OFFSHORING AND MANUFACTURING IN THE PHILIPPINES

A Strategic Manufacturing Alternative



18th February 2025

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OVERVIEW

The Philippines has emerged as a top destination for foreign direct investment in manufacturing, offering a strategic alternative that combines affordability with economic and trade incentives. This booklet explores why offshoring and manufacturing in the Philippines is a viable option for businesses seeking to maintain competitiveness in the evolving global market.

KEY TAKEAWAYS

- **Strategic Alternative to U.S. Tariffs** The Philippines offers cost-effective manufacturing solutions amid rising U.S. tariffs on China and other trade partners.
- Lower Labor & Operational Costs Significant savings on wages and overhead compared to Western and some Asian markets.
- **English-Proficient Skilled Workforce** High literacy rate and a large pool of skilled workers make communication and operations seamless.
- Attractive Investment Incentives Tax holidays, duty exemptions, and special economic zones provide financial benefits.
- **Simplified Company Formation** Straightforward registration process with the Securities and Exchange Commission, local government, and tax authorities.
- Diverse Industrial Locations Metro Manila, Cebu, Clark, Davao, and Batangas offer unique advantages for different business needs.
- Strong Trade Agreements Access to U.S., EU, and ASEAN markets with preferential trade terms.
- Government Support & Infrastructure Continuous improvements in logistics, ports, and industrial zones for efficient operations.
- Ethical & Transparent Business Climate Regulations support fair trade, worker rights, and sustainable supply chains.
- Established Foreign Investors Global brands like Texas Instruments, Coca-Cola, and Nestlé already operate successfully in the country.

Now is the time to invest-position your business for growth in the evolving global economy!

WHY THE PHILIPPINES?

COST SAVINGS

The Philippines offers significantly lower labor costs compared to Western nations and even some Asian competitors. The country provides a skilled workforce at a fraction of the cost found elsewhere.

- Lower Wages: Factory workers, machine operators, and engineers earn considerably less than their counterparts in Latin America or the U.S., making the Philippines an attractive alternative for cost-conscious businesses.
- Affordable Operational Expenses: Office rentals, utilities, and raw materials are relatively inexpensive, reducing the overall production costs.
- Lower Employee Benefit Costs: While businesses must comply with Philippine labor laws, the cost of employee benefits such as healthcare, insurance, and social security remains lower than in many Western nations.
- **Competitive Outsourcing Market**: The country's well-established outsourcing industry provides businesses with high-quality labor at a fraction of the cost of hiring domestically.

SKILLED AND ENGLISH-PROFICIENT WORKFORCE

The Philippines has a well-educated, English-speaking labor force. The literacy rate stands at over 96%, and many workers are trained in technical and specialized skills, making them well-suited for manufacturing industries.

- **High English Proficiency**: English is one of the country's official languages, making communication seamless for foreign investors.
- **Strong Educational System**: The country produces thousands of graduates in engineering, IT, and technical fields each year, ensuring a steady supply of skilled professionals.
- Adaptable and Culturally Compatible: The workforce has experience working with Western businesses, making collaboration more efficient.
- **Government Training Programs**: Various government-led initiatives provide training in technology, engineering, and vocational skills to enhance the labor force.

GOVERNMENT INCENTIVES AND TAX BENEFITS

The Philippines offers multiple tax incentives, including income tax holidays, duty-free importation of capital equipment, and special economic zones where businesses receive preferential treatment.

- Income Tax Holidays: Businesses operating in priority industries may enjoy tax exemptions for several years.
- Reduced Corporate Tax Rates: Recent tax reforms have lowered corporate income tax rates, making the country more competitive.

- Special Economic Zones (SEZs): The Philippine Economic Zone Authority (PEZA) provides tax incentives, simplified import-export processes, and relaxed labor policies for businesses operating within SEZs.
- **Duty-Free Importation**: Companies can import raw materials, production equipment, and machinery without customs duties in designated economic zones.
- **Grants and Subsidies**: Government programs support businesses in high-priority industries such as electronics, automotive, and IT.

GEOGRAPHICAL ADVANTAGE AND TRADE AGREEMENTS

The Philippines enjoys strategic proximity to major trade routes and has trade agreements with key markets, including the United States, Japan, and the European Union. This allows businesses to access tariff-reduced goods and services.

- Access to ASEAN Markets: As a member of the Association of Southeast Asian Nations (ASEAN), the Philippines benefits from reduced trade barriers within the region.
- U.S. and EU Trade Agreements: Preferential trade agreements with these regions allow businesses to export with lower tariffs.
- **Proximity to China and Other Manufacturing Hubs**: The Philippines' location makes it easy to integrate into global supply chains.
- **Modern Ports and Airports**: The country is continually improving its logistics infrastructure to support international trade.
- **Growing Export Potential**: The country's focus on technology, electronics, and manufacturing enhances its position as a key player in global trade.

MECHANISMS AND RESTRICTIONS ON INVESTING IN THE PHILIPPINES

FOREIGN INVESTMENT ACT (FIA)

The Foreign Investment Act (FIA) allows 100% foreign ownership in industries that are not explicitly restricted by the Foreign Investment Negative List (FINL). However, certain sectors are either partially or fully restricted to foreign investors due to national security, public welfare, and economic considerations.

Foreign Investment Negative List (FINL) - Restricted Industries

The FINL is divided into two lists:

- List A (Constitutionally or Legally Restricted Sectors): These are sectors where foreign ownership is restricted by the Philippine Constitution or specific laws.
 - Mass Media (including broadcasting, radio, and television networks)
 - Practice of Licensed Professions (such as law, medicine, and engineering)
 - Retail Trade Enterprises (with capital below USD 2.5 million)
 - Private Security Agencies
 - Small-scale Mining
 - Utilization of Marine Resources
 - Ownership of Private Lands
- List B (Regulated for Reasons of Security, Defense, Public Health, or Morals): These industries have a maximum 40% foreign ownership cap due to their sensitive nature.
 - Manufacture, repair, and distribution of firearms, ammunition, and explosives
 - Public utilities (e.g., water, electricity, telecommunications, and transportation services)
 - Gambling and betting industries
 - Educational institutions

To invest in restricted industries, foreign companies may enter into joint ventures with local partners, ensuring compliance with ownership limitations.

INVESTING IN SPECIAL ECONOMIC ZONES (SEZS) – PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA)

The Philippine Economic Zone Authority (PEZA) oversees multiple special economic zones, providing investors with tax incentives, simplified business registration, and duty-free importation of capital equipment.

Key Benefits of Investing in PEZA-Managed SEZs

- Income Tax Holidays (ITH): Up to four years of full tax exemption, extendable in some cases.
- 5% Special Tax on Gross Income: Instead of regular corporate income tax after the ITH period.
- **Duty-Free Importation**: Exemption from customs duties on capital equipment, raw materials, and spare parts.

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- **Simplified Import and Export Procedures**: Fast-track processing of trade-related transactions.
- Visa Assistance for Foreign Workers: Easier work permits for expatriates and professionals.
- Infrastructure Support: Access to modern industrial parks, reliable utilities, and logistical hubs.

Major Special Economic Zones in the Philippines

PEZA oversees numerous economic zones designed for various industries. Here are some of the most prominent SEZs:

- Clark Freeport and Special Economic Zone (Pampanga & Tarlac) Ideal for aerospace, logistics, and manufacturing industries.
- Subic Bay Freeport Zone (Zambales) A former U.S. naval base transformed into an industrial, commercial, and tourism hub.
- **Cavite Economic Zone** (Cavite) A leading export processing zone, hosting multinational electronics, garments, and automotive firms.
- Laguna Technopark (Laguna) Specializes in semiconductors, IT, and high-tech manufacturing.
- Mactan Economic Zone (Cebu) A major electronics and garment production hub near a major international airport.
- **Batangas Industrial Park** (Batangas) Designed for petrochemical, energy, and manufacturing companies.
- Bataan Freeport Area (Bataan) An emerging industrial zone focusing on renewable energy, textiles, and shipbuilding.

COMPLIANCE WITH LABOR LAWS, ENVIRONMENTAL REGULATIONS, AND INDUSTRY-SPECIFIC REQUIREMENTS

Foreign investors in the Philippines must comply with legal, labor, and environmental regulations to ensure responsible business operations.

Labor Laws:

- Companies must adhere to the Labor Code of the Philippines, ensuring minimum wage compliance, social security contributions, and fair employment practices.
- Employers must provide mandatory benefits such as healthcare (PhilHealth), social security (SSS), and housing benefits (Pag-IBIG).
- Hiring foreign employees requires securing Alien Employment Permits (AEP) from the Department of Labor and Employment (DOLE).

Environmental Regulations:

- Businesses must comply with the Environmental Impact Assessment (EIA) requirements set by the Department of Environment and Natural Resources (DENR).
- Manufacturing and industrial projects need proper waste management, emissions control, and environmental permits.

Industry-Specific Regulations:

- Food and pharmaceutical sectors must follow guidelines from the Food and Drug Administration (FDA Philippines).
- Financial services and banking require Bangko Sentral ng Pilipinas (BSP) approval.
- Telecommunications and IT companies need regulatory approval from the National Telecommunications Commission (NTC).

LABOR COSTS AND OPERATIONAL OVERHEADS

Labor costs in the Philippines are among the lowest in Southeast Asia while still maintaining high productivity and efficiency. The country offers a skilled and adaptable workforce, making it an attractive destination for foreign investors.

LABOR COSTS

The Philippines offers cost-effective labor across various levels of expertise, from entry-level factory workers to top executives. Below is an estimated salary breakdown:

Position	Average Monthly Salary (USD)
Factory Worker	\$300 - \$500
Machine Operator	\$400 - \$600
Supervisor	\$700 - \$1,200
Engineer	\$1,000 - \$2,500
IT Developer	\$1,500 - \$3,500
Manager	\$2,000 - \$4,000
Executive	\$5,000 - \$10,000

Beyond wages, businesses benefit from government-supported training programs that help improve worker skills and adaptability, ensuring employees are equipped with modern manufacturing and IT capabilities.

MECHANISMS TO HIRE EMPLOYEES

Hiring workers in the Philippines is straightforward and supported by various mechanisms to streamline the process:

- **Direct Hiring** Companies can recruit employees independently through job postings, referrals, or in-house HR departments.
- Recruitment Agencies Many businesses use third-party recruitment agencies to source and screen qualified candidates.
- Government Employment Programs The Department of Labor and Employment (DOLE) and Technical Education and Skills Development Authority (TESDA) offer employment assistance and training initiatives.
- Business Process Outsourcing (BPO) IT and customer service industries benefit from well-established BPO firms that provide ready-trained staff.

OPERATIONAL OVERHEADS

The cost of doing business in the Philippines is significantly lower than in Western markets, allowing companies to maximize profits while maintaining high operational efficiency.

Cost of Office Space

• Metro Manila: \$15 - \$40 per square meter per month (premium business districts like

Makati and BGC are on the higher end).

- **Provincial Cities**: \$5 \$15 per square meter per month, offering affordable yet wellequipped office spaces.
- **Co-working Spaces**: \$150 \$400 per desk per month, providing flexibility for startups and IT firms.

Cost of Manufacturing Space

- Industrial Parks and Economic Zones: \$3 \$8 per square meter per month.
- Warehouse Rentals: \$4 \$10 per square meter per month, varying by location and infrastructure availability.

UTILITY COSTS AND INFRASTRUCTURE RELIABILITY

Electricity Costs

- The average electricity cost is **\$0.15 \$0.30** per kWh, which is competitive within the region and supported by government efforts to improve renewable energy usage.
- Companies in special economic zones (SEZs) often enjoy discounted electricity rates and reliable energy sources.

Water and Internet Costs

- Water Supply: Average cost of \$0.50 \$1.50 per cubic meter, ensuring affordable access.
- Internet Services: High-speed internet costs \$20 \$50 per month, with most major business districts offering fiber-optic connectivity.

Reliability of Infrastructure

The Philippines has been continuously improving its infrastructure to support foreign investment:

- Modernized Airports and Seaports: Expansion of international gateways for efficient logistics and shipping.
- **Highway and Rail Projects**: Government-backed projects to reduce congestion and improve transport times.
- **Growing Renewable Energy Sector**: Investments in solar, wind, and hydroelectric power ensure sustainability and energy security.
- **Smart City Initiatives**: Metro Manila, Cebu, and Davao are developing advanced urban infrastructure to support business and IT operations.

LEGAL FRAMEWORK FOR INVESTING AND EMPLOYMENT IN THE PHILIPPINES

Investing in the Philippines requires compliance with various legal frameworks designed to protect both foreign investors and the local labor force. The Philippine government has established clear regulations to ensure fair business practices, labor protection, and investment incentives that promote economic growth.

KEY REGULATIONS FOR FOREIGN INVESTORS

1. Labor Code of the Philippines

The Labor Code of the Philippines is the primary law governing employment relations in the country. It ensures fair treatment of workers and establishes minimum standards for wages, benefits, and working conditions.

- **Minimum Wage Compliance**: Employers must adhere to regional minimum wage rates set by the government. These wages vary by region and industry but remain competitive compared to neighboring countries.
- Mandatory Benefits: Employers must provide essential benefits, including:
 - **Paid Leave**: Employees are entitled to vacation leave, sick leave, and maternity/paternity leave as mandated by law.
 - **Social Security Contributions**: Employers must contribute to the Social Security System (SSS) for retirement, disability, and health benefits.
 - Health Insurance: Enrollment in PhilHealth (Philippine Health Insurance Corporation) ensures access to medical services for employees.
 - Housing Fund Contributions: Employers must contribute to the Pag-IBIG Fund, which supports employee housing loans and benefits.
- Fair Dismissal and Employment Termination Laws: Employees can only be dismissed for justifiable causes, such as misconduct, redundancy, or business closure, with proper documentation and compensation.

2. Special Economic Zones and Freeport Zones

The Philippine Economic Zone Authority (PEZA) and other special economic zones (SEZs) provide foreign investors with flexible labor laws and attractive incentives. These zones are designed to boost trade, manufacturing, and IT investment while reducing bureaucratic hurdles.

- **Relaxed Labor Policies**: Foreign businesses in SEZs can adopt flexible employment terms, including contractual work and performance-based incentives.
- Foreign Ownership & Visa Support: Businesses in SEZs benefit from fewer restrictions on foreign ownership and receive assistance with work permits and visas for foreign employees.
- Tax Benefits: Companies operating in SEZs receive:
 - Income Tax Holidays (ITH) of up to 6 years for pioneer industries.
 - **5% special corporate income tax rate** after the ITH period, lower than the regular corporate tax rate.
 - Duty-free importation of raw materials, capital equipment, and production supplies.

3. Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

The **CREATE Act** was implemented to encourage foreign investment by providing significant tax benefits and simplifying corporate tax structures.

Corporate Income Tax Rates:

• For large corporations: Reduced from 30% to 25%.

- For small and medium enterprises (SMEs): Reduced to 20% for qualified businesses.
- · Enhanced Deductions:
 - Additional tax deductions for R&D expenses, power consumption, and employee training programs.
 - Investment in green energy and sustainable operations qualifies for further tax incentives.
- **Faster Investment Approvals**: The law simplifies administrative procedures for new businesses, reducing red tape and increasing ease of doing business.

FOREIGN INVESTMENT PROTECTIONS AND COMPLIANCE REQUIREMENTS

Foreign investors in the Philippines benefit from government policies that protect their interests while ensuring compliance with local laws:

- **Bilateral Investment Treaties**: The Philippines has signed agreements with multiple countries to protect foreign investors against unfair expropriation and discriminatory regulations.
- **Board of Investments (BOI) Registration**: Companies registered under the BOI enjoy additional incentives, including tax breaks and relaxed import restrictions.
- Anti-Red Tape Law: The government has streamlined business registration processes to reduce delays and improve transparency in regulatory compliance.
- Foreign Investors' Right to Repatriation of Profits: Investors are guaranteed the ability to repatriate profits and dividends in foreign currency, ensuring financial security.

TOP GEOGRAPHICAL LOCATIONS FOR MANUFACTURING INVESTMENTS

The Philippines offers multiple industrial hubs across the country. Here are the most strategic locations for setting up manufacturing operations:

Metro Manila

- Population: Over 13 million people.
- Accessibility: Home to the country's largest international airport and major seaports, making it a key business and logistics hub.
- **Business Climate**: Ideal for headquarters and advanced manufacturing, with strong infrastructure and a highly skilled workforce.
- **Challenges**: Higher operational costs compared to other regions due to congestion and real estate prices.

Clark Freeport Zone

• **Population**: Over 2.5 million in Pampanga and surrounding areas.

- Accessibility: Strategically located near Clark International Airport and connected by expressways to Metro Manila and major ports.
- **Business Climate**: A premier site for high-tech manufacturing and logistics, offering special tax incentives and business-friendly policies.
- Challenges: Developing infrastructure compared to Metro Manila but improving rapidly.

Cebu

- Population: Approximately 5 million in the province.
- Accessibility: Hosts the Mactan-Cebu International Airport and Cebu International Port, facilitating exports.
- **Business Climate**: A key center for electronics, shipbuilding, and IT industries with a welltrained workforce.
- Challenges: Higher logistics costs for shipping to Luzon-based markets.

Davao

- Population: Over 1.8 million people.
- Accessibility: Has an international airport and a deep-sea port, ideal for exports to ASEAN markets.
- **Business Climate**: Lower cost of doing business with emerging industrial zones and expanding infrastructure.
- Challenges: Distance from Metro Manila can increase domestic transportation costs.

Batangas and Cavite

- Population: Over 6 million combined in both provinces.
- Accessibility: Close proximity to Batangas Port, one of the busiest cargo-handling ports in the country.
- **Business Climate**: Hosts multiple industrial parks and manufacturing hubs, particularly for automotive, electronics, and food processing industries.
- Challenges: Rising land costs due to increasing industrial demand.

Bulacan

- Population: Over 3.7 million people.
- Accessibility: Strategically located north of Metro Manila, with easy access to Manila ports, the North Luzon Expressway (NLEX), and the soon-to-open New Manila International Airport.
- **Business Climate**: A fast-growing industrial hub with low operational costs and a strong labor pool, making it attractive for manufacturing and warehousing.
- Challenges: Rapid urbanization may lead to increased competition for resources in the coming years.

CASE STUDIES: SUCCESS STORIES OF FOREIGN INVESTORS IN THE PHILIPPINES

Several multinational companies have already taken advantage of the Philippines' favorable investment climate. Businesses in the electronics, automotive, and textile industries have successfully set up operations, reducing costs while maintaining product quality.

Several multinational companies have already taken advantage of the Philippines' favorable investment climate. Businesses in the electronics, automotive, and textile industries have successfully set up operations, benefiting from cost savings, a skilled workforce, and strong government incentives while maintaining high-quality production standards.

TEXAS INSTRUMENTS

Industry: Semiconductors and Electronics Manufacturing

- **Investment**: Established one of its largest assembly and test sites in the Philippines, specifically in Baguio and Clark.
- Business Impact:
 - The Baguio facility produces semiconductor components that are exported worldwide.
 - Created thousands of jobs and significantly contributed to the local economy.
 - Benefits from Philippine Economic Zone Authority (PEZA) tax incentives and duty-free importation of raw materials.
 - Helps meet growing global demand for chips and microprocessors used in consumer electronics and automotive industries.

COCA-COLA

- Industry: Food and Beverage Manufacturing & Distribution
- Investment: Established over 19 bottling plants and over 50 sales offices across the Philippines.

○ Business Impact:

- A major contributor to the country's food and beverage sector, employing over 10,000 workers.
- The Sta. Rosa, Laguna plant is one of its largest manufacturing hubs in Southeast Asia.
- Strategic location allows for easy domestic and international distribution.
- Leverages the expanding Filipino consumer market, contributing to high domestic sales.
- Benefits from lower operational costs and government-backed investment incentives.

NESTLÉ

Industry: Food and Beverage Processing

Investment: Operates four major manufacturing facilities in the Philippines, producing prod-

ucts such as milk, coffee, and infant nutrition.

○ Business Impact:

- The Cabuyao plant in Laguna is one of the largest Nestlé production centers in Asia.
- Works closely with local farmers and suppliers, promoting sustainable sourcing of raw materials.
- Invested in green manufacturing technologies to reduce carbon footprint and energy consumption.
- Provides employment to thousands of Filipinos and supports various community development programs.
- Benefits from trade agreements and export opportunities, using the Philippines as a regional hub for Southeast Asia.

STEPS TO FORM A COMPANY IN THE PHILIPPINES

1. REGISTER YOUR BUSINESS NAME WITH THE SEC

• **Procedure**: Reserve and register your company name through the SEC's online portal or at their office.

· Requirements:

- Proposed company name
- Articles of Incorporation and By-laws
- Accomplished registration data sheet

Outcome: Issuance of the Certificate of Incorporation.

2. SECURE LOCAL GOVERNMENT UNIT (LGU) PERMITS

· Barangay Clearance:

- Where: Barangay Hall of the location of your business.
- Requirements:
 - SEC Certificate of Incorporation
 - Proof of address (e.g., lease contract)
 - Valid identification

· Mayor's Permit:

- Where: City or Municipal Hall.
- Requirements:
 - Barangay Clearance
 - SEC Certificate of Incorporation
 - Occupancy permit
 - Sanitary permit
 - · Fire safety inspection certificate
- Outcome: Authorization to operate within the city or municipality.

3. REGISTER WITH THE BUREAU OF INTERNAL REVENUE (BIR)

• **Procedure**: Register your company to obtain a Taxpayer Identification Number (TIN) and authority to print official receipts.

Requirements:

- BIR Form 1903 (Application for Registration)
- SEC Certificate of Incorporation
- Mayor's Permit
- Proof of address
- Valid identification

• Outcome: Issuance of the Certificate of Registration and TIN.

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4. REGISTER WITH THE SOCIAL SECURITY SYSTEM (SSS), PHILIPPINE HEALTH INSURANCE CORPORATION (PHILHEALTH), AND HOME DEVELOPMENT MUTUAL FUND (PAG-IBIG)

• **Procedure**: Enroll your company as an employer and register your employees for mandatory benefits.

Requirements:

- SEC Certificate of Incorporation
- BIR Certificate of Registration
- Employer registration forms for each agency

• **Outcome**: Compliance with mandatory social service contributions.

TRADE COUNCIL

KEY CONTACTS FOR INVESTING IN THE PHILIPPINES

1. PHILIPPINE BOARD OF INVESTMENTS (BOI)

- **Role**: Lead government agency responsible for promoting investments in the Philippines.
- Address: Industry and Investments Building, 385 Sen. Gil J. Puyat Avenue, Makati City, Philippines
- **Phone**: +63 (2) 8897-6682
- Email: rvangeles@boi.gov.ph
- Website: www.boi.gov.ph

2. DEPARTMENT OF TRADE AND INDUSTRY (DTI)

- Role: Oversees trade and industry development, including business registrations.
- Address: Filinvest Building, 387 Sen. Gil J. Puyat Avenue, Makati City, Philippines 1200
- Phone: 1-DTI (384) or +63 (2) 7791-3100
- Email: <u>ask@dti.gov.ph</u>
- Website: <u>www.dti.gov.ph</u>

3. PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA)

- Role: Facilitates business operations within designated economic zones.
- Address: 8-10F Double Dragon Center West Building, DD Meridian Plaza, Diosdado Macapagal Avenue, Pasay City, Philippines
- Phone: +63 (2) 8551-3436 to 37
- Email: info@peza.gov.ph
- Website: www.peza.gov.ph

4. SECURITIES AND EXCHANGE COMMISSION (SEC)

- **Role**: Regulates and supervises the corporate sector, capital market participants, and securities and investment instruments.
- Address: SEC Building, 7907 Makati Avenue, Salcedo Village, Bel-Air, Makati City, Philippines 1209
- Phone: +63 (2) 8818-0921
- Email: ictd@sec.gov.ph
- O Website: <u>www.sec.gov.ph</u>

WHY NOW IS THE RIGHT TIME TO INVEST

As tariffs continue to impact global trade, businesses must adapt to remain competitive. The Philippines offers a cost-effective, skilled, and business-friendly environment for companies looking to offshore manufacturing operations.

With the combination of lower labor costs, government incentives, strategic location, and a well-educated workforce, the Philippines stands out as an excellent alternative manufacturing hub.

Take the next step. Explore investment opportunities in the Philippines today and secure your company's future in the evolving global economy.

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