

Distribution Services

Philippines

Sectoral profile

- Distribution sector accounts 14% of GDP in 2002
- Employs 18% of country workforce
- Over half of all business establishments are engaged in retail distribution
- Retail sales comprise more than half of consumer expenditure between 1996-2001

Robust performance

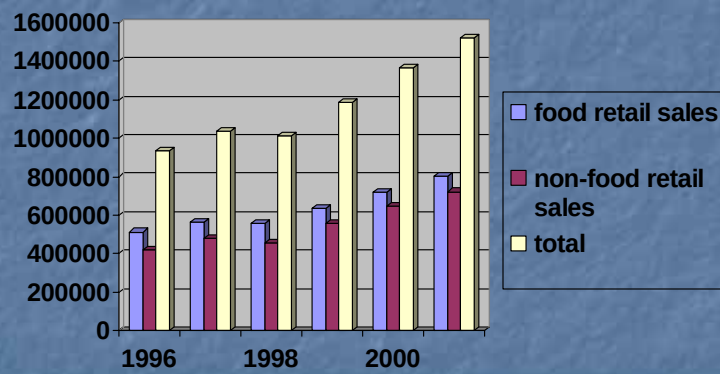
	1996	1997	1998	1999	2000	2001
Growth rate	-	9.5	11.9	9.1	8	9
Sales as % of GDP	4.3	4.3	3.8	3.9	4.1	4.2
Sales as % of Expenditure	55.7	56.6	49.5	53.1	56.4	57.8

Source: Euromonitor

Retail trade

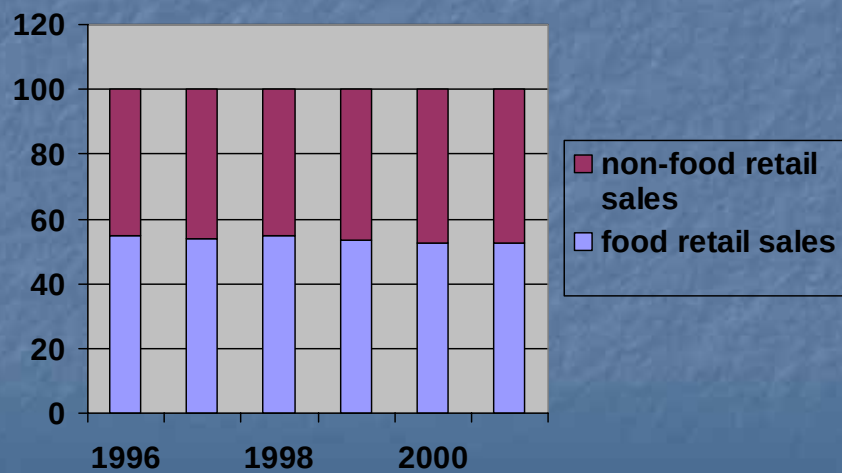
- Number of retail businesses rose by 31 percent in 2001
- Retail sales grew by 63.4% between 1996-2001
- More than 95% are small, single proprietorships, mom-and-pop stores
- About 64% of retail firms are in food-related businesses

Retail sales by type (million pesos)



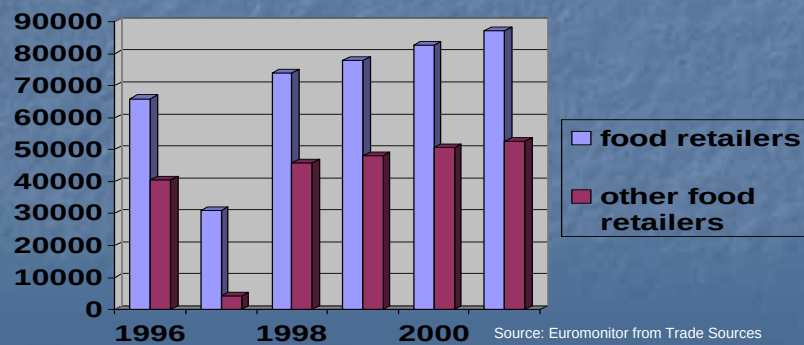
Source: Euromonitor from Trade Sources

Retail sales by type (% analysis)



Employment

- Food retailing employs more than half of people working in the retail sector.



Leading retailers

- Shoemart Group
- Rustan's Commercial Corp.
- Uniwide Holdings Inc.
- Robinson's Retail Group

All wholly Filipino-owned, comprising more than 30 percent of domestic retail trade sales

State of play

- Not listed in GATS and AFAS
- Current law allows 100% ownership with minimum paid-up capital
- Reciprocity conditions apply

Republic Act 8762

- Minimum of US\$200 million net worth in its parent corporation for Categories B and C, and \$50 million for Category D;
- Must have 5 retail branches or franchises in operation unless such retailer has at least one (1) store capitalized at a minimum of US\$25 million;
- Five (5) year track record in retailing; and
- Reciprocity clause applies.

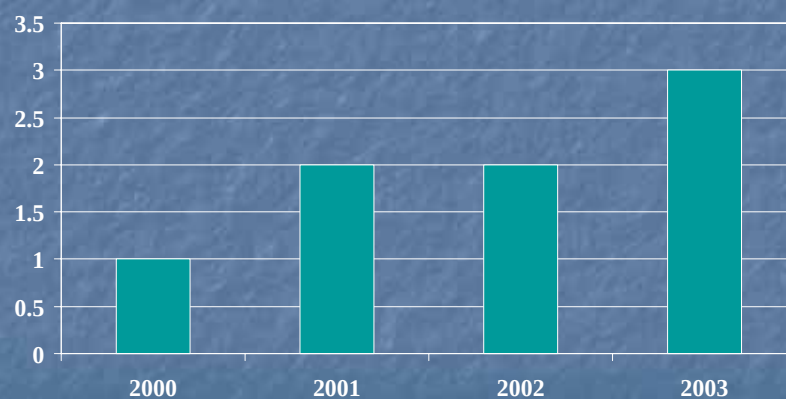
Additional Restrictions

Category A –Paid-up capital of less than US\$2.5 million reserved exclusively for Filipinos;

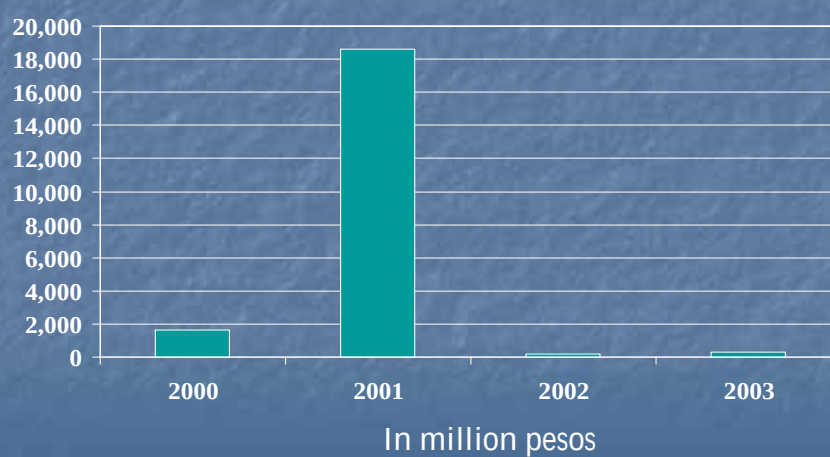
Category B and C – Foreigners may wholly own with a minimum paid-up capital of US\$2.5 million but less than US\$7.5 million; provided each outlet should no be less than US\$830,000; and

Category D – Enterprises specializing in high-end or luxury products with a paid-up capital of US\$250,000 per store may be wholly owned by foreigners.

New foreign players



FDI inflow from retail trade liberalization



Foreign retailers

Amounting to about US\$420 million from 2000-2003

- US retailer Pricesmart Inc.
- McDonalds
- Watsons
- Makro
- Adidas
- Louis Vuitton

Why only a few foreign retailers...

- High capitalization requirements, particularly on per outlet
- Foreign retailers not allowed to own land
- 30% local content requirement (10% for high end stores)
- Current law favors high-end stores

Other possible reasons

- General deterioration of foreign investment climate
- Foreign retailers choose to go through franchising route
- Foreign retailers choose to enter into joint ventures
- Foreign goods enter through duty-free shops in special economic zones

Franchise

- Generally Filipino-owned
- Foreign-brand businesses rapidly expanding
- No legal framework determining restrictions as yet
- Foreign equity in franchising business fall under RA 8762

Wholesale trade

Under the Foreign Investment Act of 2002, 100 percent market access is allowed as long as there is a minimum paid up capital of \$200,000. Foreign companies have to file an application with the Securities Exchange Commission (SEC).

Final notes

- RA 8762 implementing rules under review
- Government feels law is sufficient for now and has no plans of any future amendments
- Distribution sector not priority in Investments Priority Plan