A PREDICTABLE SUCCESS

Over the past decade, the Philippines has posted a year-on-year GDP growth of between six and seven percent, nearly twice the world average over the same period. Such GDP figures are not uncommon among emerging markets that benefit from a demographic dividend and rising spending power.

The Philippines, however, stands out as a star player in the ASEAN region because of its exceptional advantages, like its skilled workers, thousands of whom operate ships, fly planes and run hospitals across the world. The 100 million-plus Filipinos also possess a comfortable familiarity with the English language, a plus for Western investors in a region that is both geographically and linguistically fragmented.

With technology advancing rapidly, driving the world towards greater convergence and integration, the Philippines, an archipelago of more than 7,100 islands, cannot ignore geopolitical and economic movements in the region and beyond, for better or worse.

Amid the much discussed rise of populism around the world - as seen in the Donald Trump election phenomenon - and the growth of Eurosceptic movement, many have accepted that liberal politics and globalization have not provided the vast majority with their expected benefits. Around the world, millions voiced their anger through the ballot box.

Two years into the Duterte Administration, the Philippines appears to have diverged from familiar policies, particularly in the fields of politics and diplomacy, without abandoning its commitment to free market economics. And as a trade war rages between the United States and China, and the rising standard of living in China has resulted in higher labor costs, Southeast Asian economies position themselves as alternative locations for manufacturing and assembling finished goods.

Filipino policy makers and business leaders are identifying growth opportunities in a global economy that is no longer dominated by the United States but driven by several players, be they single countries, like China, or regional blocs, like the EU. Like the narrative of many developing countries, the Philippines’ story continues to unfold.
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countries, the benefits of economic growth in the Philippines have not been inclusive. To correct that, the current administration enacted the first package of a tax reform law that cut the personal income tax rate for low earners and raised the rates for high earners. The main objective of the new tax law was to raise revenue for the government’s ambitious, multi-billion dollar “Build, Build, Build” infrastructure program.

With the announcement and rollout of several infrastructure projects, companies and investors have had to enlist the services of local law firms, many of whom go beyond advice on basic legal compliance but provide cross-disciplinary expertise and strong connections across Southeast Asia.

Founded in 1980, Villaraza & Anganco has grown into a full-service law firm that has developed a deep and extensive knowledge of issues and challenges that face the business community in the Philippines. As such, they are able to formulate strategies that help their clients surmount unfamiliar difficulties. “Our direct involvement in issues of national concern has given us a broader outlook in solving our clients’ problems. We look at our clients’ problems not just from a purely legal point of view but also from a strategic point of view, as we consider regulatory and administrative aspects. We take a multi-disciplinary and tailored approach to each problem,” Villaraza & Anganco Managing Partner Alejandro Navarro explained.

Despite the unexpected headwinds the Philippine economy is facing, Navarro remains optimistic, “Just like any market, there are some challenges. The 2018 tax reform law’s effects are being felt by way of inflation. The second package of this tax reform will reduce the corporate income tax rate and lessen fiscal incentives. This will support the growth of local SMEs and affect businesses in export processing zones.”

While there may be some negative aspects, our economy has the fundamentals and potential for exponential growth. In the Philippines, we’re seeing growth in tourism all around the country. This is an area that is open for even more investment and development,” he added.

Aside from the traditional economic sectors like manufacturing, tourism and retail, the fintech and blockchain sectors have presented new investment opportunities in the Philippines, most notably in energy, transportation, logistics and banking. With more than 100 million consumers, of which more than 10 million work overseas, the country is an ideal place to develop idea-to-market applications.

Because Philippine laws prohibit full foreign ownership in certain vital industries, finding the right local partner is essential for international investors. While it may appear a hindrance, this requirement, in the long term, will encourage serious commitment to the national economy and local communities.

For deals in energy, transportation and natural resources, Cruz, Marcelo & Tenefrancia has gained a reputation for being the go-to law firm for must-win cases and for ironing out successful deals that have benefitted both the foreign investor and the local community.

“The competitive advantage of the Philippines is the mining sector. The economy has been focused on BPOs and OFWs. But we have something here that is largely untapped. If you keep the minerals underground, they’re of no use to us. But if they are extracted, developed and utilized, that’s great wealth for the country,” Cruz, Marcelo & Tenefrancia Senior Partner Patricia Bunye said.

“It is fundamental that foreign firms seeking to enter the Philippine market find the right partners. This involves due diligence and background intelligence. Law firms such as CMT play an important role in that we have helped companies, both big and small, navigate the local jungle, so to speak, and have made sure that they are aware of all the applicable laws in sectors they would like to enter,” Bunye added.

“Law firms help vet local partners to avoid deals going sour. Without the right professional advice, issues can develop in later stages of the deal. As much as we would only like to present the advantages and possible benefits of coming to the Philippines, we also need to be upfront about the potential pitfalls so that all expectations are managed throughout,” she also said.

Higher levels of unpredictability usually accompany investment and financial commitments to emerging markets. The right partners provide a predictable winning investment, securing excellent legal guidance and obtaining extensive due diligence.