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

Rafaelita M. Aldaba
PIDS Research Fellow
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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 Reform & Liberalization

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

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<tr>
<th>Government</th>
<th>Private Sector</th>
<th>Location</th>
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<td>Heads of BOI, PEZA, Subic, Clark</td>
<td>firms in NCR, PEZA, Subic, Clark: (1) 30 firms; (2) 100 firms; (3) 31 firms</td>
<td>NCR, Central luzon, CALABAR</td>
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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

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<th>Government IPAs</th>
<th>Private Companies</th>
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<td>- Permits issued by LGUs</td>
<td>- Lengthy procedures, slow processing &amp; delays, lack of transparency in procedures, corruption</td>
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<td>- Permits from national agencies:</td>
<td>- Policy inconsistency, lack of streamlining of interrelated procedures</td>
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<td>DENR (ECC); Bureau of Immig’n (visa); Food &amp; Drug Adm. (prod.reg’n 90-120days)</td>
<td>- BIR registration, LGU permits, income tax holiday</td>
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<td>- High power cost, other utilities, shipping</td>
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- 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!