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State of Trade and Investments in the Philippines

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Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

State of Trade and Investments in the Philippines

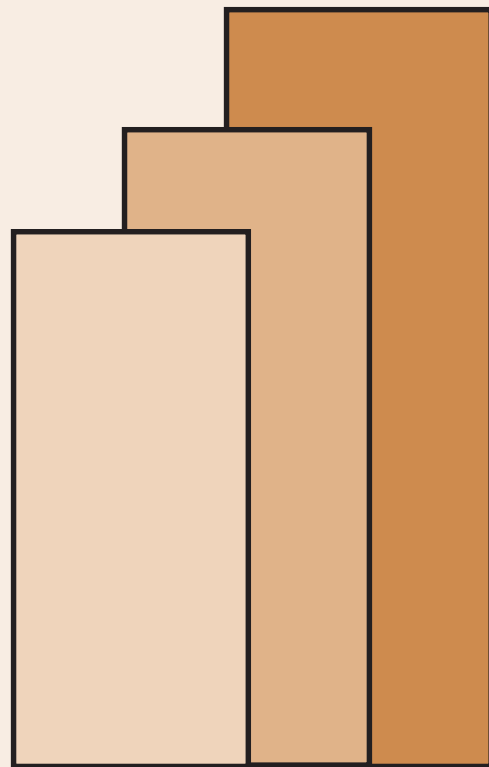
Jenny D. Balboa and Erlinda M. Medalla

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State of Trade and Investments in the Philippines

Jenny D. Balboa and Erlinda M. Medalla

Abstract

The last two decades have witnessed a tremendous increase in global trade and investments. This has been followed by a shift in the pattern of FDI inflow, which had gradually become more favorable to the developing countries. Consequently, this resulted in an increase in competition among developing countries to attract FDI, resulting in further liberalization of economies, removal or loosening of restrictions on operations of foreign firms in host countries and higher investment incentives. This also prompted economies to form or join regional trade agreements and bilateral investment treaties.

Like most developing countries, the Philippines positioned itself for this transition. Investment policies had been revised to create a more favorable investment environment. Incentive packages to foreign investors are also improved. Yet despite these efforts, the Philippines continue to lag behind, especially relative to other countries in Southeast Asia, in capturing a sizeable portion of trade and investment flows. The Philippine experience in the past twenty years show that trade and investment policies are not sufficient to pump up inflows. As important are the internal processes that accompany these policies, infrastructure and government support that will sustain the transition.

Key Words:

Foreign Direct Investment, ASEAN trade and investment flows, government policies, incentives, investment treaties, policy gaps and failures, government support, infrastructure

State of Trade and Investments in the Philippines

Jenny D. Balboa and Erlinda M. Medalla¹

Despite its endowments, overall development outcomes in the Philippines over the last decades have fallen short of potential... Relatively low domestic and foreign investment flows reflect weaknesses in the investment climate...The contrast between the country's human and physical assets and its modest development outcomes is perplexing – Worldbank Country Assessment Report 2005

I. Introduction

As a result of increasing globalization, trade and investment has taken an important role in fostering economic growth among developing countries. Over the past 10 years, developing countries' total trade (exports and imports) has grown from less than \$1.9 trillion to nearly \$4.6 trillion. FDI growth is even more striking as it rose from \$24 billion in 1990 to \$184 billion in 1999.²

It is significant to note that countries that have experienced growth in trade and investment correspondingly achieved faster economic growth. For some of these countries, trade growth has played a critical role in supporting rapid growth in incomes and making progress in reducing poverty.³

FDI plays an important role in pushing economic growth, and is considered to be the most important capital flow an open economy can attract. FDI is a valuable capital. It is financially stable and its inflow is usually accompanied by transfer of production, marketing and technology. Ninety three percent of FDI is received by middle-income developing countries. These include China, Mexico, Brazil, Korea, Thailand, Malaysia, Indonesia, Poland, Hungary, Colombia, Czech Republic, Peru, India, Chile, Argentina and Hungary.⁴

Of course, it goes without saying that while measures to liberalize the economy is important, other factors such as political stability, infrastructure, and overall good governance are crucial. This is borne by Philippine experience, where we have seen our neighboring countries perform much better in attracting foreign investments.

This short paper aims to provide a brief overview of the state of trade and investment in the Philippines. Hopefully, it would provide some background which would help policy makers and other interested parties in the ongoing constitutional debate on charter change with regards to the economic provisions.

¹ Project Development Officer V and Senior Research Fellow, Philippine Institute for Development Studies. Research assistance of Ms. Susan Pizarro, Research Analyst II, is gratefully acknowledged.

² USAID Policy Brief Series, No. 1. www.usaid.gov

³ Ibid., p.1

⁴ Ibid., p. 1

II Trade and Investment Situation

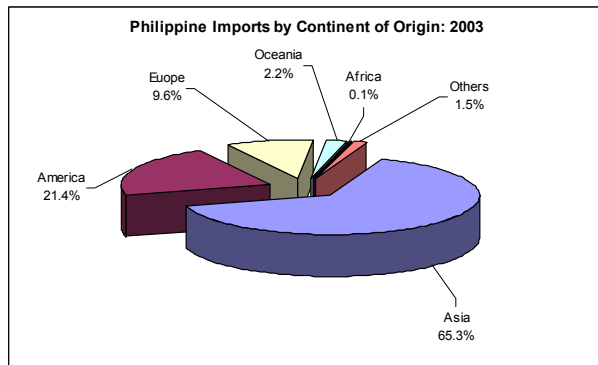
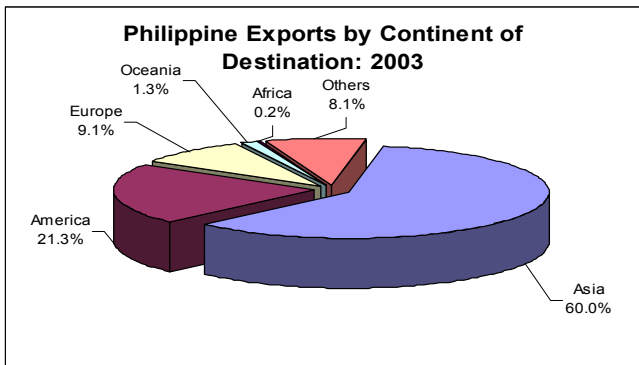
From 1983-2003, the Philippines generally experienced increase in total trade value. In 1999, the country rebounded and gained substantial increase in export earnings, experiencing a favorable trade balance after sixteen years. Exports grew at a highest in 2000, garnering 52.47 of total trade value. However, total trade value declined in 2001, with exports shrinking by more than 6 million dollars. While balance of trade remains unfavorable, total trade value continued to gain in 2002 and 2003. (Table 1).

Table 1. PHILIPPINE FOREIGN TRADE
1983 to 2003
(F.O.B. value in million U.S. dollars)

Year	Exports				Imports			Balance of Trade Favorable (Unfavorable)
	Total Trade	Value	Percent to total trade	Average Exchange Rate ^{1/} (P/U.S.\$)	Value	Percent to total trade	Average Exchange Rate ^{2/} (P/U.S.\$)	
1983	12,491.92	5,005.29	40.07	11.072	7,486.63	59.93	11.193	(2,481.34)
1984	11,460.26	5,390.65	47.04	16.582	6,069.61	52.96	16.848	(678.96)
1985	9,739.62	4,628.95	47.53	18.586	5,110.67	52.47	18.859	(481.72)
1986	9,885.38	4,841.78	48.98	20.356	5,043.60	51.02	20.403	(201.82)
1987	12,457.21	5,720.24	45.92	20.556	6,736.97	54.08	20.564	(1,016.73)
1988	15,223.57	7,074.19	46.44	21.065	8,159.38	53.56	21.065	(1,085.19)
1989	18,239.53	7,820.71	42.88	21.703	10,418.82	57.12	21.738	(2,598.11)
1990	20,392.19	8,186.03	40.14	24.180	12,206.16	59.86	24.375	(4,020.13)
1991	20,890.88	8,839.51	42.31	27.330	12,051.36	57.69	27.270	(3,211.85)
1992	24,344.08	9,824.31	40.36	25.280	14,518.93	59.64	25.320	(4,694.62)
1993	28,972.21	11,374.81	39.26	26.732	17,597.40	60.74	27.250	(6,222.59)
1994	34,815.46	13,482.90	38.73	26.220	21,332.57	61.27	26.770	(7,849.67)
1995	43,984.81	17,447.19	39.67	25.520	26,537.63	60.33	25.970	(9,090.44)
1996	52,969.48	20,542.55	38.78	26.050	32,426.93	61.22	26.480	(11,884.38)
1997	61,161.52	25,227.70	41.25	29.270	35,933.82	58.75	29.760	(10,706.12)
1998	59,156.24	29,496.35	49.86	40.580	29,659.89	50.14	41.300	(163.54)
1999	65,779.35	35,036.89	53.26	38.780	30,742.46	46.74	39.460	4,294.43
2000	72,569.13	38,078.25	52.47	43.710	34,490.87	47.53	44.480	3,587.38
2001 ^{r/}	65,207.00	32,150.00	49.30	50.720	33,057.00	50.70	57.620	(907.00)
2002 ^{r/}	70,634.68	35,208.17	49.85	51.325	35,426.51	50.15	51.994	(218.34)
2003	73,197.96	36,231.21	49.50	53.966	37,496.50	51.23	54.437	(1,265.30)

Sources: National Statistics Office and Bangko Sentral ng Pilipinas.

The past 20 years also marked the shift of trade direction from Europe and America to Asia. Sixty percent of exports are headed to Asia, while sixty five percent of imports originated from Asia, with Japan becoming the country's biggest trading partner in the Continent.



From 2001-2003, US regained its position as the top trading partner of the Philippines, with exports to the US amounting to 7.5 million dollars. Japan, Hongkong, Taiwan and Malaysia compose the rest of the top five trading partners for 2003 (Table 2).

**Table 2. DIRECTION OF TRADE
2003
(F.O.B. values in thousand U.S. dollars)**

Countries	2003	
	Exports	Imports
United States	7,262,950	7,399,889
Japan	5,768,050	7,640,122
Hong Kong	3,093,900	1,601,402
Taiwan	2,492,224	1,860,782
Malaysia	2,462,575	1,358,549

Source: NSCB

However, the country's trade growth dims in comparison to the experience of other Southeast Asian countries. Neighboring countries, most especially Malaysia, Singapore and Thailand grew by leaps and bounds, all the more highlighting our snail-paced economic growth.

In the past 20 years, exports of Thailand grew from 6,505 million dollars to 80,333. The Philippines, growing from 5 million dollars to 36 million dollars, did not even achieve half the figure that Thailand gained. Malaysia and Singapore, in the past 20 years became the tiger economies of Asia. Even Vietnam may soon be catching up with a remarkable growth in exports from 339 million dollars in 1980 to 20,176 million in 2003. Only Indonesia matches the Philippines' sluggish pattern of growth (Table 3).

Table 3. ASEAN Trade Flow

Country		1980	1990	1995	2000	2002	2003
Philippines	Export	5,788.00	8,186.00	17,447.00	38,078.00	35,208.00	36,231.00
	Import	7,727.00	12,206.00	26,538.00	34,491.00	35,427.00	37,497.00
Thailand	Export	6,505.00	23,071.00	56,440.00	69,057.00	68,768.00	80,333.00
	Import	9,213.00	33,065.00	70,787.00	61,924.00	64,658.00	75,805.00
Malaysia	Export	12,495.00	29,453.00	73,715.00	98,230.00	93,264.00	99,370.00
	Import	10,779.00	29,259.00	77,545.00	81,963.00	79,868.00	81,949.00
Indonesia	Export	21,909.00	25,675.00	45,418.00	62,124.00	58,120.00	50,799.00
	Import	10,834.00	21,837.00	40,269.00	33,515.00	31,289.00	29,666.00
Singapore	Export	19,959.00	54,680.00	19,495.00	14,346.00	137,272.00	157,808.00
	Import	22,753.00	56,312.00	123,033.00	136,615.00	117,422.00	128,489.00
Vietnam	Export	339.00	2,404.00	5,449.00	14,449.00	16,530.00	20,176.00
	Import	1,314.00	2,752.00	8,155.00	15,638.00	19,000.00	

Source: UNESCAP
In Millions of US Dollars

With respect to total approved investments in the country, foreign investments posted a higher figure compared to Filipino investments in 2003. PEZA approved most of the foreign investments, while BOI approved most Filipino investments (Table 4).

**Table 4. TOTAL APPROVED INVESTMENTS BY NATIONALITY AND PROMOTION AGENCY
1998 to 2003
(In billion pesos)**

Nationality	Total	Promotion Agency			
		Board of Investments	PEZA	SBMA	CDA
1998	375.1	267.3	95.8	5.6	6.3
Filipino	203.4	147.7	47.6	2.2	5.9
Foreign	171.6	119.6	48.2	3.4	0.4
1999	283.3	116.5	155.7	9.2	1.9
Filipino	176.5	45.8	123.6	6.3	0.8
Foreign	106.8	70.7	32.1	2.9	1.1
2000	207.9	43.6	156.7	4.7	2.9
Filipino	127.5	28.1	95.6	2.7	1.1
Foreign	80.4	15.5	61.1	2.0	1.8
2001	186.3	102.0	80.9	1.8	1.6
Filipino	123.9	73.0	48.5	1.5	0.9
Foreign	62.4	29.0	32.4	0.3	0.7
2002	99.2	28.4	38.7	4.5	27.5
Filipino	53.1	19.5	15.9	3.8	13.9
Foreign	46.0	8.8	22.8	0.7	13.7
2003	63.8	28.4	31.3	2.4	1.7
Filipino	29.8	20.0	6.4	2.0	1.4
Foreign	34.0	8.3	24.9	0.4	0.4

Source: National Statistical Coordination Board.

In 2003, the US topped the list of FDI country investor in the Philippines (10,432 million pesos). Japan and Netherlands ranked 2nd and 3rd respectively. The 2003 figure of Japanese FDI showed a sharp decline from previous year's investment of 17,053 million pesos. (Table 5) FDI is mostly channeled to the manufacturing sector, amounting to 20 million pesos, followed by services at 4.6 million pesos. FDI in agriculture is lowest at 25.3 million pesos (Table 6).

Table 5. TOTAL APPROVED FOREIGN DIRECT INVESTMENTS BY COUNTRY OF INVESTOR
1998 to 2003
(in million pesos)

Country	Approved Foreign Direct Investments					
	1998	1999	2000	2001	2002	2003
Total	171,570.4	106,739.5	80,374.2	62,436.1	46,048.7	34,010.3
Australia	406.5	20.9	364.9	3,815.6	46.3	985.6
British Virgin Islands	13,879.6	52.0	-	220.2	-	69.4
France	120.8	525.8	0.3	11.0	725.1	19.8
Germany	2,849.4	3,028.8	6,546.6	333.2	2,554.9	452.1
Hong Kong	25,540.0	90.2	3,086.0	278.7	133.6	255.8
Indonesia	9.4	-	-	-	-	-
Italy	30,412.4	3,517.4	1.2	50.0	7.2	11.8
Japan	43,864.0	12,203.7	20,382.4	23,021.0	17,053.8	8,840.8
Korea	441.5	537.1	823.2	2,771.4	1,344.5	712.2
Malaysia	230.6	389.6	102.2	176.8	98.2	45.0
Netherlands	709.4	-	27,245.9	99.2	268.6	3,865.9
Peoples Republic of China	66.5	148.7	172.2	146.4	892.8	310.8
Singapore	9,220.5	2,025.7	3,747.1	15,863.9	1,168.2	294.9
Sweden	80.2	4.7	-	854.9	-	-
Switzerland	1,321.9	205.3	241.0	101.6	1,764.0	68.1
Taiwan	1,246.4	748.5	239.5	611.2	12,197.8	2,553.5
Thailand	4,783.4	1,775.8	16.7	142.1	-	-
United Kingdom	585.2	13,599.8	5,788.1	1,697.0	617.9	2,380.7
United States of America	16,917.3	8,895.4	9,581.4	8,355.2	3,627.0	10,432.1
Others	18,885.3	58,970.0	2,035.4	3,886.2	3,548.9	2,711.9

Compiled by: National Statistical Coordination Board.

Sources of basic Data: Board of Investment, Philippine Economic Zone Authority,

Subic Bay Metropolitan Authority, Clark Development Corporation

Table 6. TOTAL APPROVED FOREIGN DIRECT INVESTMENTS BY INDUSTRY
1998 to 2003
(In million pesos)

Industry	Approved Foreign Direct Investments					
	1998	1999	2000	2001	2002	2003
Total	171,570.7	106,739.4	80,374.2	62,436.2	46,048.8	34,010.4
Agriculture	31.8	174.4	5.0	109.5	97.8	25.3
Mining	2,608.9	416.0	35.8	2,714.6	11,589.4	855.6
Manufacturing	91,962.2	92,617.0	72,218.0	32,227.9	23,690.8	20,634.0
Electricity	33,225.9	6,920.0	5,517.4	-	996.5	103.4
Gas	-	-	-	-	-	1,827.2
Water	-	-	-	-	15.0	-
Construction	149.2	15.0	97.0	418.0	125.4	2,566.8
Trade	35.2	528.0	59.3	36.0	675.5	760.5
Transportation	7,681.2	2,418.2	80.0	3.4	2,054.2	192.3
Storage	489.1	1,549.4	215.8	205.0	71.7	347.3
Communication	7.7	6.0	194.2	14,460.1	1,054.4	1,187.8
Finance and Real Estate ^{ai}	32,606.7	265.8	7.8	4,164.7	564.3	900.9
Services	2,772.8	1,829.6	1,943.9	8,097.0	5,113.8	4,609.3

^{ai} Includes Economic Zone Development and Industrial Park.

Compiled by: National Statistical Coordination Board.

Sources of basic Data: Board of Investment, Philippine Economic Zone Authority,
Subic Bay Metropolitan Authority, Clark Development Corporation

Foreign Direct Investments inflows in the past two decades revealed an erratic pattern for the country. Starting out with a negative figure in 1980 (-106 million dollars), gains are later achieved in 1990 with inflows reaching to 550 million dollars. FDI inflows more than doubled in 2000 (1,345 million dollars), declined in 2001, substantially gained in 2002 (1,792 million dollars) but sharply declined in 2003 and 2004. Similar unpredictability in FDI inflows is shared by Indonesia. This is a marked contrast to Thailand, Malaysia and Singapore experience that did not encounter negative inflows for the past 24 years⁵. (Table 7)

⁵ Even at the height of the Asian Financial Crisis FDI inflows remained positive.

Table 7. FDI (Millions of Dollars)								
Economy	Category	1980	1990	2000	2001	2002	2003	2004
World	FDI Inflows	55108.00	207878.00	1396539.00	825925.00	716128.00	632599.00	648146.00
	FDI inward stock	530244.00	1768589.00	5786029.00	6197711.00	6703607.00	7987077.00	8902153.00
	FDI outflows	53743.00	238681.00	1239149.00	743465.00	652181.00	616923.00	730257.00
	FDI outward stock	570125.00	1785264.00	6148284.00	6564217.00	7288417.00	8731240.00	9732233.00
	FDI inward stock	132044.00	364057.00	1739726.00	1831112.00	1764474.00	2007962.00	2323868.00
	FDI outflows	3336.00	12701.00	143226.00	78571.00	47775.00	29016.00	83190.00
	FDI outward stock	73927.00	147313.00	868920.00	856230.00	861568.00	927442.00	1035676.00
Philippines	FDI Inflows	-106.00	550.00	1345.00	899.00	1792.00	347.00	469.00
	FDI inward stock	1281.00	3628.00	12810.00	10433.00	11888.00	12216.00	12685.00
	FDI outflows	1.00	22.00	-108.00	-160.00	59.00	197.00	412.00
	FDI outward stock	171.00	155.00	1597.00	729.00	815.00	1194.00	1606.00
Singapore	FDI Inflows	1236.00	5575.00	16485.00	14122.00	5822.00	9331.00	16060.00
	FDI inward stock	6203.00	30468.00	112571.00	121436.00	136833.00	144363.00	160422.00
	FDI outflows	98.00	2034.00	5085.00	22711.00	4095.00	3705.00	10667.00
	FDI outward stock	3718.00	7808.00	56766.00	72184.00	85759.00	90242.00	100910.00
Thailand	FDI Inflows	189.00	2575.00	3350.00	3886.00	947.00	1952.00	1064.00
	FDI inward stock	981.00	8242.00	29915.00	33268.00	38180.00	47534.00	48598.00
	FDI outflows	3.00	154.00	-22.00	346.00	106.00	486.00	362.00
	FDI outward stock	13.00	418.00	2203.00	2626.00	2594.00	3031.00	3393.00
Indonesia	FDI Inflows	300.00	1092.00	-4550.00	-2978.00	145.00	-597.00	1023.00
	FDI inward stock	4680.00	8855.00	24780.00	15203.00	7103.00	10329.00	11352.00
	FDI outflows	6.00	-11.00	150.00	125.00	182.00	15.00	107.00
	FDI outward stock	6.00	86.00	6940.00				
Malaysia	FDI Inflows	934.00	2611.00	3788.00	554.00	3203.00	2473.00	4624.00
	FDI inward stock	5169.00	10318.00	52747.00	33972.00	36983.00	41667.00	46291.00
	FDI outflows	201.00	129.00	2026.00	267.00	1905.00	1369.00	2061.00
	FDI outward stock	197.00	2671.00	21276.00	8354.00	10119.00	11735.00	13796.00
Vietnam	FDI Inflows	0.00	180.00	1289.00	1300.00	1200.00	1450.00	1610.00
	FDI inward stock	1398.00	1650.00	20596.00	23022.00	26055.00	27505.00	29115.00
	FDI outflows							
	FDI outward stock							

Source: UNCTAD

ASEAN FDI figures from 1995-2004 showed Vietnam overtaking the Philippines in total FDI inflows. In 2003, the Philippines had 319 million dollars in FDI, relative to Vietnam's 1,450 million dollars. In 2004, the Philippines garnered 469 million dollars FDI, while Vietnam gained 1,610 million dollars. (Table 8).

Table 8
Foreign Direct investments in ASEAN by host country
as of December 31, 2005 in US\$million

<i>Host Country</i>	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Brunei Darussalam	582.80	653.60	701.70	573.30	747.60	549.20	526.40	1035.30	3123.00	161.20
Cambodia	150.70	293.70	168.10	242.90	232.30	148.50	149.40	145.10	84.00	131.40
Indonesia	4346.00	6194.00	4678.00	(356.00)	(2745.10)	(4550.00)	3278.50	144.70	(595.60)	1023.40
Lao PDR	88.40	128.00	86.30	45.30	51.60	34.00	23.90	25.40	19.50	16.90
Malaysia	5815.00	7297.00	6323.00	2714.00	3895.10	3787.60	553.90	3203.40	2473.20	4623.90
Myanmar	317.60	580.70	878.80	683.40	304.20	208.00	192.00	191.40	291.20	145.10
Philippines	1577.00	1618.00	1261.00	1718.00	1725.00	1345.00	982.00	111.00	319.00	469.00
Singapore	11502.70	9302.90	13532.50	7594.30	16067.40	16485.40	14121.70	5821.30	9330.60	16059.10
Thailand	2070.00	2337.60	3881.80	7491.20	6090.80	3350.30	3886.00	947.00	1952.00	1414.00
Vietnam	1780.40	1803.00	2587.30	1700.00	1483.90	1288.70	1300.30	1200.10	1450.10	1610.10
ASEAN	28230.60	30208.50	34098.50	22406.40	27852.80	22646.70	25014.10	12824.70	18447.00	25654.10
ASEAN 5	25310.70	26749.60	29676.30	19161.40	25033.10	20418.30	16265.10	11227.40	13479.20	23589.40
BCLMV	2919.90	3459.00	4422.20	3244.90	2819.70	2228.40	2192.00	2597.30	4967.80	2064.70
Source: ASEAN Secretariat										

While gains are achieved in the past twenty years, it is apparent that compared to other Southeast Asian countries, the Philippines had been lagging behind in trade and investments. Economic conditions had been generally volatile, except for the brief periods of late 1990s, where satisfactory increase in investments and favorable balance of trade were achieved. The record slump experienced by the Philippines brings to attention, once again, the recurring questions of whether or not we are doing the right actions for the economy. Are the policies installed by the government appropriate and adequate to pump up growth? Is it creating the necessary conditions and environment conducive for attracting investments? What are the impediments and how can these be removed or, at the very least, rectified?

III. Government policies and investment flows

Studies had shown that government policies, in addition to economic conditions, determine inflow of investments in a country.⁶ Banga (2003) identified three general categories of government policies that may affect inflow of FDI in countries. These policies have varying impact on different periods.

First, is the overall economic policy that increases locational advantages for FDI by improving economic fundamentals of the host country. This works at the macro level and aims at improving the fundamentals of the economy like the market size, availability of skilled labour, exchange rates, infrastructure, etc. and thereby influences the attractiveness of the country to FDI inflows.⁷

Second, is the national FDI policy that reduces the transaction costs of foreign firms entering the economy. This particular policy works at the domestic level and regulates the entry and exit of FDI.⁸ National FDI policy usually involves tariff policies, investment incentives (tax holidays, tax concessions, repatriation of profits and dividends, etc), and removal of restrictions (access to industries, foreign ownership restrictions, performance requirements).

Third, is international FDI policy that deals with agreements (whether bilateral, regional or multilateral) on foreign investments. These policies are specifically tuned to investment agreements that may ensure FDI from a particular partner or from a particular region under the “most-favoured nation standard” and “national treatment standard”.⁹

This is to say that trade and investment turn out in a country is not decided by one set of factors, but a gamut of policies involving different sectors and areas at the international, national and local levels.

Philippine investment policies: gaps and failures

1. Overall economic policies

Infrastructure

The Philippines has one of the lowest investments in infrastructure in Southeast Asia. While Thailand’s share in infrastructure is at 5-6% of its GDP, the Philippines investment in infrastructure is only at 2-3% of its GDP. Furthermore, the Philippines has not been

⁶ Banga, Rashmi. Impact of Government Policies and Investment Agreements on FDI Inflows. November 2003. Indian Council for Research and International Economic Relations. Lodi Road, New Delhi – 110 003.

⁷ Ibid., p. 9

⁸ Ibid., p. 9

⁹ Ibid., p. 10

concentrating infrastructure investments in strategic areas such as the Subic-Manila-Batangas Main Logistic Corridor. In contrast, Thailand channeled a huge amount of investment in its Eastern Seaboard development, which later became a major driver for economic growth as it attracted massive influx of FDI. With concentration of automotive industries, Thailand is aiming to making its Eastern Seaboard, “The Detroit of Asia”¹⁰.

It has also been observed that infrastructure projects get delayed because of lack of budget and national coordination. In Thailand, it was noted that there has never been a case where projects are delayed because of these reasons. Infrastructure matters are tightly managed and coordinated by the Office of the Prime Minister which makes sure that it is finished as scheduled.

Environmental policies and urban management

Poor waste management facilities have been an issue repeatedly raised by foreign investors. Up to now, the Philippines does not have a reliable industrial waste management facility that can treat hazardous industrial wastes. This consideration has driven a number of investors away from the country.

Related to this, traffic congestion, air pollution and garbage problem are projecting a hopelessly negative image of the country to foreign investors and tourists. Cost of doing business is also increased by slow movement of people and goods due to heavy reliance on road traffic as a result of insufficient mass transit system in Metro Manila. This further erodes the status of the Philippines as a destination of investment.¹¹

Industrial Power Supply

The Philippines remain to have one of the highest electricity rates in Southeast Asia. At \$0.081/kWh, it is higher than Singapore’s \$0.074/kWh, almost double the rate of Malaysia, and more than three times the rate of Thailand¹². (Table 9)

Table 9
Industrial Power Rates
July 2002

Country	In US cents/kWh
Hongkong	14.07
Japan	13.05
South Korea	8.29
Philippines	8.09
Malaysia	4.41

¹⁰ Reference on Findings in the Comparative Study of Climate of Investment between the Philippines and Thailand. (January 2006). The Japanese Chamber of Commerce of the Philippines, Inc.

¹¹ Ibid., p.

¹² Reviving Investments in the Country. Congressional Planning And Budget Department.

Thailand	2.38
Indonesia	2.36

Source: Department of Energy

Disparity Between wage rate and labour productivity

The minimum wages in the Philippines is one of the highest in Asia and labor productivity one of the lowest. Productivity levels of the Philippines is no match to Thailand, which has a lower wage rate but has three times the labor productivity. On the other hand, high wage rates in Singapore, Malaysia and Korea are matched by corresponding high labor productivity.¹³ (Table 10)

Table10. Comparative Wages and Labor Productivity in US Dollars

Country/City	Daily Wage	Annual Wage	Labor Productivity
Singapore	14.1-39.48	9644.64	37813
South Korea	15.04	5099.88	17877
Malaysia	4.25-9.12	2405.82	5801
Philippines/NCR	5.33	1917.12	645
Thailand/Bangkok	3.11-3.92	1625.28	2056
Indonesia/Jakarta	1.5	541.68	441
China/Beijing	0.31-1.28	287.4	-

Source of Data: National Wages and Productivity Commission (as cited from CPBO Report)
As of May 5, 2003

2. National FDI Policies

Tariff policy

Tariff rates have a significant impact on trade and investment. Studies show that FDI is attracted to developing countries with lower average tariffs than those with higher tariffs. In the 1990s, the government undertook a series of reforms which paved the way for multi-year tariff reduction for capital equipment and machinery, textiles, garments and chemical inputs. In 1995, tariffs on industrial goods and non-sensitive agriculture products were significantly lowered. A more simplified and unified tariff structure is also achieved.

A four year tariff program was implemented in 2001 with the objective of achieving 0-5 percent tariffs in industrial and non-sensitive agricultural products by 2004. However, given the fiscal crisis, the government decided to delay lowering of the tariffs in locally produced agricultural and industrial products. Nonetheless, in line with the government's commitment in the ASEAN, tariff rates on 60% of products in the Inclusion List of the

¹³ Ibid., p. 10

Common Effective Preferential Tariff scheme of the ASEAN Free Trade Area (FTA) has been reduced to zero¹⁴. (Table 11)

Average AFTA/CEPT Tariff Rates of the Philippines is currently at 3.75. This is much more competitive than the average tariff rate of Thailand (4.64), but higher than that of Malaysia (2.06) and Vietnam (2.68). (Table 12)

Table 11. Average Nominal Tariffs by Sector (in percent)

Sector	1981	1985	1990	1991	1995	1998	2000	2001	2003
Agriculture	43.23	34.61	34.77	35.95	27.99	18.91	14.40	14.21	11.04
Mining	16.46	15.34	13.97	11.46	6.31	3.58	3.27	3.25	2.84
Manufacturing	33.74	27.09	27.49	24.61	13.96	9.36	6.91	6.68	5.43
Overall	34.60	27.60	27.84	25.94	15.84	10.69	7.95	7.70	6.19

Source: Tariff Commission

Table 12. Average AFTA/CEPT Tariff Rates

	1998	1999	2000	2001	2002	2003
Brunei	1.35	1.29	1.00	0.97	0.94	0.87
Indonesia	7.04	5.85	4.97	4.63	4.20	3.71
Laos	5.00	5.00	5.00	5.00	5.00	5.00
Malaysia	3.58	3.17	2.73	2.54	2.38	2.06
Myanmar	4.47	4.45	4.38	3.32	3.31	3.19
Philippines	7.96	7.00	5.59	5.07	4.80	3.75
Singapore	0	0	0	0	0	0
Thailand	10.56	9.75	7.40	7.36	6.02	4.64
Vietnam	6.06	3.78	3.30	2.90	2.89	2.02
ASEAN	5.37	4.77	3.87	3.65	3.25	2.68

Source: ASEAN Secretariat

Tax Rates and Fiscal Incentives

Philippine corporate tax is one of the highest in the ASEAN region at 32% before tax reforms, further going up to 35% on November 01, 2005 against 30% of Thailand. The value added tax (VAT) rate of the Philippines is now at 12% against 7% of Thailand. Further to this, VAT refund is a particular concern of some companies. There are accounts from a number of Japanese companies which applied for VAT refund in late 1990s and has not received refund until now.¹⁵

¹⁴ Menardo, Amelia. Tariff Reforms in the Philippines. Paper presented at the APEC High Level Conference on Structural Reform, September 2004. Tokyo, Japan.

¹⁵ JCCIPI, p. 12

In addition, transparency issues in tax administration are another concern of foreign companies. While foreign companies are pressured to pay correct corporate tax, it is a general perception among them that tax evasion cases of Filipino companies have never ceased, causing insufficient revenues and national budget deficit. To some degree, this also gives the impression to some investors that they can circumvent the law like Filipino companies.

With respect to fiscal incentives, the country's packages are comparable and found to be as competitive as that of other ASEAN countries, except for Thailand and Vietnam, which provides much longer tax holiday to foreign investors.

Nonetheless, it is worth mentioning that while incentives play a role in attracting investments, there are studies which show that since most countries offer almost identical or similar packages, investors become less sensitive to these measures in their decisions to locate their investments. Quality, long term investments are not always attracted to short term inducements such as fiscal incentives, but to an environment which gives maximum protection to capital and allows it opportunities to grow and expand.¹⁶

Restrictions and limitations in foreign investments and land ownership

The Foreign Investment Act of 1991 allows foreign equity participation of up to 100 percent in all areas, except those specified in the Foreign Investment Negative List (FINL). This is spelled out in two sets of negative listings¹⁷:

Negative List A – areas reserved for Filipino nationals as mandated by the Constitution and specific laws such as mass media, educational institutions, public utilities, services involving the practice of licensed professionals and medicine and allied professions, cooperatives, small scale mining, etc.

Negative List B – areas encompassing defense, risk to health and morals, and protection of local SMEs.

The Constitution has specific restrictions on foreign equity participation that bar entry of investors, even in industries that need huge capitalization and technological requirements. Moreover, land ownership is another issue of frustration shared by many foreign investors in the Philippines. While the Philippines prohibit land ownership, Thailand has already revised its BoI program in 1998 to allow foreign ownership of land and 100% foreign capital participation, subject to its approval¹⁸.

¹⁶ Investment and Technology Policies for Competitiveness: Review of Successful country experiences. UNCTAD Technology for Development Series. United Nations, NY: 2003.

¹⁷ Austria, Myrna. The Emerging Philippine Investment Climate. Philippine Institute for Development Studies Discussion Paper Series 98-27.

¹⁸ JCCIPI, p. 5.

3. *International Policies*

Bilateral investment treaties

The Philippines has signed a total of thirty eight (38) bilateral trade agreements and three (3) memoranda of understanding (MOUs) on trade and investment cooperation as of 2003. Of the 38 trade agreements, two (2) are agreements on trade and economic cooperation.

Negotiations for a Japan Philippines Economic Partnership Agreement (JPEPA) is also undertaken to promote a freer trans-border flow of goods, persons, services and capital between Japan and the Philippines. JPEPA is a comprehensive economic partnership, which covers intellectual property, competition policy, improvement of business environment and bilateral cooperation in such fields as human resources development, information and communications technology and small and medium enterprises.¹⁹

Conclusion of the Agreement, however, has been delayed due to a temporary restraining order from the Supreme Court to stop the government from finalizing the trade deal with Japan after a petition filed by civic groups and individuals against government negotiators in the proposed trade pact.²⁰

IV. **Conclusion**

The lackluster economic performance of the Philippines is not just the result of a few impediments to entry and restrictions to access of investors, but the sum total of years of policy gap and failure in policy implementation. Lack of priority and support given to development of infrastructure, especially in strategic commercial and industrial areas had driven investors to neighboring countries in Southeast Asia, such as Thailand, that provide a much better environment for long term investments.

This is not to belittle the role of removal of restrictions in investments. Study shows that FDI, particularly those coming from developed countries, prefer investing in a country which has no restrictions on entry, ownership, and access to industries.²¹ This is because stricter regulation of entry and restrictions in ownership is correlated with more corruption and a larger informal economy. In this light, it would be worthy to study the constitutional and legal provisions which impose restrictions on foreign equity participation in certain areas of investment such as public utilities, mass media and

¹⁹ Joint Press Statement of Japan and Philippines, November 2004.

²⁰ The petition, filed on December 6, 2005, cites, among others, lack of transparency in the negotiation, violation of constitutional provisions regarding foreign investments and ownership by extending national treatment to foreign investors, and issues in the auto industry.

²¹ Banga, p. 26. This is in contrast to preference of developing countries to host countries which guarantee high fiscal incentives and lower cost of transactions.

mining. Such industries require huge capital, technology and highly skilled human resource requirements that barring entry of foreign investors can only result to inefficiencies.

In sum, economic reforms is not merely about having the best economic reform package per se, but more importantly, having the political will to implement these economic programs and reforms. Success stories of developing countries which are able to achieve sustained growth in the past couple of decades reveal the presence of firm policies in implementing and monitoring reforms aimed towards macroeconomic stability, stronger private sector participation and rule of law. The key is sustaining these reforms thru proactive government actions, building of infrastructure to support the reforms, and finally, creating adequate safety nets for the vulnerable sectors of the society who are affected by the transition.

APPENDIX

Summary of FDI Regulations in ASEAN Countries²²

Countries/Laws	Limitation of Ownership	Restriction on Land Ownership	Restricted Sector	Performance Requirements	Fiscal and Tax Incentives
Philippines Foreign Investments Act of 1991 R.A. 7042 as amended by RA 8179 Constitution	Subject to negative lists (Foreign Investment Act of 1991, Second Regular Foreign Investment Negative List pursuant to executive order)	Lease right, up to 75 years, hold land subject to approval and conditions (the Investors' Lease Act of 1993, Presidential Decree No. 1648)	Retail trade, mass media, engineering, mining, rice and corn production. Defense related activities, small and medium size domestic market enterprises, import and wholesale activities.	Local Content Requirement, export performance and technology transfer requirements in certain sectors, including motor vehicles (the Car Development Program, Commercial Vehicle Development Program, the Motorcycle Development Program)	Investment Incentives Tax and Non Tax Incentives (The Omnibus Investment Code of 1987, RA 6810, BOIs Official Order No. 6 of 1993), Executive Order No. 470: Tariff Reform of 1991
Indonesia Law No. 1, 1967 Law No. 11, 1979 Law No. 6, 1968 Law No. 12, 1970 Govt Regulation, Presidential Decrees, Ministerial Regulations, Decision, Decree of Investment Coordinating Board (ICB)	Subject to negative lists (Law No. 1 of 1967, Decree No. 54 of 1993, Foreign Investment Act 1994)	Three types of land rights available (Presidential Decree No. 34 of 1992)	23 Restricted sectors and 12 prohibited sectors, including retail and wholesale trade, radio and television broadcasting (Presidential Decree No. 54 of 1993, Foreign Investment Act of 1994)	Local content requirements and export performance requirements in various sectors (Presidential Decree No. 54, 1993, Decree of the Ministry of Industry No. 114/M/SK/1993, Decree of the Ministry of Finance No. 645/KMK 01/1993)	Priority sectors, pioneer industries (Law No. 6, 1968, Act No. 12, 1970, Guidelines of the Capital Investment Coordinating Board)
Thailand Investment Promotion Act B.E. 2520 (1977) Amended by the	In restricted sectors or if less than 80% of output exported	Generally foreigners are not allow to own land unless	Banking and Finance, insurance, certain public utilities and	Local content requirements in motor vehicles, pasteurized and skimmed milk,	Tax and Non Tax Incentives (Investment Promotion Act, 1977, 1997,

²² Compiled by Dr. Lawan Thanadsillapakul. "The Investment Regime in ASEAN Countries" Thailand Law Forum. www.thailawforum.com

Investment Promotion Act (No. 2) B.E. 2534 (1997), the Alien Business Law of 1972	(permission of the Board of Investment Promotion, permission of the Ministry of Commerce, Civil and Commercial Code, Investment Promotion Act	promoted by the Board of Investment (Land Code, the Condominium Act, the Investment Promotion Act, Petroleum Act of 197, and the Industrial Estate Authority of Thailand Act)	military goods, agriculture, animal husbandry, fishery (the Alien Business Law, 1972, Commercial Banking Act, 1962, Act on the Undertaking of Finance Business, Securities Business and Credit Foncier Business, 1979 and the Securities and Exchange Act, 1992, Life Insurance Act, 1992 and the Casualty Insurance Act, 1992, Thai vessel Act 1971	and various other manufacturing industries, domestic sales and export requirements in certain sectors (the Factory Act (B.E. 2535), the Investment Promotion Act (B.E. 2520)	BOI announcement, BOI Guidelines: Criteria for granting Tax and Duty Privileges for Promoted Projects, 1993, (Revenue Code)
Singapore Company Act, The Business Registration Act, Acts under administration of Economic Development Board	Generally there is no restriction except in banks, air lines and shipping (Company Act, the Banking Act, Monetary Authority of Singapore Act)	No restriction	Arms and ammunitions manufacture, electricity, gas and water, newspaper publishing, airlines and shipping (The Control of Manufacturer Act, and the National Security Act, the Banking Act)	No performance requirements	Pioneer Status, Package of tax incentives (Economic expansion incentives, Relief from Income Tax Act)
Malaysia The Promotion of Investment Act (PIA) of 1986)	Depending on proportion of production exported	No restriction (except for some threats to environment)	Certain parts or components industries	Local content requirements in motor vehicles, export requirement,	Priority sectors, pioneer industries

<p>The Industrial Coordination Act (ICA) of 1975, revised in 1986, MITI Regulations, The Foreign Investment Committee Guidelines (FIC)</p>	<p>(ICA 1975, MITI regulations)</p>		<p>(ICA 1975)</p>	<p>depending on level of foreign equity (ICA 1975, MITI regulations)</p>	<p>(Law No. 6, 1968, Act No. 12, 1970, Guidelines of the Capital Investment Coordinating Board</p>
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