The Philippines - Pearl of the Orient: ASEAN's Emerging Hotspot

Philippine Country Brochure

AHK

Deutsch-Philippinische Industrie- und Handelskammer
German-Philippine Chamber of Commerce and Industry

#PartnerInThePhilippines

Supported by:

Federal Ministry for Economic Affairs and Energy

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Content

The Philippines. Dubbed as the Perlas ng Silanganan – or Pearl of the Orient – because of its rich natural resources, biodiversity, and strategic location in the heart of Southeast Asia and the Pacific. This emerging economic hotspot boasts a bullish market that can bounce back fast – even from a crisis like the pandemic. With a strong workforce and a myriad of opportunities, let us tell you why you should consider this affable archipelago as an attractive business destination.

AHK Philippinen | GPCCI Foreword

The Philippines is one of the most emerging markets in Southeast Asia. Despite the economic recession caused by the pandemic in 2020, the country gradually recovers with positive GDP growth projections of 5.4% for 2021 and 7% for 2022. The country's highly skilled and English-speaking workforce, abundant natural resources, booming service sector, growing middle class and strong domestic consumer market highlight its key competitive advantages. The archipelago is focusing on rapid industrialization and infrastructure development as vital economic drivers, offering attractive market potential and many business opportunities for German companies.

Our brochure "The Philippines - Pearl of the Orient: ASEAN's Emerging Hotspot" presents a selection of key economic indicators and insightful information on doing business in the Philippines. With user-friendly charts and texts, the publication aims to provide an overview of the Philippine business environment, ranging from demographics, economics, international trade, foreign investments, labor market, and industry trends.

Thanks to the country's membership in the ASEAN regional economic community, the participation in the RCEP Free Trade Agreement as well as the Generalised Scheme of Preferences (GSP+) with the European Union, the interest of foreign investors and traders in the Philippine market is steadily increasing. This evolving business framework complemented with ongoing policy reforms such as the Strategy Investment Priority Plan 2020-23, the Build, Build, Build Program, and the ratification of the CREATE Act, which introduces corporate tax reforms and rationalizes fiscal incentives, will help boost the country's competitiveness for its speedy recovery.

The German-Philippine Chamber of Commerce and Industry (GPCCI) is making a positive difference for the German-Philippine business community to strengthen economic ties between both countries. Since our foundation in 2008, GPCCI represents around 300 German and Philippine companies and administers a platform for exchange on current business topics and trends. GPCCI promotes bilateral trade by providing information, market access, business relations, networking, and a voice for your business concerns.

Our experienced GPCCI Team is looking forward to supporting you with your business endeavor!

Thank you, Danke, Salamat po!

Stefan Schmitz
President
AHK Philippinen | German-Philippine Chamber of Commerce and Industry

German Embassy in Manila
Foreword

Promising and dynamic economic growth rates, as well as a stable environment throughout the past years, have made the Philippines an interesting and increasingly important trade partner in the region - before taking a rest due to the pandemic in 2020. The next years will be - like everywhere around the globe - challenging with regard to successfully and sustainably overcoming the current COVID-pandemic and rebuilding the economy.

But challenges are opportunities to grow! - I am optimistic, that the strength and qualities of the young and well-educated Philippine population will allow this beautiful archipelagic state to recover smoothly and fast, and to build back better.

With the signing of the Regional Comprehensive Economic Partnership (RCEP), a promising new era of enhanced trade within the region has started, offering vast opportunities for Philippine products and services.

The recently adopted Indo-Pacific Policy Guidelines of the German government as well as ASEAN's decision to make the EU a strategic partner, provide a starting point for further exploring the potential for cooperation and exchange. With these new coordinates, Germany's relations to the Philippines, be it bilateral or in regional and multilateral contexts, will continue to flourish - not least because Germany is the biggest trade partner within the EU to the Philippines.

I am impressed by the work and vision of the German-Philippine Chamber of Commerce and Industry (GPCCI). During the current pandemic, GPCCI has adapted to the new conditions, where meetings, trips and counselling were limited to virtual formats, with an amazing speed, efficiency and professionalism. GPCCI has again been a critical actor when it comes to preserving and promoting bilateral trade relations. GPCCI showcases its core competences by setting up a Philippine-German business network and by helping German and Filipino businesses in strengthening their ties. Also, in the difficult times of the pandemic, GPCCI has proven its responsibility and competence in supporting companies by providing information and guidance.

Enjoy reading this report of GPCCI that reflects the economic relationship between our two countries and highlights important facts and figures.

Mabuhay and Herzliche Grüße!

Embassy
of the Federal Republic of Germany
Manila

H.E. Ambassador Anke Reiffenstuel
Ambassador
Embassy of the Federal Republic of Germany in Manila

Philippine Embassy in Berlin
Foreword

The Embassy of the Republic of the Philippines in Germany is honored to be part of this latest edition of the German-Philippine Chamber of Commerce and Industry (GPCCI) country brochure.

Amidst a global pandemic, 2020 was nevertheless a milestone year in Philippine-Germany economic relations. The inaugural meeting of the Philippines-Germany Joint Economic Commission (JEC) took place in the past year with significant results along with a roadmap for areas of both greater and potential engagement.

Building on the positive trajectory of Philippines-Germany trade relations, which grew at an average of 16% from 2017-2019 as well as the overall positive business outlook of the private sector on the two countries' economic ties, there is much to build on in a post-pandemic commercial environment.

The items discussed during the JEC all point to robust opportunities for greater engagement in traditional and proven industry sectors such as semi-conductors and electronics, manufacturing, power generation, energy, and construction. Likewise, emerging growth areas in the fields of innovation, in particular the start-up sector, property technology, healthcare and medical devices, bio-centered agribusiness in subsectors such as coconut products, and renewables have been the focus of various activities in 2020. There are likewise ongoing discussions on cooperation in aviation, aviation technology, automotive and alternative fuel vehicles, next-gen mobility, and transport technology, certainly areas which hold much promise.

In addition, the Philippines and Germany just renewed their cooperation agreement on Technical and Vocational Education (TVET), an essential area that will continue to provide critical human resource support for further economic engagement between our countries.

As we move with vision and purpose in 2021, this publication prepared by GPCCI will be an important resource for the journey ahead. Let us continue to recover together for the benefit of our people. Wir machen es tatsächlich zwischen den Philippinen and Deutschland möglich - we are indeed making it happen between the Philippines and Germany.

Mabuhay!

EMBASSY OF THE REPUBLIC OF THE PHILIPPINES
Botschaft der Republik der Philippinen
Berlin

H.E. Theresa Dizon-De Vega
Ambassador
Embassy of the Republic of the Philippines in Berlin

The Philippines Demographics

The Republic of the Philippines

Area	298.171 km^2
Capital	Manila
Population	109.58 million
Population Growth	1.45% annually
Population Density	362.6 per km^2
Median Age	24.1 years
Official Laguages	Filipino (Tagalog), English
Form of Government	Democratic Presidential Republic
Religion	79.5% Roman Catholic
Literacy Rate	91.6%
Level of Urbanization	47.4%
Currency	Philippine Peso 1 PHP = 100 centavos 1 EUR = 58.95 PHP (as of August 2021)

Situated in the heart of Southeast Asia and with over 7.000 islands, the Philippines has a young and large population of 109 million.

Comprising a blend of traditional Filipino and Spanish Catholic traditions, the archipelago's culture has influences from America and other parts of Asia.

Filipinos are casual, friendly, and hospitable people. They are fast learners with a high-level of English proficiency that enable them to compete in international markets.

Food and communal eating are culturally central aspects. This is reflected in the 36% of household spending on food and non-alcoholic beverages.

The fast-growing middle class along with the remittances from the Filipinos working abroad are considered the source of the nation's purchasing power.

Sources: PSA, UNDP, POPCOM, Britannica, CIA, Bloomberg, Knoema

Did you know?

01

No. 1 Worldwide in Social Media Usage.

Internet usage has expanded rapidly in the Philippines with 73 million users in 2020. On average, every Filipino spends nearly 10 hours a day on the internet, the most worldwide, and almost 4 hours a day on social media.

02

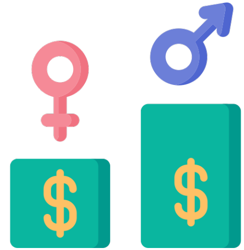
2nd Largest Consumer Market in ASEAN.

With a young population of over 109 million in 2020 and a rapidly growing middle class, the Philippines is the second largest consumer market in ASEAN after Indonesia.

03

High English Proficiency Level.

Regarded as one of the largest English-speaking countries, English is one of the Philippines' strengths that has helped driving the economy. The archipelago scored with a "High" English proficiency level in 2020, ranking second Asia-wide after Singapore.



04

Smallest Gender Gap in Asia.

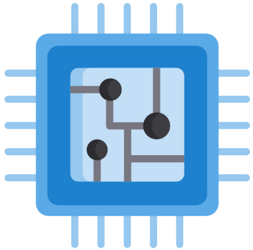
The Philippines remains the top country in Asia in terms of gender gap disparity. In 2020, the country ranked 16th out of 153 nations with the narrowest gap between men and women.

Sources: World Bank, EF, Tholons, BSP, PSA, World Economic Forum

05

Services: Engine for Economic Growth.

Services is the strongest industry contributing 61% of the Philippines' gross domestic product in 2020. The country has seen its rise as a top world destination for business process outsourcing services ranking No. 6 in the top 50 digital nations in 2020.



06

Export Hit in Electronics.

Electronic products remain the largest contributor to the country's total exports. In 2020, electronics shared 58.2% of the total Philippine exports amounting to 32.1 billion EUR.

07

Seafarers Nation.

The country has emerged as one of the biggest suppliers of seafarers on international merchants and provides around 1/3 of all staff in the world's cruise ships.

08

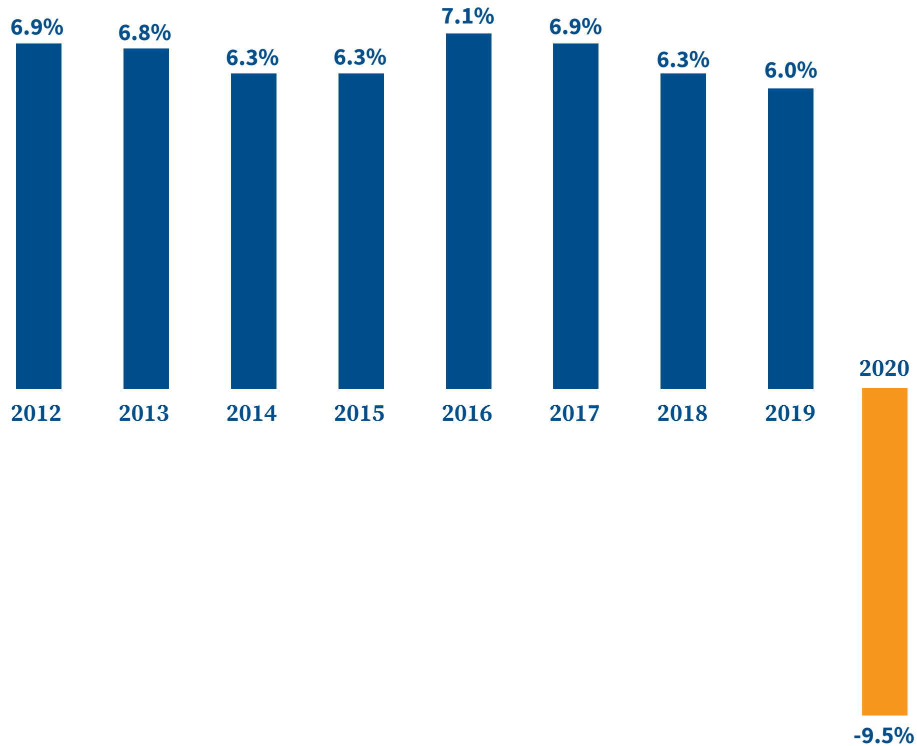
High Cash Inflow.

Remittances from the estimated 12 million Overseas Filipino Workers (OFWs) reached 28.2 billion EUR in 2020 accounting for 9.2% of the gross domestic product.

The Philippines
Economic Data

Steady Economic Growth with 6.6% Average From 2012-2019

GDP Growth 2012-2020



Before the pandemic, the Philippines' gross domestic product (GDP) had been steadily growing at over 6% during eight consecutive years from 2012 to 2019.

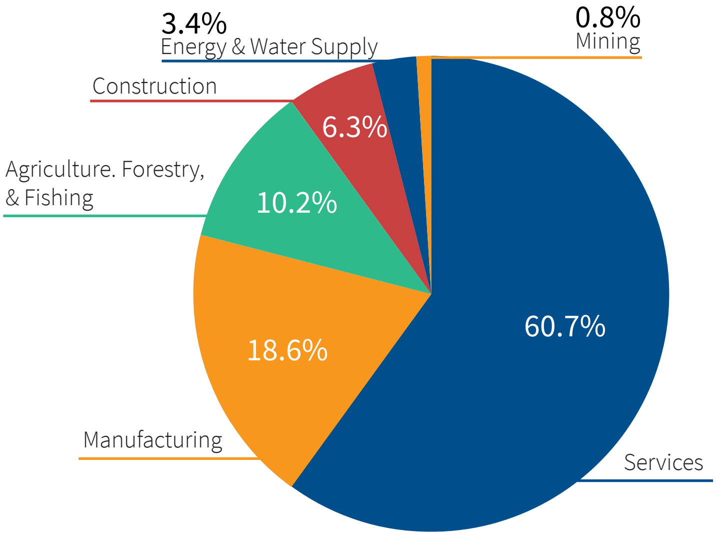
Economic growth was heavily impacted by the COVID-19 crisis, with a GDP falling by almost -10% during 2020.

With a GDP of 6% in 2019, the Philippines is above the average ASEAN economic performance of 4.8%.

Source: IMF

Services is the Strongest Industry Contributing 61% of the GDP

GDP Share 2020 by Sectors

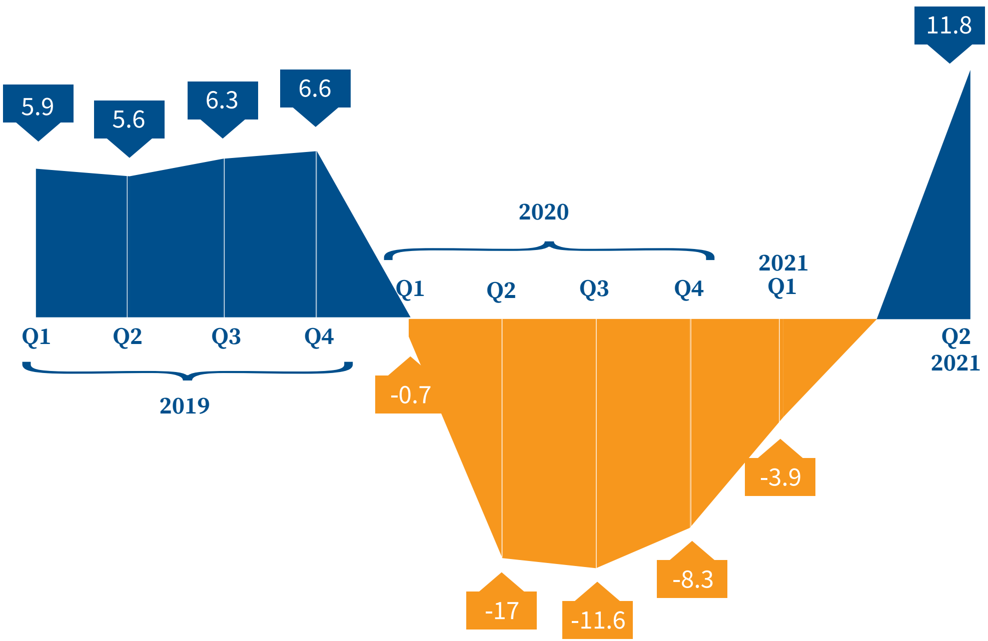


The main gross domestic product contributors for the Philippines in 2020 are the construction industry with 6.3% of the total share, the agriculture sector with 10.2%, manufacturing with 18.6%, and particularly the service sector, which contributes 60.7% of the total GDP.

Source: BSP

GDP 2020 Posted a Decline of -9.5% During the Great Lockdown

GDP Growth Q1 2019 - Q2 2021



The Philippines' GDP growth was heavily impacted by the COVID-19 pandemic, which took its toll on the economic situation as early as the first quarter of 2020. The country contracted -9.5% in 2020, the first decline since 1998.

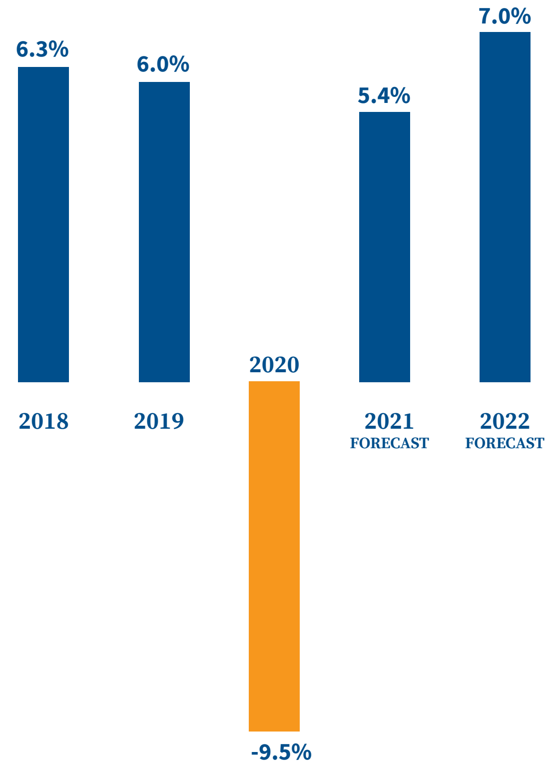
To mitigate the spread of the coronavirus, the government imposed a Community Quarantine in the country – one of the strictest lockdowns around the globe. This in effect, limited household consumption and private sector investment. Moreover, 75% of the economy shut down, resulting in many businesses losing income or closing.

However, prospects for a strong economic recovery in 2021 remain promising. Philippine economic growth accelerated in the second quarter of 2021 to 11.8%. Despite quarantine restrictions imposed in Q2 2021, all sectors bounced back as the economy learns how to live with the virus.

Source: PSA

Economy Rebounds in 2021 with Stronger Growth for 2022

GDP Growth 2018-2022



The Philippine economy is gradually recovering after the pandemic-induced economic downturn in 2020.

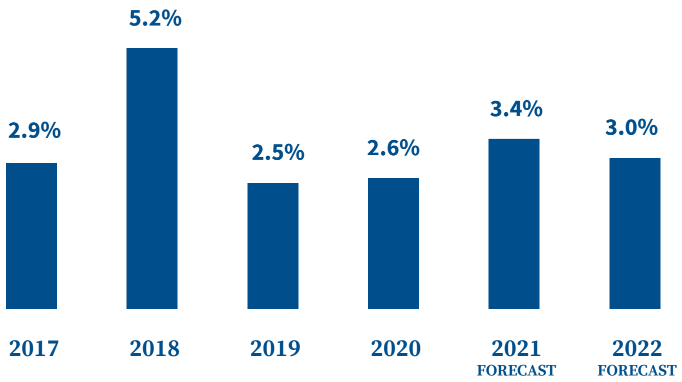
The GDP rebound is projected to grow by 5.4% in 2021 and 7% in 2022.

Public spending on social assistance and infrastructure, better progress in the country's coronavirus vaccination rollout, and a steady recovery in the global economy will underpin the growth of the Philippine economy in 2021 and 2022.

Source: IMF

Inflation Remains Within Target Range of 2 to 4%

Inflation Rate 2017-2022



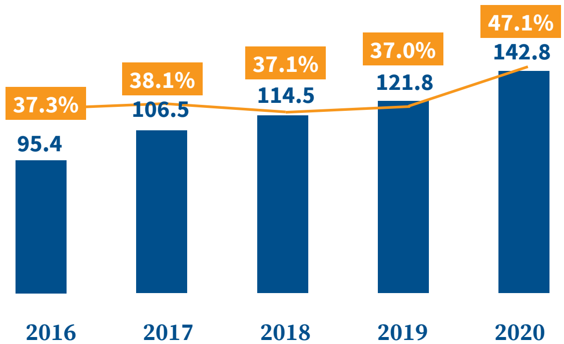
After the inflation hike in 2018, the Philippine Central Bank managed to keep the inflation back on its planning corridor of 2 to 4%. Despite the economic effects caused by the pandemic, the 2020 inflation rate reached 2.6%.

Due to rising global commodity prices and other supply-side factors, inflation in the Philippines is predicted to rise by 3.4% in 2021. By 2022, inflation is expected to ease to 3%, as the Philippine government takes measures to address supply-side pressures.

Source: IMF

Government Debt-to-GDP Ratio Rises to 47.1% in 2020

Government Debt-to-GDP Ratio 2016-2020 (in billion EUR)



The Philippines' government debt accounted for 47.1% of the country's GDP in 2020. In 2019, the debt-to-GDP ratio stood at a record low of 37%.

The deterioration in the Philippines' debt-to-GDP ratio in 2020 is the result of the economic contraction and the heighten in pandemic-related spending.

The country's debt-to-GDP ratio remains below the international acceptable threshold of 60% of GDP.

Source: IMF

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With its financial expertise and track record, BDO is your gateway to set up and expand your business in the Philippines.

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RANKINGS

Credit Ratings Remain Stable in 2021

DATE OF RANK	AGENCY	RATING	OUTLOOK
July 2021	Standard & Poor’s	BBB+	Stable
June 2021	Moody’s	Baa2	Stable
May 2021	Fitch	BBB	Negative
March 2021	Euler Hermes	B2	Medium Risk

The credit rating outlook for the Philippines remains stable in 2021 because of its improving domestic performance.

Moody’s gave the country a rating of BAA2, Standard and Poor’s a rating of BBB+, and Euler Hermes rated the Philippines with B2. The stable outlook of the credit ratings puts the archipelago in a good spot to generate funds for the recovery of the economy. This will alleviate the country’s COVID-19 response without worrying about incurring in massive debt in the future.

Source: Fitch, Moody’s, Euler Hermes, S&P

RANKINGS

Global Performance Rankings 2020

RANKING FOR THE PH	INDEX	YEAR OF RANK
1/17 (in East Asia & Pacific)	Digital Riser Report	2020
6/50 (Digital Nations) 4/100 (Super Cities)	Tholons Global Innovation Index	2020
16/153	Global Gender Gap Report	2020
27/100	EF English Proficiency Index	2020
64/141	The Global Competitiveness Report	2019
83/162	The Human Freedom Index	2020
95/190	Doing Business	2020
115/180	Corruption Perceptions Index	2020

The Philippines ranked first in the Digital Riser Report 2020 for the East Asia and Pacific region, noting the country's efforts towards the promotion and development of an innovative and entrepreneurial ecosystem. The outperformance can be explained by its ''Innovate Start-Up Act'' in 2019, and the introduction of start-up visas and public-private partnerships such as the "Start-up Venture Fund" in 2019.

The Philippines has also seen its rise as a top world destination for business process outsourcing (BPO) services. In 2020, the country ranked 6th in the top 50 digital nations, while Metro Manila ranked 4th in the top 100 super cities.

The Philippines also boasted the smallest gender gap in Asia as it placed 16th out of 153 countries in 2020.

Its excellence in the English language was also showcased in 2020, as the country ranked 27th out of 100 economies. Notably, the Philippines is the second-highest-ranking Asian country on the list after Singapore.

Source: ESCP Business School, Tholons, World Economic Forum, Education First,Cato Institute & Fraser Institute, World Bank Group, Trasnparency International

Economic Outlook of the Philippines

Hope for Recovery in 2021

The Philippines is one of the countries in Asia hardest hit by the Coronavirus crisis. However, hopes are on a gradual recovery for 2021.

The coronavirus has greatly impacted the Philippine economy. With a GDP falling by almost 10% during 2020, the country plunged into a deep recession due to the decline in international demand and the imposition of a stringent lockdown, which paralysed large parts of the economy.

With mobility restrictions still prevailing in the first half of 2021 due to the spread of new coronavirus variants, and vaccinations gradually progressing, recovery is expected to be slower than predicted. The initially very positive forecasts had to be downgraded again. For example, the Central Bank of the Philippines announced in April that the target corridor for real GDP growth in 2021 would be lowered from the original 6.5 to 7.5% to 6 to 7%.

Steady Recovery from 2022 Onward

After a sharp slump in 2020, growth would increase again in 2021 and pre-crisis GDP levels could be reached by 2022.

For the further future, forecasts already look better. Pre-crisis growth rate path of more than 8% is likely to be reached by 2022, and GDP projections for the years after are expected to range between 6 to 7%. With this, the strengths of the Philippine economy will come into play again: the young and growing population, the strong propensity towards consumption and the planned modernization of the infrastructure.

Hopes for a steady recovery in the upcoming years rest on the ratified CREATE Act, a tax reform passed in spring 2021 to increase corporate tax incentives, and the acceleration of the Build, Build, Build program to boost the economy and improve the infrastructure of the Philippines. In this way, investments during 2021 should be pushed-up to a positive double-digit supported by strong base effects.

GTAI GERMANY TRADE & INVEST

Mr. Alexander Hirschle
Director - Taiwan and the Philippines
Germany Trade and Invest GmbH

Growth Potential Despite Obstacles

The Philippines is heavily impacted by the coronavirus crisis. To return to its previous growth path, major infrastructure investments are necessary.

S STRENGTHS	• Relatively well-educated and English-speaking workforce • Young and growing population • Private consumption as economic growth engine • Strong service sector, particularly the Business Process Outsourcing (BPO) industry • Growing middle class	• Relatively weak manufacturing sector • High dependence on Overseas Filipino Workers (OFWs) remittances • Weak infrastructure and high transportation costs • Inefficient administration and bureaucracy • Outdated financial system • High energy costs in regional comparison	**W** WEAKNESSES
O OPPORTUNITIES	• Expansion of infrastructure (BBB program) • IT affinity of the population • Unmaximized tourism potential • Growing health expenditure and investment for improved health care and systems • Midterm perspective: increasing purchasing power and consumption hype	• Significant impact of the pandemic on the national economy (bankruptcies & unemployment) • Water and electricity shortages • Natural disasters (typhoons, earthquakes, volcanic eruptions) • Shortage of skilled workers • Dependence on imports for high-quality products	**T** THREATS

Source: GTAI

The Philippines International Trade

TOP TRADING PARTNERS

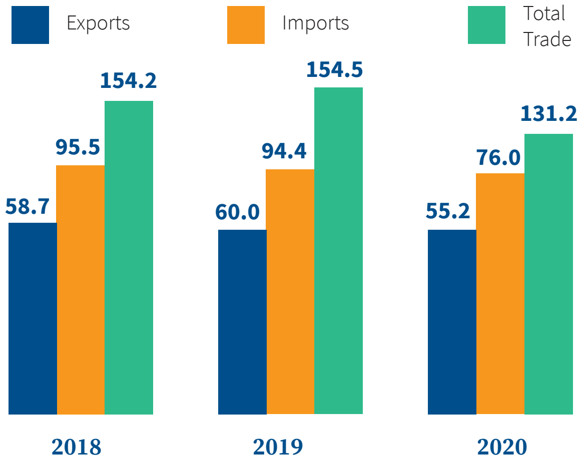
China is the Top Trading Partner for the Philippines in 2020

Rank 2020	Trading Country	Trade value (in billion Euros)	Share %
1	China	25.9	19.8%
2	Japan	15.8	12.0%
3	USA	14.3	10.9%
4	European Union	11.5	8.7%
5	Hong Kong	10.2	7.7%
6	South Korea	8.3	6.3%
7	Singapore	7.9	6.1%
8	Thailand	6.6	5.1%
9	Taiwan	5.8	4.4%
10	Indonesia	5.2	4.0%

The total amount of trade in goods for the Philippines in 2020 was 131.2 billion EUR. Even though overall 2020 trade declined by -17.7% in comparison to 2019 due to the economic effects caused by the pandemic, the Philippines still retained strong trade partnerships with other countries.

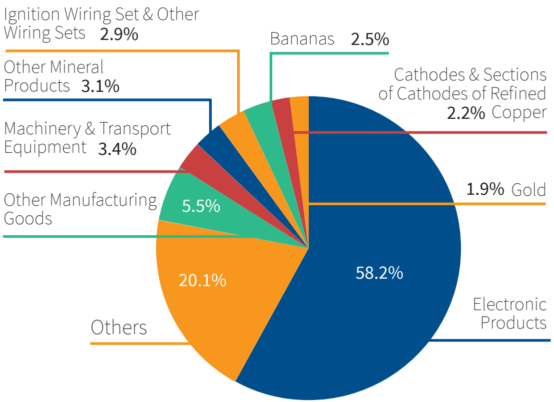
The top 5 trading partners in 2020 for the Philippines are China with 19.8% of the total world trade, Japan with 12%, the United States of America with 10.9%, the European Union with 8.7%, and Hong Kong with 7.7%.

Philippine Trade in Goods 2018-2020 (in billion EUR)

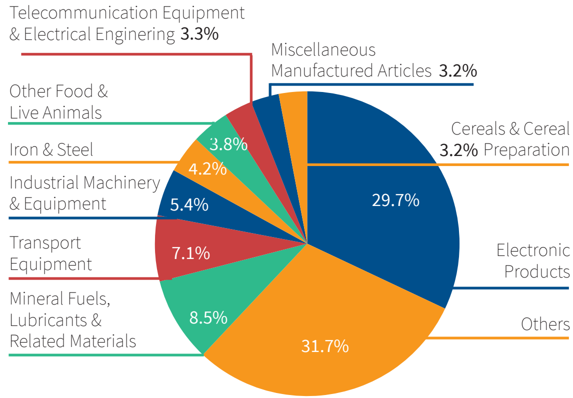


Electronics Leading the Country's Export Base

Exports by Commodity Groups 2020



Imports by Commodity Groups 2020



The Philippines imported 76 billion EUR and exported 55.2 billion EUR worth of goods around the globe in 2020.

Electronic products are the largest contributor to the total exports amounting to 32.1 billion EUR. The electronics industry encompasses a broad range of components and final products that feed into a number of different end markets.

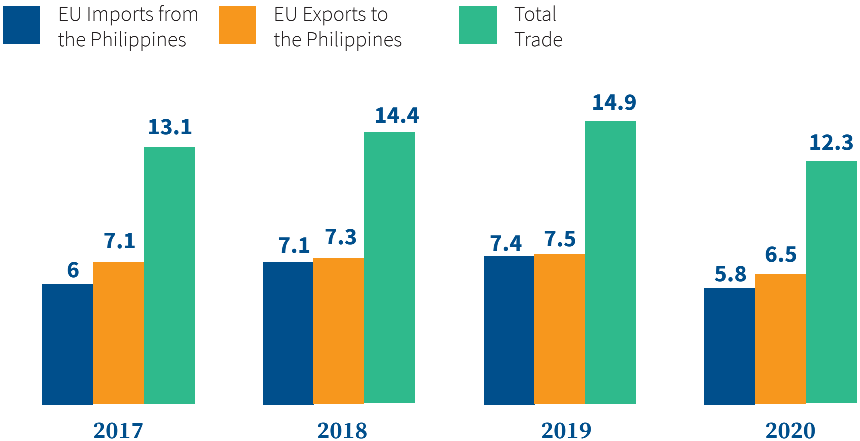
Top export categories in 2020 were: electronic products (58.2%), other manufactured goods (5.5%), and machinery and transport equipment (3.4%).

Top import categories in 2020 were: electronic products (29.7%), mineral fuels, lubricants and related materials (8.5%), and transport equipment (7.1%).

Source: PSA

The EU is the Philippines' 4th Largest Trading Partner in 2020

Philippine-EU Trade 2017-2020 (in billion EUR)



Although Philippine-European Union (EU) total trade decreased during 2020 as a result of the supply chain effects of the pandemic, total trade from 2017 to 2019 grew by 14%.

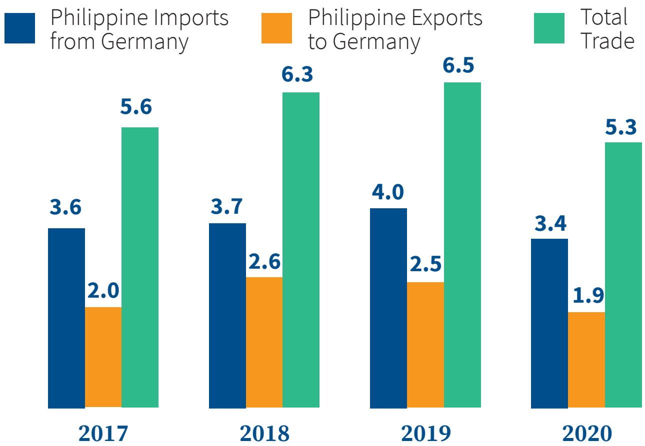
Total trade between both partners equaled 12.3 billion EUR in 2020. The Philippine exports to the EU amounted to 6.5 billion EUR, while the Philippine imports from the EU amounted to 5.8 billion EUR.

The EU is the Philippines' 4th largest trading partner, accounting for 8.7% of the country's total trade in 2020. The Philippines is the EU's 37th largest trading partner, accounting for 0.3% of the EU's total trade.

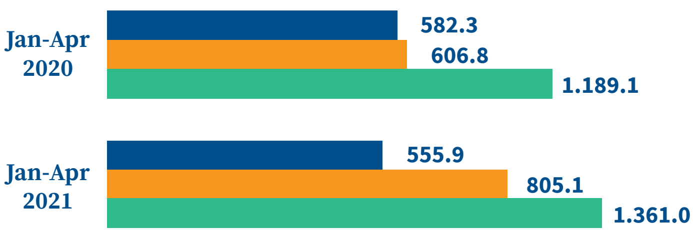
Source: EU Commission

Germany is Philippines's Top EU Trading Partner in 2020

Philippine-German Trade 2017-2020 (in billion EUR)



Philippine-German Trade Early 2020 vs. Early 2021 (in million EUR)



The trade between the Philippines and Germany has been rising since 2017, however, it plummeted in 2020 as a result of the global pandemic.

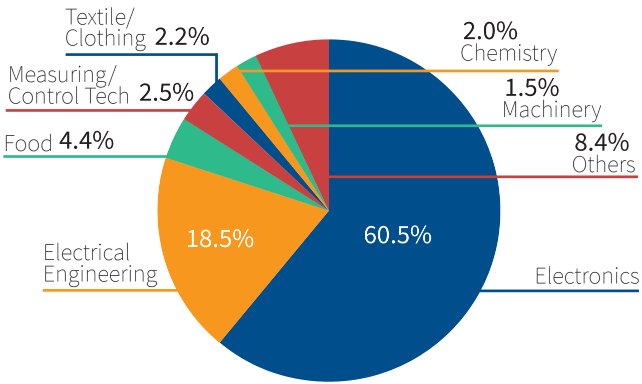
Philippine exports to Germany stabilized in early 2021, but imports from Germany decreased in this period due to the reduced demand for consumer goods.

As the economy recovers, early trade of 2021 with Germany has increased by 14.5% in comparison to the same period of 2020.

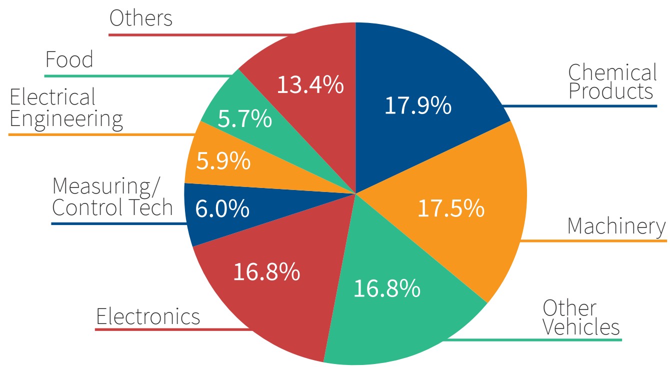
Source: GTAI, PSA

Electronics are the Philippines' Export Hit to Germany

Philippine Exports to Germany 2020



Philippine Imports to Germany 2020

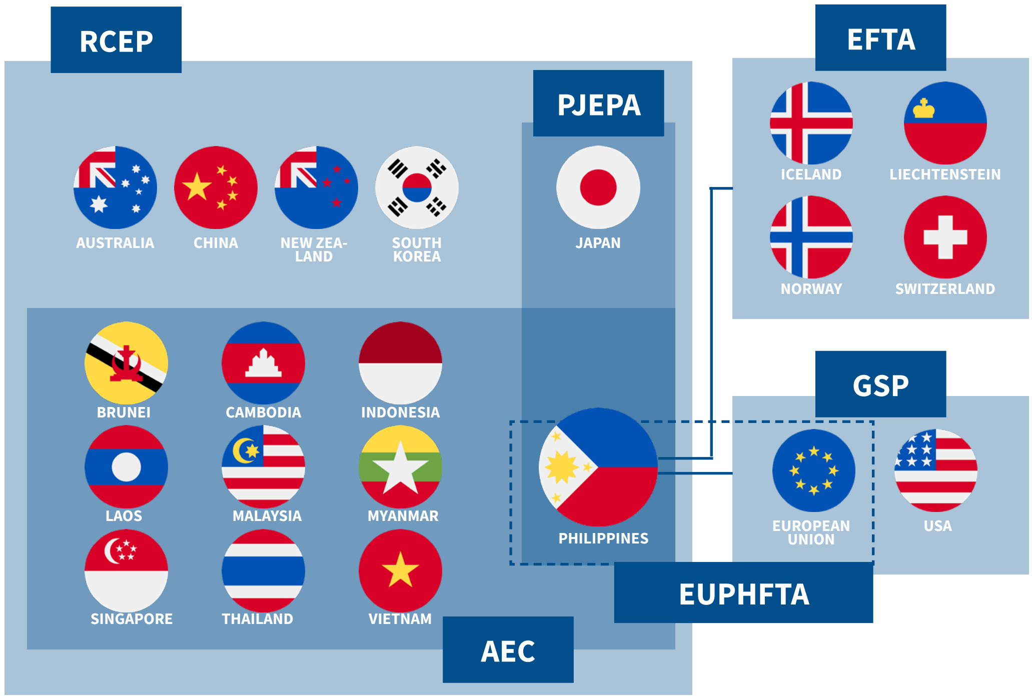


Trade between Germany and the Philippines mostly consists of goods in electronics, machinery and engineering industries.

Of the 1.9 billion EUR exported goods to Germany in 2020, 60.5% are electronics, 18.5% are electrical engineering products, and 4.4% are food products. Of the 3.4 billion EUR imported goods from Germany, chemical products comprise the most representing 17.9% of its total imports from Germany. This is followed by machinery at 17.5%, other vehicles at 16.8% and, electronics which account for 16.8% of the total imports.

Source: GTAI

Free Trade Agreements



ASEAN ECONOMIC COMMUNITY (AEC)

Launched in 2015, the ASEAN Economic Community aims to form a single market and production base. Free flow of goods, services, investment, capital and skilled labor are its core principles. While AEC is well advanced in the reduction of trade duties, the implementation of common standards will still take some time. The ASEAN Blueprint 2025 sets further targets towards establishing a shared market that will resemble the European Union: (a) A Highly Integrated and Cohesive Economy; (b) A Competitive, Innovative and Dynamic ASEAN; (c) Enhanced Connectivity and Sectoral Cooperation; (d) A Resilient, Inclusive and People-Oriented, People-Centered ASEAN; and (e) A Global ASEAN.

Through the ASEAN Trade in Goods Agreement (ATIGA) implemented since 2010, 100% of originating goods can now be traded customs-free within the ASEAN-6 (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand), the most developed economies of the association. However, special provisions still apply for Cambodia, Laos, Myanmar, and Vietnam.

ASEAN Free Trade Agreements:

ASEAN + Australia + New Zealand, ASEAN+ China, ASEAN+ India, ASEAN + Japan, ASEAN+ South Korea, ASEAN + Hong Kong

REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

The Regional Comprehensive Economic Partnership is a free trade agreement between the 10 member states of ASEAN and its major Asia-Pacific trading partners China, Japan, South Korea, Australia, and New Zealand. Negotiations were launched in 2012 and the agreement was signed in November 2020. RCEP will eliminate at least 92% of tariffs on all goods between the partner countries and will promote the Philippines as an investment and manufacturing hub in the region. RCEP is the world's largest free trade agreement and accounts for 30% of the world's population.

THE PHILIPPINE-JAPAN ECONOMIC PARTNERSHIP AGREEMENT (PJEPA)

The Philippine-Japan Economic Partnership Agreement was ratified and implemented in 2008. The agreement provides duty-free access to 80% of Philippine exports to Japan, that is, on more than 7.000 products.

THE EUROPEAN FREE TRADE ASSOCIATION (EFTA)

The European Free Trade Association, consisting of the non-EU countries Iceland, Norway, Switzerland, and Liechtenstein, signed a free trade agreement with the Philippines in 2016. EFTA has been fully implemented since 2018 covering free trade in goods, services, investment, sustainable development, and others.

EU - PHILIPPINE (EUPHFTA)

The EU and the Philippines have been negotiating a free trade agreement since 2015. Both sides wish to conclude a compromise that would include the elimination of customs duties and other barriers to trade, services, and investment, environmental protection, social development as well as protection of intellectual property rights, among others. Further negotiations are on hold.

GENERALIZED SCHEME OF PREFERENCES (GSP)

The Philippines is the only EU GSP+ beneficiary country among ASEAN since 2014, allowing it to import more than 6.000 products duty-free to the EU with 40% local content. In return, the beneficiary country must ratify and implement 27 core international conventions that cover human and labor rights, environmental protection, and good governance.

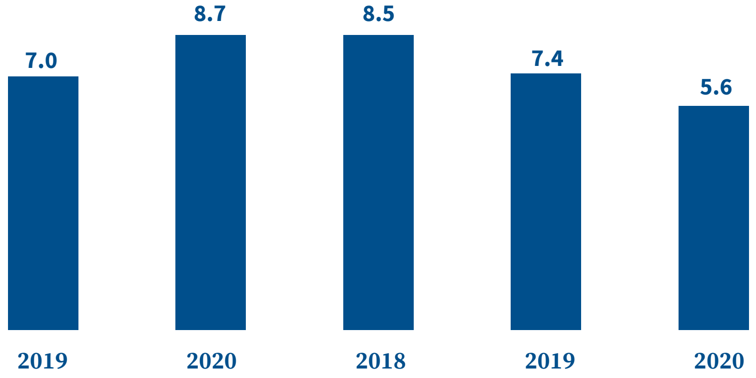
The United States of America listed the Philippines as a GSP-eligible beneficiary in 2015 allowing it to pay less or no duties on the exports to the USA. The Philippine exporters currently benefit from zero tariffs on 3.500 products lines.

The Philippines
Foreign Direct Investments

FDI INFLOWS

Lower FDI Commitments During Coronavirus Crisis

Philippine FDI Inflows 2020 (in billion EUR)



In 2020, the foreign direct investment (FDI) inflows in the Philippines registered a total of 5.6 billion EUR. The decrease from the previous year is largely attributed to the COVID-19 crisis, as countries and companies were required to reallocate budgets towards emergency relief operations.

The outlook for foreign investment in 2021 is positive, as the Philippine government continues prioritizing its infrastructure development program and tax reforms to boost business expansion and stimulate overall domestic activity.

Source: BSP

FDI INFLOWS

FDI Inflows Increased by 45% in Q1 2021 vs. Q1 2020

FDI Inflows Q1 2020 vs. Q1 2021 (in billion EUR)

With the recovery of the global economy, foreign investments have seen an upward trend. Philippine foreign investment inflows have increased by 45% to 2 billion EUR for the first quarter of 2021 versus the first quarter of 2020.

FDIs surged in 2021 as the Build, Build, Build Program is boosting the domestic economy through infrastructure development projects. Part of the growth can also be attributed to the conclusion of an uncertainty period, especially for foreign investors, with the enactment of the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Act) in March 2021 - a tax reform that rationalizes fiscal incentives. Other factors such as diversification of investments in ASEAN and supply chain locations outside China, outsourcing of services, the gradual reopening of the economy and, the vaccination rollout against the pandemic should help to stabilize FDIs over the coming years.

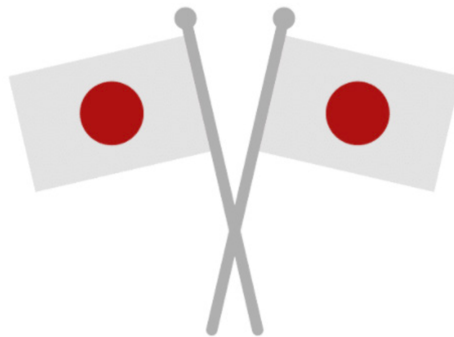
Source: BSP

FDI INFLOWS

Japan is the Philippines' Largest Foreign Investor in 2020

Rank 2020	Investing Country	FDI Inflows (in million EUR)	Share %
1	Japan	595	10.7%
2	European Union	236	4.2%
3	USA	138	2.5%
4	Singapore	61	1.1%
5	Taiwan	50	0.9%
6	China	44	0.8%
7	United Kingdom	36	0.6%
8	Hong Kong	24	0.4%
9	Malaysia	18	0.3%
10	South Korea	9	0.2%

Among FDI source countries, Japan contributed the most, comprising 10.7% of the total foreign investments through its commitment of 595 million EUR in 2020. The second economy contributing the most is the European Union, comprising 4.2% of the total FDIs in the country valued at 236 billion EUR, followed by the United States of America with 2.5% of the total FDIs valued at 138 billion EUR.



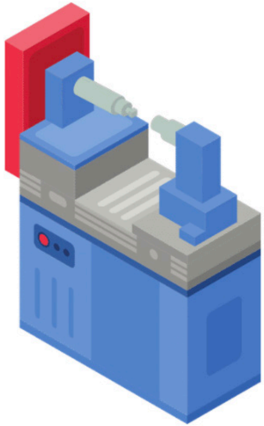
Source: BSP

Foreign Capital Infusions Targeted at Manufacturing and Infrastructure

Main Invested Sectors 2020	Share %
Manufacturing	33.5%
Transportation and Storage	33.4%
Admnistrative and Support Service Activities	15.9%
Real Estate Activities	9.6%
Electricity, Gas, Steam, and Air Conditioning Supply	2.1%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	2.0%
Accommodation and Food Service Activities	1.9%
Others	1.6%

In 2020, the manufacturing sector received the greatest share of approved foreign investments at 33.5%. This is followed closely by the transportation and storage sector, which received 33.4% of the total approved foreign investments, and the administrative and support service activities at 15.9%.

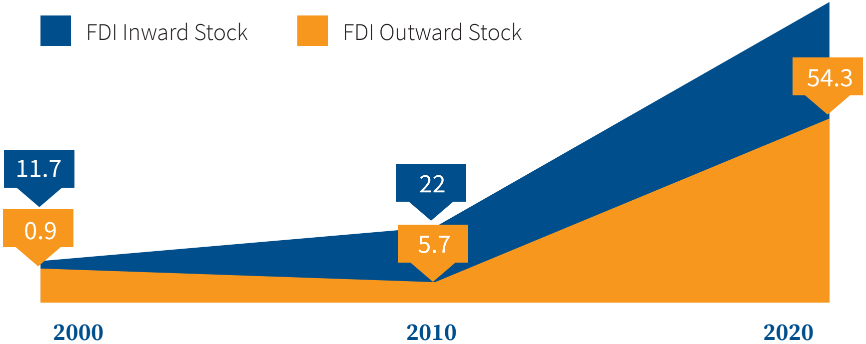
The increase in manufacturing and transportation investments is aligned with the Philippines' focus on rapid industrialization and infrastructure development to be vital economic drivers.



Source: PSA

FDI Inward Stock Has Seen its Rise by 398% From 2010 to 2020

FDI Stock 2000-2020 (in billion EUR)



Philippine FDI stocks have seen exponential growth since 2000. The strongest of this historical growth occurred over the past 10 years.

Between 2010 and 2020, FDI inward stock has increased by 398% from 22 billion EUR to 87.6 billion EUR. FDI outward stock has grown by a staggering 953% from 5.7 billion EUR to 54.3 billion EUR in the same period of time.

The development is attributable to the efforts of the country to improve its competitive and international business environment as its transition into a service society.

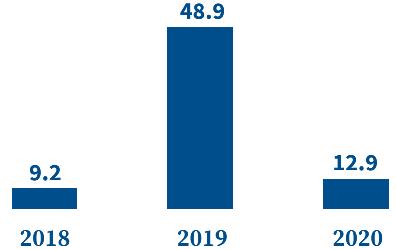
Source: UN

German Investors Gaining Confidence in 2021

Approved investments from Germany grew by 532% from 2018 to 2019. However, there was a deep decline in 2020 caused by the economic effects of the pandemic.

The confidence of foreign investors improved in 2021 due to the recuperation of both the global and Philippine economies. Approved investments from Germany in Q1 2021 amounted to 6.9 million EUR, higher by 345% than the 2 billion EUR approved in Q1 2020.

Approved Investments from Germany 2018-2020 (in million EUR)



Approved Investments from Germany Q1 2020 vs. Q1 2021 (in million EUR)

Source: PSA, DTI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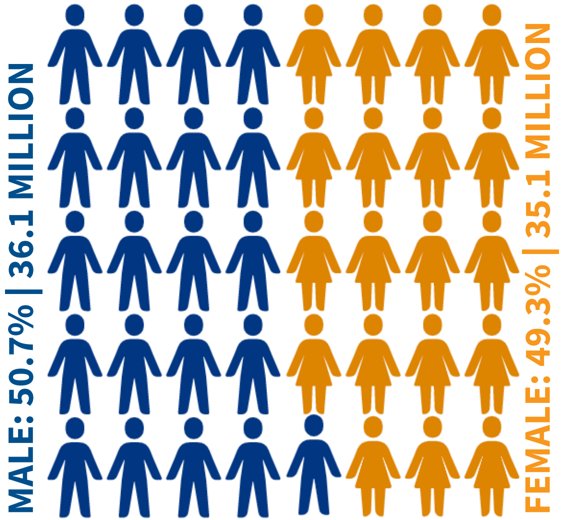
The Philippines Labor Market

Demographic Sweet Spot: A Working Population of 71 Million with a Median Age of 24 Years Old

24 MEDIAN AGE

WORKING AGE POPULATION

71 MILLION



The Philippines is a "demographic sweet spot" with a median age of an ideal young worker. The 24.1 years old median age of Filipinos is among the youngest in the world.

With an annual population growth of 1.5%, it is estimated that working-age Filipinos between 15 to 64 years old will reach 71.3 million by 2021, making up 64.2% of the entire population. The working population grew by 1 million in just over a year from 2020 to 2021.

The Philippine age structure creates an expansive population pyramid shape, where the youngest cohort builds the largest base, while the following age groups build the narrower tops.

Source: CIA, POPCOM

90% of Higher Education Students Acquired a Bachelor's Degree in 2019

Higher Education Program Level	Graduates 2019	Share %
Pre-Bachelor	32.348	4.1%
Bachelor	718.880	90.2%
Post-Bachelor	4.360	0.5%
Master's	36.433	4.6%
Doctorate	4.555	0.6%
TOTAL	**796.576**	**100%**

Higher education in the Philippines is offered through various degree programs by a wide selection of colleges and universities, also known as higher education institutions (HEIs). These are administered and regulated by the Commission on Higher Education (CHED). From the total of 1.975 HEIs in 2020, 87.5% are private institutions while 12.5% are public institutions.

Of the total of students who graduated from higher education level programs in the Philippines, 90.2% completed a bachelor's degree in 2019.

Source: CHED

Business Administration is the Most Preferred Discipline, Followed by Education Science, Engineering and IT

Rank	Higher Education Disciplines	Graduates 2019	Share %
1	Business Administration and Related	233.194	29.3%
2	Education Science and Teacher Training	169.832	21.3%
3	Engineering and Technology	87.083	10.9%
4	IT-Related Disciplines	81.477	10.2%
5	Medical and Allied	45.301	5.7%
6	Agricultural, Forestry, Fisheries, Vet Med.	26.259	3.3%
7	Social and Behavioral Science	26.240	3.3%
8	Service Trades	17.690	2.2%
9	Maritime	16.871	2.1%
10	Others	92.629	11.6%
	TOTAL	**796.576**	**100%**

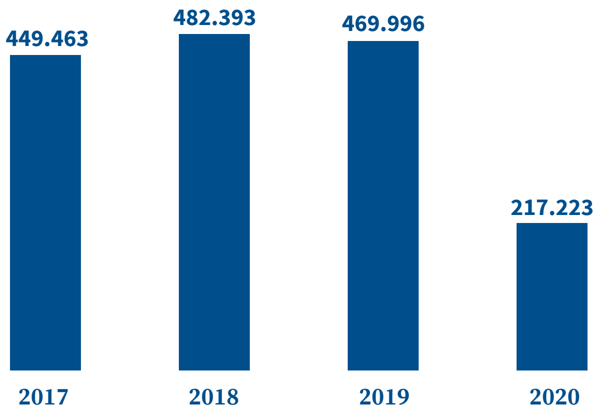
The majority of the 2019 higher education graduates were from the following disciplines: Business Administration and Related with 29.3% of the total of graduates, followed by Education Science and Teacher Training at 21.3% and, Engineering and Technology at 10.9%.

The trend of students in the selection of higher education disciplines continues during 2020, since the top 3 higher education disciplines with more enrollments are Business Administration and Related with 878.661 students enrolled, followed by Education Science and Teacher Training with 671.421 and, Engineering and Technology with 442.064.

Source: CHED

Filipino Seafarers Deployed Worldwide

Deployed Seafarers Abroad 2017-2020



The Philippines has just about 20% of the seafarers' market. The country has emerged as one of the biggest suppliers of seafarers on international merchants and provides around 1/3 of all staff in the world's cruise ships.

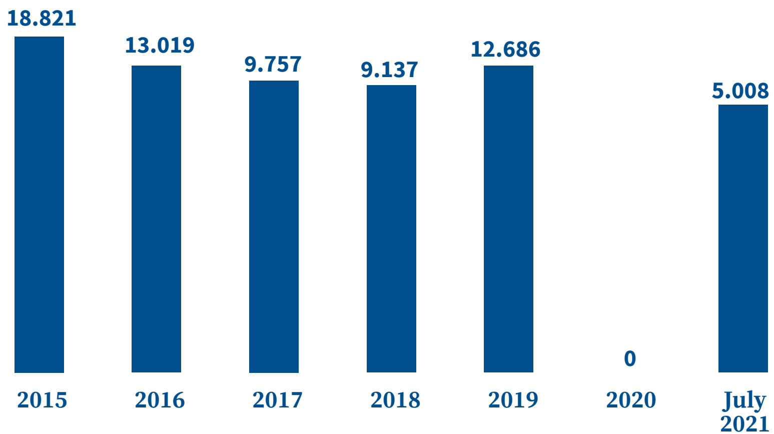
In 2020, more than 217.000 Philippine seafarers were deployed abroad, representing 39.5% of the total occupations deployed overseas from the country. This is 54% less than the previous year 2019 with around 470.000 deployed seafarers.

Due to the imposed lockdowns and global travel restrictions crew changes has become a serious challenge of the industry. The drop in numbers of deployed Philippine seafarers in 2020 was across all ranks of officers and cadets, but the largest fall was in the non-maritime sector which provides hotel staff to cruise ships.

Source: MARINA

Philippine Healthcare Workers Going Global

Number of New Registered Nurses 2015-2021



The Philippines is regarded as one of the top healthcare staff providers worldwide because of the availability of skilled nurses. Philippine nurses are known to be highly qualified, adaptable, hospitable and with good English proficiency. Higher salaries offered abroad are a main factor for nurses applying to work overseas.

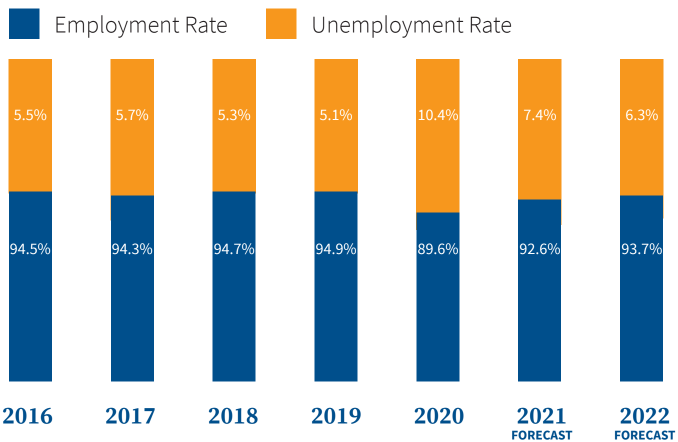
With an annual average of over 12.000 new registered Philippine nurses between 2015-2019, the suspension of the board exam in 2020 left the country with 0 new registered nurses due to the quarantine restrictions imposed by the government. The Professional Regulation Commission (PRC) resumed the board exam in July 2021, where 5.008 new nurses passed.

Nurses are among the estimated 12 million Filipinos who work and live overseas. Their remittances have driven the country's consumption. In 2019, almost 17.000 Philippine nurses signed overseas work contracts.

Source: PRC

Employment Rebounds During 2021 After Historic Down

Employment & Unemployment Rates 2016-2022

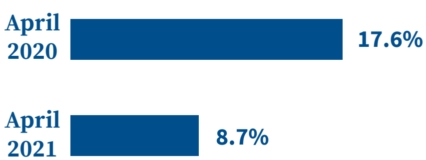


The unemployment rate reached a historic down of 10.4% in 2020 due to pandemic-related effects.

However, the Philippines labor market shows significant improvement given the steady rebound of both the national and international economies during 2021. It is estimated that unemployment will reach 7.4% in 2021 to further decrease by 6.3% in 2022.

Unemployment eased to 8.7% in April 2021, 8.9 percentage points higher than the April 2020 rate of 17.6%. The upward trend is expected to continue, though it remains vulnerable to changes during pandemic conditions and responses.

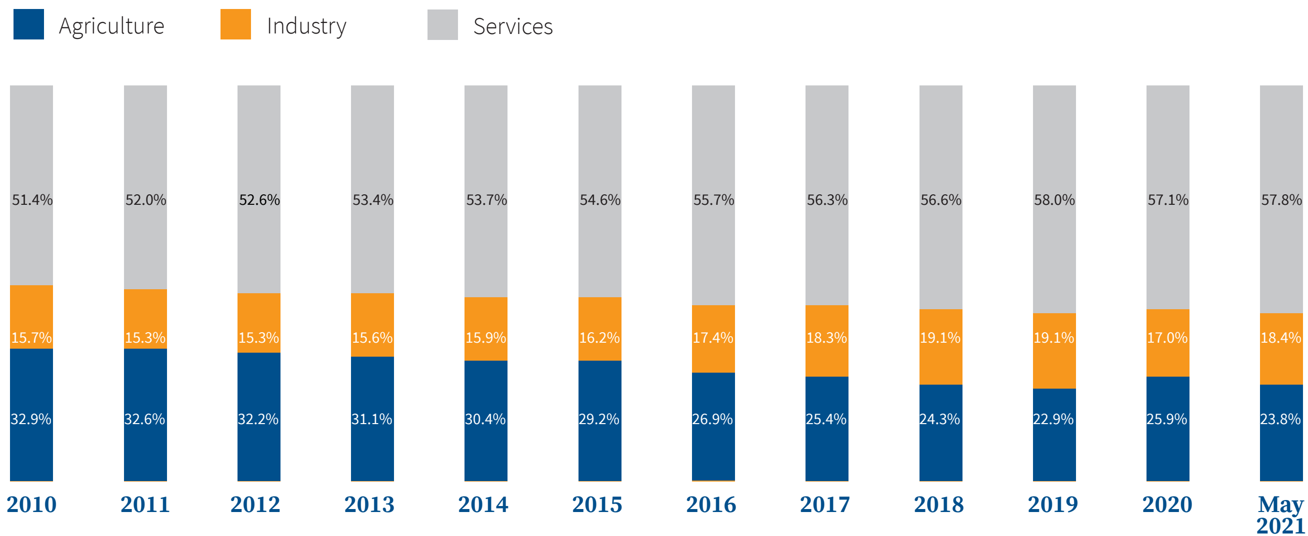
Unemployment Rate April 2020 vs. April 2021



Source: IMF, PSA

Labor Gradually Moving Into the Industrial and Service Sectors

Employment Distribution by Sector 2010-2021



The service sector is the leading contributor to national employment, accounting for 57.8% of the total jobs. The agriculture sector is the second contributor with 23.8% of the total employment, followed by the industrial sector with 18.4%.

Employment distribution is gradually shifting away from the agriculture sector and moving into the industrial and service sectors.

Source: World Bank, PSA

Minimum Daily Wage Rate is Higher within Metro Manila

Sector	Region	Daily Minimum Wage Rate 2020 (in Nominal Terms)
Non-Agricultural	NCR/Metro Manila	PHP 537 (≈ 9.00 EUR)
	Outside Metro Manila	PHP 420 (≈ 7.04 EUR)
Agricultural	NCR/Metro Manila	PHP 500 (≈ 8.39 EUR)
	Outside Metro Manila	PHP 394 (≈ 6.61 EUR)

Ranging from 6.61 to 9.00 EUR per day, the legislated minimum daily wage rate for laborers working in both non-agricultural and agricultural activities is higher in the National Capital Region (NCR) or Metro Manila than in the rest of the Philippine regions.

Cost of living and prices of goods are higher in Metro Manila as this urban region concentrates most of the business districts, services, infrastructure, and industrial areas. As exhibited, daily wages are adjusted to account for economic factors such as these.

Source: BSP

Philippines' Monthly Minimum Wage Lower than its ASEAN Counterparts

Rank	ASEAN Country	Gross Monthly Minimum Wage 2019
1	Malaysia	227 EUR
2	Thailand	224 EUR
3	Cambodia	155 EUR
4	**PHILIPPINES**	**120 EUR**
5	Vietnam	108 EUR
6	Laos	108 EUR
7	Indonesia	95 EUR
8	Myanmar	70 EUR

On average, the 2019 mean minimum wage of the 8 listed ASEAN states is 138 EUR a month. The two developed ASEAN countries Singapore and Brunei have no minimum wage policy.

Monthly minimum wages among the 8 ASEAN countries are spread out from a high of 227 EUR in Thailand and a low of 70 EUR in Myanmar. The Philippines comes in 4th place with a gross monthly minimum wage of 120 EUR.

Source: ILO

The Philippines
Market Trends & Opportunities

Fueling the Economy with the Build, Build, Build Program

With the country's rapid urbanization and growing population of 1.5% annually, infrastructure development and modernization are crucial to enhance the facilities and services of the country.

The Build, Build, Build Program is a massive 152 billion EUR infrastructure investment program launched in 2017 to accelerate the country's economy and overall competitiveness.

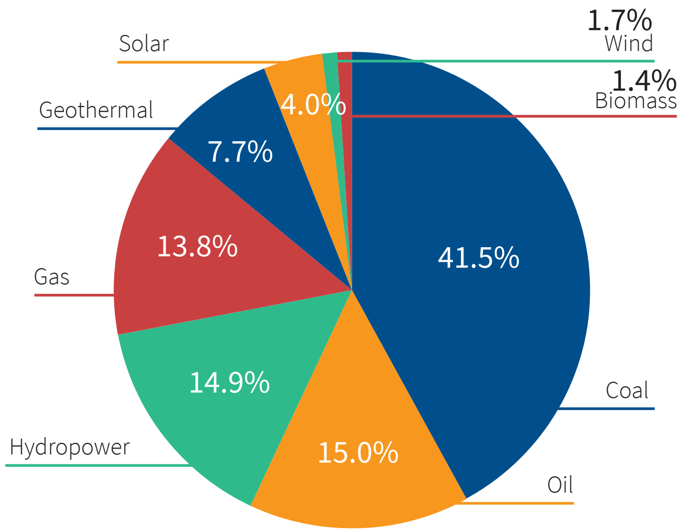
The ambitious initiative includes the construction and upgrades of railways, harbors, roads, bridges, highways, airports, and the country's first-ever subway, as well as urban development projects, health facilities, data centers, power and energy facilities, water resource projects, irrigation systems, and flood control facilities.

From the 108 flagship projects, 27% are expected to be completed by 2022 and 73% by 2023 and beyond.

Source: NEDA

30% of the Country's Power Generated Through Renewable Energy

Power Supply by Energy Source 2020



Electricity prices in the Philippines are among the highest in the region as coal remains the first energy supply source. Thereafter, renewable energy proves to be an economically and environmentally viable solution to offer affordable energy prices.

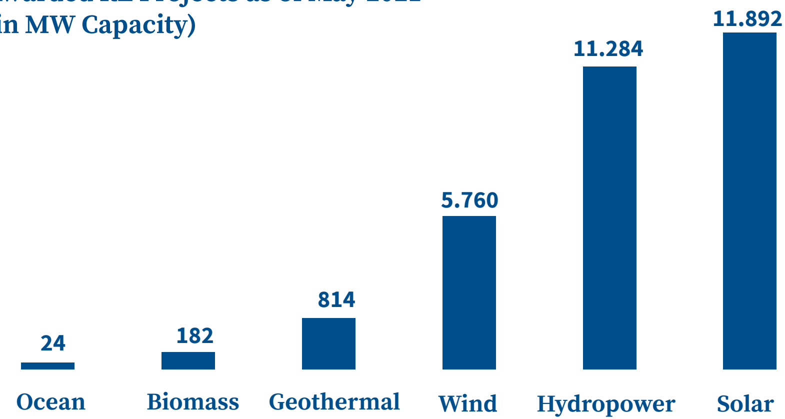
In contemplation of the 3.5% annual growth rate in energy demand and, the 75% targeted reduction of harmful emissions by 2030, the country is striving to reduce fossil fuel dependence and invest in clean energy instead, as per the Renewable Energy Act of 2008.

Moreover, the Energy Efficiency and Conservation Act introduced in April 2019 mandates a minimum energy performance standard for the commercial, industrial, and transport sectors, and energy-consuming products to secure energy supply sufficiency in the country.

Source: IEEFA

Raising the Philippines' Renewable Energy Supply

Awarded RE Projects as of May 2021 (in MW Capacity)



Starting 2021 under the Green Energy Auction, qualified renewable energy developers can offer to supply a specified volume of electricity generated from their facilities. The suppliers are chosen through a competitive auction process by the Department of Energy (DOE). Eligible renewable energy facilities are biomass, wind, solar, hydro, ocean, geothermal, and waste-to-energy plants.

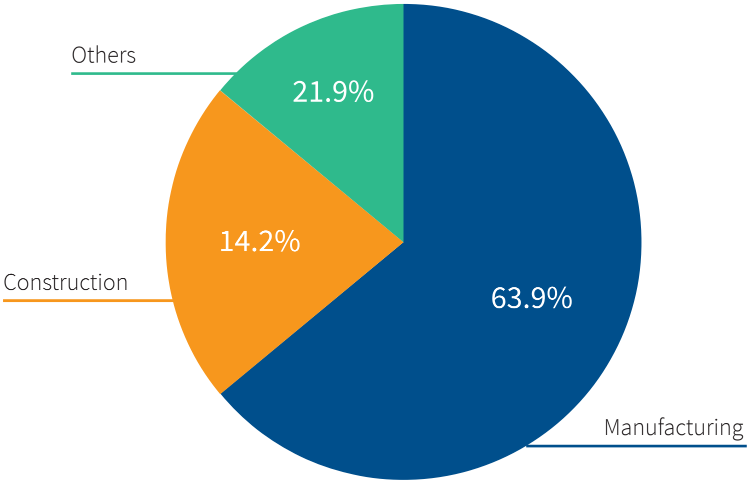
As of May 2021, DOE awarded 928 renewable energy projects with a total capacity of almost 30.000 megawatts. Most of the projects are focused on solar and hydropower energy sources, followed by wind energy.

Source: DOE

MANUFACTURING

Manufacturing Comprises 64% of the Industrial Sector

Industrial Sector by Industry Origin 2020



Manufacturing comprises more than half of the industrial sector and almost 20% of the country's GDP in 2020.

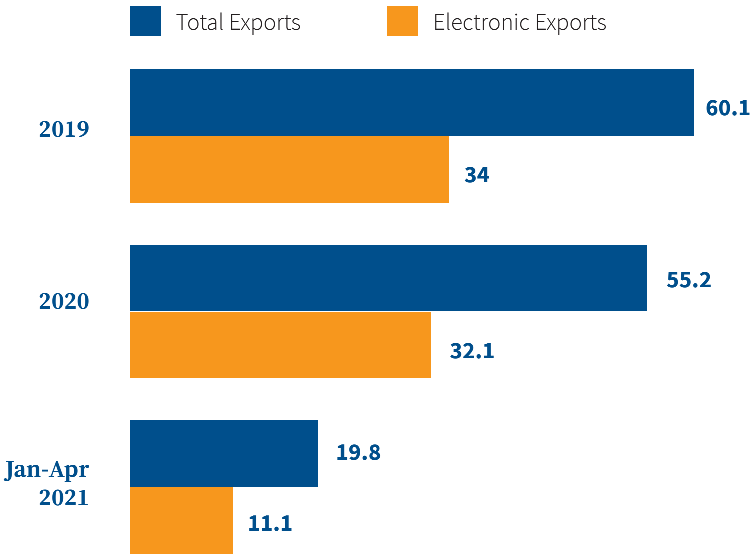
The country's largest government investment agency is the Philippine Economic Zones Authority (PEZA) and Board of Investments (BOI), which provides fiscal and non-fiscal incentives to foreign investors. From PEZA's 410 operating economic zones nationwide, 76 are industrial and export processing zones. PEZA exports constituted 17.3% of 2020's GDP.

With the passage of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) law in March 2021 and the Strategy Investment Priority Plan (SIPP) 2020-2023, export-oriented businesses and foreign investments are expected to grow in the upcoming years due to superior fiscal incentives and the facilitation of activities for all investment agencies in the country.

Source: World Bank, BSP

S&E Industry: One of the Biggest Drivers of Economic Growth

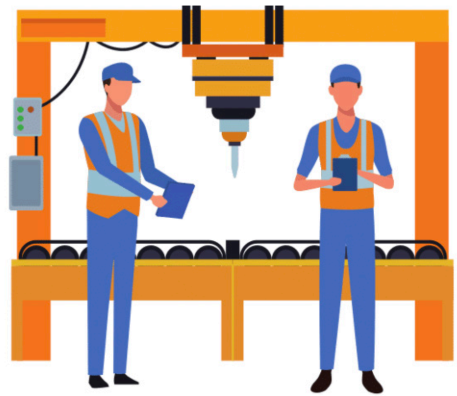
Performance of S&E Industry 2019-2021 (in billion EUR)



The semiconductor and electronics manufacturing industry (S&E) is one of the biggest drivers of economic growth in the Philippines. Mainly composed of Semiconductor Manufacturing Services (73%) and Electronics Manufacturing Services companies (27%), the industry employs around 3.2 million direct and indirect workers.

In 2020, the segment accounted for 32.1 billion EUR of commodity exports representing 58.2% of the country's total exports.

From January to April 2021, electronic exports continue to be the most exported commodity making up 18.7%, or 11.1 billion EUR of the total exports.



Source: PSA

Complementing Operational Locations Through China Plus One Strategy

The USA-China war and the COVID-19 pandemic are recent events that have disrupted the global supply-chain networks leading foreign companies to reconsider their investment locations outside China to mitigate risks.

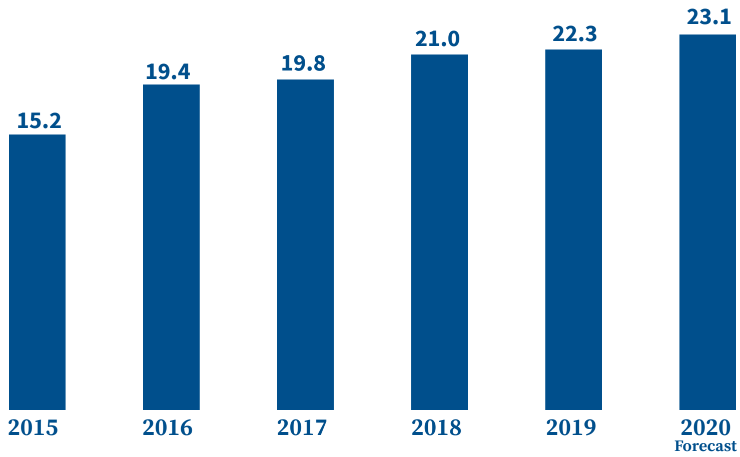
China Plus One is a strategy wherein companies complement their China operations by strategically investing in another country to lower costs, alter risks, complement operational capacities, and access new markets.

Thanks to its proximity to China, expanding economy, developing infrastructure, attractive cost structure, and stable policy, the ASEAN region presents itself as an alternative location for international companies.

The Philippines could be one of the ASEAN countries benefiting from this strategy as it is moving towards a service and manufacturing economy. With its competitive rates, ongoing policy reforms such as CREATE and SIPP, flourishing infrastructure, and healthy workforce, it is an appealing location for multinational companies.

Business Process Outsourcing: The Sunshine Industry

IT-BPM Industry Revenue 2015-2020 (in billion EUR)

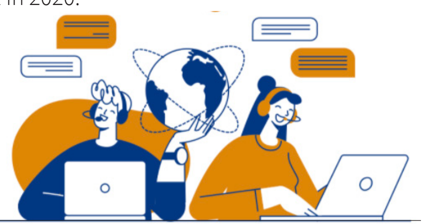


The Philippines has a strong service sector, as evidenced by its 61% contribution to the GDP in 2020. The service sector acts as the main driver of the growing middle-income class.

During the last years, the country has seen its rise as a top world destination for Business Process Outsourcing (BPO) services, ranking 6th in the top 50 digital nations, while Metro Manila 4th in the top 100 super cities in 2020.

Despite the employment decline during the lockdown in 2020, the Information Technology-Business Process Management (IT-BPM) sector remained active as over 1 million are employed and 41% of job postings are coming from this industry. It also became the main driver in the real estate market with almost 50% of the property demand in 2020.

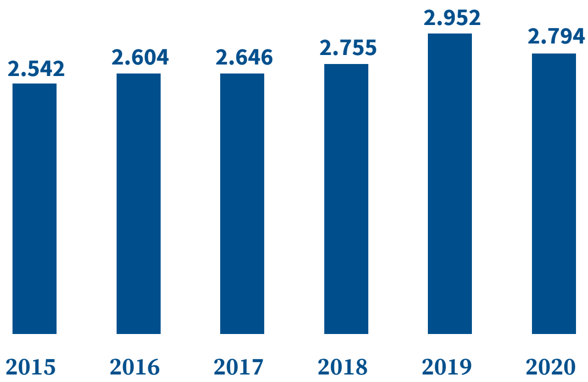
Given the BPO's significant contribution to the Philippines' economy, the total revenue of 22.3 billion EUR from 2019 was estimated to have grown to 23.1 billion EUR in 2020.



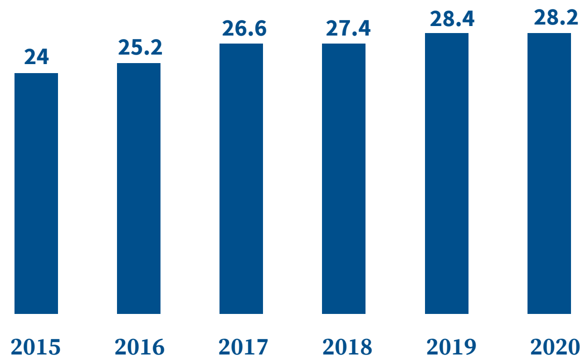
Source: Leechiu

High Cash Remittances Boosting Consumption and Investments

GDP per Capita 2015-2020 (in EUR)



OFWs Remittances 2015-2020 (in billion EUR)



The Philippine consumer market remains vibrant courtesy of its GDP per capita, growing middle-class, and cash remittances from overseas Filipino workers (OFWs).

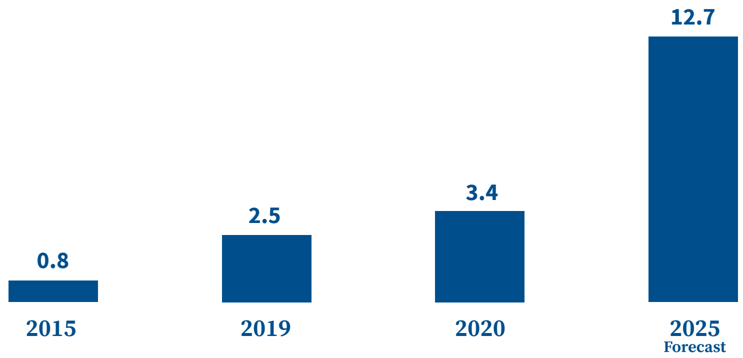
The country's GDP per capita has been on a steady rise until it suddenly decreased in 2020 as a result of the pandemic. However, remittances from OFWs continue to drive consumption and investments in the country. Despite cash remittances fell by -0.8% from 2019 to 2020, remittances from the estimated 12 million OFWs reached 28.2 billion EUR in 2020, accounting for 9.2% of the Philippines' GDP in 2020. The Philippine Central Bank projects cash remittances to rebound by 4% in 2021.

The BPO sector is another consumption driver for the growing middle-class.

Source: The World Bank, BSP

E-Commerce Grew by 55% in 2020 Under Strict Lockdown

E-Commerce GMV 2015-2025 (in billion EUR)



E-commerce in the Philippines is growing exponentially due to an expanding middle-class and a young and tech-savvy population. With 73 million internet users in 2020, every Filipino spends nearly 10 hours a day on the internet, the most worldwide.

As digitalization accelerated during the pandemic, online shopping along with digital banking and payment became part of the new norm. This change in consumer behavior created an environment for new business opportunities and helped many businesses to keep the lights on.

Given the extensive lockdown periods, the gross merchandising value (GMV) of e-commerce in the Philippines reached a total of 3.4 billion EUR in 2020, 55% more than 2019. Looking at 2025, this value will likely escalate by 31%, reaching 12.7 billion EUR.

Source: Google, Temasek and Bain

Ease of Doing Business Act

The Ease of Doing Business and Efficient Government Service Delivery Act of 2018 (Republic Act No. 11032) aims to further improve and speed-up the current systems and procedures of government services at all levels by simplifying the issuance of permits and licenses. Overall, it aims to promote transparency and cut red tape in the government for a more conducive business environment.

SALIENT FEATURES OF THE ACT:

- ✓ Standardization of deadlines for government transactions.
- ✓ A unified business application form and the establishment of a ‘’business one-stop-shop’’.
- ✓ Automatic approval of business applications that agencies fail to approve or disapprove within the prescribed processing time.
- ✓ A zero-contact policy to prevent government officers from interfering with business applications or requests.
- ✓ A digital central business portal to receive and capture application data, and the establishment of the Philippine Business Databank as a source of information on all registered businesses in the country.
- ✓ Creation of the Anti-Red Tape Authority, and the implementation of strict penalties for violators.

Source: DTI

The CREATE Act

In March 2021, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act (Republic Act No. 11534) was passed and aims to grant tax relief for companies in financial need, provide transparent tax provisions, and further increase the competitiveness of the country. The reform also promotes a rapid recovery from the pandemic through provisions aimed at reducing the burden on domestic and foreign companies:

CORPORATE TAXES:

- ✓ Reduction of Corporate Income Tax from 30% to 25% and in certain cases to 20%.
- ✓ Minimum Corporate Income Tax reduced from 2% to 1%.
- ✓ Regional Operating Headquarters shall be subject to the regular Corporate Income Tax but will be able to apply for incentives under SIPP.
- ✓ Income Tax Holiday of 4 to 7 years for qualified export and domestic enterprises including duty and VAT exemptions on importations and VAT zero on local purchases.
- ✓ Income Tax rate for educational institutions and hospitals is reduced from 10% to 1%.
- ✓ VAT exemptions for medicines, medical supplies, and vaccines to treat COVID-19.

RATIONALIZATION OF FISCAL INCENTIVES:

- ✓ Promote a standardized fiscal incentives system (i.e. Income Tax Holidays, Special Corporate Income Tax, and Enhanced
- ✓ Deductions).
- ✓ Period of incentive-based on the location of the industry.
- ✓ Creation of the Fiscal Incentives Review Board (FIRB) to review the issuance of fiscal and non-fiscal incentives and grant incentives for investments higher than PHP 1 billion (≈ 17 million EUR) :
    - > Investment Promotion Agencies grant incentives to investments not more than PHP 1 billion (≈ 17 million EUR).
    - > Power of the FIRB President to grant incentives to investments above PHP 50 billion (≈ 850 million EUR) that may grant longer periods of incentives.
- ✓ Align incentives to the Strategic Investment Priority Plan (SIPP).

Through the CREATE Act, the Philippine government hopes to promote the country's investment climate, attract foreign businesses looking to diversify their supply chain in the region, and better compete with its ASEAN counterparts.

Source: BIR

Strategic Investment Priority Plan 2020-2023

Pursuant to the CREATE law, the Board of Investments (BOI) is mandated to create the Strategic Investment Priority Plan (SIPP), which contains strategies to promote investments and facilitate activities for all Investment Philippine Agencies (IPAs) in the country. The SIPP has a 3 years validity and identifies priority projects that will receive incentives from the government, as well as the period of availment. By highlighting industries for domestic and export markets, the SIPP aims to modernize the economy, generate jobs, help solve societal issues on employment, housing, transportation, safe and secure travel.

PREFERRED ACTIVITIES FOR INVESTMENTS:

- Activities addressing the fight against the COVID-19 pandemic
- Projects generating job opportunities outside of congested urban areas
- Manufacturing activities including Agro-Processing
- Agriculture, Fishery and Forestry
- Strategic Services: Integrated Circuit Design; Knowledge-Based Services; Maintenance, Repair, and Overhaul of aircraft; Charging Stations for Alternative Electric Vehicles; Industrial Waste Treatment; Telecommunications; State-of-the-art Engineering, Procurement, and Construction
- Healthcare and Disaster Risk Reduction Management Services
- Mass Housing
- Infrastructure and Logistics including Public-Private Partnership Projects implemented by Local Government Units
- Innovation Drivers
- Inclusive Business Models
- Environment or Climate Change-Related Projects
- Energy
- Export Activities
- Special Laws: Industrial Tree Plantation; Mining; Publication of Books; Refining, Storage, Marketing and Distribution of Petroleum Products; Rehabilitation, Self-Development, and Self-Reliance of Persons with Disability; Renewable Energy; Tourism; Energy Efficiency and Conservation

Source: DTI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AHK Philippinen | German-Philippine Chamber of Comemrce and Industry, Inc.
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As of August 2021

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PHILIPPINE BROCHURE SPONSORS

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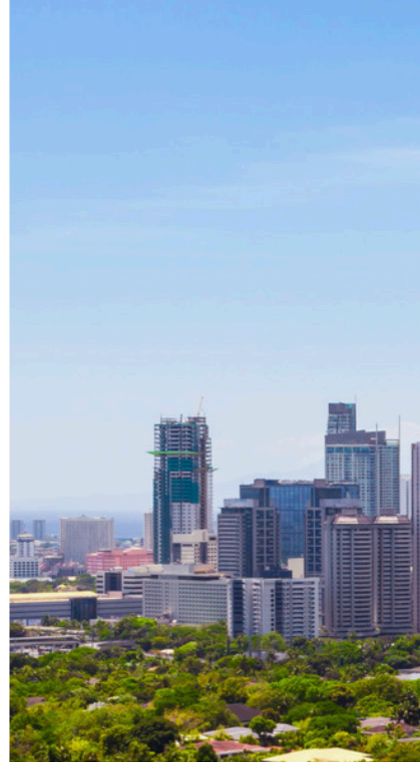

The Philippines. Dubbed as the Perlas ng Silanganan – or Pearl of the Orient – because of its rich natural resources, biodiversity, and strategic location in the heart of Southeast Asia and the Pacific. This emerging economic hotspot boasts a bullish market that can bounce back fast – even from a crisis like the pandemic. With a strong workforce and a myriad of opportunities, let us tell you why you should consider this affable archipelago as an attractive business destination.

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