PRESENTATION OF THE PHILIPPINES TO THE ASEAN PRINTING FORUM

Atty. Dominador D. Buhain

October 30, 2020 9:00AM -1:00PM

Greetings to all of you.

This report will be covering three topics based on Philippine setting: 1. The Economic Outlook 2020 and Other Government Incentives; 2. The Printing Industry Trend in the New Normal; 3. Leading Through Change: Digital Transformation.

A. THE ECONOMIC OUTLOOK 2020 AND OTHER INCENTIVES

Based on the report of Reuters-Manila dated October 14, 2020 , the Philippine Central Bank said it has revised the 2020 balance of payment projections, with the current account now expected to yield a $6 billion surplus, taking into account the gradual recovery of a pandemic-ravaged economy.

The Bangko Sentral ng Pilipinas (BSP) revised its current account projection to a surplus equivalent to 1.6% of gross domestic product, from a May forecast of a $1.9 billion deficit, or 0.5% of GDP, to reflect an expected narrower trade gap.

It expects a current account surplus of $3.1 billion for next year, or 0.8% of GDP.

In a statement, the BSP said it now expects a BOP surplus of $8.1 billion this year, or 2.2% of GDP, significantly higher than the May projection of $0.6 billion, or 0.2% of GDP.

It sees a BOP surplus of $3.4 billion, or 0.9% of GDP, for next year.

The Southeast Asian country’s gross international reserves are expected to reach $100 billion by end-2020, higher than the May forecast of $90 billion, and rise to $102 billion next year.

Exports are still projected to contract 16% this year, but will likely recover in 2021 with a 5% growth rate, according to BSP.

However, imports are seen declining 20% this year, steeper than the previous forecast of an 18% drop, before rising 8% next year, BSP further reported.

Despite the improved BOP outlook, however, the BSP warned that uncertainty remains over the duration, direction and extent of the pandemic's impact on the economy.

When it comes to government incentives, the Department of Finance (DoF) is proposing to give the President of the Philippines the power to grant "tailor-fit" incentives to investors under the Corporate Income Tax and Incentives Rationalization Act (CITIRA) bill, which is still pending at the Senate. (*Source: Reuters – Manila October 14, 2020*)

DoF said the bill is giving more “flexibility” to grant incentives under the CITIRA bill which will attract investors to relocate their businesses in the Philippines, which will create jobs and spur economic growth.

Once approved, enhancements under a more COVID-19-responsive version of the bill could include the power of the President, upon recommendation of the Fiscal Incentives Review Board (FIRB), to grant a mix of incentives that better suit an investor’s unique needs.

Below is a summary of the economic team’s proposed amendments to Senate Committee Report No. 50, the current Ways and Means committee report on CITIRA:

- **An immediate 5 percentage point cut in the corporate income tax (CIT) rate starting July 2020.** The corporate income tax rate will be reduced further by 1 percentage point every year from 2023 to 2027. In the second half of this year alone, this will result in a reduction of government revenues estimated at around PHP 40 billion that all firms, especially the country's micro, small, and medium enterprises (MSMEs), can use to fund their operations and retain employees.

- For the succeeding 5 years, the total estimate is about PHP 600 billion in foregone government revenues that these firms can invest in the revitalization of their businesses and to create even more jobs for Filipino workers. This unprecedented investment reflects our resolve to vigorously fight the impact of COVID-19 and get businesses back on their feet as quickly as possible.

- **Maintaining for up to 9 years the status quo for registered business activities enjoying the 5 percent tax on gross income earned (GIE) incentive.** The sunset period is prolonged by two years, from 2 to 7 years to 4 to 9 years. This is a generous compromise for businesses that have been enjoying forever incentives, some for more than 40 years, which no other country offers.

- **More flexibility for the President to grant a combination of fiscal and non-fiscal incentives, which will be critical as the country competes internationally for high-value investments.**

Even with these amendments, we maintain that the reform must continue to adhere to the basic principles of a system that is performance-based, targeted, time-bound, and transparent. These principles have been unanimously recognized by stakeholders during hearings and consultations. We believe that these amendments balance the interests of all stakeholders, while remaining faithful to the fundamental principles and mindful of the country's fiscal challenges.

Provision	CITIRA	CREATE (Revised CITIRA)
Tax benefit for business enterprises		
Accelerated CIT rate reduction	1 ppt per year: 29% – 2020; 28% – 2021; 27% – 2022; 26% – 2023; 25% – 2024; 24% – 2025; 23% – 2026; 22% – 2027; 21% – 2028; 20% – 2029 onwards	Outright drop to 25% until 2022; followed by a 1 ppt reduction yearly until 2027: 25% – July 1, 2020 25% – 2021 25% – 2022 24% – 2023 23% – 2024 22% – 2025 21% – 2026 20% – 2027 onwards

- An outright 5 percentage point reduction in the tax rate will benefit all business enterprises in the country that have not enjoyed any type of income tax incentive. The reduction will boost the efforts of enterprises, especially MSMEs, to protect jobs and recover from the challenges they have encountered due to COVID-19.

- The accelerated reduction in CIT also boosts the country’s bid to attract multinational firms seeking to diversify their production chains.

- The larger reduction also brings the country closer to the ASEAN CIT rate average of around 22% and will boost cost competitiveness in doing business. A lower CIT rate, combined with the country’s strong demographic and financial fundamentals, will strengthen the country’s case for more and better investments.

(Source*: https://taxreform.dof.gov.ph/tax-reform-packages/p2-corporate-recovery-and-tax-incentives-for-enterprises-act/*)

B. PRINTING INDUSTRY TREND IN THE NEW NORMAL

B.1 State of printing business in the last years, until 2019

From 2009 to 2018, the revenue generated by the printing and publishing industry increased from 8.47 billion pesos to 20.58 billion pesos.

Up to January of 2020, our view of the printing industry was positive mainly because of the rise in sales of printers and the birth of hundreds of small commercial printers.

Unfortunately, that is no longer the case now.

B.1.1. Commercial Printing demand now

In the time of COVID, our customers have dropped considerably.

Almost 3,000 establishments have closed temporarily, and close to 200 have shut down permanently.

We have 40 national dailies, both broadsheet and tabloids, but only ten of these broadsheets and a dozen or so tabloids are being distributed in print, and at a small fraction of their daily circulation. They are also operating with a skeletal staff with a few editors in the office and writers working from home.

Community newspapers had a resurgence over the past years, its readership more promising than that of the national dailies. Since March, however, more than half of the 60 member-community press organization, the Philippine Press Institute, have stopped operating.

While the dailies are still cautious with their daily print run, some community newspapers have resumed printing limited copies prompted by public demand for publishing ordinances, notices and advisories, and subscriptions.

B.1.2 Education

The limited and qualified face-to-face learning proposal of state and private learning institutions have virtually squashed the manufacture of printed learning materials. The already existing printed learning materials, in fact, were not distributed due to the pandemic. New learning content was created for distribution nationwide to teachers for them to reproduce by mimeographing.

The scheduled projects of the top university presses—the University of the Philippines Press, the Ateneo de Manila Press, the De La Salle Press and the University of Santo Tomas Press—were put on hold exacerbating their backlog of publications.

A few schools who have started their online instructions use mainly online materials or have digital materials sent to them by their professors.

B.1.3 Non-educational printing

In the non-educational arena of publications, it is heartening to know that creative writers have sought the services of small digital printers/publishers who publish any number of copies one wishes at a given time. These books are marketed online, receive payment online and are sent to the buyer through a commercial delivery service like Grab or Lalamove—the two largest delivery services in the country.

B.1.4 Packaging

The demand for commercial printing, although considerably lower, has been in the packaging and labelling business. Cottage industry businesses, growing larger by the day, have resorted to printing their own labels or hiring personal printing businesses online.

Sellers of medical products have also tapped into the packaging and labelling business, a very important feature for the use and administering of items, prescription and non-prescription drugs.

We must think seriously of investing in package and distribution this early for a more efficient distribution in our area when the time comes.

C. LEADING THROUGH TREND: DIGITAL TRANSFORMATION

For a bird's eye view, suffice it to say that commercial printing as envisioned in 2019 was based on embracing innovation. Teaming up with digital media may be the norm but the sensation of tactility will still be important. The way we print has also become digital, and the presses will be smaller and more efficient.

3D printing was also hailed as one way that print and digital will continue to collide. In fact, for the last six months, the 3D printing and selling of face shields was popular in Metro Manila.

Customized printing will also be a marketing tool for specific customers. Variable runs of certain products, creative works for example, will be utilized more often to determine the demographics or minimize overruns that may not sell.

Printing in the “large format” as in printed materials for windows, walls and floors was predicted to grow in five years, as did packaging and inkjet technology.

Transfer from paper based printing to electronic distribution or hosted brings us to the digital medium which the whole world has been relying on for the past six months.

All our national dailies, while still printing on a limited basis, are counting on their online presence to reach a wider audience. Community newspapers are struggling to survive but most publishers agree that the future for them is digital.

This is not to say that they are just now transferring to an electronic distribution model. Many, if not all, sources of news have had an online presence for three years at most.

The Board of Education has also decided, for now, to create new learning content to be distributed to state schools nationwide. All printed materials in Metro Manila will remain in storage.

Large companies like Amazon, Apple Books and Kobo have successfully marketed electronic books for quite sometime now. The ebooks in the Philippines, mostly in the public domain and non-fiction, are offered for free in a few portals like “Project Guttenberg” and the National Library of the Philippines.

Due to the digitalization of media, many readers have shifted from print to electronic channels. It would follow that organizations would spend more on digital advertisements.

Online advertising has grown steadily for the greater part of the decade. By 2018, Southeast Asia had over 370 million online users, with the Philippines ranking 12th in internet usage worldwide with more than 67 million users.

In an interview with the country marketing manager for Google Philippines, the huge upsurge in the number of subscribers of the two leading mobile service providers, indicate the popularity of using the mobile platform for spending time.

Smart Communications reported a total number of 66.8 million by the end of June 2019 while Globe Telecom reported a mobile subscriber base for the first three months of 2019 at 83.5 million.

The internet has become more accessible with the mobile phone and its affordable data prices that advertising online has become a trend in itself.

In fact, as of January 2020, there were more than 76 million internet and active social media users, accounting for more than 71% of the country’s population.

---end---