Joint Foreign Chambers Comments on CITIRA

SENATE WAYS AND MEANS COMMITTEE HEARING

SEPTEMBER 24, 2019

The Joint Foreign Chambers (JFC)

- The JFC is a coalition of the American, Australian-New Zealand, Canadian, European, Japanese, and Korean chambers and PAMURI (an association of ROHQs) representing over 3,000 member companies engaged in over US$100 billion worth of trade and some $30 billion worth of investment in the Philippines

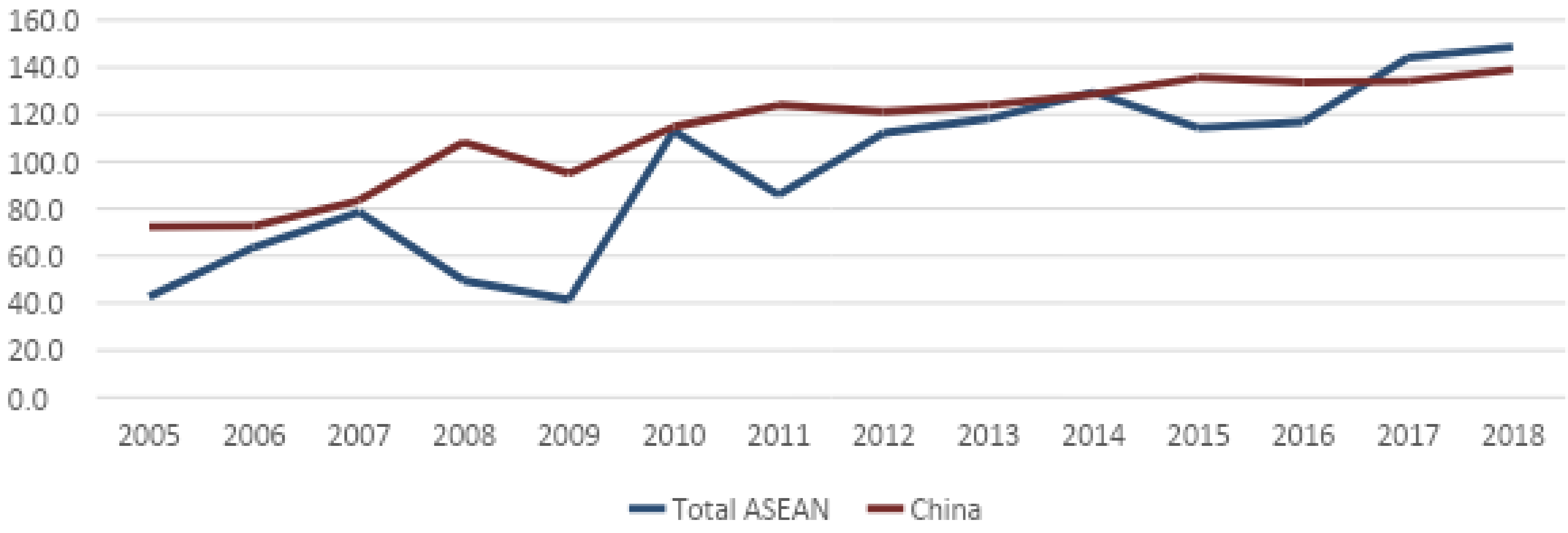
AMERICAN AUSTRALIAN-NEW ZEALAND CANADIAN EUROPEAN JAPANESE KOREAN PAMURI

Comprehensive Tax Reform

- **We support Comprehensive Tax Reform, <u>with some exceptions*</u>.** We support the Ten-point Socioeconomic Agenda of the Duterte Administration and the significant increases in public spending on education, health and physical infrastructure.
  - ***In TRAIN 1**, we asked that the 15% PIT for existing ROHQs be grandfathered. Congress agreed, but the provision was vetoed. Since then 10-20 of the some 250 ROHQs in the country have shut down.
- **Almost all of our member firms will be affected by this proposed legislation.**
- **We have long supported the fiscal incentive regime of the Philippine** Government as managed by PEZA, BOI, Clark, Subic, and other IPAs.
- **But we have strong concerns and reservations about CITIRA incentives reform.**

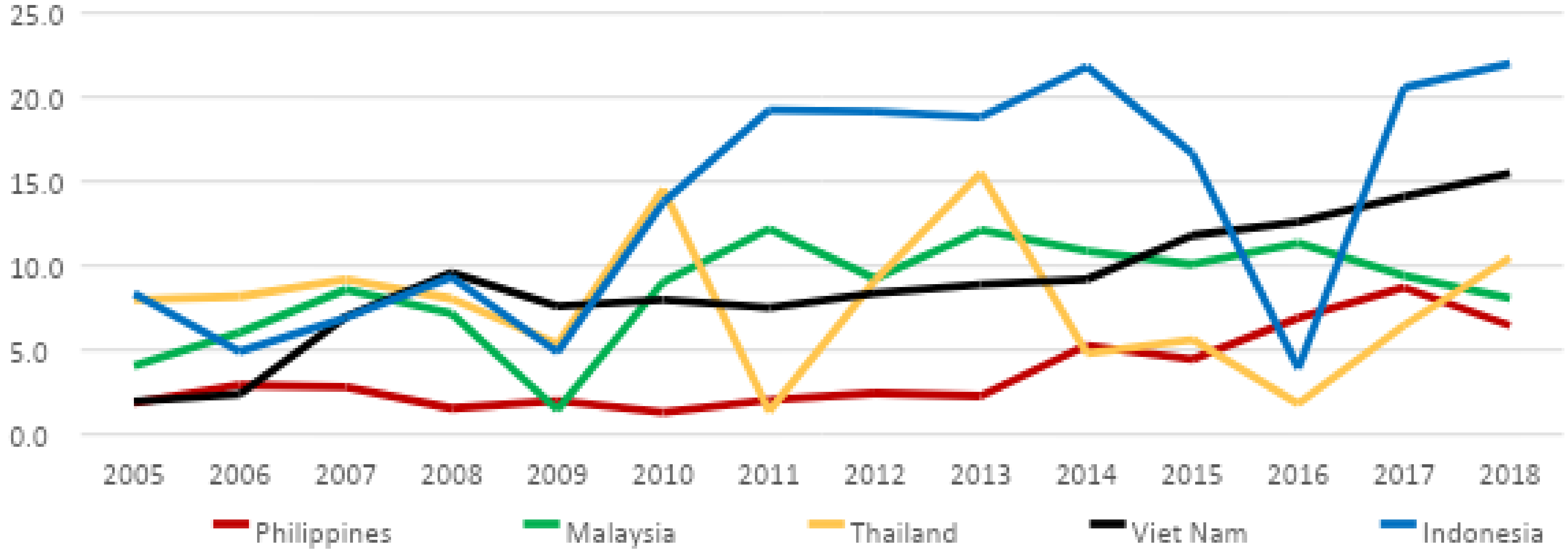
FDI Inflow: ASEAN

ASEAN has averaged US$120 billion annual FDI since 2010, finally surpassing China in 2017.



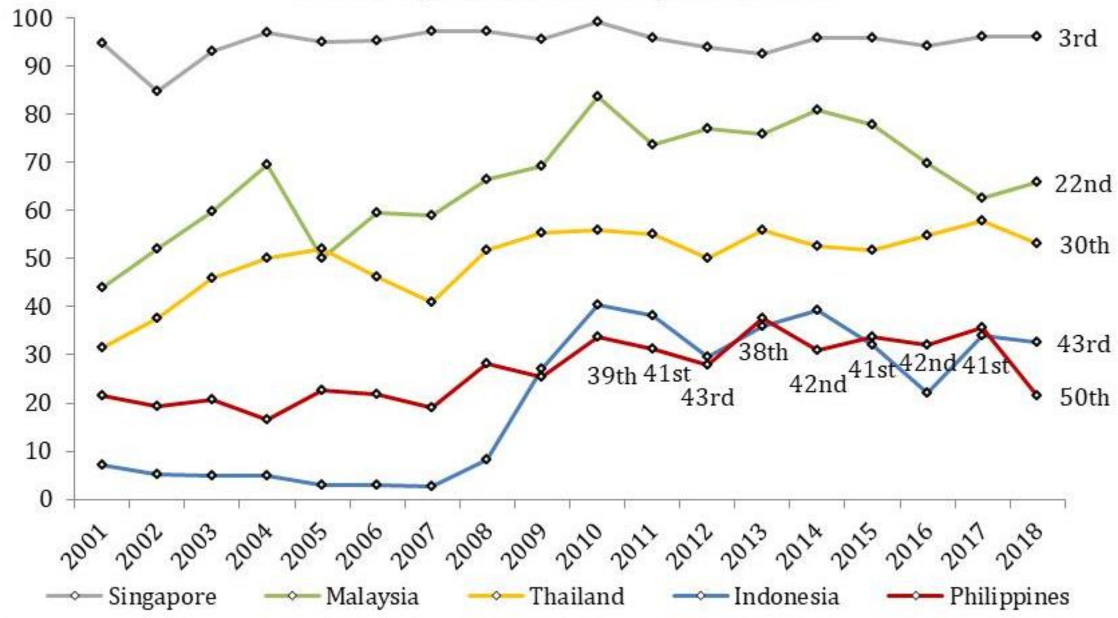
FDI Inflow: Philippines

…and among the ASEAN-5, the Philippines consistently lags behind.



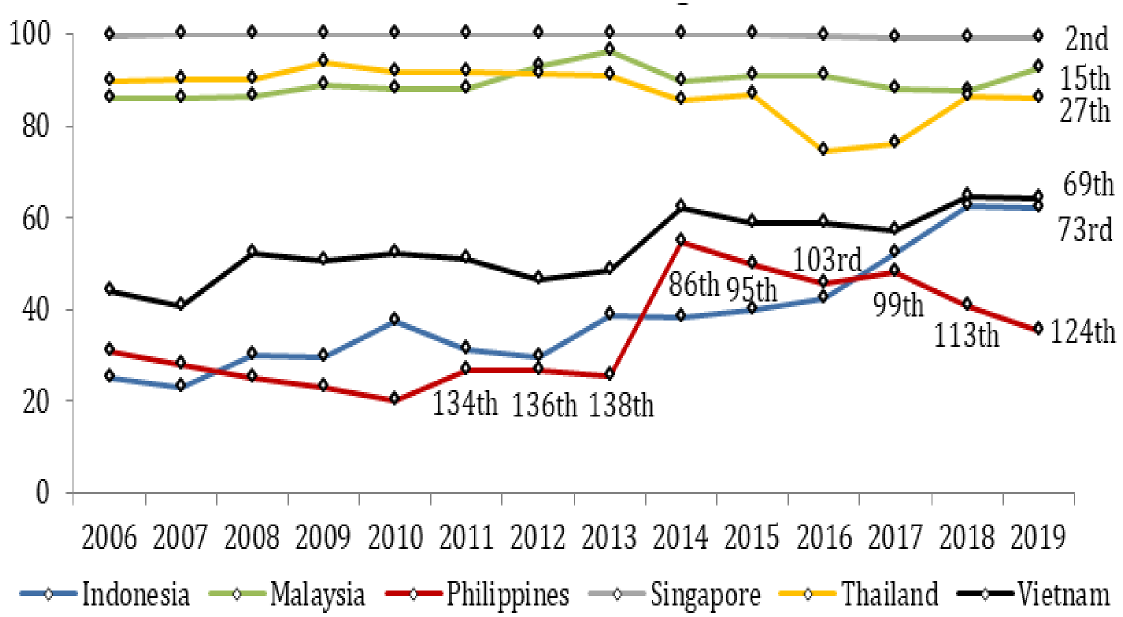
The Philippines is rated poorly in competitiveness and ease of doing business.

2018 WEF International Competitiveness



Sources: International Institute for Management Development and author's calculations.
Note: N=49 (2001-2002); 51 (2003-2005); 53 (2006); 55 (2007-2008); 57 (2009); 58 (2010); 59 (2011-2012); 60 (2013-2014); 61 (2015-2016); 63 (2017-2018); Vietnam is not included in the World Competitiveness Yearbook.

2019 World Bank Doing Business Index



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

Top concerns of businessmen in the Philippines

Most problematic factors for doing business, Philippines, 2013-2017					
	2013	2014	2015	2016	2017
Inefficient govt 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

CITIRA Corporate Income Tax

- We **support the proposed reduction** of the current 30% corporate income tax to 20%
- But we propose a **faster schedule**:
  - **Reduce to 25% upon enactment**
  - **Reduce by 1% a year for 4 years**
  - 20% reached in **5 years** rather than 10 years.
- **Indonesia** reducing from 25% to 20% in 4 years; **India** reducing 30% to 22% immediately in 2019.

Concerns with CITIRA fiscal incentive provisions

1. **CITIRA destroys a highly successful incentives system** that has brought in foreign investors to create significant industries that export goods and services.

2. These investors have created **2,000,000 direct and 7,900,000 indirect jobs**.

3. **Incentives compensate** for the higher costs of labor, logistics, and power.

4. **Correct "foregone" revenue of DOF is Php 207 billion** not 504 billion.

5. **DOF did not consider new revenue** created by firms given ITH and 5% GIE.

6. TRAIN 2 model has slowed FDI and **created uncertainty**, always bad for business.

7. DOF has been silent on the jobs that will be lost. We are not.

Projected job losses with CITIRA

CITIRA is estimated to lead to the loss of **121,000 direct** and **582,000 indirect jobs** in the first year, totaling 703,000 jobs

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		

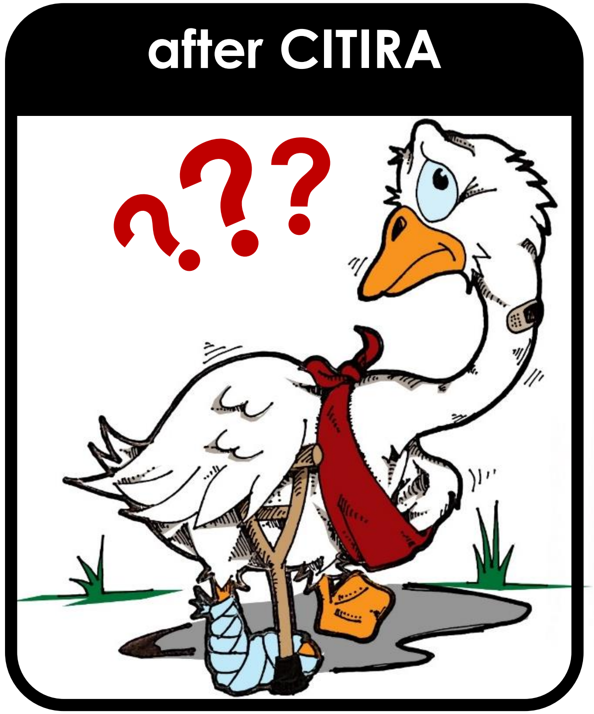
Projected job gains with current incentives

- **Continuing the status quo fiscal incentives can add 1-2 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.

DOF CONCERN

Package 2 will kill the goose that lays the golden egg.



DOF RESPONSE

A. Far from the claim that we are killing the goose that lays the golden egg, we want to reform our current tax system so that the fattened goose may share its food with everyone else.

THANK YOU.