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Improving the Philippine Investment Climate

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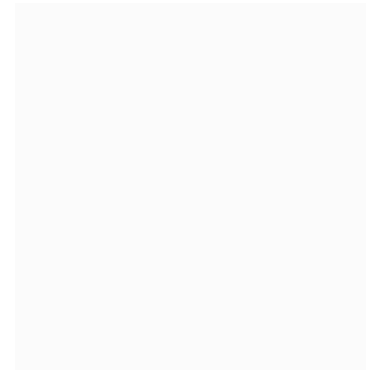
Chief of Party
Trade-Related Assistance for
Development (TRADE) Project



Overview

- **Where Had We Been?**
 - Our past investment track record
- **Where Are We Now?**
 - Much improved, but much more needed
- **What Needs to Be Done?**
 - Ease Constitutional restrictions
 - Narrow definition of public utilities
 - Other policy/institutional interventions





Where Had We Been?

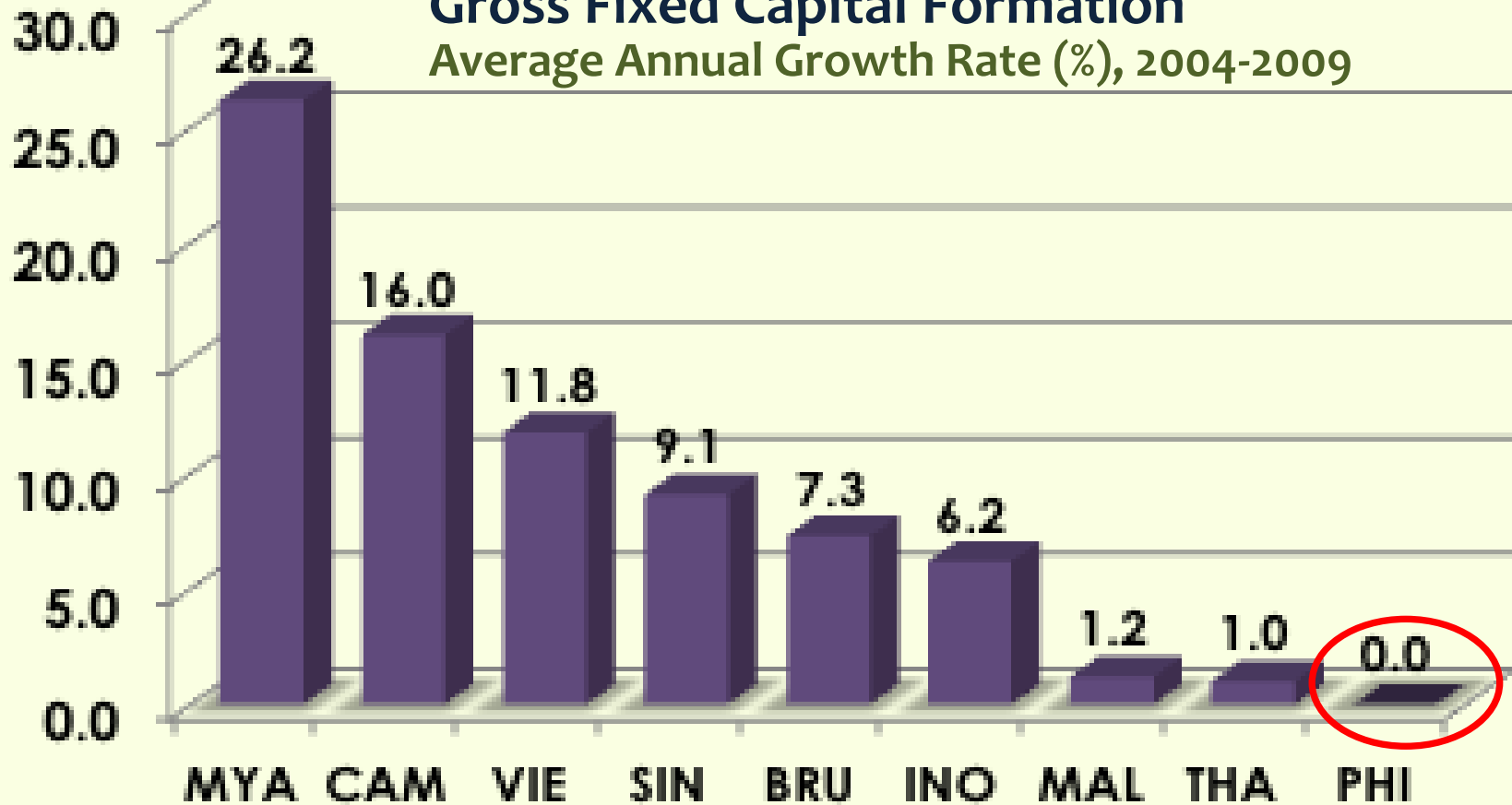
Stagnant Investment, ASEAN Laggard

Overall investment did not grow...



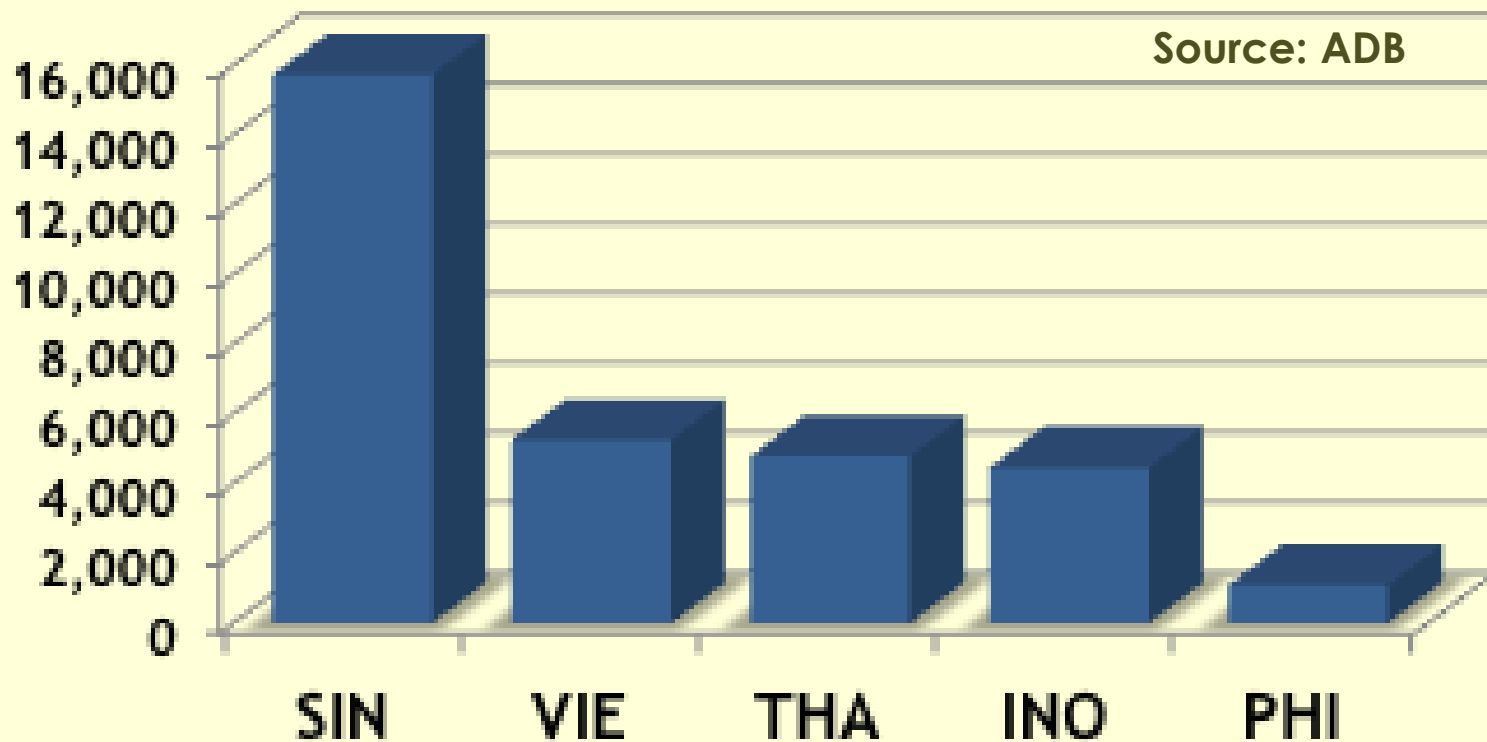
Gross Fixed Capital Formation

Average Annual Growth Rate (%), 2004-2009



... and FDIs passed us by

Ave. Annual FDI, 2004-2011 (US\$M)



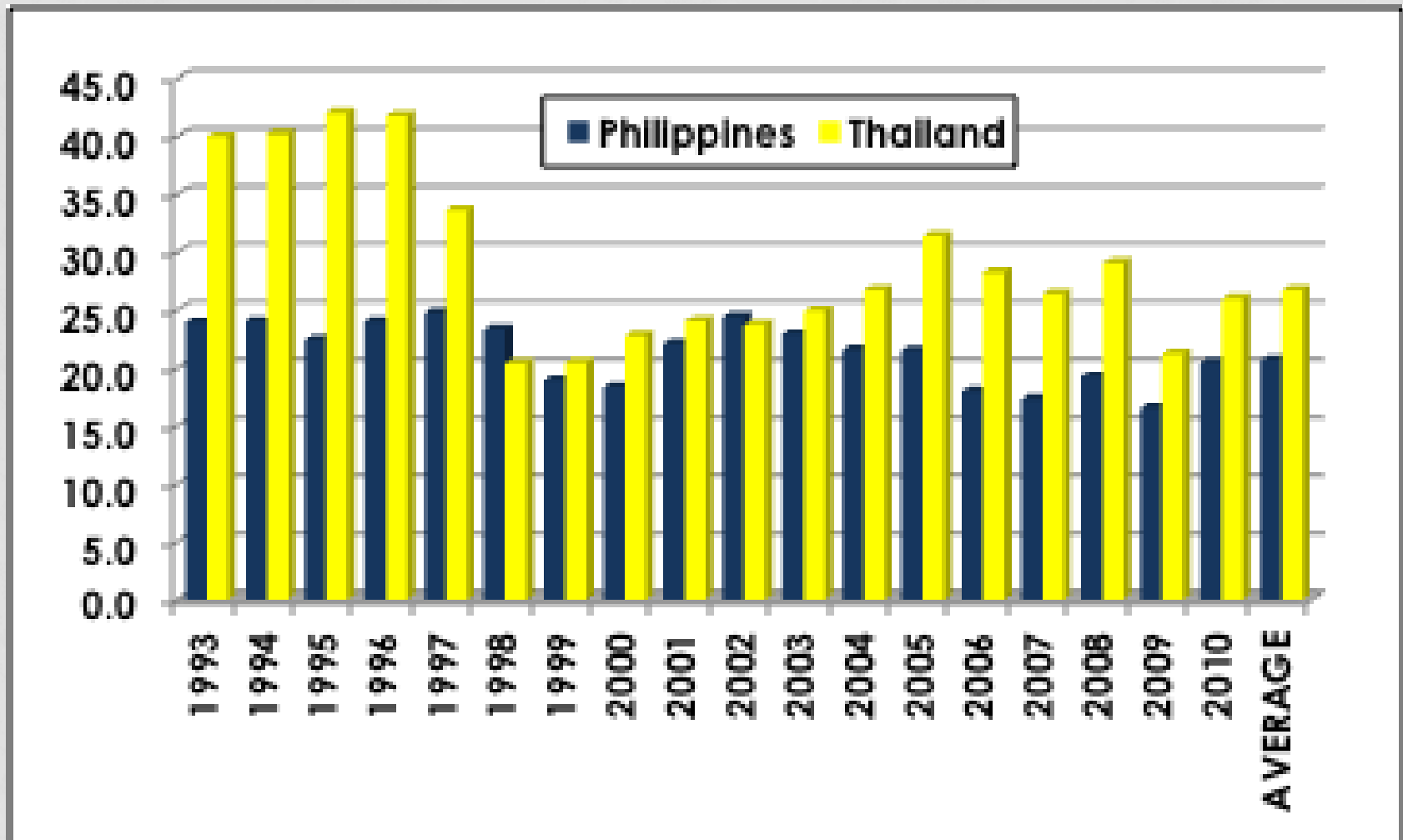
Estranged Twins

Philippines & Thailand



Indicator	1970		2010	
	Thai	Phil	Thai	Phil
Population (million)	36	36	67.3	92.6
Population G.R. (%)	3.1	3.1	0.6	1.7
GDP Per Capita (US\$)	250	250	5325	2215
GDP Share (%)				
Agriculture	32.0	26.0	10.9	12.3
Industry	23.0	27.5	40.1	32.6
Services	45.2	46.7	49.0	55.1
	1965		2010	
Gross Dom Inv (%GDP)	20.0	20.0	24.9	20.5
Gross Dom Saving (%GDP)	18.5	20.3	31.2	18.7
	1998		2009	
FDI Stock (Billion US\$)	7.8	2.3	117.9	24.5

Philippines & Thailand: Domestic Investment/GDP Ratio, 1993- 2010



2010: Turning Point For Private Domestic Investment

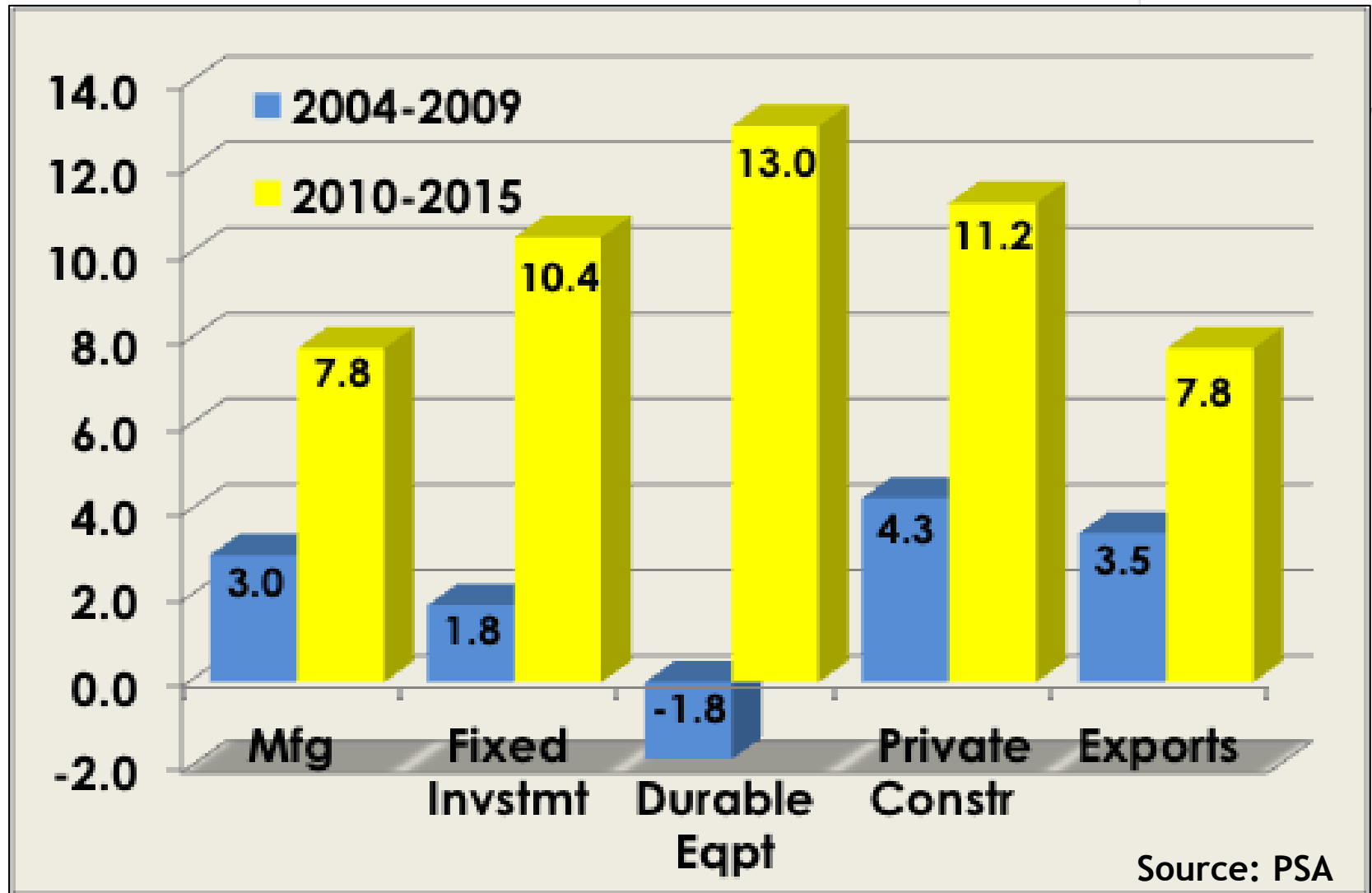
Indicator	2009	2010				
	FY	Q1	Q2	Q3	Q4	FY
Personal Consn Exp	3.8	4.0	1.9	2.4	4.9	5.3
Govt Consumption	8.5	21.4	7.4	-6.5	-6.6	2.7
Capital Formation	-9.9	31.9	38.0	34.5	25.7	31.6
Of which:						
Construction	5.8	11.4	25.2	17.1	14.0	17.5
Public	15.7	9.7	27.0	-23.4	-13.7	4.1
Private	-4.2	11.9	23.7	35.7	24.6	24.1
Durable Eqpt	-11.4	29.2	35.9	17.6	21.6	25.5
Br Stck & Orch Dev	-1.4	-0.2	1.0	-0.3	0.7	0.3
Intellectual Property Prods		14.2	4.1	-1.1	-0.7	2.9
Exports	-14.2	18.8	24.0	23.1	16.8	25.6
Imports	-5.8	24.2	22.1	22.1	21.9	20.7

Where Are We Now?

Investment Rebound, But Still Lagging

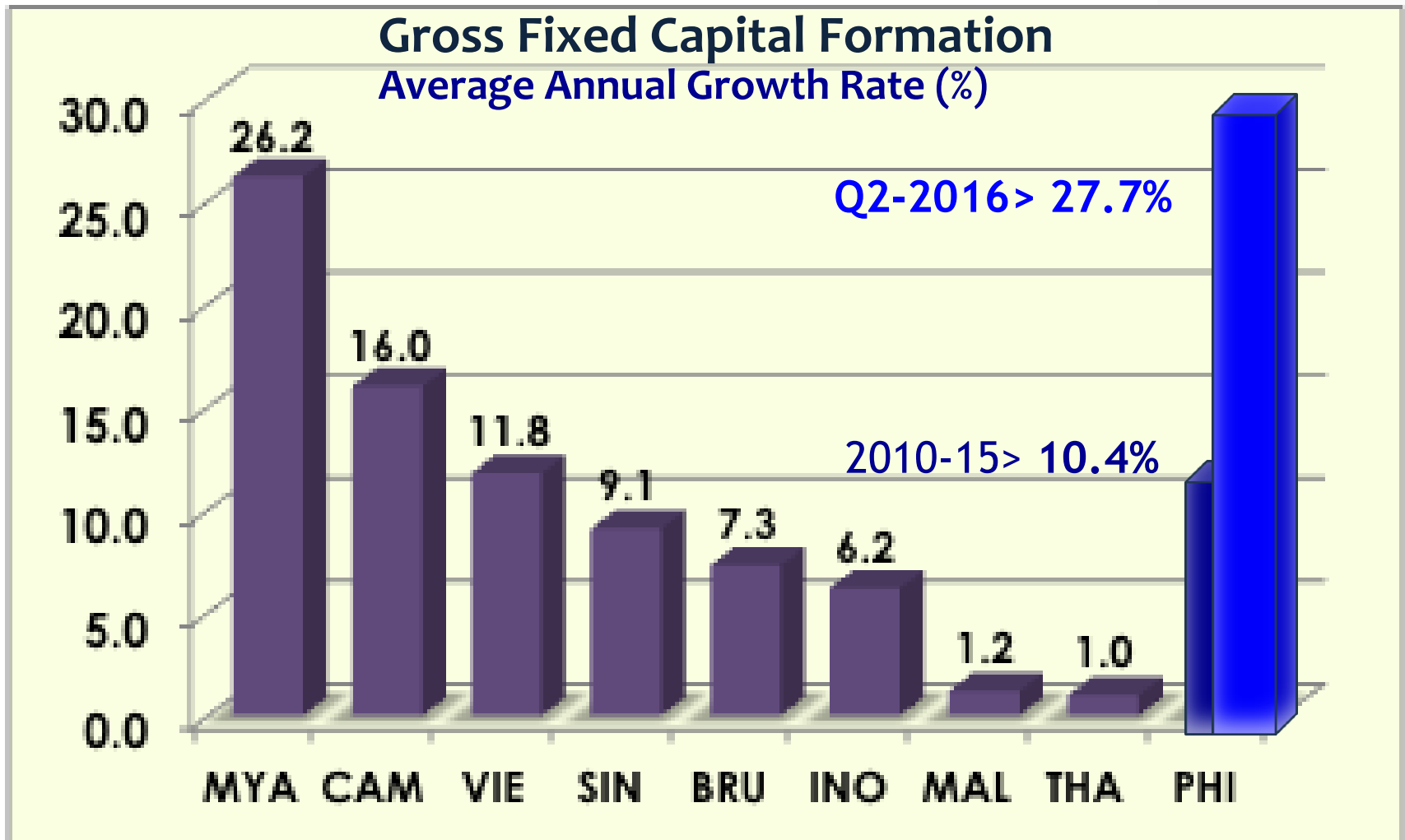


Manufacturing & Investments: Surging Since 2010



Investment Growth Revisited

Then (2004-09) & Now (2010-15; Q1'16)



How's the Economy Doing?

The 'PiTiK Test'



- **Presyo:** Inflation rate down to record lows (Jan-Oct 2016 – 1.6%)

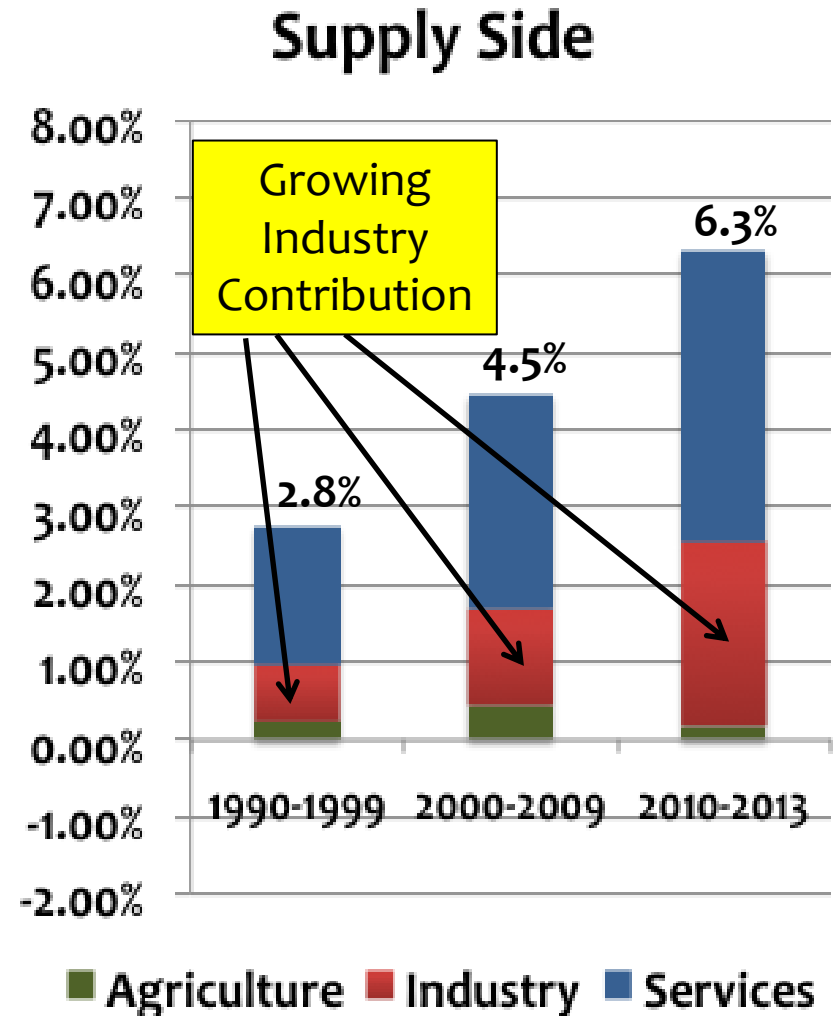
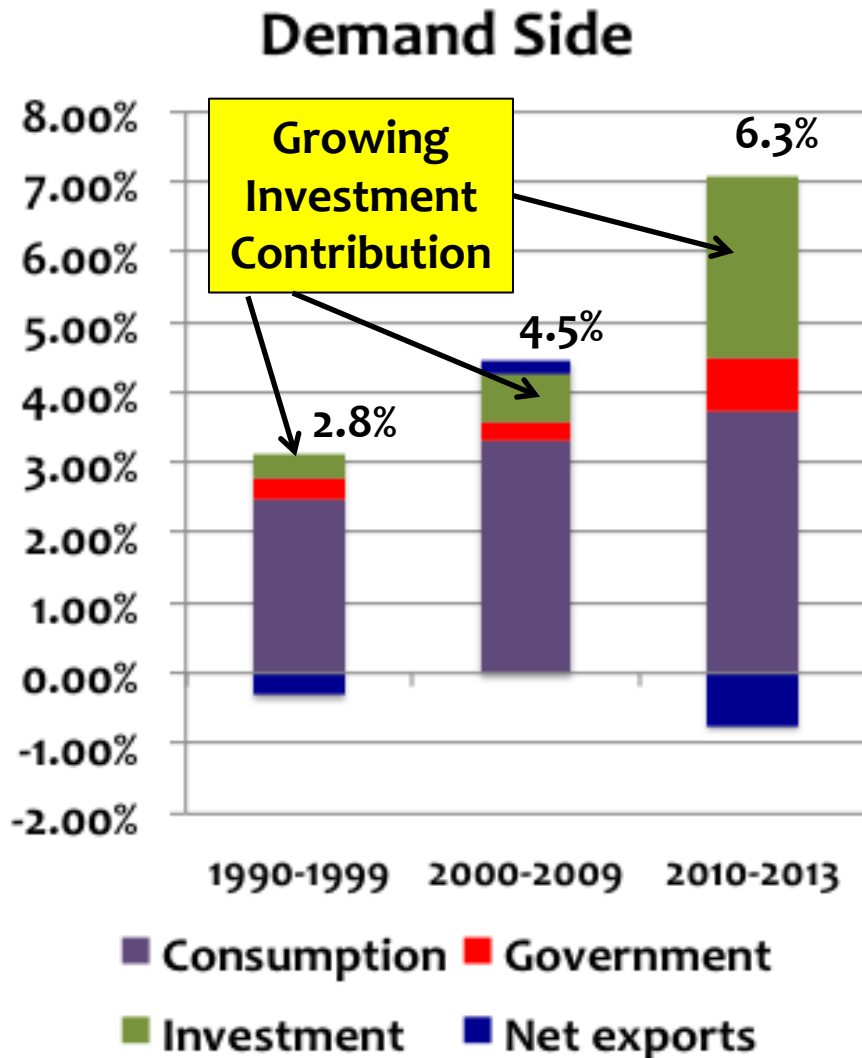


- **Trabaho:** Unemployment rate has finally broken below 6% (July 2016 – 5.4%)



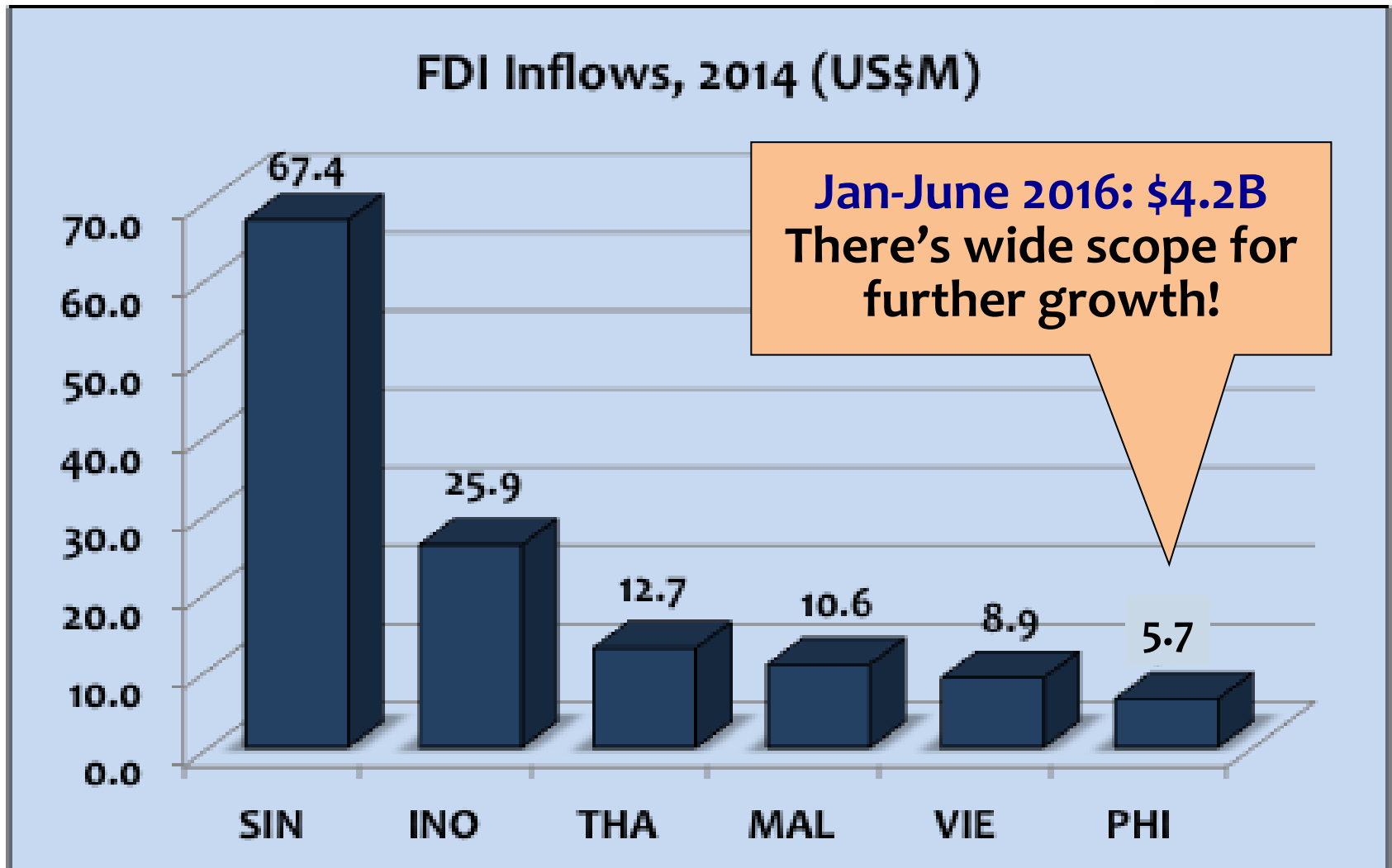
- **Kita:** Q3-2016 GDP growth of 7.1% (Asia's Fastest)

The quality of growth is improving



Reality Check: FDI

Even with 6x expansion, still lagging



Source: BSP

**What
Needs to
be Done?**



Economic Outlook: Drivers & Dampeners



Infrastructure Catch-Up



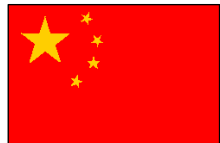
Manufacturing Surge



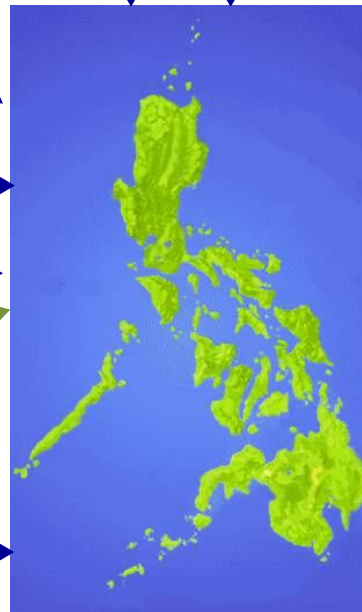
BPO Growth



Disaster Reconstruction



Easing PH - China Tensions Under PRRD



Brexit



EI Niño/La Niña

statehood nation territories
FEDERALISM constitution
parliaments regional municipality sovereignty separation
autonomy central government colonies

**Constitutional Amendments
Regulatory Reform**



Slowing Remittances

10-Point Economic Agenda

- 1 Macroeconomic policy consistency (fiscal, monetary & trade policies)
- 2 Progressive tax reform; improved tax collection; inflation-indexed taxes
- 3 Improve competitiveness and ease of doing business
- 4 Accelerate infra spending to 5% of GDP; ramp up PPP implementation
- 5 Rural development via value chains & hiked rural productivity in agriculture and tourism



10-Point Economic Agenda

- 6 Secure land tenure & improve land management and titling agencies
- 7 Human capital development: improve health & education, address jobs-skills mismatch
- 8 Promote S&T and creative arts for innovation and creative capacity
- 9 Social protection thru the government's CCT program
- 10 Implement the Responsible Parenthood and Reproductive Health Law



Foreign Investment Restrictions

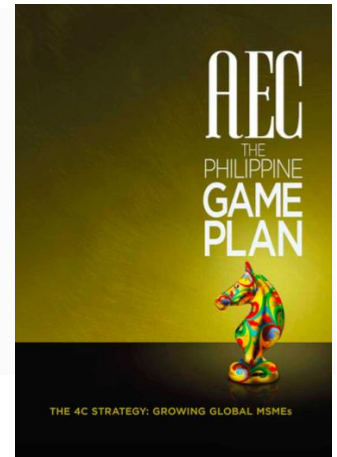


No foreign ownership: **Mass media** (except recording); small-scale mining; private security; marine resources, incl small-scale utilization of natural resources in rivers, lakes, and lagoons; manufacture of firecrackers and pyrotechnic devices;

Retail enterprises with capital <\$2.5 million (<\$250,000 for luxury goods retail);

Limited foreign ownership: **Public utilities (40%)**; Private radio networks (20%); employee recruitment (25%); construction and repair of public works (25%); **advertising agencies (30%)**; natural resource exploration, development, & utilization (40% w exceptions); **educational institutions (40%)**; deep sea fishing vessels (40%); **GPH procurement of goods (40%)**; **construction of locally funded public works (25% w exceptions)**; **operations of Build-Operate-Transfer (BOT) projects in public utilities (40%)**; ownership of private lands (40%); **rice and corn processing (40% w exceptions)... ++**

Reforms Toward Stronger Competitiveness



Legal/Policy Reforms

- Competition (Antitrust) Law - *Done*
- Customs Modernization & Tariff Act - *Done*
- Ease Outdated FDI restrictions
- Amendment to PSA (redefine public utilities)

Administrative Reforms

- Streamline customs processes (e-payment)
- Remove unnecessary & duplicating import clearances and permits (e.g., Toblerone)

Wanted: Sustained Reform

For Sustained Growth:

- Ramp up infrastructure investment
- Ease investment restrictions
- Reduce regulatory burden

For Inclusive Development:

- Concerted MSME promotion and support
- Wider competition & market contestability
- Inclusive value chains (vs. vertical integration)
- Investments in Human Development & social protection



Postscript

Food for Thought

Fact 1:

- In 2050, working age people will dominate the dependent elderly & young (“Demographic Sweet Spot”)

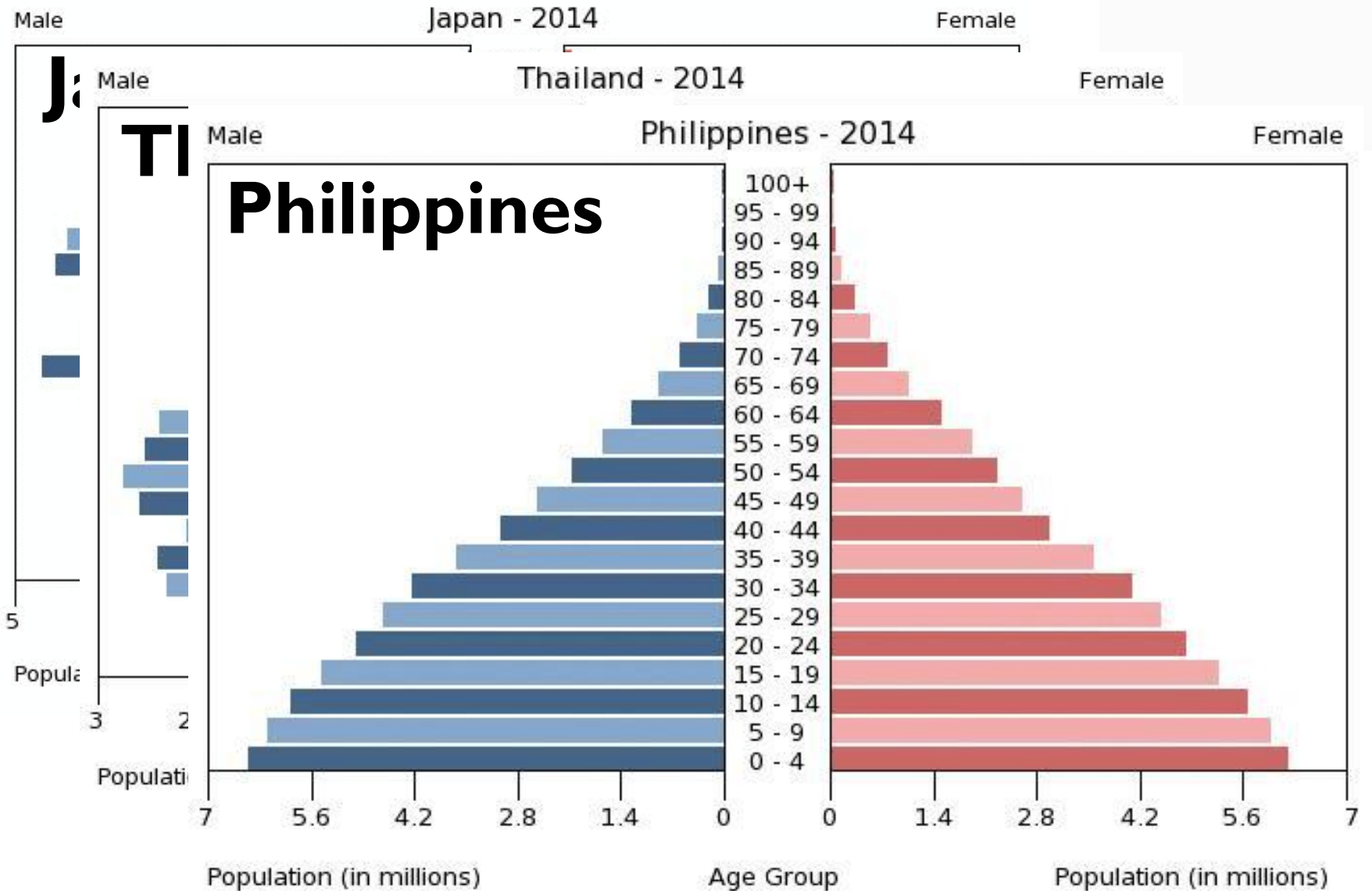


Fact 2:

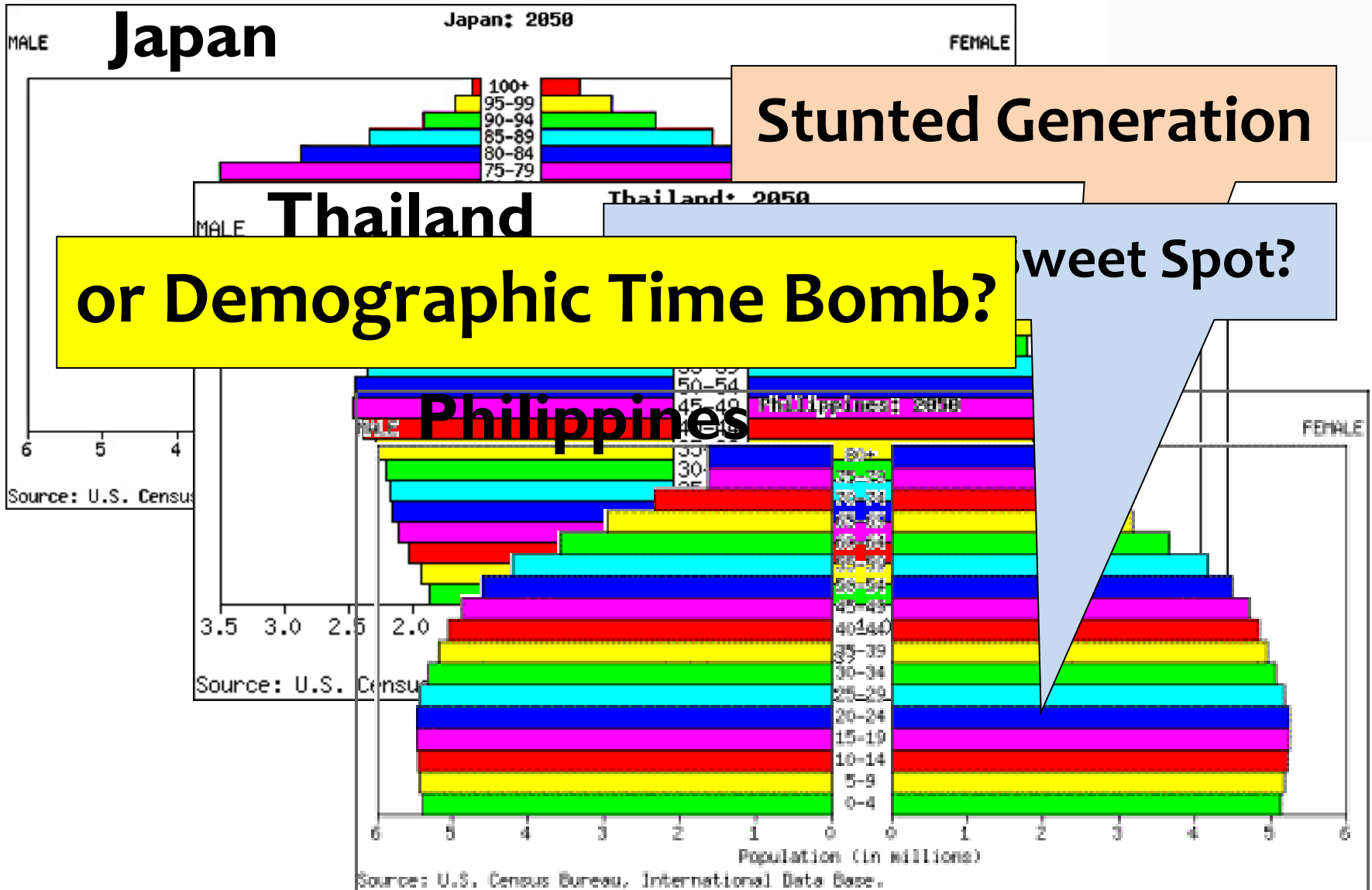
- 33.5% (1 out of 3) Filipino children < 5 years old are stunted (hence permanently impaired from reaching full brain & physical development)
- Another 7% are wasted (underweight)



Population Age Profiles, 2014



Population Age Profiles, 2050



Feed the Young Children



USAID
FROM THE AMERICAN PEOPLE

TRADE

Trade-Related
Assistance for
Development