No.1
SERIES 2018

A Publication of Makati Business Club

MAKATI BUSINESS CLUB FORUM

The Economic Pay-Off From Friendly Relations With China

BILATERAL TRADE AND INVESTMENT FORUM

Trade facilitation brings billions of dollars in exports to the Philippines

ROUNDTABLE ON TRAIN PACKAGE 2

Fair and accountable tax incentives to attain higher growth and lower poverty and inequality

ROUNDTABLE ON THE BBL AND PEACE PROCESS

Contributing to the peace initiative in Mindanao by making 'investments for peace'

MBC FORUM:

THE PHILIPPINES AND CHINA: FRIENDS WITH BENEFITS?

ERNESTO M. PERNIA
Director General of the National Economic and Development Authority

Socio-economic Planning Secretary Ernesto M. Pernia says China's Belt and Road Initiative (BRI) may complement the Duterte administration's Build, Build, Build infrastructure drive even if loans from the regional superpower are more expensive than Japanese financing.

BRI is China's ambitious project to connect Asia, Europe, and Africa through land and sea routes. Many observers say it is one of the ways China is strengthening its position as a top economic and and geopolitical superpower.

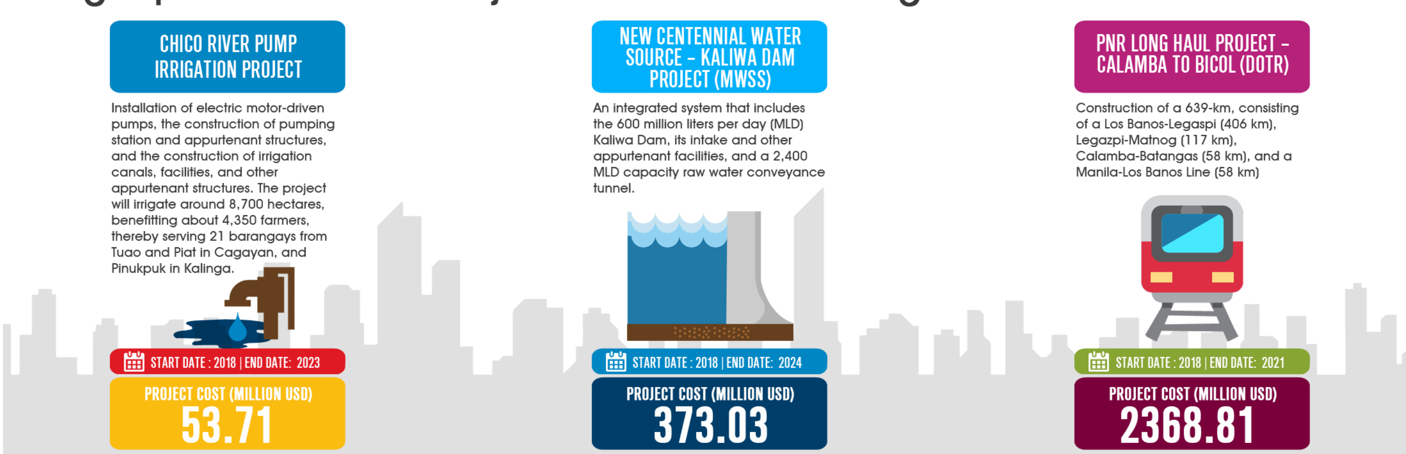
The Philippines can tap a BRI fund for port construction and trade facilitation, Pernia told a joint meeting of Makati Business Club and the Philippine Chamber of Commerce and Industry on February 21, dubbed "The Economic Pay-Off from Friendly Relations with China."

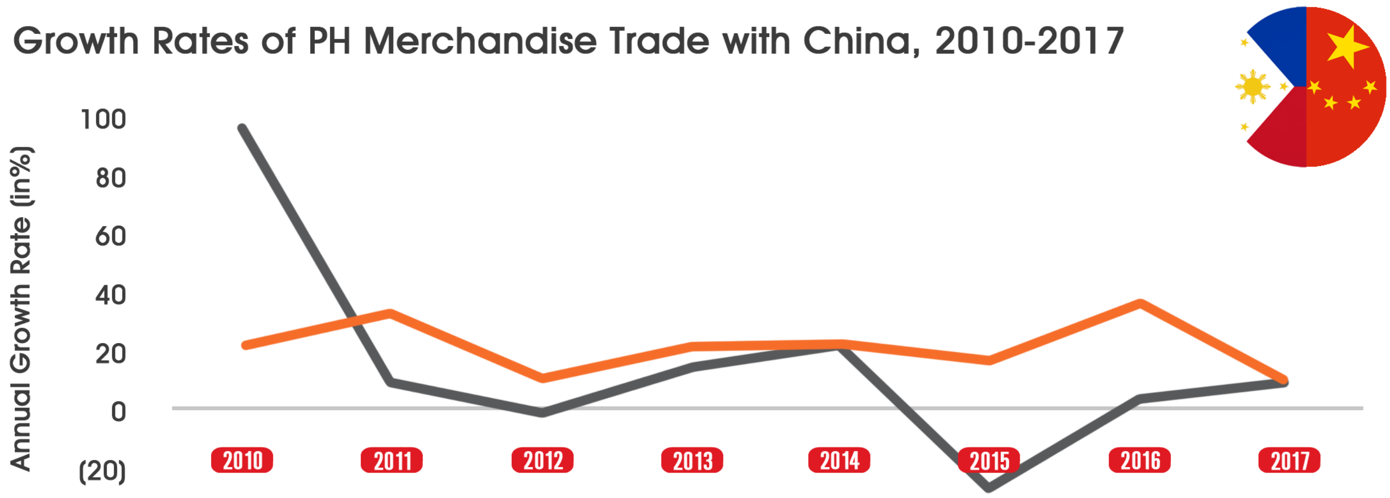
So far, the projects China may finance are areas other than shipping and trade: the Chico River Pump Irrigation Project, the New Centennial Source – Kaliwa Dam Project, and the Philippine National Railways Long-Haul Project from Calamba to Bicol.

Speech delivered by Sec. Ernesto M. Pernia on February 21 at the Joint Membership Meeting of the Makati Business Club, and the Philippine Chamber of Commerce and Industry in Makati City.

After Secretary Pernia's presentation, he sat for an interview with economist Cielito Habito, who held his post in the 1990s. It was here where Secretary Pernia admitted Chinese loans are more costly than Japanese funds.

Flagship Infrastructure Projects for Loan Financing from China





"Japan soft loans—we call it official development assistance—are only between 0.25% to 0.75%, so less than 1%. Whereas, China, I think at best, would be 2% or 3%," he said. Vis-à-vis Japan, clearly it is a disadvantage, but then Japan can only absorb so much pressure on their ODA."

China's edge is faster approvals, Pernia said. But there is also President Rodrigo Duterte's pivot to China, and distancing from long-standing partners such as the U.S. and Europe.

Meanwhile, an audience member raised the concerns that some countries "handed over" strategic assets to China in exchange for funding.

"If you look at our existing economic relationships, the biggest economic partners we have are, in fact, the United States and then the European Union as a group, and then China," former Secretary Habito said. Many people are uncomfortable about the fact that we are hanging closely towards China but at the same time seemingly renouncing our traditional relationships with the two biggest blocs."

"Ideally, my personal preference would be that we would be friends with all other countries," Pernia said. "We should not ruin any existing or longstanding relationships like with US or with EU."

"It's better to have more friends than fewer friends," Pernia said. "I hope we can still move in that direction."

He took heart in the EU's continued commitment to the Philippines even after President Duterte hurled insults at them and said the Philippines would reject their financial assistance.

"EU is a persistent partner actually, despite the disappointments they may have had, they are still coming, and do whatever they can to improve relations with the Philippines," Pernia said.

The "economic pay-off" is not yet clear.

Aside from rebuking traditional allies, President Duterte has scrapped his predecessor Benigno Aquino III's attempts to thwart Chinese expansionism in the South China Sea, even as China has accelerated the building of infrastructure on islands and reefs in the area. The "economic pay-off" isn't clear.

Secretary Pernia said China is now the country's top trading partner, surpassing Japan in 2016. But he conceded this was mostly due to imports, which grew about 20 percent per year from 2010 to 2017.

"Exports growth leaves much to be desired as it has not kept pace with imports growth," Pernia said. He held out hope that China's transition from an investment-led economy to consumer-driven, "will provide opportunities for more exports of consumer goods and agri-products."

Meanwhile, while Chinese foreign direct investment (FDI) is surging—by 200% to $27.6 million in 2017, Pernia said—that's a fraction of the $8 billion that flows into the country. ■

PHILIPPINES–UNITED STATES TRADE AND INVESTMENT FORUM: *ENDURING TIES IN CHANGING TIMES*

Similar to previous dialogues hosted by Philippine business groups for the US-Philippines Society (USPS), the program of the Philippines–United States Trade and Investment Forum, held last February 20 at the Peninsula Manila, was packed and featured an impressive line-up of speakers from both the private and public sectors.

Founded in 2012, the USPS is a "non-profit, non-partisan, and independent organization" based in Washington, DC, that seeks to further promote and deepen the enduring ties between the two countries, especially in the fields of trade and investment, tourism, security, history, education, culture, and the environment. Its prestigious board of directors is co-chaired by former US ambassador to the Philippines John Negroponte and PLDT chairman and CEO Manuel Pangilinan.

Since 2013, the Makati Business Club and other business groups—this year, MBC partnered with the American Chamber of Commerce of the Philippines and the Philippines–United States Business Council—have been hosting members of the USPS during their annual visits to the Philippines. As MBC executive director Peter Perfecto stated at the start of the forum, "We always eagerly await these yearly engagements with the USPS, as each year brings a new opportunity to revisit and mutually enhance Philippine-US commercial linkages."

Philippines–United States Business Council chairman and former Philippine ambassador to the US Jose Cuisia spelled out just how important these economic ties are in his welcome remarks. "The US remains our 3rd-largest trading partner, with over US$8 billion in trade value, accounting for 10.6% share in total trade. In 2017, the Philippines exported over US$4.5 billion of goods to the US, while we imported $3.4 billion worth of goods. In 2016, the US was the 3rd-largest source of approved FDIs amounting to over Php31.4 billion." He pointed out that the over 3.6 million Filipinos residing in the US sent back US$5.3 billion in remittances from January to July 2017. Moreover, visitors from the US accounted for almost 15% of tourist arrivals in the Philippines.

Given how much the USPS has been contributing to raising awareness of the Philippines in the US, the forum organizers sought to provide the visiting delegates a comprehensive, current, and balanced view of the local economic landscape.

Trade Secretary Ramon Lopez, Budget Secretary Benjamin Diokno, and Bangko Sentral ng Pilipinas managing director for monetary policy Francisco Dakila provided updates on the Philippine economy and the Duterte administration's economic vision, medium-term goals, and policies. The government's economic managers naturally highlighted the administration's infrastructure and fiscal reform programs.

Jose Luis Ferrer, head of SGV's tax division, gave a thorough explanation of the components of the government's Comprehensive Tax Reform Program, including the proposed second package of reforms that is targetted to be passed into law by Congress this year.

To complete the picture from the private sector's perspective, Ambassador Cuisia, Mr. Pangilinan, and MBC co-vice chairman and former finance secretary Roberto de Ocampo gave their candid insights on the current track of Philippine economic policies and the implementation challenges that still lie ahead.

Not all the inputs came from the Philippine side, however. Ambassador Negroponte offered "A View from Washington" on the impact of the Trump administration's policies and priorities on bilateral relations, as well as new and continuing opportunities for Philippine-US cooperation. USPS legal counsel and board member Leonardo Canseco spoke about the tax reforms that were also recently ratified in the US.

At the end of the dialogue, it was evident that while the Philippines and the US adjust to changes in the economic and political environments, the deep ties between the two countries remain the same. ■

LEADING THROUGH SERVICE, FINDING PURPOSE IN BUSINESS

The one-day conference, in partnership with the Makati Business Club, Management Association of the Philippines, Philippine Chamber of Commerce and Industry and the Employers Confederation of the Philippines, focused on the qualities of true servant leaders, which aims to instill among the participants the desire and commitment to practice servant leadership as an integral part of business.

Servant Leadership in Business Conference is organized and presented by Serviam CCC Foundation, which was established in June 2003 by Catholic lay leader Antonio B. de los Reyes, with the blessing of His Eminence Jaime Cardinal Sin.

His Eminence Luis Antonio Cardinal Tagle in his keynote address during the Servant Leadership in Business Conference on January 31 at the Rizal Ballroom of Shangri-La Hotel, Makati City.

ROUNDTABLE DISCUSSION ON TRAIN PACKAGE 2:

PACKED, LIVELY, HEATED "ROUNDTABLE" ON TRAIN-2

On March 1, fifty-one Makati Business Club members and representatives joined a roundtable discussion with Finance Undersecretary Karl Kendrick Chua on the administration's second batch of proposed tax changes known as TRAIN-2.

Because of strong demand to join the roundtable, which is usually limited to 20 participants or fewer, the participants were actually seated in six round tables at the Shangri-La Hotel in Makati.

That didn't prevent the conversation from getting lively or even heated, thanks in part to Chairman Edgar O. Chua's announcement, after Undersecretary Chua made his opening pitch, that Chatham House confidentiality rules were in force. (We therefore can't report who said what here.)

The first package of TRAIN, or Tax Reform for Acceleration and Inclusion, was approved in 2017 and went into effect on January 1, 2018. It lowered some personal income taxes and raised a number of excise taxes. TRAIN-2 focuses on the corporate income tax and tax breaks for businesses, the latest attempt to end a two-decade plan to "rationalize fiscal incentives."

"Package 2 is all about fair and accountable tax incentives," Undersecretary Chua told the group. "This government is pro-investment to attain higher growth and lower poverty and inequality. But instead of giving incentives in perpetuity to a select set of industries we prefer to build infrastructure and invest in education and health to give all businesses a level-playing field."

A significant part of the back-and-forth centered on the government's assertion that it was not taking away tax breaks, just making changes to their application and lifespan.

The participants said tax breaks remain essential to keep the Philippines a competitive investment destination, especially given the country's disadvantages in terms of infrastructure, including high power costs. They also said that changes to tax breaks already enjoyed by companies constitutes a breach of contract. They said if there are any changes, they should only cover new investors.

While the participants unsurprisingly welcomed the lowering of corporate income tax rates from 30 to 25 percent, they prodded the government to do so based on a set timeline rather than based on the government hitting certain targets (what), saying the latter means unpredictability, which is a turn-off for business.

That aside, the group expressed their appreciation when—after one participant said the tax should be lowered further to 20 percent because the average corporate income tax in ASEAN is 21 percent—the government said this was do-able.

Mr. Chua—the MBC chairman, not the finance undersecretary—says the organization will continue the discussion with the Department of Finance, crystallizing the inputs from the roundtable as well as position papers from various industries.

"We need to come up with solutions in raising revenues and plug the leaks, but in the process make sure that legitimate investors are not severely impacted and that we attract more investors to the country," the MBC chairman said. ■

ROUNDTABLE DISCUSSION ON THE BBL AND THE PEACE PROCESS: *BUSINESS COMMUNITY URGED TO INVEST IN PEACE*

Don’t wait for peace to come. There will be risks, but the returns will be higher.

This was the message that Secretary Jesus Dureza of the Office of the Presidential Adviser on the Peace Process wanted to send to the business community during the Roundtable Discussion on the Bangsamoro Basic Law and the Peace Process hosted by the Makati Business Club last March 9 at the Makati Shangri-La Hotel.

He invited the business community to contribute to the peace initiative in Mindanao by making “investments for peace.” In order to achieve lasting peace and break the cycle of violence and poverty—the cost of the various conflicts in Mindanao, in terms of damage to businesses and properties as well as potential investments lost, has been pegged at P640 billion from 1970 to 2001—the administration is of the view that the challenges of peace and development must be addressed simultaneously. Thus, even as security continues to be an immediate operational risk for businesses, the government is encouraging companies to set up shop in the region to spur economic activity that will complement the peace efforts. Livelihood opportunities must be made available to people in conflict-affected areas—now, not when the smoke has cleared—to encourage combatants to lay down their arms.

Aside from MBC, the other business groups represented at the discussion were the Japanese Chamber of Commerce and Industry of the Philippines, Federation of Filipino-Chinese Chambers of Commerce and Industry, Mindanao Business Council, ARMM Business Council, Bangsamoro Federal Business Council, Cagayan de Oro Chamber of Commerce and Industry, and the Metro Batangas Business Club.

They were provided a comprehensive update on the Mindanao peace process and a briefing on the salient features of the proposed BBL pending in Congress by OPAPP Undersecretary Nabil Tan and

Bangsamoro Transition Commission member Jose Lorena.

At the House of Representatives, a consolidated version of the BBL is at the joint committee level and being discussed at hearings and public consultations. The Senate, on the other hand, has already committed to pass their version, Senate Bill 1717, by March 22.

The OPAPP officials assured that the version of the BBL submitted by the Bangsamoro Transition Commission to Congress is faithful to the 1987 Constition, that even representatives of the Moro Islamic Liberation Front now recognize that the law’s provisions have to comply with the Constitution for it to gain the approval of not only Congress but also the public.

The OPAPP representatives also took great pains to explain the BBL provisions granting enhanced fiscal autonomy to the Bangsamoro. They clarified which taxing powers would be devolved, outlined other sources of revenue (including those to be derived from the exploration, development, and utilization of natural resources), and identified the mechanisms and bodies that will be established to ensure sound fiscal autonomy.

Acknowledging that the road to peace will be long and arduous, Secretary Dureza reflected, “We are working for peace, piece by piece.” Thus, he and the

Continued on next page

BBL and the The Peace Process...

other OPAPP officials present were very appreciative of the support that the MBC has demonstrated for the Mindanao peace process. As MBC chairman Edgar Chua pointed out at the start of the dialogue, MBC has already issued at least three statements of support for the Comprehensive Agreement on the Bangsamoro and the BBL. "The business community believes that this is a very important piece of legislation that will bring lasting peace to Mindanao," said Mr. Chua.

That the business community's participation will be a key element in the success of the peace effort was very clear to Secretary Dureza: "Peace must be just and sustainable, and peace cannot be sustainable if the business sector will not be there to make it sustainable". ■