

# GO GLOBAL

## SUPPORTING EXPORT SUCCESS



# PHILIPPINES



## Market Access Plan 2015-2017

CAPITAL:	POPULATION:	TOTAL AREA:	CURRENCY:
Manila	97.484 million	300,439 km <sup>2</sup>	PESO



### WHY THE PHILIPPINES MATTERS

The Philippines is:

- a priority emerging market under Canada's Global Markets Action Plan;
- experiencing strong economic growth—6.1 percent in 2014, moderating from 2013's GDP level (7.2 percent growth);
- an attractive market for Canadian exporters as one of the most dynamic and fastest-growing countries in the region, with a population of approximately 100 million people; and
- a gateway for Canadian businesses in Southeast Asia and through ASEAN.

Canada has a good reputation in the Philippines, and Canadian products and services are known to be of high quality.

In addition to it exceeding ASEAN's average growth rate in 2014, the Philippines core economic advantages include: a manageable inflation rate that is within the central bank's 3.5-5.5 percent target range and improving public finances.

President Benigno Aquino III is widely credited with setting the country on the right path toward reducing endemic corruption and improving governance. Public financial management and expenditure reforms, as well as additional tax measures and legislation (for example, consumption taxes on alcohol and tobacco), should increase much-needed revenue and help to expand the government's fiscal space and its ability to deliver quality services to the population.

The sustainability of the Aquino administration's economic and governance reforms will be an issue to watch in the lead-up to, and aftermath of, the next presidential election in 2016. Notably, government officials concede that the impressive top-line growth numbers have so far not translated into increases in employment or reductions in inequality.

Canada's bilateral relations with the Philippines are strong and friendly, marked by close cooperation in a variety of areas, including promotion of democratic development, good governance, rule of law, peace, and the promotion and protection of human rights. Canada works closely with the Philippines to build partnerships, to enhance training, to advance security sector reforms and to support the peace process in the south of the country. The two countries also collaborate within multilateral



forums, such as APEC, the WTO, the ASEAN Regional Forum, the Global Partnership against the Spread of Weapons and Materials of Mass Destruction, and the Open Government Partnership.

### Domestic Economic Environment

The Philippines' overall GDP growth in 2014 was 6.1 percent, driven by consumption and investment. High government spending in infrastructure projects, a resilient services sector and large remittances—an important component of the country's GDP—from the 9 million Filipinos working abroad have all helped to boost growth. For the Philippines, remittances are a key buffer against external shocks and a stable source of support for consumption and growth. According to the World Bank, total remittances to the Philippines grew by 8.5 percent in 2013, up to US\$26.7 billion, or 9.8 percent of GDP. However, the Central

### Key Figures – Philippines (2014)

GDP	\$314.7 billion
GDP per capita	\$3,165
GDP growth	6.1%
Inflation	4.2%
Unemployment	6.8
Canada's merchandise exports	\$569 million
Canada's merchandise imports	\$1.2 million
Canada's service exports	\$246 million (2013)
Canada's service imports	\$335 million (2013)
Foreign direct investment	confidential
Canadian direct investment in the Philippines	confidential
Potential long-term export growth	3.3%

Bank of the Philippines reports that remittances rose to US\$23 billion in 2013 and to US\$24.3 billion in 2014, representing 8.5 percent of GDP in both years. The Filipino authorities valued remittance flows from Filipinos in Canada back to the Philippines at nearly US\$651 million in 2014. As a result, the Philippines enjoys investment-grade ratings from all three major credit rating agencies: BBB (Standard and Poor's); BBB- (Fitch); and Baa3 (Moody's). Wealth is not shared equally within the population, and income disparities between the rich and the poor are among the most extreme in Asia.

## CANADIAN COMMERCIAL INTERESTS IN THE PHILIPPINES

### Overview

In 2014, Canada-Philippines bilateral merchandise trade was valued at \$1.8 billion, up 3.9 percent from 2013. Canadian merchandise exports to the Philippines were valued at \$569.5 million (down 5.5 percent). Major exports include: ores, wood and articles of wood, meat, and fertilizers. Canadian merchandise imports from the Philippines were valued at about \$1.2 billion (up 9.0 percent) and were led by: machinery, including electric; rubber; scientific and precision instruments; articles of iron and steel; and apparel.

Canada's commercial activity in the Philippines includes a long-standing presence in the insurance sector and a limited presence in the extractive industry, while new business activity is occurring in the environmental services sector.

There is growing business potential in the Philippines, particularly in the areas of agri-food, defence and security, information and communications technologies, infrastructure, and education.

### Key Elements for Exporters to Consider

The Philippines enjoys strong economic, democratic and demographic fundamentals; however, putting the right business climate and governance framework in place to fully take advantage of these factors and to ensure opportunities for the broad population continues to be a challenge.

The Philippines' market offers advantages in the form of manageable inflation, improving public finances, and a strong demographic dividend in a region of high growth. Partnership with a local business is recommended, as entering the Philippines' market presents some challenges to foreign companies. This is due in part to a limited number of family-owned conglomerates that dominate key sectors and, in some cases, create high barriers to entry.

The Philippines has recently made advancements in international governance-related indices. In 2014, the Philippines ranked 85th, along with Sri Lanka, Thailand, Trinidad and Tobago, and Zambia, out of 175 jurisdictions in Transparency International's Corruption Perceptions Index.

The Philippines is a member of the Association of Southeast Asian Nations (ASEAN), which has agreed to an ASEAN Free Trade Agreement (AFTA). The Philippines has several FTAs under the ASEAN umbrella, including: the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA), the ASEAN-China Free

Trade Agreement (ACFTA), the ASEAN-India Free Trade Agreement (AIFTA), the ASEAN-Japan Economic Partnership Agreement (AJCEPA), and the ASEAN-Korea Free Trade Agreement (AKFTA). The country's only FTA agreement that is not under the ASEAN umbrella is the Japan-Philippines Economic Partnership Agreement.

## Sector-specific Opportunities and Challenges

**Agriculture and processed foods:** The Philippines' economy, fuelled primarily by remittances, is consumption-oriented, with a significant proportion of domestic demand spent on consumable goods. Strong demand for meat, wheat and processed foods (final products and intermediary inputs) will continue alongside a growing middle class with higher disposable incomes. Opportunities also exist in the feed industry, since it relies heavily on the import of feed ingredients.

Large to medium-sized enterprises typically work with smaller operators and backyard farmers to grow livestock and manage hatcheries. Feed mills often package their feeds with technical assistance and institute a buy-back program for farmers.

The flour-milling industry is well established. One of the country's two flour-milling associations—the Philippine Association of Flour Millers (PAFMIL)—continues to advocate for lower trade barriers. Most of the wheat is supplied by the United States, Canada or Australia. Unlike the practices of its Asian neighbours, 50 to 60 percent of all flour produced in the Philippines is used in bread production, while the rest is used for noodles, cakes and pastries. Within bread production, the biggest end-users are corner bakeries.

Other agricultural sub-sectors, including apiary, small ruminant livestock and cattle dairy production, are currently being developed. The Philippine Department of Agriculture has provided some funding for developing these sectors.

Since the country's cattle for meat production is not as developed, there is an opportunity for Canadian beef, particularly with a favourable duty of 12 percent on beef imports. In 2014, Canadian pork exports to the Philippines were valued at \$48 million, representing Canada's ninth-largest pork export market. Local meat producers, most notably poultry and pork producers, have recently put pressure on the government to impose trade barriers related to meat handling and storage. Authorities are currently considering a proposal to bar the entry of imported meat products with a shelf life of less than 6 months. There is also an order to ban the sale of imported meat at ambient temperature in wet markets.

**Aerospace, defence and security:** Both civilian and military aerospace represent opportunities for Canadian suppliers, and the broader defence sector has additional potential. The Philippines is the only Southeast Asian country with direct air connections to Canada. Air transportation is increasingly important to connecting this archipelagic nation and incoming tourism continues to grow at a healthy rate. Increasing private-sector competition is expected to fuel demand for aerospace equipment and services.

On the defence side, legislation enacted in 2012 provided the equivalent of C\$1.9 billion in capital upgrades for the Armed Forces of the Philippines' (AFP's) Modernization Programme. A number of Canadian companies are pursuing opportunities under the programme, supported by a memorandum of understanding (MOU) between the Canadian Commercial Corporation (CCC) and the Philippine Department of National Defense (DND) on government-to-government transactions for defence and military-related equipment, materials, systems and/or services, signed in 2012. This MOU permits the Philippines to acquire Canadian defence-and-security-related equipment, systems and services on a direct, sole-source basis via the CCC. This already resulted in the first government-to-government (G2G) transaction between Canada and the Philippines in March 2014, with the supply of eight Bell 412EP helicopters valued at C\$120 million. There may be additional opportunities for Canadian industry with all branches of the Philippine armed forces. There will be a focus on identifying specific supply opportunities in the security sector for niche technologies, such as maritime surveillance and the Integrated Ballistics Identification System. Pursuing these opportunities, however, presents several challenges, including: complicated procurement procedures, continuously changing bidding and project-related schedules, and onerous procedures when introducing new products or goods.

**Education:** The number of Filipino students studying abroad has increased sharply in recent years, fuelled by the country's rapidly growing economy, strong outbound migration, young population and strengthening field of education agents. The number of students will increase in 2016 due to the country's transition from a K-10 to a K-12 basic education system, which will correlate better with Canada's educational system. There has been a gradual transition to the K-12 system, and some private institutions have already been granted approval by the Department of Education to implement their proposed version of the national K-12 curriculum. According to the Department of Education, there are close to 8,000 basic education institutions that teach 20.7 million K-12 students.

As a regional ESL hub, the Philippines has approximately 40,000 international students who could potentially be interested in post-secondary education in an English-speaking country. Canada has become an attractive option to Filipinos, as the United Kingdom and the U.S. are more stringent in their visa regulations. Canada is also a highly attractive destination, as it offers a variety of pathways to permanent residency. The programs that are most in demand are business and management, health sciences, social sciences, and the arts. Student flows to Canada from the Philippines have doubled over the past two years.

There are also opportunities to establish academic partnerships with Filipino tertiary institutions, in line with the internationalization agenda of the Philippines Commission on Higher Education (CHED). The objective of this commission is to improve the standards and quality of education in the Philippines by providing international experience for students, faculty development, improved facilities and increased access to research opportunities. CHED and the Canadian Bureau for International Education (CBIE) recently signed an agreement to collaborate on international education.



**Information and communications technology (ICT):**

Consolidation in the telecommunications sector, combined with continued growth in mobile telephony demand, is driving investment by telecommunication service providers, which presents direct and indirect supply opportunities. A significant number of Canadian ICT firms are actively pursuing potential opportunities offered by the country's top two telecommunication companies, PLDT and Globe. Some firms have already landed contracts and are working on expanding existing footprints. Emerging demand for mobile advertising and payments, e commerce solutions, enterprise apps, customer experience and engagement, and network virtualization has been observed in the Philippines.

The biggest challenge for Canadian firms is the lack of local representation and long-term presence relative to several international competitors. Such a presence is often a key consideration for local telecommunication companies when they are deciding on a vendor.

There is an emerging opportunity for meeting the demand from big telecommunication companies for big data analytics and enhancements to the customer experience.

**Infrastructure:** The sub-sectors with the greatest opportunities within the infrastructure sector are airports, seaports, green buildings and other transportation—often through public-private partnerships (PPPs). These areas represent a predictable revenue stream.

Prospects remain strong for Canadian companies in the sector, as an infrastructure boom, buoyed by PPP opportunities, is expected to continue until 2016. Power, water and wastewater, and transportation are the most important sub-sectors. Furthermore, PPP opportunities are present and will speed up economic growth by engaging the private sector in infrastructure development. Technical assistance for these PPP projects comes from respected international financial institutions (IFIs), such as the Asian Development Bank and World Bank, as well as from private corporations (i.e. local conglomerates) and venture/development capital from all over the world. The Philippine PPP Center uses Canadian consultancy services. The Center is also seeking equity positions in proposed new PPPs from pension funds and other institutional investors in Canada, the U.S. and Europe.

The PPP environment in the Philippines has been ranked among the best in Asia and renewed interest in Philippine government-initiated projects is an opportunity for Canadian companies.

**Mining:** The Philippines is ranked by the Fraser Institute as one of the top 10 most attractive countries for mineral development, based on geological potential; at the same time, it is also the third-worst mining jurisdiction in the world in terms of mining investment attractiveness. The Philippines has \$1.4 trillion in mining reserves, covering 9 million hectares, of which only 932,000 hectares are covered by exploration licences. Its mining industry struggled throughout the 1990s but began a resurgence following a Philippine Supreme Court decision in 2004 allowing the entry of foreign mining companies. However, inconsistent policy action, recent moratoria on approvals for new production, the designation of “no-go” zones and the proposal to legislate a tougher fiscal regime have left the future expansion of the industry highly uncertain.

Canadian firms currently operate three mines in the Philippines. However, with the eventual establishment of a new Bangsamoro government in the southern Philippines, following the recent peace accord with Muslim guerilla forces in that region, new opportunities can be expected. The Bangsamoro will have a high degree of autonomy from the central government and the region will also benefit from an innovative revenue-sharing proposal, whereby 70 percent of all mining revenues will revert to the Bangsamoro, with the balance returning to the national government. This could make mining a new core economic activity in this geologically rich region.

The Government of the Philippines is in the process of revising its mining legislation to introduce a new fiscal regime for mining projects, furthering the Philippines’ reputation as one of the least-attractive locations for mining investments. The Mining Industry Coordinating Council (MICC), an inter-agency forum created under President Aquino’s Executive Order 79, is proposing a modified revenue-sharing scheme that would ensure higher government taxes be taken even during a period of revenue loss for a mining company. Payments would be based on a certain percentage of gross or a percentage of net income, whichever is higher. The government will also get a share of a company’s windfall income, in the event of high commodity prices. However, the MICC proposal will still need to be submitted and approved by Congress.

**Sustainable technologies:** The Philippines suffers from chronic energy shortages, which have been exacerbated by the recent high level of economic growth. Small and mini-hydro, solar, and wind present the best opportunities for Canadian capabilities in the market. High power costs contribute to the business case for hydropower. Water and waste water (including water services, engineering and consulting, wastewater treatment, recycling, and reuse) is also a sub-sector of great opportunity that has been identified in the market.



The Philippines’ 2008 Renewable Energy Act sought to accelerate the development of renewable energy resources, including biomass, solar, wind, hydro, geothermal and ocean energy sources. The act provides for renewable portfolio standards, feed-in-tariffs, and priority dispatch and tax incentives. With energy costs among the highest in Asia, opportunities in clean technologies, particularly energy efficiency, off-grid systems, renewables and waste-to-energy, continue to grow. The creation of special economic zones, primarily through the Philippine Economic Zone Authority (PEZA), has increased the number of foreign-controlled export producers and ICT service exporters in selected areas. A number of Canadian investments are already present, but there is potential for expansion in this sector.

Sustainable technology firms need to deal with national or local governments. They face long processing times to secure the required documentation and approvals, and, at times, undefined governing regulations and laws.

### Trade Agreements

**Exploratory Discussions toward a Canada-Philippines Free Trade Agreement:** Prime Minister Harper and President Aquino III launched exploratory discussions on a Canada-Philippines free trade agreement on May 8, 2015, during the President’s historic visit to Canada. A Canada-Philippines FTA would strengthen our bilateral ties, improve market access for Canadian world-class goods and services to one of the most dynamic and growing marketplaces, eliminate tariff and non-tariff barriers, and boost economic growth for both Canada and the Philippines.

**Canada-Philippines Foreign Investment Promotion and Protection Agreement (FIPA):** A Canada-Philippines FIPA entered into force in 1996. Prime Minister Harper and President Aquino III announced the launch of discussions toward the modernization of the existing FIPA on May 8, 2015, during the President’s historic visit to Canada. A FIPA is a bilateral agreement aimed at protecting and promoting foreign investment through the legally binding rights and obligations of the signatories and their investors.

**Canada-Philippines Air Transport Agreement (ATA):** The negotiations for improvements to the 2008 Canada-Philippines Air Transport Agreement successfully concluded in May 2014. ATAs facilitate passenger and all-cargo traffic, with benefits for trade, investment, tourism and people-to-people links.

**WTO Information Technology Agreement:** The Philippines signed on to the WTO Information Technology Agreement (ITA) in 1997.

**Canada-Philippines Double Taxation Convention:** Canada and the Philippines have had a Double Taxation Convention since 1976. The main purpose of tax treaties is to help tax authorities to combat international tax evasion by assisting in the effective exchange of tax information. By reducing tax barriers, tax treaties support and encourage international trade and investment.

**The Nuclear Cooperation Agreement (NCA):** The NCA between Canada and the Philippines entered into force on April 14, 1983. It provides international treaty-level assurances that nuclear material, equipment and technology originating in Canada will be used only for civilian and peaceful applications. The NCA gives members of Canada's nuclear industry access to the Philippine market and could facilitate the exploration of joint commercial ventures, and research and development.

## DEVELOPMENT PERSPECTIVES IN THE PHILIPPINES

Since 1986, Canada has provided more than \$800 million in official development assistance to the Philippines, primarily in support of decentralization and local governance, and the strengthening of the Philippine private sector. Canada provided \$21 million in official development assistance via all channels in 2011-2012 and \$20.73 million in 2012-2013. In 2014, the Philippines was named a country of focus for the Government of Canada's international development efforts. Canada's international development program supports the

Philippine Development Plan 2011-2016, which is aimed at achieving sustainable economic growth by improving the investment climate and advancing economic opportunities for low-income individuals. Canada has also been at the forefront of helping the people of the Philippines in the aftermath of natural disasters, such as typhoons, by providing significant humanitarian assistance. For example, in response to Typhoon Haiyan (locally known as Yolanda), which struck the Philippines on November 13, 2013, the Government of Canada established the Typhoon Haiyan Relief Fund, which matched \$85 million in donations from Canadians, and committed over \$90 million in funding to respond to the storm's impact.

Current development programming aims to improve the business enabling environment by addressing key challenges that limit investment and competitiveness. Initiatives include support to the PPP Center, which has increased its pipeline of PPP infrastructure projects from 11 projects in 2010 to 57 projects in 2014. Canada's development program also assists the Philippine government in the streamlining and automation of business registration procedures.

In the agribusiness sector, Canada's development program works with the Government of the Philippines and the private sector to improve investments, productivity and competitiveness by addressing key barriers in the sector (infrastructure, reviewing legislation and regulations related to domestic shipping and finance). Working with the Philippine Commission on Women and the Department of Trade and Industry, Canada has supported growing women-led micro-enterprises by improving their competitiveness and their access to markets.

In the mining sector, Canada assisted the Government of the Philippines in producing two studies that will inform the first Philippine Extractive Industries Transparency Initiative (EITI) report, the legal framework study and the scoping study on local revenue streams.

## Selection of Upcoming Trade Initiatives

EDUCATION	<ul style="list-style-type: none"> <li>✓ Education fair, October 2015, Manila, Cebu and Davao</li> <li>✓ Study in Canada information seminars, September/October 2015 (TBC), Manila and Cebu</li> <li>✓ Study in Canada fair 2016, January 22 to 24, 2016, Manila and Cebu</li> </ul>
MINING	<ul style="list-style-type: none"> <li>✓ Mining Philippines Conference/Exhibition, September 2015, Manila</li> <li>✓ Phil Mine Safety and Environment Conference, November 2015, Baguio City</li> </ul>
DEFENCE AND SECURITY	<ul style="list-style-type: none"> <li>✓ Trade Mission to Canada/CANSEC, by officers from the Armed Forces of the Philippines (AFP) and the Department of National Defence (DND), May 2015</li> </ul>
AGRICULTURE AND PROCESSED FOOD	<ul style="list-style-type: none"> <li>✓ International Food Expo (IFEX), May 2015, Manila</li> </ul>
INFRASTRUCTURE	<ul style="list-style-type: none"> <li>✓ Canadian Council on Public-Private Partnerships Conference, Toronto, Canada, 2015</li> </ul>
SUSTAINABLE TECHNOLOGIES	<ul style="list-style-type: none"> <li>✓ Globe Buyer Mission, March 2 to 4, 2016, Vancouver, BC</li> <li>✓ Asia Clean Energy Forum, June 2015, Manila</li> </ul>
ICT	<ul style="list-style-type: none"> <li>✓ Ontario ICT mission to the Philippines, May 2015, Manila</li> </ul>

## SUPPORT SERVICES

**Trade Commissioner Service in the Philippines:** The Trade Commissioner Service offers foreign market intelligence, introductions in key networks, cost- and risk-reduction advice, business problem troubleshooting, and on-the-ground support. For more information, please visit: <http://www.tradecommissioner.gc.ca/eng/office.jsp?oid=77&cid=536>.

**The Embassy of Canada to the Philippines:** Canadian government offices abroad provide a variety of services, including consular services. For more information, please visit: <http://www.canadainternational.gc.ca/philippines/index.aspx?lang=eng>.

**Export Development Canada (EDC):** With representatives co-located in Singapore, EDC services can include market knowledge, credit insurance, bank guarantees, foreign buyer financing, political risk insurance, foreign investments and foreign affiliate support. For more information, please visit: [www.edc.ca](http://www.edc.ca).

**Canadian Commercial Corporation (CCC):** CCC provides assistance with government-to government contracting. For more information, please visit: [www.ccc.ca](http://www.ccc.ca)

**Department of National Defence (DND):** DND has a Canadian Defence Attaché based in Jakarta.

**Agriculture and Agri-food Canada (AAFC):** AAFC has representatives co-located with the mission in Singapore.

### Business associations

**Canadian Chamber of Commerce of the Philippines (CanCham):** CanCham's mission statement is to represent, support and promote Canada-Philippines business interests. Membership is open to Canadian, Philippine and other third-country corporations and individuals that have Canada-Philippines business interests. Membership includes large multinational corporations, small and medium business enterprises, and persons involved in a whole range of business activities, including international trade, investment and labour mobility. CanCham can provide support to members in relation to their Canada-Philippines business interests. For more information, please visit: <http://cancham.com.ph/>.

**Canada-ASEAN Business Council (CABC):** The CABC is a private sector-led council, with the overarching objective of supporting bilateral trade with the Association of Southeast Asian Nations (ASEAN). Membership to the CABC offers access to educational resources, advocacy support and the opportunity to participate in networking events throughout Southeast Asia. For more information, please visit: <http://www.canasean.com/>.