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FDI Levels in the Philippines

The Joint Foreign Chambers in the Philippines are hopeful that the reported decline in net FDI in the economy during the first half of 2015 is temporary and that the second half will see higher levels to bring the final 2015 total close to 2014. There are three relevant statistics that reveal this decline:

1) The BSP reported that net FDI inflow for the first half of 2015 was US$2.0 billion, down from $3.4 billion in the comparable period in 2014 or 40% lower.

2) The PEZA reported new investment approvals (both greenfield and expansion projects) for the first half of 2015 was US$1.8 billion, down from US$2.4 billion in the comparable period in 2014 or a 33% decline. However, for the comparable annual approvals for the periods ending September 15, there is no significant difference: US$3.2 billion in 2014 vs. US$3.1 billion in 2015.

3) The Financial Times data service fDi Markets tracks planned greenfield FDI in 154 countries. In its report for the first half of 2015, it revealed that new FDI projects in the Philippines declined by 48% to US$2.8 billion in 2015 from US$5.4 billion in the comparable period in 2014.

In contrast to the above indicators, the Board of Investments reported an increase of approvals of FDI projects for the first half of 2015 to US$298 million, from US$257 million in the comparable period in 2014 or a 16% improvement.

This downturn in 2015 follows a record year in 2014 when total net FDI in the Philippines reached $6.2 billion, up 479% from net FDI of US$1.1 billion in 2010.

Although 2014 was a record year for FDI flowing into the Philippines, many commentators have observed the inflow was much less than Singapore (US$67.4 billion), Indonesia (US$25.7 billion), Thailand (US$11.8 billion), Malaysia (US$10.5 billion), and Vietnam (US$6.6 billion)(see Table 1).

The downturn also occurs when net FDI is increasing in the first half of 2015 in two competing ASEAN economies—Thailand and Vietnam—while declining in Indonesia, Malaysia, and Singapore (see Table 1).

Table 1: Net FDI in ASEAN-6, US$ Bn (2014, H1 2014 vs. H1 2015)				
COUNTRY	**2014**		**2015**	**% CHANGE**
	Full Year	**H1**	**H1**	
Indonesia	25.7	11.9	9.0	-24%
Malaysia	10.5	5.8	5.2	-10%
Philippines	**6.2**	**3.4**	**2.0**	**-41%**
Singapore	67.4	33.9	16.9	-50%
Thailand	11.8	6.0	9.4	57%
Vietnam[1]	6.6	4.5	6.3	40%

Sources: For 2014: January 2015 Global Investment Trends Monitor; for 2015: Country central banks and finance ministries

The Financial Times data shows increases for Thailand[2] (135%), Indonesia (62%), Vietnam (0.4%) and decreases for Malaysia (49%) as well as the Philippines (48%)(see Table 2).

Table 2: Foreign Direct Investments Capital Investment in US$ Bn			
COUNTRY	**2014**	**2015**	**CHANGE**
	H1	**H1**	
India	12.3	30.6	149.0%
Thailand	1.7	4.1	135.2%
Myanmar	1.9	4.1	114.8%
Bangladesh	0.8	1.6	110.9%
Indonesia	8.4	13.7	62.0%
Taiwan	0.6	0.8	26.6%
Vietnam	7.5	7.5	0.4%
Cambodia	0.8	0.7	-16.2%
China	37.7	27.8	-26.2%
Hong Kong	2.4	1.5	-35.4%
Philippines	**5.4**	**2.8**	**-47.9%**
Malaysia	13.8	7.0	-49.2%
South Korea	5.3	1.9	-63.6%

Source: fDi Markets, 2015

[1] FDI in Vietnam for the first 9 months has reached US$9.6 billion, 38% increase over the same period in 2014.

[2] Thailand has altered its incentives scheme to give high value-added investors 8-year ITH but no ITH for labor-intensive investors.

Unfortunately, the data does not explain the reasons for the declines nor did either the BSP or the Financial Times offer explanations along with their data.

The Philippine investment promotion agency with the highest FDI inflows is PEZA. Its officials have reported caution in the first half of 2015 by investors concerned about the efficiency of their logistic chain as a result of the severe port congestion experienced in late 2014 and early 2015 caused by trucking restrictions. Sixty percent of yearly PEZA approvals are expansion projects by existing investors, while 40% are greenfield investments.

We understand that local managers of existing investor projects have gradually been able to restore the confidence of their headquarters that the congestion issue has been resolved under strong leadership from the Office of the President. Thus, more expansion projects by existing PEZA investors are expected in the second half of 2015 and hopefully new greenfield projects under consideration will also move forward. PEZA has also reported a recovery in exports and expects to meet its 2015 target of 8% growth.

PEZA also manages most information technology zones, which are labor- rather than capital-intensive. Investment by IT locators continues to grow by double digits throughout the country.

While FDI has slowed down in the first half of 2015, it still is at a pace much higher than five years ago, although even in 2015 it was only 4.6% of total FDI in ASEAN. The challenge is to increase FDI in the second half of the year and thereafter to even higher levels important for high, sustained, and inclusive growth.

Actions that can be taken in the months ahead that will improve investor confidence include:

1) Enact the following legislative measures already advanced in the 16th Congress: (1) Apprenticeship Act amendments, (2) BOT Act amendments, (3) Customs Modernization and Tariffs Act, (4) creation of a Department of Information and Communications Technology, (5) Foreign Investment Negative List amendments, Freedom of Information, Act, and (6) Right-of-Way law amendments.

2) Support by major presidential candidates for policies that will increase foreign investor confidence to invest, including modernization of infrastructure, proposals to open the economy including mining, reduce business costs, and unburden the private sector of red tape and corruption.

3) Show progress towards entering into major new foreign trade and investment treaties with the European Union and the Trans-Pacific Partnership, which together comprise 60% of global GDP with markets of some 1.3 billion people.

4) Avoid recurrence of port congestion caused by truck bans.

5) Continue to award major PPP infrastructure projects and accelerate their implementation.

6) Reduce traffic congestion in Metro Manila.

7) Reduce flight delays at NAIA and increase flights at Clark.

8) Avoid brownouts during the 2016 dry season.

9) Maintain investor confidence by timely processing of VAT refunds for eligible companies.

10) Continue improvement in major international ratings where the country has advanced since 2010 (see Table 3):

Table 3: Major International Competitiveness Rankings

Survey	2010 Ranking	2014 Ranking	2015 Ranking	Trend	Sources
Index of Economic Freedom	109 of 178	89 of 178	76 of 178	↑18	Heritage Foundation / Wall Street Journal
World Competitiveness Yearbook	39 of 58	42 of 60	41 of 60	↑1	International Institute of Management Development
Corruption Perception Index	134 of 178	85 of 175	--	↑44	Transparency International
Ease of Doing Business	134 of 183	95 of 189	--	↑39	World Bank
Global Competitiveness Report	85 of 139	52 of 144	47 of 140	↑38	World Economic Forum

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