



10th Development Policy Research Month
Forum on Regional Economic Integration
and Inclusive Growth

**INVESTMENT FACILITATION AND
LIBERALIZATION IN THE AEC:
CHALLENGES FOR THE PHILIPPINES**

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Why focus on investment facilitation & promotion

- Investment: one of core elements of AEC
 - Regional production networks: at the heart of intraregional trade & investment, key driver of growth
 - AEC: liberalize & facilitate investment to attract FDI & deepen RPN participation
 - ASEAN Investment Area: main investment cooperation program, expanded to ASEAN Comprehensive Investment Area (ACIA), international best practices, key pillars: liberalization, protection, facilitation & promotion
- Strengthen ACIA: by itself does not guarantee FDI flows; world-class infrastructure, skilled workers, efficient suppliers, support institutions & services
- Member Countries should implement reforms in line with ACIA, improve domestic business environment, economic regulations, & corporate governance, & labor laws, develop logistics infrastructure, stable legal & economic systems, adjustment measures

Presentation Outline

Objectives

- Assess current state of investment, extent & degree of AEC implementation
 - Adopt international best practices in investment measures?
- Identify constraints to achieving our 2015 AEC commitments
- Suggest ways to enable us to face opportunities & challenges

Outline

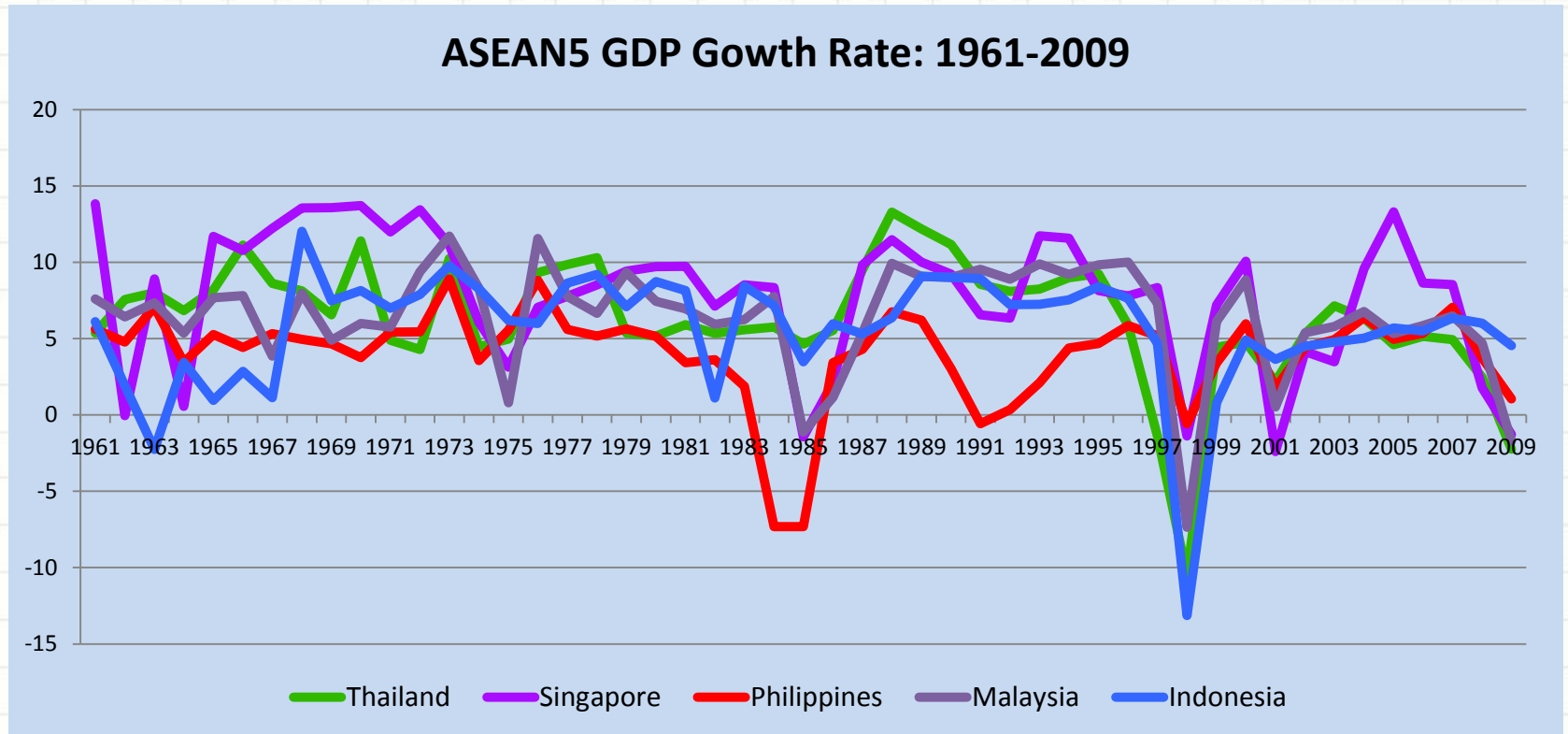
- Investment: state of investment, why are we lagging?
- Survey Results
- Recommendations

1.State of Investment Reforms & Liberalization

Years	Policy Regime	Description
1950s-1970s	-Restrictive FDI Policy	-Restricted foreign ownership -Complicated investment incentive system
1980s-1990s	-Investment Liberalization -Multilateral/Regional FTA	-1991 Foreign Investment Act - New Omnibus Investment Code (BOI) -IPA creation: PEZA, Subic, Clark -GATT-WTO ('95), AFTA-CEPT ('93)
2000s	Liberalization thru FTAs	-Negative List reduced: banking, retail trade -ASEAN+1 (China, Japan, Korea, Australia, N.Zealand, India); PJEPA

- FDI restrictiveness index (Urata & Ando): 0.237 Philippines generally open
 - National treatment: 0.279; Market access: 0.257
- Remaining restrictions: mass media, land ownership, public utilities

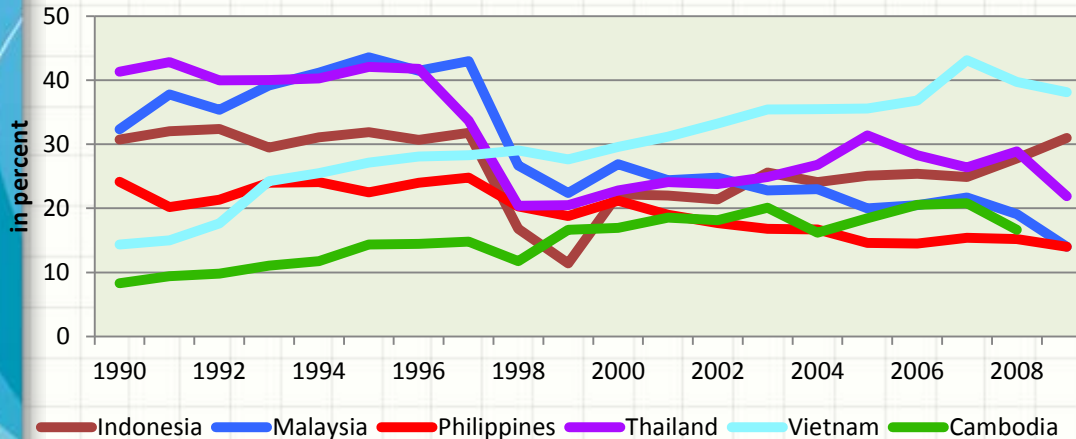
Lackluster Performance



- in 50s; 4.8% in 60s; 5.7% in 70s; 1.7% in 80s; 3% in the 90s; 4.4% in 20s
- Shallow, hollow, & lagging growth
- Failed to create employment

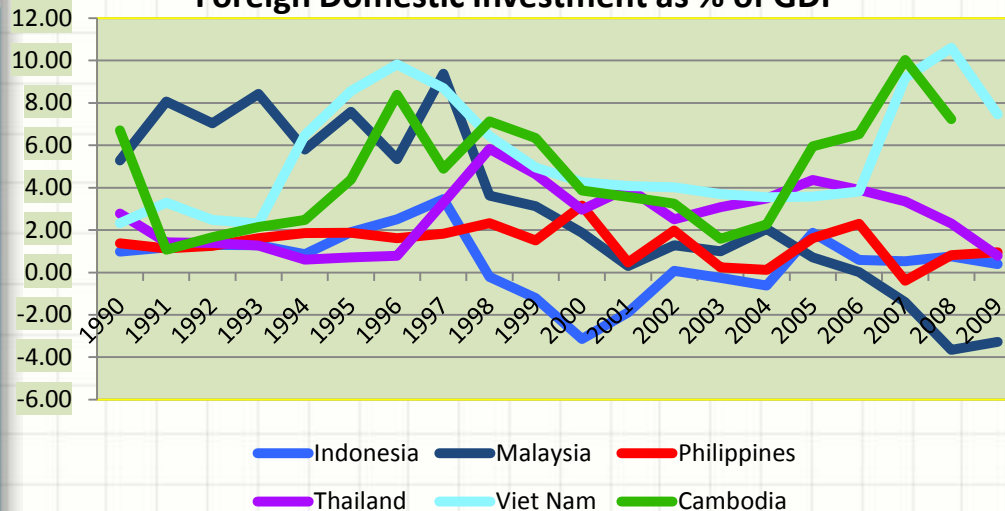
one major reason for poor performance lack of investment

Gross Domestic Investment as % of GDP



- Gross domestic investment as %GDP has been low & declining
- PH 16.5% (average) lagged behind INDO, MAL, THAI, VN
- Foreign Investment as % GDP PH & INDO lagging
- Why has Phils lagged? Weak institutional & regulatory mechanisms; poor infrastructure

Foreign Domestic Investment as % of GDP



2. Survey Results & Analysis

Investment promotion & facilitation
policy reforms & IPA issues

- Investment strategy: simplify procedures; incentives
- Phil Development Plan: reduce documentary requirements, processing times, steps, fees, certificates
- 4 major IPAs: Board of Investments & PEZA (attached to Trade Department); Subic & Clark (autonomous bodies); 8 more
- IPAs: apply international best practices & streamline procedures
 - BOI: NERBAC (OSS); Investments Aftercare Department
 - PEZA: OSS 24/7; issues building & occupancy permits, import & export permits, visa processing, environment clearance
- No central body that coordinates & monitors IPA activities (promotion & administration of incentives)
- Late 2009, steering committee was formed to formulate the first Philippine Investment Promotion Plan

AEC Scorecard Main Findings

- ERIA AEC Scorecard : measure extent & degree of investment liberalization/facilitation commitments
- Survey-interview of government officials & private sector stakeholders from manufacturing & services

Government	Private Sector	Location
Heads of BOI, PEZA, Subic, Clark	firms in NCR, PEZA, Subic, Clark: (1) 30 firms; (2) 100 firms; (3) 31 firms	NCR, Central Luzon, CALABAR

Scoring system based on IPA best practices

- IPA quality: private sector minded culture, deep business knowledge, internal systems for good facilitation
- IPF strategy: clear strategic vision, where & how to compete
- Generation: promotion & image building activities
- Servicing: One stop shops, aftercare services
- Policy: transparency, predictability, consistency

Issues & ways to address these

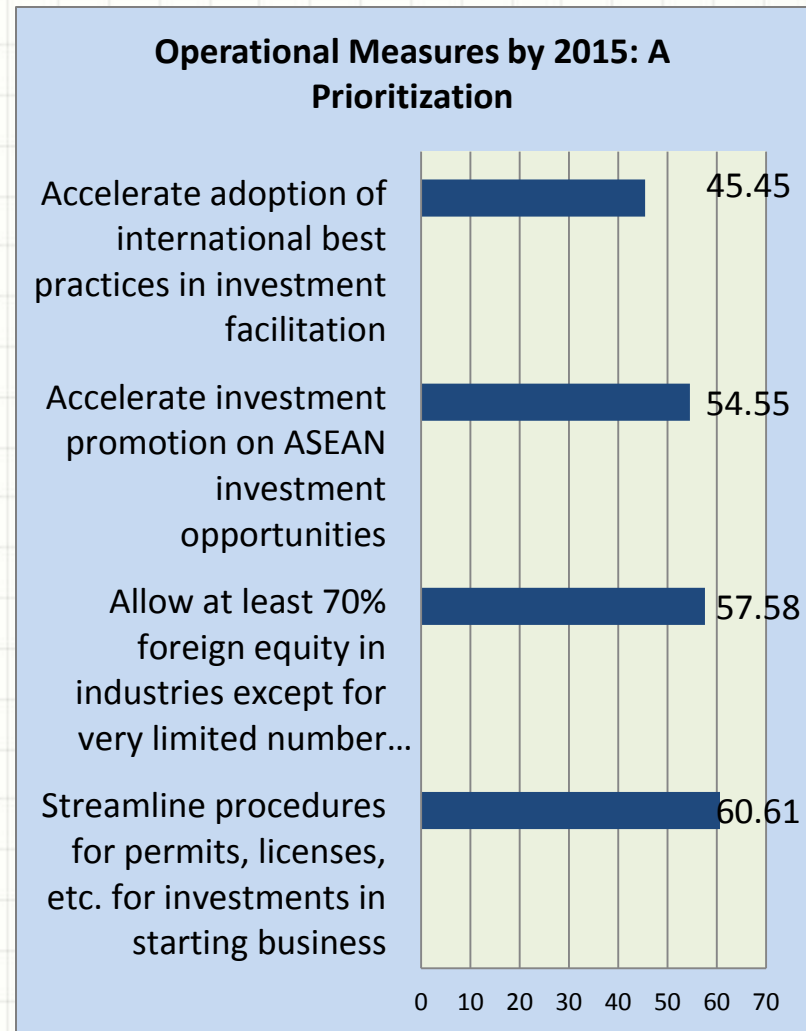
Government IPAs	Private Companies
<ul style="list-style-type: none">-Permits issued by LGUs-Permits from national agencies: DENR (ECC); Bureau of Immig'n (visa); Food & Drug Adm. (prod.reg'n 90-120days)	<ul style="list-style-type: none">-Lengthy procedures, slow processing & delays, lack of transparency in procedures, corruption-Policy inconsistency, lack of streamlining of interrelated procedures-BIR registration, LGU permits, income tax holiday-High power cost, other utilities, shipping

- Eliminate of bureaucratic red tape & corruption
- Strengthen tax rules applicable to all locations
- Clear, consistent and investor-friendly laws that would not be repealed for at least 15 year
- Improve infrastructure (road and traffic conditions) within and outside special economic zones
- Allow foreigners to own land and buildings for commercial & industrial use
- Develop support industries esp. in electronics & semiconductor
- Improve security and peace & order condition in the country

Survey of Core Measures

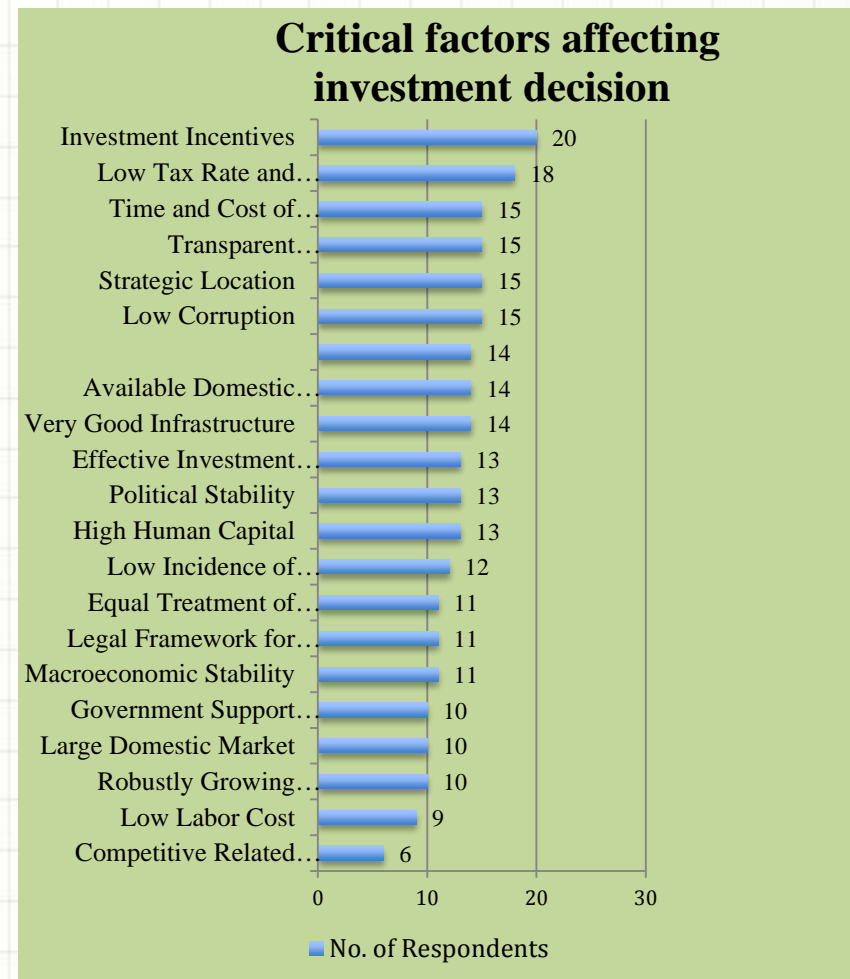
Measures that should be operational by 2015 (in order of importance)

- Streamlined procedures for permits & licenses to be operational by 2015 (61%)
 - Firms indicated that processes have remained complex, problematic & costly
 - need for automation of business procedures in government agencies, streamlined procedures among agencies, clear & consistent policies, investor assistance & investment promotion
- At least 70% foreign equity in industries would be allowed (58%)
- Accelerated investment promotion (55%)



Survey results -- highlights

- Investment incentives, low tax rates & time/cost of starting a business crucial factors affecting firms' decision to invest
- Significant improvements in political stability & level of corruption (compared to 2 years ago)– 2 problematic factors that always dragged down our image in international surveys
- Popular President & reforms to reduce corruption bode well with efforts to increase investments
- A great majority of firms expressed that they will expand their operation
- view the ASEAN market as a significant factor in their investment decision



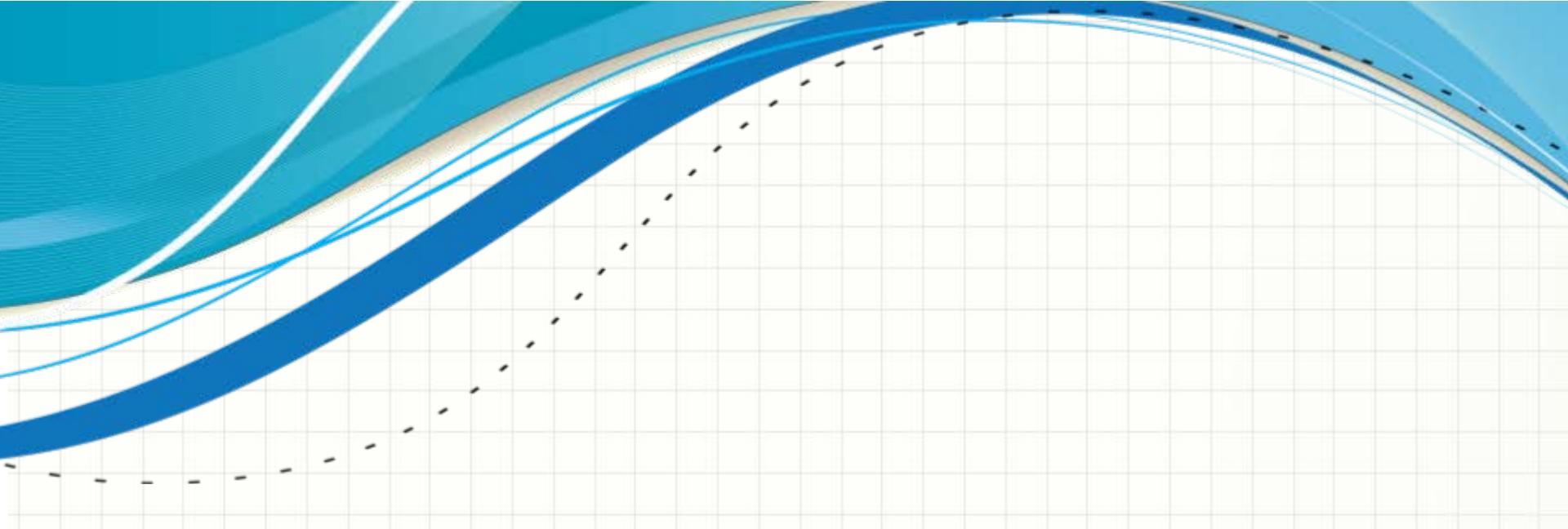
3. Policy Recommendations

- Unify & centralize investment promotion & facilitation efforts by all IPAs under one agency with strong leadership (Singapore's Economic Development Board – OSS & lead agency for investment promotion crucial for its success)
- Strengthen current efforts of the interagency committee to coordinate various IPAs' activities & plans, transitional arrangement
 - Synchronize efforts in promotion & image building activities, providing investor aftercare service, & implementing country's investment plan
- Improve operational environment & business climate through close collaboration with national agencies & local government units: automation/streamlining of business procedures, implementing clear/consistent policies, investment promotion, assistance to investors

Insights, lessons & way forward

AEC 2015 offers opportunities & challenges for trade & investment

- Previous unilateral trade liberalization: shift to a more open economy requires changes in legislations & policies & efficient institutions & good infrastructure to support the reforms & generate supply-side responses
- Increase investment in physical infrastructure: efficient, modern air, land & sea infrastructure networks must be built fast enough
- Improve institutional & physical infrastructure: corruption one of the top challenges facing economy, together with poor infrastructure has severely weaken competitiveness
- Regulatory reform to improve efficiency: review 60-40 rule in infrastructure, continue strengthen competition & regulatory framework in utilities



THANK YOU!