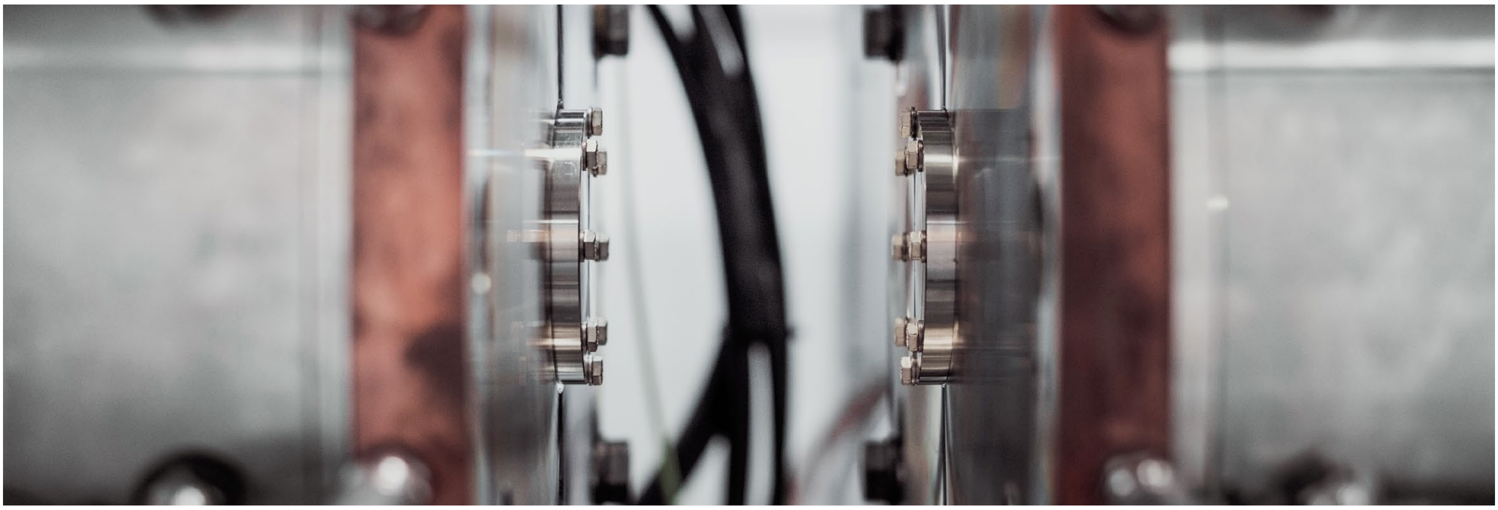
MANUFACTURING



I. MARKET OVERVIEW

With an economy largely driven by the services sector, the Philippines' major sources of growth have become more diversified in recent years. The expansion of manufacturing activities is a clear manifestation of this structural change as it outpaced the growth of the country's services sector within the last four years.

While service-related economic activities have traditionally buoyed the Philippine economy during the past decades, the economic contribution of the manufacturing industry has become more notable since 2013. From 1999 to 2012, services registered an average quarterly growth of 5,5%, while manufacturing grew at an average of 4%. However, from 2013 to 2016, the average quarterly growth of the sector hovered around 8,1%, while services registered an average of 6,6%.

From 2010 to 2015, the manufacturing sector contributed €14,2 billion in gross value added (GVA) reaching €52,1 billion GVA at current prices and growing an average of 7,3% per annum, nearly double the annual growth rate of the previous decade. More importantly, manufacturing labor productivity gained a huge 30% increase (based on GVA current prices) from 2010 to 2014 after plateauing in previous decades.

Foreign direct investments (FDIs) in manufacturing, excluding reinvestments and debt instruments reached €2,8 billion in the last five years. In 2015, approved FDIs reached €2,6 billion. The availability of natural resources such as copper, gold, and nickel has lured foreign companies in mining and metals processing, representing 20% of manufacturing-related FDIs from 2009 to 2013.

Estimated to have expanded by 7–8% to €25,1 billion in 2015, the Philippine semiconductor and electronics industry also accounts for the majority of the country's exports, led by large foreign investors such as Amkor, Canon, Samsung, Sunpower, and Texas Instruments, among others. Companies have also invested in unprocessed and processed tobacco, given the country's strong agricultural base.

II. MAIN STRATEGIC FRAMEWORK

The Industry Roadmapping Project and the Manufacturing Resurgence Program have both contributed substantially in addressing ease of doing business concerns that cut across many industries and resolv-

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ing competitiveness constraints affecting specific industries.

The Department of Trade and Industry has completed some 40 industry roadmaps, including, most notably, the Comprehensive Automotive Resurgence Strategy (CARS). The CARS program aims to attract new investments, stimulate demand and effectively implement industry regulations that will revitalize the Philippine automotive industry, and develop the Philippines as a regional automotive manufacturing hub

The Manufacturing Industry Roadmap aims to build more globally competitive industries and, through the Comprehensive National Industry Strategy, strengthen manufacturing linkages with both agriculture and services and integrate industries, especially small and medium enterprises, in global value chains.

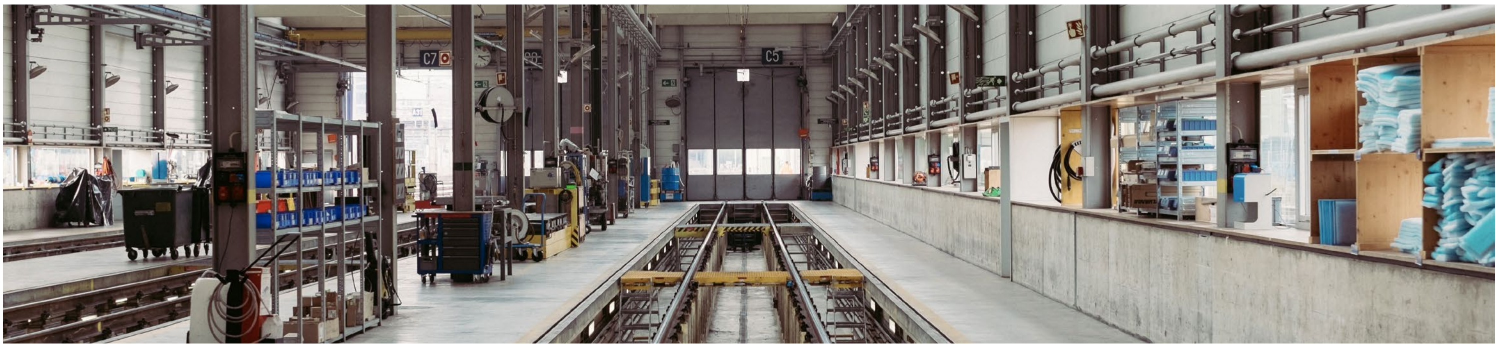
III. MAJOR OPPORTUNITIES FOR EU BUSINESSES

Despite low levels of manufacturing investment to date in comparison to the performance of its regional competitors, the Philippines has immense growth potential, boasting a competitive pool of skilled labor and a sizeable local market. In an effort to attract more manufacturing FDI, the current Investment Priorities Plan 2014–2016 targets priority sub-sectors including shipbuilding; four-wheel motor vehicles assembly; engineered products; chemicals; copper wire rods; paper pulp, and tool and die, among others. Companies in priority sectors are eligible for fiscal incentives, including an income-tax holiday, as well as non-fiscal incentives.

There are opportunities in the following 'nearby' products (essentially these are low-hanging fruits because the requirements for operating in these products are already present in the country): complete digital processing machines, cameras, appliances and parts, woven fabrics of synthetic material, precious jewelry, refined sugar, jewelry, woven fabric of synthetic material, clocks, watches, and cameras.

For 'middle' products (some of the required capabilities are present in the country), the opportunities are in angles, shapes, sections and sheet filing of iron and steel, chemical products such as salts of metallic acids, phenoplasts, aminoplasts, felts and articles of felts and bonded fiber fabrics, and fiber building board of wood or other vegetable material.

For 'far-away' products (requirements are still not developed in the country), the opportunities are in printing and writing paper, chassis fitted with engines for vehicles, bodies for vehicles, other parts and accessories of vehicles, paper and paperboard products, salts and derivatives, and special products of textile materials. Attracting more FDIs is crucial in order to move to both 'middle' and 'far-away' products.



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