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The Belt and Road Initiative in ASEAN

The Philippines

December 2020

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Research Methodology

The study aims to provide insights into the political, institutional, and environmental factors that affect the design and implementation of Belt and Road Initiative (BRI) projects in the Philippines, the potential for BRI investments to spur private investment and other foreign direct investment (FDI) opportunities, and any potential role for the Hong Kong SAR.

The key research questions that drove the study were:

- What changes has the BRI brought to the Philippines?
- What are the key sectors or areas experiencing growth and what are the key BRI projects?
- What factors seem to be affecting the success of the projects?
- What are the key opportunities and challenges in the Philippines?

The case study employed a mix of quantitative and qualitative data. The primary data were mostly qualitative and included a combination of in-depth interviews, informal interviews, and field notes based on observation. The primary data also included datasets and documentary evidence exclusively obtained from informants. Other quantitative data consisted of datasets describing the Philippines's economic, environmental, and social dimensions which were used to support the analysis as well as the selection of specific projects or sectors.

Interviewees included a wide range of stakeholders such as government officials, representatives of business associations, entrepreneurs, members of civil society groups, academics and consultants both in the Philippines and in the Hong Kong SAR.

The research process involved three phases: 1) preparation, 2) fieldwork and data gathering, and then 3) data analysis and write-up. In the preparation phase researchers examined the background of the case through desktop research and identified key issues and projects. Afterwards, key topics to be explored were selected in consultation with UOB staff in the Hong Kong SAR and the Philippines. Before the fieldwork, both UOB and the researchers contacted potential interviewees to brief them on the research and inquire about their availability and willingness to partake in the project as informants. Subsequently, phase 2 consisted of two visits to the Philippines for a total of about thirty day during which the researchers carried out interviews and site visits. The last stage focused on gathering the data into themes, analysing it and writing up this case report.

Highlights

5 Key Highlights

- The political rapprochement between mainland China and the Philippines that is taking place during the Duterte administration is boosting trade and investment relations.
- The Philippines government's Build Build Build (BBB) initiative that aims to improve infrastructure in the country creates multisector opportunities for foreign investors and enables synergies for mainland Chinese investors and financial institutions in light of the BRI.
- Ownership restrictions in specific sectors defined by the Foreign Investment Act and the constitution might hamper investors' ability to benefit from all market opportunities but could enhance synergies between local and mainland Chinese investors.
- Mainland Chinese investors are making efforts to address reputational issues related to failures of investments in the early 2000s.
- COVID-19 is having a disruptive effect on FDI projects, slowing down their implementation and delivery.

Country Profile

The Philippines is an archipelago composed of more than 7000 islands. The three most economically significant regions today are Luzon, The Visayas, and Mindanao. The country's geographic location exposes it to typhoons, earthquakes, and volcanic eruptions. The country is the second most populous in the ASEAN with more than 108.1 million inhabitants in 2019. The population is young and the working-age group (15 years to 64 years old) comprises 64.2% of the total population. The country has a heterogeneous population with diverse ethnic groups and religions, including 1.35 million Chinese and 22.8 million Filipinos of Chinese descent, referred to as Tsinoy (Chinoy).

The Philippines is a presidential republic where the president has a single six-year mandate. Currently, the president is Rodrigo Roa Duterte whose term started in June 2016 and will expire in June 2022. The vice-president is also an elected post. The current vice-president is the leader of the opposition, Ms Leni Robredo.

The Duterte administration is keen to transform and develop the country and has launched policies, usually referred to as the "10 Point Socioeconomic Agenda" that collectively are known as "Dutertenomics". The National Economic and Development Authority (NEDA) has issued the Philippine Development Plan (PDP) 2017-2022 which aims to achieve several key objectives:

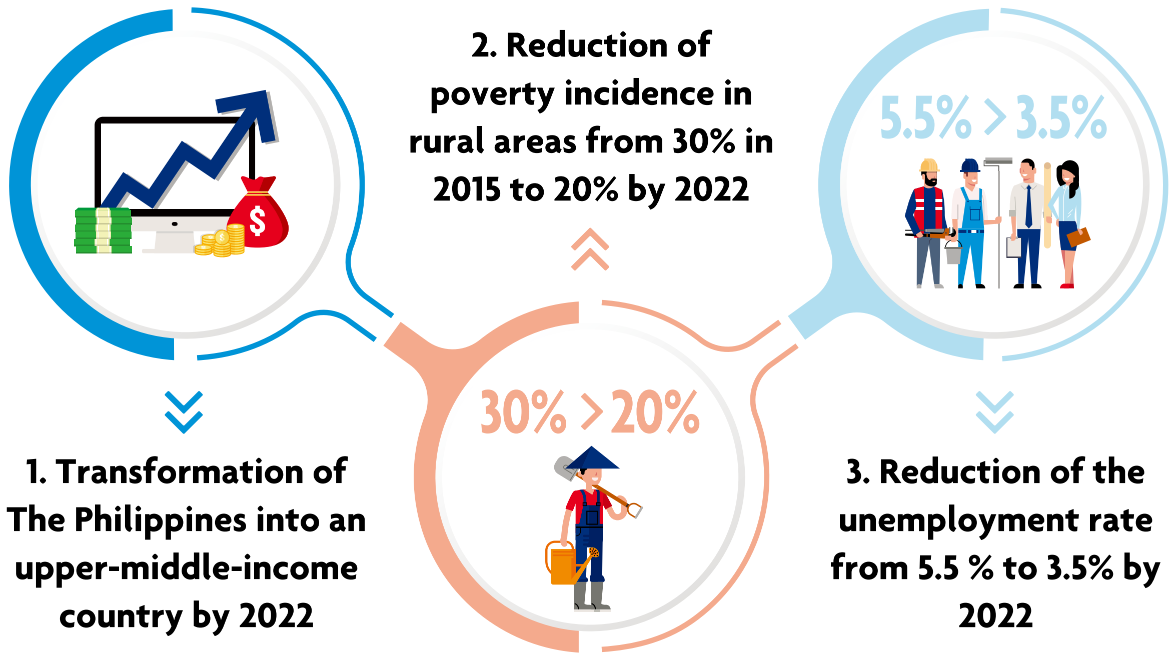


Figure 1. Key Objectives of the Philippine Development Plan 2017-2022.

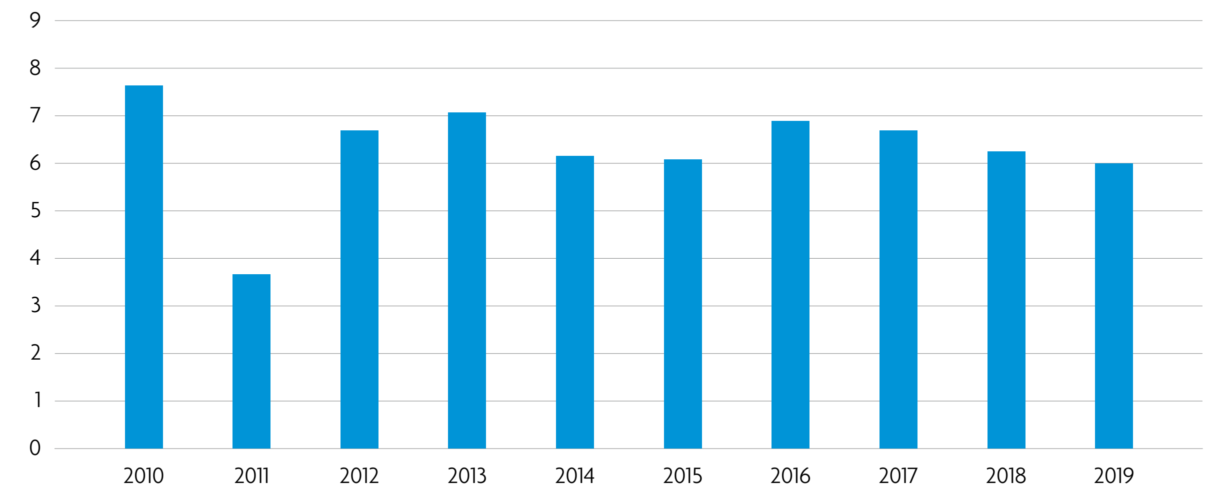


Figure 2. Philippines GDP Growth. Source: The World Bank.

In addition to the PDP, the Duterte administration's BBB programme aims to create a "Golden Age of Infrastructure" for the Philippines. At this stage, the BBB initiative budgets US$180 billion for 100 infrastructure projects in different sectors including transport and mobility, water supply, urban development and renewal, information and communications technology, and the power sector. To support the upgrading of infrastructure, the government is relying on foreign investment, official development assistance from partners such as Korea, Japan and mainland China, and loans from international financial institutions such as the World Bank, the Asian Development Bank, and the Asian Infrastructure Investment Bank. The implementation of the BBB projects has led to a 50% increase in public spending on infrastructure in 2018 compared to 2017.

During the last decade, the Philippines' GDP growth rate has been relatively stable at around 6% to 7% per year. That economic growth has created employment opportunities, reducing the unemployment rate to 5.1% by the end of 2019, its lowest rate in 14 years. The services sector accounts for the largest share of employment (58%), with the rest of the workforce split between agriculture (22.9%) and industry (19.1%).

FDI in the Philippines

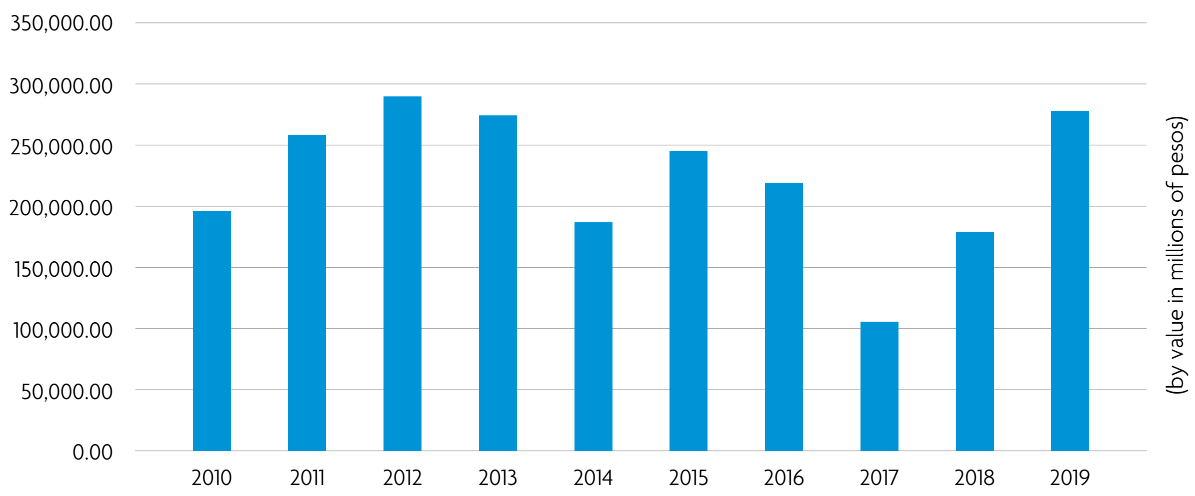


Figure 3. Total Foreign Investment Approved by the Investment Promotion Agency. Source: Philippines Statistics Authority.

Having a large population that speaks English as well as abundant natural resources makes the Philippines an attractive FDI destination. The value of approved investment projects by foreign investors has fluctuated during the last decade. The total value of FDI projects approved by the Investment Promotion Agency (IPA) dropped to US$2.08 billion (PHP 106 billion) in 2017, its lowest level over the past decade.[1] However, afterwards the value of inward approved FDI increased dramatically, reaching US$5.48 billion (PHP 279 billion) in 2019.

Mainland China has been the most important source of FDI for the Philippines since 2017. Other important FDI source countries include ASEAN member states such as Singapore and Malaysia, and regional partners including Japan and Korea. Investors from the Netherlands and France are also an important source of FDI, whereas investment from the US has diminished in recent years.

The British Virgin Islands (BVI) is nominally the fourth largest source of FDI for The Philippines, serving as an investment platform for multinational corporations that use the BVI to benefit from its favourable legal and tax regimes for their investments. As one interviewee explained,

[1] *Exchange rate US$1 = 50.9050 pesos – Central Bank of the Philippines*

> **“Mainland Chinese companies establish subsidiaries in the British Virgin Islands and then invest in the ASEAN region. They invest through the British Virgin Islands for different reasons, including the intention to disguise their nationality in order to prevent unwarranted discrimination and avoid negative local sentiment.”**

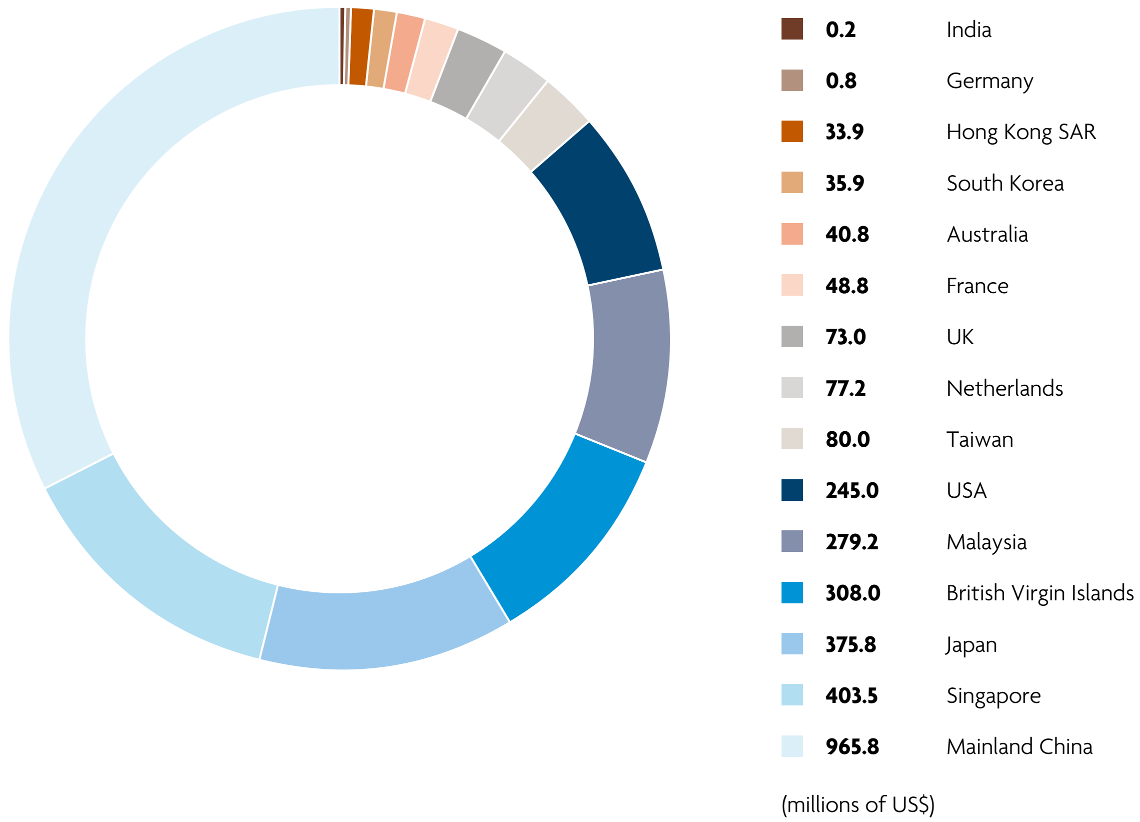


Figure 4. 2018 FDI by Country or Region of Investors. Source: Philippines Statistics Authority.

Foreign investment in the Philippines is concentrated in a few key sectors, especially manufacturing which accounted for almost half of all FDI in 2018. Other important investment sectors include electricity and gas (around 17%), real estate (around 11%), services (around 11%), and construction (around 5%).

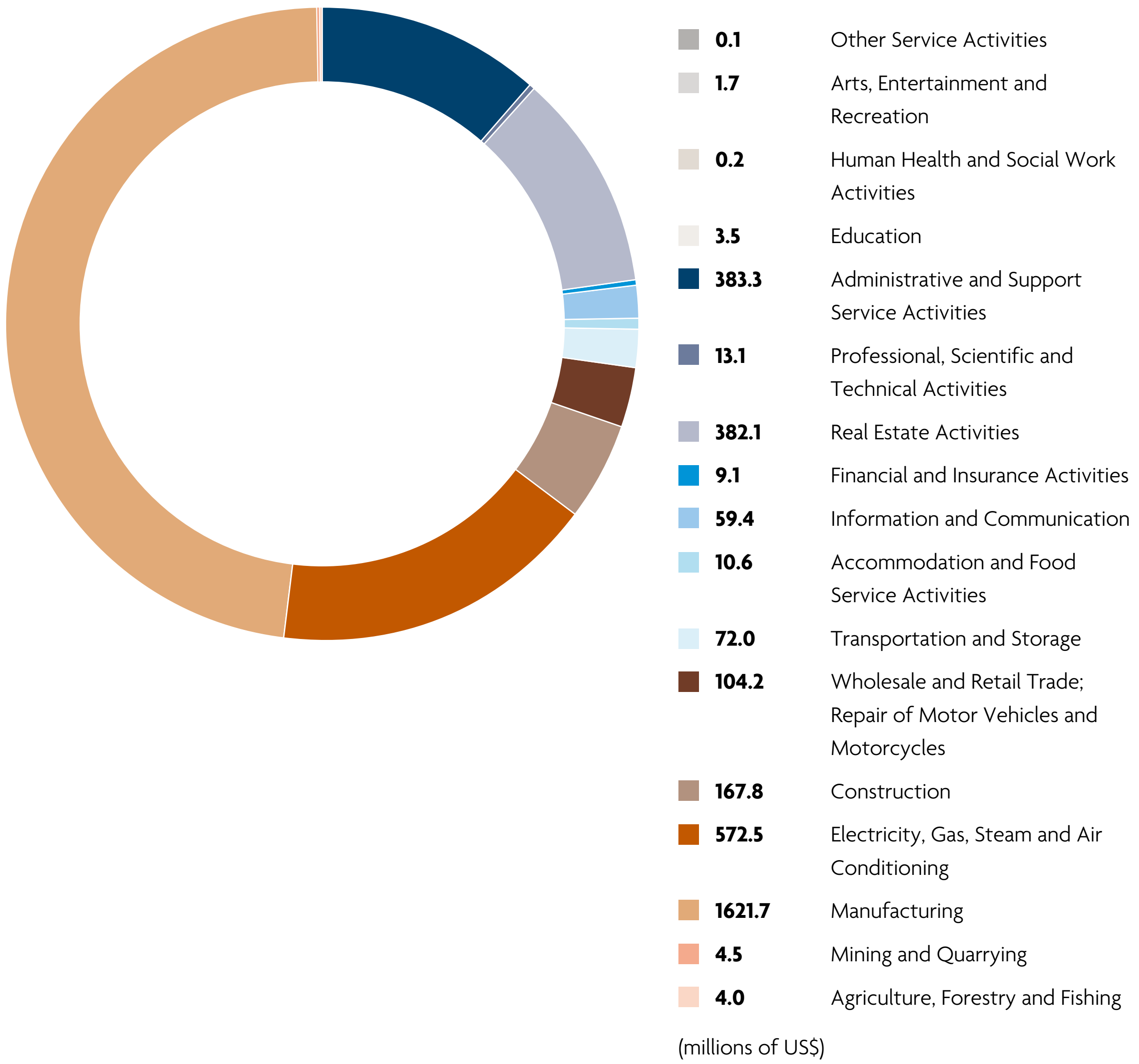


Figure 5. 2018 Total Approved FDI by Industry. Source: Philippines Statistics Authority.

Mainland Chinese Trade and Investment in the Philippines

The economic relationship between the Philippines and China dates as far back as the Song Dynasty (960-1279) when traders from both countries traveled between Guangdong and the Philippines to exchange goods. Trade flourished during the 16th century with the establishment of the Manila Galleon maritime trade route that linked mainland China, the Philippines and Mexico, an antecedent to the 21st century Maritime Silk Road. During that period, the presence of Chinese in Manila increased significantly.

Today, Chinese Filipinos play an important role in the country's economy, and some of the wealthiest Filipinos have Chinese roots. Some of them have business interests not only in the Philippines but also in China, which facilititates collaboration between Chinese and Filipino businesses.

Mainland China is currently one of the most important trading partners for the Philippines. According to official data, in 2019 the Philippines imported US$26.8 billion in goods from mainland China, making mainland China the nation's most important source of imports. Conversely, mainland China is the third most important destination for exports, having received US$9.8 billion worth in 2019.

During the last decade, the positive historical relationship between mainland China and the Philippines has come under pressure due to territorial disputes in the South China Sea, in particular over the Spratly Islands and Scarborough Shoal. The Aquino administration (2010–2016) decided to start international proceedings at the Permanent Court of Arbitration at The Hague (Netherlands) to resolve these disputes. The Chinese government boycotted the arbitration proceedings and did not recognise the jurisdiction of the tribunal. In the aftermath of the decision in favour of the Philippines in 2016, trade and investment between the two countries cooled off. Chinese private and state-owned travel agencies suspended tours to the Philippines, China banned imports of Philippines bananas and increased inspections of other fruits, supposedly over concerns about non-compliance with food safety standards. The stand-off also led to the Chinese enforcing a fishing ban in the South China Sea to the detriment of Filipino fishermen.

The election of President Duterte led to a repositioning of the Philippines in international relations and a dramatic improvement in relations with mainland China. Before President Duterte's official visit to mainland China in October 2016, the mainland Chinese lifted the ban on banana imports. During his stay in Beijing, President Duterte met with President Xi and indicated that his administration was taking a practical approach to the resolution of the territorial disputes despite the favourable arbitration ruling. During the visit, the two sides signed thirteen government-to-government agreements which some sources have estimated to be worth up to US$24 billion during the subsequent six years. The new agreements include MoUs between:

1. The NEDA and China's National Development and Reform Commission providing for cooperation in developing production capacity and investment;
2. The Department of Finance (Philippines) and China's Export-Import Bank on financing cooperation;
3. The Department of Trade and Industry and China's Ministry of Commerce on strengthening bilateral trade, investment and economic cooperation;
4. The NEDA and China's Ministry of Commerce on the formulation of a development program for economic cooperation; and
5. The Department of Finance and China's Ministry of Commerce on supporting feasibility studies for major projects.

President Duterte participated in the Belt and Road Forum in May 2017 and met again with President Xi, reflecting a political rapprochement that has led to an intensification of official visits between Chinese and Filipino officials. During another visit, the Chinese Minister of Foreign Affairs stated that the Philippines are an

“indispensable and important partner in the joint construction of the 21st century Maritime Silk Road.”

China's support in the fight against the Maute terrorists was particulary appreciated by President Duterte, who described the move as **“the dawn of a new era in Philippine-Chinese relations.”** The greater cooperation between the two countries took official form in November 2018 with the signing of an MoU on cooperation between the two countries on the Belt and Road Initiative. Although it is not enforceable, the MoU indicates the support of the Philippines government for the BRI and creates a framework for cooperation between the two countries in developing the Maritime Silk Road. The improved political relationship has helped boost FDI flows from both private and state-owned mainland Chinese companies to the Philippines. In addition, mainland Chinese companies have made efforts to improve the sentiment and perception of Filipinos towards mainland Chinese investors. For example, the Chengdu Institute of Biological Products, a subsidiary of the China National Pharmaceutical Group (Sinopharm), in cooperation with the United Nations International Children's Education Fund, provided the Philippines with 480,000 doses of Type-B encephalitis vaccine in June 2017.

With increased support from both governments, by the end of 2018 more than 30% of the FDI projects approved by the Philippines' Investment Promotion Agency were from mainland China, and mainland Chinese FDI increased by 74.9% from 2018 to 2019. The surge in mainland Chinese investment is even more evident if compared to mainland Chinese investments in the years preceding the signing of the MOU.

In August 2019, President Duterte and President Xi met again, and several agreements were signed that expanded exisiting agreements and indicated a further engagement of mainland Chinese financial insitituions to support infrastructure projects in the Philippines.

Current and Future Opportunities for Mainland Chinese FDI

The recently flourishing mainland Chinese-Filipino relations have led to more investment and commercial exchanges between the two countries and increased people-to-people interactions. mainland China is now a very important trading partner and the most significant source of FDI for the Philippines. The government has taken important steps to improve the country's ability to attract mainland Chinese investors through its visa-on-arrival policy and the relaxation of visa issuance requirement for mainland Chinese

workers. The Build Build Build programme is expected to improve railways, roads and highways, airports and energy facilities. Some of the projects aim to improve the management and construction of water supply projects, irrigation systems, and flood control facilities. The BBB programme involves multiple government agencies and departments including the NEDA, the IPA, the Philippine Economic Zone Authority (PEZA), the Bases Conversion and Development Authority (BCDA), the Cagayan Economic Zone Authority (CEZA) and other zone and free port authorities. The BBB programme is projected to create 1.1 million jobs annually through 2022 and to reduce the incidence of poverty to 13-15% by 2022.

Financing the BBB programme is attracting wide international interest. Local and international investors providing funding for the projects are being supplemented by financing from multilateral development banks such as the World Bank, the Asian Development Bank and the Asian Infrastructure Investment Bank; from foreign national development banks and agencies in mainland China, Korea and Japan; and from public-private partnerships.

The ADB's lending to the Philippines totaled US$2.5 billion in 2019, up from US$1.4 billion in 2018. The ADB is estimated to have lent US$3.3 billion in 2020 to support projects such as the South Commuter Railway, the EDSA Greenways Pedestrian Walkways, and the 7th Angat Water Transmission Aqueduct, as well as to projects that will improve social protection, enhance sustainable tourism, and help to improve the development of the capital market. The AIIB is supporting a project to improve flood management in the area of Metro Manila.

The BBB includes water management and disaster management projects that are receiving support from foreign institutions and companies. The China Export-Import Bank has signed a US$253 million loan agreement for the New Centennial Water Source - Kaliwa Dam. China Energy Engineering Corporation is part of the MoU and will be involved in the project. The Kaliwa Dam will improve water supply to the Metro Manila region, addressing a basic need of the local population by building a 57 million cubic metre reservoir that will supply 600 million liters of water daily. The China Export-Import Bank is also providing a loan for development related to the Chico River Pump Irrigation project.

SEZs – Platforms for Multi-Sector Development

Special economic zones (SEZs) have become key platforms in supporting economic development. In recent years the government has made efforts to improve the management of existing SEZs and create new ones aimed at promoting industrial and urban development. The Philippines' Economic Zone Authority is the main governmental body in charge of the management of SEZs.

Sector	Number of Zones
Manufacturing Economic Zone	74
Information Technology Parks/Centers	262
Agro-Industrial Economic Zone	22
Tourism Economic Zone	19
Medical Tourism Zone	2
Total	370

Figure 6. Numbers of economic zones in the Philippines by sector. Source: Philippine Economic Zone Authority, http://www.peza.gov.ph/index.php/economic-zones/list-of-economic-zones

The Authority's Director-General Charito Plaza said that

> **"PEZA aims to establish more industrial cities in the Philippines and to make the country more attractive to foreign investors and promote environmentally friendly industrialisation in the country."**

One of the main issues for investors in the zones is the price of energy. There are now incentive packages which aim to address this. Some industrial parks have power plants that provide a quite reliable energy supply for their companies.

Other authorities that manage zones have a more limited geographic scope, a more specific mandate or focus on particular projects. The Subic Bay Metropolitan Authority, the Bases Conversion and Development Authority (BCDA) and the Clark Development Corporation are in that category. The BCDA's goal is to transform former military bases and properties into premier centres of economic growth. Several of its development projects have been completed, including Bonifacio Global City. More recently the BCDA has been working with international partners in the development of New Clark City, a new metropolis designed to be smart, green, resilient and truly inclusive, and on the expansion of Clark International Airport.

Mainland Chinese companies are already playing important roles in economic zones and industrial park projects through the Philippines-China Industrial Park Development Program. The construction of the Clark Industrial Park with an area of 500 hectares is part of the programme and financed by China's Export-Import Bank. It is being constructed by the China Energy Engineering Group. The BCDA has also signed an MoU with China Development Bank.

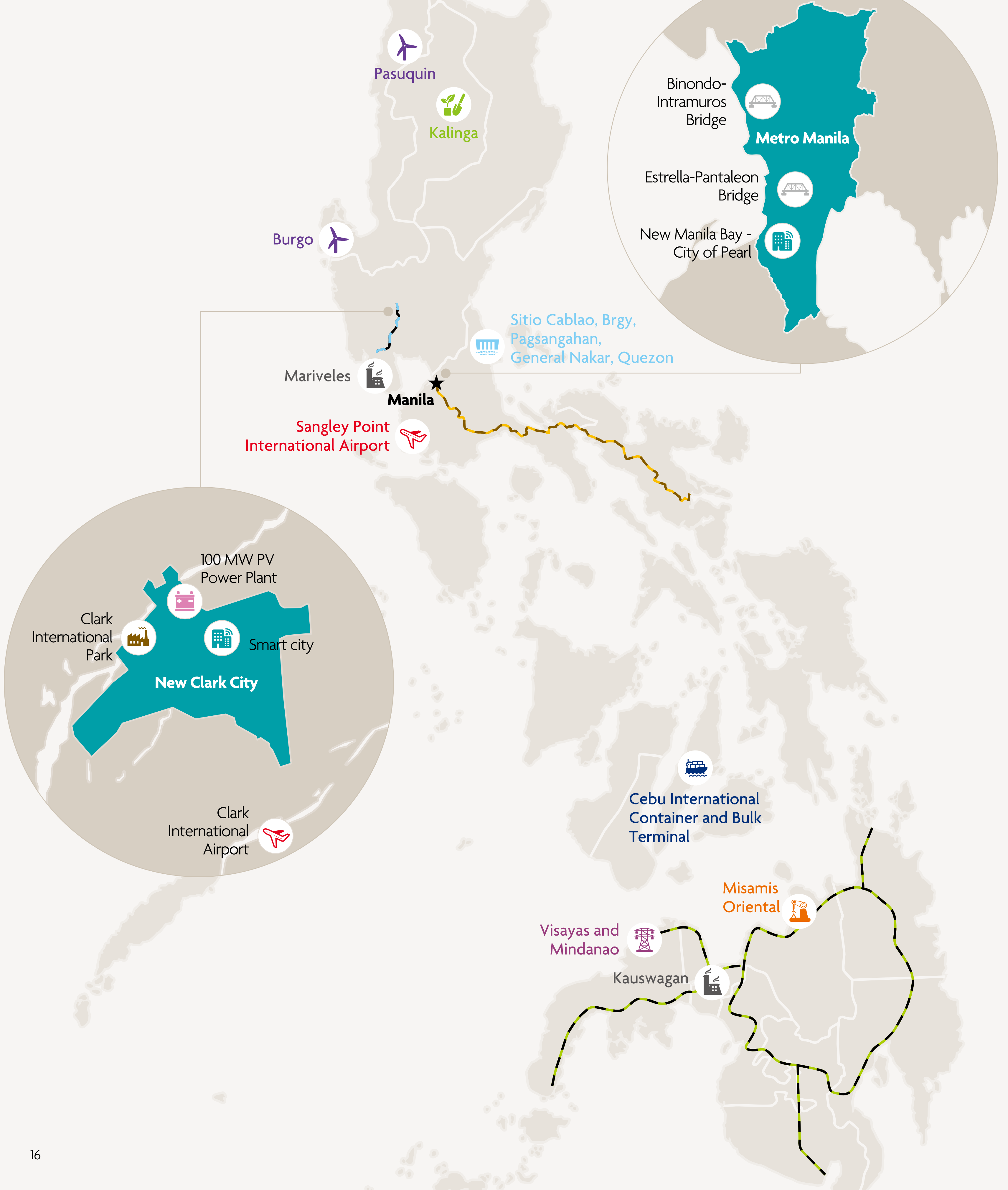
The proliferation of authorities managing SEZs and the creation of new economic zones and free ports has stimulated debate about the possibility that establishing additional authorities might lead to overlapping roles, raising management costs and impairing the benefits to be derived from competition.

Industry and Manufacturing

A main objective of existing and new SEZs and industrial parks is to attract investors in all manufacturing sectors including automotive, electronics, garments and food. In 2014, the Department of Trade and Industry and the Board of Investments drafted a 10-year roadmap aimed at increasing the contribution of manufacturing to 30% of GDP and 15% of total employment. The plan's long-term objective is to create a globally-competitive and innovative manufacturing industry.

Figure 7. Roadmap for Structural Transformation – Our Elaboration. Source: http://industry.gov.ph/

BRI Projects in the Philippines



	Project	Location
Dam	**New Centennial Water Source - Kaliwa Dam**	Sitio Cablao, Brgy, Pagsangahan, General Nakar, Quezon
Irrigation Project	**Chico River Pump Irrigation Project**	Kalinga
Industrial Park	**Clark International Park**	Clark
Iron and steel production	**HBIS Group Co Ltd**	Misamis Oriental
Railway	**Subic-Clark Railway Project**	Subic-Clark
	Mindanao Railway Project	Mindanao
	Philippine National Railways (PNR Bicol)	Metro Manila, Calabarzon, and Bicol
Bridge	**Binondo-Intramuros Bridge**	Metro Manila
	Estrella-Pantaleon Bridge	Metro Manila
Port Terminal	**Cebu International Container and Bulk Terminal**	Cebu
Airport	**Sangley Point International Airport**	Sangley
	Clark International Airport	Clark
Coal Powerplant	**Kauswagan (4x135 MW)**	Kauswagan
	Dinginin (2x660 MW)	Mariveles
Power Transmission	**350 KW direct current power transmission converter station project**	Visayas Mindanao
Photovoltaic Power Plant	**100 MW**	Clark
Wind-Solar Powerplant	**132 MW**	Burgo
	100 MW	Pasuquin
Smart city	**New Manila Bay - City of Pearl**	Metro Manila
	New Clark City	Clark

PEZA is also supporting the creation of dedicated zones for the processing of iron and other minerals. The mineral processing economic zones will boost the steel industry and should create new jobs. The Philippines aims to become a major producer of high-quality, safe steel products by 2030.

The mainland Chinese state-owned HBIS Group, one of mainland China's and the world's largest steelmakers, is partnering with Huili Investment Fund Management, Steel Asia Manufacturing Corporation, the Department of National Defense and the Board of Investments in this effort. The MoU outlines the creation of an integrated steel complex on 305 hectares of PHIVIDEC Industrial Authority land in Misamis Oriental. The investment is expected to be worth US$4.4 billion. The plant is to be established in two stages. It will significantly increase steel production capacity creating 20,000 job opportunities. The government expects to create up to 65,000 jobs in related businesses around the iron and steel production base.

In the mineral sector, Baiyin Nonferrous Group, another mainland Chinese SOE, has acquired a 5.48% stake in Global Ferronickel Holdings Inc., one of the biggest nickel producers in the Philippines with mines in Cagdianao, Surigao del Norte and Palawan. Based on a MoU signed in 2016, the two companies are expected to intensify cooperation and build a US$700 million stainless steel plant with an annual capacity of one million tons using lower grade nickel.

Enhancing Physical Infrastructure

ROADS AND RAILWAYS

Mainland Chinese entities have been responding to the opportunities created by the BBB projects to invest or participate in the construction of the approved projects that address significant connectivity problems in the Phiilippines. Positive political relations and new specific agreements between the two countries are enhancing the presence of mainland Chinese companies in the infrastructure sector.

In August 2019, during a bilateral meeting between President Duterte and mainland Chinese President Xi, China agreed to provide development assistance in the construction of the Subic-Clark Railway Project in Luzon and the Mindanao Railway Project. The Subic-Clark Railway Project will connect a new container terminal at Subic port with the emerging Clark City and its new airport. The goal is the creation of a logistics hub in the Luzon area. The first phase of the Mindanao Railway Project will cost around US$690 million. It will link the cities of Digos, Davao and Tagum, significantly reducing commuting time and promoting trade. China Railway Design Corporation is involved in the 639 km Bicol railway line that will connect Metro Manila, Calabarzon, and Bicol, and will reduce travelling time from 13 hours to under 6 hours, promoting tourism and trade.

In addition to these major railway projects, mainland Chinese entities are involved in constructing roads, subways and bridges that will improve traffic in Metro Manila. These include the Binondo-Intramuros Bridge in Manila and the Estrella-Pantaleon Bridge in Makati. The two projects will be implemented by China Road and Bridge Corporation.

PORTS

Hanjin Philippines, a unit of South Korea's Hanjin Heavy Industries & Construction Co., used to operate a 300 hectare shipyard in Subic Bay, formerly a US overseas naval base, but the company defaulted in January 2019. Mainland Chinese companies have expressed interest in taking over the operation of the shipyard but some have raised national security concerns, leading to a delay in the final decision on the future of the shipyard.

Japan's Overseas Economic Cooperation Fund is financing the expansion of the General Santos City fishing port complex. It will be a major fishing port with harvest infrastructure in Mindanao. China's National Construction and Agricultural Machinery Import/Export Corporation is involved in the construction of major facilities that include wharves and market facilities.

The dredging subsidiary of China Communication Construction Company (CCCC) and China Harbour Engineering Co. have partnered with Mega Harbour Port for projects at the Cebu International Container and Bulk Terminal in Tayud. The project is financed through a public-private partnership contract and involves the Cebu Port Authority and the NEDA. After the conclusion of the work the port will cover 150ha and have 1200m of berthing capacity.

AIRPORTS

The BBB initiative aims to improve airports in the country, improving safety and expanding their capacity to process more tourists and goods. Mainland Chinese entities are engaged in the construction and improvement work in collaboration with local partners. MacroAsia, a local company that operates catering and ground services for airlines, has been collaborating with China Communications Construction Co. Ltd. (CCCC) and has recently been awarded a contract for runway improvement and related projects at Sangley Point International Airport, but the pandemic has reportedly delayed the fulfilment of the post-qualification requirements necessary before signing the joint venture contract with the Cavite City government.

Airport construction and improvement work usually involves partnering with a Filipino company. In fact, a CCCC subsidiary has partnered with Megawide Construction Corp., a local firm, for the construction work at Clark International Airport. The progress at Clark International Airport has been steady and it is expected to be completed by summer 2020.

Better airport facilities and the relaxation of visa requirements for mainland Chinese tourists have led to more opportunities for Chinese airlines, and they have established more direct flights connecting major mainland Chinese cities such as Chengdu, Chongqing and Xiamen with Philippines tourist destinations such as Cebu.

ENERGY

The nation's energy sector has long been attractive to foreign investors. The Philippines privatised electricity supply at the beginning of the century, however the constitution and legislation limit foreign ownership. In 2007 the State Grid Corporation of China (SGCC) entered the electricity distribution market after winning a bid for the license to operate the National Grid Corporation of the Philippines for 25 years. SGCC holds 40% of a consortium with Monte Oro Grid Resources Corp. and Calaca High Power Corp. The consortium has improved transmission lines and constructed major new lines spanning the country. Several interviewees admitted that since SGCC started to operate the national grid the quality of the service has improved. However, as Alvin Camba has pointed out

“the operations of SGCC were relatively unknown to the public”

aside from specialists and those who have expressed nationalist concerns related to the potential risks of ceding control over the grid to a foreign country.

Mainland Chinese companies have also been active in energy production, mostly coal and hydroelectric power. Power China and its subsidiaries have committed around US$3 billion to investments in 11 projects that are currently under construction. They include coal-fired power plants at Kauswagan (4x135megawatts) and Dinginin (Mariveles) (2x660MW), and a ffl350 kilovolt direct current power transmission converter station for the Visayas and Mindanao.

Electricity prices are very high compared with other countries in the region, which together with the difficulty of connecting all the islands of the archipelago makes investments in renewables such as photovoltaic and wind power more attractive. Private and state-owned mainland Chinese companies are playing a significant role in these sectors by selling components or partnering with local companies to invest. China National Electric Engineering Co. and China CACS Engineering Co., two subsidiaries of mainland China National Machinery Industry Corporation, have recently signed an engineering, procurement and construction contract with Sunray Power Inc. for the development of solar energy projects and the construction of a 100MW photovoltaic installation in Clark Green City.

Qingdao's Hengshun Zhongsheng Group has entered into an agreement with Energy Logics Philippines for the construction of combined wind-solar projects valued at US$437.8 million. They include a 132 megawatt wind-solar plant in Burgos and a 100 megawatt plant in Pasuquin in northern Philippines.

The Philippines is becoming a major user of liquified natural gas (LNG) with the construction of new LNG terminals and new gas-fired power plants. The construction of these facilities has become an opportunity for corporations from around the world. CNOOC Gas and Power, a subsidiary of China National Offshore Oil Corporation, mainland China's leading LNG importer and terminal operator, has partnered with Phoenix Petroleum Philippines to build an LNG terminal in Batangas that is expected to cost US$2 billion.

In addition, the Philippines and China established an Inter-governmental Joint Steering Committee in October 2019 to better coordinate joint exploration of natural resources in the South China or West Philippine Sea. However, difficult negotiations over the oil and gas exploration contracts are still ongoing.

Digital Infrastructure and the Digital Economy

The Philippines, like other ASEAN countries, is taking advantage of new technology to reshape its economy and create more opportunities for growth. The government has implemented policies and drafted new legislation to support the expansion of new economic sectors.

The expansion of the e-commerce sector is currently supported by an "E-Commerce Roadmap 2016-2020" designed to coordinate the efforts of the various stakeholders in developing an e-commerce ecosystem. The roadmap's recommendations are in six key areas.

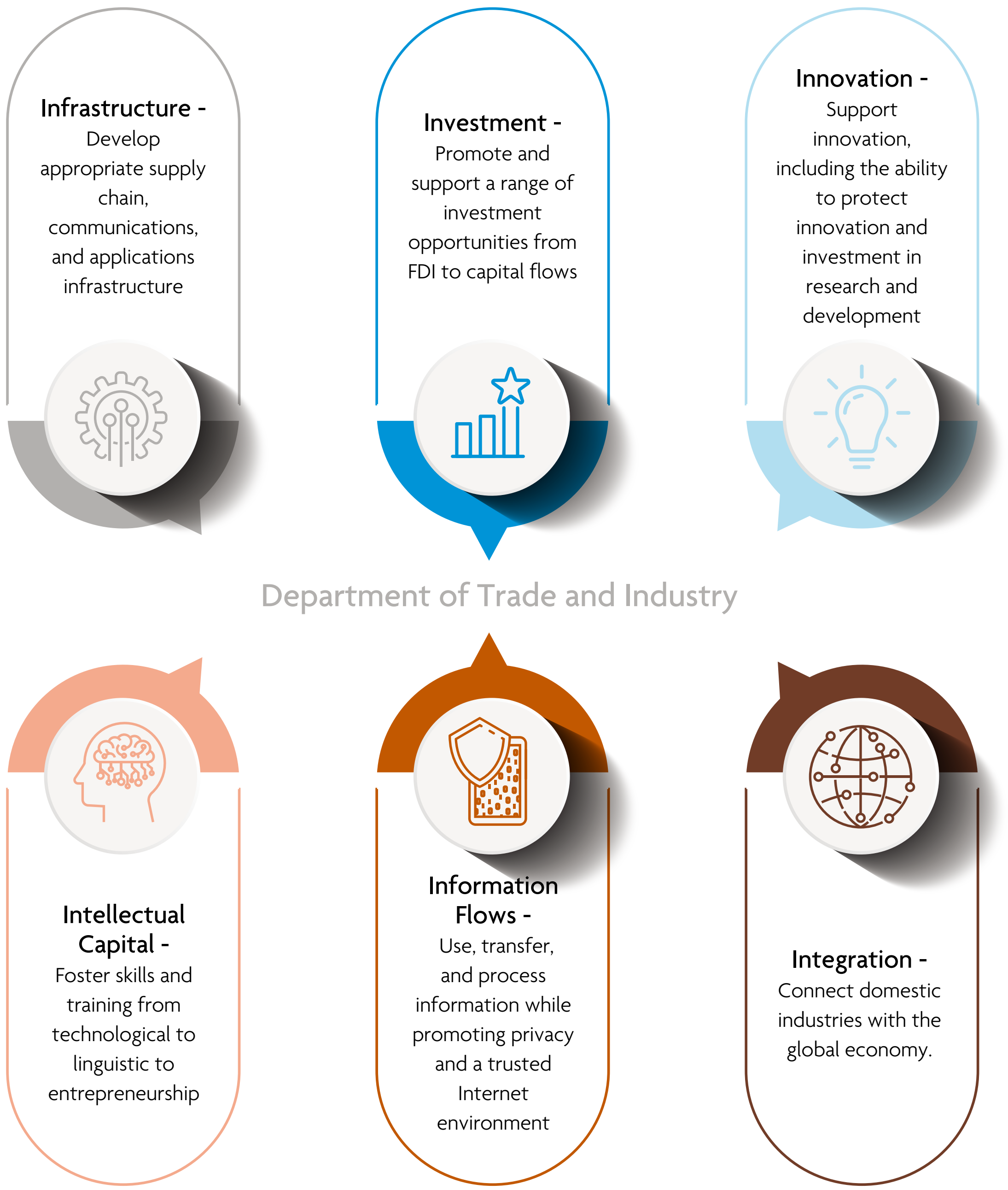


Figure 8. Philippines E-Commerce Road Map. Source: Department of Trade and Industry.

Appropriate infrastructure is essential for promoting the widespread adoption of e-commerce nationwide. Fast, reliable, and affordable internet service that is accessible even in rural areas is a basic requirement that the government seeks to address. The necessary infrastructure also includes systems and applications that support e-commerce such as e-banking, e-payment and logistics. An online dispute resolution system to address consumer complaints is also being discussed. The E-Commerce Roadmap also recognises the need to reform the tax system to make it easier for online sellers and freelancers to comply with the regulations. More government agencies should be able to provide full online services to the business sector and to citizens.

Alibaba's acquisition of stakes in Lazada started in 2016, and the takeover was finalised in 2018. The acquisition has affected the way Lazada does business in ASEAN and has led to more investment to accelerate the company's learning curve. Carlos Barrera, the chief operations officer of Lazada Philippines says that since the Alibaba acquisition Lazada has improved its intellectual property guidelines and strengthened its policies for tackling IP rights violations on the platform both proactively and reactively. The new policies were introduced as part of Alibaba's duties as a US-listed company. In addition, Lazada has been tackling pollution related to e-commerce by introducing policies to reduce packaging-related pollution. The COO admits this is challenging, but the company is minimising the use of plastic. On the other hand, the application of a hyper-local strategy prioritising sellers being located close to buyers reduces transportation-related pollution.

The greater presence of mainland Chinese entities in the telecommunications sector worldwide has triggered criticism from US officials who have urged allies to refuse partnerships with mainland Chinese 5G operators. In the Philippines, the US Trade and Development Agency has signed a US$1 million grant agreement with one of the country's major telecommunication operators. The grant will support initiatives to speed up digital transformation through training and to fortify the firm's 5G digital footprint.

The Philippine government's Data Privacy Act came into force in September 2016. There is now a National Cybersecurity Plan 2022 which outlines responses to cyber threats, how to secure data, and how to educate the public about cybersecurity.

The Philippines is making efforts to take advantage of new opportunities arising from the recent development of fintech, the blockchain and cryptocurrencies. The SEZs offer accommodating policies to foreign cryptocurrency exchanges. In the CEZA a government-owned and controlled corporation and Northern Star Gaming & Resorts Inc. a private property developer are pooling their resources to build Crypto Valley of Asia (CVA), a planned development estate designed to push economic growth further in Northern Luzon. CVA aims to foster an eco-system of networked fintech firms with amenities such as co-working and living spaces, business incubation and acceleration hubs as well as back offices for service providers to the global crypto space.

SMART CITY

The real estate market is booming, particularly investments in new urban areas. The government plans to apply new technologies to improve life quality, reduce environmental impacts and increase the sustainability of new city areas. This has encouraged smart city projects which offer attractive opportunities for firms specialised in the sectors involved. Two major smart city projects attracting funds and investors today are the 407ha City of Pearl in Manila and New Clark City within the Clark Special Economic Zone.

City of Pearl is located in the heart of Manila, It is expected to become one of the biggest self-sustaining smart cities in Asia. The plan is to include more than 500,000 citizens and create over 100,000 jobs. This project is part of the China-Philippines collaboration in the BRI framework and politicians expect it to be a driver for Manila's economy and to improve social mobility for younger generations. The project was designed by Ho & Partners Architects, Engineers & Development Consultants Ltd. from Hong Kong SAR and is being implemented by the UAA Kinming Group Development Corporation, a local group that has partnered with mainland Chinese companies. The futuristic project has received broad support, but has also attracted some criticism from environmental groups in relation to the impact of the necessary land reclamation.

New Clark City is also envisioned as a smart, green and sustainable metropolis. It will be integrated with the Clark Freeport Zone, close to Clark International Airport and the Clark Industrial Park. It will cover an area of 500ha of commercial, industrial, residential and mixed-used areas, prioritising high-tech and manufacturing industries.

Issues for Mainland Chinese FDI in the Philippines

In recent years, mainland Chinese investments and trade, and visits from mainland Chinese tourists have increased dramatically. Filippinos are somewhat familiar with Chinese culture due to historical ties and the long presence of Chinoy in the population. This has minimised culture shock and significantly reduced language barriers. In addition, rich Chinoy enterpreneurs help mainland Chinese companies to better understand the business environment.

The unsettled conflicts over the Spratly Islands and Scarborough Shoal produce nationalistic sentiments which lead opposition leaders and others to raise national security concerns about reliance on mainland Chinese investment. Some feel that the presence of more mainland Chinese in the country as investors and tourists has led to high real-estate prices, which also creates some local dissatisfaction. However, the historical presence of Chinese in the country, and the pragmatic attitude of political leaders who want to benefit from the BRI and enhance the local economy has led to nuanced attitudes toward mainland Chinese investment.

Environmental groups have expressed their hope that some of the projects (the City of Pearl, and the Kaliwa Dam in particular) could pay greater attention to environmental impacts.

From a regulatory perspective, the Foreign Investment Act regulates foreign investment and determines in which sectors foreign investors cannot invest or face ownership restrictions. Some ownership restrictions are determined by the constitution or other legislation. Partnerships with local companies are required in some cases. However, even when it is not required, mainland Chinese investors can benefit from partnering with local firms that can help them better understand local market dynamics and regulations.

The Role of Hong Kong

Hong Kong is the closest international city and financial centre to Manila, just a 90-minute flight away. Guangdong Province next to Hong Kong SAR has had strong trade ties with the Philippines for centuries, and Hong Kong is now an important export destination for the Philippines, accounting for 13.7% of Philippine exports, the same share as mainland China and just behind the US and Japan. Hong Kong is also an important source of FDI for the Philippines. In 2015, Hong Kong SAR and the Philippines signed a Memorandum of Intent that pledged mutual cooperation on investment promotion and an exchange of information on the investment environment. In early 2018 Hong Kong's Trade and Development Council led a delegation of businessmen to the Philippines who had particular interest in agriculture, tourism, infrastructure, and manufacturing industries.

As has been explained, Ho & Partners from Hong Kong is playing a key role in developing New Manila Bay, a Belt and Road project. The design includes an integrated hardware and software system combining a smart energy-saving grid with water supply, light-rail transportation, and self-sustaining solar and tidal energy. Carbon positivity is the long-term goal.

Investment Climate and Free Trade Agreements

In recent years the Philippines has undertaken several reforms intended to improve the business environment, improve competitiveness, and attract more foreign investment. In 2015 the Congress passed the Philippine Competition Act (PCA), and in 2016 the Philippines Competition Commission began operations. The authorities have also made progress in liberalising the domestic capital and foreign exchange markets a priority. The legislative changes have resulted in a higher Ease of Doing Business ranking. The Philippines ranked 95th in 2019, compared to 124th a year earlier.

Moreover, the House of Representatives has recently amended the Public Service Act. The new legislation allows full foreign ownership in the public service sector, including in the transportation, communication and power industries. While the legislative changes will improve the business opportunities for foreign investors, other limitations on foreign ownership are enshrined in the nation's constitution. By the end of 2018, ownership restrictions on businesses in the internet sector, tertiary education, and finance and insurance were removed. Foreign investors' participation in contracts for the construction and repair of locally-funded public works has also been liberalised from 25% to 40% ownership, and in private radio communications networks from 20% to 40% ownership, creating more opportunities for foreign investors.

As a member of the ASEAN, the Philippines has a Free Trade Agreement (FTA) with China and has recently signed one with Hong Kong SAR. The two FTAs provide substantial protections for investors in BRI projects. But unlike other countries in the region, the Philippines has not joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership that creates a favourable trading and investment environment with countries such as Australia, Brunei, Chile, New Zealand, Peru, Singapore, Vietnam, Japan, Malaysia, Canada and Mexico.

The Philippines has been negotiating a new FTA with South Korea which is expected to be signed soon. Negotiations with the European Union which started in 2015 have not made any progress since 2017, precluding preferential access to a major global market for companies based in the Philippines. Brexit has led the United Kingdom to start negotiations on a new network of FTAs, including one with the Philippines, but the negotiations are only at a very early stage.

Special Section on COVID-19

The Philippines has had the most COVID-19 cases per capita among all of the countries in Southeast Asia. The first locally-transmitted case was reported on 7 March 2020, leading the President to declare a partial lockdown in Manila on 12 March and an "enhanced community quarantine" for all of Luzon from 16 March to the end of April, after which some regions began to loosen restrictions. New cases spiked higher in late May and peaked in mid-August at more than 6,000 per day, after which new cases gradually declined but remained above 2,000 per day in October. Despite these challenges, on 19 August the government allowed Metro Manila and other high-risk areas to shift to a "general community quarantine," which allowed more businesses to reopen and mass transportation to resume in phases. By mid-October, total COVID-19 cases had reached more than 350,000 with over 6,000 deaths.

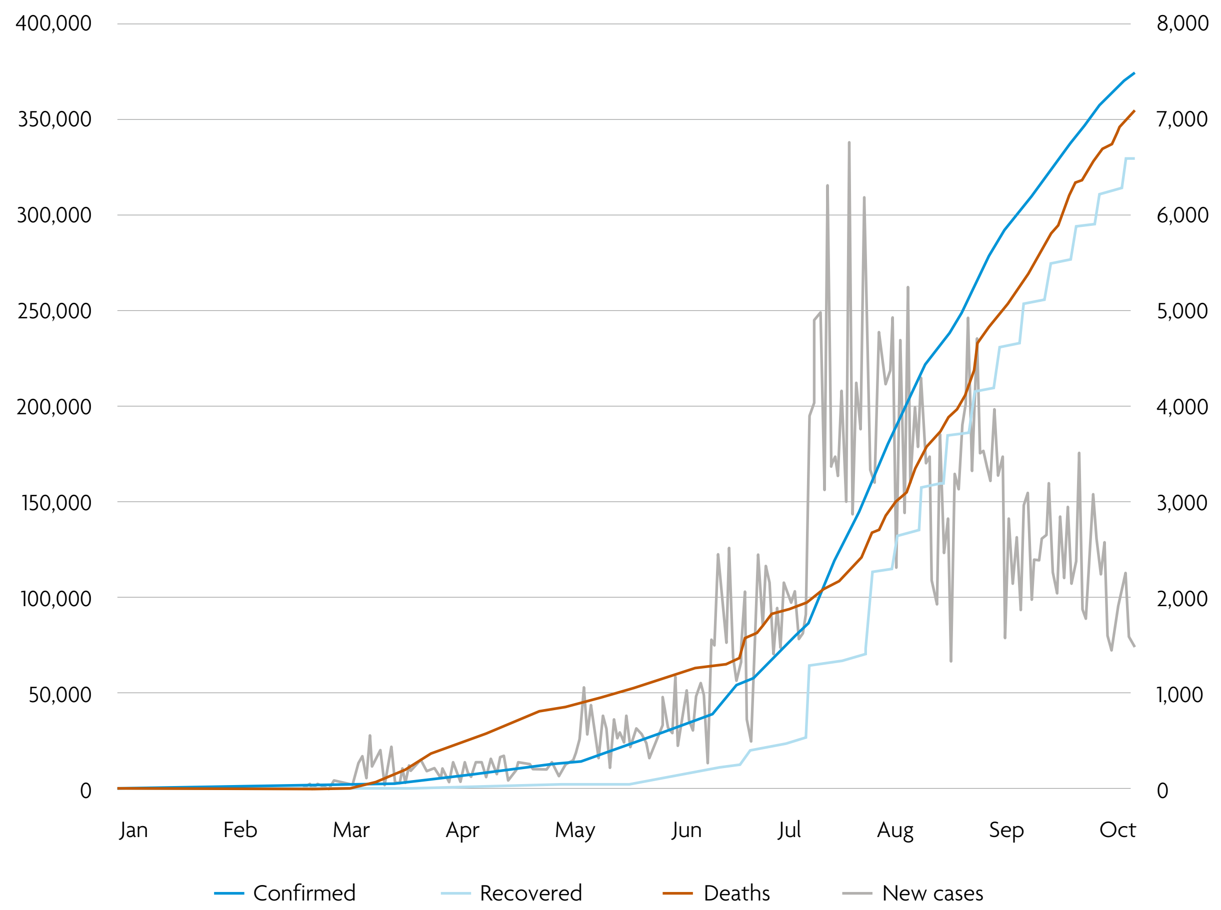


Figure 9. Philippines COVID-19 Cases

The Philippines' struggles to combat the virus led to extended community lockdowns and cautious consumer behaviour that wreaked havoc on the economy. The country experienced its first contraction in real GDP since the fourth quarter of 1998, which was after the Asian financial crisis and during an El Nino drought. Lockdowns create simultaneous shocks to both supply (due to business shutdowns) and demand (due to lost purchasing power when workers lose jobs and income). During the second quarter of 2020 the economy contracted by a remarkable 16.5% compared to a year earlier. The unemployment rate reached as high as 17.7% before falling to 10% by July. Job losses were largely in services (trade, transport, accommodation, restaurants, and entertainment) but also in manufacturing. According to a government survey, 77% of small firms and 62% of medium-sized ones had to close during the quarantines, and those that remained open suffered a 66.5% decline in sales. The Asian Development Bank projects that GDP growth in 2020 will be -7.3%, compared to 6.0% in 2019. Growth is expected to return to 6.5% in 2021.

In the disastrous second quarter, household consumption fell by 15.5% and private investment in machines and transport equipment declined by 62.1%. The government boosted the economy by increasing government spending during the second quarter by 22.1%. A US$7.72 billion support package was enacted which included income support for families, wage subsidies, soft loans, credit guarantees for small businesses and support for agriculture. In September, another fiscal support package of US$3.4 billion provided additional assistance to households and also provided funds for the health-care system, skills training. digital education and assistance to local governments. These stimulus measures were critical for vulnerable households and enterprises, but the overall size of the two packages together was a relatively modest 4.1% of GDP.

The Central Bank also implemented policies to make credit more available. The policy interest rate was lowered four times in 2020, to 2.25%. The reserve requirement was lowered from 14% (the highest in the region) to 12%, loans to small businesses were allowed to count towards reserve requirements, and penalties for not meeting reserve requirements were relaxed. Overall, despite the challenging economic situation, the Philippines' abundant external reserves and the low public external debt put it in a good position to finance measures to support economic recovery.

One area of planned increased future spending is on infrastructure. The infrastructure budget is planned to increase from 4.2% of GDP in 2020 to 5.4% in 2021. This plan reflects the government's intention to continue spending significant resources on its ambitious Build, Build, Build infrastructure programme in order to stimulate construction activity and spending in the economy. It is also of course intended to support long-term economic growth. This commitment bodes well for the completion of infrastructure projects that are part of the BRI. However, extended lockdowns and urgent spending needs during 2020 led the government to reprioritise its infrastructure investments and temporarily suspend many Belt and Road infrastructure projects. Influenced by the pandemic experience, the government plans to give higher priority to projects that promote better health services, facilitate the transport of essential goods, and provide information technology infrastructure that can support an ICT-enabled government. Still, Mark Villar, the Secretary of the Department of Public Works and Highways emphasises the country's strong intention to continue engaging with mainland China on infrastructure projects, saying "Once we overcome this COVID-19 we will have a continuous interaction with mainland China and our cooperation in the infrastructure sector will only grow stronger."

The Chinese government has developed closer ties with the Philippines by helping it combat COVID-19. Mainland China sent a 12-member team of medical experts in April to assist and advise ongoing efforts to curb the spread of the disease. In May, Mainland China donated medical equipment and supplies including 100 ventilators, 150,000 testing kits, 70,000 medical protective suits, 70,000 N95 medical masks, 1.3million surgical masks and 70,000 pairs of medical protective goggles.

About UOB

United Overseas Bank (UOB) is a leading bank in Asia with a global network of more than 500 offices in 19 countries and territories in Asia Pacific, Europe and North America. Since its incorporation in 1935, UOB has grown organically and through a series of strategic acquisitions. UOB is rated among the world's top banks: Aa1 by Moody's Investors Service and AA- by both S&P Global Ratings and Fitch Ratings. In Asia, UOB operates through its head office in Singapore and banking subsidiaries in China, Indonesia, Malaysia, Thailand and Vietnam, as well as branches and representative offices across the region.

Over more than eight decades, generations of UOB employees have carried through the entrepreneurial spirit, the focus on long-term value creation and an unwavering commitment to do what is right for our customers and our colleagues.

We believe in being a responsible financial services provider and we are committed to making a difference in the lives of our stakeholders and in the communities in which we operate. Just as we are dedicated to helping our customers manage their finances wisely and grow their businesses, UOB is steadfast in our support of social development, particularly in the areas of art, children and education.

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HKUST Institute for Emerging Market Studies (IEMS) provides thought leadership on issues facing businesses and policymakers in emerging markets. Building on the research strengths of the faculty at the Hong Kong University of Science and Technology, the Institute focuses its research and activities on the themes of human capital, employment, and structural change; innovation and entrepreneurship; global economic integration; financial development; strategy, firms, and markets; and organisational and consumer behaviour. Find out more at *http://iems.ust.hk*

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