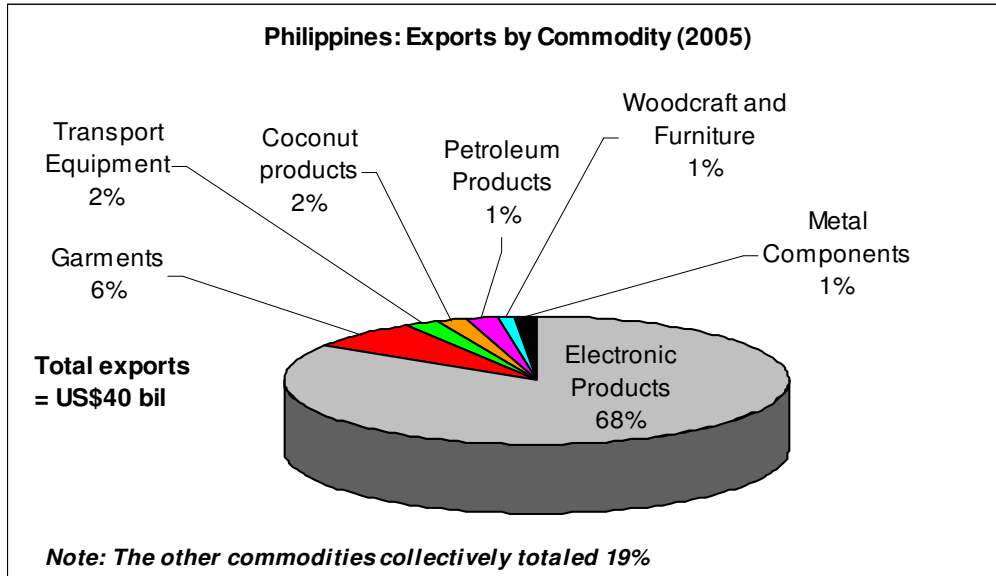
- The Philippines has been running a negative balance on its trade in goods
- The average negative balance between 2001 and 2005 was US\$ 6.4 billion
- The 4-year (2001-2005) CAGR of exports (+6.6%) exceeded that of imports (+6%)



Source: Asian Development Bank

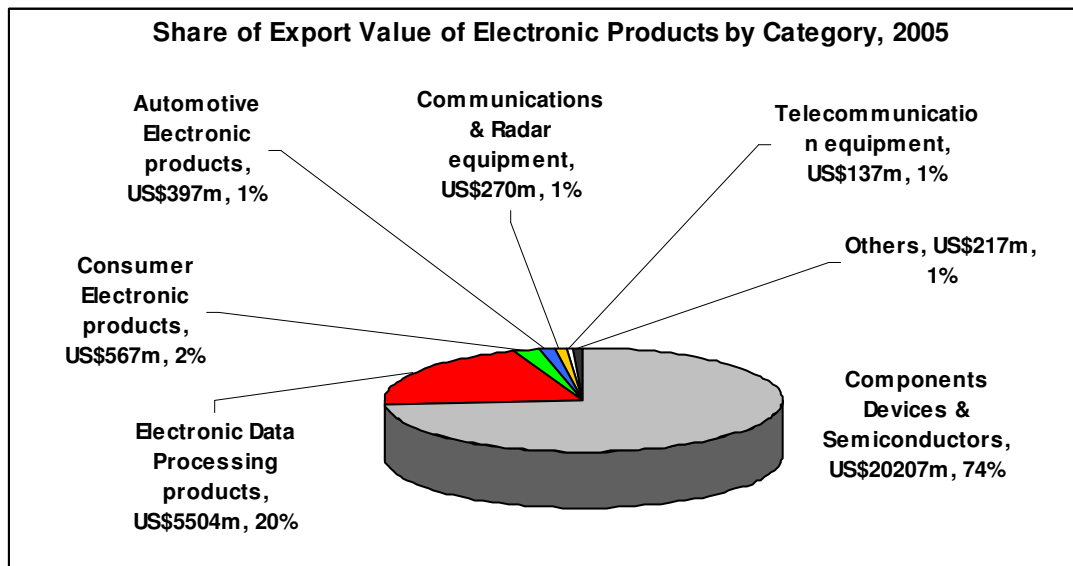
F. Major Exports

- Electronics dominates exports, commanding 68% of total export value in 2005
- The other major export commodities are garments (6%), transport equipment (2%), coconut products (2%), petroleum products (1%), metal components (1%) and woodcraft and furniture (1%)



Source: CEIC

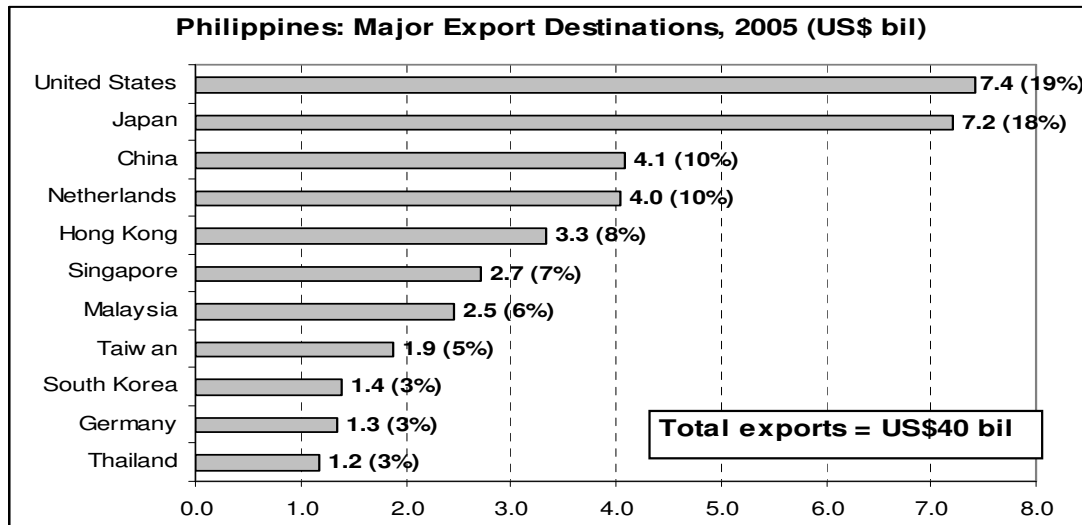
- Within the electronic products group, semiconductors and component devices commands 74% share of total export value of electronics products, followed by electronic data processing products (20%) and consumer electronic products (2%).



Source: CEIC Note: Total export value of electronic products = US\$ 27 billion in 2005

G. Major Export Destinations

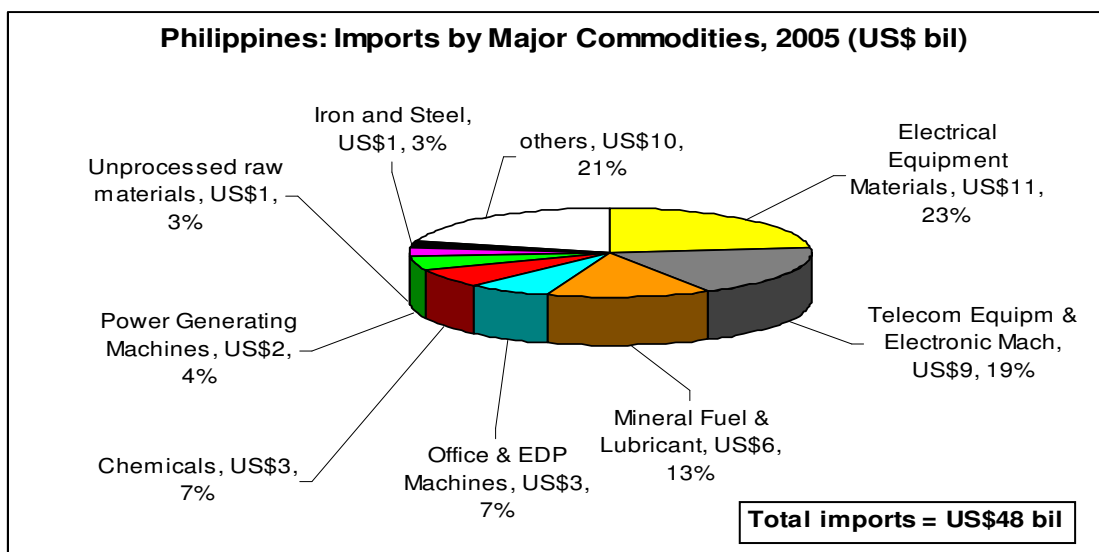
- The top four export destinations of the Philippines absorbed more than half of its total exports: US (19% of total export value), Japan (18%), China (10%) and the Netherlands (10%)



Source: CEIC Note: Figures in parentheses denotes share of export value

H. Major Imports

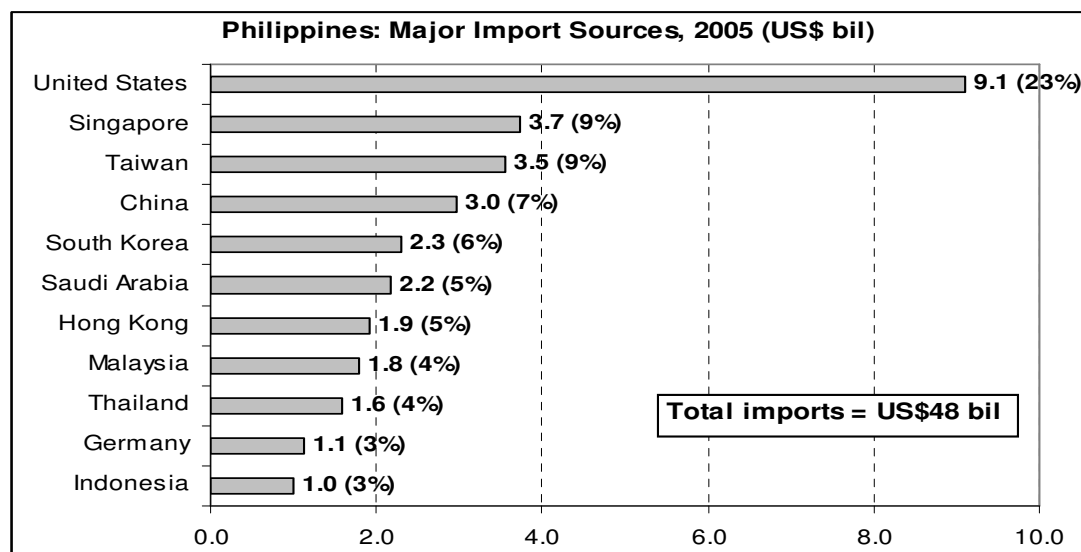
- Electrical equipment dominated with a 23% share of total import value in 2005
- Other major imports included telecommunications equipment and electronic machines (19%), mineral fuel and lubricant (13%), office and electronic database processing machines (7%), chemicals (7%), power generating machines (4%) and unprocessed raw materials, such as wheat, metaliferous ores, tobacco (3%)



Source: CEIC

I. Major Import Sources

- The top four imports sources accounted for almost half the total import value in 2005: US (23% of total import value), Singapore (9%), Taiwan (9%) and China (7%)



Source: CEIC

Note: Figures in parentheses denotes share of import value

J. Bilateral Trade Between the Philippines and Singapore

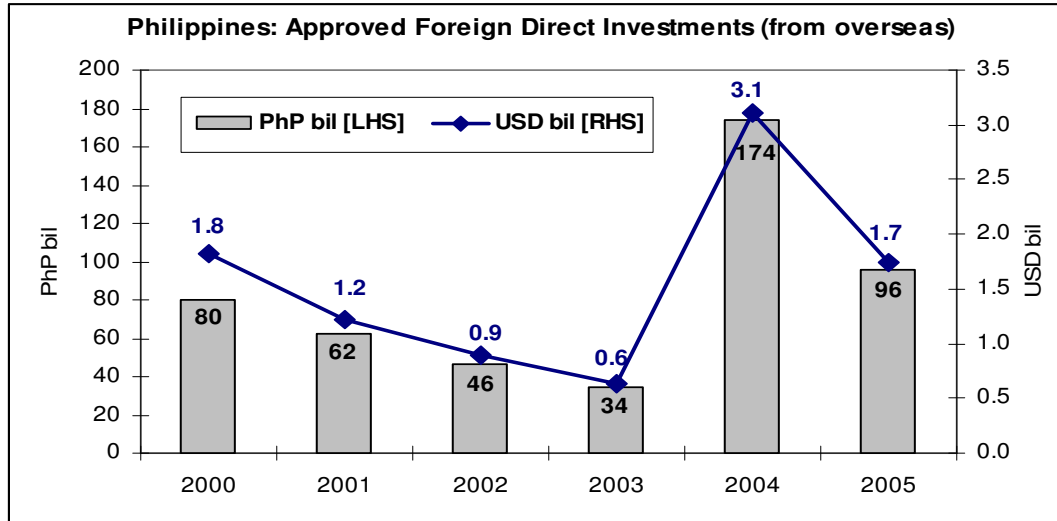
Main Domestic Exports To and Imports From Singapore, 2005

No.	Exports To Singapore	US\$ mil	% of total	No.	Imports From Singapore	US\$ mil	% of total
1	Electrical machinery, apparatus	671	25	1	Petroleum, petroleum products and materials	920	25
2	Petroleum, petroleum products and materials	286	11	2	Electrical machinery, apparatus	694	19
3	Office and data processing machines	117	4	3	Office and data processing machines	371	10
4	Telecom, sound record & reproduction equipment	68	3	4	Machinery for particular industries	103	3
5	Metalliferous Ores & Metal Scrap	20	1	5	Plastics in primary forms	103	3
6	Vegetables & Fruit	18	1	6	Telecom, sound record & reproduction equipment	82	2
7	Road Vehicles	13	0.5	7	Organic chemicals	64	2
8	Fish, Crustaceans, Molluscs	11	0.4	8	Industrial Machinery, Parts & Equipment	61	2
Total Exports = US\$ 2.7 bil				Total Imports = US\$ 3.7 bil			

Source: CEIC

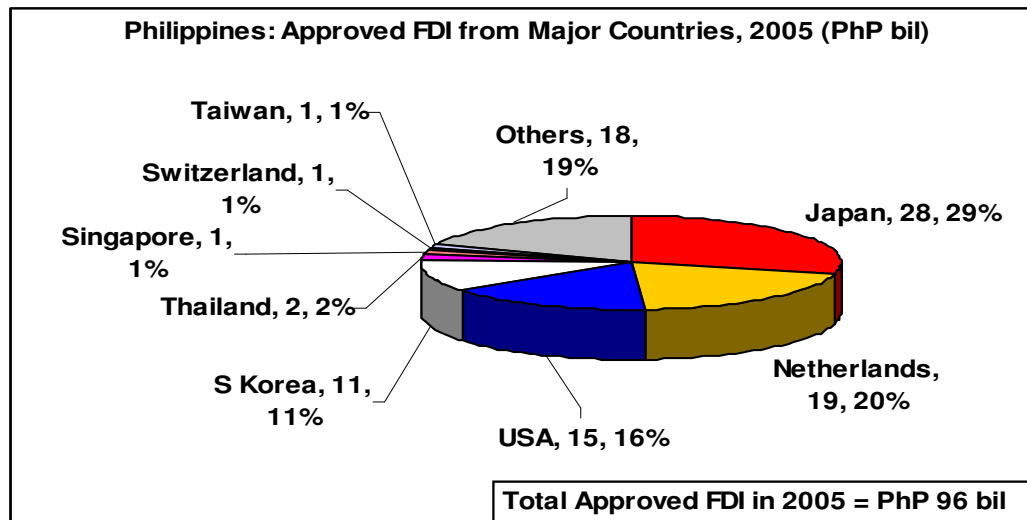
5. FOREIGN DIRECT INVESTMENT (FDI)

- FDI into Philippines declined to USD 1.7 billion in 2005 after topping USD 3.1 billion in 2004 when the government announced the Medium-Term Development Plan



Source: CEIC

- The top four providers of FDI into the Philippines (Japan, Netherlands, USA and South Korea) in 2005 contributed more than $\frac{3}{4}$ of the total FDIs
- Correspondingly, these were also among the top export destinations of Philippines' products



Source: CEIC

6. PRIORITY INDUSTRIES

According to the Department of Trade and Industry, the following are priority sectors:

- Electronics
 - Food
 - Construction Materials
 - Textiles and Fabrics
 - Marine Products
 - Automotive Parts and Components
 - IT Services
 - Home Furnishings
 - Giftware and Holiday Decor
 - Organic and Natural Products
- Processed food, petroleum and coal and electrical machinery made up 68% of gross value added in 2005.

2005 Gross Value Added of Manufacturing Industries (at 1985 prices)

Industrial Output Category	Value (PhP Bil)	% of Total
Processed Food	29.8	41
Petroleum & Coal Products	10.2	14
Electrical Machinery	9.5	13
Chemical & Chemical Products	4.5	6
Footwear, Wearing Apparel	2.8	4
Beverages	2.4	3
Miscellaneous manufactures	2.0	3
Basic metals	1.8	2
Metals	1.4	2
Non-metallic mineral products	1.4	2
Textiles	1.4	2
Furniture & Fixtures	1.3	2
Others	4.5	6
Total	73.1	100

Source: CEIC

A. Electronics

(i) Characteristics of Industry:

- About 720 firms in operation; 72% are foreign owned and 28% are locally owned.
- Mostly export-oriented; electronics exports totalled US\$27 billion and grew by 2% in 2005; average growth for the last 3 years was 4%.
- Main activities are centered in assembly and test manufacturing.
- Components suppliers are growing and playing an important role.
- Key export markets: US, Netherlands, Japan, Singapore and Taiwan

(ii) Electronic Subsectors:

➤ Semiconductors (microelectronics) and other components

- Biggest subsector of the industry

- Key products: integrated circuits (ICs), transistors, diodes, resistors, capacitors, coils, transformers and printed circuit boards (PCBs).
 - Major players: Philippine subsidiaries of Intel, Texas Instruments, Philips, Amkor and Fairchild Semiconductors.
- **Electronic Data Processing (EDP) Equipment**
- Key products: laptops, desktop PCs, printers, computer monitors, drives (hard disk & optical), ZIP, CD-ROM.
 - Major players: Toshiba, Acer, Epson, Fujitsu, Ionics and Sampo Technology.
- **Office Equipment**
- Key products: photocopiers, fax machines and electronic calculators.
 - Major players: Matsushita Business Machines, Sharp and Seiyo Electronics
- **Telecommunication Equipment**
- Key products: phone sets, modems, copper communication and fiber optic cables.
 - Major players: ETSI Technologies, Eupen Cable and NEC Technologies
- **Communications and Radar**
- Key products: cellular phones, pagers, closed circuit television (CCTV), CB transceivers, radar detectors, marine and land mobile radios
 - Major players: Matsushita Communication, Uniden, Casio and Euro CB.
- **Control and Instrumentation**
- Key products: oscilloscopes, signal generators, ammeters, voltmeters, ohmmeters and cross talk meters.
 - Philippine-based companies include makers of PCB assemblies for instrumentation/ testing equipment, digital thermometers, microscope of PCB assemblies for instrumentation/ testing equipment, digital thermometers, microscope, automotive test equipment and multi-testers.
 - Major players: Precision Microcircuits, Sara Digital Network, Phil Makoto Corp. and Insung Phils Electronics.
- **Medical and Industrial**
- Key products: equipment used for X-ray and other medical applications, railway signaling, security and fire alarms.
 - Philippine-based companies are involved in the production of spiro analyzers and smoke detectors.
- **Automotive Electronics**
- Key products: car stereos, anti-skid brake systems (ABS) and car body electronics (CBE)

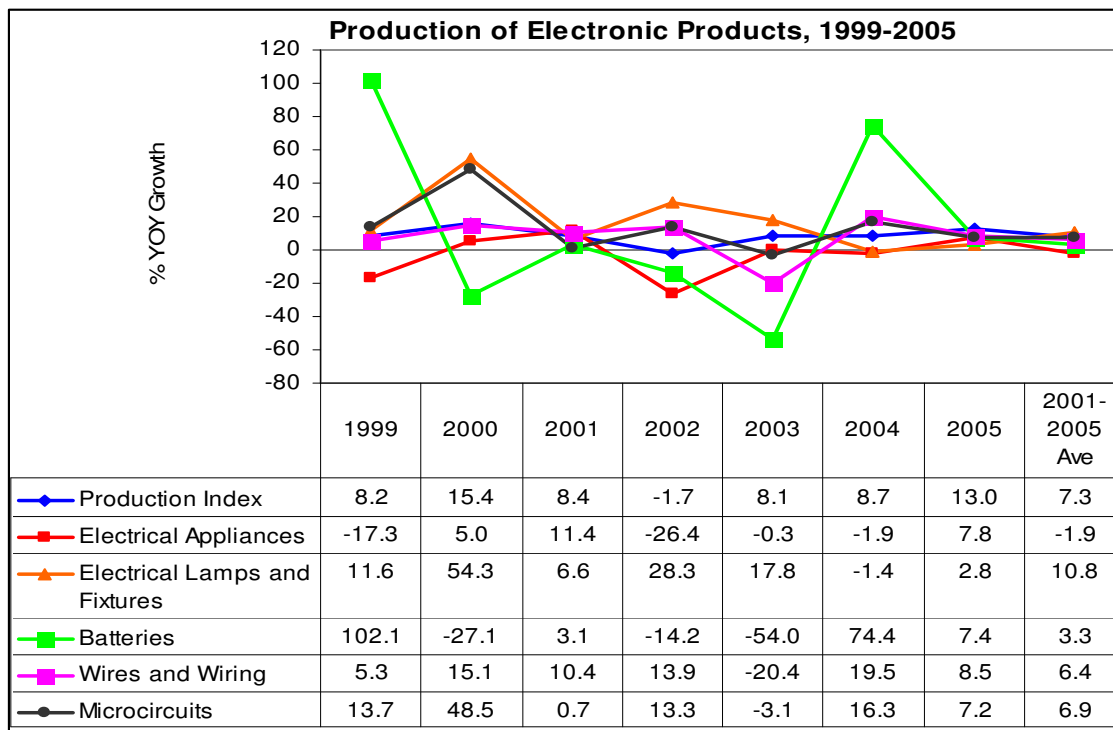
- Major players: Temic Automotive, Fujitsu Ten, Muramoto Audio-Visuals Phils. and Clarion Manufacturing

➤ **Consumer Electronics**

- Key products: TV sets, VCD players, electronic games, radio cassette players and karaoke machines.
- Major players: Matsushita Electric (Panasonic), Sony, Sharp, LG-Collins and JVC
- Consumer electronics continues to occupy the largest share over the past 7 years

(iii) Production of Electronics Products:

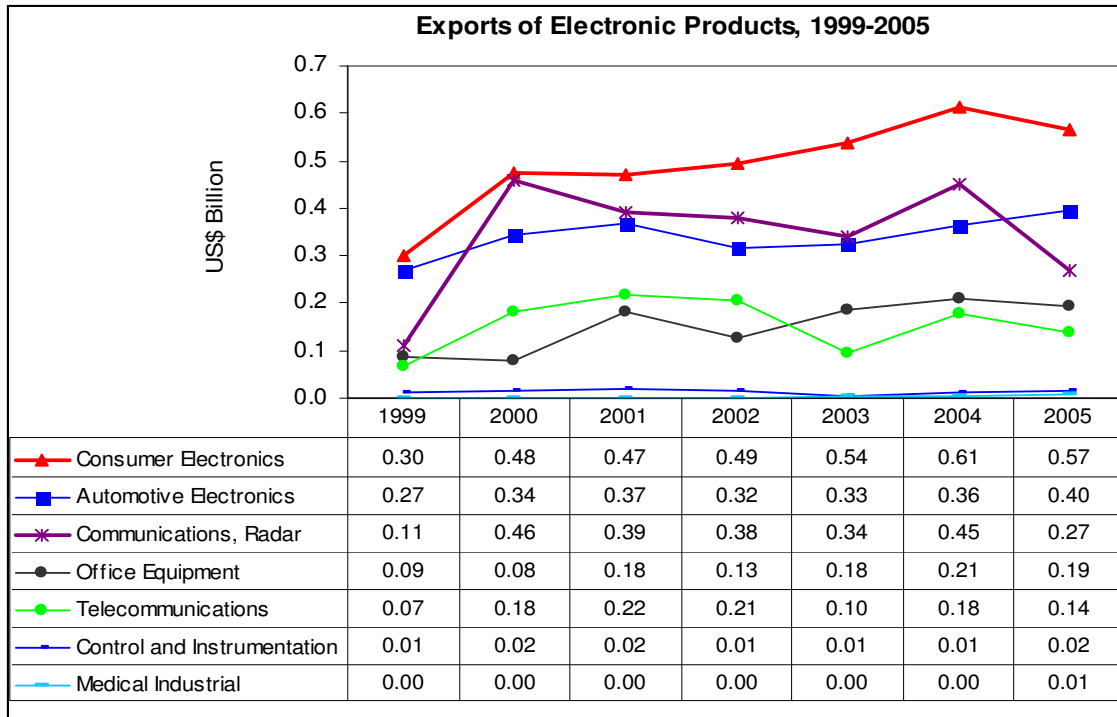
- The production of electrical lamps and fixtures grew by an average of 11% over a 5-year period, outperforming the production index. Other categories posted growth ranging from -2% to 7%.



Source: CEIC

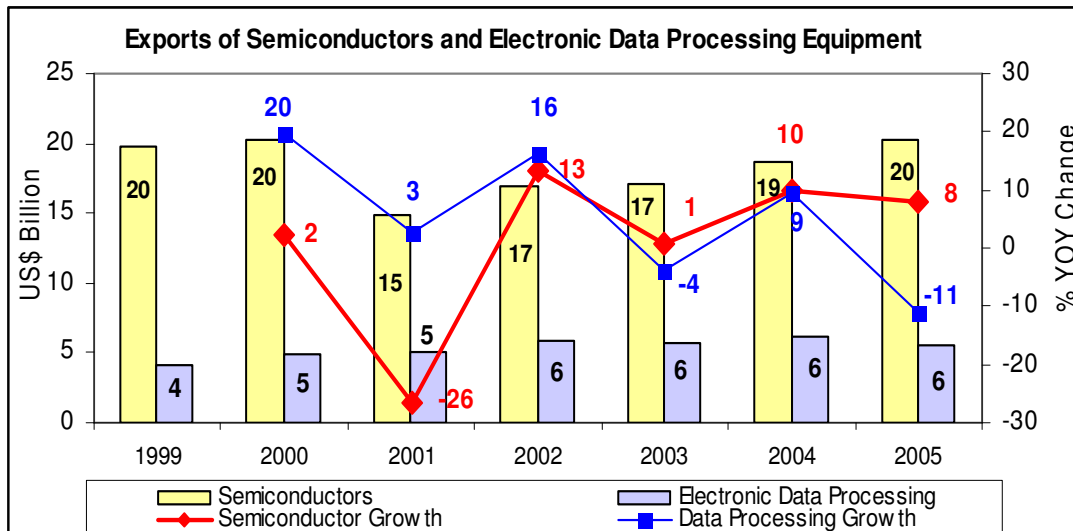
(iv) Exports of Electronics Products:

- Consumer electronics led in the export of electronic products.
- In 2005, exports of automotive electronics overtook that of communications and radar equipment.
- The export of office equipment is growing in importance, exceeding that of telecommunications since 2003.
- Control and instrumentation and medical industrial continue to play a very small role in electronic exports.



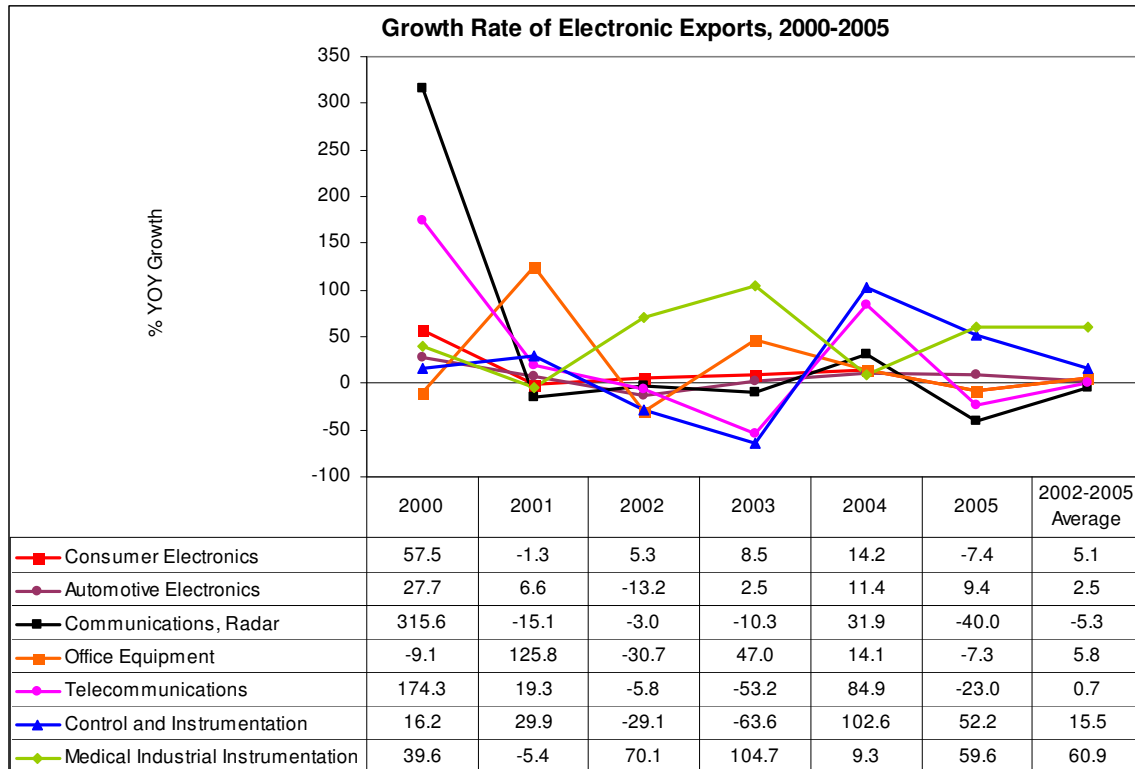
Source: CEIC

- Excluding the dot.com fallout in 2000/2001, semiconductor exports have been on the uptrend. Growth averaged 8% in the last 4 years
- Data processing equipment exports have been more erratic, with growth averaging 7% in the last 4 years



Source: CEIC

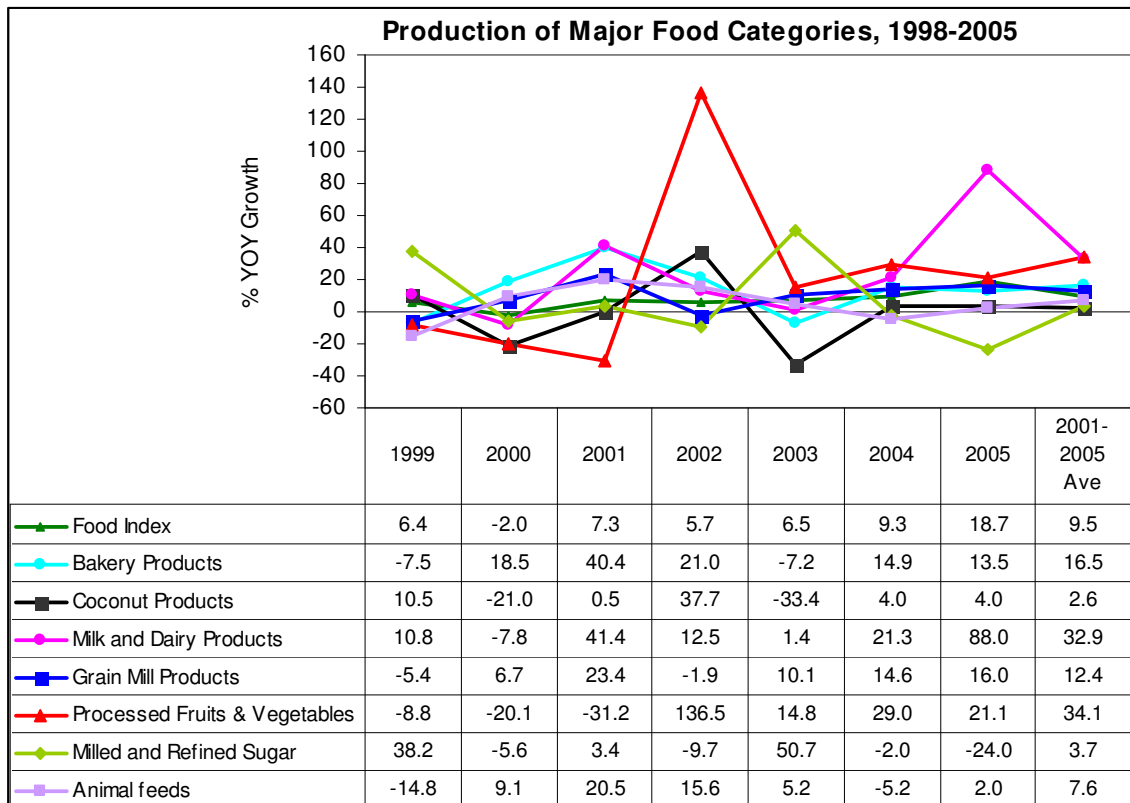
- Export of office equipment grew by 30% in the last 5 years, second to that of medical industrial instrumentation which has been resilient to changes in economic growth
- Consumer and automotive electronics exports posted slower growth of 4% and 3% respectively in the same period due in part to strong regional competition from Thailand and China.



Source: CEIC

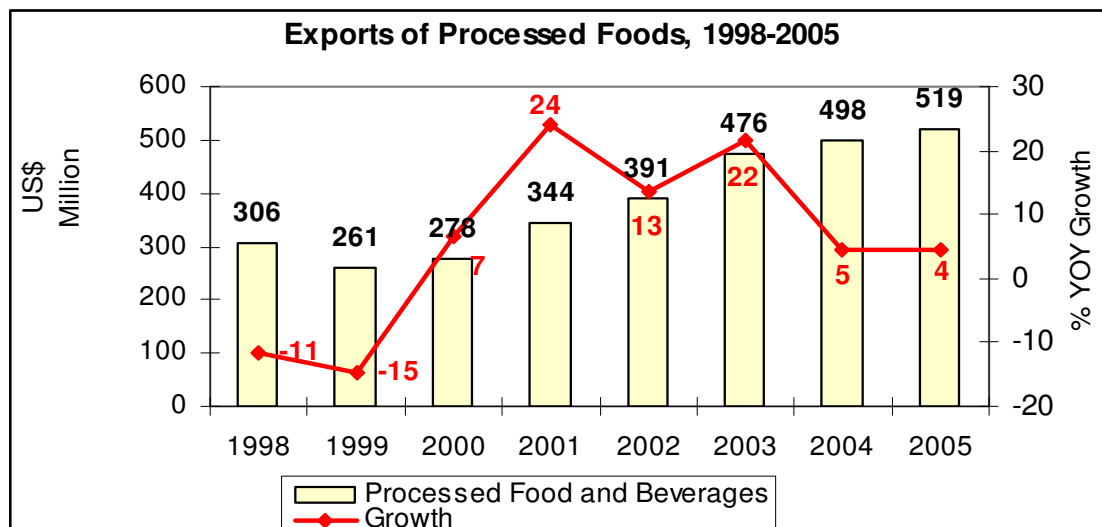
B. Food

- Fresh Foods: Bananas, pineapples and mangos and papayas are top export items
- Processed foods include:
 - ❖ Meat & meat preparations
 - ❖ Dairy products and birds' eggs (processed)
 - ❖ Cereal and flour preparations
 - ❖ Processed fruits
 - ❖ Processed vegetables
 - ❖ Sugar, confectionery and honey
 - ❖ Sugar-based products, eg. candies and gums
 - ❖ Coffee (processed)
 - ❖ Cocoa and tea
 - ❖ Beverages
 - ❖ Sauces, condiments, seasoning, spices etc
- Milk and dairy products and processed food and vegetables exhibited strongest growth of 33% and 34% respectively between 2001 and 2005. Both outperformed the food index (10%) and overall production (7%).



Source: CEIC

- Processed foods accounted for 41% of gross value-added and between 3 to 5% of the country's total exports in 2005.
- Exports of processed foods have been on an uptrend since 1999, averaging a 14% growth between 2001 and 2005.



Source: CEIC

- Exports of processed fruits occupy the largest share (33%) of total processed food exports. However, its average annual growth (7%) was slower as compared to the exports of dairy products and beverages which exhibited robust growth rates of 199% and 58% respectively.

Exports of Processed Food by Product Categories, US\$ Million

	1999	2000	2001	2002	2003	% Share (2003)	Ave. Annual Growth %
Total	492	513	559	588	708	100	10
Processed Fruits	179	201	220	206	232	33	7
Nuts & Coconut Products	99	81	74	106	106	15	4
Sugar & Sugar Preparations	71	57	32	47	70	10	8
Dairy Products	2	14	32	49	61	9	199
Beverages	13	14	21	21	57	8	58
Animal Feeding Stuff	27	31	41	32	43	6	14
Cereal & Flour Preparations	34	30	38	38	42	6	6
Misc. Edible Preparations	13	21	36	26	32	4	33
Confectionery & Honey	18	28	28	22	22	3	7
Sauces, Condiments, Spices & Mixes	18	19	18	21	21	3	4
Cocoa (processed)	11	8	8	9	12	2	4
Others	7	8	9	10	12	1	16

Source: National Statistical Organization, Philippines

- USA remains the top export market for Philippines processed food with a 35% share of exports and average growth of 5%. ASEAN markets with high growth potential are Thailand (79% growth), Indonesia (109%) and Malaysia (48%).

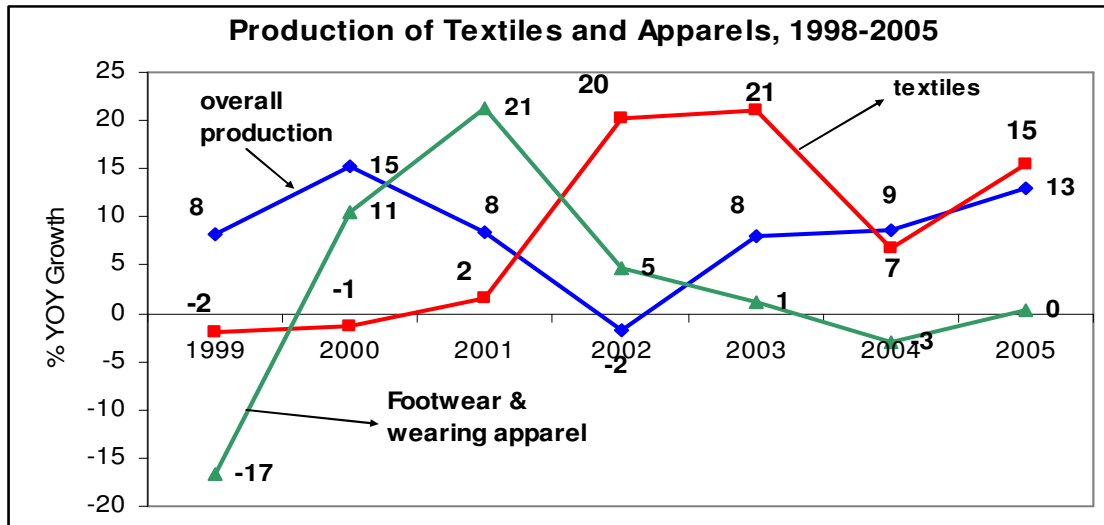
Exports of Processed Foods: By Markets (US\$ Million)

	1999	2000	2001	2002	2003	% Share 2003	Ave. Growth
Total	492	513	559	588	708	100	10
USA	214	212	192	217	251	35	5
Thailand	9	12	12	13	49	7	79
Korea	26	26	31	30	46	7	18
Indonesia	5	21	27	30	45	6	109
Japan	40	37	38	36	40	6	1
Malaysia	13	11	34	34	31	4	48
Taiwan	22	22	27	29	24	3	3
Great Britain	15	13	11	18	19	3	12
Netherlands	17	17	22	18	19	3	4
Canada	15	24	24	19	19	3	9
Others	117	117	140	145	165	23	9

Source: National Statistical Organization, Philippines

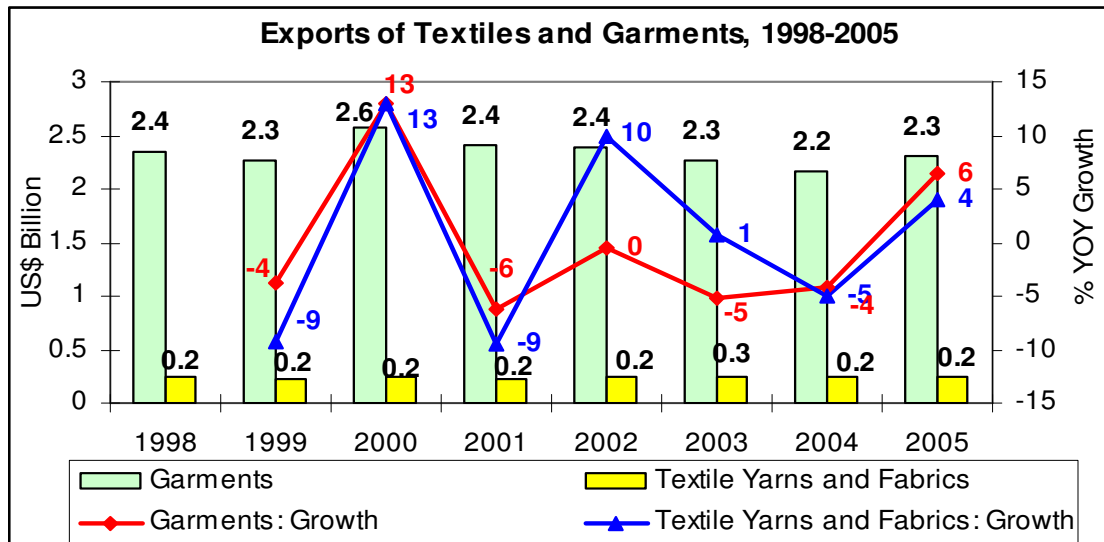
C. Textiles

- Textiles production grew robustly in the past 4 years. Average growth was 16% between 2002 and 2005. The textiles production index outperformed overall production between 2002 and 2005 (except in 2004).
- Footwear and wearing apparel have however been experiencing declining growth due mainly to keen competition from overseas low-cost producers, eg. China and India.



Source: CEIC

- Exports of garments and textiles picked up in 2005 after a decline in 2003 and 2004. Philippine faces stiff competition from Thailand, India and Vietnam in the exports to US and EU.



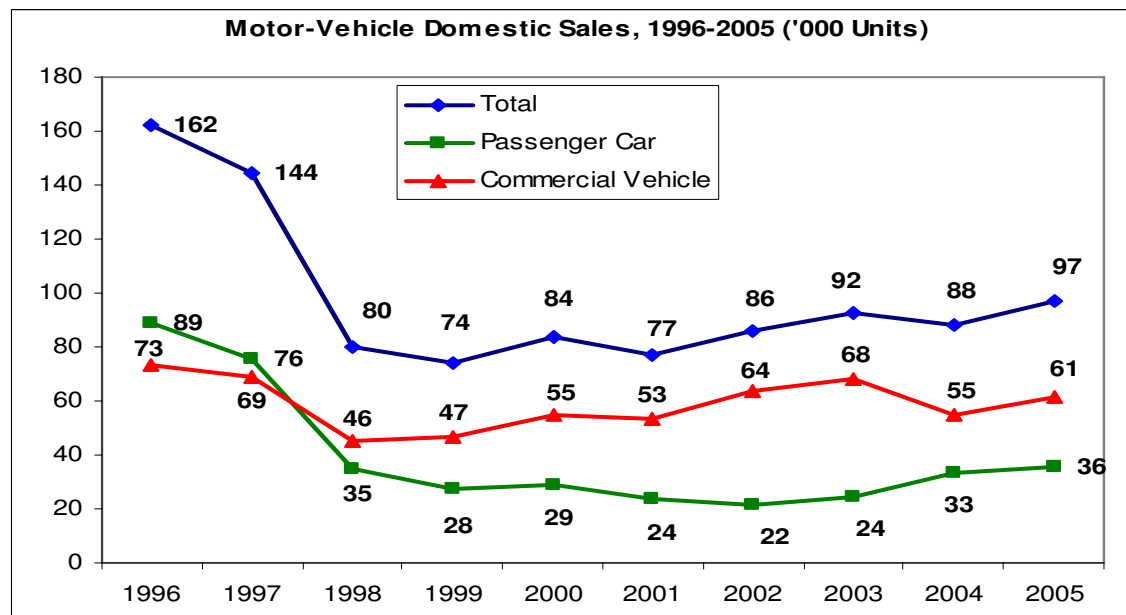
Source: CEIC

D. Automobiles

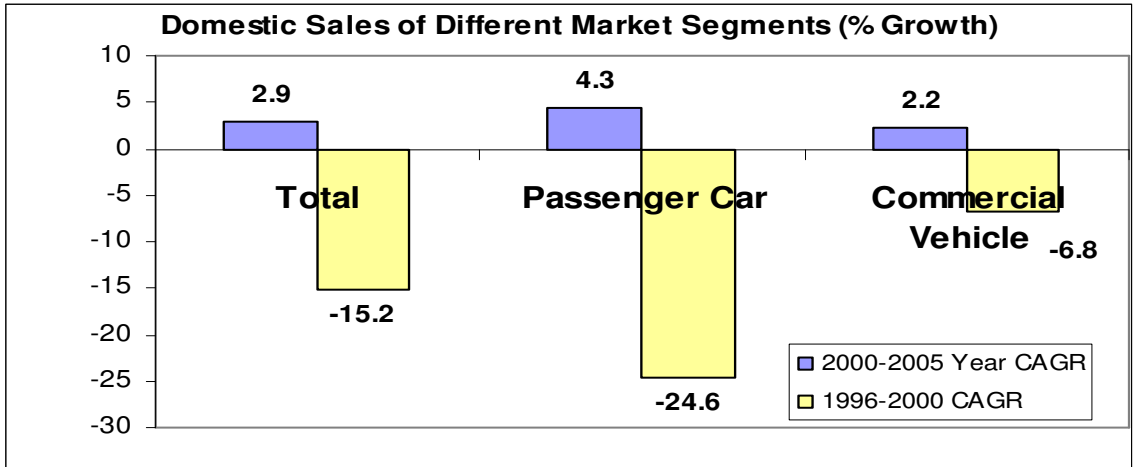
- The Philippine motor vehicle industry comprises of two sectors: (i) motor vehicle assembly and (ii) motor vehicle parts and components manufacturing.

(i) Motor Vehicles

- The motor vehicle assembly sector is grouped according to the type of motor vehicles, eg. passenger cars, commercial vehicles (utility vehicles, pick-ups, vans, trucks, buses, special purpose vehicles) and motorcycles.
- Dominated by Japanese automobile manufacturers: Toyota Motor Phils., Inc., Honda Cars Phils., Inc., Mitsubishi Motors Phils., Corp., Nissan Motor Phils., Inc. and Honda Phils., Inc. (approximately 80% market share)
- Other principal motor vehicle manufacturers are Ford Motor Co. Phils.; Columbian Autocar Corp., Pilipinas Hino Inc. and Norkis Trading Company.
- Key motor vehicles export destinations: Japan, Thailand, Singapore, Vietnam, Republic of South Africa and Taiwan
- Commercial vehicles dominate sales: 63% of total sales
- However, growth in passenger cars was faster, averaging 4% in the last 5 years versus 2% for commercial vehicles
- The 1997-1998 financial crisis had a drastic impact on the local automotive market. From a peak of 162,000 (4-wheel) vehicle sales in 1996, market sales declined by 11% in 1997 and further by 44% in the following year.
- The industry started showing signs of recovery in late 1999. The uptrend started in year 2000. Now sales are picking up due to higher economic growth and higher disposable incomes



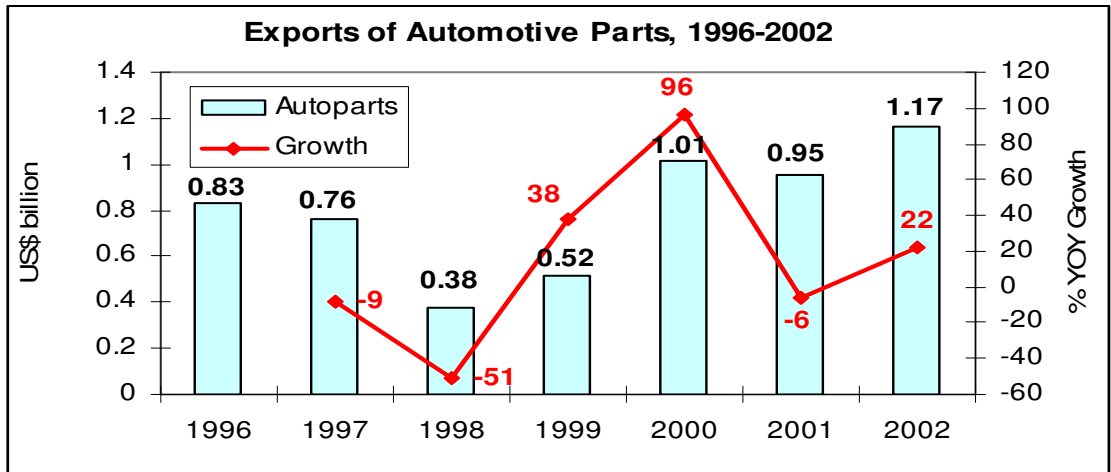
Source: CEIC



Source: CEIC

(ii) Automotive Parts and Components

- This sector comprises of about 256 companies producing various parts and components made of metals, plastic, rubber and composite materials for both the OEM and replacement markets.
- Key players: Yazaki-Torres Manufacturing Corp. (wiring harness), United Technologies Automotive Phils. (wiring harness), Temic Automotive (Phils.) Inc. (anti-brake lock system), Honda Engine Manufacturing Phils., Inc. (engines), Asian Transmission Corp. (automotive transmissions), Toyota Autoparts Phils. (automotive transmission), Fujitsu Ten corp. of the Phils. (car stereos) and Aichi Forging Co., Inc. (forged parts).
- Japan remains the top export market for Philippines-made motorcycle parts and components, followed by USA and Germany.
- Automotive parts and components exports were mostly on an uptrend between 1998 and 2002, averaging a growth of 20% during that period.



Source: CEIC

(iii) Investment Opportunities in the Automotive Industry:

(a) Motor Vehicle Development Programme (MVDP)

- Participation under the Motor Vehicle Development Programme (MVDP) for the assembly of motor vehicles and parts and components manufacturing are open to foreign and local investors.
- Parts and components manufacturing is listed as an investment priority area and is entitled to incentives (eg. income tax holiday) under the Omnibus Investments Code.

(b) Regional Trade Arrangements

- ASEAN Free Trade Area - Common Effective Preferential Tariff (AFTA-CEPT)
 - Motor vehicle items are phased-in into the AFTA-CEPT Inclusion List
 - By phasing-in into the CEPT, the industry can take advantage of the ASEAN market
- ASEAN Industrial Co-operation Scheme (AICO): Several AICO arrangements for motor vehicles are already approved and implemented

(c) Manufacturing Free Trade Zone

Philippine Economic Zone Authority, Clark Development Corporation, and Subic Bay Metropolitan Authority offer tax breaks to qualified free trade zone locators.

(d) Duty Drawback Arrangements

The refund or tax credit is allowed for duties paid on imported raw materials used in the manufacture or production of articles upon exportation of the same.

7. BUSINESS INCENTIVES AWARDED BY THE BOARD OF INVESTMENT (BOI)

A. Fiscal Incentives:

(i) Income Tax Holiday (ITH)

- BOI-registered enterprises are exempted from paying income taxes reckoned from the scheduled start of commercial operations, as follows:
 - New projects with a pioneer status for six (6) years;
 - New projects with a non-pioneer status for four (4) years;
 - Expansion projects for three (3) years. As a general rule, exemption is limited to incremental sales revenue/volume;
 - New or expansion projects in less developed areas (LDAs) for six (6) years, regardless of status;
 - Modernization projects for three (3) years. As a general rule, exemption is limited to incremental sales revenue/volume.

- The ITH is limited in the following cases:
 - Export traders may be entitled to the ITH only on income derived from the following:
 - Export of new products, i.e. those which have not been exported in excess of US\$100,000 in any of the two (2) years preceding the filing of application for registration, or
 - Export to new markets, i.e., to a country where there has been no recorded import of a specific export product in any of the two (2) years preceding the filing of the application for registration.
 - Mining Activities, ie. the exploration and development of mineral resources are not entitled to an ITH;
 - Mining and/or quarrying without mineral processing is not entitled to an ITH;
 - Mining and processing of aggregates is not entitled to ITH.

- New registered pioneer and non-pioneer enterprises and those located in LDAs may avail themselves of a bonus year in each of the following cases:
 - The indigenous raw materials used in the manufacture of the registered product must at least be fifty percent (50%) of the total cost of raw materials for the preceding years prior to the extension unless the Board prescribes a higher percentage; or
 - The ratio of total imported and domestic capital equipment to the number of workers for the project does not exceed US\$1,000 to one (1) worker; or
 - The net foreign exchange savings or earnings amount to at least US\$500,000 annually during the first three (3) years of operation. In no case shall the registered pioneer firm avail of the ITH for a period exceeding eight (8) years.

(ii) Exemption from Taxes and Duties on Imported Spare Parts

- A registered enterprise with a bonded manufacturing warehouse shall be exempt from customs duties and national internal revenue taxes on its importation of required supplies/spare parts for consigned equipment or those imported with incentives.

(iii) Exemption from Wharfage Dues and Export Tax, Duty, Impost and Fees

- All enterprises registered under the Investment Priorities Plan will be given a 10-year period from the date of registration to avail of the exemption from wharfage dues and any export tax, impost and fees on its non-traditional export products.

(iv) Exemption from Taxes on Breeding Stocks and Genetic Materials

- Agricultural producers will be exempted from the payment of all taxes and duties on their importation of breeding stocks and genetic materials within 10 years from the date of registration or commercial operation.

(v) Tax Credits

- Agricultural producers will enjoy a tax credit equivalent to 100% of the value of national internal revenue taxes and customs duties on local breeding stocks within 10 years from date of registration or commercial operation for agricultural producers.
- They will also enjoy a tax credit equivalent to the national internal revenue taxes and duties paid on raw materials, supplies and semi-manufacture of export products.

(vi) Additional Deductions from Taxable Income for Registered Enterprises

- Additional deduction for labor expense (ADLE): For the first 5 years from registration, a registered enterprise shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force.
- The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed of simultaneously with ITH. This additional deduction shall be doubled if the activity is located in a Less Developed Areas (LDA).
- Additional deduction for necessary and major infrastructure works: Registered enterprises locating in LDAs or in areas deficient in infrastructure, public utilities and other facilities may deduct from taxable income an amount equivalent to the expenses incurred in the development of necessary and major infrastructure works. The privilege, however, is not granted to mining and forestry-related projects as they would naturally be located in certain areas to be near their sources of raw materials.

B. Non-Fiscal Incentives

(i) Employment of Foreign Nationals

- A registered enterprise may be allowed to employ foreign nationals in supervisory, technical or advisory positions for 5 years from date of registration. The position of President, General Manager and Treasurer of foreign-owned registered enterprises or their equivalent shall however not be subject to the foregoing limitations.

(ii) Simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies and exports of processed products.

(iii) Importation of consigned equipment for a period of 10 years from date of registration, subject to posting of a re-export bond.

(iv) The privilege to operate a bonded manufacturing/trading warehouse subject to Customs rules and regulations.

C. Incentives for Regional Headquarters (RHQ) and Regional Operating Headquarters (ROHQ) in the Philippines:

(i) Incentives for RHQs:

- Exemption on the payment of Corporate Income Tax. An annual information return of a tax-exempt corporation shall be filed with the Bureau of Internal Revenue (BIR) to effect exemption.
- Exemption on the payment of Value-Added Tax. The exemption includes the sale or lease of goods and property including the rendition of services to RHQ.

(ii) Incentives for ROHQs:

- *Corporate Income Tax:* Income derived by the ROHQ from performing qualifying activities shall be subject to a preferential rate of 10% on taxable income.
- *Branch Profit Remittance Tax:* Any income derived from the Philippines when remitted to the parent company shall be subject to the tax on branch profit remittances.
- *Value-Added Tax:* ROHQ shall be subject to 12% value-added tax unless otherwise provided under the National Internal Revenue Code.

(iii) Exemptions common for both RHQ and ROHQ:

- Exemption from all kinds of local taxes, fees, or charges. Payment however, shall be made for real property tax on land improvements and equipment.
- Tax and duty free importation of training Materials and Equipment. Applicable to materials not locally available, subject to prior approval from the Board of Investments (BOI).
- The sale or disposition of equipment within two years after importation, entered tax and duty free, shall require prior approval from the BOI and prior payment of applicable taxes and duties.
- Entitlement to the importation of new motor vehicles. The importation shall be subjected to the payment of the corresponding taxes and duties.
- Under RA 8756, the following incentives are given to the expatriates of a registered RHQ/ROHQ in the Philippines:
 - Multiple Entry Visa. Issued to expatriates, their respective spouses and unmarried children under 21 years old. A non-immigrant visa shall be issued within 72 hours upon submission of all required documents. The multiple

entry visa is valid for a period of 3 years and extendible for another three years upon submission to the Bureau of Immigration of a sworn certification by a responsible officer of the RHQ/ROHQ that its license to operate remains valid and that it has complied with all requirements stipulated under relevant Philippine laws.

- Withholding Tax of 15% on Compensation Income. Applied to both alien and Filipino executives holding managerial or technical positions.
- Tax and Duty Free Importation of Personal and Household Effects. Applicable on imports made within ninety (90) days before or after conversion of the alien executive's admission category to multiple entry visa.
- Travel Tax Exemption. Issued by the Philippine Tourism Authority (PTA) upon recommendation by the BOI during the period of the expatriate's assignment in the country.

8. TAXES

(a) Corporate and National Taxes

Corporate Taxes	Rate
1) Domestic corporations and subsidiaries 2) Resident foreign corporation (foreign corporation engaged in trade or business in the Philippines)	35% of net taxable income from worldwide sources
Non-Resident Corporation (foreign corporation not engaged in trade or business in the Philippines)	35% of the gross amount of Philippine-sourced income such as dividend, rents, royalties, compensation and remuneration for technical services
Small & medium enterprises (Barangay Micro-Business Enterprises of BMBEs) with total assets not exceeding P3 million	Exempt from income taxes and minimum wage requirements
Remittances and Dividends	Tax
Profits remitted by branch of foreign corporation to home office ¹	15%
Dividends payable by domestic corporation to foreign parent ²	35%
Dividends received by domestic or resident foreign corporation from a domestic corporation	0%
Capital Gains Tax	Rate
1) applies to all corporations (domestic or foreign) on the sale of land and buildings	6% of gross selling price or fair market value, whichever is higher
Value Added Tax (VAT)	Rate
On the import of goods, sale or lease of goods, properties and services in the Philippines	12%
Exports ³	0%
Excise Tax	Rate
On alcohol, tobacco, petroleum, mineral products,	Various rates

cinematographic films, automobiles, jewellery etc	
Diesel fuel oil, kerosene and bunker fuel oil, locally extracted natural gas and liquefied natural gas	0%
Local Tax on Certain Businesses	Rate
Manufacturers, wholesalers, distributors, dealers and contractors are subject to local business tax at graduated rates on certain amounts of gross sales/gross receipts or percentage taxes at maximum rates not exceeding 2% on the amounts not subject to graduated taxes	Maximum of 2%

Source: "How to Invest in the Philippines", Isla Lipana & Co, a member firm of Pricewaterhouse Coopers

Note: The corporate tax rate was increased from 32% to 35% from 1 July 2005. It will be reduced to 30% with effect from 1 January 2009.

¹ Does not apply to a Philippine branch registered with PEZA

² If the home country of the recipient corporation allows an additional tax credit of 20% as tax paid in the Philippines, the tax is reduced to 15%. Dividends remitted to countries that do not impose taxes on offshore dividends qualify for this rate.

³ VAT exempt goods include books, fertilizers, livestock, poultry feeds, gricultural and marine food products in their original state

(b) Personal Income Taxes (2005)

- Taxable income derived from employment, business, trade and exercise of profession by resident citizens from all sources within and outside the Philippines are subject to graduated tax rates between 5% and 32%. The top rate of 32% applies to taxable income in excess of PhP 500,000.
- Resident foreign individuals (Aliens) and non-resident citizens are subject to the same graduated tax rates but only on income derived from all sources within the Philippines.
- Non-resident aliens are taxed at 25% of the gross income from sources within the Philippines if their stay is less than 180 days in a calendar year. Otherwise, they are taxed according to table below
- Aliens who are employed by regional or area or regional operating HQs of MNCs, offshore banking units and petroleum service contractors and subcontractors are subject to taxes at 15% of their gross income from their employers

Income Bracket (Pesos)	Base Tax (Pesos)	% on excess	Total Tax
0<X ≤ 10,000	-	5	5% of income
10,000<X ≤ 30,000	500	10	P500+10% of excess over P10,000
30,000<X ≤ 70,000	2,500	15	P2,500+15% of excess over P30,000
70,000<X ≤ 140,000	8,500	20	P8,500+20% of the excess over P70,000
140,000<X ≤ 250,000	22,500	25	22,500+25% of the excess over P140,000
250,000<X ≤ 500,000	50,000	30	P50,000+30% of the excess over P500,000
> 500,000	125,000	32	P125,000+34% of the excess over P500,000

Source: "Doing Business and Investing in the Philippines", Isla Lipana & Co, a member firm of Pricewaterhouse Coopers

9. STARTING A BUSINESS IN PHILIPPINES

Nature of Procedure (2006)	Procedure No.	Duration (days)	US\$
Obtain bank certificate of deposit of the paid-in capital	1	1	0
Register incorporation with the Securities and Exchange Commission	2	3	35.14
Apply for a Barangay (district) clearance	3	2	14.95
Obtain mayor's permit/municipal license to operate at the Licensing Section of the Mayor's Office	4	11	136.56
Buy special books of account at bookstore	5	1	4.67
Secure a tax identification number, register for VAT	6	2	9.35
Payment of Documentary Stamp Taxes	7	1	0
Obtain the Authority to Print Receipt/Invoices with the Bureau of Internal Revenue	8	14	0
Print receipts and invoices at the print shops	9	1	42.06
Submit receipts and invoices to the BIR for approval, have receipts/invoices and books of accounts stamped by BIR	10	1	0
Register with the Social Security System (SSS) and enroll with the government healthcare benefits system	11	11	0
Total:		48	\$242.73

Source: World Bank Guide to Doing Business : www.doingbusiness.org

- For JVs with Philippine investors, the Securities Exchange Commission (SEC) will allow foreign equity in excess of 50% provided the area of activity involved is not covered by the 6th regular foreign investments negative list.
- An unincorporated joint venture is taxed like a corporation. The shares of the joint venture partners will no longer be taxable to them because they partake of dividends, if paid to a domestic or resident corporation. However, an unincorporated joint venture formed for the purpose of undertaking a construction project or engaging in petroleum operations is not subject to the corporate income tax. Only joint venture partners will be taxed on their respective shares.
- If the foreign partner is restricted to 40% equity holding, it can obtain control of operations through majority ownership of the voting capital stock of the corporation. Other methods include diffusion of majority ownership and licensing agreements.

APPENDIX A

KEY ECONOMIC INDICATORS: PHILIPPINES

	2000	2001	2002	2003	2004	2005
Real GDP:						
Billion Pesos (1985 prices)	973	990	1034	1085	1152	1209
YOY% change	6.0	1.8	4.4	4.9	6.2	5.0
GDP Growth By Sectors (%):						
Agriculture	4.3	3.7	4.0	3.2	4.9	2.0
Mining	11.7	-6.5	51.0	16.8	2.6	9.3
Manufacturing	5.6	2.9	3.5	4.2	5.1	5.6
Electricity, Gas & Water	4.0	0.7	4.3	3.2	4.2	2.5
Construction	26.2	-23.1	-4.0	-4.0	7.4	4.3
Transport & Communications	10.5	8.8	8.9	8.6	11.2	7.1
Finance	0.9	1.2	3.4	7.1	8.4	15.4
Public Administration	1.6	0.9	1.3	2.9	2.2	1.3
Total Trade:						
US\$ billion	72.6	65.2	74.5	76.7	83.7	88.7
YOY % change	10	-10	14	3	9	6
Total Exports:						
US\$ billion	38.2	32.2	35.2	36.2	39.7	41.3
YOY% change	9	-16	10	3	10	4
Total Imports:						
US\$ billion	34.5	33.1	39.2	40.5	44.0	47.4
YOY% change	12	-4	19	3	9	8
Exports to Singapore:						
US\$ billion	3.1	2.3	2.5	2.4	2.6	3.8
YOY% change	27	-26	7	-2	8	46
Imports from Singapore:						
US\$ billion	2.3	2.0	2.3	2.5	3.4	4.3
YOY% change	33	-11	11	10	35	26
Inflation Rate (%): (CPI)	4.0	6.8	3.0	3.5	6.0	7.6
USD/Peso exchange rate (Peso per US\$)	44.19	50.99	51.6	54.2	56.04	55.09
Labour Force in Manufacturing (million)	2.8	2.9	2.9	3.0	3.0	3.0
Unemployment Rate (%)	10.1	9.8	10.2	10.1	10.9	10.3
3 month Inter bank Rate (Average)	12.0	12.2	7.0	8.0	7.8	7.0

Source: Asian Development Bank, CEIC

APPENDIX B

USEFUL CONTACTS

Bureau of Export Trade Promotion

Sixth Floor, New Solid Building
357 Sen. Gil J. Puyat Avenue, Makati City
Telephone: [63] (2) 890 4682/ 899 0133/ 759 3381/
896 3250
Fax: [63] (2) 890 4716/890 4707

Bureau of Internal Revenue

BIR National Office Building, Agham Road
Diliman, Quezon City 1104
Telephone: [63] (2) 929 7676/ 981 7000
Web site: <http://www.bir.gov.ph>

Department of Finance

DOF Building
Roxas Boulevard corner P. Ocampo Street
Manila NCR 1004
Telephone: [63] (2) 524 7011 to 53/ 523 2455/ 525
5166
Fax: [63] (2) 521 2948

National Economic Development Authority

NEDA Building
Blessed Jose Maria Escriva Drive
Ortigas Center, Pasig City
Voice: [63] (2) 631 0945 to 64/ 631 3716
Fax: [63] (2) 631 37 47
Web site: <http://www.neda.gov.ph/>

Board of Investments

Fifth Floor, Industry and Investments Building
385 Sen. Gil Puyat Avenue
Makati City
Telephone: [63] (2) 897 5582/ 890 9332/ 895 3638/
895 3640-41
Fax: [63] (2) 896 7342
Web site: <http://www.boi.gov.ph/>

Department of Labor and Employment

Second Floor, DOLE Executive Building
San Jose Street
Intramuros, Metro Manila 1002
Telephone: [63] (2) 527 2116/ 2120 to 21/ 2131
Fax: [63] (2) 527 3494/ 527 3568
Web site: <http://www.dole.gov.ph>

Philippine Chamber of Commerce and Industry

Ground Floor, East Wing, PICC Secretariat Bldg.
Philippine International Convention Center
CCP Complex, Roxas Boulevard, Pasay City
Telephone: [63] (2) 527 6142
Fax: [63] (2) 527 6144
Web site: [http:// www.philcham.com](http://www.philcham.com)

Philippine Economic Zone Authority

6th Floor, Almeda Building
Roxas Boulevard corner San Luis, Street, Pasay City
Telephone: [63] (2) 551 3454 to 55/ 551 3432
Fax: [63] (2) 891 6380
Web site: <http://www.peza.gov.ph>

Securities and Exchange Commission

SEC Building, EDSA Greenhills,
Mandaluyong City 1550
Telephone: [63] (2) 727 4543/724 4757/ 726 0930 to
39
Fax: [63] (2) 725 4399/ 726 8459
Web site: <http://www.sec.gov.ph/>

Cagayan Economic Zone Authority

7th Floor, Westar Building
611 Shaw Boulevard, Pasig City
Telephone: [63] (2) 636 5779 to 82
Fax: [63] (2) 631 3997
Email: cagayanecozone@pacific.net.ph

Clark Development Corporation

Fourth Floor, Pacific Star Building,
Sen. Gil J. Puyat corner Makati Avenue,
Makati City
Telephone: [63] (2) 811 5182 to 83
Fax: [63] (2) 813 6297

Zamboanga Economic Zone Authority

San Ramon, Zamboanga City
Telephone: [63] (62) 992-2012
Web site: <http://www.zamboangafreeport.com>

APPENDIX C

79 PROVINCES IN THE PHILIPPINES:

Abra	Camiguin	La Union	Quirino
Agusan del Norte	Capiz	Leyte	Rizal
Agusan del Sur	Catanduanes	Maguindanao	Romblon
Aklan	Cavite	Marinduque	Samar
Albay	Cebu	Masbate	Sarangani
Antique	Compostela	Mindoro Occidental	Siquijor
Apayao	Davao del Norte	Mindoro Oriental	Sorsogon
Aurora	Davao del Sur	Misamis Occidental	South Cotabato
Basilan	Davao Oriental	Misamis Oriental	Southern Leyte
Bataan	Eastern Samar	Mountain Province	Sultan Kudarat
Batanes	Guimaras	Negros Occidental	Sulu
Batangas	Ifugao	Negros Oriental	Surigao del Norte
Biliran	Ilocos Norte	North Cotabato	Surigao del Sur
Benguet	Ilocos Sur	Northern Samar	Tarlac
Bohol	Iloilo	Nueva Ecija	Tawi-Tawi
Bukidnon	Isabela	Nueva Vizcaya	Zambales
Bulacan	Kalinga	Palawan	Zamboanga del Norte
Cagayan	Laguna	Pampanga	Zamboanga del Sur
Camarines Norte	Lanao del Norte	Pangasinan	Zamboanga Sibugay
Camarines Sur	Lanao del Sur	Quezon	

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