Uncertainty about long term political stability in the Philippines, a forecast increase in the government's budget deficit, high interest rates (around 25%), rising inflation, and the increasing trade deficit point to reduced growth prospects for 1990. Events such as the July, 1990 earthquake also take their toll. In spite of these factors, however, GDP growth is still expected to reach a relatively healthy 4%.

Philippines' Global Trade

In 1989, two-way trade between the Philippines and the rest of the world exceeded $21 billion, a 20% increase over the 1988 level and almost twice the level reached in 1986. The country's overall trade deficit has gradually increased to a high of close to $3 billion in 1989, more than twice the figure recorded in 1988.

The United States is the Philippines most important trading partner, serving as a destination for over 35% of its exports and the origin of over 20% of its imports. Japan is second in importance. Together, both countries account for approximately 46% of the total trade carried out by the Philippines.

Growing investor interest in the Philippines is obvious from the rapid increase in the investment/GDP ratio which is currently 19%, compared to approximately 13% in 1986. Foreign investment intentions, which doubled in 1988 to US$1 billion, exceeded US$2 billion in 1989. Investment is directed mainly to the construction sector and toward the expansion in industrial capacity to meet export growth.

The Business Environment

The Philippine Government's policy of import liberalization is in part responsible for the renewed Canadian business interest in the Philippines. While tariffs remain high and some products are still subject to import controls, there are no restrictive labelling, packaging or standards requirements and relatively few non-tariff barriers. English is the language of business in the Philippines.

In principle, anyone, regardless of nationality, may invest in either new ventures or existing activities. In practice, however, the Government prefers joint ventures to outright foreign ownership. Ownership is generally restricted to between 30% and 40% in certain key sectors such as public utilities, finance and banking. On the other hand, investment is encouraged in those areas which will improve economic efficiency and develop export-oriented industries. Thus, Export Processing Zones have been established at strategic locations to promote foreign commerce. One hundred percent foreign ownership is allowed for enterprises meeting the criteria of these zones.

Other forms of investment incentives exist for those enterprises which register under the Board of Investments. These firms may be eligible for a number of incentives which include various tax breaks including pioneer status and extended tax holidays if certain criteria are met, as well as tariff exemptions.