PHILIPPINES

The Philippines’ economic freedom score is 64.1, making its economy the 73rd freest in the 2021 Index. Its overall score has decreased by 0.4 point, primarily because of a decline in trade freedom. The Philippines is ranked 12th among 40 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

The Philippine economy remained in the ranks of the moderately free this year. The regulatory environment is overly bureaucratic and costly for both businesses and investors. Of special concern are weaknesses in the judicial system and the government’s failure to counter ongoing corruption effectively.

IMPACT OF COVID-19: As of December 1, 2020, 8,418 deaths had been attributed to the pandemic in the Philippines, and the economy was forecast to contract by 8.3 percent for the year.

BACKGROUND: A former colony of Spain and then of the United States that is spread over 7,000 linguistically diverse Western Pacific islands, the Philippines became a self-governing commonwealth in 1935. President Rodrigo Duterte, elected in 2016, has consolidated power in traditional Philippine political fashion by marginalizing his opponents. The brutality of his crackdown on illegal drug trafficking reflects authoritarian tendencies. Duterte was strengthened politically when his allies swept the 2019 midterm Senate elections. In an effort to improve economic relations between the two countries, Duterte has downplayed tensions between the Philippines and China. Agriculture is still a significant part of the economy, but industrial production in such areas as electronics, apparel, and shipbuilding has been growing rapidly. Remittances from overseas workers are equivalent to 10.5 percent of GDP.
Property rights are recognized and respected, but enforcement is inadequate and sporadic. The property registration process is time-consuming and expensive. Courts are inefficient, biased, corrupt, slow, and hampered by low pay, intimidation, and complex procedures. Corruption and cronyism are pervasive. There is little accountability for powerful politicians, big companies, or wealthy families.

The top individual income tax rate has increased to 35 percent, and the top corporate tax rate is 30 percent. Other taxes include value-added and environmental taxes. The overall tax burden equals 14.0 percent of total domestic income. Government spending has amounted to 20.5 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.3 percent of GDP. Public debt is equivalent to 38.6 percent of GDP.

It now costs more to obtain an electricity connection, and the recovery rate when resolving insolvency has dropped. Business freedom has declined for three years in a row. Labor laws mandating employment standards are often ignored. According to the World Bank, subsidies and transfers consume more than one-quarter of the government’s annual budget.

The Philippines has 10 preferential trade agreements in force. The trade-weighted average tariff rate is 5.4 percent, and 285 nontariff measures are in effect. Foreign investment is generally welcome, and the investment code treats foreign investors the same as it treats domestic investors. However, investment in several sectors remains restricted. The financial sector, dominated by banking, is relatively stable. Capital markets are underdeveloped.