DTI presses Senate to approve RCEP trade deal within quarter

THE Department of Trade and Industry (DTI) asked the Senate to ratify the Regional Comprehensive Economic Partnership (RCEP) trade agreement before the end of the first quarter, saying that the Philippines is already missing out on the deal's benefits.

Trade Assistant Secretary Allan B. Gepty told *BusinessWorld* on the sidelines of an event organized by the British Chamber of Commerce of the Philippines (BCCP) late Tuesday that the Senate has "the whole of February to conduct hearings. And then there's March. Basically, two months. I hope it (RCEP) gets finished because we are already delayed."

"On the assumption that the hearings go smoothly and given the fact that this is one of the priorities of the government, we hope that in the first quarter of this year we can finish the whole process," he added.

Mr. Gepty said that the Philippines is missing out on the benefits of the RCEP, whose other members have been operating within the trade framework since the start of 2022.

"(We are missing) on the trade facilitation aspect because in RCEP, we have agreed on certain simplified rules and procedure in conducting trade. So this means less paperwork, more convenience. If there is more convenience, it reduces the administrative costs of businesses. That's additional savings," Mr. Gepty said.

"The other RCEP parties are now enjoying the benefits of the agreement. In fact, they have already noted an increase in trade, like for example Thailand, Cambodia, even China. There is already an increase in trade. We hope that we can already be part of this very important agreement," he added.

The RCEP is currently with the Senate Committee on Foreign Relations, which is chaired by Senator Maria Imelda Josefa R. Marcos.

Ms. Marcos has formed a technical working group to generate the committee report on RCEP ratification. The committee is expected to report it out to plenary once Senate sessions resume.

The RCEP, touted as the world's largest free trade agreement (FTA), started coming into force in the various jurisdictions on Jan. 1, 2022. The participating countries include the 10 members of the Association of Southeast Asian Nations, Australia, China, Japan, South Korea, New Zealand.

The Philippines has yet to seal its participation after the Senate was unable to give its concurrence by the end of 2022 after Senators raised the issue of inadequate safeguards for the agriculture industry. Former President Rodrigo R. Duterte signed the RCEP agreement in September 2021.

BCCP Executive Director Chris Nelson said separately that the RCEP will help attract more investors, calling Mr. Gepty's first-quarter timeline for approval realistic.

"I fully support RCEP. It's one of the things we need to be doing. One of the things we keep saying to people in the UK is to do business in the Philippines. If you want to reinforce that, you should sign the RCEP, which is the largest trading bloc in the world," Mr. Nelson said.

"I think it (first quarter timeline) is realistic. We just need to push hard and get over the line. It is an important thing to be done," he added. — **Revin Mikhael D. Ochave**

Marcos tells advisors he will certify E-Governance bill as urgent, backs RCEP

PRESIDENT Ferdinand R. Marcos, Jr. signaled his intent to certify as urgent a measure that will digitalize the bureaucracy to his business-sector advisors.

The Palace also announced that Mr. Marcos is pushing the Senate to act on the ratification of the Regional Comprehensive Economic Partnership (RCEP) trade agreement.

Mr. Marcos made his intent to certify as urgent the E-Governance bill in a Jan. 12 meeting with the Private Sector Advisory Council (PSAC).

The certification is "a vital step" in building "a digital nation," according to a statement issued by Henry Aguda, PSAC Digital Infrastructure Sector lead and Union Bank of the Philippines (UnionBank) chief technology and operations officer.

"It also provides the impetus to the PSAC Digital Infrastructure Sector's work plan," he added. "(We) look forward to seeing the positive impact it will have on every Filipino."

The bill remains pending at committee level in the House of Representatives.

It seeks to create "a digitally empowered and integrated government that provides responsive and transparent online citizen-centered services for a globally competitive Filipino nation," the PSAC said.

The bill also encourages public-private cooperation in digitalizing the operations of government agencies.

An urgent certification from the President means the bill can be passed on third reading immediately after second reading.

The PSAC has put forward its proposals to improve the bill, centering on the creation of an enabling environment to foster innovation and promote and support emerging technologies and startups.

It has also recommended the "integration of inter-agency efforts and integration in citizen frontline delivery of services."

It also wants the inclusion of the education sector in policy formulation, ensuring the collaboration between education agencies and the Department of Information and Communications Technology (DICT) "in the development of curricula for the ICT Academy established under the Act."

The PSAC is also proposing to make government digital payment systems a two-way system by introducing digital disbursement services, and to allow the use of private payment and disbursement systems.

The private sector's proposals also include the designation of a Chief Information Office in every government agency and the creation of a national Chief Information Security Officer.

The government should also "promote data sovereignty alongside the expansion of National Government Data Centers, ensuring data of Filipinos are for Filipinos" and "institutionalize public-private partnerships on e-government to leverage expertise and speed up implementation."

"All seven recommendations were accepted by the Technical Working Group (TWG) formed by the House Committee on Information and Communications Technology, and incorporated in the forthcoming substitute bill," the PSAC said in the statement.

RCEP

Among the bills that the President has certified as urgent include proposals seeking to professionalize the Armed Forces of the Philippines, establish the Maharlika Investment Fund, restore the Mandatory Reserve Officers' Training Corps, and create the National Service Training Program.

Also on Wednesday, the Presidential Communications Office (PCO) said Mr. Marcos has backed the ratification of RCEP in the Senate.

The Senate failed to ratify RCEP last year, with senators citing the lack of safeguards for the domestic agriculture sector. The free trade agreement involves the 10 members of the Association of Southeast Asian Nations (ASEAN) and dialogue partners China, Japan, South Korea, Australia, and New Zealand.

During the campaign, Mr. Marcos had called for a review of RCEP to ensure the agriculture sector is adequately protected.

"If approved and entered into by the Philippines, we would be part of the biggest free trade agreement in the world, given that intended members of the partnership comprise around 30-40% of the world's gross domestic product," Emy Ruth D. Gianan, who teaches economics at the Polytechnic University of the Philippines, said via chat.

"On surface it seems harmless, but what the Senate should really examine are provisions and rules on labor and workers' rights, environmental protection, and intellectual property," she added. "These were earlier issues raised when RCEP was initially proposed. These also were main comparative points relative to its 'rival' FTA deal," she added, referring to the US-backed Trans-Pacific Partnership.

Ms. Gianan said the Senate has the important role of ensuring that as the Philippines integrates itself into global supply chains, "our welfare and rights are not sidelined in exchange for private profit."

Leonardo A. Lanzona, an economist at the Ateneo De Manila, said the ratification of RCEP "should have been done at the very start of the administration when our foreign exchange depreciated." — **Kyle Aristophere T. Atienza**

FULL STORY

Read the full story by scanning the QR code with your smartphone or by typing the link **<bit.ly/RCEP012623>**

Cash transfer programs deemed effective in protecting calamity-hit households

CASH TRANSFER programs were able to "effectively" protect typhoon-affected households from falling into extreme poverty, according to a study by the World Bank.

"In the aftermath of Typhoon Yolanda (international name: Haiyan) in the Philippines, the country's 4Ps program proved to be an effective protection against extreme poverty. It was also shown that it raised in particular non-food consumption," the World Bank said.

The Pantawid Pamilyang Pilipino Program, also known as 4Ps, is a conditional cash transfer program first launched in 2007 and later institutionalized in 2019.

"Cash-transfer programs have been shown to be an effective way to reduce poverty and protect vulnerable households against idiosyncratic income shocks. For this reason, they are also often proposed as effective and efficient protection mechanisms in the case of large-scale adverse events such as natural disasters, pandemics, or economic crises," the World Bank said.

It conducted its study on victims of Typhoon Yolanda, which struck the country in 2013.

"The results indicate at best a very tenuous effect on households with at least one school-aged child having positive educational expenditures," the multilateral lender said.

Based on the study, the risk of falling into extreme poverty was reduced by the cash transfer program.

"The estimated effects on non-food consumption are decidedly more significant, in statistical as well as economic terms," it added.

The World Bank said that even a moderate cash transfer can "significantly protect vulnerable populations when faced with a large aggregate shock."

"The upshot is that such programs are indeed an effective policy response in times of crisis. However, many questions remain to be answered. Moreover, it would be important to understand how cash-transfer programs can be temporarily expanded to increase their impact," it added.

The study recommended looking into horizontal expansion, which means to expand the number of households covered by the program.

"The crucial question in this context is whether an additional dollar spent on either horizontal or vertical expansion, which is increasing the amount of the benefit paid out, has the largest effect on poverty reduction. Understanding how this trade-off depends on the nature of the shock is also of first-order importance," it added. — **Luisa Maria Jacinta C. Jocson**

PHL urged to upgrade cybersecurity infrastructure, policies

A SOUTH KOREA cybersecurity solutions company said the Philippines urgently needs to fast-track upgrades to its cybersecurity infrastructure and policies as it emerges from the pandemic.

"There's no doubt that digitalization in the Philippines is heading in the right direction," NETAND Chief Executive Officer Hochul Shin said in a statement on Wednesday.

"Now that the world is slowly ushering in a post-pandemic era, the global market is paying attention to access management solutions since major IT infrastructure systems require thorough control and management of user access and authority. It is, therefore, imperative for the Philippines to fast-track its cybersecurity infrastructure and policies," the NETAND CEO added.

The Department of Information and Communications Technology is currently exploring digital partnerships. The department recently approached Franz-Michael Skjold Mellbin, the Danish ambassador, to sound out Copenhagen on cybersecurity, e-governance, digital health, and digital transition for the maritime industry.

NETAND, a privileged access management (PAM) solutions provider, noted that the Philippines' rapid digitalization can serve as an entry point for cyber threats, making digital trust a big concern.

"Efficient solutions and infrastructure are essential in combating cyber threats and ensuring business survival," it said.

The Philippines' digital competitiveness improved last year, with knowledge and technology taking 62nd and 54th spots, respectively, according to the World's Digital Competitiveness Ranking. The Philippines ranked 61st out of 194 on the ITU Global Security Index.

At the same time, NETAND warned that security risks may surge with demand for third-party payment providers expected to rise in the coming years.

"Ensuring that the information security management system is properly screening and protecting the payment methods plays a critical role in maintaining operational security," the company said.

It said that PAM solution helps protect and secure the digital transformation of any business.

PAM solutions help protect organizations against insider threats, cyber-attacks, and compliance risks by monitoring, detecting, and preventing unauthorized privileged access to critical resources, the company added. — **Arjay L. Balinbin**

OPINION

Taxing a sovereign wealth fund

TAXWISE OR OTHERWISE
MARION D. CASTAÑEDA

In December, the House of Representatives passed on third and final reading House Bill No. 6608, or the proposed Maharlika Investment Fund Act. If signed into law, the measure would establish the Philippines' first sovereign wealth fund (SWF). The proposal seems to attempt to mirror economic gains in other jurisdictions that have already established their own SWFs, including our Southeast Asian neighbors such as Singapore, Malaysia, and Indonesia.

Section 6 of the House Bill states that one of the proposed fund's objectives is to "obtain the optimal absolute return and achievable financial gains on its investments." Thus, as with any investment, taxation can be considered one of the major financial aspects that should be thoroughly studied towards this goal of optimizing the returns on investments. In this article, I will be highlighting a few key tax considerations for this proposed SWF.

PHILIPPINE TAX EXEMPTIONS

Section 31 of the House Bill exempts the following transactions and assets of the proposed SWF from local and national taxes, direct and indirect, that may be imposed under the Local Government Code of 1991, and the National Internal Revenue Code of 1997, as amended, pursuant to the regulations to be issued by the Department of Finance, upon recommendation of the Bureau of Internal Revenue:

a. all funds, assets and properties;

b. all revenue, income or investment earnings, as well as accruals thereto; and

c. purchase of supplies, equipment, papers, or documents.

The provision further states that imports of supplies and equipment are exempt from customs duties, in accordance with the provisions of the Customs Modernization and Tariff Act.

The provision finally states that the exemptions granted must be utilized actually, directly, exclusively, and solely for the transactions of the proposed SWF, and not for the purposes of its executives, employees, third parties, and other distinct taxable entities.

At first glance, the tax exemption clause appears broad and sweeping. However, the exemption does not seem absolute. For example, the exemption only covers purchases of "supplies, equipment, papers, or documents" which are in the nature of goods or property. Consequently, it seems that purchase of services as well as lease of goods or properties are not covered by the exemption.

In qualifying the exemption, which does not extend to executives, employees, third parties, and other distinct taxable entities, this qualification appears to be consistent with the apparent aim to ringfence the exemption of the proposed SWF solely to its income and gains and not those of other parties. Consequently, compensation and benefits of its executives and employees remain taxable, subject to withholding tax on compensation or fringe benefits tax, as applicable. Moreover, similar to any domestic corporation, it appears that the SWF will be constituted a withholding agent for its income payments to local and foreign suppliers, under the expanded and final withholding tax systems pursuant to existing withholding tax regulations.

One particular aspect that should be clarified is whether the exemption on "all funds, assets and properties" extends to taxes that may be passed on to the SWF by other entities, such as capital gains tax or stock transaction tax on Philippine equity transactions, and gross receipts tax on domestic financial instruments. While such taxes are the statutory tax liabilities of the other transacting party (e.g., sellers/traders of Philippine shares, financial institutions), in practice, the same may be stipulated as to be shouldered by the investor, which in this case would be the SWF. Given the nature of the SWF, such tax costs may be significant. Perhaps this can be addressed during deliberations of the proposed law in Congress or upon the promulgation of relevant tax regulations once the measure is signed into law.

CROSS-BORDER TAXATION

During the World Economic Forum, the Philippine delegation, headed by the President himself, attempted to spark global interest in the proposed SWF. As an investment vehicle, the government has expressed its intention to use the proposed fund to invest in a wide range of outlets, including foreign ones. Naturally, foreign tax implications should also be duly considered to ensure that such tax costs do not significantly erode the returns on the proposed SWF's foreign-sourced or outbound investments.

Tax rules vary in each jurisdiction. Nonetheless, the various tax approaches to SWF income can be summarized as follows:

- Exemption by way of domestic law in the foreign jurisdiction;
- Exemption through administrative practice;
- Exemption under an applicable double tax treaty; or
- Taxation under general tax rules, in the same way as any other non-resident company.

To conclude, taxation should be carefully taken into consideration to ascertain that the SWF's objective of optimal returns and, correspondingly, its ultimate ambitions of promoting economic growth, accelerating job creation, and improving the welfare of Filipinos can be achieved. While this author is also mindful of the other crucial aspects of the proposed SWF (e.g., sources of initial capitalization, necessary safeguards, corporate governance, current macroeconomic factors) which have been broadly debated by various sectors and concerned citizens, this author nevertheless personally views this proposal with cautious optimism as this could aid in the country's long-term progress if done correctly.

The views or opinions expressed in this article are solely those of the author and do not necessarily represent those of Isla Lipana & Co. The content is for general information purposes only, and should not be used as a substitute for specific advice.

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