China not seen sharing EV tech, likely to expand mining presence

By Kyle Aristophere T. Atienza *Reporter*

THE PHILIPPINES will be an important market for China's electric vehicle (e-vehicle) industry via exports of complete units, with no prospect for domestic manufacturing, though greater involvement in the Philippine minerals industry is likely, analysts said.

Terry L. Ridon, a public investments analyst, described as unlikely Chinese assistance in developing a domestic e-vehicle industry, "as this is currently an emerging and lucrative sector in China."

"Instead, we should expect that the Philippines will be one of the major markets for Chinese-made EVs in the coming years," he said via chat. "But nothing more: no transfer of technology, no new manufacturing facilities in the country."

President Rodrigo R. Duterte last month signed a law that seeks to accelerate the shift to e-vehicles by imposing a 5% EV fleet quota for organizations that operate vehicles, within a timeline that will be set by regulators.

"That e-vehicles should account for 5% of fleets. China can supply these vehicles without necessarily helping Manila develop its own e-vehicle sector," Mr. Ridon said.

China exported nearly 500,000 electric cars in 2021 — more than any other country, "thanks to increasing sales in Europe and Southeast Asia by emerging cost-competitive automakers," according to a report by Nikkei Asia.

"China will take advantage of the Philippines' shift to e-vehicles to establish their market niche (as in) most developing countries," according to John Paolo R. Rivera, an economist at the Asian Institute of Management.

He said in a Viber message that Beijing is likely to seek enhanced economic ties "with their source of raw materials and target market," referring to the Philippines' role as a supplier of strategic minerals.

China's mineral refiners typically import ore to make metals needed in e-vehicle batteries. The Philippines has the fourth-largest reserves of cobalt and is a major producer of copper and nickel.

Most of the cobalt refined by China comes from the Democratic Republic of the Congo, whose mining sector is dominated by Chinese companies and has been plagued by environmental issues.

With the lifting of a four-year-old ban on open-pit mining and the disruption of supply chains across the world, China is expected to firm up its supply arrangements for key mineral resources essential to e-vehicles.

China is expected to increase its dependence on Philippine nickel, according to the Board of Investments.

The Philippines will fill the void left by Indonesia, which banned exports of nickel and other minerals in 2020 to develop its domestic processing industry, it said.

George N. Manzano, an economist at the University of Asia and the Pacific, said building up a domestic EV industry is "quite challenging as access to technology is critical."

"Even if minerals are abundant, if access to technology is limited, the local e-vehicle industry may not develop smoothly," he said in a Viber message.

Mr. Manzano, meanwhile, said the Philippines should ensure that it is part of the global EV supply chain.

"Once it is part of the global value chain, then the next step is to continue improving competitiveness so it can upgrade within the value chain," he said. "If the Philippines is not in the global value chain, then it may miss out on access to technology and investment in e-vehicle production."

Michael L. Ricafort, chief economist at Rizal Commercial Banking Corp., said the government should ensure that the shift to e-vehicles will create opportunities for Philippine suppliers.

"There would be a need to introduce investment incentives for local EV production," he said in a Viber message.

Mr. Ricafort said the ongoing conflict between Ukraine and Russia, a major exporter of nickel and other minerals, would lead to "diversification of supply chains," which should allow the Philippines to position itself as a major supplier of minerals essential for the EV industry.

"The increase in global and local demand for e-vehicles and self-driving vehicles would boost demand for minerals such as nickel, copper, among others," he said. "That should benefit the mining industry amid some easing of restrictions recently."

The Philippines aims to rationalize its fiscal regime for the extractive industry to ensure that the government gets a fair share of revenue generated from mining activities.

Mr. Ridon, who believes China sees opportunity in the Philippines' shift to e-vehicles, said the government should look thoroughly "at the impact of e-vehicles not only on emissions but on the environment in general."

"There have been clear instances in which e-vehicle components are extracted through questionable means," he said. "This includes the use of child labor, and extractive activities in conflict areas."

Tourist arrivals exceed 517,000 by late May

FOREIGN VISITORS have totaled 517,516 as of May 25, since the reopening of borders with minimal quarantine requirements in February, according to the Department of Tourism (DoT).

The DoT said in a statement that the US was the top source of arrivals between Feb. 10 and May 25 with 104,589, followed by South Korea with 28,474 arrivals, and Canada 24,337.

"Australian nationals, British, and Japanese were next on the list with 23,286; 20,846; and 13,373 respectively," the DoT said.

"Other foreign visitors during the early months of the year include Vietnamese, Singaporeans, Malaysians, Italians, Irish and French," it added.

On Feb. 10, the Philippines started accepting nationals that do not require visas to enter the country. Since April 1, borders have been opened to all nationals.

"The DoT is looking forward to an uptick in tourist arrivals in the coming weeks following the further easing of entry requirements," Tourism Secretary Bernadette Romulo-Puyat said.

Starting May 30, the DoT said fully vaccinated and boostered inbound foreign visitors will no longer be required to have a pre-departure test for coronavirus disease 2019 (COVID-19). The looser entry rules are authorized by Inter-Agency Task Force for the Management of Emerging Infectious Diseases (IATF-EID) Resolution No. 168.

However, the DoT said arriving passengers are still encouraged to obtain travel insurance. All types of vaccination certificates, regardless of country of origin, will also be accepted.

"Based on the resolution, the visitor must be at least 18 years old and must have received the primary series of COVID-19 vaccines and at least one booster shot," the DoT said.

"Also exempted from the pre-departure reverse transcription polymerase chain reaction (RT-PCR) requirement are foreign nationals aged 12 to 17 who have received their primary COVID-19 vaccine/s; and those aged below 12 and traveling with fully vaccinated or boostered parents or guardians," it added. — **Revin Mikhael D. Ochave**

OPINION

Fintech: Powering digital transformation in financial services

SUITS THE C-SUITE
VICKY B. LEE-SALAS

(First of three parts)

When the smartphone became commonplace more than a decade ago, it was inconceivable for many consumers to make online purchases using their credit cards. It felt way too risky to give away sensitive credit card information in an online transaction, especially when done on a mobile device. Today, we're faced with yet another inconceivable wave: that of opening our banking data to entities other than the bank itself.

Fintech services have become widespread in Asia and the eastern Pacific Rim. Advanced fintech systems are now woven into the fabric of daily life practically in all markets in Asia where the majority of consumers have smartphones that provide them access to a growing range of virtual financial services.

Asia is seen to be taking the lead in the development of fintech. Due in part to significant concerns with financial inclusion, economies in Asia are seeing a rapid pace of fintech growth. Consumer use of fintech-powered services have doubled in only two years across key Asia-Pacific markets. Fintech adoption has been at 67% in Hong Kong, Singapore, and South Korea, based on the latest EY Global FinTech Adoption Index. China, which leads with a penetration rate of 87%, sets the pace for fintech innovation. The index found that 99.5% of Chinese respondents are aware of online apps that facilitate money transfer, mobile payments, and non-bank money transfers.

Many more changes are anticipated in Asia's financial services landscape. We expect three dominant themes in Asia-Pacific markets over the next two to three years: financial regulation taking on a more active role in encouraging innovation; increased competition among virtual banks; and, increased adoption of open banking, a system that requires banks and clients to give third-party providers access to a most guarded information – clients' banking data.

REGULATORS' OPENNESS TO INNOVATION

Financial regulators have to weigh competing priorities, and in relation to fintech development, they have to strike a good balance between ensuring regulatory processes preserve stability and fostering financial innovation. In many parts of the world, regulators are reported to be trying new approaches to regulation so they could significantly boost oversight.

In a study, leading science and technology think tank Information Technology and Innovation Foundation (ITIF) observed that many governments, seeing the value of fintech transformation, are taking steps to promote financial innovation. It cited Singapore's creation of a fintech and innovation group to facilitate deployment of technology in its financial sector. It also took note of the launch of fintech promotion strategies in Australia and the UK. The level of stringency differs across economies, but the common thread is that they are "taking novel and interesting approaches to financial innovation with an eye to maximizing their relative competitiveness in financial services," according to ITIF.

It's a role that regulators are embracing as markets continue to deregulate. Where before financial regulators in Asia tended to be the gatekeepers of banking and other financial services, now they are becoming advocates for flexibility, innovation and inclusion.

VIRTUAL BANK COMPETITION HEATS UP

Financial regulators in the Philippines have been equally proactive as their peers in the region in pushing for fintech innovation even as they strive not to lose sight of their responsibility to foster financial stability. FinTech Alliance Philippines has been appreciative of the role of regulators, citing the creation of the Financial Sector Forum that brings together representatives from regulatory agencies as a means to rationalize regulations.

The Philippines is among a few economies in Southeast Asia where regulators have issued licenses for digital banking, one area that is anticipated to record significant developments that will contribute to altering the financial landscape in the next few years. The Bangko Sentral ng Pilipinas (BSP) has already approved several digital banks' applications. The emergence of these new entrants is seen as a game-changer in the delivery of financial products.

The BSP sees the rise of digital or branch-less banks potentially driving the digital transformation of incumbent banks to stay competitive and to innovate their service offerings. Digital banking, which essentially does away with the need for customers to physically visit a bank branch to open an account or make transactions, is an important component of the central bank's Digital Payment Transformation Roadmap. The level of encouragement from financial regulators varies across markets in Asia-Pacific, which may relate to the goal of financial inclusivity, a key theme in Southeast Asia.

While the entry of virtual banks is fueling competition in banking in the region, their impact on the banking landscape is not expected to be dramatic in the short term. But in the long run, they can drive meaningful change. The traditional big banks are taking notice. In the case of Hong Kong, incumbent banks are lowering deposit minimums and sweetening account offers in anticipation of the launch of new digital banks.

OPEN BANKING IN ASIA

While virtual banking does deserve all the attention it is getting, some industry observers also see the future in open banking, a system that allows fintech providers access to banking data with customer consent to provide the latter additional services or perform transactions on their behalf. Open banking is foreseen to dramatically improve the customer digital experience.

It goes far beyond the convenience of digital banking in which the set-up of bank branches is no longer required save for an office to receive customer complaints. In open banking, a mobile wallet platform or a ride-hailing service can be a super-app with expanded services to include lending, for instance, and can evaluate loan applications quickly by having pre-approved real-time access to a customer's banking data. It can also be a personal finance app that lets you program it to "manage" your finances and tell you how much you can invest in stocks according to how much money goes into your linked bank accounts at any given month.

Access is granted through open application programming interface (API), which establishes a connection between third-party providers and users' bank accounts. This allows for banking data to be gathered and leveraged to perform a service for the customer.

International Data Corporation and Finastra's Open Banking Readiness Index found Hong Kong, Singapore, and Australia to be the top three markets in Asia in terms of progressive open banking. In the case of the Philippines, the BSP is laying down the foundations for open banking with the release of the first version of the draft Circular on Open Finance. Released in December 2020, the draft circular proposes the creation of an Open Finance Oversight Committee, an industry-led self-governing body overseen by the central bank. It would supervise open banking practices and set procedures and standards, including API architecture, data, security, and outsourcing standards.

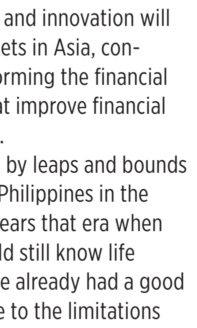
In January, the Bangko Sentral once again reinforced its support for innovation with the presentation of its three-year strategy to get open finance off the ground to boost innovation and competition in the Philippines by enabling third parties, such as fintech companies, to access and use customer finance data to develop new apps and services.

Increased fintech adoption and innovation will continue to benefit most markets in Asia, contributing immensely to transforming the financial services landscape in ways that improve financial inclusion in emerging markets.

There can only be progress by leaps and bounds for the fintech industry in the Philippines in the years to come as the market nears that era when very few Filipino workers would still know life before the internet. Banks have already had a good peek into the digital space due to the limitations that the pandemic created, and this can only lead to more confident steps to incorporating fintech products into their offerings.

In the second part of this article, we discuss issues on taxation of fintech companies in the Philippines.

This article is for general information only and is not a substitute for professional advice where the facts and circumstances warrant. The views and opinions expressed above are those of the author and do not necessarily represent the views of SGV & Co.



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