

# POSITIVE ON THE PHILIPPINES

## Why should Singapore firms set up operations here?

Within South-east Asia, it is very timely to look at the Philippines now or revisit this market as it has shown strong economic fundamentals and improved governance. The Philippine economy is performing well under the leadership and governance of the current administration. Driven by consumption and investment, the country's gross domestic product (GDP) grew at a stable 6-7 per cent in the past few years. The Philippines also received its first investment grade rating by all three major credit agencies – Standard & Poor's Ratings Services (S&P), Fitch Ratings and Moody's – in 2013. The investment environment is clearly conducive for business. The World Bank described the Philippines as the next "Asian miracle", and HSBC estimates that it will be the 16th largest economy in the world by 2050. Inflation has also been relatively low, kept within 3-5 per cent in 2014.

Political stability is also a critical element when it comes to business. The current administration is well received. Since coming to power, it has doggedly pursued an anti-corruption programme under the Philippine Development Plan 2011-2016. This move has improved the country's image with investors, after years of being perceived as the "sick man of Asia".

More importantly, the administration has put in place several reforms that are advantageous for business. For example, since 2011, the aviation sector has been liberalised, with the easing of restrictions on foreign airlines in selected international airports outside Metro Manila. This helps to strike a balance between protectionism and tourism promotion. The Enhanced Basic Education Act of 2013 has also placed the country's basic education curriculum on a par with international standards.

## What sort of investments is the country hoping to attract, and are there any laws in place that are friendly to such investments?

We see a nice fit for Singapore companies to partner the Philippine companies and government in the infrastructure and consumer sectors. These are relevant for companies of all sizes, including small and medium-sized enterprises (SMEs). The two areas are in line with the current focus of President Benigno Aquino's administration, which is looking to improve the business and social environment for its population.

The Philippine government plans to plug the public infrastructure gap by increasing spending from 2.8 per cent to 5 per cent by 2016. Currently, there is a pipeline of over 50 public-private-partnership (PPP) projects worth about US\$21 billion. To make PPP projects even more appealing to investors, the government introduced a PPP Programme in 2010, covering sectors such as transport, utilities, health care and education. Singapore companies with experience in infrastructure can take advantage of this PPP Programme to participate in such projects.

IE Singapore engages the various government authorities closely, hence we are aware of such projects and leads. We have introduced local partners to potential Singapore companies interested in bidding for these projects. Singapore companies that have entered the infrastructure space include SMRT and MSI Global, who were awarded the Automatic Fare Collection System PPP project in 2014.

On the private front, we see robust growth in the residential, commercial and industrial developments. This is driven by a rising demand for housing from families of overseas Filipino workers and high net worth individuals, a booming business process outsourcing (BPO) sector, as well as a revitalisation of the manufacturing industry. The growing demand for utility

Strong economic fundamentals and improved governance are reasons to revisit the Philippines. GDP has grown at a stable 6-7 per cent in the past few years, and the country received its first investment grade rating by all three major credit agencies in 2013, says Liu Huimin, senior manager, Southeast Asia Group, International Enterprise (IE) Singapore



WELCOME  
IE Singapore encourages companies to join its Philippine-focused activities, including business missions and seminars

PHOTO: REUTERS

services (power and water) also means opportunities for Singapore utility companies.

The Philippines has a large consumer market with a population of nearly 100 million. The household consumption expenditure is one of the highest in Asean. In 2012, its household consumption expenditure (US\$186 billion) was ranked third in Asean, just behind Indonesia (US\$479 billion) and Thailand (US\$209 billion).

Furthermore, the market has a young and increasingly educated population with growing disposable income. The consumer purchasing power is further strengthened by foreign remittances (over US\$20 billion remittances are generated by 9.5 million Filipinos working outside the country every year), and a steady income from the BPO sector.

Given the population's propensity to spend, these are opportunities for Singapore companies across the F&B, and fashion/retail categories. This is coupled with the fact that many Filipinos are open to trying new concepts as they are now better travelled and exposed to the global markets. Some Singapore consumer companies that have successfully gone into the Philippine market include BreadTalk, Brotzeit and Charles & Keith.

## What is the process of setting up operations here, and what are the basic costs involved?

Costs differ given that foreign firms can enter the Philippine market through various modes. These include 100 per cent foreign-owned enterprises (for industries that are not included in the foreign investment negative list), joint venture agreements with a local partner or representative offices. A number of investment areas/activities require foreign firms to take up to 40-60 per cent of ownership, such as for food processing and ownership of commercial buildings. Companies can refer to the Foreign Investment Negative List for specific industries and foreign ownership restrictions.

Before commencing any activity, businesses operated through corporations or partnerships must register with the Securities and Exchange Commission, while businesses owned by individuals must register with the Department of Trade and Industry. Businesses must also register with a number of government agencies including the Bureau of Internal Revenues and the Local Government Unit (LGU) based on where business activities will be conducted.

Registering a business in the Philippines takes two to six months depending on the complexity of the industry and the LGU's permit approval. Investors can apply directly to the authorities or through a law or consulting firm. As documents required for registration come from various government agencies, we advise companies to work with a local legal adviser, who will also be able to share information on taxation. IE Singapore can introduce companies to such consultants based on their needs.

## What are the laws in place to protect foreign investments and the repatriation of profits?

To encourage foreign investments, Philippine laws expressly recognise various rights of foreign investors, including the rights to repatriate investments and remit earnings. There is no restriction in profit



PHOTO: AFP

## GROWING IN STRENGTH

Solar panels at the roof deck of a mall in Manila; the Philippines has a large consumer market with a population of nearly 100 million, giving opportunities for Singapore companies across the F&B and fashion/retail categories

repatriation, and capital and profits may be freely repatriated through the banking system. However, prior registration of the foreign investment with the central bank of the Philippines – Bangko Sentral ng Pilipinas – is required if the company is using foreign currency sourced from the local banking system.

The current administration is currently proposing the enactment of a new Public-Private Partnership (PPP) Act in place of the Build-Operate-Transfer (BOT) law to lure more investors to participate in PPP projects. This new Act proposed includes the institutionalisation of a contingent liability fund, to ease private sector concerns on perceived risks from big-ticket projects. The fund would be drawn upon should the government breach its obligations for PPP contracts with the private sector.

## What other regulations and laws do Singapore firms need to be mindful of, or are useful for foreign firms to know?

One hundred per cent foreign ownership is allowed, except in activities limited by the Foreign Investment Negative List. Land ownership is only allowed for Filipinos, whereas leases from government-owned and privately-owned properties are available for investors. Short-term leases last from five to 10 years while long-term leases can extend up to 75 years.

A corporation investing in the Philippines may enjoy tax breaks and incentives by registering with the Board of Investments (BOI), or the Philippine Economic Zone Authority (PEZA), for export-oriented industries.

## Are there any social and cultural norms that firms need to be aware of when doing business in the country?

Like many Asian countries, building lasting and trusting personal relationships is important to most Filipinos. They often expect to establish strong bonds prior to closing any deals or working on any partnership together. Hence, it is crucial to forge warm relationships, especially through face-to-face meetings and networking.

The Philippine economy is made up of two key groups of companies: the conglomerates, which have investment interests in several different business areas; as well as the local SMEs, which are the lifeblood of the country's economy. It is important to identify and cultivate the relevant contacts to do business in the market. As some of the family-run companies own various business units, their ownership structure may be complicated as these affiliated companies are run through proxies with oversight from family members.

There is also a strong sense of hierarchy within most Philippine business organisations. You may be required to meet with or negotiate business deals at different working levels before you can reach the final decision-maker.

Doing business in the Philippines is a highly

personalised affair and often requires a personal introduction by a mutual friend or business associate in order to carry out initial discussions.

## Any advice and tips you would like to give to companies that are looking to invest here?

Find a good local partner. In general, foreign participation in the Philippine real estate and consumer (subjected to a certain paid-up capital requirement) sectors are limited to a 40 per cent ownership. Hence, Singapore companies need to collaborate with a local partner to fulfil the 60-40 foreign ownership requirements.

To participate in government tender/PPP projects, Singapore companies could partner local conglomerates or industry leaders with a PPP track record.

For consumer ventures, Singapore companies can work with the local consumer giants and/or multi-brand operators. These could be mall developers and owners, and even retailers. Such operators have a vast network and some have forged long-term relationships with mall owners and can secure prime retail locations.

Leverage IE Singapore's market knowledge and network – IE Singapore has been working closely with the Philippine government agencies to share potential business opportunities with Singapore companies. To better facilitate Singapore companies' interests in-market, we opened our Manila Overseas Centre in January 2014. We meet regularly with the various government agencies and private sector companies to discuss possible partnerships. Being aware of their needs and what our companies can offer, we can match and introduce relevant partners.

For example, we previously provided Brotzeit with market information and mall contacts, to help them assess the market and reach. Following this, Brotzeit opened its first outlet in Manila in 2013 and has aggressive growth plans for the Philippines. A second outlet is due to open in Manila this year. It is now in talks with landlords to set up a third restaurant.

We also welcome and encourage companies to join us in our Philippine-focused activities, including business missions and seminars to learn more about the market and find business partners. Last year, we conducted over 20 such activities. These included consumer-focused delegations, mostly SMEs in the food and retail sectors, to Manila in the last two years to explore business expansion. Many of them join us in such industry-focused business missions as such trips allow them to really see the market landscape for themselves.

Through one of our missions, Singapore food company the Les Amis Group learnt about the consumer scene in the Philippines and was introduced to potential franchise partners. This eventually led to its first foray into the Philippines. Les Amis opened its Bistro du Vin restaurant in November 2014 and will be opening Peperoni Pizzeria by first half of 2015. ■