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The Entrepreneur

An All-Out Drive to Attract Investments

HOW can we attract foreign direct investments (FDI) at a time when the world's wealthiest countries are either in crisis as in the euro zone or struggling to recover as in the United States?

If you ask any of our successful taipans and tycoons, the first response would most likely be, "Money does not disappear during crises; it just goes somewhere else." The second would be, "Crises create opportunities, including profitable opportunities for investments."

Last week I said the contraction of the manufacturing sector in China was an opportunity for the Philippines to revive local manufacturing industries to fill the gap being created by China's problem. And such a contraction of manufacturing is also contributing to the decline in the flow of investments into China, which is another opportunity for the Philippines to lure investors.

FDI, according to China's Ministry of Commerce, amounted to $8.43 billion in September, down 6.8 percent from the same month last year. For the first nine months of 2012, FDI declined by 3.8 percent to $83.42 billion.

Now, you may ask: "How can the Philippines attract more FDI when China, the world's second-largest economy, is being shunned by investors?"

Let's go back to the first response that "money has to go somewhere even during crises." The United Nations Conference on Trade and Development (UNCTAD) predicts that global FDI will reach $1.6 trillion this year, up from $1.5 trillion last year. The $1-billion increment is small, but it's still an improvement instead of a decline, and it will happen despite the crisis in the euro zone and the weak US recovery.

Longer-term projections show a moderate but steady rise, with global FDI reaching $1.8 trillion in 2013 and $1.9 trillion in 2014, barring any macroeconomic shocks, according to UNCTAD's World Investment Report 2012. FDI flows to developed countries increased by 21 percent to $748 billion in 2011, while flows to developing countries increased by 11 percent to a record $684 billion. Asia's share of FDI has surged from its pre-financial crisis level of 2007 when it attracted $349 billion, or 17 percent of global inflows. FDI inflows to Southeast Asia increased by 26 percent to $117 billion in 2011 from the previous year.

The UNCTAD report attributed the investment growth to Brunei Darussalam, Indonesia, Malaysia and Singapore. Indonesia posted the highest growth rate in investment inflow at 37 percent to $18.9 billion in 2011 compared with $13.8 billion in 2010. Flows into Singapore grew 33 percent to $64 billion while flows into Malaysia climbed 33 percent to $11.9 billion.

In contrast, FDI inflows to the Philippines declined by 2.8 percent to $1.26 billion in 2011 from $1.298 billion in 2010, which was also down from $1.96 billion in 2009. Foreign direct investments also represented a small part (3.1 percent) of the Philippines's gross domestic product in 2011, compared to 7 percent for Indonesia and 10.6 percent for Thailand, which received $9.57 billion FDI last year.

In June the Bangko Sentral ng Pilipinas (BSP) said it was lowering its FDI target for 2012 to $1.2 billion, the same amount of investments in 2011, from the earlier target of $2 billion, because of concerns over the deteriorating global economic environment.

However, it's not all bad news for the Philippines. On October 9, or four months after the announced downgrading of the FDI target, the Bangko Sentral reported that foreign direct investments for the first seven months of 2012 increased by 80 percent year-on-year to $1.025 billion. For the month of July, FDI net inflows amounted to $108 million, reversing the $261 million net outflow registered in the same period in 2011. The amount is also higher than end-June's $73 million.

This time the Bangko Sentral said that investors were pouring funds into the Philippines despite the "challenging external environment." The BSP also noted that FDI components had positive balances in July, reflecting foreign investors' growing optimism over the country's macroeconomic fundamentals.

I look at this development as an indication that we have an opportunity to attract more investments, and that we should not be deterred from going all out in encouraging foreign investors to come and do business here.

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