



25 OCT, 2019

The Joint Foreign Chambers on CITIRA



BizNewsAsia, Philippines

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The Joint Foreign Chambers on CITIRA

The JFC is a coalition of the American, Australian-New Zealand, Canadian, European, Japanese, and Korean chambers and PAMURI (an association of ROHQs). We represent over 3,000 member companies engaged in over \$100 billion worth of trade and some \$30 billion worth of investments 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 JFC members represent.

Almost all our member firms will be affected by this proposed legislation. We have firms that have been in the country for over a hundred years, as well as firms that invested only this year.

All of our members are subject to corporate income taxes, many at the full CIT rate, while many others pay the lower 5% GIE rate that CITIRA will abolish. We also count numerous Filipino corporations and individuals among our members.

We support Comprehensive Tax Reform, with some exceptions. All governments should periodically update their tax regimes. And tax revenue, of course, is needed for all the programs that the public sector should provide a country – defense, infrastructure, social services, civil servants and legislators, among others.

We support the Ten-point Socioeconomic Agenda of the Duterte Administration. We support significant increases in public spending on education, health, and physical infrastructure.

However, we do not support every provision in all the different packages of the TRAIN reforms. For example, in TRAIN 1 we asked that the 15% PIT for existing ROHQs be grandfathered because this industry has aggressive regional competitors in Malaysia and Hong Kong.

The Congress agreed, but the provision was vetoed. Since then 15-20 of the some 250 ROHQs in the country have shut down.

At the same time, we welcomed the new lowered PIT that benefited millions of our employees; It corrected tax rates after many years of inflationary bracket creep and provided them more take home pay.

When TRAIN 2 was first proposed in December 2017, a large number of our

members presented objections to the proposed reforms.

TRAIN 2 differed in many ways from the **Investment and Incentives Code of the Philippines** bills which we had been called to comment on before this committee in every Congress for almost two decades.

We had become accustomed to the Department of Finance and the Department of Trade and Industry differing in their approaches to the so-called rationalization of fiscal incentives.

Successive congresses ended without approving any of the many proposed reform bills, and the status quo continued year after year.

We have long supported the fiscal incentive regime of the Philippine Government as managed by the PEZA, the BOI, Clark, Subic, and other IPAs because it enabled many of our firms to invest in the country by making overall operating costs competitive.

Each country has its own advantages as well as disadvantages. In our global economy, the economies that are **the most competitive are rewarded** with the most investment, including foreign investment.

ASEAN has averaged \$120 billion annual FDI since 2010, often comparable to China, growing from \$43 billion in 2005 to \$149 billion in 2018 (see figure 1 and table 1).

However, the **Philippines consistently lagged behind its five ASEAN peers** in FDI inflows (see figure 2 and table 1). Only in the last five years has the Philippines received more sizeable volumes of FDI.

During the period 2005 to 2018, the Philippines received a mere 4% of the total FDI inflow to ASEAN and 8%, when Singapore is excluded.

The Philippines is rated poorly in competitiveness and ease of doing business. Two widely-consulted global indexes rate the Philippines the lowest of the ASEAN-6 in key competitiveness rankings. In the Ease of Doing Business (see figure 3), the Philippines - while lowest-ranked - is close to Indonesia and Vietnam.

In the Competitiveness Index, the Philippines and Vietnam rank the same, while Indonesia is higher (see figure 4).

Figure 1. FDI inflow, total AS

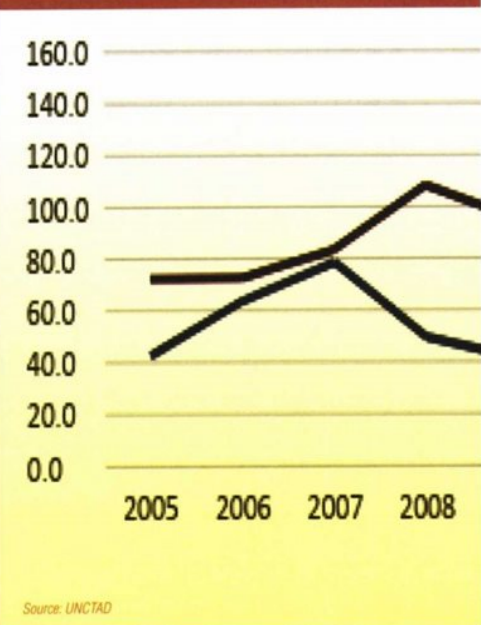


Table 1. FDI Inflows, by region

	2005	2006	2007
China	72.4	72.7	83
Total ASEAN	42.7	63.8	78
Indonesia	8.3	4.9	6
Malaysia	4.1	6.1	8
Philippines	1.9	2.9	2
Singapore	17.7	37.5	42
Thailand	8.0	8.2	9
Viet Nam	2.0	2.4	7

Source: UNCTAD



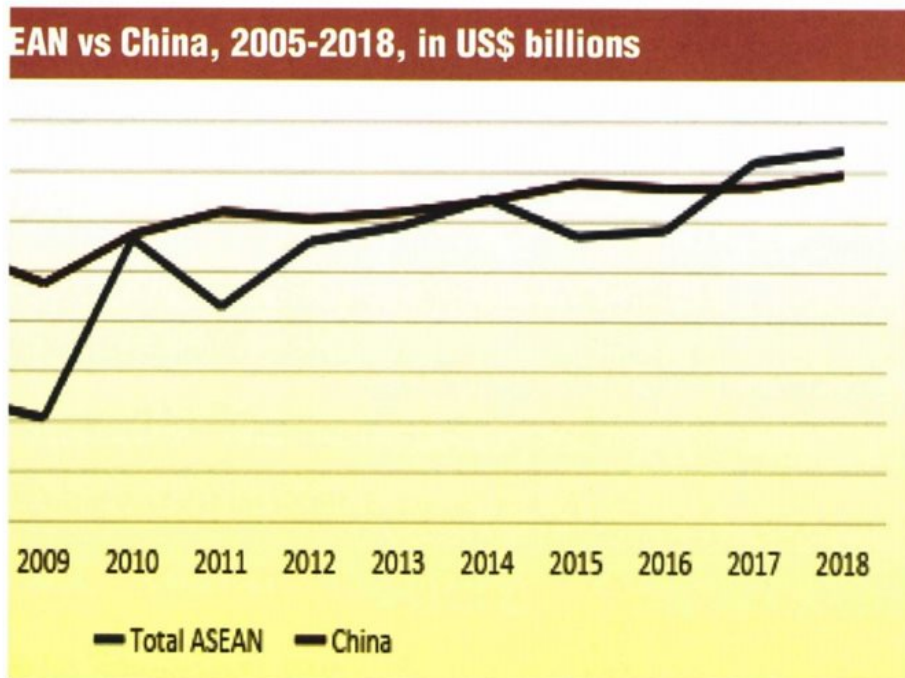
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JFC and industry associations are upbeat on the Philippine economy except for CITIRA. Our investors appreciate the advantages of the Philippines, including strong growth, a large population, and numerous policy reforms. Unfortunately, CITIRA presents a dilemma. We welcome the CIT reductions, but we believe the rationalization of fiscal incentives provisions as drafted will have serious negative effects on FDI and jobs.



Each of the three countries has advantages over the others - the Philippines with English, Indonesia has a large middle class market, and Vietnam offered lower labor costs (until recently).

Also, both Indonesia and the Philippines subsidize power. These are among the reasons Indonesia and Vietnam continue to attract much more FDI than the Philippines in 2017 (see figure 2).

Fiscal Incentives have been vital to attracting more foreign investment by compensating for higher costs of operating. Many foreign investors do not receive fiscal incentives. They tend to be non-export firms active in the domestic market, have been present in the country for some time, or are not highly sensitive to operating costs. The CITIRA will benefit these firms with the reduced CIT rate, as it will for almost 1 million domestic market firms are mostly paying 30% CIT according the DOF.

But thousands of foreign companies engaged in the export of goods and services have located in the Philippines because of competitive fiscal incentives, protection from the infamous red tape of the country, as well

n and economy, 2005-2018, in US\$ billions											
07	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
.5	108.3	95.0	114.7	124.0	121.1	123.9	128.5	135.6	133.7	134.1	139.0
.6	49.5	41.4	113.0	86.0	112.1	118.2	129.4	114.3	116.8	144.2	148.7
.9	9.3	4.9	13.8	19.2	19.1	18.8	21.8	16.6	3.9	20.6	22.0
.6	7.2	1.5	9.1	12.2	9.2	12.1	10.9	10.1	11.3	9.4	8.1
.8	1.5	2.0	1.3	2.0	2.4	2.3	5.3	4.4	6.9	8.7	6.5
.6	11.8	18.5	57.5	39.9	60.1	56.7	73.3	59.7	73.9	75.7	77.6
.2	8.1	5.4	14.6	1.4	9.1	15.5	4.8	5.6	1.8	6.5	10.5
.0	9.6	7.6	8.0	7.5	8.4	8.9	9.2	11.8	12.6	14.1	15.5

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as changing policies of government. These companies now employ some two million Filipinos in direct jobs and almost eight million in indirect jobs.

What does WEF say are the top concerns of businessmen in the Philippines? Some critics of fiscal incentives have said fiscal incentives are not high on the list of issues that concern foreign investors.

This is a gross misinterpretation. According to the World Economic Forum the top six issues that concern business are (1) inefficient government bureaucracy, (2) inadequate supply of infrastructure, (3) corruption, (4) tax regulations, (5) tax rates, and (6) policy instability. (see table 2).

Fiscal incentives are not on this list because they are not an issue. Export-oriented foreign investors in business processing and manufacturing are predominantly located in PEZA zones and special economic zones precisely because these zones reduce the impact the above issues - except infrastructure - and because fiscal incentives help compensate for higher operating costs. For the great majority of these companies, **they would not be operating in the Philippines without fiscal incentives.**

Investors often cite the high cost of electricity. Power plants in the Philippines generate electricity at prices comparable to other ASEAN countries.

However, several ASEAN competitors subsidize power. For example, the cost of power in Vietnam is 30% less than in the Philippines for this reason.

There are also growing concerns that the power supply will be inadequate with increasing blackouts by 2022, as little additional baseload capacity is under construction or even approved to be constructed.

Logistics, internet, and labor costs are also higher than major regional competitors. The Philippines is a feeder port economy with no direct shipping for exports to the United States. A container takes 25 days to reach the US West Coast. From Vietnam it takes only 15 days. The cost of shipping is also higher.

Wages for manufacturing workers in the Philippines have become very competitive with regional competitors Indonesia, Malaysia, Thailand, and Vietnam in recent years (see figure 5).

This should encourage more foreign as well as domestic firms to consider new investments in this country. However, the high number of paid non-working holidays in the Philippines raises labor costs for foreign investors.

Fiscal incentives compensate for higher operating costs. Our member companies that have availed of the long-standing fiscal incentives regime are usually export-oriented and can easily locate their factories elsewhere.

At the CIT of 30%, they would not invest in the Philippines. Nor will most of them continue to invest at the CIT rate of 28%, which CITIRA will impose on 1,169 firms that have enjoyed incentives for more than ten years.

The DOF says these firms have "taken advantage" of the country and should pay the same CIT as domestic firms. Some may, but many will exercise their option to chose a more affordable location.

The DOF statement reflects no appreciation for the significant contribution of our firms to the Philippine economy.

These investors - working with dedicated officials at PEZA and similar agencies- have created millions of Filipino jobs at home (rather than abroad) and boosted GDP growth.

CITIRA makes doing business harder not easier. The CITIRA will result in more time-consuming reporting to government agencies and audits by the BIR as a result of placing several thousand firms currently under the simplified GIE system under the more complicated BIR rules for CIT.

Firms will be asked for more information under the "transparency" and "performance" requirements of CITIRA. Increased TIMTA information requests also increase red tape.

PEZA is a much admired and effective institution for foreign investors. Most foreign investors in the business processing sector and most in export manufacturing are located in PEZA.

These investors selected the Philippines for its workforce. Incentives compensated for higher operating costs. The beneficiaries are the workers who have direct jobs, the workers who have the indirect jobs created, and the government from increased revenue.

According to the DOF, there are 5,921 firms currently receiving incentives, of which 3,104 are located in PEZA zones. PEZA lists a total of 4,371 firms registered in 396 zones.

The DOF did not provide information on how many of these firms are domestic market firms and how many are exporters of goods and services. PEZA locators, almost by definition, are exporters. So are many of the firms located at the Clark and Subic special economic zones.

Figure 2. FDI inflow, ASEAN-5

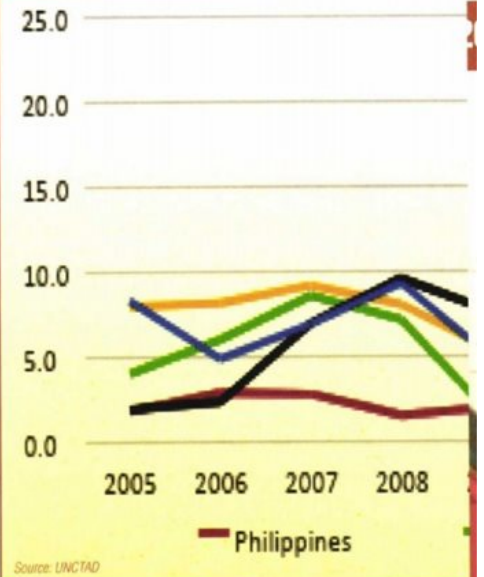
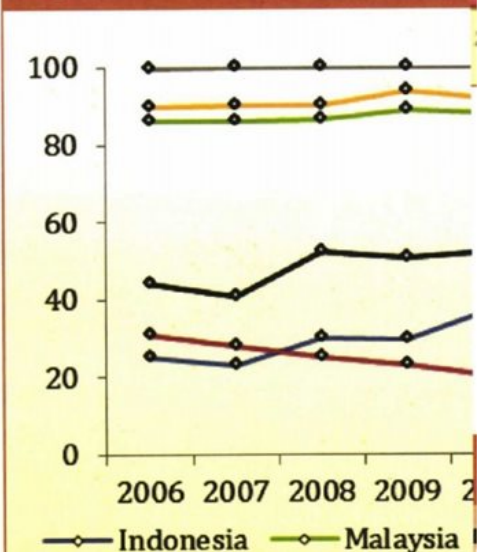


Figure 3. World Bank Doing Business Index



Source: World Bank and authors calculation
 Note: N= 175 (2006-2007); 181 (2008); 181 (2009)
 *2014-2019 rankings based on new methodology

PEZA has attracted over P3 trillion of investment (see figure 6) and hosts more than 1.5 million workers (see table 3).

New investments in PEZA have been declining. Total new investment in PEZA peaked in 2012 and 2015 and has declined significantly in the last three years in both its manufacturing and IT components.

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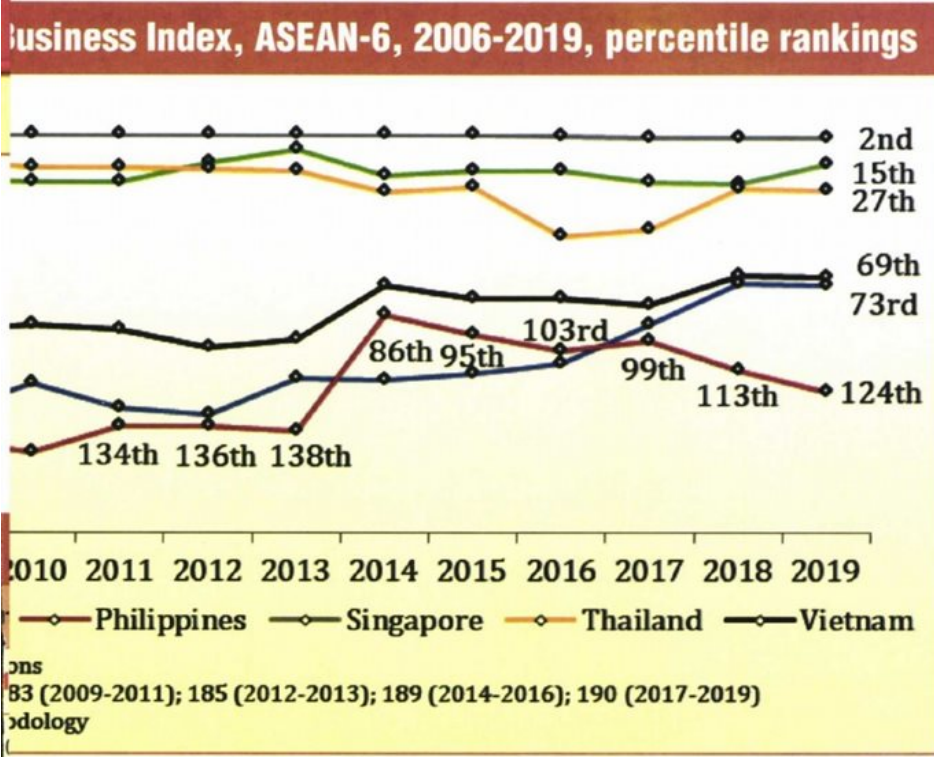
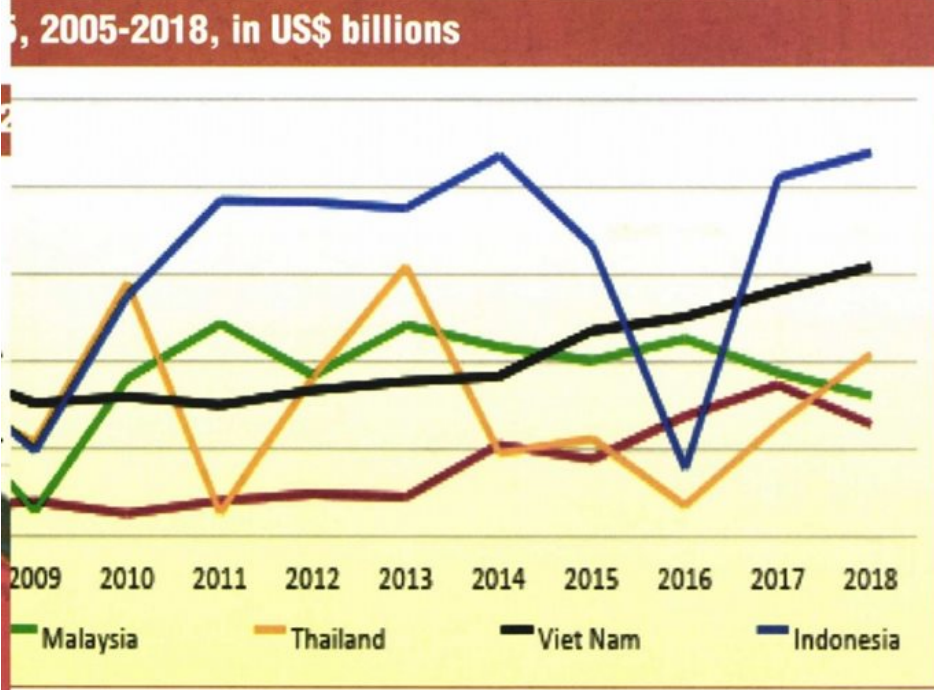


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the reduced CIT. This estimate is based on the questionable assumption that all firms are paying close to the full 30% CIT.

DOF assumes that tax savings for firms as the CIT is reduced will be spent on increased hiring.

However, the **DOF has been silent on the number of direct and indirect jobs that will be lost** as a result of the large increase in the CIT rate under CITIRA for long-time investors.

Why hasn't the DOF explained these potential job losses when foreign investors scale down their operations?

The Senate Ways and Means Committee chairman at the November 2018 hearing on TRABAHO requested DOLE to submit a study on the impact on jobs of the proposed law. If this study has been completed, the results should be provided to legislators and stakeholders.

We submit a rough estimate of potential job losses below. The estimate has two components:

- (1) Estimated potential losses of current direct and indirect jobs
- (2) Estimate of potential jobs foregone as a result of the changes in law in CITIRA

There are four industry associations that represent these industries:

- 1) Confederation of Wearable Exporters of the Philippines (CONWEP)
- 2) Information Technology and Business Process Association of the Philippines (IBPAP)
- 3) Philippine Association of Multinational Companies Regional Headquarters, Inc. (PAMURI)
- 4) Semiconductor and Electronics Industries in the Philippines Foundation, Inc. (SEIPI)

There is substantial overlap of membership between the JFC members and the industry associations. For AmCham, the firms that will be affected by CITIRA are Fortune 500 companies.

The list below includes the larger foreign investors who have located in the Philippines and the present fiscal incentives (see table 5). Does this look "broke?" We don't think so. Nor does it need fixing.

Loss of current jobs of firms receiving the 5% GIE rate. The major risk of CITIRA is that foreign investors will decide the higher CIT taxes of CITIRA will make it too expensive to continue to operate at present employment

Various issues discouraged new investment, including the negative international image from the violent drug war and martial law in Mindanao, the 2016 announcement of "separation" from the United States, the inauguration of an "America First" president in 2017, and port congestion. TRAIN 2, as launched in December 2017, was seen as policy discontinuity by the large foreign investment community in PEZA, Clark, Subic, and other zones. It created uncertainty for new investors and existing investors who hesitated to invest since they did not know the details of future fiscal policies.

CITIRA does not optimize job creation. The DOF estimates CITIRA will create 1.6 million new jobs over 10 years through

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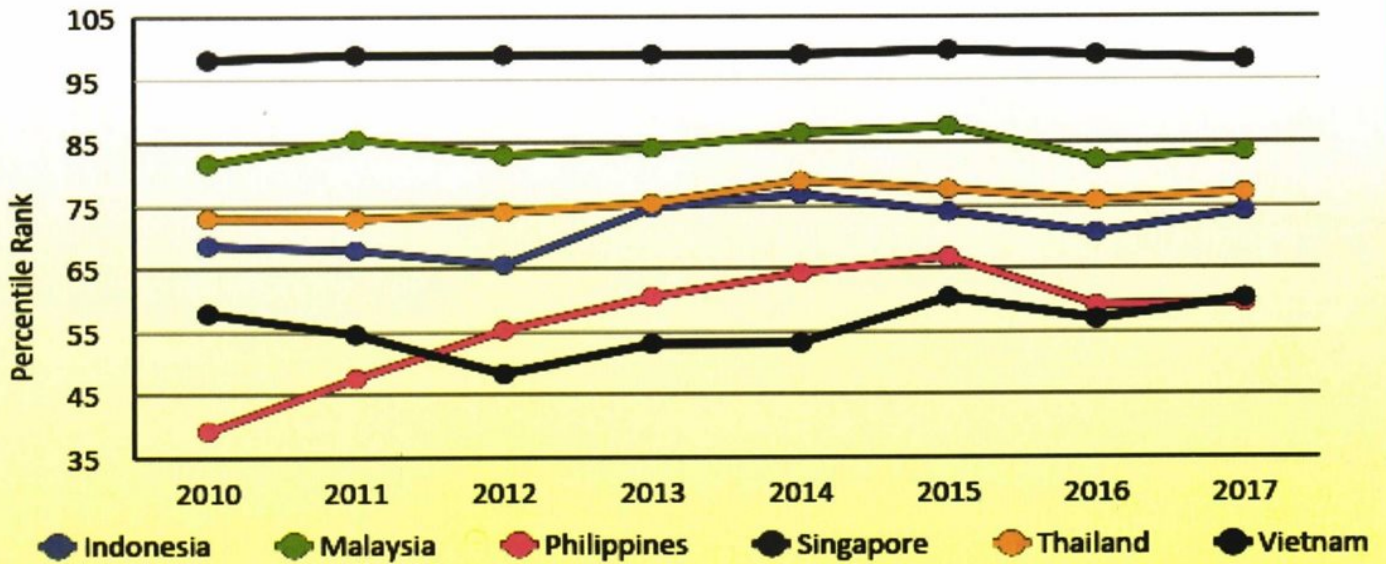
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Figure 4: WEF International Competitiveness, ASEAN-6, 2010-2017, percentile rankings



Source: WEF Global Competitiveness

levels. Firm level surveys show that TRAIN 2 and TRABAHO would result in extensive workforce reductions and in many cases firm closures.

BOI data shows 10-20 ROHQ firms closed in 2018, the first year under TRAIN 1.

Japanese firms have said TRAIN 2 would have a serious negative impact on their businesses in the country. The Japanese chamber in Cebu received responses to a survey in mid-2018 from 61 members. Inexpensive labor costs and preferential tax treatment were the top reasons why companies invested in the Philippines.

A huge majority said they would expand if incentives continue. Conversely, 88% said TRAIN 2 would have very serious or serious impact, resulting in reductions and closures.

CONWEP. The garments and wearable goods industry represented by CONWEP includes foreign multinational firms making clothing and travel products for export. Once more than one million Filipinos worked in this sector. But today only 280,000 workers are employed by members of the industry association.

There are 1,120,000 indirect jobs associated for washing, embroidering, and additional processes normally contracted out. Competing countries include Bangladesh, Cambodia, Ethiopia, Indonesia, Myanmar, and Vietnam, among others. Because profit margins in the sector are very thin, CITIRA will force most of the remaining

Table 2: Most problematic factors for doing business, Philippines, 2013-2017

	2013	2014	2015	2016	2017
Inefficient gov't bureaucracy	17%	13%	19%	18%	20%
Inadequate supply of infra	21%	16%	17%	18%	18%
Corruption	18%	18%	16%	17%	14%
Tax regulations	9%	13%	12%	8%	11%
Tax rates	6%	10%	10%	11%	9%
Policy instability	7%	5%	8%	7%	8%

Source: Global Competitiveness Report 2017-2018, World Economic Forum

Table 3. PEZA Employment, 2015-2018

PEZA PERFORMANCE	2015	2016	2017	2018
DIRECT EMPLOYMENT	1,264,263	1,360,342	1,417,832	1,508,727

Source: PEZA



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Figure 5. Minimum wage of workers in manufacturing sector, select ASEAN Countries, 2014-2018, US\$

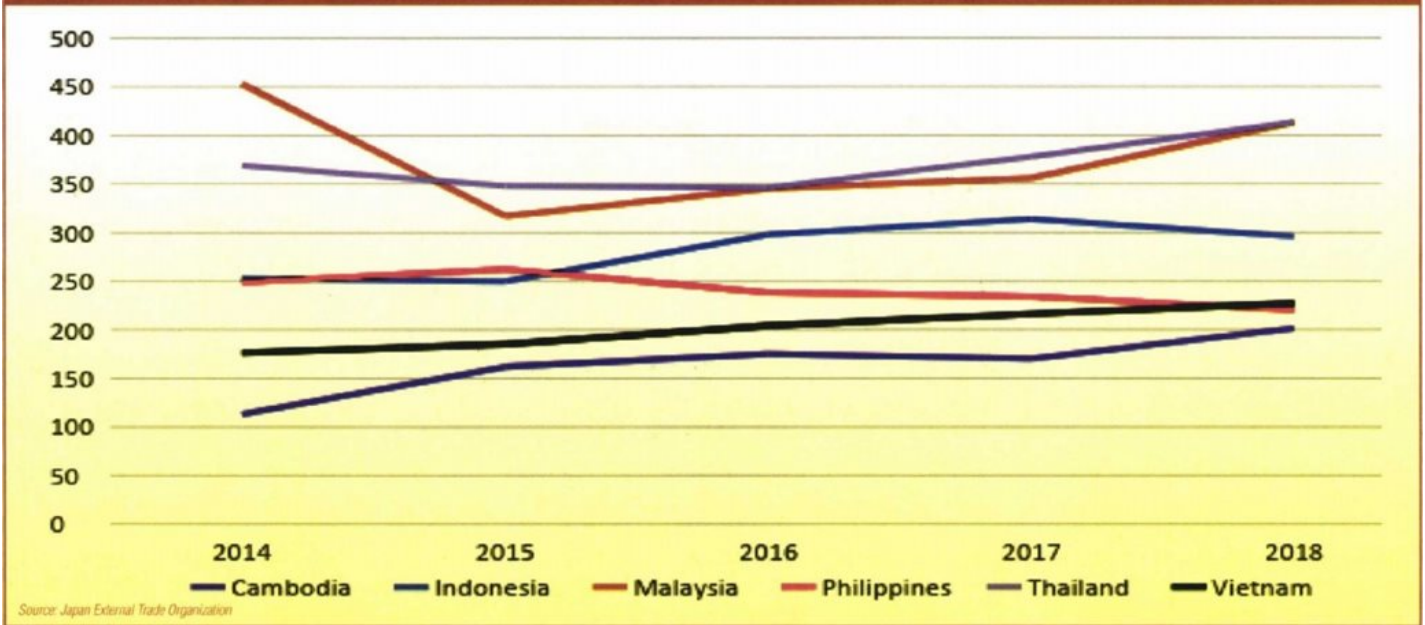
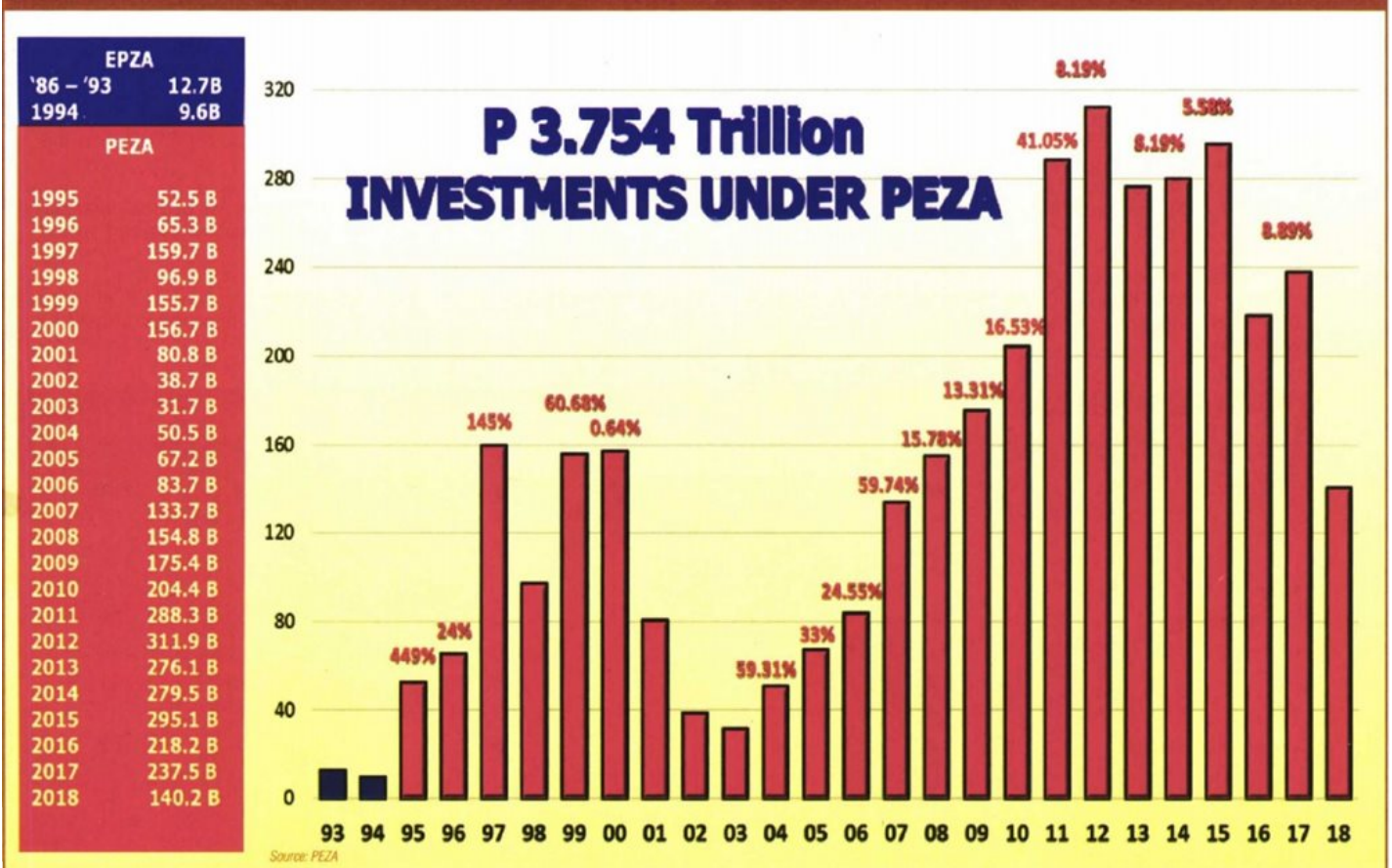


Figure 6: Growth in PEZA investment, 1993-2018





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firms to move production to other countries. **CONWEP estimates 40% of direct jobs – 112,000 – will be displaced within 12 to 18 months after enactment of CITIRA.**

IBPAP. This association with over 300 members represents the business processing sector, which has grown at a rapid pace for two decades. The *New York Times* columnist Tom Friedman, visiting the Philippines 20 years ago and seeing the AOL service center at Clark, identified the Philippines as one of the world's future hubs for the industry.

With strong government support, the industry has grown rapidly to annual revenue of \$25 billion in 2018 amounting to 7% of GDP.

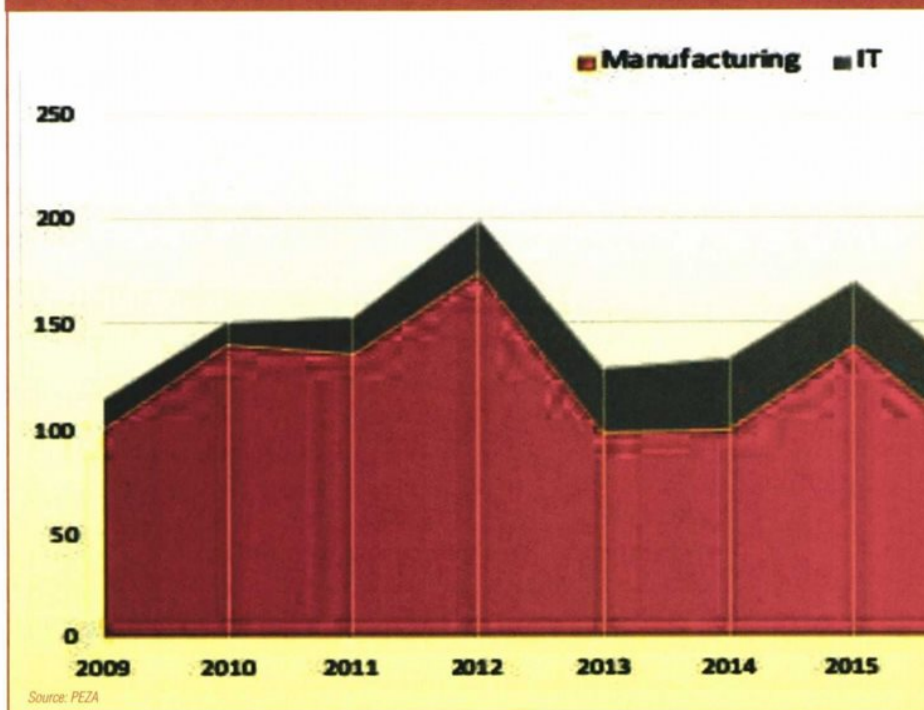
Currently the industry counts 1.3 million direct jobs and 4.1 million indirect jobs and is located in 23 provinces plus Metro Manila. The Philippines is 10-15% cheaper than its largest competitor India.

CITIRA will make India 22% cheaper. **The previous double digit growth of the industry, already slowing to single digit, will become negligible** despite the excellent reputation of the local workforce. However, with the status quo, the industry roadmap projects 1.8 million direct and 5.8 million indirect jobs by 2022.

PAMURI. The ROHQ industry, represented by PAMURI, comprises almost 250 firms employing some 25,000 highly-skilled Filipinos directly and another 50,000 Filipinos indirectly. These firms avail of incentives in RA 8756 that provide a CIT rate of 10% CIT.

This rate is competitive with similar incentives in Hong Kong (16.5%), Thailand (10%), and Singapore (15%) but not Malaysia (0%).

Figure 7: PEZA new Investment in manufacturing and IT,



Under CITIRA, the industry will no longer be competitive with these rival sites, and it will rapidly experience reduction by 50% over two years.

SEIPI. Semiconductor firms were the first to locate at the pre-PEZA export zones in Baguio (Texas Instruments) and Mactan (National Semiconductor) almost 40 years ago.

Today, the industry association SEIPI has almost 350 members. In 2018, the industry accounted for \$37.6 billion or 56% of

the country's total exports of goods. China, Malaysia, Thailand, and Vietnam are the main regional competitors, who will benefit by the negative impact of CITIRA on this sector.

Current investors will be heavily taxed and it will decide not to expand in the Philippines.

Over a seven year period the industry will shrink significantly, when it should be doubling in size.

Table 4: PEZA Investment in Manufacturing and IT, 2009 – 1H 2019, in P Billion

	2009	2010	2011	2012	2013	2014	2015	2016
Total PEZA	175	204	288	312	276	279	295	295
Manufacturing	100	140	136	174	98	100	139	139
IT	14	11	18	26	30	34	31	31
Ecozone Development	42	34	70	80	73	135	108	108
Others	19	19	64	32	75	10	17	17



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2009 to 1H 2019, in P billion



CITIRA is estimated to lead to the loss of 121,000 direct and 582,000 indirect jobs in the first year, totalling 703,000 jobs (see table 6).

Continuing the status quo fiscal incentives can add 2-4 million direct jobs and 4-8 million indirect jobs over ten years. We estimate that if the current fiscal incentives jobs in these four industries are continued they can grow by 5% to 10% a year or 100,000-200,000 direct jobs and 400,000 - 800,000 indirect jobs. Over 10

	2017	2018	1H 2019
	238	140	62
	48	32	15
	16	21	7
	153	78	38
	21	9	2

Table 5. List of some of the larger investors that will be affected by CITIRA

Company	Location	Nationality
1 Accenture	Multiple	American
2 Acer	Subic	Taiwanese
3 Alorica Teleservices	Metro Manila	American
4 Amkor Technology Philippines	Sucab	American
5 Analog Devices	Cavite	American
6 Canon Business Machines	Batangas	Japanese
7 Chevron	Metro Manila	American
8 Citibank	Metro Manila	American
9 Cognizant Technology Solutions	Metro Manila	American
10 Concentrix	Multiple	American
11 Continental Temic Electronics Phils Inc	Calamba, Laguna	German
12 Epson Precision (Philippines)	Multiple	Japanese
13 Fluor Daniel	Metro Manila	American
14 IBM Business Services	Multiple	American
15 Integrated Micro-Electronics Inc.	Multiple	Philippines
16 JP Morgan Chase	Metro Manila	American
17 LG Electronics	Metro Manila	Korean
18 Lufthansa Technik Philippines	Metro Manila	German
19 Moog, Inc.	Baguio	American
20 NIDEC	Laguna	Japanese
21 ON Semiconductors	Multiple	American
22 Optum	Multiple	American
23 Panasonic	Rizal	Japanese
24 Procter & Gamble	Metro Manila	American
25 Rockwell Collins	Laguna	American
26 Samsung Electronics Philippines	Clark	Korean
27 Sharp Philippines Corporation	Metro Manila	Japanese
28 Shell Shared Services	Metro Manila	American
29 Sitel	Metro Manila	American
30 SPi Technologies	Multiple	Philippines
31 Sutherland	Multiple	American
32 Sykes Asia	Multiple	American
33 TeleTech Customer Care	Metro Manila	American
34 Telus International	Multiple	Canadian
35 Temik Automotive	Metro Manila	German
36 Texas Instruments (Philippines), Inc.	Clark	American
37 Timex	Mactan	American
38 Toshiba	Laguna	Japanese
39 WNS Global Services Philippines Inc	Multiple	United Kingdom
40 Yokohama Tires	Clark	Japanese

Source: TAPP



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Table 6. Current jobs and potential job loss, four industries, 2020 to 2030

Industry	Current Jobs (direct) (indirect)	Jobs lost year 1 (direct) (indirect)		Comment
CONWEP	280,000 1,120,000	75,000 300,000	severe; 40% within 12-18 months	Philippines loses competitiveness; Vietnam etc. gain
IBPAP	1,300,000 4,100,000		negligible to zero growth	Philippine loses competitiveness; India gains
PAMURI	25,000 50,000	8,000 16,000	severe; 32% in years 1 and 2	Firms shift work to competing locations; Malaysia gains
SEIPI	380,000 2,660,000	38,000 266,000	severe; over 5-7 years	foreign industry interest in the Philippines wanes; Vietnam gains
Total	2,000,000 7,930,000	121,000 582,000		

years this equals 1 million - 2 million direct jobs and 4 million - 8 million indirect jobs. (see table 4)

The DOF pays too little attention to exports and jobs. Exports and jobs of export firms are ignored in the voluminous presentations of the DOF.

Yet the national government has targets for increasing exports and reducing unemployment and underemployment.

The DOF seems to be ignoring the negative impact on CITIRA in weakening job and export growth. Table 7 shows the volume of exports of goods and services from Clark, PEZA, and Subic in 2017.

The total is more than half of the total of \$97 billion in that year. Under CITIRA these exports will decrease, but under the status quo they will steadily increase.

DOF data re "revenue foregone" for fiscal incentives is incomplete and grossly misleading.

(1) The DOF presented data claiming P504 billion in foregone revenue from incentives and transfer pricing in 2017. The DOF estimates foregone revenue in 2017 for customs duties at P47 billion and for import VAT at P268 billion. But exporters do not pay VAT (a domestic sales tax) nor import duties. Paying such adds significantly

Table 7. Export Value for CDC, PEZA, and SBMA, 2017

CDC	US\$ 6.9 billion
PEZA	US\$ 51 billion (\$40 billion exports for goods and \$11 billion for services)
SBMA	US\$ 1.8 billion

Source: CDC, PEZA, and SBMA

to their costs of operation, and they would invest elsewhere.

(2) The DOF estimates P63 billion leakage from "possible" transfer pricing but presents no proof beyond academic studies.

(3) The real foregone income tax incentives for 2017 amount to P127 billion or 25% of the DOF total. The DOF says many of the so-called "foregone" incentives are "unnecessary incentives" without presenting any proof. Nor does it break down incentives given between domestic firms or firms that export goods or services.

The DOF does not provide data for:

(1) income tax paid by firms receiving fiscal incentives,

(2) income tax withheld for employees at PEZA zones,

(3) excise and other taxes paid by locators and employees,

(4) imputed taxes paid by indirect jobs,

(5) or any other sources of revenue resulting from the presence of incentivized investors.

The "foregone revenue" of P127 billion is a cost of attracting investment into the Philippines where its value is multiplied in terms of jobs created, new tax revenue generated directly and indirectly, technology transferred, and income of small and medium-sized enterprises (SMEs) in the vicinity of zones increased.

The DOF and BOI and PEZA have opposite calculations for the value of incentives. For the DOF incentives are extremely expensive and thus of little value. For the BOI incentives produce value for the Philippine economy.

DTI: A peso of incentive earns P2.5 in new revenue. DTI Secretary Lopez informed the May 22, 2018 HWMC hearing on TRAIN 2 that every one peso in incentive



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Table 8. List of large factories relocating from China to Vietnam

Company	Nationality	Status	(Expected) Location in Vietnam	Industry
Hanwha Aero Engines		Moved	Hanoi	Aerospace manufacturing
yokowo		Moved	Ha Nam	Automotive Components
huafu		Moved	Long An	Textiles & garments
Goertek		Moving	Bac Ninh	AirPods manufacturing
TCL		Moving	Binh Duong	Electronics - TV manufacturing
FOXCONN		Under consideration	BacGiang, Quang Ninh	Electronics - TV hardware
Lenovo		Under consideration	Bac Ninh	Electronics - Computer hardware
Nintendo		Under consideration	TBD	Electronics - Gaming consoles
SHARP		Under consideration	Binh Duong	Electronics - Camera modules
KYOCERA		Under consideration	Hal Phong	Electronics - Printers, copiers
asics.		Under consideration	TBD	Footwear production

Source: Vietnam Investment Review

granted results in two and a half pesos of increased revenue.

We agree with the DTI, BOI, PEZA about the value of incentives. The “foregone revenue” is a cost of attracting foreign firms to invest in the Philippines where its value is multiplied several folds in terms of jobs created, new tax revenue generated directly and indirectly, technology transferred, and income of small and medium-sized enterprises (SMEs) in the vicinity of zones increased.

International manufacturers are flooding into Vietnam. A single American company Nike has contracted with 105 factories in Vietnam where 435,000 Vietnamese make its products. A single Korean company Samsung employs over 100,000 Vietnamese workers to assemble cellphones, electric appliances, and television sets.

Koreans are the number one foreign investor in Vietnam. Table 8 presents a

short list of foreign firms recently moving into Vietnam.

The Philippines should seize the opportunity to attract manufacturing firms moving out of China. As a result of rising costs in China and the higher tariffs imposed by the US on imports from China (the US-China trade war) many firms in China are relocating to other countries, especially in Southeast Asia.

This shift is likely to be permanent. Vietnam has been the principal beneficiary so far. The Philippines has a once-in-a-generation opportunity. CITIRA should be adjusted to make the Philippines as attractive as possible to relocating firms.

TRAIN 2 shocked and alarmed many foreign investors. Despite the appeal of the reduction in the CIT rate, the original TRAIN 2 bill introduced in the 17th Congress proposed harsh tax increases for thousands of foreign investors.

Polls by the Japanese chambers in Cebu and Manila revealed that almost all would stop expansion, many would reduce size, and many would leave. TRAIN 2. For firms that had enjoyed incentives for ten years the measure would raise taxes from 5% GIE to 28% CIT after 2 years.

Affected firms included several that are top exporters of electronics and top employers in the BPO sector.

Philippine government policy inconsistency. The TRABAHO approved by the House did nothing to ease concerns of the thousands of foreign investors operating with the GIE 5% rate that would have to pay much higher taxes.

A major part of their decisions to invest and to expand in the Philippines were based on costs projects using the 5% GIE rate.

DOF argues the incentives offered are not a contract, but at a minimum they were



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FINANCE

a promise made on behalf of all the previous presidents of the Philippines.

The constitutional prescription against the state breaking contracts will surely be tested in court if CITIRA becomes law.

FDI inflows to the Philippines are declining. With the uncertainty created by TRAIN 2, TRABAHO, and now CITIRA, many foreign investors are holding off on new investments in the business process and manufacturing sectors.

Several large \$1 billion manufacturing expansions have been postponed or are going elsewhere. Recent years have seen large FDI inflows approaching \$10 billion and comparable to ASEAN competitors. However, a former NEDA director general predicted last week FDI for 2019 will reach only \$7 billion.

PSA data shows declines for the largest foreign investment sources (Europe, Japan, US). The record FDI approvals of BOI of P204 billion in the first seven months of 2019 include two projects from Singapore that comprise 75% of that total. Nevertheless prompting DOF stated foreign investors remain upbeat on the economy.

JFC and industry associations are upbeat on the Philippine economy except for CITIRA. Our investors appreciate the advantages of the Philippines, including strong growth, a large population, and numerous policy reforms. Unfortunately, CITIRA presents a dilemma. We welcome the CIT reductions, but we believe the rationalization of fiscal incentives provisions as drafted will have serious negative effects on FDI and jobs.

Cabinet encourages ending uncertainty created by CITIRA. We understand that at the September 4 cabinet meeting to discuss the slowing global economy and the "trade war," one of the policies approved was to remove the uncertainty surrounding TRAIN 2 for the last two years and to pass CITIRA. This can best happen if the CITIRA bill is amended to encourage existing investors to stay and increase their investments. Otherwise, CITIRA will be remembered as discouraging foreign investors and resulting in severe job losses and slower economic growth.

We prefer the status quo which has proven successful for so many years in creating millions of jobs as well as revenue. If the status quo is rejected, then we must find other ways to not harm the investors who have come to this country and may go elsewhere. There are options that can be considered to raise the GIE rate as well as to extend the transition period.

We look forward to further hearings as the Senate considers this vital piece of legislation.

DOF data re "revenue foregone" for fiscal incentives is incomplete and grossly misleading.

(1) The DOF presented data claiming P504 billion in foregone revenue from incentives and transfer pricing in 2017. The DOF estimates foregone revenue in 2017 for customs duties at P47 billion and for import VAT at P268 billion. But exporters do not pay VAT (a domestic sales tax) nor import duties. Paying such adds significantly to their costs of operation, and they would invest elsewhere.

(2) The DOF estimates P63 billion leakage from "possible" transfer pricing but presents no proof beyond academic studies.

(3) The real foregone income tax incentives for 2017 amount to P127 billion or 25% of the DOF total. The DOF says many of the so-called "foregone" incentives are "unnecessary incentives" without presenting any proof. Nor does it break down incentives given between domestic firms or firms that export goods or services.

We will submit a second position paper with comments on specific sections of HB 4157. We submitted many of these on the TRABAHO bill for this committee's hearing on November 2018. However, with the rapid passage in the House of CITIRA, we have not had enough time to study HB 4157 in its final form with its differences from TRABAHO.

KEIICHI MATSUNAGA
President

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

EVELYN NG
President

Philippine Association of Multinational Companies Regional Headquarters, Inc.

JAMES WILKINS
President

American Chamber of Commerce of the Philippines, Inc.

NABIL FRANCIS
President

European Chamber of Commerce of the Philippines

JULIAN PAYNE
President

Canadian Chamber of Commerce of the Philippines, Inc.

DANIEL ALEXANDER
President

Australia-New Zealand Chamber of Commerce of the Philippines

HO IK LEE
President

Korean Chamber of Commerce of the Philippines, Inc.



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Despite the massive injection of liquidity—four among the world’s major central banks alone injected over \$10 trillion between 2008 and 2017—productivity growth has continued to stagnate over the past decade. Although loose monetary policy mitigated the negative effects of the global financial crisis, it may have also contributed to reducing productivity growth by encouraging capital misallocation.

With extremely low (or even negative) interest rates and increasing capital constraints, banks have become less interested in lending to businesses and favored firms that were not credit-constrained rather than to credit-constrained ones that might have more productivity potential.

Over-reliance on monetary policy, fiscal prudence, limited fiscal space and/or high levels of public debt have meant that fiscal policy has been underutilized and contributed to the steady decline in public investments, despite the very low borrowing costs.

Investment-led stimulus appears as an appropriate action to re-start growth in stagnating advanced economies.

More specifically, fiscal policy that prioritizes stimulating productivity-enhancing investments in infrastructure, human capital and R&D can indeed help the economy to return to a higher growth trajectory, complemented by structural reforms that make it easier to innovate and enable responsible and inclusive businesses to thrive. In addition, a revived fiscal policy that incentivizes green investments could offer an opportunity to ‘de-carbonize’ the economy. Similarly, greater investment in social protection measures could support the shift towards greater shared prosperity.

Finding a balance between technology integration and human capital investments will be critical to enhancing productivity.

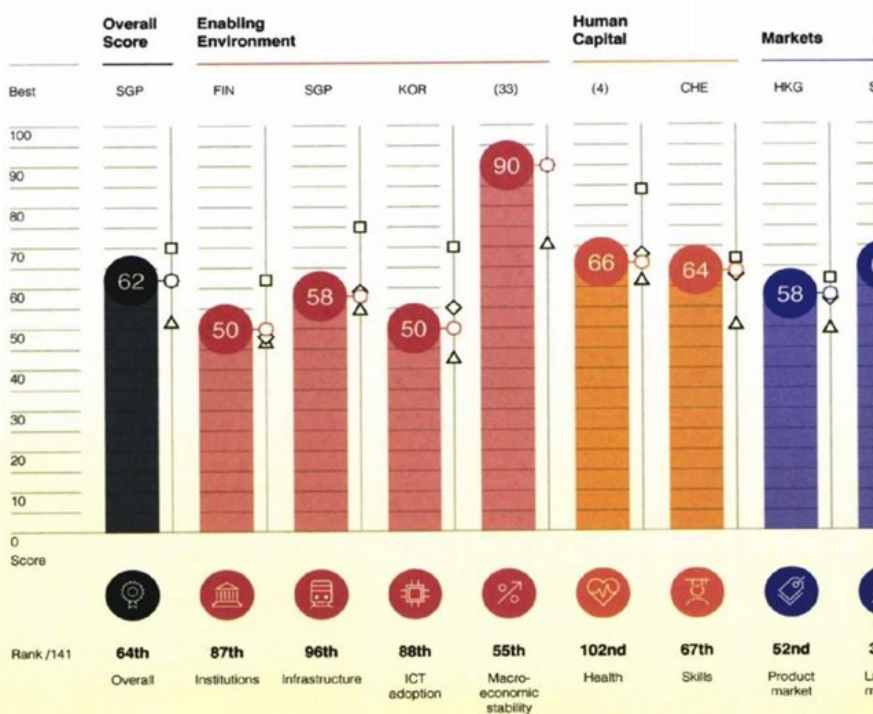
Making technology and innovation part of an economy’s DNA is challenging in itself but governments must also account for enabling this change through human capital investments and mitigating the unintended adverse impacts of technological advancements on income distribution and social cohesion through a holistic approach. In the Schumpeterian process of “creative destruction”, creativity must be encouraged, and the destruction must be managed. Increased precariousness of workers, the skills gap, excessive market concentration, corrosive effects on the social fabric, regulatory loopholes, data privacy issues and cyberwarfare are all but a few of the potential negative effects that governments must mitigate.

The GCI results show that technology governance has not kept pace with innovation in most countries, including some of the largest and most innovative.

Philippines ranks No. 64

Global Competitiveness Index 4.0 2019 edition

Performance Overview



Selected contextual indicators

Population millions	106.6	GDP (PPP) % world G
GDP per capita us\$	3,103.6	5-year average FDI i
10-year average annual GDP growth %	5.5	

Social and environmental performance

Environmental footprint gha/capita	1.1	Global Gender Gap I
Renewable energy consumption share %	27.5	Income Gini 0 (perfect
Unemployment rate %	2.5	

Further, countries must improve talent adaptability; that is, enable the ability of their workforces to contribute to the creative destruction process and cope with its disruptions. Talent adaptability also requires a well-functioning labor market that protects workers rather than jobs.

The GCI 4.0 reveals that in several countries with significant innovation and

technological capabilities such as Korea, Rep., Italy, France and Japan, insufficient talent development may increase the risk of negative social consequences.

Emerging economies with growing innovation capacity such as China, India and Brazil must also better balance technological integration and human capital investments.



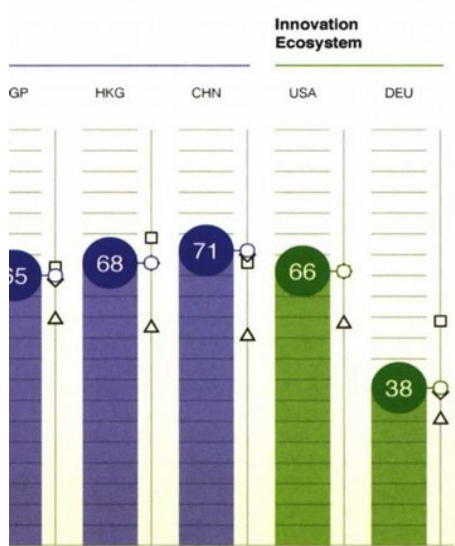
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Rank in 2018 edition: 56th/140
 p average □ East Asia and Pacific average



GDP	0.71
ward flow % GDP	2.1
ndex 0-1 (gender parity)	0.8
equality) -100 (perfect inequality)	44.4

Country analysis

With a 2019 GCI score of 84.8 out of 100, Singapore is the country closest to the frontier of competitiveness.

The country ranks first in terms of infrastructure, health, labor market functioning and financial system development. Going forward, in order to become a global inno-

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vation hub, Singapore will need to promote entrepreneurship and further improve its skills base.

Among the G20, the United States (2nd, down 1 place), Japan (6th), Germany (7th, down 4) and the United Kingdom (9th, down 1) feature in the top 10, but they all have experienced erosion in their performance. So has Canada (14th, down 2). Korea (13th, up 2), France (15th, up 2) and Italy (30th, up 1) are the only advanced economies to improve this year. Argentina (83rd, down 2 places) is the lowest ranked. Among the BRICS, China is by far the best performer, ahead of the Russian Federation, 32 places ahead of South Africa (60th) and some 40 places ahead of both India (68th) and Brazil (71st).

Led by Singapore, the East Asia and the Pacific region is the most competitive in the world, followed by Europe and North America.

Hong Kong SAR (3rd) and Japan (6th) also feature in the top 10. Viet Nam (67th) is the country whose score improves the most globally. But the region is also home to economies with significant competitiveness deficits, such as Cambodia (106th) and Lao PDR (113th).

The United States (2nd overall) is the leader in Europe and North America. Despite dropping one position it remains an innovation powerhouse, ranking 1st for business dynamism and 2nd for innovation capability. The Netherlands (4th), Switzerland (5th), Germany (7th), Sweden (8th), the United Kingdom (9th) and Denmark (10th) all feature in the top 10. The region's most improved country is Croatia (63rd).

In Latin America and the Caribbean, Chile (33rd) is the most competitive economy thanks to a stable macroeconomic context (1st, with other 32 economies) and open markets (68.0, 10th). It is followed by Mexico (48th), Uruguay (54th), and Colombia (57th). Brazil, despite being the most improved economy in the region is 71st; while Venezuela (133rd, down 6 places) and Haiti (138th) close out the region.

In Middle East and North Africa, Israel (20th) and the United Arab Emirates (25th) lead, followed by Qatar (29th) and Saudi Arabia (36th); Kuwait is the most improved in the region (46th, up 8 places) while Iran (99th) and Yemen (140th) lose some ground. The region has caught up significantly on ICT adoption and many countries boast well developed infrastructure. Greater investments in human capital, however, are needed to transform the countries in the region into more diversified, innovative and creative economies.

Eurasia's competitiveness rankings see the Russian Federation (43rd) on top, fol-

lowed by Kazakhstan (55th) and Azerbaijan (58th), both improving their performance over 2018. Focusing on financial development and innovation capability would help the region to achieve a higher competitiveness performance and advance the process towards structural change.

In South Asia, India, in 68th position, loses ground in the rankings despite a relatively stable score, mostly due to faster improvements of several countries previously ranked lower. It is followed by Sri Lanka (the most improved country in the region at 84th), Bangladesh (105th), Nepal (108th) and Pakistan (110th).

Led by Mauritius (52nd), sub-Saharan Africa is overall the least competitive region, with 25 of the 34 economies assessed this year scoring below 50. South Africa, the second most competitive in the region, improves to the 60th position, while Namibia (94th), Rwanda (100th), Uganda (115th) and Guinea (122nd) all improve significantly. Among the other large economies in the region, Kenya (95th) and Nigeria (116th) also improve their performances, but lose some positions, overcome by faster climbers. On a positive note, of the 25 countries that have improved their Health pillar score by two points or more, 14 are from sub-Saharan Africa, making strides to close the gaps in healthy life expectancy.

Competitiveness, Equality and Sustainability— The Way Forward

Decades of focus on economic growth without equal focus on making growth inclusive and environmentally sustainable are having dire consequences for the planet and humankind. Accelerating climate change is already affecting hundreds of millions around the world, and it is likely that people under 60 will witness its radical destabilizing effects on Earth. In parallel, rising inequality, precarity and lack of social mobility are undermining social cohesion with a growing sense of unfairness, perceived loss of identity and dignity, weakening social fabric, eroding trust in institutions, disenchantment with political processes and an erosion of the social contract.

It has become clear that environmental, social and economic agendas can no longer be pursued separately and in parallel: they must be merged into a single sustainable and inclusive growth agenda. In this approach, the perceived trade-offs between economic, social and environmental factors can be mitigated by adopting a holistic and longer-term approach to growth. This implies addressing the spillover effects and externalities, positive and negative, intended or unintended, of economic policies beyond the direct objectives they pursue.

The very different degrees and speeds at which countries are adopting such



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holistic approach to growth are reflected in the fact that countries at similar levels of competitiveness achieve very different environmental and social outcomes. For example, Sweden, Denmark and Finland have not only become among the world's most technologically advanced, innovative and dynamic economies in the world, but are also providing better living conditions and better social protection, are more cohesive and more sustainable than their peers.

Sustainability, growth and competitiveness

While the traditional narrative has focused on the trade-offs between growth

growing installed capacity of solar and wind farms and energy-saving appliances, non-renewable resources still account for over 80% of global energy consumption. In the short run, a lack of alternatives to meet the global demand for energy, a push towards non-fuel energy may lead to an increase in production costs in most sectors and hurt productivity. Finally, episodes of water shortage have proven to have an extremely negative effect on productivity in agriculture, as well as for smelting, chemical and mining activities.

To some extent, more competitive economies are better positioned to transition to a low-carbon economy. For instance, they

- **Carbon taxes and subsidies.** The prices of carbon-intensive products do not fully reflect their true cost because of unaccounted externalities and distortions from energy subsidies. Efforts to tax emissions and phase out subsidies remain insufficient. Seventy-six percent of emissions are still not subject to carbon pricing. Phasing out subsidies to fossil fuels and implementing bolder carbon pricing schemes must be paired with measures that minimize the potential social costs of these reforms. Externality-adjusted prices could potentially further accelerate the re-allocation of investment towards green projects.

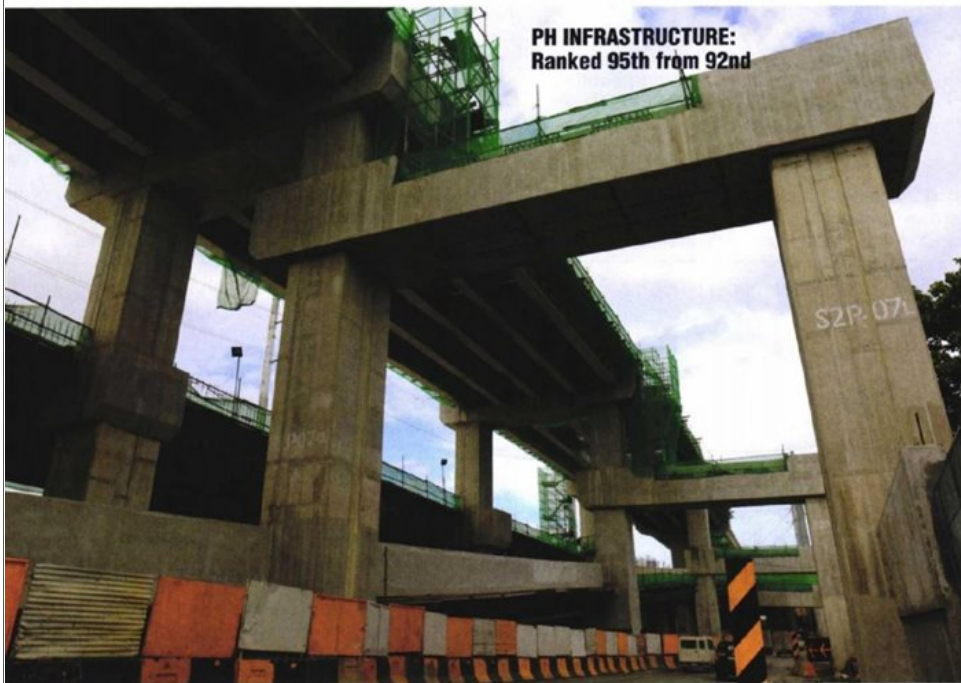
- **Incentives for green R&D.** Renewable energy technologies still need to overcome technical limitations that prevent them from becoming the main and possibly the sole source of energy in the future. These limitations and the continuous increase in demand explain why fossil fuels still account for about 80% of total energy consumption, despite the significant decrease in the cost of electricity production from renewable resources. More investments in research are needed to overcome these technical limitations and develop new technologies. Tax incentives and/or direct public investments can boost these efforts.

- **Green public procurement.** Public procurement can sustain markets for innovative products as well as for sustainable products or services. Some countries have already started to introduce environmental standards in technical specifications, procurement selection and award criteria, and have inserted environmental performance clauses into contracts. Despite potential implementation challenges, green public procurement can signal a major policy shift and break from the lock-in effects of status-quo technologies and production models.

Shared prosperity, growth and competitiveness

Over the past few decades, income inequality has increased in both advanced and emerging economies. Growth and shared prosperity started to decouple in most of the advanced economies in the 1970s and have further diverged since the early 2000s. Similarly, in developing and emerging economies, growth has been accompanied by a significant increase in inequality— despite pulling millions out of poverty and reducing the gap with advanced economies.

The most-cited causes behind these trends are globalization and technology. Globalization has increased inequality within countries by transferring low-skilled jobs in high-productivity sectors from advanced economies to developing and emerging countries. Technology has impacted inequality by reducing demand for low-skilled jobs and rewarding high-skilled jobs disproportionately.



and sustainable practices, there is emerging evidence that failing to address the environmental tipping points will affect productivity.

Environmental-driven TFP losses may even outweigh the costs associated with transitioning to a low-carbon economy; for example, climate change is resulting in lower agriculture productivity, more capital depreciation due to infrastructure damage, and a fall in both labor supply and workers' output due to higher temperatures. Additionally, exposure to chemicals and air pollution increases the incidence of non-communicable diseases and mortality rates.

Furthermore, constraints to specific renewable and non-renewable inputs such as energy and water may have also important productivity spillover effects. Despite increasingly efficient electric vehicles,

typically boast greater innovation capability and are therefore more likely to come up with breakthrough green technology. In addition, countries with stronger human capital, better developed infrastructure and greater innovation capacity are, on average, more likely to adopt a greener energy mix. But success will depend on policy choices ultimately. Here are four areas for policy intervention towards more sustainable growth:

- **Openness and international collaboration.** Sustainability issues are a global problem. No country can manage environmental challenges with national policies only. It is essential that, even in a context of trade tensions and diminished commitment to international governance systems, countries discuss shared solutions to climate change and the transition to a low-footprint global economy.



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The Global Competitiveness Index 4.0 2019 Rankings

Covering 141 economies, the Global Competitiveness Index 4.0 measures national competitiveness—defined as the set of institutions, policies and factors that determine the level of productivity.

Rank	Economy	Score ¹	Diff. from 2018 ²		Rank	Economy	Score ¹	Diff. from 2018 ²		Rank	Economy	Score ¹	Diff. from 2018 ²	
			Rank	Score				Rank	Score				Rank	Score
1	Singapore	84.8	+1	+1.3	46	Mexico	64.9	-2	+0.3	96	Kenya	54.1	-2	+0.5
2	United States	83.7	-1	-2.0	49	Bulgaria	64.9	+2	+1.3	98	Kyrgyz Republic	54.0	+1	+1.0
3	Hong Kong SAR	83.1	+4	+0.9	50	Indonesia	64.6	-5	-0.3	99	Paraguay	53.6	-2	+0.3
4	Netherlands	82.4	+2	—	51	Romania	64.4	+1	+0.9	100	Guatemala	53.5	-2	+0.2
5	Switzerland	82.3	-1	-0.3	52	Mauritius	64.3	-3	+0.5	101	Iran, Islamic Rep.	53.0	-10	-1.9
6	Japan	82.3	-1	-0.2	53	Oman	63.6	-6	-0.8	102	Rwanda	52.8	+8	+1.9
7	Germany	81.8	-4	-1.0	54	Uruguay	63.5	-1	+0.8	103	Honduras	52.7	—	+0.2
8	Sweden	81.2	+1	-0.4	55	Kazakhstan	62.9	+4	+1.1	104	Mongolia	52.6	-3	-0.1
9	United Kingdom	81.2	-1	-0.8	56	Brunei Darussalam	62.8	+6	+1.3	105	El Salvador	52.6	-5	-0.2
10	Denmark	81.2	—	+0.6	57	Colombia	62.7	+3	+1.1	106	Tajikistan	52.4	-2	+0.2
11	Finland	80.2	—	—	58	Azerbaijan	62.7	+11	+2.7	107	Bangladesh	52.1	-2	—
12	Taiwan, China	80.2	+1	+1.0	59	Greece	62.6	-2	+0.5	108	Cambodia	52.1	+4	+1.9
13	Korea, Rep.	79.6	+2	+0.8	60	South Africa	62.4	+7	+1.7	109	Bolivia	51.8	-2	+0.4
14	Canada	79.6	-2	-0.3	61	Turkey	62.1	—	+0.5	110	Nepal	51.6	+1	+0.8
15	France	78.8	+2	+0.8	62	Costa Rica	62.0	-7	-0.1	111	Nicaragua	51.5	-5	—
16	Australia	78.7	-2	-0.1	63	Croatia	61.9	+5	+1.8	112	Pakistan	51.4	-3	+0.3
17	Norway	78.1	-1	-0.1	64	Philippines	61.9	-8	-0.3	113	Ghana	51.2	-5	-0.1
18	Luxembourg	77.0	+1	+0.4	65	Peru	61.7	-2	+0.4	114	Cape Verde	50.8	-1	+0.6
19	New Zealand	76.7	-1	-0.8	66	Panama	61.6	-2	+0.6	115	Lao PDR	50.1	-1	+0.8
20	Israel	76.7	—	+0.1	67	Viet Nam	61.5	+10	+3.5	116	Senegal	49.7	-1	+0.7
21	Austria	76.6	+1	+0.3	68	India	61.4	-10	-0.7	117	Uganda	48.9	+2	+2.1
22	Belgium	76.4	-1	-0.2	69	Armenia	61.3	+1	+1.4	118	Nigeria	48.3	-1	+0.8
23	Spain	75.3	+3	+1.1	70	Jordan	60.9	+3	+1.6	119	Tanzania	48.2	-1	+1.0
24	Ireland	75.1	-1	-0.6	71	Brazil	60.9	+1	+1.4	120	Côte d'Ivoire	48.1	-4	+0.6
25	United Arab Emirates	75.0	+2	+1.6	72	Serbia	60.9	-7	—	121	Gabon	47.5	n/a	n/a
26	Iceland	74.7	-2	+0.2	73	Montenegro	60.8	-2	+1.2	122	Zambia	46.5	-2	+0.5
27	Malaysia	74.6	-2	+0.2	74	Georgia	60.6	-8	-0.3	123	Eswatini	46.4	-1	+1.1
28	China	73.9	—	+1.3	75	Morocco	60.0	—	+1.5	124	Guinea	46.1	+4	+2.9
29	Qatar	72.9	+1	+1.9	76	Seychelles	59.6	-2	+1.1	125	Cameroon	46.0	-2	+0.9
30	Italy	71.5	+1	+0.8	77	Barbados	58.9	n/a	n/a	126	Gambia, The	45.9	-5	+0.5
31	Estonia	70.9	+1	+0.2	78	Dominican Republic	58.3	+4	+0.9	127	Benin	45.8	-2	+1.4
32	Czech Republic	70.9	-3	-0.3	79	Trinidad and Tobago	58.3	-1	+0.4	128	Ethiopia	44.4	-4	-0.1
33	Chile	70.5	—	+0.3	80	Jamaica	58.3	-1	+0.4	129	Zimbabwe	44.2	+1	+1.6
34	Portugal	70.4	—	+0.2	81	Albania	57.6	-5	-0.5	130	Malawi	43.7	+1	+1.3
35	Slovenia	70.2	—	+0.6	82	North Macedonia	57.3	+2	+0.7	131	Mali	43.6	-4	—
36	Saudi Arabia	70.0	+3	+2.5	83	Argentina	57.2	-2	-0.3	132	Burkina Faso	43.4	-6	-0.5
37	Poland	68.9	—	+0.7	84	Sri Lanka	57.1	+1	+1.1	133	Lesotho	42.9	-1	+0.6
38	Malta	68.5	-2	-0.2	85	Ukraine	57.0	-2	—	134	Madagascar	42.9	n/a	n/a
39	Lithuania	68.4	+1	+1.2	86	Moldova	56.7	+2	+1.2	135	Venezuela	41.8	-6	-1.3
40	Thailand	68.1	-2	+0.6	87	Tunisia	56.4	—	+0.8	136	Mauritania	40.9	-3	+0.1
41	Latvia	67.0	+1	+0.7	88	Lebanon	56.3	-8	-1.4	137	Burundi	40.3	+1	+2.7
42	Slovak Republic	66.8	-1	-0.1	89	Algeria	56.3	+3	+2.5	138	Angola	38.1	+1	+1.1
43	Russian Federation	66.7	—	+1.1	90	Ecuador	55.7	-4	-0.1	139	Mozambique	38.1	-4	-1.7
44	Cyprus	66.4	—	+0.8	91	Botswana	55.5	-1	+1.0	140	Haiti	36.3	—	-0.1
45	Bahrain	65.4	+5	+1.7	92	Bosnia and Herzegovina	54.7	-1	+0.6	141	Congo, Dem. Rep.	36.1	-4	-2.1
46	Kuwait	65.1	+8	+3.0	93	Egypt	54.5	+1	+1.0	142	Yemen	35.5	-1	-0.9
47	Hungary	65.1	+1	+0.8	94	Namibia	54.5	+6	+1.8	143	Chad	35.1	-1	-0.4

● East Asia and the Pacific ● Eurasia ● Europe and North America ● Latin America and the Caribbean ● Middle East and North Africa ● South Asia ● Sub-Saharan Africa

Note: The Global Competitiveness Index 4.0 captures the determinants of long-term growth. Recent developments are reflected only insofar as they have an impact on data measuring these determinants. Results should be interpreted in this context. "—" indicates score or rank is unchanged from the previous year, "n/a" indicates the countries were not covered by the index the previous year.

¹ Scale ranges from 0 to 100.

² Rank and score differences with 2018 index. For details refer to Appendix A.

Source: WEF



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ECONOMY PROFILE: THE PHILIPPINES' 12 PILLARS

Index Component	Value	Score *	Rank/141	Best Performer
1st pillar: Institutions 0-100	-	50.0 ↑	87	Finland
Security 0-100	-	44.8 ↑	129	Finland
1.01 Organized crime 1-7 (best)	3.7	45.7 ↓	114	Finland
1.02 Homicide rate per 100,000 pop.	8.4	73.2 ↑	111	Multiple (14)
1.03 Terrorism incidence 0 (very high) -100 (no incidence)	26.7	26.7 =	137	Multiple (25)
1.04 Reliability of police services 1-7 (best)	3.0	33.4 ↓	126	Finland
Social capital 0-100	-	56.1 ↓	36	New Zealand
1.05 Social capital 0-100 (best)	56.1	56.1 ↓	33	New Zealand
Checks and balances 0-100	-	47.5 ↑	78	Finland
1.06 Budget transparency 0-100 (best)	67	67.0	19	Multiple (2)
1.07 Judicial independence 1-7 (best)	2.9	32.2 ↓	110	Finland
1.08 Efficiency of legal framework in challenging regulations 1-7 (best)	3.1	34.9 ↓	90	Finland
1.09 Freedom of the press 0-100 (worst)	43.9	56.1 ↓	111	Norway
Public-sector performance 0-100	-	53.5 ↑	56	Singapore
1.10 Burden of government regulation 1-7 (best)	3.0	33.2 ↓	103	Singapore
1.11 Efficiency of legal framework in settling disputes 1-7 (best)	3.0	33.5 ↓	109	Singapore
1.12 E-Participation 0-1 (best)	0.94	93.8 =	19	Multiple (3)
Transparency 0-100	-	36.0 ↑	85	Denmark
1.13 Incidence of corruption 0-100 (best)	36.0	36.0 ↑	85	Denmark
Property rights 0-100	-	52.7 ↓	75	Finland
1.14 Property rights 1-7 (best)	4.5	58.2 ↑	61	Finland
1.15 Intellectual property protection 1-7 (best)	4.5	58.2 ↑	55	Finland
1.16 Quality of land administration 0-30 (best)	12.5	41.7 ↓	91	Multiple (5)
Corporate governance 0-100	-	52.0 ↑	100	New Zealand
1.17 Strength of auditing and accounting standards 1-7 (best)	5.1	69.0 ↓	46	Finland
1.18 Conflict of interest regulation 0-10 (best)	4.0	40.0 =	121	Kenya
1.19 Shareholder governance 0-10 (best)	4.7	47.0 ↑	95	Kazakhstan
Future orientation of government 0-100	-	57.3	60	Luxembourg
1.20 Government ensuring policy stability 1-7 (best)	3.5	41.5	98	Switzerland
1.21 Government's responsiveness to change 1-7 (best)	3.6	43.6	76	Singapore
1.22 Legal framework's adaptability to digital business models 1-7 (best)	3.7	44.4	63	United States
1.23 Government long-term vision 1-7 (best)	4.2	53.0	55	Singapore
1.24 Energy efficiency regulation 0-100 (best)	61.4	61.4	39	Italy
1.25 Renewable energy regulation 0-100 (best)	62.4	62.4	43	Germany
1.26 Environment-related treaties in force count (out of 29)	24	82.8	36	Multiple (6)
2nd pillar: Infrastructure 0-100	-	57.8 ↓	96	Singapore



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Index Component	Value	Score *	Rank/141	Best Performer
Transport infrastructure 0-100	-	41.5 ↑	102	Singapore
2.01 Road connectivity 0-100 (best)	51.6	51.6 ↑	125	Multiple (3)
2.02 Quality of road infrastructure 1-7 (best)	3.7	44.8 ↑	88	Singapore
2.03 Railroad density km/1,000 km[[2	1.7	4.3 ↑	91	Multiple (24)
2.04 Efficiency of train services 1-7 (best)	2.4	23.0 ↓	88	Japan
2.05 Airport connectivity score	306,152.8	82.6 =	26	Multiple (8)
2.06 Efficiency of air transport services 1-7 (best)	4.1	52.3 ↑	96	Singapore
2.07 Liner shipping connectivity 0-100 (best)	29.0	29.0 ↑	59	Multiple (5)
2.08 Efficiency of seaport services 1-7 (best)	3.7	44.7 ↑	88	Singapore
Utility infrastructure 0-100	-	74.1 ↓	96	Iceland
2.09 Electricity access % of population	88.3	88.3 ↓	103	Multiple (67)
2.10 Electricity supply quality % of output	9.1	94.7 ↓	53	Multiple (10)
2.11 Exposure to unsafe drinking water % of population	49.0	52.0 ↓	105	Multiple (28)
2.12 Reliability of water supply 1-7 (best)	4.7	61.5 ↓	77	Iceland
3rd pillar: ICT adoption 0-100	-	49.7 ↓	88	Korea, Rep.
3.01 Mobile-cellular telephone subscriptions per 100 pop.	110.1	91.8 ↓	84	Multiple (63)
3.02 Mobile-broadband subscriptions per 100 pop.	68.4	N/Apl.	79	United Arab Emirates
3.03 Fixed-broadband Internet subscriptions per 100 pop.	3.2	6.5 ↓	98	Switzerland
3.04 Fibre internet subscriptions per 100 pop.	n/a	N/Apl.	n/a	Korea, Rep.
3.05 Internet users % of adult population	60.1	60.1 ↑	82	Qatar
4th pillar: Macroeconomic stability 0-100	-	90.0 ↓	55	Multiple (33)
4.01 Inflation %	4.0	99.9 ↓	91	Multiple (88)
4.02 Debt dynamics 0-100 (best)	80.0	80.0 =	43	Multiple (34)
5th pillar: Health 0-100	-	65.6 ↓	102	Multiple (4)
5.01 Healthy life expectancy years	61.0	65.6 ↓	101	Multiple (4)
6th pillar: Skills 0-100	-	63.7 ↑	67	Switzerland
Current workforce 0-100	-	64.9 ↑	40	Switzerland
6.01 Mean years of schooling years	9.6	64.0 =	69	Germany
Skills of current workforce 0-100	-	65.9 ↑	19	Switzerland
6.02 Extent of staff training 1-7 (best)	4.9	65.7 ↑	18	Switzerland
6.03 Quality of vocational training 1-7 (best)	4.7	62.4 ↓	29	Switzerland
6.04 Skillset of graduates 1-7 (best)	5.0	66.4 ↑	20	Switzerland
6.05 Digital skills among active population 1-7 (best)	5.1	67.7 ↓	22	Finland
6.06 Ease of finding skilled employees 1-7 (best)	5.0	67.1 ↑	13	United States
Future workforce 0-100	-	62.5 ↑	88	Denmark
6.07 School life expectancy years	12.7	70.6 ↑	85	Multiple (11)



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ECONOMY PROFILE: THE PHILIPPINES' 12 PILLARS

Index Component	Value	Score *	Rank/141	Best Performer
Skills of future workforce 0-100	-	54.5 ↑	81	Denmark
6.08 Critical thinking in teaching 1-7 (best)	4.4	56.4 ↑	24	Finland
6.09 Pupil-to-teacher ratio in primary education ratio	29.0	52.5 ↑	105	Multiple (5)
7th pillar: Product market 0-100	-	57.8 ↑	52	Hong Kong SAR
Domestic competition 0-100	-	52.1 ↓	78	Hong Kong SAR
7.01 Distortive effect of taxes and subsidies on competition 1-7 (best)	4.1	51.9 ↑	49	Singapore
7.02 Extent of market dominance 1-7 (best)	3.2	36.8 ↓	114	Switzerland
7.03 Competition in services 1-7 (best)	5.1	67.5 ↓	64	Hong Kong SAR
Trade openness 0-100	-	63.5 ↑	35	Singapore
7.04 Prevalence of non-tariff barriers 1-7 (best)	4.6	59.9 ↓	51	Singapore
7.05 Trade tariffs %	3.77	74.8 ↑	52	Hong Kong SAR
7.06 Complexity of tariffs 1-7 (best)	5.8	80.8 ↓	67	Hong Kong SAR
7.07 Border clearance efficiency 1-5 (best)	2.5	38.2 =	85	Germany
8th pillar: Labour market 0-100	-	64.9 ↑	39	Singapore
Flexibility 0-100	-	59.8 ↑	56	Singapore
8.01 Redundancy costs weeks of salary	27.4	51.3 ↑	116	Multiple (8)
8.02 Hiring and firing practices 1-7 (best)	4.0	50.3 ↓	54	Hong Kong SAR
8.03 Cooperation in labour-employer relations 1-7 (best)	5.4	72.6 ↑	15	Singapore
8.04 Flexibility of wage determination 1-7 (best)	5.2	69.9 ↓	51	Estonia
8.05 Active labour market policies 1-7 (best)	3.8	46.9 ↑	50	Switzerland
8.06 Workers' rights 0-100 (best)	62.0	62.0 ↓	104	Multiple (2)
8.07 Ease of hiring foreign labour 1-7 (best)	4.1	51.7 ↑	76	Albania
8.08 Internal labour mobility 1-7 (best)	5.4	73.7 ↑	7	United States
Meritocracy and incentivization 0-100	-	70.1 ↓	35	Denmark
8.09 Reliance on professional management 1-7 (best)	5.1	68.5 ↑	28	Finland
8.10 Pay and productivity 1-7 (best)	4.9	64.9 ↓	13	Hong Kong SAR
8.11 Ratio of wage and salaried female workers to male workers %	0.58	47.9 ↓	87	Multiple (4)
8.12 Labour tax rate %	8.7	99.0 =	26	Multiple (24)
9th pillar: Financial system 0-100	-	68.3 ↑	43	Hong Kong SAR
Depth 0-100	-	50.3 ↑	46	United States
9.01 Domestic credit to private sector % GDP	44.8	47.1 ↑	79	Multiple (30)
9.02 Financing of SMEs 1-7 (best)	3.9	48.4 ↓	71	Finland
9.03 Venture capital availability 1-7 (best)	3.6	42.7 ↑	44	United States
9.04 Market capitalization % GDP	84.3	84.3 ↑	24	Multiple (15)
9.05 Insurance premium volume to GDP	1.8	29.3 ↓	65	Multiple (17)
Stability 0-100	-	90.8 ↓	48	Finland



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Index Component	Value	Score *	Rank/141	Best Performer
9.06 Soundness of banks 1-7 (best)	5.9	81.8 ↑	17	Finland
9.07 Non-performing loans % of gross total loans	1.6	97.8 ↑	20	Multiple (3)
9.08 Credit gap%	6.5	88.2 ↓	130	Multiple (98)
9.09 Banks' regulatory capital ratio % of total risk-weighted assets	14.7	95.3 ↓	108	Multiple (74)
10th pillar: Market size 0-100	-	71.0 ↑	31	China
10.01 Gross domestic product PPP \$ billions	847	N/Apl.	28	China
10.02 Imports of goods and services % GDP	42.7	N/Apl.	72	Hong Kong SAR
11th pillar: Business dynamism 0-100	-	65.7 ↓	44	United States
Administrative requirements 0-100	-	67.4 ↓	79	United States
11.01 Cost of starting a business % of GNI per capita	20.3	89.9 ↓	106	Multiple (2)
11.02 Time to start a business days	31.0	69.3 ↓	118	New Zealand
11.03 Insolvency recovery rate cents to the dollar	21.3	22.9 =	112	Japan
11.04 Insolvency regulatory framework 0-16 (best)	14.0	87.5 =	9	Multiple (6)
Entrepreneurial culture 0-100	-	64.1 ↑	18	Israel
11.05 Attitudes towards entrepreneurial risk 1-7 (best)	4.7	62.4 ↑	17	Israel
11.06 Willingness to delegate authority 1-7 (best)	5.0	67.0 ↑	24	Denmark
11.07 Growth of innovative companies 1-7 (best)	4.9	65.2 ↑	20	Israel
11.08 Companies embracing disruptive ideas 1-7 (best)	4.7	61.6 ↑	10	Israel
12th pillar: Innovation capability 0-100	-	38.0 ↑	72	Germany
Interaction and diversity 0-100	-	46.6 ↑	40	Singapore
12.01 Diversity of workforce 1-7 (best)	5.5	75.1 ↑	9	Singapore
12.02 State of cluster development 1-7 (best)	3.9	48.1 ↓	63	Italy
12.03 International co-inventions per million pop.	0.06	1.9 ↓	91	Multiple (5)
12.04 Multi-stakeholder collaboration 1-7 (best)	4.7	61.4 ↑	26	Israel
Research and development 0-100	-	22.9 ↑	87	Japan
12.05 Scientific publications score	206.0	79.0 ↑	55	Multiple (9)
12.06 Patent applications per million pop.	0.36	5.7 ↑	79	Multiple (8)
12.07 R&D expenditures % GDP	0.1	4.6 ↓	102	Multiple (7)
12.08 Research institutions prominence 0-100 (best)	0.01	2.2 ↑	72	Multiple (7)
Commercialization 0-100	-	50.8 ↑	87	Luxembourg
12.09 Buyer sophistication 1-7 (best)	3.8	46.3 ↑	56	Korea, Rep.
12.10 Trademark applications per million pop.	169.50	55.3 ↑	98	Multiple (7)

*Scores are on a 0 to 100 scale, where 100 represents the optimal situation or 'frontier'. Arrows indicate the direction of the change in score from the previous edition, if available.

Note: For detailed methodology, definitions, sources, and periods, visit <http://gcr.weforum.org/>



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SUMMARIES

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The JFC is a coalition of the American, Australian-New Zealand,

Canadian, European, Japanese, and Korean chambers and PAMURI (an association of ROHQs). We represent over 3,000 member companies engaged in over \$100 billion worth of trade and some \$30 billion worth of investments in the Philippines.

The JFC supports and promotes open international trade, increased foreign investment, and improved conditions for business to benefit both the Philippin...