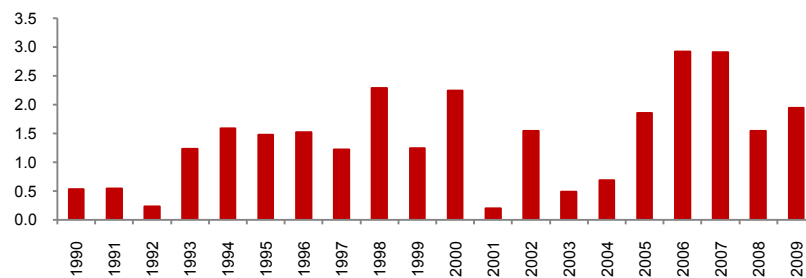


Low Foreign Direct Investment Flows

The figures and tables in this section contain data of the last two decades and show FDI flows into ASEAN-6 economies in relation to the ASEAN-6 with the Philippines ranking low in many of these measures of FDI.

Political instability deters foreign investment. Figure 22 shows the annual net FDI of the Philippines from 1990-2009. Over this period annual FDI averaged US\$ 1.4 billion. During the two-decade period 1970-1989, which encompassed continuing political turmoil, net FDI of the Philippines averaged US\$ 200 million (see Table 12). During the nearly two-decade period 1990-2009, net FDI of the Philippines has averaged a much higher US\$ 1.4 billion. Net FDI reached nearly US\$ 3 billion in 2006 and 2007, declined sharply to US\$ 1.54 billion in 2008. 2009 saw an increase to US\$ 1.95 billion.

Figure 22: Net FDI, Philippines, 1990-2009, Bn US\$



Source: BSP

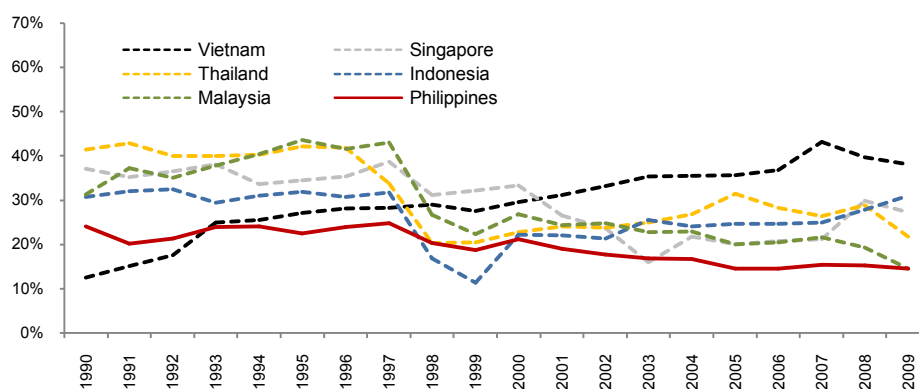
Figure 23 compares annual net FDI of the ASEAN-6 from 1990-2009. In most years, the Philippines received less net FDI than the other five ASEAN-6 economies. Table 6 provides the annual FDI flow amounts on which Figure 23 is based.

¹⁶ Government Capital Outlay (% of GDP, 2005): Philippines (2.5), Indonesia, (8.5), Vietnam (8.2), and Malaysia (6.5) per Dr. Raul V. Fabella

¹⁷ 2009 levels of social spending as % of GDP: Education – 2.9%; Health – 0.5%; Social security and welfare – 1.2%; Housing and other amenities – 0.1% (Source: ADB Key Indicators, 2010)

ARANGKADA PHILIPPINES 2010: A BUSINESS PERSPECTIVE

Figure 23: Net FDI, ASEAN-6, 1990-2009, Bn US\$



Source: ADB

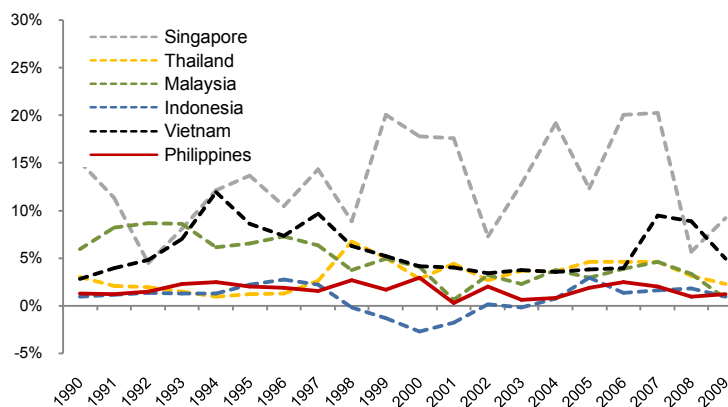
Table 6: Net FDI, ASEAN-6, 1990-2009, Bn US\$

Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Indonesia	1.1	1.5	1.9	2.0	2.2	4.4	6.2	4.7	-0.2	-1.8	-4.5	-2.8	0.2	-0.5	1.9	8.3	4.9	6.9	9.3	4.9
Malaysia	2.6	4.0	5.1	5.7	4.6	5.8	7.3	6.3	2.7	3.9	3.8	0.6	3.2	2.5	4.6	4.1	6.1	8.5	7.3	1.4
Philippines	0.6	0.6	0.8	1.2	1.6	1.5	1.5	1.2	1.8	1.2	2.2	0.2	1.5	0.5	0.7	1.9	2.9	2.9	1.5	1.9
Singapore	5.6	4.9	2.2	4.7	8.6	11.5	9.7	13.8	7.3	16.6	16.5	15.1	6.4	11.9	21.0	15.5	29.1	35.8	10.9	16.8
Thailand	2.6	2.0	2.2	1.8	1.4	2.1	2.3	3.9	7.5	6.1	3.4	5.1	3.4	5.2	5.9	8.1	9.5	11.4	8.5	5.9
Vietnam	0.2	0.4	0.5	0.9	1.9	1.8	1.8	2.6	1.7	1.5	1.3	1.3	1.2	1.5	1.6	2.0	2.4	6.7	8.0	4.5

Source: UNCTAD

Figure 24 compares annual net FDI of the ASEAN-6 from 1990-2009 as a percentage of GDP. The Philippines (followed by Indonesia) has the lowest percentage – less than 2% in recent years – by this measure. By contrast for Singapore and Vietnam annual net FDI inflow exceeds 10% of GDP. Table 7 provides the annual percentages on which Figure 24 is based.

Figure 24: Net FDI, % of GDP, ASEAN-6, 1990-2009



Sources: UNCTAD and World Bank

ARANGKADA PHILIPPINES 2010: A BUSINESS PERSPECTIVE

Table 7: Net FDI, % of GDP, ASEAN-6, 1990-2009

Countries	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Indonesia	1.0	1.2	1.3	1.3	1.2	2.2	2.7	2.2	-0.2	-1.3	-2.7	-1.8	0.1	-0.2	0.7	2.9	1.3	1.6	1.8	0.9
Malaysia	5.9	8.2	8.7	8.6	6.2	6.5	7.2	6.3	3.8	4.9	4.0	0.6	3.2	2.2	3.7	2.9	3.9	4.6	3.3	0.7
Philippines	1.2	1.2	1.5	2.3	2.5	2.0	1.8	1.5	2.7	1.6	3.0	0.3	2.0	0.6	0.8	1.9	2.5	2.0	0.9	1.2
Singapore	15.1	11.3	4.4	8.1	12.1	13.7	10.5	14.3	8.9	20.1	17.8	17.6	7.2	12.8	19.2	12.3	20.0	20.2	5.6	9.2
Thailand	3.0	2.1	1.9	1.4	0.9	1.2	1.3	2.6	6.7	5.0	2.8	4.4	2.6	3.7	3.6	4.6	4.6	4.6	3.1	2.3
Vietnam	2.8	3.9	4.8	7.0	11.9	8.6	7.3	9.6	6.2	5.2	4.1	4.0	3.4	3.7	3.5	3.8	3.9	9.5	8.9	4.9

Sources: UNCTAD and World Bank (for GDP)

Table 8 contains data for per capita FDI of the ASEAN-6 for 2009. The Philippines with US\$ 21 per capita ranks with Indonesia with US\$ 22. However, it should be noted Indonesia is receiving a strong inflow of FDI capital in 2010.

Table 8: Net FDI, ASEAN-6, 2008-2009, Bn US\$

Countries	2008	Distribution	2009	Distribution	Population, mil	FDI per capita (2009)	FDI, % of GDP(2009)
Indonesia	9.32	15.8%	5.30	13.9%	243.30	22	0.9
Malaysia	7.24	12.3%	1.61	4.2%	28.30	57	0.7
Philippines	1.54	2.6%	1.95	5.1%	92.20	21	1.2
Singapore	22.72	38.5%	16.35	42.7%	5.10	3,205	9.2
Thailand	8.57	14.5%	6.15	16.1%	67.8	91	2.3
Vietnam	9.58	16.2%	6.90	18.0%	87.3	79	4.9
ASEAN-6 Total	58.98	100.0%	38.25	100.0%	524.00	73	2.7

Sources: UNCTAD, World Bank and Population Reference Bureau

Tables 9, 10, 11, and 12 show FDI accumulation and annual averages in intervals of 5 and 20 years for four decades 1970 to 2009. With the exception of Vietnam, which was at war and a closed economy until the 90s, the Philippines has consistently received less FDI than the other ASEAN-6. For the entire period the ASEAN-6 each received (in descending order of magnitude) Singapore US\$ 286 billion, Malaysia US\$ 103 billion, Thailand US\$ 104 billion, Indonesia US\$ 58 billion, Vietnam US\$ 44 billion and the Philippines US\$ 32 billion. During the period 2000-2009, the Philippines received 5.1% of total FDI flowing into the ASEAN-6, while Singapore received 45.6%, Thailand received 16.6%, Malaysia received 16.4%, Indonesia received 9.3%, and Vietnam received 7.0%.

Table 9: FDI accumulation, 5-year interval, Bn US\$, 1970-2009

Countries	1970-74	1975-79	1980-84	1985-89	1990-94	1995-99	2000-04	2005-09	% Share, 2000-09
Indonesia	1.461	2.919	1.052	2.209	8.629	13.357	-5.714	34.373	7.9%
Malaysia	1.051	2.211	5.654	3.994	22.114	26.044	14.642	27.361	11.6%
Philippines	0.215	0.586	0.934	2.244	4.711	7.227	5.156	11.183	4.5%
Singapore	1.063	1.950	6.933	12.135	25.903	58.862	70.941	108.013	49.3%
Thailand	0.416	0.382	1.434	3.719	9.951	21.873	22.920	43.431	18.3%
Vietnam	0.003	0.004	0.033	0.022	3.900	9.355	6.849	23.710	8.4%
Total	4.209	8.051	16.041	24.322	75.208	136.718	114.794	248.072	100.0%

Source: UNCTAD

ARANGKADA PHILIPPINES 2010: A BUSINESS PERSPECTIVE

Table 10: FDI annual average, 5-year interval, Bn US\$

Countries	1970-74	1975-79	1980-84	1985-89	1990-94	1995-99	2000-04	2005-09
Indonesia	0.292	0.584	0.210	0.442	1.726	2.671	-1.143	6.875
Malaysia	0.210	0.442	1.131	0.799	4.423	5.209	2.928	5.472
Philippines	0.043	0.117	0.187	0.449	0.942	1.445	1.031	2.237
Singapore	0.213	0.390	1.387	2.427	5.181	11.772	14.188	21.603
Thailand	0.083	0.076	0.287	0.744	1.990	4.375	4.584	8.686
Vietnam	0.001	0.001	0.007	0.004	0.780	1.871	1.370	4.742
Total	0.842	1.610	3.208	4.864	15.042	27.344	22.959	49.614

Source: UNCTAD

**Table 11: FDI accumulation
20-year interval, Bn US\$**

Countries	1970-89	1990-09
Indonesia	7.641	50.645
Malaysia	12.909	90.162
Philippines	3.978	28.277
Singapore	22.081	263.718
Thailand	5.951	98.175
Vietnam	0.063	43.814
Total	52.624	574.791

Source: UNCTAD

**Table 12: FDI annual average
20-year interval, Bn US\$**

Countries	1970-89	1990-09
Indonesia	0.382	2.532
Malaysia	0.645	4.508
Philippines	0.199	1.414
Singapore	1.104	13.186
Thailand	0.298	4.909
Vietnam	0.003	2.191
Total	2.631	28.740

Source: UNCTAD

Many analysts predict FDI in SEA will take several years to regain its robust levels prior to the financial crisis. However, the interest of large manufacturing firms in a China+1¹⁸ strategy for ASEAN operations, the coming into force of ASEAN FTAs making ASEAN economies more attractive for international investment, the interest of the EU to enter into bilateral FTAs with some of the ASEAN countries, the appreciation of the yen and the growing interest of investors from China in the region are positive indicators for improved trans-border capital flows. Multinationals that reduced or postponed new investment decisions may decide to go ahead in 2010 and 2011.

With some important exceptions (i.e. business process outsourcing, consumer goods, mining, semiconductors, shipbuilding, tourism) many multinational firms not already present in the Philippines do not see the country as attractive for new investment, preferring to focus on opportunities elsewhere in Asia.

However, there are thousands of multinational firms that are investors in the Philippines – some for more than a century – who are quite familiar with the Philippine investment climate. Table 13 shows the top sectors where foreign capital has been invested. Most of these companies have steadily expanded their operations in the country, either for export or for the growing domestic

¹⁸ China+1 strategy is followed by large multinationals that seek to have operations in the Asian region in China and at least one additional economy.

ARANGKADA PHILIPPINES 2010: A BUSINESS PERSPECTIVE

market. Only a few have left, usually to consolidate manufacturing within ASEAN in another ASEAN-6 economy, as ASEAN Free Trade Area (AFTA) established its zero tariff regime for the ASEAN-6.

Table 13: Philippine Net FDI, top six sectors, 1999-2009, Bn US\$

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
TOTAL EQUITY	1,178.0	1,333.0	556.0	1,607.0	249.0	750.0	1,181.0	1,324.0	1,949.0	1,235.0	1,806.0	13,168.0
Manufacturing	149.6	237.5	275.1	744.4	89.5	83.6	531.6	408.7	548.6	311.9	887.8	4,268.3
Electricity, gas and water	18.0	0.0	0.0	0.0	0.0	8.6	-6.3	200.4	699.2	224.7	389.6	1,534.2
Financial intermediation (inc insurance)	291.1	38.6	67.8	68.8	-35.9	6.8	199.5	-20.1	-22.6	215.7	312.5	1,122.1
Real estate	0.0	2.6	6.7	0.0	27.5	54.8	111.9	120.5	137.7	158.3	89.1	709.1
Mining and quarrying	31.0	80.5	0.0	21.5	-7.2	0.2	0.4	32.4	154.6	154.9	6.2	474.4
Transport, storage and communication	12.1	360.0	104.0	0.0	0.0	1.6	-32.4	-8.5	12.8	-27.0	7.3	429.8
Others	676.3	613.2	102.4	771.7	174.8	594.1	376.3	590.6	418.8	196.6	113.6	4,628.2

Source: BSP (as of Mar 25, 2010)

Information Technology-Business Process Outsourcing (IT-BPO) is the fastest growing sector involving FDI in employment terms. An estimated US\$ 700 million in new investment is expected in 2010 and 2011. The **electronics** sector, which has averaged almost US\$ 700 million a year in new investment since 2000, counted US\$ 400 million in 2008 and US\$ 480 million in 2009, and should move back towards its average with the high growth in Asia in 2010 and the strong growth of the recovering US economy.¹⁹

Mining investment, despite its great potential and having attracted serious interest of global majors in several multi-billion dollar projects, is moving slowly due to local community opposition and depressed commodity prices. However, demand for minerals such as copper, gold and nickel (which the country has large deposits of) remains strong. The largest project to date, a leading global mining firm with a minority partner from China has confirmed plans to go forward with a potential US\$ 5.2 billion 10-year investment in copper and gold in Mindanao.²⁰ New FDI in job-generating **shipbuilding** should resume when global demand for new ships recovers in several years.

As noted many multinationals already operating in the Philippine domestic market invest steadily to meet rising domestic consumer demand, but new FDI manufacturing is often deterred by high labor, logistics, and power costs, and bypasses the Philippines. Some new FDI in **infrastructure**²¹ (power, telecommunications, transportation, water) continues but at levels far below the many

¹⁹ Semiconductor and Electronics Industries in the Philippines Inc (SEIPI) data is based on member surveys. Most electronic exporters are members.

²⁰ The Chinese investor withdrew after the outgoing governor of one of the provinces where the mine is located signed a ban on open pit mining.

²¹ A large Hong Kong-based conglomerate is investing in hospitals, telecommunications, toll roads, and water. Foreign financing is being arranged for a US\$ 1.4 billion light rail project and several power plants.

billions that could be attracted with a better investment climate. Some new FDI is entering from Kuwait and Saudi Arabia in **hotels** and **logistics** and from Asia in **agriculture**. Investment from China has remained weak due to local corruption.²²

²² Chinese firms have reportedly had difficulty completing stand-alone business deals in mining and telecommunications and are beginning to acquire significant minority equity ownership in several foreign ventures operating in the Philippines.