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The Entrepreneur

Chasing GDP: What attracts investments

I had been talking about GDP or gross domestic product in the past several weeks that I feel compelled to explain this seeming obsession with it.

In simple terms, GDP is the market value of all the goods and services produced within the borders of a country during a specific period like a quarter or a year. GDP, in essence, measures a country's economy.

The value, which usually runs into billions of dollars for the Philippines (about $189 billion in 2010), is not the important part of the GDP reports, which are released by the National Statistical Coordination Board and the National Economic and Development Authority, but the growth rate or the change from the previous quarter or the previous year.

The GDP growth rate shows whether the economy is growing and how fast it is growing. The faster the GDP grows, the better for the economy.

So what's the big deal about GDP?

Let's start with my views on the role that GDP plays in attracting investments, in particular, foreign direct investment or FDI.

We often hear about corruption as a major reason why the Philippines is not attracting as much FDI as its neighboring countries. And yet, according to a recent report, companies from Russia and China were most likely to use bribery to secure foreign contracts.

That report cited the results of a Transparency International survey of 3,000 business executives, which showed the two countries at the bottom of a list of 28 of the world's leading economies, meaning, their companies were the most likely to engage in bribery.

However, we all know that China is now the world's largest economy behind the United States, and it has also overtaken Japan. And China, according to an annual report of the United Nations Conference on Trade and Development (Unctad), would remain the most attractive investment destination in the next two years.

China, the Unctad report said, absorbed the second-largest volume of FDI in 2010, following the United States, and for the 19th consecutive year was the largest developing economy in terms of foreign direct investments.

China's Ministry of Commerce, cited in other reports, said FDI in China could exceed $106 billion this year (up from $105.7 billion in 2010), following an 18-percent growth to $60.9 billion during the first six months of 2011.

Clearly, investors see something beyond the perception of corruption that encourages them to pour capital into China.

Of course, fighting corruption is good and noble, and an image of a corruption-free country is attractive. However, investors are pragmatic and profit-driven. While they consider the risks that they may lose money to corruption, they also look at the prospects of making profits from their investments.

Why then is China, and even Indonesia, attracting investments? It's because these countries have been enjoying high GDP growth.

In my view, high GDP growth, more than other factors, makes a country attractive to investors. Investors look at a country's economic performance as expressed in GDP growth before deciding whether to invest in that country.

The World Bank has projected China's GDP to grow by 9.3 percent this year, slower than last year's 10.3 percent but still one of the fastest in the world. Indonesia, which attracted $14.65 billion FDI in the first nine months of 2011, expects to hit the $19.32-billion mark by the end of this year. The country's investment board is targeting total FDI of $32.95 billion for 2012.

On the other hand, Bank Indonesia sees the country's GDP to grow by 6.6 percent this year, slightly higher than the government's forecast of 6.5 percent.

Vietnam, which rebuilt its economy from the ashes of war, expects to receive $20 billion in FDI this year, up by 4.54 percent from $18.6 billion last year. And its economy is expected to grow by 6.5 percent this year, and by 7 percent to 7.5 percent next year.

What about the Philippines? According to the Bangko Sentral ng Pilipinas, net FDI inflow plunged by 88.3 percent to $26 million in July, which brought the total for the first seven months to $804 million, down nearly 10 percent year-on-year.

The low investment inflow is not surprising, given the experiences of China, Indonesia and Vietnam. The Philippine economy has been declining, after ending 2010 with a 7.6-percent growth, GDP dropped to 4.6 percent in the first quarter, then to 3.4 percent in the second, for an average (and pitiful) growth of 4.0 percent for the first semester.

The official forecast for the whole year is now between 5.0 percent and 6.0 percent, which will be difficult to achieve given the adverse developments in the global economy.

In sum, investors go out to make money, and countries with high GDP growth rates offer better opportunities for profits than low-growth countries.

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