EU, US tech tie-ups eyed for lab-sized wafer fab

THE Department of Trade and Industry (DTI) said that it is looking for international technical partners for its plan to build a lab-sized wafer fabrication hub to upgrade the Philippines' capacity for prototyping chips.

On the sidelines of the Induction Ceremonies and Oath-taking of the Council of Engineering Consultants of the Philippines (CECOPHIL), Trade Secretary Alfredo E. Pascual said that the department has started talking to potential partners.

"We are already talking to some that we are inviting. Of course, they are those that have experience in wafer fabrication," Mr. Pascual told reporters. "Some are from Europe, some are from the US."

"We are yet to (come up with firm plans). Our plant visits may help in organizing our thoughts on how to go about it," he said.

According to Mr. Pascual, the DTI has visited a plant in Leuven, Belgium after meeting with the European Commission (EC) early this week to get a deeper understanding on how wafer fabrication plants work.

"It is better to see for myself how they do it," he said.

On Monday, Mr. Pascual and EC Executive Vice-President Valdis Dombrovskis made a joint announcement that the Philippines and the European Union (EU) will be resuming negotiations for a free trade agreement (FTA).

Mr. Pascual said talks have started at lower levels before Undersecretary of International Trade Allan B. Gepty meets with EU officials by May.

"The formal or the face-to-face negotiation will start early in the second half of the year or third quarter because there is a lot of preparatory work to be done," he said.

"But the work has started... we already did a scoping study from September to December to see if the ambitions of the two sides match because if not, we would not have continued to negotiate," he added.

During his keynote speech at the event, Mr. Pascual said that FTAs include market access for services, including professional services.

"By committing market access, this means that a trading partner country guarantees the entry of these service providers and professionals," he said.

This, he said, may also be a part of the business proposals for the EU-Philippine FTA to allow Filipino professionals to set up firms in the host country and be paid at the host country's salary scale.

He said that at present, many foreign firms operate in the Philippines hiring Filipinos at domestic rates while charging based on their international rates which creates disparity.

Meanwhile, Mr. Pascual also called for CECOPHIL's participation in the ongoing public consultations of DTI's Philippine Contractors Accreditation Board (PCAB).

He said that the PCAB is conducting consultations on the needed revisions to the implementing rules and regulations (IRR) governing contractor licensing.

"The Supreme Court made a decision (in 2020) that foreign firms could be licensed in the Philippines. It affirmed this decision in 2022 and so that would require amendments to the IRR," he said.

"This is not in effect yet because there is a need to amend the IRR first. What we want is to update the IRR to be able to implement the SC's decision," he added. — **Justine Irish D. Tabile**

'Buy local' procurement questioned by industry

BUSINESS GROUPS at the weekend asked Congress to revisit the domestic-supplier preference rules in the proposed New Government Procurement Act, saying the practice could weaken competition and discourage participation in government bidding.

In a joint statement on Friday, the business groups said the provision in Senate Bill No. 2593 "may inadvertently weaken the administration's goal of fostering competition among potential suppliers."

"This limits the diversity of the pool of competitors from which the government can even select the best value-for-money option — one that balances quality, performance, sustainability, and cost," the groups said.

Legislators are seeking to modernize procurement to rid the system of corruption and unwarranted delays.

The proposed New Government Procurement Act aims to streamline the procurement process from 120 days to 27 days.

It also seeks to give preference to bids that feature locally manufactured and environment-friendly goods, articles, and materials.

Citing the complexity of supply chains, business groups said it would be difficult to classify products or services as simply "local" or "domestic."

"If a Filipino supplier forms part of a foreign provider's supply chain but is not necessarily the dominant player in that relationship, the domestic preference rule works against the Filipino supplier in such a case," according to the groups.

They added that "if the bid of a domestic bidder is higher than the lowest foreign bidder but within a 25% margin, the domestic bidder wins."

The bill could also hamper the development of other industries, like defense and state-owned enterprises, which "will be forced to purchase from Filipino-owned firms with higher prices."

Preferential treatment would also limit the government's options for digitalization amid President Ferdinand R. Marcos, Jr.'s earlier directive to digitalize vital services in government agencies. — **Beatriz Marie D. Cruz**

SC rules dam water excluded from tax on national wealth

THE Supreme Court (SC) has ruled that dam water no longer fits the definition of natural resources and cannot be subject to the tax on national wealth.

In a 28-page decision, the SC sitting en banc reversed a decision of the Court of Appeals (CA), which had found the Metropolitan Waterworks and Sewerage System (MWSS) liable to pay the Bulacan provincial government a share in the use of water from Angat Dam.

"All told, the Court finds that the CA erred in affirming the RTC Decision which found petitioner liable to pay respondent a share in the utilization and development of national wealth," according to the decision, written by Associate Justice Henri Jean Paul B. Inting.

The Supreme Court said water impounded in a dam ceases to a natural resource, and thus cannot be subject to the tax on national wealth.

"Being already appropriated, dam water is no longer subject to national wealth tax because appropriate tax is to be determined and imposed upon the extraction of water from a natural resource and accordingly, prior to the impounding and appropriation of water," according to the decision.

The Bulacan provincial government, through Governor Josefina M. Dela Cruz, had claimed that the MWSS profited from the water resources of Angat Dam, located in Bulacan.

They argued that MWSS is liable to pay the local government a share from its utilization and development of national wealth.

The tribunal decided otherwise, noting that the MWSS does not generate income or derive profit from the use and development of dam water. The MWSS was created for regulatory purposes, it added.

The MWSS had argued that water in Angat Dam doesn't necessarily come from Bulacan, but was stored in the catchment area.

"A dam is a man-made structure; it does not fall within the purview of national wealth that would entitle a local government unit to an equitable share in the proceeds derived from its utilization and development," the MWSS said. — **Chloe Mari A. Hufana**

OPINION

Multipolarity and de-risking: Navigating geopolitical uncertainties

Second of two parts

IN BRIEF:

- Major shifts in the global market along with rising geopolitical tensions may propel organizations to adapt and rethink their strategies.
- According to the EY 2024 Geostrategic Outlook, organizations will need to consider two critical concepts as they plan for geopolitical disruptions: multipolarity and de-risking.
- The prevalent trend of de-risking indicates a shift in policy focus towards national security over pure economic considerations.

SUITS THE *C*-SUITE

MARIE STEPHANIE C. TAN-HAMED *and* KATRINA F. FRANCISCO

The trend of de-risking sees governments increasingly combining economic policy with national security to stimulate domestic production of critical products in sectors.

Faced with the prospect of an increasingly uncertain future, the world faces an era of unprecedented change. Rising geopolitical tensions and major shifts in the global market may propel organizations to adapt and rethink their strategies, with two critical concepts coming to the fore: multipolarity and de-risking.

The EY Geostrategic Outlook is an annual report by the EY Geostrategic Business Group (GBG) that selects the top geopolitical developments for the year by analyzing the global political risk environment. The GBG first conducts a crowdsourced horizon scanning exercise with subject matter resources to identify potential risks, then conducts an impact assessment to narrow down the top geopolitical developments that are both highly impactful and highly probable for companies worldwide.

In the first part of this article, we discussed the evolving multipolarity in geopolitics, specifically tackling the developments surrounding the geopolitical multiverse, AI, the oceans, and competition for essential commodities. These underscore the need for economic diversification and resilient supply chains due to increased geopolitical disruptions. However, they also aggravate global policy coordination challenges, escalating potential transnational uncertainties.

The second theme is de-risking, with governments increasingly combining economic policy with national security to stimulate domestic production of critical products in sectors such as semiconductors, telecommunications, renewable energy, electric vehicles, and biotechnology. This trend, more prevalent in 2024, indicates a shift in policy focus towards national security over pure economic considerations, possibly fueling inflation and hindering global innovation due to increased government intervention in supply chains and investments.

GLOBAL ELECTIONS SUPERCYCLE

With a wave of elections happening in geopolitically significant markets representing more than half of the global population and the global GDP, this global elections supercycle will generate policy and regulatory uncertainty. This in turn has long-term implications for industrial strategies, ongoing military conflicts, and climate policies.

The outcome of Taiwan's presidential election, which concluded on Jan. 13, may affect political and economic relations with China as well as broader geopolitical dynamics. Later this year, campaign dynamics from the US elections could increase volatility for businesses, while election outcomes can result in far-reaching shifts on domestic and foreign policy issues on global alliances, regulations, and climate change.

ECONOMIC SECURITY

Recent global developments have increased geopolitical rivalries and heightened the neo-statism (a new cross-party consensus about needing a more interventionist state) trend, leading to a greater focus on economic self-sufficiency and increased intervention in supply chains. In 2024, de-risking global interdependencies is expected to be a critical tool in geostrategic competition, with policies targeting reduced reliance on geopolitical competitors, promoting domestic industry competitiveness, and enhancing sociopolitical stability.

The White House readout on the meeting between President Marcos and VP Harris on the sidelines of the November APEC meetings in San Francisco states that VP Harris announced a "new partnership with the Government of the Philippines to grow and diversify the global semiconductor ecosystem under the International Technology Security and Innovation (ITSI) Fund, created by the CHIPS Act of 2022. This partnership will help create a more resilient, secure, and sustainable global semiconductor value chain."

Particularly impacted will be sectors like aerospace, defense, and advanced digital technologies, where stringent economic security policies will be enforced. Traditional strategic sectors, like energy and critical infrastructure, will see regulations and incentives used to protect or promote domestic production. Emerging strategic sectors, such as healthcare and agriculture, will come into greater focus with regulations aimed at increasing resilience to supply chain disruptions.

VALUE CHAIN DIVERSIFICATION

According to the July 2023 EY CEO Outlook Pulse survey, 99% of CEOs plan strategic changes in response to geopolitical challenges such as government tensions and policies encouraging value chain diversification. This creates political risks for companies entering or expanding in alternative markets in 2024. Despite ongoing investment in developed markets, geopolitical swing states are expected to be key to diversification efforts. Country-level political risk, infrastructure quality, labor dynamics, global interest rates, and government incentives will influence these decisions.

Sustainability considerations, including carbon taxes and emissions reporting requirements, will further shape the diversification agenda. The 2024 election supercycle intensifies policy uncertainty in several markets affecting labor laws, infrastructure investments, and industry policies, adding another layer of complexity to diversification and investment decisions.

SUSTAINABILITY

Currently, some countries are prioritizing economic growth and energy security over emissions reductions, leading to inconsistent sustainability regulations. Some governments are boosting their domestic green economy while potentially slowing the implementation of sustainability regulations to meet short-term economic goals.

Green policies could face opposition if they are viewed as protectionist or discriminatory. For example, the EU's Carbon Border Adjustment Mechanism (CBAM), a tariff on carbon-intensive products, may trigger global trade tensions as impacted countries may retaliate with their own tariffs on European goods. However, it can also act as a key driver for developments in international carbon pricing policy, as several countries are now seen either exploring or creating their own CBAM or are revisiting their current carbon taxation levels.

For the Philippines, understanding how CBAM may impact direct exporters to EU of scoped-in industries, including looking at those industries where the raw materials of scoped-in industries are coming from the country, should be prioritized. This is aside from the legislative action exploring the implementation of an emissions trading scheme or the imposition of a carbon tax on the industries that contribute most to our emissions.

Consequently, geopolitical tensions could grow between countries advocating for ambitious climate action and those perceived as impeding this progression. Despite these tensions, geopolitical competition could increase green investments in emerging markets, with major players like China, the US, and the EU targeting geopolitical swing states.

CLIMATE ADAPTATION

While the United Nations Framework Convention on Climate Change (UNFCCC) initially focused on reducing greenhouse emissions, in 2024, about 80% of its parties have established a national adaptation plan, policy, or strategy due to increasing global temperatures.

For instance, the National Framework Strategy on Climate Change highlights that the Philippines' approach on climate change identifies climate change adaptation as its anchor strategy, with climate change mitigation as a function of adaptation. This is mainly a result of the country's less than 1% contribution to global emissions and the various studies highlighting the vulnerability of the Philippines to the impacts of climate change, with the February 2024 *Swiss Re* publication, "Changing Climates: The Heat is (Still) On," indicating that the country suffers the most significant economic losses as a percentage of GDP mainly resulting from flooding and tropical cyclones.

It is because of the heightening risk and accelerating climate change impacts experienced globally that the urgency for more actions relating to adaptation have increased. Combined with the more modest growth in adaptation finance flows, the global adaptation funding gap is widening, with developing countries needing about $212 billion per year up to 2030 and around $239 billion per year from 2030 to 2050, based on the 2023 Global Landscape of Climate Finance, issued by the Climate Policy Initiative.

Geopolitics and adaptation funding for developing nations have previously been at the forefront of climate negotiations. This will only continue, as central to the politics of adaptation funding is the fact that countries such as the Philippines have contributed almost nothing to making climate change happen, and yet are the ones experiencing the first and worst impacts as a result.

C-LEVEL CONSIDERATIONS TO NAVIGATE GEOPOLITICAL UNCERTAINTIES

The evolving geopolitical landscape calls for a thorough recalibration of business strategies for organizations to navigate through uncertainties effectively. By embracing multipolarity and de-risking strategies, organizations can foster resilience and agility amid heightened geopolitical competition.

While juggling these challenges, sustainability remains critical. Conflicting interests may lead to inconsistent regulations in the short term, but moving toward a greener economy remains paramount. Therefore, organizations must prioritize green investments and climate adaptation measures in their strategic planning.

Navigating the geopolitical uncertainties of 2024 and beyond requires proactively anticipating the shifts in economic policies, regulations, and global relations. The exact path may still be uncharted, but understanding and responding to these developments will help boards remain competitive in the global market and future-proof their organizations.

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 authors and do not necessarily represent the views of SGV & Co.

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