

ECCP ADVOCACY PAPERS 2019

www.eccp.com



ICT-BPM-KPM ADVOCACY PAPER 2019



ABOUT ECCP

The **European Chamber of Commerce of the Philippines (ECCP)** is a service-oriented organization whose main goal is to foster close economic ties and business relations between the Philippines and Europe. The ECCP does this by providing a wide range of consultancy services and by creating linkages between companies, organizations, and individuals with existing or potential business interests in Europe and the Philippines. It is also at the forefront of pro-business, pro-growth advocacy in the Philippines, representing European business interests for increased market access and trade facilitation, at the highest level of Philippine political discussions.

The ECCP sees itself as the stepping stone for Europeans into the Philippine market and for Filipinos into the European market.



ICT-BPM-KPM ADVOCACY PAPER 2019



EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

19th Floor, Philippine AXA Life Center Bldg.,
Sen. Gil Puyat Ave. cor. Tindalo Street,
Makati City, Metro Manila, Philippines, 1200

Positions expressed in the advocacy papers are the result of the activities of the Sector Committees working under the ECCP.

EDITORIAL BOARD

Florian Gottein
 Sophia Mari Antoinette Ordoña
 Katrina Angelica Baligod
 Lorenzo Jose Lombos
 Sandra Nicole Añonuevo
 Chelsea Murphy

ECCP COMMITTEE CHAIRS

COMMITTEE	COMMITTEE LEADERS
Agriculture	Ruth Novales Dr. Mary Ann Sayoc
Automotive	Reginald See
Customs	Atty. Mark Anthony Tamayo
Environment and Water	Kristoffer Rada
Food and Beverage	Helen Grace Baisa Atty. Gerrard Paez
Healthcare	Rommel Abuda Dr. Amal Makhoulfi Lih Chyun Yeong
Human Capital	Joe Bantiling Atty. Eliseo Zuñiga
ICT-BPM-KPM	Erik Moller Nielsen
Infrastructure and Transportation	Michael Kurt Raeuber Reinier Dizon
Renewable Energy and Energy Efficiency	Ruth Yu-Owen Ditmar Gorges Juergen Lorenz
Tax and Financial Services	Atty. Kristine Mercado-Tamayo

METHODOLOGY

The 2019 edition of the ECCP Advocacy Papers features issues and recommendations formed after extensive discussions between members of the ECCP sector committees, dialogues and meetings with representatives from the Philippine Government, and other stakeholders. The ECCP has also taken into consideration the information gathered from organizing different events, participating in numerous hearings and committee meetings in both chambers of the Philippine Congress, as well as in private sector consultations held by several government agencies.

Further, the recommendations provided in each paper were primarily based on the discussions during the quarterly sector committee meetings. In close cooperation with the sector committee leaders and members, the ECCP Advocacy Team thoroughly analyzed every issue and advocacy recommendation to ensure that they are in line with European business interests and priorities. Once the Advocacy Team has finalized the first draft of each sector paper, it was then circulated to the Committee members and other stakeholders for consultation and subsequently, gathered inputs to be included in the final draft of the papers.

The assessment of the status of each recommendation included in 2018 Advocacy Papers were examined under the following criteria:

Completed/Substantial Progress: Recommended action has either been completed or there has been significant progress towards the realization of the recommendation.

Some Progress: Movement towards realizing the recommendation has been made, but substantial work still needs to be done to fully achieve and complete the proposed measure.

No Progress/Retrogression: Minimal progress or no movement towards attaining the recommended reforms were done, or the status of the issue has worsened and has evolved to an even bigger bottleneck for European businesses.

MESSAGE FROM ECCP PRESIDENT



2019 has truly been a year of opportunities for the European-Philippine business community. This year, we welcome the implementation of the landmark Ease of Doing Business Act as well as the 18th Congress, with its list of legislative economic priorities. We also acknowledge the enactment of laws on Universal Health Care, Tax Amnesty, Energy Efficiency and Conservation, amongst other measures. Steady macroeconomic fundamentals as well as the administration's plans and pronouncements concerning economic reforms also open opportunities for further trade and investments. Furthermore, the ECCP aims to build upon the achievements of the past years in making the Philippine business environment friendlier for European companies and ensuring that these businesses can make the most of these exciting developments.

To further build on such success, several matters need to be addressed in order to fully realize the potential of the European-Philippine economic ties and the Philippine economic growth. It becomes increasingly important for the Philippines to improve global market integration, enhance its competitiveness as a Foreign Direct Investment (FDI) destination, and accelerate infrastructure development in order to achieve much needed sustainable and inclusive growth.

It is in this context that we are pleased to present the 2019 ECCP Advocacy Papers. The ECCP Advocacy Papers include suggested reforms on priority sectors identified by the Chamber and its members. As an advocate of economic liberalization and sustainable economic growth, the ECCP stands ready to support the Philippines in making these much needed changes for the mutual benefit of Europe and the Philippines.

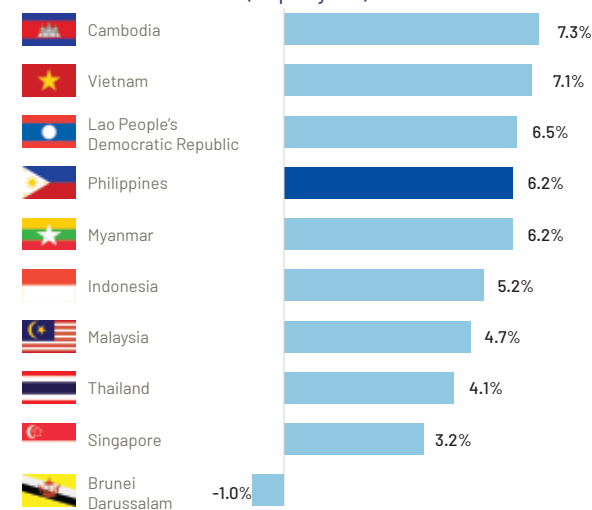
Mr. Nabil Francis
ECCP President

WHERE ARE WE NOW?

THE PHILIPPINES

The Philippines strives to maintain its robust economic performance amidst several challenges. Though the GDP posted a decelerated growth of 6.2% in 2018, it is still considered as one of the fastest-growing countries in the Association of Southeast Asian Nations (ASEAN). With a 10-year average annual GDP growth of 5.4%,¹ the Organisation for Economic Co-operation and Development (OECD) recognizes the Philippines as one of the countries, along with Vietnam, who are expected to lead the ASEAN-5 in terms of economic growth.²

GDP Growth Rate, 2018
(% per year)



Source: Asian Development Bank. *Asian Development Outlook 2019*

The GDP was mainly driven by manufacturing, trade and repair of motor vehicles, motorcycles, personal and household goods, and construction. Services accounted for the biggest share with 57.8%, followed by Industry with 34.1%, and Agriculture, Hunting, Forestry and Fishing (AHFF) with 8.1%.³ The steady flow of remittances from Overseas Filipino Workers (OFWs), the ambitious *Build Build Build* Program, and resilience of the business and knowledge outsourcing industry are anticipated to keep the momentum going in the upcoming years.⁴ The GDP Per Capita posted a decelerated growth of 0.5% from 2017, placing the Philippines 5th in rank amongst the ASEAN.⁵

¹ World Economic Forum. (2018) *The Global Competitiveness Report*. Retrieved 15 September 2019 from www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf.

² OECD. (2018) *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*. Retrieved 14 September 2019 from dx.doi.org/9789264286184-en.

³ Philippine Statistics Authority. (2019). *Gross Domestic Product of the Philippines Highlights for 2018*. Accessed 14 September 2019 from psa.gov.ph/regional-accounts/grdp/highlights.

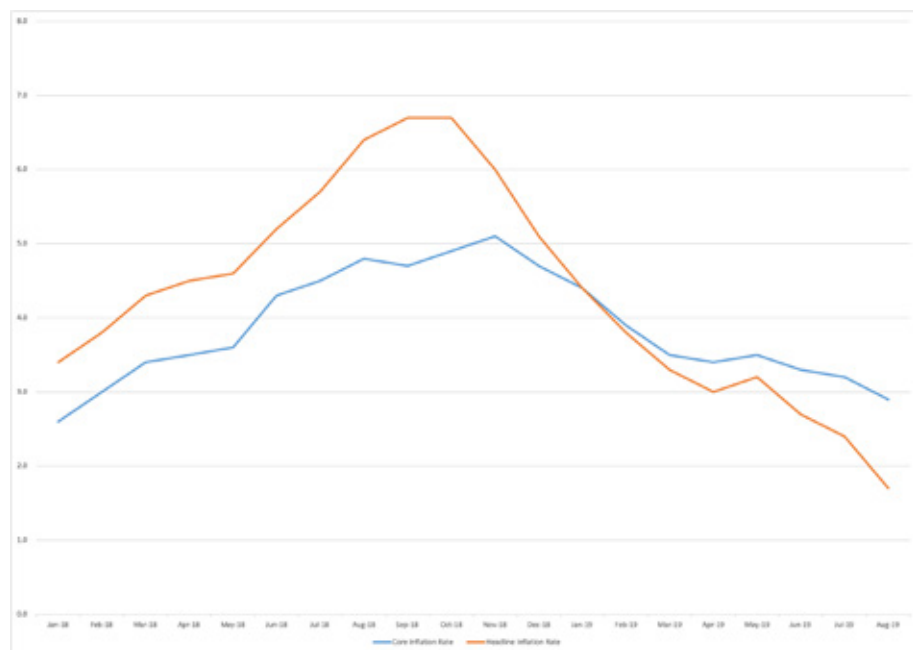
⁴ OECD. (2018) *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*.

⁵ Asian Development Bank. (n.d.) *Economic indicators for the Philippines*. Retrieved 16 September 2019 from adb.org/countries/philippines/economy.

The inflation rate for 2018 steadily rose throughout the year. The headline inflation rate increased from 2.9% in 2017 to 5.2% in 2018. Inflation peaked at 6.7% in the third quarter of 2018, and only decreased during the last two months of the said year. The drastic increase in prices was primarily attributed to the tight domestic supply, impact of natural calamities, and the rising global crude oil rates.⁶

The average core inflation rate reached 4.1% in 2018 – a 2.5% increase from 2017, that could be linked to the impact of fiscal expansion as well as the pass-through effect of a weaker peso.⁷ The full year average inflation was brought up to 5.2%, which is above the National Government's announced target range for 2018.⁸ However, as of August 2019, the headline inflation rate decelerated to 1.7%, the lowest rate achieved since October 2016 which was at 1.8%. The deceleration was brought about by the slower annual increase in prices of food and non-alcoholic beverages.⁹

Philippines: Inflation Rate, January 2018 – August 2019



Source: PSA and BSP

6 World Bank. (2019) *Philippines Economic Update April 2019: Safeguarding Stability, Investing in the Filipino*. Retrieved 16 September 2019 from documents.worldbank.org/curated/en/442801553879554971/pdf/Philippines-Economic-Update-Safeguarding-Stability-Investing-in-the-Filipino.pdf

7 Ibid.

8 Bangko Sentral ng Pilipinas. (2018) *Inflation Report Q4 2018*. Retrieved 15 September 2019 from bsp.gov.ph/downloads/Publications/2018/IR4qtr_2018.pdf.

9 Philippine Statistics Authority. (2019). *Summary Inflation Report Consumer Price Index (2012=100): August 2019*. Accessed 27 September 2019 from psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-august-2019.

The country's credit rating over the past year proves itself to be stable according to Moody's Investor Service.¹⁰ The table below shows ratings from various agencies throughout the year:

2018 Philippine Credit Ratings		
Date	Agency	Rating
26 April	S&P	BBB Positive
20 July	Moody's	Baa2 Stable
19 December	Fitch	BBB

Source: Standard and Poor's, Moody's, Fitch.

The demographics for 2018 puts the country's economy at a prime advantage. A population of 106.60 million,¹¹ with a median age of 23.7,¹² adds a young, dynamic and competitive workforce to the country's competitive advantages including its strategic business location in the region and a pursuit for developing infrastructure for global growth,¹³ among others.

A 2018 Philippine Statistics Authority (PSA) Survey records the employment rate at 94.7%. Categorically, the Services sector had the biggest share with 56.6%, followed by the Agriculture sector with 24.3%, and the Industry sector with 19.1%.¹⁴ This leaves the unemployment rate at 5.3% and the underemployment rate with 16.4%. Though the statistics on employment displayed a positive growth of approximately 0.3-0.4% from 2017, high levels of unemployment remain to be a recurring challenge for the Philippines.

For international rankings, the 2018 Global Competitiveness Report ranks the Philippines 56th out of 140 countries, with a score of 52.1.¹⁵ The report highlighted the country's Macroeconomic Stability as its strongest pillar, ranking 43rd with a score of 90. However, Innovation Capability was noted as the country's weakest, ranking 67th with a score of 37.2.¹⁶ As for the World Bank Doing Business 2018 Report, the Philippines was given an overall ranking of 113th out of 190 countries. The country's factor of Getting Electricity is ranked best at 31st, while Starting a Business is ranked the worst at 173rd.¹⁷

10 Moody's Investors Service. (2018) *Announcement: Moody's: Philippines' credit profile supported by strong growth and progress on reform*. Retrieved 16 September 2019 from moody.com/research/Moody's-Philippines-credit-profile-supported-by-strong-growth-and-progress-PR_387103.

11 Asian Development Bank. (2018) *Philippines: By the Numbers*. Retrieved 16 September 2019 from data.adb.org/dashboard/philippines-numbers.

12 Central Intelligence Agency. (2018). *The World Factbook: Philippines*. Retrieved 15 September 2019 from cia.gov/library/publications/the-world-factbook/geos/rp.html.

13 Philippine Consulate General. (n.d.) *The Philippines possesses several competitive advantages*. Retrieved 18 September 2019 from vancouverpcg.org/trade-01.html.

14 Philippine Statistics Authority. (2018). *2018 Annual Labor and Employment Status*. Accessed 15 September 2019 from psa.gov.ph/content/2018-annual-labor-and-employment-status.

15 World Economic Forum. (2018) *The Global Competitiveness Report*.

16 Ibid.

17 World Bank. (2018). *Doing Business 2018: Reforming to Create Jobs*. Retrieved 16 September 2019 from doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf.

With regard to Foreign Direct Investments (FDIs), the Bangko Sentral ng Pilipinas officially registered USD 9.8 Billion in net inflows for 2018, down by 4.4% from the USD 10.3 billion record from 2017.¹⁸ Majority of equity capital placements were mainly channeled to manufacturing, financial and insurance activities, and real estate activities with Singapore, Hong Kong, and Japan as the top partners.¹⁹ With the country's relations with the European Union, three member states ranked in the top ten with Netherlands, Luxembourg, and Germany placing 7th, 8th, and 10th, respectively.²⁰



Total external trade amounted to USD 182.15 billion in 2018. The top three major trading partners for the year were People's Republic of China, Japan, and the United States of America.²¹ The European Union (EU) immediately followed with a 9.6% share in total trade, valued at USD 17.49 billion. Germany ranked the highest as the Philippines' top trading partner in the EU, followed by the Netherlands, and France. Alternatively, the Philippines is the EU's 41st largest trading partner globally, accounting for only 0.4% of the EU's total trade.²²



Indeed, the Philippines has made notable progress in recent years. However, much work still needs to be done in order to improve the country's global competitiveness. Substantial economic reforms, especially concerning the ease of doing business as well as the creation of a level playing field have yet to be realized to capitalize on the substantive gains of the Philippines. Furthermore, boosting the Philippine manufacturing sector, deepening the ASEAN integration, and enhancing trade facilitation are all imperative to take the Philippine economy to greater heights.



18 Bangko Sentral ng Pilipinas. (2019). *FDI Registers US\$677 million in December 2018; Full-Year Reaches US\$9.8 Billion in 2018*. Retrieved 14 September 2019 from bsp.gov.ph/publications/media.asp?id=4967&yr=2019.

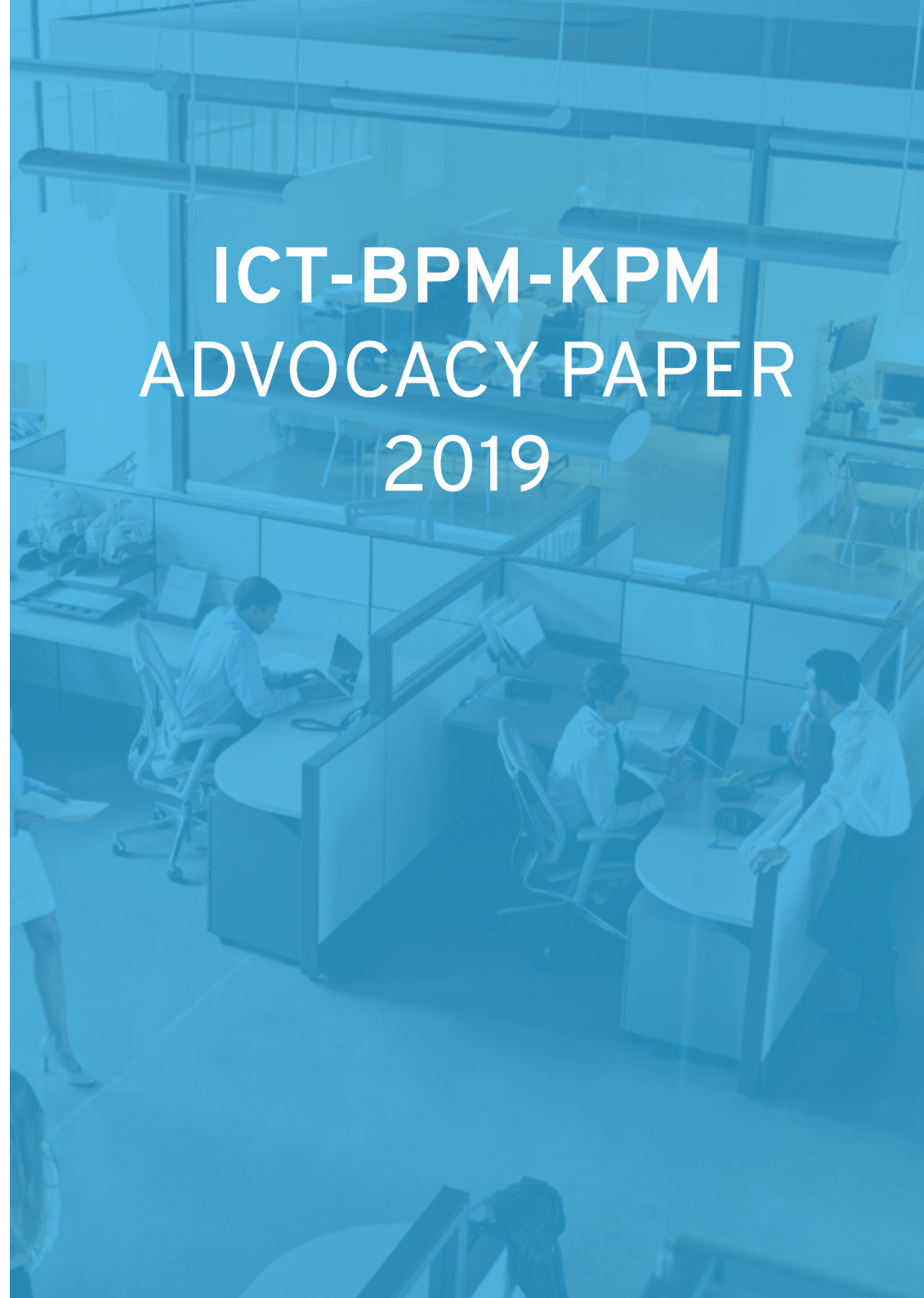
19 Ibid.

20 Department of Trade and Industry. (2018) *NET FOREIGN DIRECT INVESTMENTS REPORT*. Retrieved 16 September 2019 from dti.gov.ph/resources/statistics/net-foreign-direct-investments-fdi#graph.

21 Philippine Statistics Authority. (2019). *Highlights of the 2018 Annual Report on International Merchandise Trade Statistics of the Philippines (Preliminary)*. Accessed 15 September 2019 from psa.gov.ph/content/highlights-2018-annual-report-international-merchandise-trade-statistics-philippines.

22 European Commission. (2019). *Countries and Regions: The Philippines*. Retrieved 16 September 2019 from ec.europa.eu/trade/policy/countries-and-regions/countries/philippines/.

ICT-BPM-KPM ADVOCACY PAPER 2019



INTRODUCTION

Home to a growing tech-savvy population, Southeast Asia is seeing unprecedented inroads in its digital economy in recent years. Observers have pointed out Singapore's rise as a world-class regional hub for tech giants and startups. Meanwhile, Indonesia's e-commerce market banks its rapid growth on the country's smartphone users, the highest in the region. Further inland north, urban areas in the Greater Mekong Subregion are becoming a testing ground for a regional smart cities network. In the same way, the Philippines prides itself as the world's business process outsourcing (BPO) capital fueled by its large pool of young English-language educated workforce.

Undeniably, the Philippines has established itself as a global industry leader in the information and communications technology (ICT), business process management (BPM), and knowledge process management (KPM) – key components of the country's digital economy. Specifically, the domestic information technology and business process management (IT-BPM) industry, particularly voice BPM subsector, has become one of the largest sources of private employment and the second largest earner of foreign exchange revenues after overseas Filipino workers (OFW) remittances.¹ Forecasts suggested that revenues from the sector will soon surpass the total value of remittances from migrant workers despite challenges seen in recent years.

Furthermore, the industry is showing signs of recovery, posting a 5.1% growth in direct employment or 1.23 million additional headcount in the country's workforce in 2018.² The IT and Business Process Association of the Philippines (IBPAP) also estimated that revenues grew to 6% or as much as USD 24.8 billion in the same year.³ Nevertheless, last year's performance was short of the industry's targets of 8% annual employment growth rate and 9% compounded annual revenue growth rate under the IBPAP's Roadmap 2022.

Under this roadmap, the industry eyes to create 1.8 million direct jobs, 7.6 million direct and indirect ICT-BPM employment, 500,000 jobs outside of the National Capital Region, generate USD 40 billion in revenues, and expand its global ICT-BPM market share to 15% by the end of the present administration in 2022.⁴ It is also set to recalibrate its targets to adjust its near-term growth forecasts.⁵

Last year's pickup in the sector is attributed to new locators offering higher-end services in customer service, e-commerce, supply chain management, information technology infrastructure support and analytics. However, the industry continues to face headwinds due to recent regulatory developments such as the rationalization of fiscal incentives under the second tranche of the tax reform program, and the moratorium on processing of ecozones in Metro Manila, among others.⁶ Existing and potential investments in the sector are also affected by a host of other indirect factors such as the subpar quality of internet services as well as the poor state of ICT infrastructure in the Philippines.

1 Oxford Business Group. (2018). *The Report: Philippines 2018*.

2 Desiderio, L. (27 May 2019). IT-BPM sector posts 5% growth in 2018. *The Philippine Star*. Retrieved from <https://www.philstar.com/business/2019/05/27/1921097/it-bpm-sector-posts-5-growth-2018>.

3 Desiderio, L. (31 May 2019). IT-BPM revenues grow 6% in 2018. *The Philippine Star*. Retrieved from <https://www.philstar.com/business/2019/05/31/1922238/it-bpm-revenues-grow-6-2018>.

4 IT and Business Process Association of the Philippines. (2016). *Accelerate PH: Future-ready Roadmap 2022*.

5 Valdez, D. (4 September 2019). IBPAP recalibrating industry growth targets. *BusinessWorld*. Retrieved from <https://www.bworldonline.com/ibpap-recalibrating-industry-growth-targets/>.

6 Canivel, R. (31 May 2019). IT-BPM steps back as future looks foggy. *Philippine Daily Inquirer*. Retrieved from <https://business.inquirer.net/271676/it-bpm-steps-back-as-future-looks-foggy>.

According to The Global Competitiveness Report 2018, the Philippines ranks poorly in ICT adoption ranking 67th out of 140 countries surveyed. In comparison with its neighbors in the Association of Southeast Asian Nations (ASEAN), the Philippines placed at the bottom half (Table 1).⁷

Table 1. ICT Adoption Rankings in ASEAN, The Global Competitiveness Report 2018

Country	Global Ranking	ASEAN Ranking
Brunei Darussalam	17 th	2 nd
Cambodia	92 nd	7 th
Indonesia	50 th	4 th
Laos	96 th	9 th
Malaysia	32 nd	3 rd
Philippines	67th	6th
Singapore	4 th	1 st
Thailand	64 th	5 th
Vietnam	95 th	8 th

Note: Myanmar is not ranked and included in the rankings.

World Economic Forum

Looking ahead, the European Chamber of Commerce of the Philippines (ECCP) acknowledges the broad implications brought about by the Fourth Industrial Revolution (4IR) and its breakthroughs such as in artificial intelligence, robotics, virtual reality, and the Internet of Things. Thus, the ECCP believes that bolstering the foundation which underscores these trends (e.g. regulatory environment, infrastructure, human capital) should be prioritized by stakeholders in order to capitalize on this unfolding phenomenon.

Hence, this paper presents the recommendations of the ECCP to address the issues revolving the sector especially on developing a competitive incentives regime, improving broadband connectivity, and upskilling the workforce. While not exhaustive, these are stepping stones towards stimulating the country's digital economy and harnessing opportunities in 4IR.

7 World Economic Forum. (2018). *The Global Competitiveness Report 2018*.

RECENT REFORMS AND INDUSTRY DEVELOPMENTS

One of the key economic thrusts of the administration is to overhaul the country's taxation policies through its Comprehensive Tax Reform Program (CTRP).⁹ The goal of CTRP is to expand and simplify the tax base, address leakages, and increase revenues to bankroll the government's social services projects most notably the Build, Build, Build program, through "packages."

- The first of these packages was implemented last December 2017 when President Rodrigo Duterte signed **Republic Act (RA) No. 10963**, more commonly referred to as **Tax Reform for Acceleration and Inclusion (TRAIN) Law**, which lowered the personal income taxes of a majority of Filipinos, among others. Prior to signing into law, the president vetoed some provisions such as the reduced income tax rate on employees of regional headquarters (RHQs) and regional operating headquarters (ROHQs), offshore banking units, and petroleum service contractors and subcontractors.⁹ According to the industry, the removal of incentives for RHQs and ROHQs poses a threat as it will encourage investors to scale down their operations or hire less labor which can result in loss of income tax and lower the Philippines' competitive advantage.
- Subsequently, the second package of CTRP deals with reducing the country's corporate income tax (CIT) rate from 30% to 20% while at the same time rationalizing the fiscal incentives regime. The ICT-BPO industry has reservations on the adverse impact of the tax reform package to the industry which is already beset with challenges on robotic process automation, global competitiveness, and talent supply.¹⁰ The Senate did not pass the package, then known as the **Tax Reform for Attracting Better and Higher Quality Opportunities or TRABAHO Bill**, when the 17th Congress adjourned. The bill was refiled in the 18th Congress as the **Corporate Income Tax and Incentives Reform Act (CITIRA)**.

Other relevant legislations were filed in the 18th Congress.

- The **Public Service Act of 1936** classifies telecommunications as a public utility thus subjecting it to foreign ownership restrictions. To encourage the entry of foreign players in the telecommunications market, amendments to this law have been introduced to reclassify the sector as a "public service" instead, effectively lifting it from such foreign equity caps.¹¹
- Bills on **Open Access in Data Transmission Act** seek to lower barriers and costs to entry in the industry and allow the sharing of infrastructure and resources across multiple service providers to make transmission services more accessible and affordable.¹² It was designed to encourage the entry of new players, both local and foreign, to operate in different segments in internet infrastructure thus reducing costs and inefficiencies in network deployment.

9 Official Gazette. (2017). Republic Act No. 10963. Retrieved from <http://www.officialgazette.gov.ph/downloads/2017/12dec/20171219-RA-10963-RRD.pdf>.

10 IT & Business Process Association of the Philippines Position Paper on TRABAHO Bill dated 11 September 2018.

11 Senate Bills Nos. 13, 318, 419, 531 and House Bill No. 78

12 Senate Bills Nos. 45, 911 and House Bills Nos. 57, 3489, 4109

- Bills on **14th month pay** for private sector employees¹³ as well as on security of tenure were similarly filed. In the preceding 17th Congress, another legislation that will supposedly increase the **night shift differential pay** for BPO workers was also introduced.¹⁵ Nonetheless, the industry cautioned that these legislative proposals will significantly put one of the country's largest revenue-generating industries at risk due to higher operation costs.

Furthermore, there are other developments relevant to the industry.

- Last June 2018, the Department of Information and Communications Technology (DICT) inked an agreement with the National Transmission Corporation and the National Grid Corporation of the Philippines to use the dark fiber assets for the **National Broadband Plan (NBP)**.¹⁶ As of writing, the NBP, which was launched last 2017, has successfully tested and surveyed 100% of the dark fiber in Mindanao, 90% in Visayas and more than 60% in Luzon.¹⁷
- As of May 2018, the government's **Free Wi-Fi Internet Access in Public Places Project** or **Pipol Konek!** has already provided free internet access to 2.5 million devices and users through 2,565 live sites covering 17 regions, 58 provinces, 394 municipalities and cities.¹⁸
- Last February 2019, President Duterte signed **RA No. 11201** or the **Mobile Number Portability Act** which allows mobile phone users to switch from one service provider to another while keeping their mobile numbers.¹⁹ It will not only promote consumer choice but will also put the country at par with Singapore, Malaysia, Thailand, and Vietnam who have already introduced similar number porting mechanisms.²⁰
- In addition, the ECCP welcomes the launching of the **National ICT Ecosystem Framework (NICTEF)** in February 2019 in line with the government's goal to craft a roadmap on ICT policy formulation. NICTEF has six strategic thrusts and is considered an evolving framework that will recognize best practices and consider distinct policy approaches.²¹
- A **third telco player** formally entered the market when the government awarded the certificate of public convenience and necessity as well as the frequencies to Dito Telecommunity Corp., formerly known as the Mislattel consortium, last July 2019. The new major player is expected to break the duopoly in the telecommunications sector by committing to increase internet speed to 55 mbps and cover 84% of the population in five years.²²

13 Senate Bill No. 10 and House Bills No. 558, 666, 1096

14 Senate Bill No. 1826 and House Bill No. 6908

15 House Bill No. 2225

16 Department of Information and Communications Technology. (11 June 2018). *DICT signs tripartite agreement with NGCP, Transco on use of fiber optic network*. Retrieved from <https://dict.gov.ph/dict-signs-tripartite-agreement-with-ngcp-transco-on-use-of-fiber-optic-network/>

17 Performance Highlights: Infrastructure Cluster. Presentation of Infrastructure Cluster Chair Secretary Mark A. Villar at the 2019 Pre-State of the Nation Address (SONA) Forum last 1 July 2019.

18 Ibid.

19 Official Gazette. (2019). *Republic Act No. 11201*. Retrieved from <https://www.officialgazette.gov.ph/downloads/2019/02feb/20190208-RA-11202-RRD.pdf>.

20 European Chamber of Commerce in Cambodia. (2019). *White Book 2019: Trade and Investment Policy Recommendations*.

21 *National ICT Ecosystem Framework*. Retrieved from <https://www.ictecosystem.org.ph>.

22 Mercurio, R. (10 July 2019). Third telco player rebrands as Dito, vows swift internet. *The Philippine Star*. Retrieved from <https://www.philstar.com/business/2019/07/10/1933380/third-telco-player-rebrands-dito-vows-swift-internet>.

- Furthermore, the government is developing a **common tower policy** to better improve broadband connectivity and address infrastructure gaps in the country. The Department of Information and Communications Technology (DICT) inked agreements with 23 tower providers and targets to build 50,000 towers across the country within the next seven to ten years.²³ The measure is expected to cut costs to both providers and consumers as well as ensure optimum utilization of resources.
- Additionally, DICT is looking at crafting a **frequency management policy** to reallocate unutilized spectrum frequencies to encourage more telcos to enter the market. It would also allow the DICT to audit the use of frequencies and recover those that are currently underutilized.²⁴
- More recently, **Administrative Order (AO) No. 18, s. 2019**²⁵, issued on June 2019, seeks to accelerate economic growth and development in the provinces while at the same time imposing a moratorium on the processing of applications for ecozones in Metro Manila effectively derailing PHP 159 billion worth of IT-BPO investments.²⁶
- President Duterte also signed **Executive Order (EO) No. 83, s. 2019** last June 2019, which approves and adopts the **National Technical Education and Skills Development Plan 2018-2022**. The four-year blueprint encourages the technical vocational education and training (TVET) sector to design responsive policies in support of the government's broader development goals and objectives.²⁷
- Meanwhile, President Duterte vetoed the consolidated **Security of Tenure Bill** last July 2019. In his veto message, President Duterte stated that while he stands firm in his commitment to protect workers' right to security of tenure by eradicating all forms of abusive employment practices, legitimate job contracting should be allowed, provided that the contractor is well capitalized, has sufficient investments, and affords its employees all the benefits provided for under existing labor laws.²⁸

23 Mercurio, R. (23 June 2019). Common tower plan taking shape – DICT. *The Philippine Star*. Retrieved from <https://www.philstar.com/business/2019/06/23/1928667/common-tower-plan-taking-shape-dict>.

24 Cabuenas, J. (9 September 2019). Gov't to reallocate frequencies for more telcos to enter market. GMA News Online. Retrieved from <https://www.gmanetwork.com/news/money/companies/707394/gov-t-to-reallocate-frequencies-for-more-telcos-to-enter-market/story/>.

25 Official Gazette. (2019). *Administrative Order No. 18, s. 2019*. Retrieved from <https://www.officialgazette.gov.ph/downloads/2019/06jun/20190617-AO-18-RRD.pdf>.

26 Nicolas, B. (16 July 2019). P159-billion deals dropped with NCR ecozone ban. *BusinessMirror*. Retrieved from <https://businessmirror.com.ph/2019/07/16/p159-billion-deals-dropped-with-ncr-ecozone-ban/>.

27 Official Gazette. (2019). *Executive Order No. 83, s. 2019*. Retrieved from <https://www.officialgazette.gov.ph/downloads/2019/06jun/20190617-EO-83-RRD.pdf>.

28 Official Gazette. (2019). *Veto Message on Senate Bill No. 1826*. Retrieved from <https://www.officialgazette.gov.ph/downloads/2019/07jul/20190726-Veto-Message-Senate-Bill-1826-RRD.pdf>



ADVOCACY RECOMMENDATIONS

1. Maintain competitive incentives for ICT-BPO investments

Given the sector's economic potential, it is imperative that the government should develop policies that will encourage further investments, create employment, and spur economic growth and development. As tax incentives play a major role in the vigorous expansion of the sector, we strongly urge the administration to keep the current regulatory framework governing the ICT-BPM industry. This is in consideration of its immense role as the second largest foreign exchange earner after OFW remittances and an undisputed recognition as a strong pillar of the Philippine economy.

The ECCP strongly supports the government's initiative to lower the Philippines' CIT rate at a competitive level vis-à-vis the ASEAN. Currently, the Philippines has the highest CIT rate in the region at 30%. We urge for a faster reduction of the country's corporate taxation to 25% at the onset and a one percentage point decrease annually until it reaches the 20% target. This will enable the country to have a clear advantage and help the government realize the main objectives of the said tax measures more expeditiously.

At the moment, the uncertainty stemming from the fate of the CITIRA is causing existing and prospective investors to pause further investment decisions otherwise beneficial to the economy. It also encourages capital flight as some investors opt to relocate to other ASEAN heavyweights with relatively favorable terms such as Vietnam and Thailand which have budding domestic ICT-BPM markets.

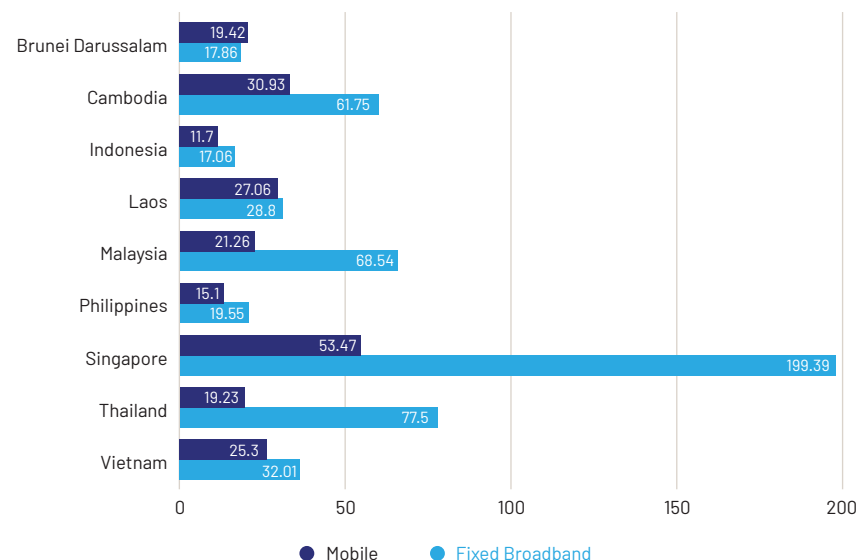
2. Continued improvement of broadband services

Improve internet infrastructure through the enactment of a common tower policy

The ECCP welcomes the government's commitment to infrastructure development through its flagship Build, Build, Build program. While we support the construction of roads, railways, bridges, and airports across the country, we recommend that the government will also include internet infrastructure in this ambitious project.

Despite seeing improvements in customer mobile experience due to greater availability of and accessibility to 4G technology in recent years,²⁹ the Philippines remains a laggard in the region in terms of the quality of internet connection since it has one of the slowest (Figure 1) and most expensive (Table 2) internet services.

Figure 1. Mobile and Fixed Broadband Internet Speed (Mbps) in ASEAN, May 2019



Note: Myanmar is not ranked and included in the rankings.

Ookla Speedtest Global Index³⁰

Table 2. Mobile Data Price in ASEAN, 2019

Country	Global Ranking	Average Price of 1GB
Brunei Darussalam	115 th	USD 5.25
Cambodia	23 rd	USD 1.49
Indonesia	17 th	USD 1.21
Laos	73 rd	USD 3.42
Malaysia	15 th	USD 1.18
Myanmar	9 th	USD 0.87
Philippines	67th	USD 3.16
Singapore	81 st	USD 3.67
Thailand	55 th	USD 2.78
Vietnam	20 th	USD 1.31

Cable³¹

30 Speedtest. (2019). *Speedtest Global Index Global Speeds August 2019*. Retrieved from <https://www.speedtest.net/global-index>.

31 Cable. (2019). *Worldwide mobile data pricing: The cost of 1GB of mobile data in 230 countries*. Retrieved from <https://www.cable.co.uk/mobiles/worldwide-data-pricing/>.

29 Opensignal. (2019). *Philippines: Mobile Network Experience Report March 2019*. Retrieved from <https://www.opensignal.com/reports/2019/03/philippines/mobile-network-experience>.

A major factor is the Philippines' low tower density or lack of cell tower. Hence, we urge the government to fast-track the rollout of the common tower policy to allow telco operators and tower providers to share infrastructure and reduce capital outlay and operational costs which could then be invested in expanding their services to unserved and underserved areas.

Adopt the open access in data transmission approach

The ECCP also believes that it is imperative for the government to lift market access barriers to encourage more investment flow to the telecommunications sector. To achieve this objective, we urge that the government adopt the "open access" model to further improve broadband services.

Open access model separates the physical infrastructure from the provision of service as it will identify different segments in the infrastructure and allow more players to provide service without the need for a Congressional franchise. Similar to the common tower policy, this will help substantially bring down costs on network operation, maintenance, and expansion due to multiple operators sharing the physical infrastructure.³³

Update laws and regulatory framework to promote and incentivize investment and innovations in communications and connectivity

Technological advances have made several laws and regulations governing the telecommunications sector obsolete. A 2019 policy note by the Philippine Institute for Development Studies (PIDS) noted that Constitutional restrictions on foreign participation as well as the tedious application process for entities to engage in the telecommunications activity create barriers to trade and investments in the sector.³⁴

In view of this, RA No. 7925 or the Public Telecommunications Policy Act of the Philippines must be amended to abolish the requirement for aspiring telco players to secure a Congressional franchise to encourage capable service providers regardless of type, scale, or nationality to construct and operate internet infrastructure. The PIDS policy note similarly recommends the removal of unnecessary requirements particularly the need for a legislative franchise. In addition, Commonwealth Act No. 146 or the Public Service Act of 1936 must also be amended to classify the industry as a "public service" instead of a "public utility" which will then lift foreign ownership restrictions.

Thus, the ECCP strongly supports the passage of amendatory measures on the said laws to bring in much-needed innovation and foster competition.

3. Upskill the Philippine workforce with special focus on developing science, technology, engineering and mathematics (STEM) capabilities

The World Economic Forum emphasized that talent availability remains the primary factor for determining job location decisions in many of the country's industries including ICT.³⁵ Hence, the ECCP recognizes the domestic workforce as the comparative advantage of the ICT-BPM sector over its competitors. Likewise, we are well aware that this vital component of the industry is faced with both challenges and opportunities for creating new high-skilled employment.

32 The Philippines has the lowest tower density in the region currently around 16,000 towers or at 0.14 towers per 1,000 subscribers whereas the ideal ratio being one tower per 1,000 subscribers.

33 The *Arangkada* Philippines Project. (2016). *Broadband Policy Brief*.

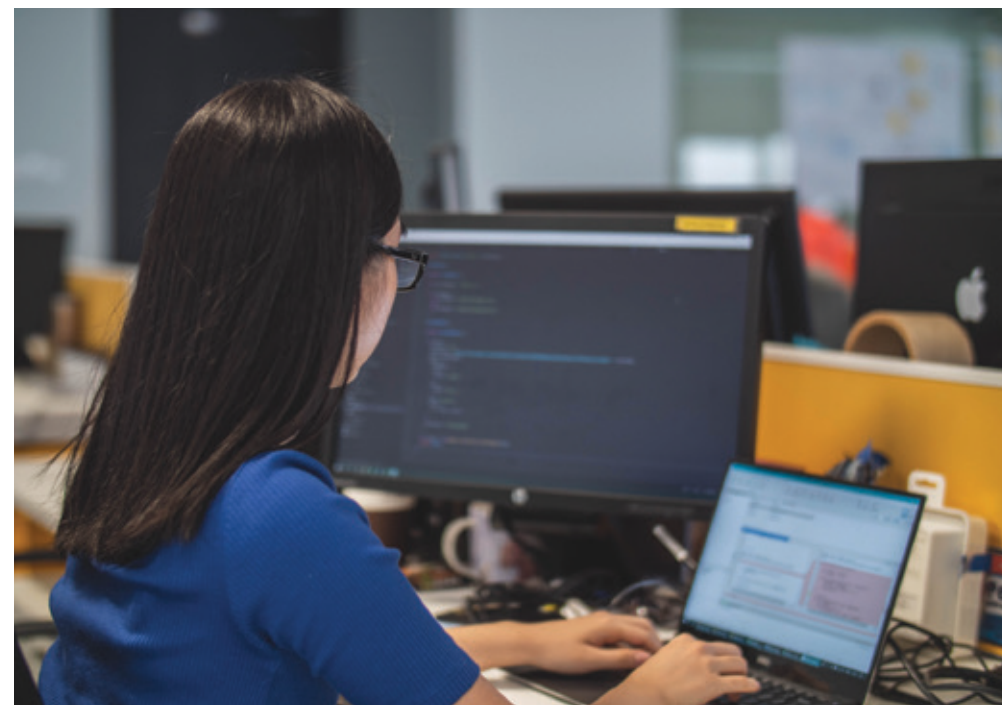
34 Barceñas, L. (2019). ICT regulation and regulatory authority. Philippine Institute for Development Studies. Retrieved from <https://pidswebs.pids.gov.ph/CDN/PUBLICATIONS/pidspn1902.pdf>.

35 World Economic Forum. (2018). *The Future of Jobs Report 2018*.

A 2016 working paper from the International Labor Organization reported that 89% of BPO workers in the Philippines are at high risk of automation in the next decade.³⁶ Additionally, it is estimated that around 43,000 low-skilled jobs could be displaced by 2022 but at the same time pave the way for around 697,000 new middle to high-skilled work.³⁷

With this in mind, the ECCP continues to advocate for the implementation of a national skills development strategy and action plan for the ICT-BPM-KPM sector with special emphasis on STEM skills. This is envisioned to respond to current and future sector demands; upskill pre-workforce and in-workforce individuals; and narrow the skills gap.

Additionally, the ECCP appreciates that the curriculum for Senior High School (SHS) students incorporates a STEM strand reflecting the conscious effort towards pre-workforce upskilling at an earlier stage. In line with the IBPAP's Roadmap 2022, we further recommend the creation of an industry-led ICT-BPM talent attraction ecosystem; the development of career progression path and skills mapping; the establishment of effective skills development avenues; the implementation of a nationwide effort to enhance English proficiency and STEM across early-stage education as well as near-hires and the existing workforce; and the continuation of initiatives to further upskill existing manpower in a specialized competency areas. The aforementioned recommendations intend to support the industry in significantly preparing the workforce to meet the future demands as well as ensuring sustained development of the IT-BPM sector beyond 2022.



36 Chang, J. & Huynh, P. (2016). ASEAN in Transformation: The Future of Jobs at Risk of Automation. *International Labour Organization*.

37 Domingo, K. (28 February 2018). Displaced by robots, PH call center agents shift gears. *ABS-CBN News*. Retrieved from <https://news.abs-cbn.com/business/02/28/18/displaced-by-robots-ph-call-center-agents-shift-gears>.


ASSESSMENT OF 2018 RECOMMENDATIONS


ISSUE	RECOMMENDATIONS	COMPLETED / SUBSTANTIAL PROGRESS
Maintaining competitive incentives for ICT-BPO investments	Keep the current business and legal framework governing the BPM industry unchanged	
Continued improvement of broadband service	Improve infrastructure and address regulatory bottlenecks	
	Adopt the open access in data transmission approach	
	Update laws and regulatory framework to promote and incentivize investment and innovations in communications and connectivity.	
Continued skills development with amplified focus on STEM capabilities	Implement a National Skills Development Strategy and Action Plan for the ICT-BPM-KPM sector with a focus on STEM skills.	


SOME PROGRESS	NO PROGRESS / RETROGRESSION
	While CITIRA seeks to lower CIT from 30% to 20%, it will also overhaul the incentives menu currently availed by a large portion of the industry. Meanwhile, AO No. 18 imposes a moratorium on processing of ecozone applications in Metro Manila, discouraging investors who prefer the “hub and spoke” model.
The government formally recognized a new major player and gave it the green light for commercial rollout last July 2019. It is expected to commence full operations by 2020. It is also pursuing a common tower policy to address the country’s low tower density by creating additional 50,000 towers and achieve the ideal ratio of one tower per 1,000 subscribers in seven to ten years.	
	Various bills were reintroduced in the 18th Congress when a substitute bill failed to pass through in the preceding Congress before it adjourned.
Amendatory bills on the Public Service Act of 1936 were refiled in the 18th Congress. Due to its certification as a priority measure of the government, Congress looks at invoking a special parliamentary rule to expedite its passage into law.	
Signed last June 2019, EO No. 83 aims to encourage the formulation of policies that will support the TVET sector as well as the government’s overall development goals. It is also a step in the right direction to create a much broader skills development blueprint on a national level.	



EUROPEAN CHAMBER OF COMMERCE OF THE PHILIPPINES

 19th Floor, Philippine AXA Life Center Bldg.,
Sen. Gil Puyat Ave. cor. Tindalo Street,
Makati City, Metro Manila, Philippines, 1200

 8845-1324 to 26

 info@eccp.com

 www.eccp.com

