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CANADIAN

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KOREAN

PAMURI

September 24, 2019

Sen. Pia Cayetano
Chairperson
Committee on Ways and Means
Senate of the Philippines
Pasay City, Manila

Dear Chairman Cayetano:

Thank you for inviting the Joint Foreign Chambers (JFC) to provide a position paper and to comment on House Bill 4157, the Comprehensive Income Tax and Incentives Rationalization Act, as approved on Third Reading in the House on September 13. This paper comments on the overall contrast in which the legislation is being considered. A separate technical position paper will be submitted with our comments on the separate provisions in the bill.

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 US$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.

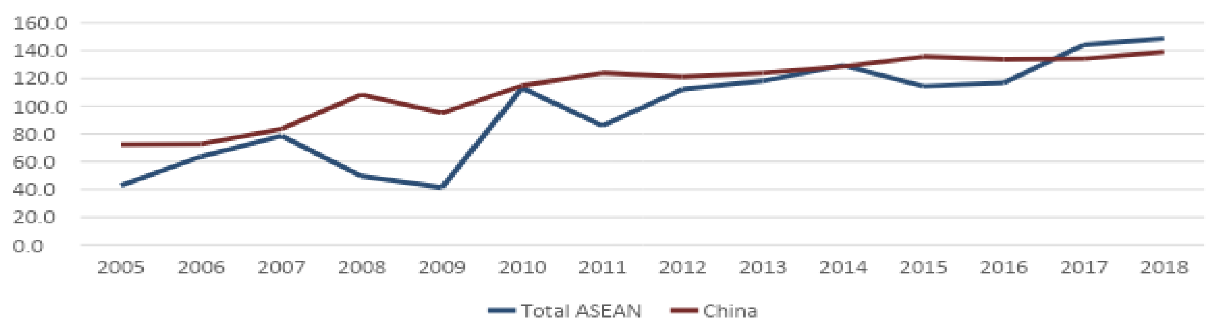
At the same time, we welcomed the new lowered PIT that benefited millions of our employees; It corrected tax rates after many years of inflationary bracket creep and provided them more take home pay.

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 US$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).

Figure 1. FDI inflow, total ASEAN vs China, 2005-2018, in US$ billions



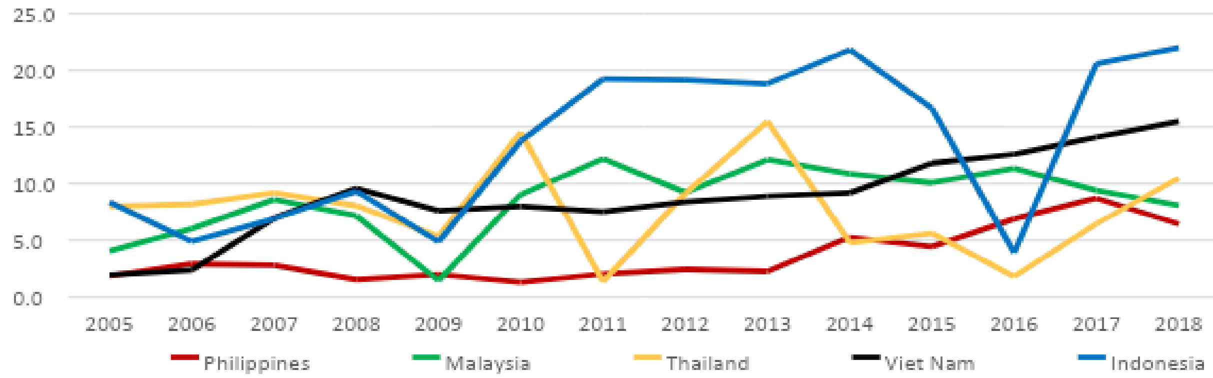
Source: UNCTAD

Table 1. FDI Inflows, by region and economy, 2005-2018, in US$ billions														
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
China	72.4	72.7	83.5	108.3	95.0	114.7	124.0	121.1	123.9	128.5	135.6	133.7	134.1	139.0
Total ASEAN	42.7	63.8	78.6	49.5	41.4	113.0	86.0	112.1	118.2	129.4	114.3	116.8	144.2	148.7
Indonesia	8.3	4.9	6.9	9.3	4.9	13.8	19.2	19.1	18.8	21.8	16.6	3.9	20.6	22.0
Malaysia	4.1	6.1	8.6	7.2	1.5	9.1	12.2	9.2	12.1	10.9	10.1	11.3	9.4	8.1
Philippines	1.9	2.9	2.8	1.5	2.0	1.3	2.0	2.4	2.3	5.3	4.4	6.9	8.7	6.5
Singapore	17.7	37.5	42.6	11.8	18.5	57.5	39.9	60.1	56.7	73.3	59.7	73.9	75.7	77.6
Thailand	8.0	8.2	9.2	8.1	5.4	14.6	1.4	9.1	15.5	4.8	5.6	1.8	6.5	10.5
Viet Nam	2.0	2.4	7.0	9.6	7.6	8.0	7.5	8.4	8.9	9.2	11.8	12.6	14.1	15.5

Source: UNCTAD

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.

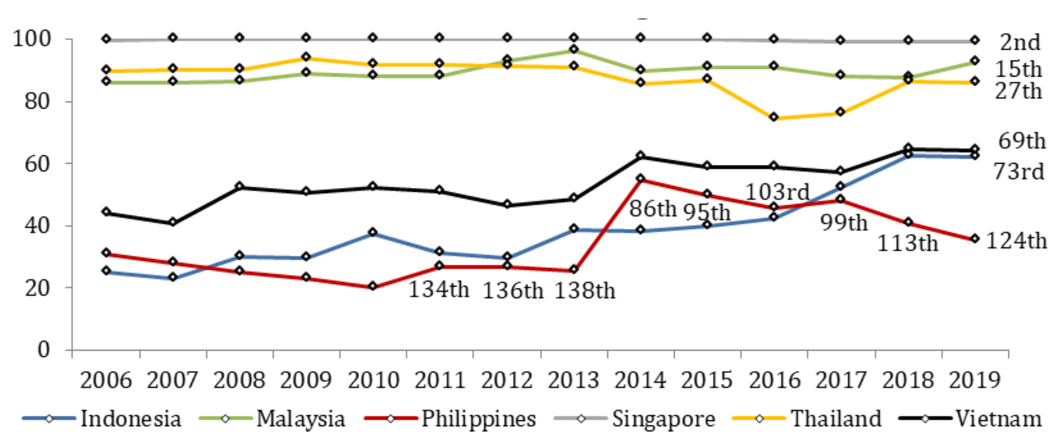
Figure 2. FDI inflow, ASEAN-5, 2005-2018, in US$ billions



Source: UNCTAD

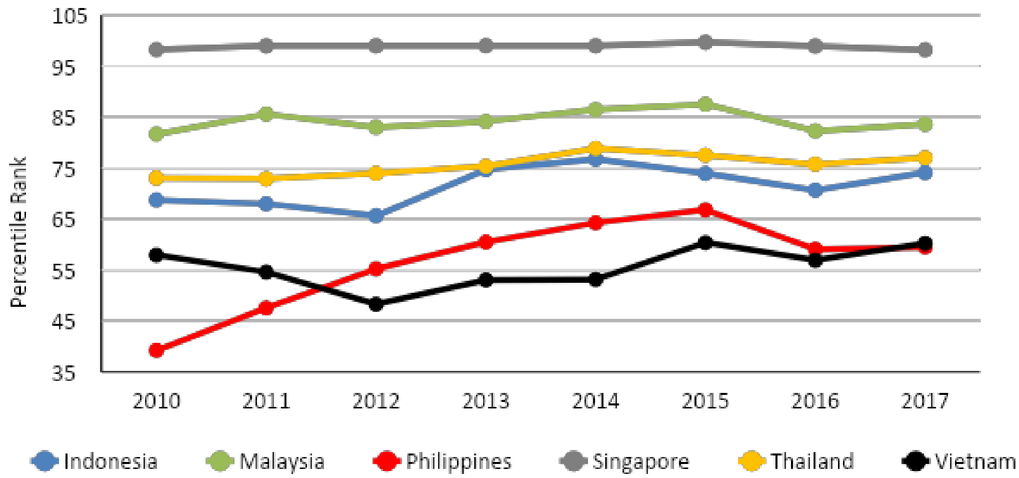
The Philippines is rated poorly in competitiveness and ease of doing business. Two widely-consulted global indexes rate the Philippines the lowest of the ASEAN-6 in key competitiveness rankings. In the Ease of Doing Business (see figure 3), the Philippines - while lowest-ranked - is close to Indonesia and Vietnam. In the Competitiveness Index, the Philippines and Vietnam rank the same, while Indonesia is higher (see figure 4). 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).

Figure 3. World Bank Doing Business Index, ASEAN-6, 2006-2019, percentile rankings



Source: World Bank and authors calculations
Note: N= 175 (2006-2007); 181 (2008); 183 (2009-2011); 185 (2012-2013); 189 (2014-2016); 190 (2017-2019)
*2014-2019 rankings based on new methodology

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



Source: WEF Global Competitiveness

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 as changing policies of government. These companies now employ some 2 million Filipinos in direct jobs and almost 8 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).

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

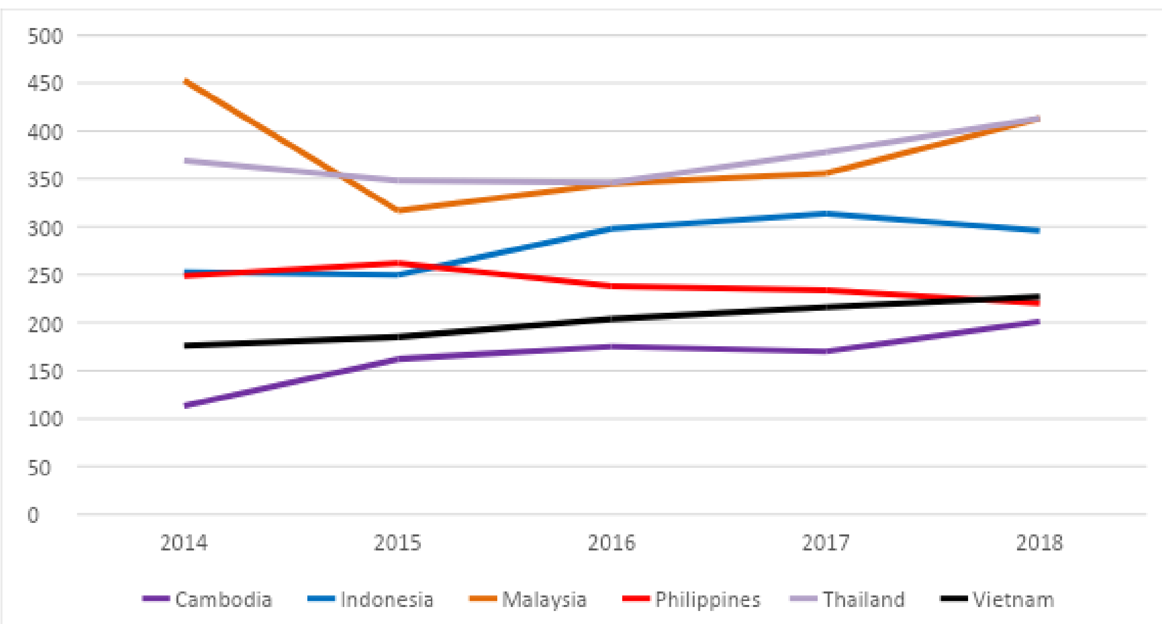
Fiscal incentives are not on this list because they are not an issue. Export-oriented foreign investors in business processing and manufacturing are predominantly located in PEZA zones and special economic zones precisely because these zones reduce the impact the above issues - except infrastructure - 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 (see attached table). 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.

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



Source: Japan External Trade Organization

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.

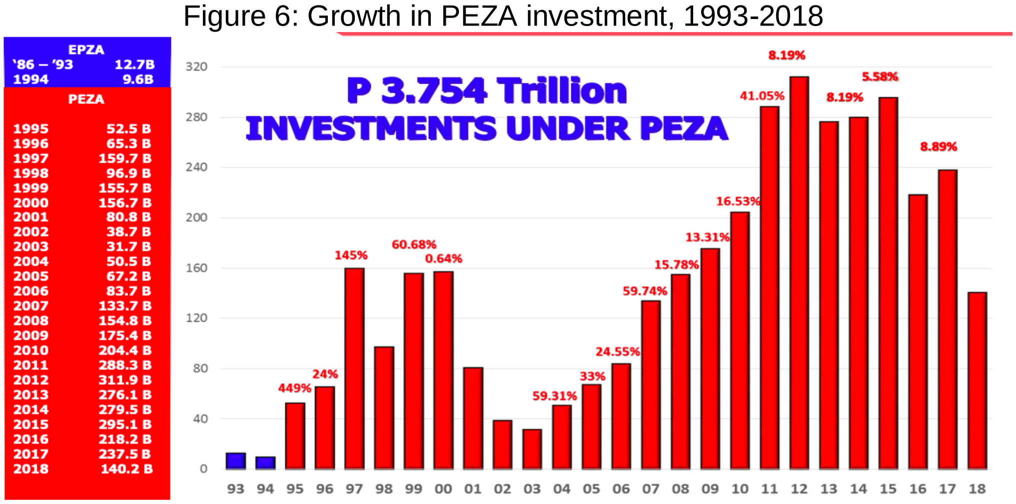
CITIRA makes doing business harder not easier. The CITIRA will result in more time-consuming reporting to government agencies and audits by the BIR as a result of placing several thousand firms currently under the simplified GIE system under the more complicated BIR rules for CIT. Firms will be asked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

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

Figure 6: Growth in PEZA investment, 1993-2018



Source: PEZA

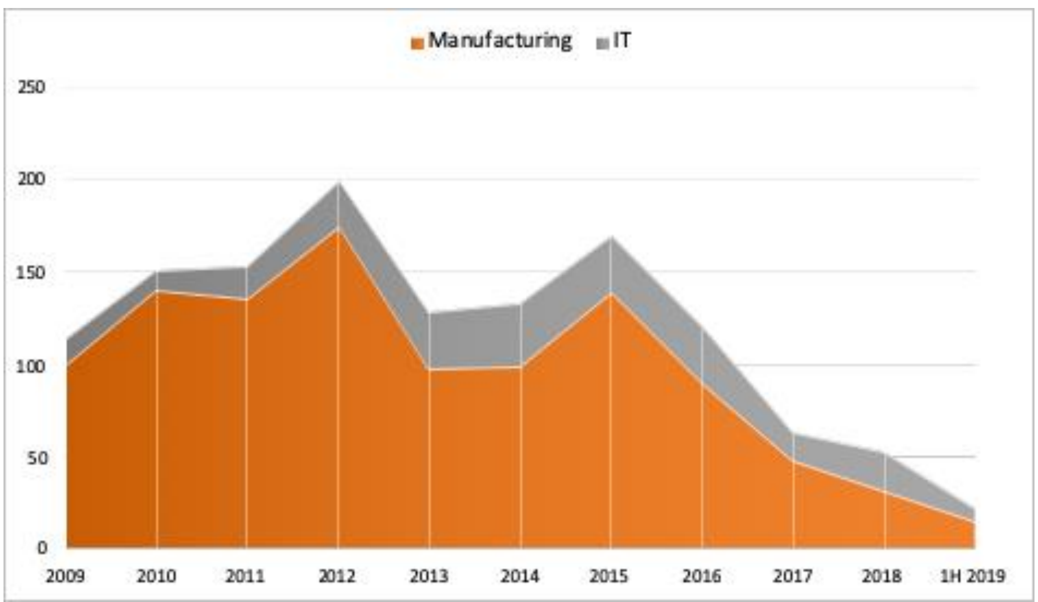
Table 3. PEZA Employment, 2015-2018

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

Source: PEZA

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. 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.

Figure 7:` PEZA new Investment in manufacturing and IT, 2009 to 1H 2019, in PhP billion



Source: PEZA

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	1H 2019
Total PEZA	**175**	**204**	**288**	**312**	**276**	**279**	**295**	**218**	**238**	**140**	**62**
Manufacturing	100	140	136	174	98	100	139	90	48	32	15
IT	14	11	18	26	30	34	31	30	16	21	7
Ecozone Development	42	34	70	80	73	135	108	90	153	78	38
Others	19	19	64	32	75	10	17	8	21	9	2

Source: PEZA

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

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	Sucat	American
5	Analog Devices	Cavite	American
6	Canon Business Machines	Batangas	Japanese
7	Chevron	Metro Manila	American
8	Citibank	Metro Manila	American
9	Cognizant Technlogy 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

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 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 1 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 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 20% 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%). 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 US$ 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.

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).

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; 50% 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		

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 it 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 ten 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.

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

DOF data re "revenue foregone" for fiscal incentives is incomplete and grossly misleading. (1) The DOF presented data claiming Php 504 billion in foregone revenue from incentives and transfer pricing in 2017. The DOF estimates foregone revenue in 2017 for customs duties at Php 47 billion and for import VAT at Php 268 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 Php 63 billion leakage from “possible” transfer pricing but presents no proof beyond academic studies. (3) **The real foregone income tax incentives for 2017 amount to Php 127 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 PhP 127 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 Php 2.5 in new revenue. DTI Secretary Lopez informed the May 22, 2018 HWMC hearing on TRAIN 2 that every one peso in incentive 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.

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	Bac Giang, 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	Hai Phong	Electronics - Printers, copiers
asics		Under consideration	TBD	Footwear production

Source: Vietnam Investment Review

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 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 Php 204 billion in the first 7 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 many 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.

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.

Attachment: power cost table (2018)

Sincerely,

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