

# Joint Foreign Chambers of the Philippines

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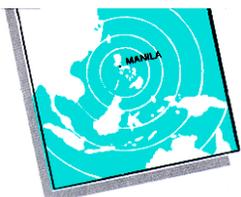
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## JOINT FOREIGN CHAMBERS IN THE PHILIPPINES

### POSITION PAPER ON RETAIL TRADE ACT AMENDMENTS

### AT THE HEARING OF THE HOUSE OF REPRESENTATIVES

### COMMITTEE ON TRADE AND INDUSTRY

ON SEPTEMBER 24, 2019

The Joint Foreign Chambers in the Philippines strongly support HB 59, HB 192, HB 344, HB 402, HB 1222, HB 4554, HB 3502 amending R.A. No 8762, the Retail Trade Liberalization Act enacted in 2000.

We very much welcome the commitment of the Duterte Administration to liberalize the foreign investment regime in order to increase foreign investment, create more jobs, and increase competition and technology transfer.

**Retail Trade Act liberalization is a Duterte Administration priority.** It was certified as urgent on June 3, 2019 along with the amendments to the Public Service Act and the amendments to the Foreign Investment Act as endorsed by the Economic Development Cluster (DTI, DOF, and NEDA).

President Duterte also issued Memorandum Order No. 16 on November 17, 2019 instructing the NEDA Board to "exert utmost efforts" to lift restrictions on foreign investment in selected areas: (1) private recruitment, (2) practice of particular professions, (3) public services, (4) culture, production milling, processing and trading (retailing of rice and corn), (5) teaching at higher education levels, (6) domestic market enterprises, and **(7) retail trade enterprises**. In addition, the President directed the NEDA Board to inform him regarding restrictions which may be lifted or eased without legislation.

Senior administration officials have made clear that, in addition to removing foreign equity restrictions in the Constitution, the Administration is seeking to make the Foreign Investment Negative List less negative through administrative interpretations and amending laws that contain restrictions on foreign investment.

In this regard, the Philippine Development Plan (PDP) advocates to "align guidelines for foreign investments with the Foreign Investment Act and lower capital requirements for foreign enterprises and harmonize with those observed in Asian countries."<sup>1</sup> The PDP lists Retail Trade Liberalization as part of the legislative agenda under Chapter 9: Expanding Economic Opportunities in Industry and Services through Trabaho at Negosyo (see Figure 1).

<sup>1</sup> Page 134 op cit

Figure 1: Legislative agenda for industry and services, PDP, 2017-2020

| LEGISLATIVE AGENDA  | RATIONALE   |
|---|---|
| <b>Sector Outcome A: Economic opportunities in I&amp;S expanded</b>   |   |
| <b>Subsector Outcome: Local and foreign investments increased</b>   |   |
| Amend certain economic provisions of the Constitution   | Relax restrictive foreign ownership provisions of the Constitution to attract more FDI.   |
| Pass the Ease of Doing Business Act   | Enhance market competition through improving ease of doing business. This legislation will sustain the intention of Project Repeal to review existing policies, statutes, and regulations, and eventually repeal unnecessary issuances.                       |
| Amend the Public Service Act  | Define "public utility".  |
| Amend the <u>Retail Trade Liberalization Act</u>  | Align guidelines for foreign investments with the Foreign Investment Act and lower capital requirements for foreign enterprises and harmonize with those observed in Asian countries.   |
| Repeal or amend the Flag Law (Commonwealth Act 138)   | Create a level playing field for foreign firms in bidding for government procurement.   |
| Adopt an open access policy   | Adopt and enforce open access in various segments of the telecommunications market (e.g. backhaul and backbone facilities) on a non-discriminatory basis and publicize prices in order to introduce effective competition in the broadband or telecom market. |
| <b>Subsector Outcome: Competitiveness, innovativeness, and resilience increased</b>                             |   |
| Set up a National Quality Infrastructure system   | Integrate and coordinate standardization, metrology, testing analysis, quality management, certification, and accreditation.  |
| <b>Subsector Outcome: Consumer access to safe and quality goods and services ensured</b>                        |   |
| Amend the Consumer Act  | Increase protection of consumers and harmonize existing law with current and future technological advancements.   |
| <b>Sector Outcome B: Access to economic opportunities in I&amp;S for MSMEs, cooperatives, and OFs increased</b> |   |
| <b>Subsector Outcome: Access to production networks improved</b>  |   |
| Institutionalize the industry cluster approach  | Pursue local economic development through inter-local cooperation among LGUs and strengthen people participation in community development.  |
| Inclusive Business Bill   | Provide for the establishment of a national strategy for the promotion of Inclusive Businesses to be implemented by the Inclusive Business Center. This also provides policies for accreditation, support, and incentives.                                    |

**The policy of the Retail Trade Act is to promote consumer welfare, create jobs, and make Philippine goods and services globally competitive.** Section 2 of R. A. 8762 states that:

**Section 2. Declaration of Policy.** – It is the policy of the State to promote consumer welfare in attracting, promoting and welcoming productive investments that will bring down prices for the Filipino consumer, create more jobs, promote tourism, assist small manufacturers, stimulate economic growth and enable Philippine goods and services to become globally competitive through the liberalization of the retail trade sector.

Pursuant to this policy, the Philippine retail industry is hereby liberalized to encourage Filipino and foreign investors to forge an efficient and competitive retail trade section in the interest of empowering the Filipino consumer through lower prices, higher quality goods, better services and wider choices.

Prior to RA 8762 foreign investment in retail business was not allowed. A careful reading of each element of the policy intent of the law shows that the law was intended to



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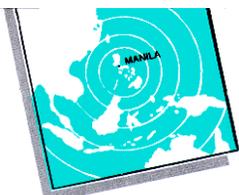
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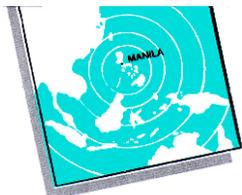
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benefit the consumer by allowing foreign investors to compete alongside Philippine retailers, to create jobs, and to make Philippine goods and services globally competitive.

**The Retail Trade Act of 2000 has not realized its objectives.** The expectations of legislators who authored the law in 2000 have not been realized. Over the last 19 years, only a small number of foreign retailers have invested in the country. Giant foreign retailers did not invest in the Philippines. The expected job generation did not materialize, and Philippine goods and services did not become globally competitive as a result of the law.

Over 19 years, a total of 43 foreign retail investments have been recorded by the DTI, creating only around 22,000 jobs. That is a little more than one investor per year who met the \$2.5 million minimum capital investment requirement. Had the capital requirement been the same as in the Foreign Investment Act for other domestic enterprises, we believe hundreds of foreign investors would have invested in the Philippines and created many tens of thousands of jobs more.

By contrast, the ASEAN region as a whole during the five year period 2012-2016 received an average of US\$17 billion, according to data from the ASEAN Secretariat. The Philippine total during the same period averaged \$107 million or 0.006% of the total for ASEAN.

In 2016, when the Philippines received only US\$101 million in foreign retail sector investment, Thailand received \$3.2 billion, Malaysia received \$2.5 billion, Indonesia received \$2 billion, and Vietnam received \$2 billion in retail sector investment. Singapore received over \$8 billion, almost more than all other ASEAN economies combined. Although a small country, Singapore has no restrictions on foreign investment in retail and enjoys a per capita income of US\$88,000 PPP.

In other words, our ASEAN neighbors, by welcoming foreign investment in retailing, followed a policy that creates jobs for their citizens in their countries. Meanwhile, the Philippines, a country that continues to send large numbers of workers abroad because they cannot find jobs at home, because of a flawed law failed to received similar benefits from foreign investment. We commend the Duterte Administration for seeking to open the retail sector to more foreign investment, which potentially will create more jobs for Filipinos at home who will not have to endure separation from their families to work abroad,

**The current law contains many restrictive provisions that are not in the Foreign Investment Act.** RA 8762 contains several requirements that a foreign investor in retail must meet. These are unique to this law and not present in the Foreign Investment Act. To the greatest extent they should be removed, as partially proposed in HB 4595.



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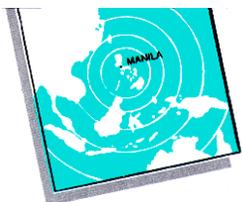
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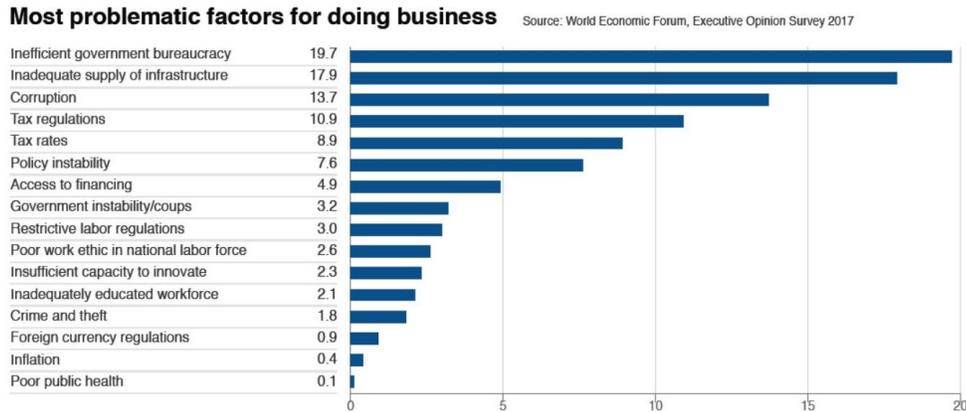
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The 2017 Global Competitiveness Index of the World Economic Forum cited bureaucratic red tape as the major concern of doing business in the Philippines (see Figure 2). The sections above add to red tape and contradict the spirit of minimizing red tape and creating a level playing field for foreign investment.

**Figure 2: Most problematic factors for doing business in the Philippines, 2017**



**Note:** From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

**The Retail Trade Act should be consistent with the basic law on foreign investment.** RA 7042, the Foreign Investment Act of 1991, as amended by RA 8179 is the basic law governing foreign investment in the country. Retail trade should be treated in a similar fashion to other foreign investments regulated by this basic law.

In this connection, there is no requirement in these laws for reciprocity. We would like to understand why reciprocity should be required in Section 8 (d) of RA 8762. Reciprocity is not cited in Section 2. Declaration of Policy. Other countries do not usually require reciprocity. Requiring reciprocity could limit the entry of retail investors that may bring important benefits to the Philippines. Our impression is that Philippine investors are not interested in retail trade overseas.

Thus we recommend removal of the reciprocity provision.

**Keep in mind new FTAs.** The Philippines is currently engaged in negotiations for a FTA with the European Union and may initiate reforms for FTA with the United States. On March 5, 2018 the Philippine Senate ratified the Free Trade Agreement between the European Free Trade Association States and the Philippines (PH-EFTA FTA). On March 8, 2018 11 countries signed the Comprehensive and Progressive Trans-Pacific Partnership in Santiago, Chile (without the United States). The Philippines has been mentioned as a leading candidate along with Korea, Indonesia, and Thailand to join the CPTPP.

Under Chapter IX Investment of the PH-EFTA Article 24 states:

(a) Member States shall grant treatment no less favourable than that accorded to their own companies or firms;



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(b) each Member State may regulate the establishment and operation of companies or firms on its territory, in so far as these regulations do not discriminate against companies or firms of the other Member States in comparison to its own companies or firms."

Article 9.4 of the CPTPP entitled "National Treatment" concerns foreign investment and states that:

Each Party shall accord to investors of another Party treatment no less favourable than that it accords, in like circumstances, to its own investors with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments in its territory.



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As legislators consider amending current laws concerning policies included in these future agreements, we recommend that legislators consider that too many restrictions may make the Philippines less attractive to the country members of these treaties.



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We do not believe including this provision reflects the directive of President Duterte "to exert the utmost efforts" in easing restrictions in the FINL.



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**Conclusions.** The Philippines is reaching a stage of sustained high and inclusive growth. But continuation of such growth is not guaranteed. One of the important factors to sustain such growth and to support even higher levels in future years is liberalization of restrictions on foreign investment. The proposed bill on retail trade is among reforms to encourage more foreign investment that will support higher growth and investment and result in more jobs for Filipinos in the Philippines.



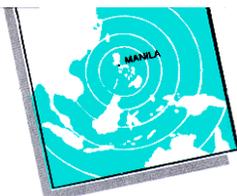
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The entry of more foreign retail investors into the sector will create jobs at every stage of the retail process and indirectly in those who service the retail sector. One new retail job is not just the sales clerk or the cashier that the customer sees in the store. These are the tip of the retail iceberg, the hidden part of which includes jobs in advertising, agriculture, construction, design, logistics, media, telecommunications, and wholesale retail, among others. In other words, investment in retail sends ripples throughout the economy.



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Retail trade sector reform will support the more rapid growth of the tourism sector, which is a major priority of the government. Many foreign tourists travel to shop, for example to Bangkok, Hong Kong or Singapore. This is especially true of the growing number of Chinese tourists, who go as far as Paris and London to spend their money at full retail prices. Famous brand names and famous department stores operating in major cities attract foreign shoppers and on Orchard Road in Singapore or the Bund and Nathan Road in Shanghai. Why not also in Makati, Cebu, Clark, and Davao?



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More foreign retail players create more competition, which is good for the Filipino consumer, especially the growing middle class, who can purchase higher quality and more variety of goods at lower costs. Foreign retailers may introduce better technologies for their logistics, inventory management, sales, accounting, and other business operations.



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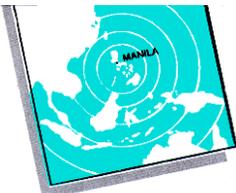
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Foreign retailers will often source their goods locally if they are given quality and pricing comparable to their foreign sources of supply. This can lead to orders from local suppliers to supply not just retail outlets in the Philippines but for export to their outlets in other countries.

The JFC is a coalition of the American, Australian-New Zealand, Canadian, European, Japanese, Korean chambers, and PAMURI. We represent over 3,000 member companies engaged in over \$100 billion worth of trade in goods and services and some \$30 billion in investment in the Philippines. The JFC supports and promotes open international trade, increased foreign investment, and improved conditions for business to benefit both the Philippines and the countries the JFC members represent.

Sincerely,

*James D. Wilkins*  
**JAMES WILKINS**

President  
American Chamber of  
Commerce of the Philippines,  
Inc.

*Nabil Francis*  
**NABIL FRANCIS**

President  
European Chamber of  
Commerce  
of the Philippines

*Daniel Alexander*  
**DANIEL ALEXANDER**

President  
Australia-New Zealand  
Chamber

*Keiichi Matsunaga*  
**KEIICHI MATSUNAGA**

President  
Japanese Chamber of  
Commerce and Industry  
of the Philippines, Inc.

*Evelyn Ng*  
**EVELYN NG**

President  
Philippine Association of  
Multinational Companies Regional  
Headquarters, Inc.

*Julian Payne*  
**JULIAN PAYNE**

President  
Canadian Chamber of  
Commerce of the Philippines,  
Inc.

*Ho Ik Lee*  
**HO IK LEE**

President  
Korean Chamber of  
Commerce  
of the Philippines, Inc.