CHECK AGAINST DELIVERY

Speech by Julian Payne President of Canadian Chamber of Commerce of the Philippines
On "Foreign Direct Investment and the Philippines" to the Pasig Rotary Club on September 25, 2014

President Garcia

Officers and Members of the Pasig Rotary Club

Ladies and gentlemen

Thank you for inviting me to speak at this Monthly Meeting of the Pasig Rotary Club on "**Foreign Direct Investment and the Philippines"**. This is an important issue and it is a pleasure to discuss this subject.

Tonight I will give you my views on five basic questions:

(1) Is foreign direct investment (FDI) desirable or undesirable for the Philippines?
In my view it is not only desirable but it is also essential to get FDI.

(2) Should the Philippines be receiving more FDI?
In my view the Philippines should be receiving much more FDI.

(3) Does the Philippines have some advantages in attracting FDI?
In my view the Philippines has some advantages in attracting FDI.

(4) Are there major impediments to increasing FDI to the Philippines?
In my view there are major impediments to increasing FDI.

(5) What should the Philippines do to get more FDI?
In my view there are a wide range of actions the Philippines could and should take to facilitate receiving increased FDI.

.

<u>Is foreign direct investment desirable or undesirable?</u>

I will address first the **fears and arguments that FDI is undesirable**. The main arguments I hear from those who fear and oppose foreign investment can be summarized as follows:

- It reduces opportunities for our local and national investors.
- It exploits our resources for the benefit of foreigners leaving us poor.
- It bring with it foreign ideas and values that undermine our culture.

- It leads to foreign corporate colonialism that leaves us powerless.

Historical evidence is cited to support some of these arguments. In the past these were some of the undesirable features of foreign investment.

However overlooked is that these undesirable features took place in a context dominated by foreign colonial powers and closed societies. This context had largely disappeared by the mid-20th century with the growth of independent nations and the power of national governments to regulate economic development and restrain the abuses of capitalism.

Economic experience counters the fear that FDI crowds out local investment. This fear assumes a zero sum game with local investors losing when foreign investors win. The fact is that historically the need for investment grows over the longer term with opportunities for both local and foreign investment increasing. Further there is evidence that FDI often stimulates and supports additional local investment & vice versa. But the most important point is that most countries, most provinces, and most cities hardly ever face a problem of too much investment with FDI crowding out local investment. They almost always need more investment than local investment can provide or is willing to provide to meet needs.

Economic experience also counters the fear that FDI benefits just foreigners and leaves benefits for the local economy. Obviously foreigner investors want a return of their investment. So some profits and some dividends do flow out to foreigners. But what stays are:

- Some profits that are usually reinvested locally for expansion.
- Physical facilities that foreign investment builds remain.
- New additional employment opportunities are generated.
- Corporate and income taxes, and other fees, are paid to governments.

The real issue is not one of whether the local economy will benefit. It is what should be the proportionate shares of the income and wealth generated should be expected by the local economy. This is determined by regulatory frameworks set by national governments, not by investors.

The risk that foreign investment brings undesirable values and undermines local culture is probably the most ludicrous argument in the 21st century context. Today the main sources of new values and cultural change are not foreign business men in foreign corporate headquarters but individuals using the internet, Google, Facebook, and Twitter as well as watching movies and TV shows.

For those concerned with the problem of preserving local culture and traditional values, opposing FDI is like generals fighting the last war rather than addressing the new, and real 21 century threats. Foreign investors are interested in profits, not changing cultures and values.

<u>Lastly there is the fear that foreign investment leads to corporate neo-colonialism</u>. There is no doubt that big corporations try to exercise power and influence to support business interests. But this is a problem of the power of big corporations and, in particular, the power of big corporations that occupy monopolistic or oligopolistic positions in a national economy. Such corporations can be national as well as foreign. This risk can be controlled by national regulatory frameworks including anti-trust and/or fair competition legislation.

I have seen no evidence that big foreign corporations are better or worse than big national corporations in this respect. Indeed in the 21st century it appears that long-established local corporations and elites with well-entrenched political connections are the leaders in corporate dominance.

The immediately direct benefits and values that FDI brings … and bring to the Philippines … are well known, namely that FDI:

- Provides additional capital investment to supplement local capital.
- Generates additional employment in the host country.
- Uses new technologies with this transferred to the host country.
- Increases the tax base and revenue for governments.

There are also some important secondary indirect benefits, two being:

- FDI in sectors such as agriculture, manufacturing plants, mining operations, and tourism as well as call-centers, stimulates local investment and further employment in many supporting businesses (such as fast-food outlets, housing, and local transportation).
- FDI in sectors such as agriculture, manufacturing and mining can lead to increased international exports of the products of these industries.

Finally FDI usually brings in competition in terms of:

- Additional players to reduce monopolistic and oligopolistic situations.
- New more efficient production techniques and methods to do business.
- Alternative products and services to address needs.

And with healthy competition, the host country for FDI benefits:

- With better value for money for goods and services for the consumer.
- With more competitive exports to build its international trade.

Should the Philippines be getting more foreign investment?

We read frequently the press stories along the lines

- "…Philippines credit rating increased to investment grade"
- "… x billion in foreign investments flowed in last month"
- "…in 2014 foreign investment increased by x % over last year"

The implication is that we are on a roll in terms of increasing FDI. Well FDI has been increasing. The Administration…particularly the Department of Finance and the Central Bank … deserve great credit for sound macro-economic and fiscal management, monetary policy, and bank regulation. And the Administration deserves great credit for its fight against corruption, for starting to address the infrastructure needs, and for major socio-economic initiatives such as K-12. All these support growth in FDI.

But the answer to the basic question of whether we should be getting more is quite clear. We are making progress from a very low base. The recent OECD study on foreign investment in Southeast Asia gives the following stock of total FDI in each ASEAN member country:

Country	Total FDI USD M	Total FDI % of ASEAN	Total FDI Ranking
Singapore	**682,396**	**51.7**	**1**
Indonesia	**205,656**	**15.6**	**2**
Thailand	**159,125**	**12.1**	**3**
Malaysia	**132,400**	**10.0**	**4**
Vietnam	**72,530**	**5.5**	**5**
Philippines	**31,027**	**2.4**	**6**
Brunei	**13,302**	**1.0**	**7**
Myanmar	**11.910**	**0.9**	**8**
Cambodia	**6,413**	**0.6**	**9**
Lao PDR	**2,483**	**0.2**	**10**
TOTAL	**1,319,242**	**100.0**	

The reality is that, notwithstanding it has the second largest population in ASEAN, its status as an emerging economy, its great natural resources for agriculture and mining, and its human capital for services industries such as call-centers, health facilities, and tourism, the Philippines has been less successful than most other in ASEAN in attracting FDI.

The good news is that in recent years there has been progress. Net FDI inflows have doubled from $1.9 B in 2011 to an estimated $4.1B in 2013. But this increase remains just a start towards the $7-8 billion a year FDI that most economists project the Philippines needs.

Further, in attracting FDI, the Philippines is still ranks lower in the ASEAN league in which we are competing in for FDI. In fact in comparison with the main ASEAN competitors, Philippines still ranks lowest. In 2013, FDI inflows to the main ASEAN economies were:"

- USD 61 billion to Singapore
- USD 18 billion to Indonesia
- USD 13 billion to Thailand
- USD 9 billion to Vietnam
- USD 4 billion to Philippines

The answer to the question whether we should be getting more FDI is a clear "Yes" … we should be getting much more!

The key factor is that FDI is fluid and fungible: this means that the Philippines is in competition for foreign investment with other countries. It means that FDI goes to countries not only where the opportunities for potential returns on investment vs risks are highest but also where the regulatory environment and business conditions facilitate, not restrict, such investment.

Does the Philippines have some advantages in attracting FDI?

The Philippines has several major advantages in attracting FDI. In summary these are fairly self-evident and include:

- Natural resources and in particular agricultural land & mineral resources that have historically been the core of many economies.

- Tourist development potential including natural beauty, cultural assets & friendly people. It is more fun in the Philippines!

- Human resource base that is large, young, literate, and English-speaking for expansion of manufacturing and service industries.

- A large internal domestic consumer market of 100M.

- Export markets with ASEAN at our door, Japan to the North, Americas to the East, Europe to the West, and Australia & New Zealand to the South.

What are the major impediments to FDI in the Philippines?

In my view the major impediments to more foreign investment are:

- Excessive restrictions on FDI in the Constitution and other laws.
- Lack of good infrastructure, particular for power and transport.
- A judicial system with lengthy and often unpredictable outcomes (with excessive TROs and reconsiderations used as business tactics).
- Corruption in public and private sectors.
- National and LGU bureaucratic processes that make doing business complicated, difficult and slow.
- Local private oligopolies and interests that do not want international competition.

Progress is being made in addressing some of these impediments that discourage FDI. But more needs to be done…including at the LGU level as well as the national level. I will comment briefly some of these impediments.

Restrictions on foreign investment in the Constitution and in other laws:

The 1987 Philippines Constitution contains more economic provisions and restrictions on foreign investment than most constitutions in free market economies. This has been found and reported by international organizations including World Bank and OECD and by local economists.

All countries restrict and limit some forms of foreign investment for strategic defence, economic, and/or cultural reasons. However most do it by legislation that can be adjusted with changing times and needs of the local economy rather in a Constitution that is difficult and slow to change.

In addition there are many laws that impose restrictions to foreign investment in various sectors that go beyond what is required by the Constitution. Many of these are included in the Foreign Investment Negative List (FINL). Fortunately there are two important initiatives being proposed that, if successful, will rectify these impediments.

- <u>The proposal by House of Representatives Speaker Belmonte to amend the Constitution (RBH1)</u> to amend most economic provisions to be subject to "or as otherwise provided by law". This transfers the power to set economic restrictions to the Congress and thus allows adjustment to reflect changing needs being made more quickly and in a less sensitive context than amending a Constitution.

  CanCham, as a member of the JFC, has joined with other Philippine Business Groups (PBG) in fully supporting Resolution RBH 1 sponsored by Speaker Belmonte. I had the privilege of representing the JFC as a resource person at the public consultation of the House of Representatives Sub-Committee on Constitutional Amendments. (Our summary statement is attached as an Annex to this speech).

- <u>The initiative by the Administration to update and simply the FINL</u>. The FINL is updated every two years but with the exception of a few minor changes (such as allowing foreign ownership of casinos), it has remained largely unchanged). It is long and detailed.

  Following lengthy discussions with Philippine Business Groups as well as the Joint Foreign Chamber, we understand the Administration is revising the FINL to simplify it and with some substantive easing of some restrictions which do not require constitutional amendment.

- The Congress has also approved some other important legislation such as easing the entry of foreign banks that is also welcome. Hopefully Congress will also approve a Competition Act.

<u>Lack of adequate infrastructure</u>:

There is no need to comment on this impediment except to praise the Administration's effort to raise the level of funding going to improve infrastructure, both for 100% public sector projects as well as for major PPP projects.

Good infrastructure is key to attracting FDI, in particular:

- Efficient transportation facilities including road/rail, air and shipping.

- Reliable cost and reasonable cost power and water supply.

- Efficient telecommunications including high-speed internet.

A judicial system with lengthy unpredictable outcomes:

An objective judicial system with expeditious outcomes based clearly on consistent interpretations of the law that are respected by the business community and not subject to repeated challenge and reversal in judicial decisions are essential for creating a hospitable environment for FDI.

Unfortunately the Philippines judicial sector is seen by many foreign investors as complicated and slow, with decisions being unpredictable. Of particular concern is the widespread and frequent use of requests for TROs and for reconsiderations that are accepted by the courts and seem to be used as common business harassment tactic.

The efforts being led by the Chief Justice and other interested organizations such the Judicial Reform Initiative (JRI) are welcomed by foreign business and we hope will improve the environment for FDI.

Corruption:

The reputation…and continuing…corruption in the Philippines …and in many other countries … is a major deterrent to many foreign investors, particularly from Europe and North America. It is a deterrent for a number of different and specific reasons:

- It is considered unethical and unprofessional.
- It adds to business costs.
- It distorts and undermines fair competition.
- A foreign participant may liable to criminal prosecution in Europe and North America under foreign corrupt practices legislation that has extra-territorial application for foreign citizens outside their country.

The JFC, including CanCham, strongly supports the Administration's anti-corruption policy. We also support the Integrity Initiative sponsored by the Makati Business Club and European Chamber of Commerce and urge all business in the Philippines to sign and adhere to this anti-corruption pledge in their own business activities. And I should add CanCham makes signing the Integrity Pledge a condition for joining as a member.

The challenge we face is getting more business to join the fight against corruption and refusing to be part of it.

Difficulty of doing business in the Philippines:

According to the reports of the National Competitive Council (NCC) of the Philippines, the Philippines is a difficult place to do business compared with many other competing countries. But it is improving in many areas.

Of note, I observe that foreigner investors are now not only comparing which countries are most suitable for foreign investment. They are now also looking at regions and cities within specific countries for the same. It is here where efforts at the LGU level are essential to support what is being done in improvements at the national level.

The work of the NCC in assessing the relative competitiveness of major cities in the Philippine is something that Pasig City should look very carefully at and identify where it needs to be more competitive to attract business including FDI. I am sure you are familiar with these assessments.

In closing what are other factors that encourage foreign investment?

FDI goes not only where the opportunities and profits and the above mentioned factors are suitable. It also takes into account other factors and conditions including:

- Political and other risks to the financial security of the investment.
- Assured physical security for personnel.
- Availability of economic and social information and data.
- Readily accessibility to international financial services.
- Healthy environment for work and living.

Local and national chambers of commerce… including the Canadian Chamber of Commerce of the Philippines … can and must do our part in promoting national and local improvements in all these areas to improve the competitive position of the Philippines in attracting moreh FDI. This is the challenge that we face.

In closing I thank you again for inviting me to this meeting.

Maraming salamat po

Thank you

Annex to Speech by J Payne to Pasig Rotary Club
September 25, 2014

Statement by Julian Payne on behalf of the JFC

To House of Representatives Sub Committee on Amending the Constitution

1. *The major challenge the Philippines faces today is poverty including a high level of structural unemployment exacerbated by a fast growing population;*

2. *Amongst other things, substantial annual increases in private capital investment on a sustained basis over the longer term are needed to address this challenge;*
3. *jinternational trade, as well as to supplement domestic capital investment.*

4. *While there has been a welcome increase in FDI in recent years, the Philippines is still receiving a low level of FDI in comparison with its ASEAN neighbours and is NOT yet attracting the levels of FDI that the Philippines needs*

5. *A major contributing factor why the Philippines has not attracted the higher level of FDI that is possible is because of the restrictions on foreign equity investment enshrined in the economic provisions of the Constitution as well as in other legislation and regulations set within the framework of these provisions of the Constitution;*

6. *While some progress is being made in easing the restrictions on FDI imposed by the Foreign Investment Negative List (FINL), the scope for this easing is severely limited by the economic provisions enshrined in the Constitution;*

7. *The proposed amendments in RBH1 would allow the Congress to adjust the regulatory framework for FDI to respond nimbly to the evolving interests and needs of the Philippines, to changes in international economic environment (such as membership of the Philippines in a future Trans Pacific Partnership), and to international competition for FDI without every time requiring further the very complex, lengthy and politically sensitive process of constitutional amendment.*

8. *With these amendments, the Philippines would still retain complete and full control over FDI through use of specific legislation.*