Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 1/5/2000

GAIN Report #RP0002

Philippines

Market Development Reports

The Philippines Opens Up Foreign Investment in Retail Trade

2000

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Report Highlights:

The Philippine Congress has passed legislation that opens up the retail trade to foreign investment. Foreigners are now allowed ownership of retail businesses up to 100 percent depending on the level of investment. Opening up the trade to foreign operators is expected to infuse increased efficiency in the retail sector from which Filipino consumers stand to reap the most benefits. In addition, Post feels that the liberalization will be a boon to U.S. food exports.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Manila [RP1], RP

Executive Summary

The Philippine Congress has passed legislation that opens up the retail trade to foreign investment. Foreigners are now allowed ownership of retail businesses up to 100 percent depending on the level of investment. Opening up the trade to foreign operators is expected to infuse increased efficiency in the retail sector from which Filipino consumers stand to reap the most benefits. In addition, Post feels that the liberalization will be a boon to U.S. food exports. End of Summary.

The Philippine Congress passed, on December 22, 1999, legislation that opened the retail trade sector to foreign investment. The bill, which is being sent to the President for signature, repeals an Act enacted in 1954 which prohibited foreigners from engaging in retail trade. Foreigners whose countries allow Filipinos to invest in retail trade enterprises will now be allowed ownership of retail businesses as follows:

Category A - does not allow foreign ownership in retail trade enterprises with a paid-up capital of less than US$2.5 million

Category B - allows 100 percent foreign ownership of retail businesses with capitalization of more than US$7.5 million, provided that investments on a per-store basis should not be less than US$830,000. Where foreign equity is over 80 percent, at least 30 percent of its equity should be offered to the Philippine public within eight years from the start of operations. At least 30 percent of the value of inventory of goods should consist of products made in the Philippines. The parent corporation of foreign investors must have a net worth of at least $200 million plus a five-year track record in retailing.

Category C - 60 percent foreign ownership of retail businesses with capitalization of between US$2.5 million to US$ 7.5 million within two years after enactment of the bill; 100 percent ownership will be allowed after two years. Where foreign equity is over 80 percent, at least 30 percent of its equity should be offered to the Philippine public within eight years from the start of operations. At least 30 percent of the value of inventory of goods should consist of products made in the Philippines. The parent corporation of foreign investors must have a net worth of at least $200 million plus a five-year track record in retailing.

Category D - allows capital ceiling of US$250,000 for foreign retailers specializing in "high-end luxury goods" defined as goods which are not considered necessary for life maintenance and whose demand is generated in large part by higher income groups such as jewelry, clothing, footwear, wearing apparel, leisure and sporting goods, electronics, and other personal effects. At least 10 percent of the value of inventory of goods should consist of products made in the Philippines. The parent corporation of foreign investors must have a net worth of at least $50 million plus a five-year track record in retailing.

Foreign acquisition of existing Philippine retailers whose net worth is more than US$2.5 million will be limited to 60 percent of equity for the first two years from date of enactment of legislation. Foreign investors will be able to acquire 100 percent of local retailers after two years.

Foreign retailers are prohibited from engaging in certain retailing activities outside their accredited stores through the use of mobile or rolling stores or carts, the use of sales representatives, door-to-door selling, restaurants, and *"sari-sari"* stores and other similar retailing activities.

Comments:

The retail trade liberalization is expected to bring fierce competition to existing big and small retailers although they are likely to reap benefits in the long term. The smaller retailers will be adversely affected because of limited capital to modernize and keep up with the competition. Bigger players, including the major supermarkets we talked to, knew this was coming and have prepared for the eventual liberalization of their sector. Ultimately, accompanying technological, management and operational advancements that foreign retailers bring along are expected to infuse increased efficiency in the industry.

Opponents to the liberalization often espoused the future of the ubiquitous *"sari-sari"* stores (small mom & pop neighborhood stores) which form the integral component of Philippine retailing business and an important source of income for a lot of families. It should be noted that together with wet markets, purchases from *"sari-sari"* stores represent at least 90 percent of food sales in the Philippines. This becomes more evident as you move farther out of Metro Manila and other metropolitan cities. However, the restrictive requisites, particularly on the level of investment required for foreigners to own retail establishments provide a comfortable shield for this sector of the retail trade. The *"sari-sari"* stores may actually benefit from increased competition as they currently source their merchandise from existing large supermarkets.

The retail trade which is considered the most dynamic sector in the Philippine will attract foreign investments, notwithstanding the onerous conditions. According to analysts, this sector accounts for close to 10 percent of the annual gross domestic product. Retailers maintained positive, if not improved, sales during the financial crisis. Opening the retail sector up to foreign investors is also seen as a potential source for expansion and in aid of ailing existing retailers.

The sole foreign food retailer present in the Philippines is Makro of Netherlands. Makro established presence, even prior to the retail liberalization, as a joint venture with two of the country's largest retailers and by operating as a "wholesaler" rather than a retailer. There are reports of other foreign retailers, American, European and regional companies, who are actively pursuing business opportunities and potentials in the Philippines.

Importers and traders have valid apprehensions but there will always be a niche for the type of service that they provide. The Filipino consumers, ultimately, stand to benefit most from the retail trade liberalization. Post feels that the liberalization will likely be a boon to American food exports. It is to be noted that Filipino consumers have a penchant for anything American. In addition, food products marketed in the U.S. can be sold in the same packaging and labeling in the Philippines. Foreign retailers are expected to bring about improvements in the distribution, storage, technological and merchandising techniques. The increased efficiency is hoped to effect more attractive prices, among others, and thus providing an impetus for further imports of American food products.