

[News / Asia](#)

## Philippines Economy Strong, But Foreign Investment Lags



FILE - Rows of condominium buildings are seen behind a middle-class residential district in Mandaluyong, Metro Manila. The economy grew 6.4 percent in the first three months of the year, second only to China, July 4, 2012.

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MANILA—

While the Philippines has recently become an economic powerhouse in Asia, with strong growth driven mostly by domestic consumer spending on goods and services, the government said it will focus on foreign investment, which is lagging.

In 2014, the Philippine GDP was up 6.1 percent, placing the country behind China, which had the fastest economic growth for the year at 7.4 percent.

The government said the services, agriculture, construction and manufacturing sectors drove most of that growth.

Despite the good news, the country's socio-economic secretary, Arsenio Balisacan, said last month the economy needs "re-balancing."

"Key components of this process are the needed surge of investments and the revival of the manufacturing and agribusiness sectors," Balisacan said. "Especially for the government's part we need to continue removing key infrastructure bottlenecks that have limited the potential of various sectors of the economy, especially in the areas of industry and agriculture."

Private sector investment made up 19 percent of the country's \$272 billion gross domestic product (GDP) last year. Also in 2014, the country attracted more than \$5 billion in foreign direct investments, more than double the amount of 2011.

### **Short of goal**

But Ian Porter, president of the Australia-New Zealand Chamber of Commerce of the Philippines, said this remains short of the joint foreign chambers' goal of \$10 billion. He said a major barrier remains.

"Lifting the economic provisions of the constitution is really a priority. It's not a view that only the [Joint Foreign Chambers] holds, but just about every business organization in the Philippines holds. And I think it is the absolute key to attracting the foreign investment that is required to lift this country's economic growth," Porter said.

Foreign companies are particularly concerned about the 60 percent domestic and 40 percent foreign ownership rule.

Last year President Benigno Aquino signed a law allowing for 100 percent foreign ownership of banks to attract more investment.

Over the past four and a half years the Aquino administration has gone after tax

cheats, sought prosecutions of corrupt officials and imposed a sin tax. These moves have led to multiple credit ratings upgrades, placing the country at investment grade.

### **Challenges remain**

But analysts and the business community say investors still face a long list of challenges, including limited or poorly maintained roads on which to move goods, near-prohibitive power rates and extensive red tape for setting up businesses.

American Chamber of Commerce Legislative Committee Chairman John Forbes said the country's economic make up, which went from an agricultural base to a service base in a few short years, makes it ripe for investment.

"You need to get into an industrial cycle because no country has become a high income country without going through an industrialization cycle. You can't just do it with services," Forbes said.

The outsourced call center and back office support industry has been a bright spot of the service sector. It offers higher than average paying jobs and generates a demand for real estate and other services. It had about \$16 billion in revenues in 2013.

However, Forbes said even that is not a guarantee for long-term success, as voice technology starts to replace humans on the phone.

Consumer spending drives more than two-thirds of the country's economy, thanks to the more than \$20 billion yearly in overseas contract workers' remittances.

Consumerism is partially driving the demand for services.

### **'Leap-frogging' economy**

Ateneo de Manila University economist Cielito Habito said this makes the Philippines an anomaly among other Asian countries. He said "leap-frogging" the economy without industrialization created a problem.

"Agriculture, tourism, manufacturing, if these just become the propellers of our economic growth rather than just banks and insurance companies and real estate companies, which has been the case for the last couple of decades in fact, then we

will have a much more broad-based growth, much more equitable growth," Habito said.

Forbes points to a handful of locations around the country where industrial parks are attracting foreign interest, especially in manufacturing.

But in a telling assessment of the country's investment climate this week, South Korea's ambassador to the Philippines said his country's investors have been drawn to other countries that have given "more desirable and predictable treatment."

Telecommunications giant Samsung recently announced it would set up a second smartphone factory in Vietnam.

In the Philippines, presidents are limited to a single six-year term and succeeding administrations have been known to repeal their predecessors' work.