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TRAIN slows manufacturing investments

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Investment inflow in the country's manufacturing sector suffered its worst decline in the history of the Philippine Economic Zone Authority (PEZA) largely because of the thick cloud of uncertainty brought about by the phased implementation of the Duterte government's new tax regime under the Tax Reform for Acceleration and Inclusion (TRAIN) Law.

Data showed that while PEZA-approved investments in 2017 grew 8.89 percent to ₱237.57 billion from ₱218.176 billion in 2016, new investment pledges in the manufacturing sector posted a steep decline of 46.39 percent to ₱48.375 billion from ₱90.238 billion in 2016.

The decline further continued in January 2016 at negative 46 percent. But the first month of 2018, however, luckily managed to post positive growth with 27.20 percent growth with total investments reaching ₱14.006 billion from ₱11.01 billion in January 2017.

"This is the worst decline in the manufacturing sector in the history of PEZA," said PEZA Spokesperson Elmer San Pascual, who blamed TRAIN as the culprit to the decline "because the global economy is recovering." Even during the global financial crisis in 2007-2008, PEZA investments in the manufacturing were just flat but not negative, he said.

"TRAIN is the number one cause of uncertainty because you cannot get serious investors if there is cloud of uncertainty," he said.

PEZA Director-General Charito B. Plaza said that Finance Secretary Carlos Dominguez III has already assured her that the Presidential veto on the exemption of the 12 percent value-added tax (VAT) only applies to the Tourism Infrastructure and Enterprise Zone Authority and not to PEZA-registered enterprises.

But, Plaza said that PEZA-registered firms would like to see it in a formal black and white letter that indeed they are exempted from the 12 percent VAT on their local purchases.

Plaza said the DOF has yet to respond their letter of inquiry to put into writing whether PEZA is exempted from the President's veto.

According to Plaza, based on their study its registered-enterprises have been sourcing ₱256 billion worth of supplies from local market because they are entitled to zero VAT for these purchases. She pointed out to DOF that if PEZA enterprises are removed of this incentive, the domestic economy will lose the same ₱256 billion as companies will just shift to importation to avoid the 12 percent VAT. Under the PEZA law, its registered enterprises can import their inputs tax and duty-free.

"Unless they come out with a revenue regulation or an implementing rules and regulations on the TRAIN 1, our companies will continue to pay the 12 percent VAT," he said.

San Pascual also noted of difficulty recovering from the slump in manufacturing investments because investors already withheld their investments even as the new tax regime was still being deliberated upon by Congress last year because of the uncertainty that the law brought on investors, who always cited PEZA's generous incentive package as the major reason for their decision to invest in the Philippines. The TRAIN Package 1 took effect on January 1, 2018.

He explained that manufacturing is the worst hit in the new tax reform law because this sector is capital intensive and the bulk of investments go to the purchase of manufacturing equipment and facilities. Unlike the IT-

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*TAX REFORM FOR ACCELERATION & INCLUSION (TRAIN)

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BPO sector, it would be difficult to put up capital intensive manufacturing plants and heavy production equipment only to be uprooted later on.

San Pascual further noted that manufacturing used to account for 80-85 percent of PEZA's total investments. With its decline, PEZA investments are now being driven by economic zone development projects.

The problem, he said, is that if the manufacturing sector continues to slump then there will be no use for the ecozones that have been approved by PEZA.

This scenario is expected to continue to hound investors as the executive and legistlative departments will soon tackle TRAIN Package 2, which calls for the rationalization of incentives granted to investors. Under Package 2, the DOF mulls the reduction in corporate income tax on capped tax incentives to investors.

At present, PEZA enterprises enjoy income tax holiday and subsequent 5 percent tax on gross income earned, which they can avail perpetually.

With the Package 2 still hanging, San Pascual expects investors to continue staying in the sidelines.

Meantime, investments in the IT sector continued to slump in January 2018 at negative 73.23 percent to only ₱529 million from ₱1.976 billion in January 2017. For the entire 2017, PEZA IT investments already dropped by 48.9 percent to ₱15.556 billion from ₱30.444 billion in 2016.

"Many have assumed that the IT-BPO will rebound, but it cannot if there are no presidential proclamations on the approved special economic zones," he said. Several ecozone development projects are still pending in Malacanang.

Aside from the TRAIN, Plaza also attributed the continued slump in the IT sector to the unclear policy of the Trump administration on American firms investing abroad whether in manufacturing or services sectors.