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A Proverbial Shot in the Arm: US Investment Is Key to Boost Philippine Economic Recovery and Resilience

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Ravaged by COVID-19, the Philippines needs all the help it can get from its allies. One such ally, of course, is the United States, with which the Philippines has had diplomatic relations since 1946. In historical, cultural, political, and economic terms, the bond between these two countries remains strong. It is precisely this strong bond that the Philippines needs to tap now, more than ever, to jumpstart its economic recovery from a pandemic-induced recession.

An Ailing Philippine Economy

Before 2020, the Philippines proudly sailed ahead in Southeast Asia. According to the Central Bank of the Philippines, the country saw annual GDP growth rates of 6.9 percent in 2017, 6.3 percent in 2018, and 6.1 percent in 2019. However, in 2020, economic activity contracted by 9.6 percent—the deepest dive among major Southeast Asian economies. In terms of competitiveness, the Philippines consistently lags behind other major Southeast Asia economies, Singapore, Malaysia, Thailand, and Indonesia.

Getting a Boost from US Foreign Direct Investment

Naturally, economic growth and competitiveness are critical factors to attract foreign investors. Considering that the nation is currently performing poorly, it would be fair to assume the Philippines is at a disadvantage in attracting foreign direct investment compared to key Southeast Asian neighbors. In fact, even before the pandemic, net foreign direct investment (FDI) flows to the Philippines had been steadily declining, from $10.3 billion in 2017, to $9.9 billion in 2018, to $8.7 billion in 2019. In 2020, when COVID-19 broke out, net FDI flows to the Philippines further declined to just $6.6 billion.

Nevertheless, despite all the challenges faced by the Philippines, the United States continues to be a huge source of fresh equity capital (one of three components of FDI). Among 123 equity capital sources, the United States is the second largest with a total of $5.3 billion invested since 2005. The largest source is Japan with $5.9 billion. Singapore rounds out the top three at $3.3 billion.

Given their shared history and culture, the Philippines and the United States have amassed a significant amount of social capital between them, which could explain why US investors continue to be a leading source of capital in the Philippines. In fact, Filipinos' trust in the United States continues to be high, as revealed by the 2020 National Mobile Phone Survey of the Social Weather Stations (SWS). The United States received a net trust rating of +42 ("Good") in 2020. Also, according to SWS, net trust in the United States has remained positive since the survey started in December 1994.

The Gameplan for Economic Recovery and Resilience

Now, what must be done to jumpstart economic recovery and build up resilience? Philippines national economic managers have outlined a three-point gameplan: 1) rolling out vaccines more efficiently, 2) easing restrictions more carefully, and 3) employing recovery packages more effectively. Indeed, utilizing US FDI to bolster these three tasks should prove to be highly beneficial.

Vaccinations will be crucial in restoring both business and consumer confidence, which, according to Moody's Analytics, have sharply declined from where they were three years ago. Thankfully, the United States has been

Dr. Ser Percival K. Peña-Reyes, Director of the Ateneo Center for Economic Research and Development explains that "despite all the challenges faced by the Philippines, the United States continues to be a huge source of fresh equity capital (one of three components of FDI). Among 123 equity capital sources, the United States is the second largest..."

helping the Philippines massively through vaccine distribution, as reported by the US Department of State. US FDI could be instrumental in building more testing, tracing, and treatment facilities. However, a Philippine Institute for Development Studies (PIDS) discussion paper cites low healthcare spending, financing, and governance as factors discouraging greater investment. PIDS suggests three regulatory actions to enhance the attractiveness of the healthcare sector: 1) raising the equity threshold for hospital foreign investments to 100 percent, 2) offering further tax breaks to healthcare investors, and 3) streamlining the approval process for investments in the sector.

To maximize the efficacy of stimulus spending, investment must be channeled to economic activities that create the most benefits for the domestic economy through the widest network of linkages. Agribusiness, which has long been cited as a promising investment destination for FDI, is notable for the following: 1) its proven resilience during the recession, 2) its prevalence in the safest geographical areas for economic resumption, and 3) its strong interlinkages with the rest of the economy

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Aside from agribusiness, there are six other promising sectors where the Philippines has had competitive advantages and high growth and employment potential. With its strategic geographical position within Southeast Asia, large youthful English-speaking population, and access to fast-growing markets through free trade agreements, the Philippines should still be situated to attract large FDI inflows that can create new high-quality jobs in the following sectors: 1) Information Technology-Business Process Outsourcing; 2) Creative Industries; 3) Infrastructure; 4) Manufacturing and Logistics; 5) Mining; and 6) Tourism, Medical Travel, and Retirement.

Regarding legislation that will help attract even more FDI, three recent developments are noteworthy. First is the Retail Trade Liberalization Act (RTLA), which removes the requirement for a certificate of pre-qualification to the Philippine Board of Investments (BOI) and lowers the investment requirements for each store owned by a foreign enterprise. President Duterte approved the final amendments to RTLA in late 2021. Next are amendments to the Foreign Investment Act (FIA) and Public Service Act (PSA) which were signed into law this March. The updates to FIA allow international investors to set up and fully own domestic enterprises (including micro and small enterprises) in the Philippines. Similarly, changes to PSA allow up to 100 percent foreign ownership of public services in the country

The pandemic has fostered a “new normal” in which retail sales, meetings, events, education, entertainment, payments, and more are facilitated via digital platforms at higher rates than ever before. This transition may make the digital economy an attractive prospect for US FDI. The Biden Administration previously asserted that digital economy and technology would be a key facet of the comprehensive Indo-Pacific Economic Framework it is developing. The Philippines must strive to take advantage of these economic and policy trends. Financing the extension of the nation’s logistics system will be a crucial component to support the growth of the digital economy. Moreover, last-mile logistics could also provide wide employment opportunities, even in the countryside.

Conclusion

Brisk though it was before the pandemic, Philippine economic growth had long been characterized as narrow, shallow, and hollow. Sadly, the failure to spread the benefits of growth widely across regions and sectors has resulted in fragility that caused a tragic reversal of Philippine economic fortunes during the pandemic. A large informal economy, a low propensity to save or invest, and widespread financial and digital exclusion have been clear manifestations of such fragility.

The Philippines stands to benefit from all the help it can get, especially from a close ally like the US, to jumpstart economic recovery and build up resilience through a more inclusive distribution of productive resources. Hopefully, this proverbial shot in the arm will help uplift Filipinos’ lives in the years to come.

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