

Aldaba, Rafaelita M.

Working Paper

Getting Ready for the ASEAN Economic Community 2015: Philippine Investment Liberalization and Facilitation

PIDS Discussion Paper Series, No. 2013-03

Provided in Cooperation with:

Philippine Institute for Development Studies (PIDS), Philippines

Suggested Citation: Aldaba, Rafaelita M. (2013) : Getting Ready for the ASEAN Economic Community 2015: Philippine Investment Liberalization and Facilitation, PIDS Discussion Paper Series, No. 2013-03, Philippine Institute for Development Studies (PIDS), Makati City

This Version is available at:

<https://hdl.handle.net/10419/126917>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Getting Ready for the ASEAN Economic Community 2015: Philippine Investment Liberalization and Facilitation

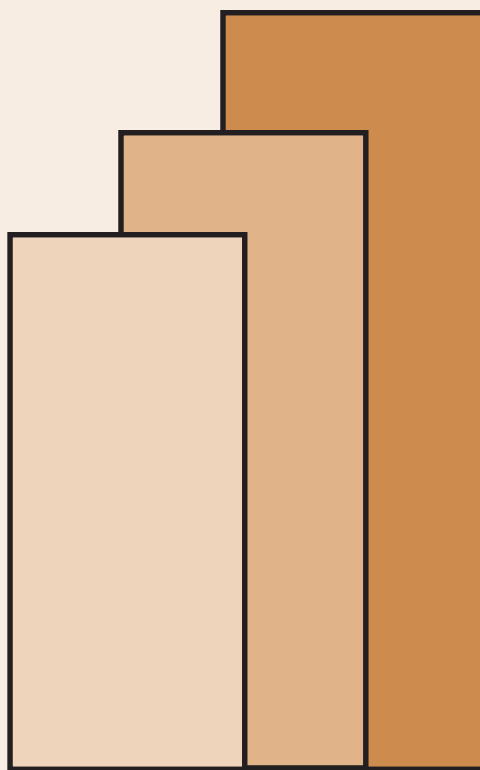
Rafaelita M. Aldaba

DISCUSSION PAPER SERIES NO. 2013-03

The *PIDS Discussion Paper Series* constitutes studies that are preliminary and subject to further revisions. They are being circulated in a limited number of copies only for purposes of soliciting comments and suggestions for further refinements. The studies under the *Series* are unedited and unreviewed.

The views and opinions expressed are those of the author(s) and do not necessarily reflect those of the Institute.

Not for quotation without permission from the author(s) and the Institute.



January 2013

For comments, suggestions or further inquiries please contact:

The Research Information Staff, Philippine Institute for Development Studies

5th Floor, NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, Makati City, Philippines

Tel Nos: (63-2) 8942584 and 8935705; Fax No: (63-2) 8939589; E-mail: publications@pids.gov.ph

Or visit our website at <http://www.pids.gov.ph>

Summary

The paper examines the state of investment liberalization and facilitation in the Philippines and suggests policy measures to enable the country to comply with its AEC commitments. Based on interviews and surveys; the results indicated that investment incentives, low tax rates and time/cost of starting a business are critical factors affecting firms' decision to invest in the Philippines. The respondents noted significant improvements in political stability and level of corruption. A great majority of the firms also indicated future expansion of their operations and the ASEAN market as a significant factor in their investment decision.

In evaluating the quality, servicing, policy, and strategy of investment promotion agencies (IPAs), the Philippines obtained a quite respectable score of 71%. The firms rated government agencies' investment facilitation and promotion activities as satisfactory. They cited bureaucracy and slow processing of permits as most problematic issues affecting their operations. They also pointed out the lack of transparency in guidelines and procedures, corruption, and the non-uniformity of investment incentives given by the major IPAs. Meanwhile, according to IPAs, the most problematic procedures that investors face in establishing business are permits from Local Government Units (LGUs), environmental compliance certificate from the DENR-Mines and Geosciences Bureau, and visa from the Bureau of Immigration.

To reduce the gap between policy and implementation and boost the country's competitiveness, the paper suggests the unification and centralization of the investment promotion and facilitation efforts by all IPAs under one agency. It is also necessary to strengthen the current efforts of the Philippine Investment Promotion Plan (PIPP) inter-agency committee to coordinate the various IPAs' actions and plans. To improve the operational environment and investment climate, IPAs should closely collaborate with national agencies and local government units particularly in the automation and streamlining of business procedures. Currently, the DTI and the DILG are intensifying their efforts to improve the business permit and licensing system. PEZA's experience in effectively streamlining its procedures is also worth emulating.

To face the challenges and take advantage of the opportunities arising from AEC 2015, the reforms suggested above must be accompanied by substantial increases in infrastructure investment particularly in power and logistics to reduce the cost of doing business in the country. Modern and efficient air, land, and sea infrastructure should be built fast enough. A comprehensive review of the Constitutional limitations on foreign equity particularly the 60-40 rule should also be pursued.

Keywords: AEC 2015, investment facilitation, promotion and liberalization, investment promotion agencies (IPAs), Philippines

Getting Ready for the ASEAN Economic Community (AEC) 2015
Philippine Investment Liberalization and Facilitation
Rafaelita M. Aldaba¹

I. Introduction

The principal investment cooperation program of the ASEAN Economic Community (AEC) has been the ASEAN Investment Area which has been expanded to the ASEAN Comprehensive Investment Agreement (ACIA). One major initiative of the AEC Blueprint is the enhancement of the existing ASEAN Investment Area (AIA) into a more thorough and improved ASEAN Comprehensive Investment Agreement (ACIA) that will take into account international best practices and will be based on the following four pillars of the AIA: liberalization, protection, facilitation, and promotion.

Liberalization: There will be progressive liberalization of member countries' investment regimes to achieve free and open investment by 2015. ASEAN member countries are committed to (i) extend non-discriminatory treatment, including national treatment and most favoured treatment, to investors in ASEAN with limited exceptions; minimize and where possible, remove such exceptions; (ii) reduce and where possible, remove restrictions to entry for investments in the Priority Integration Sectors covering goods; and (iii) reduce and where possible, remove restrictive investment measures and other impediments, including performance requirements.

Protection: Unlike the AIA, the ACIA will provide enhanced protection to all investors and their investments. The ACIA provisions will be strengthened to include provisions on investor-state dispute settlement mechanisms; transfer and repatriation of capital, profits, dividends, etc; transparent coverage on the expropriation and compensation; full protection and security; and treatment of compensation for losses resulting from strife.

Investment Facilitation: The ACIA will provide more transparent, consistent and predictable investment rules, regulations, policies and procedures. ASEAN member countries will commit to harmonize, where possible, investment policies to achieve industrial complementation and economic integration; streamline and simplify procedures for investment applications and approvals; promote dissemination of investment information: rules, regulations, policies and procedures, including a one-stop investment center or investment promotion board; strengthen databases on all forms of investments covering goods and services to facilitate policy formulation; strengthen coordination among government ministries and agencies concerned; consultation with ASEAN private sectors to facilitate investment; and identify and work towards areas of complementation ASEAN-wide as well as bilateral economic integration.

¹ Senior Research Fellow, PIDS. The author is grateful for the excellent research assistance of Donald Yasay and Jocelyn Almeda. The technical and financial assistance of the Economic Research Institute for ASEAN and East Asia (ERIA) to PIDS is gratefully acknowledged.

Promotion: The AEC also commits ASEAN member countries to promote ASEAN as an integrated investment area and production network through specific actions to create the necessary environment to promote all forms of investment and new growth areas into ASEAN; promote intra-ASEAN investments, particularly investments from ASEAN 6 to CLMV; promote the growth and development of SMEs and MNEs; promote industrial complementation and production networks among MNCs in ASEAN; promote joint investment missions that focus on regional clusters and production networks; and work towards establishing an effective network of bilateral agreements on avoidance of double taxation among ASEAN countries.

The AEC Blueprint recognizes the importance of creating an integrated production base to capture investment into the region as well as increasing the region's competitive edge as a manufacturing base that is globally-oriented. Aldaba, Yap and Petri (2009) noted that though the net potential impact of the investment features and provisions is expected to be positive, the ACIA needs to be strengthened to be more effective through the adoption of a collective approach and common time frame of trade and investment liberalization; transferring mode 3 of services (commercial presence) from the ASEAN Framework Agreement on Services (AFAS) to the ACIA; and consolidating the ACIA, the 1987 Agreement for the Promotion and Protection of Investments, and appropriate provisions of bilateral investment treaties.

Aldaba et al further argued that the ACIA by itself does not guarantee that FDI would flow automatically to the region. Individual ASEAN countries are facing the huge challenge of improving their competitiveness. For the AEC implementation to be successful, it has to be accompanied by complementary policies and programs especially at the national level. Member Countries should continue to implement their investment and trade reforms in line with the ACIA and improve their domestic business environment, including economic regulations, corporate governance, and labor laws. Member Countries should also develop their logistics infrastructure and stable legal and economic systems to increase FDI inflows. ASEAN Member Countries need to come up with, unilaterally and collectively, structural adjustment and reform assistance and capacity building measures to help those that would be adversely affected by the reforms.

Within this context, the objectives of the paper are twofold: first, examine the state of investment liberalization and facilitation in the Philippines and second, suggest policy measures to enable it not only to comply with its AEC commitments, but most importantly, help the country in facing the challenges and opportunities arising from the AEC. A survey-interview of private sector companies was conducted to gather information on their investment facilitation and promotion experiences and assess whether there are any gaps between actual and committed targets. The paper is divided into five parts: after the introduction, part II looks at the government's FDI liberalization policy as well as the investment promotion and facilitation initiatives. Part III provides an analysis of the FDI performance of the country. Part IV presents the survey results and part V summarizes the findings and implications of the results.

II. Philippine Foreign Direct Investment Policy

A. Liberalization

Beginning in the 1990s, Philippine foreign direct investment policy has changed considerably from a restrictive and complicated regulatory system towards a more open one (see Table 1). Given the need to expand exports and the potential economic contribution of FDI through the transfer of knowledge and experience, the Philippines adopted more open and flexible policies toward FDI. This was carried out simultaneously with the country's market-oriented reforms in the 1990s. In June 1991, the country accelerated the FDI liberalization process through the legislation of Republic Act 7042 or the Foreign Investment Act (FIA).

The FIA considerably liberalized the existing regulations by allowing foreign equity participation up to 100% in all areas not specified in the Foreign Investment Negative List (or FINL, which originally consisted of three component lists: A, B, and C)². Prior to this, 100% eligibility for foreign investment was subject to the approval of the Board of Investments. The FIA was expected to provide transparency by disclosing in advance, through the FINL, the areas where foreign investment is allowed or restricted. It also reduced the bureaucratic discretion arising from the need to obtain prior government approval whenever foreign participation exceeded 40%.

Over time, the negative list has been reduced significantly. In March 1996, RA 7042 was amended through the legislation of RA 8179 which further liberalized foreign investments allowing greater foreign participation in areas that were previously restricted. This abolished List C which limited foreign ownership in "adequately served" sectors. Currently, the FIA has two component lists (A and B) covering sectors where foreign investment is restricted below 100% under the Constitution or those with restrictions mandated under various laws.

In the mid-1990s, Republic Act 7721 (1994 Foreign Bank Liberalization) allowed the establishment of ten new foreign banks in the Philippines. With the legislation of Republic Act 8791 (General Banking Law) in 2000, a seven-year window was provided allowing foreign banks to own up to 100 percent of one locally-incorporated commercial or thrift bank (with no obligation to divest later).

In March 2000, Republic Act 8762 (Retail Trade Liberalization Law) allowed foreign investors to enter the retail business and 100% ownership as long as they put up a minimum of US\$7.5 million equity³. A lower minimum capitalization threshold of US\$250,000 is allowed to foreigners seeking full ownership of firms engaged in high-end

²List A: consists of areas reserved for Filipino nationals by virtue of the Constitution or specific legislations like mass media, cooperatives or small-scale mining.

List B: consists of areas reserved for Filipino nationals by virtue of defense, risk to health and moral, and protection of small and medium scale industries.

List C: consists of areas in which there already exists an adequate number of establishments to serve the needs of the economy and further foreign investments are no longer necessary.

³ Singapore and Hong Kong have no minimum capital requirement while Thailand sets it at US\$250,000.

or luxury products. R.A. 8762 also allowed foreign companies to engage in rice and corn trade.

Table 1: A chronology of FDI policy reforms and major legislations

Year	Legislation	Description
1987	Omnibus Investment Code	<ul style="list-style-type: none"> simplified and consolidated previous investment laws
1991	Foreign Investment Act [RA 7042]	<ul style="list-style-type: none"> liberalized existing regulations & allowed foreign equity participation up to 100% in all areas not specified in the Foreign Investment Negative List (FINL)
1992	Bases Conversion and Development Act (RA 7227)	<ul style="list-style-type: none"> created the Bases Conversion and Development Authority (BCDA) and the Subic Bay Metropolitan Authority (SBMA) to adopt, prepare and implement a comprehensive development program for the conversion of the Clark and Subic military reservations into special economic zones
1993	Executive Order 8	<ul style="list-style-type: none"> established the Clark Development Corporation (CDC), as the implementing arm of the BCDA for the Clark Special Economic Zone
1994	Foreign Bank Liberalization	<ul style="list-style-type: none"> allowed the establishment of ten new foreign banks
1995	Special Economic Zone Act [RA 7916]	<ul style="list-style-type: none"> created the Philippine Economic Zone Authority (PEZA) to manage and operate government-owned zones and administer incentives to special economic zones
1996	Republic Act 8179	<ul style="list-style-type: none"> further liberalized foreign investments & allowed greater foreign participation in areas that were previously restricted
2000	Retail Trade Liberalization Act [RA 8762]	<ul style="list-style-type: none"> allowed foreign investors to enter the retail business and own them 100% as long as they put up a minimum of US\$7.5 million equity
2000	General Banking Law [RA 8791]	<ul style="list-style-type: none"> allowed foreign banks to own up to 100% of one locally-incorporated commercial or thrift bank during a 7-year window
2005	Supreme Court Decision	<ul style="list-style-type: none"> Supreme Court revoked the incentives for Clark Special Economic Zone under RA 7227, stating that RA 7227 did not grant privileges to locators operating in Clark
2006	Presidential Proclamation 1035	<ul style="list-style-type: none"> declared the Clark Special Economic Zone as a PEZA Special Economic Zone
2007	Amendment to RA 7227 [RA 9399]	<ul style="list-style-type: none"> provided a one time tax amnesty on all applicable tax and duty liabilities incurred by the zone enterprises
2007	Amendment to RA 7227 [RA 9400]	<ul style="list-style-type: none"> restored the fiscal incentives and privileges enjoyed by the affected zones

Source: Aldaba 2007.

To develop international financial center operations in the Philippines and facilitate the flow of international capital into the country, foreign banks have been allowed to establish offshore banking units (OBUs). OBUs are subject to virtually no exchange control on their offshore operations and are not subject to tax on income they source from outside the Philippines. Only income from foreign currency transactions with local banks, including branches of foreign banks that are authorised by the *Bangko Sentral ng Pilipinas* to transact business with OBUs and Philippine residents is subject to a final tax of 10%. Non-residents are exempt from income tax on income they derive from transactions with OBUs.

Table 2: Remaining FDI barriers

List A	Sector
No foreign equity	1. Mass Media except recording 2. Practice of all professions 3. Retail trade enterprises with paid-up capital of less than US\$2,500,000 4. Cooperatives 5. Private Security 6. Small-scale Mining 7. Utilization of Marine Resources in archipelagic waters, territorial sea, and exclusive economic zone as well as small-scale utilization of natural resources in rivers, lakes, bays, and lagoons 8. Ownership, operation and management of cockpits 9. Manufacture, repair, stockpiling and/or distribution of nuclear weapons 10. Manufacture, repair, stockpiling and/or distribution of biological, chemical and radiological weapons and anti-personnel mines 11. Manufacture of firecrackers and other pyrotechnic devices
Up to 20% Foreign equity	12. Private radio communications network
Up to 25% foreign equity	13. Private recruitment, whether for local or overseas employment 14. Contracts for the construction and repair of locally-funded public works 15. Contracts for the construction of defense-related structures
Up to 30%	16. Advertising
Up to 40%	17. Exploration, development and utilization of natural resources 18. Ownership of private lands 19. Operation and management of public utilities 20. Ownership/establishment and administration of educational institutions 21. Culture, production, milling, processing, trading excepting retailing, of rice and corn and acquiring, by barter, purchase or otherwise, rice and corn and the by-products 22. Contracts for the supply of materials, goods and commodities to government-owned or controlled corporation, company, agency or municipal corporation 23. Project Proponent and Facility Operator of a BOT project requiring a public utilities franchise 24. Operation of deep sea commercial fishing vessels 25. Adjustment Companies 26. Ownership of condominium units where the common areas in the condominium project are co-owned by the owners of the separate units or owned by a corporation
Up to 60%	27. Financing companies regulated by the Securities and Exchange Commission (SEC) 28. Investment houses regulated by the SEC
List B	
Up to 40%	1. Manufacture, repair, storage, and/or distribution of products and/or ingredients requiring Philippine National Police (PNP) clearance: 2. Manufacture, repair, storage and/or distribution of products requiring Department of National Defense (DND) clearance: 3. Manufacture and distribution of dangerous drugs 4. Sauna and steam bathhouses, massage clinics and other like activities regulated by law because of risks posed to public health and morals 5. All forms of gambling, except those covered by investment agreements with PAGCOR and operating within PEZA zones 6. Domestic market enterprises with paid-in equity capital of less than the equivalent of US\$200,000 7. Domestic market enterprises which involve advanced technology or employ at least fifty (50) direct employees with paid-in-equity capital of less than the equivalent of US\$100,000

Source: Executive Order 858 (8th Regular Foreign Investment Negative List, Feb. 5, 2010)

Incentives have also been offered to multinationals that establish regional headquarters (RHQ) or a regional operating headquarters (ROHQ) in the Philippines. Both RHQs and ROHQs are entitled to the following incentives: exemption from all taxes, fees, or charges imposed by a local government unit except real property tax on land improvements and equipment; tax and duty free importation of training materials and

equipment; and direct importation of new motor vehicles, subject to the payment of the corresponding taxes and duties.

While substantial progress has been made in liberalizing the country's FDI policy, certain significant barriers to FDI entry still remain (see Table 2). The sectors with foreign ownership restriction include mass media (no foreign equity), land ownership (foreign ownership is limited to 40%), natural resources, firms that supply to government-owned corporations or agencies (40%), public utilities (40%), and Build-Operate-Transfer (BOT) projects (40%). Constitutional change is necessary to remove these barriers.

The 8th Foreign Investment Negative List which was issued in February 2010 did not differ substantially from the previous List (7th issued in December 2006). The recent List allowed entry of foreign investors in the local gaming sector provided they are covered by investment agreements with the Philippine Amusement and Gaming Corporation (PAGCOR) and are situated within zones administered by the PEZA.

Based on the FDI policy of ASEAN countries covering foreign ownership or market access, national treatment, screening and approval procedure, board of directors and management composition, movement of investors, and performance requirement, Urata and Ando (2010) calculated FDI restrictiveness indices. Their results showed that with an overall score of 0.237, the Philippines is generally considered as relatively open. However, the country received a score of 0.257 for market access and 0.279 for national treatment indicating the presence of FDI restrictions in these areas. Barriers are particularly high in the services sector consisting of professional, scientific, and technical activities, transportation and storage, real estate activities, public administration and defense, compulsory social security, and education. Some barriers are also present in the agriculture, forestry and fishing, mining and quarrying, as well as in administrative and support activities. The study also found restrictions on board of directors and management composition as rather severe for the Philippines. The study also indicated the imposition of performance requirements to receive incentives.

B. Investment Promotion and Facilitation

(i) Investment Promotion Agencies

As the Philippines shifted its orientation from import-substitution towards export promotion, the country implemented trade and investment liberalization and pursued changes in its overall investment and investment incentive policies. Incentives along with simplified registration procedures have become the centerpiece of the country's investment promotion strategy. Fiscal and non-fiscal incentives have been conferred to preferred activities under the Omnibus Investments Code (OIC) and export-oriented enterprises in economic zones. The Board of Investments (BOI) offers incentives to firms located outside economic or free port zones. The major economic zones are supervised by the Philippine Economic Zone Authority (PEZA), Subic Bay Metropolitan Authority (SBMA), and Clark Development Corporation (CDC).

The Board of Investments (BOI), the country's lead agency tasked with investment promotion, administers the incentives under the OIC including the registration and monitoring of enterprises. Every year, the BOI identifies preferred activities in its Investment Priorities Plan (IPP). If the areas of investment are not listed in the IPP, enterprises may still be entitled to incentives, provided: (i) at least 50% of production is for exports, for Filipino-owned enterprises; and (ii) at least 70% of production is for export, for majority foreign-owned enterprises (more than 40% of foreign equity). In 1987, a new Omnibus Investments Code was legislated which simplified and consolidated previous investment laws. It also established a One Stop Action Center (OSAC) and streamlined the approval process.

To promote export-oriented investment, several other legislations containing investment incentive packages to outward-oriented FDI were legislated. The most important are RA 7227 known as the Bases Conversion and Development Act of 1992 and RA 7916 or the Special Economic Zone Act of 1995. RA 7227 created two separate administrative bodies, the Bases Conversion and Development Authority (BCDA) and the Subic Bay Metropolitan Authority (SBMA), tasked with adopting, preparing and implementing a comprehensive development program for the conversion of the Clark and Subic military reservations into special economic zones. The BCDA is mandated to oversee and implement the conversion and development of Clark and other military stations; while the SBMA is mandated to oversee the implementation of the development programs of the Subic Bay Naval Station and surrounding communities. BCDA administered zones cover Clark, John Hay Special Economic Zone, Poro Point Freeport Zone, and Bataan Technology Park.

Republic Act 7916 created the Philippine Economic Zone Authority (PEZA) to manage and operate government-owned zones and administer incentives to special economic zones. RA 7916 allowed greater private sector participation in zone development and management and allowed zone developers to supply utilities to tenants by treating them as indirect exporters. Activities permitted within the economic zones have also been expanded.

The Philippine Medium Term Development Plan (MTPDP) 2004-2010 recognizes the importance of investment promotion and facilitation in attracting investment to the country. The Plan focuses on competitive incentive packages for selected sectors covering information technology and IT-enabled services, automotive, electronics, mining, healthcare and wellness, tourism, shipbuilding, fashion garments, jewelry, and agribusiness. It also directs efforts to further simplify registration procedures through the reduction of documentary requirements, processing times, steps and fees and issuances of various certifications and the implementation of a nationwide on-line registration and monitoring of investments.

In line with the investment objectives and strategies of the MTPDP, the country's major IPAs have been initiating measures to apply international best practices and streamline business procedures. In 2008, BOI reorganized its structure to focus more on investment promotions by providing information assistance and investment facilitation of investors' transactions, investment advice, investment matching and business linkages services. BOI's OSAC was transformed into the National Economic Research and Business Action

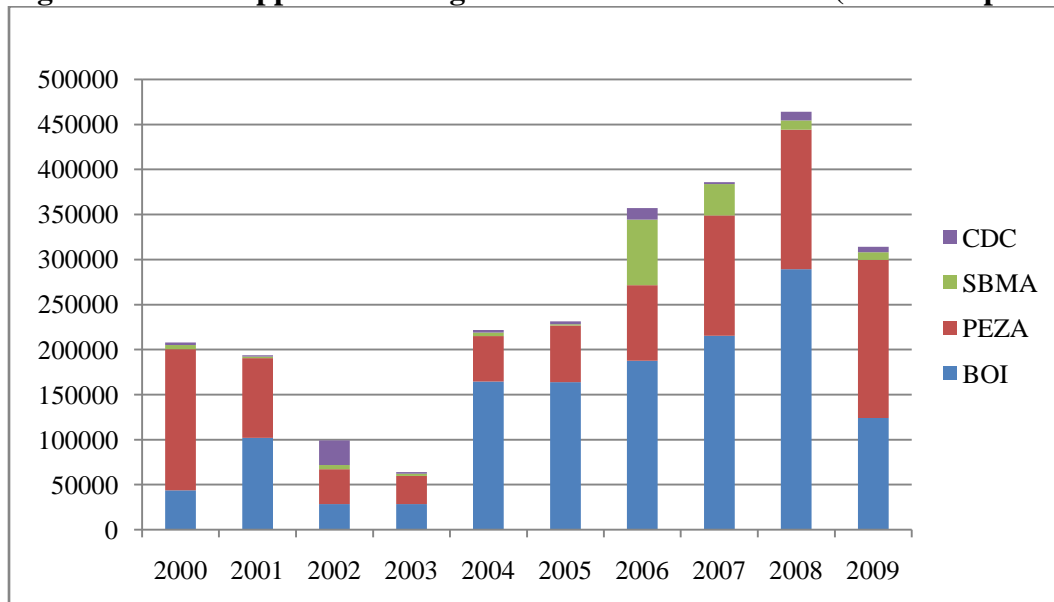
Center (NERBAC) which gathers together under one roof representatives from various government agencies to answer investor queries and process investors' business registration. BOI also created the Investments Aftercare Department to encourage investors to locate and retain their investments by providing assistance to address investors' issues and concerns after they have set up their business in the country.

PEZA has a one-stop and non-stop shop operating 24/7. It issues building and occupancy permits as well as import and export permits. Special non-immigrant visa processing is done in PEZA along with other required processes such as issuance of environmental clearance. PEZA locators are exempted from local government business permits. The Clark Development Corporation (CDC) also has a One Stop Action Center (OSAC) that facilitates evaluation and approval of investment projects within a 30-day period.

Figure 1a presents the total approved domestic and foreign investments for the four agencies from 2000 to 2009. Total approved investments increased to P464.2 billion in 2008 from P231 billion in 2005. In 2009, the total dropped to P314 billion. On the average, for the period 2000-2009 BOI leads as it accounted for 53 percent of the total while PEZA registered a share of 38 percent. SBMA and CDC cornered 6 and 3 percent of the total, respectively.

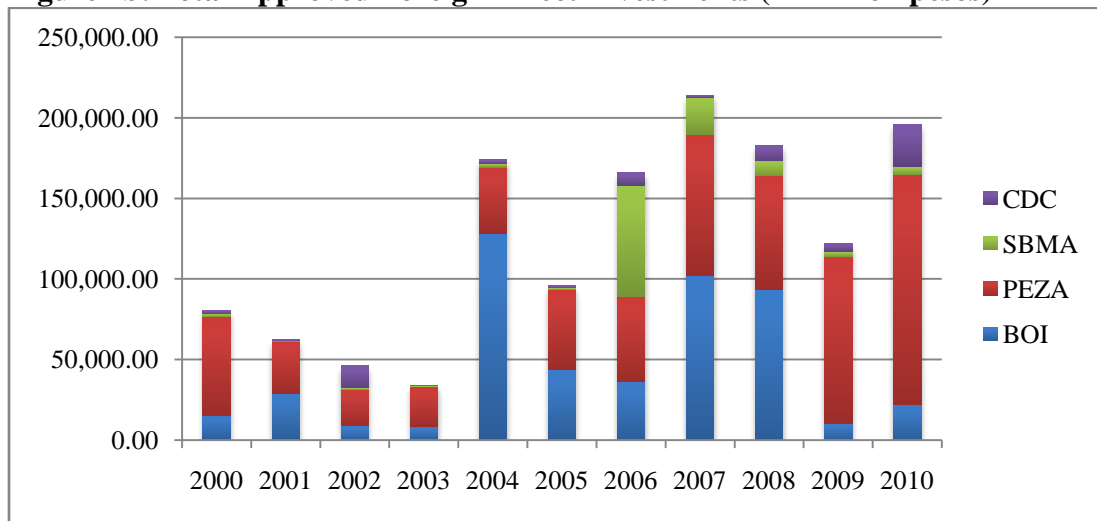
Figure 1b shows the approved foreign investments for the four agencies from 2000 to 2009. Total approved investments increased to P214 billion in 2007 from P174 billion in 2004. In 2008 and 2009, the total dropped to P183 billion and 122 billion, respectively. This went up to P196.1 billion in 2010. On the average, for the period 2000-2010 PEZA accounted for the bulk of the total approved FDI with a share of 54 percent. Next is BOI with a share of 34 percent while SBMA and CDC registered almost equal shares of 6 percent each.

Figure 1a: Total Approved Foreign & Domestic Investments (in million pesos)



Source of basic data: BOI

Figure 1b: Total Approved Foreign Direct Investments (in million pesos)



Source of basic data: BOI

With the apparent success of PEZA, SBMA and CDC in attracting foreign direct investment flows, the government has become more aggressive in its creation of more economic zones. This includes the Cagayan Economic Zone Authority (CEZA), Phividec Industrial Authority (PIA), and Zamboanga Economic Zone Authority (ZEZA) which have been mandated to establish, maintain, and manage special economic or free port zones.

(ii) IPA Coordination and Crafting of the First Philippine Investment Plan

Currently, the investment promotion regime is characterized by different investment regimes administered by different government bodies. The various laws governing investment promotion and administration of investment incentives have led to a complex system and in the absence of a central body coordinating and monitoring the different investment promotion agencies, there seems to be a lack of a coherent and integrated approach in the administration and monitoring of investment incentives.

Table 3 shows a comparison of the major incentives provided by the different investment incentive-giving bodies. BOI-registered enterprises are allowed income tax holiday (ITH) up to eight years, tax and duty free importation of spare parts, and tax credit on raw materials. After the lapse of the income tax holiday, the regular corporate tax rate of 30% of gross income will apply to BOI enterprises. PEZA grants the most generous incentives covering income tax holiday, basic income tax rate of 5% of gross income, and tax and duty free importation of capital equipment, spare parts, and raw material inputs. Except for the income tax holiday, Clark and Subic enterprises enjoy the same incentives available to PEZA enterprises.

In the absence of a single uniform legislation on the granting of investment incentives, legal issues have emerged affecting the certainty of investments in the country. In October 2004 and July 2005 the Supreme Court nullified the fiscal incentives at the four special economic zones under BCDA (Clark, John Hay, Poro Point, and Bataan) and

ruled that RA 7227 granted incentives only to Subic locators (see Table 1). With the decision, all the affected locators would be subject to back taxes and duties. In March 2006, Presidential Proclamation 1035 was signed declaring the Clark Special Economic Zone as a PEZA Special Economic Zone. In April 2007, two legislations were passed, RA 9339 and 9400, which provided a onetime tax amnesty on all applicable tax and duty liabilities incurred by the zone enterprises during the period that the incentives were rendered ineffective and restored the fiscal incentives and privileges enjoyed by the affected zones, respectively.

Table 3: Incentives offered by different IPAs in the Philippines

	IPA	BOI OIC	PEZA	SBMA	CDC
Incentives	Income	4-8 years ITH	4-8 years ITH	No ITH	No ITH
	Others	After ITH, payment of the regular corporate tax	After ITH, special rate of 5% tax on gross income in lieu of national & local taxes	5% tax on gross income in lieu of all local & national taxes	5% tax on gross income in lieu of all local & national taxes
	Raw materials & supplies	Tax credit	Tax & duty exemption	Tax & duty exemption	Tax & duty exemption
	Breeding stocks & genetic materials	Tax exemption within 10 years from registration	Tax & duty exemption	Tax & duty exemption	Tax & duty exemption
	Capital equipment, spare parts, materials & supplies	Tax & duty exemption on spare parts (duty & tax free importation of capital equipment expired in 1997 but were restored in 2004) ⁴	Tax & duty exemption	Tax & duty exemption	Tax & duty exemption

Source: Aldaba 2007

In recent years, several legislative bills have been filed to create a single body that will coordinate the activities of IPAs. In the 12th Congress, Senate Bill 2411 would merge BOI and PEZA to create the Philippine Investments Promotions Administration (PIPA) and rationalize the country's fiscal incentive package. Under the 13th Congress, Senate Bill 1104 would also create a single body that will monitor the activities of IPAs, rationalize the investment incentive system, and craft more uniform incentives across the different IPAs. In the 14th Congress, Senate Bill 1640, which would also merge BOI and PEZA to establish PIPA, remained pending.

In November 2009, the Department of Trade and Industry formed a steering committee consisting of DTI and eleven (11) IPAs⁵ to formulate the first Philippine Investments

⁴ Executive Order 313 (2004) restored these incentives.

⁵ BOI, Philippine Economic Zone Authority (PEZA), Clark Development Authority (CDA), Subic Bay Metropolitan Authority (SBMA), Bases Conversion Development Authority (BCDA), Philippine Retirement Authority (PRA), Cagayan Economic Zone Authority (CEZA), Zamboanga City Special

Promotions Plan (PIPP). The PIPP would serve as guide to harmonize policy-making, planning and promotional strategies, programs and projects of the various IPAs. Among the steps that have been identified is the creation of a comprehensive investment portal that will integrate information on all IPAs in the country. This would combine the websites of all IPAs and list of their registered companies allowing data sharing among IPAs. Another important measure is the plan to create an interagency body to oversee the implementation and monitoring of investment programs, activities and projects. A list of target sources of investments have also been drafted along with measures to benchmark with competing countries in providing investment facilitation services.

Recently, the IPAs announced that investment efforts will target a doubling of FDI inflows in five years, i.e., by 2014. The agencies will focus on ten opportunity sectors covering agro-industry, food processing, electronics and chip manufacturing, business process outsourcing and information technology, energy, mining, logistics, aviation, shipbuilding, and tourism. Each agency will be assigned sectors where its competency lies and will adopt the same sectoral strategies applied by all IPAs. The IPAs will use the same set of information and promotional materials to eliminate confusion among prospective investors especially in terms of investment sites and procedures.

Meanwhile, the Joint Foreign Chambers identified similar sectors that could bring in substantial investments to the Philippines but sought much higher investment targets. The Foreign Chambers list covers seven big winners, high growth sectors consisting of agri-industry, business process outsourcing, creative industries, infrastructure and logistics, manufacturing, mining, and tourism (including medical travel and retirement). On the whole, the Foreign Chambers believe that the country has very high potential to join the group of high growth economies provided it adopts the following strategies: exploit and integrate with the world economy, maintain macroeconomic stability, increase rates of saving and investment, allow market competition to work, and instill a committed, credible and capable government (J. Forbes 2010).

III. FDI Performance: Trends, Patterns, Distribution and Sources

Figure 2 presents the inward FDI flows in the Philippines from the 1970s to 2008. FDI inflows from the 1970s to the 1980s were small and erratic, due mainly to the political and economic instability that characterized the country in these decades. As a result, it failed to take advantage of the rapid growth of Japanese FDI in the mid-1980s following the 1985 Plaza Accord. In the 1990s, overall FDI inflows improved substantially as well as in the 2000s. However, competition has become much fiercer especially given China's growing share. FDI as percentage of gross domestic product (GDP) reached almost 3% in 2000, and about 2.5% in 2006, however, the ratio dropped to 0.9% in 2008 primarily due to the global economic crisis; but increased to 1.2% in 2009.

Economic Zone Authority and Freeport (ZCSEZAF), Regional Board of Investments of Autonomous Region in Muslim Mindanao (RBIARMM), Phividec Industrial Authority (PRA) and Aurora Special Economic Zone Authority (ASEZA).

Figure 2: FDI Performance, 1995-2009

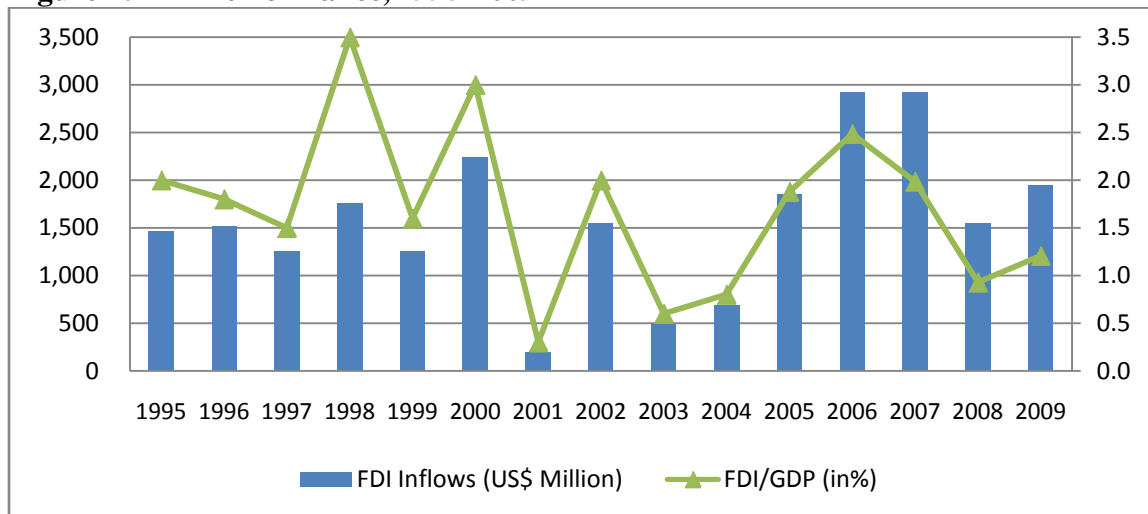


Figure 3 presents a sectoral breakdown of FDI⁶ for the three periods 1980-1989, 1990-1999, and 2000-2009. As Figure 3 shows, manufacturing FDI dominated total FDI inflows with its share of 46 percent during the 1980s and the 1990s. This increased to about 48 percent in the 2000s. The share of the financial sector rose from 8 percent in the 1980s to 18 percent in the 1990s but declined to about 10 percent in the recent period 2000-2009. Transport, storage and communication sector also witnessed an increase in its share from 1 percent to 17 percent between the 1980s and the 1990s, but this declined to 5 percent in the current period. The share of mining and quarrying was reduced from 34 percent in the 1980s to 4 percent in the 1990s. This went up slightly to 5 percent during the 2000s. Wholesale and retail witnessed a slight increase in share from 3 percent to 4 percent between the 1980s and the 1990s, but this was reduced to 1 percent in the 2000.

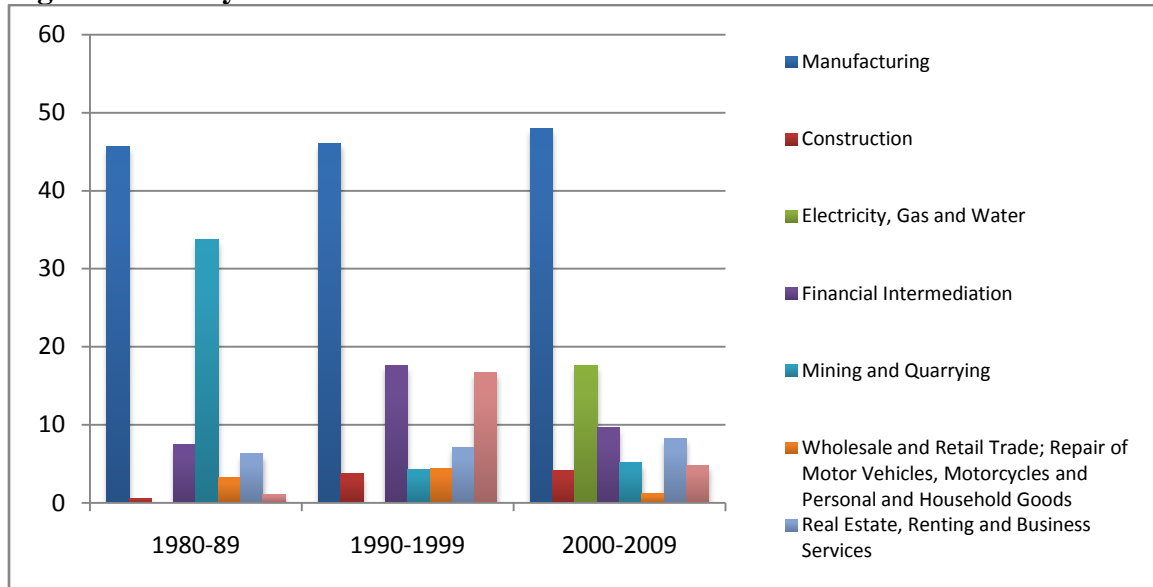
Electricity, gas and water registered a share of 13 percent in the most recent period. Construction share also rose from less than 1 percent in the 1980s to 4 percent during the 1990s and the 2000s. Real estate, renting and business services' share went up from 6 percent in the 1980s to 7 percent in the 1990s and to 8 percent in the 2000s.

Within manufacturing, FDI inflows have been dominated by the food and beverage sector increasing substantially from a share of 27 percent in the 1990s to 57 percent during the 2000-2009 period (see Figure 4). The share of basic metals and chemical products which dominated manufacturing in the 1980s fell from 47 percent to 14 percent in the 1990s to 11 percent in the 2000s. The share of coke, refined petroleum, and other fuel products rose from 7 percent in the 1980s to 20 percent in the 1990s but this dropped to only 7 percent in the 2000s. Similarly; FDI inflows in machinery, apparatus and supplies and radio, tv, and communications equipment increased from zero to 21 percent between the 1980s and the 1990s but this dropped to 12 percent in the 2000s. There is also a decline in the share

⁶ The total FDI does not include "Others, Not Elsewhere Specified" defined as non-residents' equity capital investments in non-banks sourced from the cross-border transactions survey and in local banks, no sectoral breakdown is available.

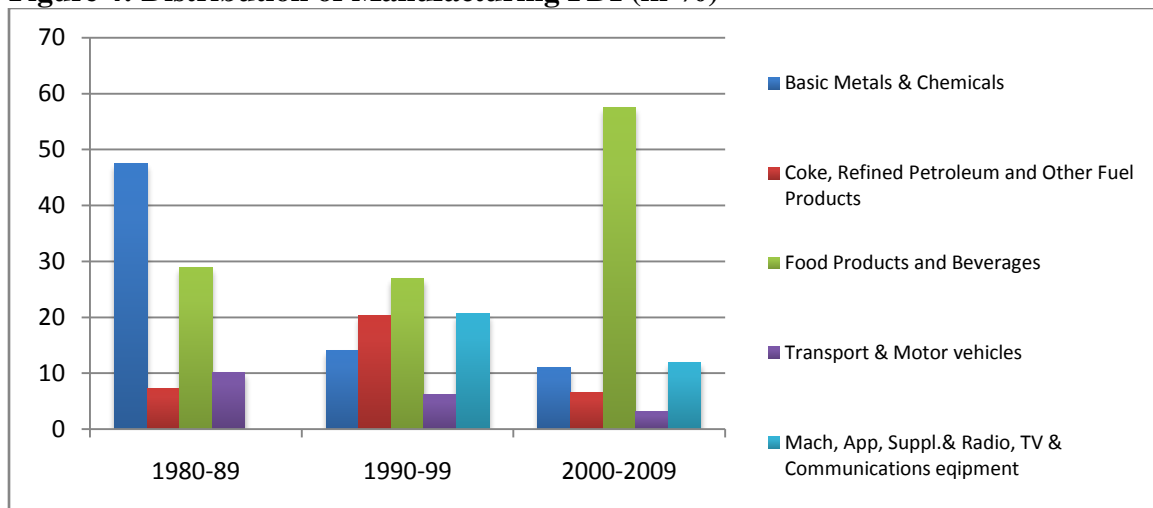
of transport equipment and motor vehicles from 10% in the 1980s to 6% in the 1990s to 3% in the 2000s.

Figure 3: FDI by sector



Source of basic data: Bangko Sentral ng Pilipinas. (Note that this does not include “Others not elsewhere classified” which could not be broken down by sector).

Figure 4: Distribution of Manufacturing FDI (in %)



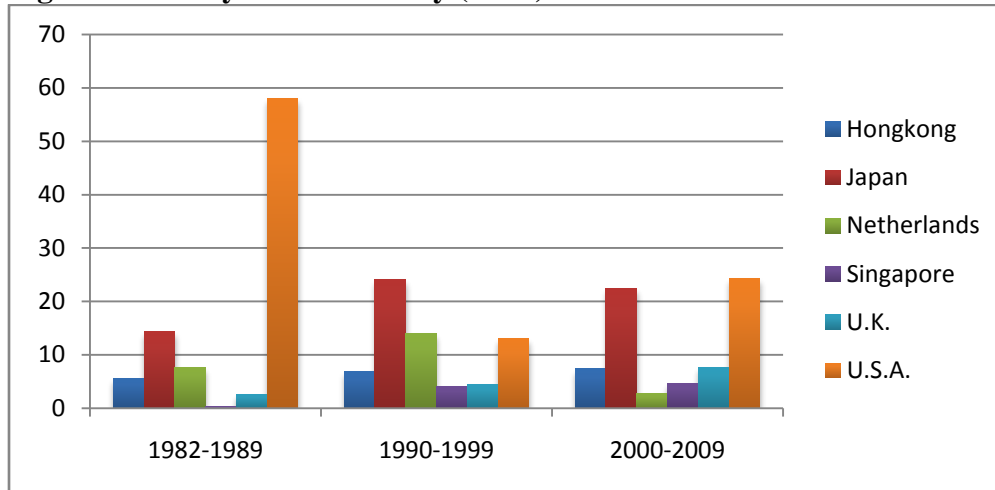
Source of basic data: Bangko Sentral ng Pilipinas (BSP)

Up to the 1980s, the US was the country’s largest source of FDI inflows with a cumulative share of 56 percent (see Figure 5). However, this dropped significantly to only 13 percent in the 1990s but increased to 24 percent in the 2000s. US dominance has been substantially diluted by the increasing presence of Japan, UK, and Singapore.

Japan’s share increased from 14 percent in the 1980s to 24 percent in the 1990s, although this fell to 22 percent in the 2000s. Singapore increased its share from less than one percent during the 1980s to four percent in the 1990s and to 5 percent in the recent

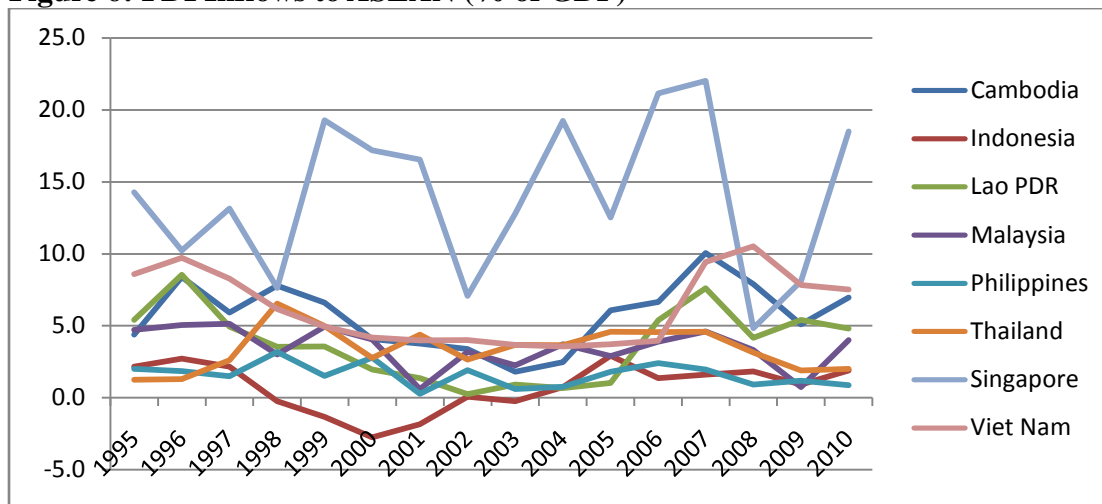
period. The share of the Netherlands rose from seven percent to 14 percent, but declined to 5 percent in the 2000s. The share of the UK went up from 3 percent in the 1980s to 4 percent in the 1990s and to 8 percent in the present period.

Figure 5: FDI by source country (in %)



Source: Bangko Sentral ng Pilipinas (BSP).

Figure 6: FDI Inflows to ASEAN (% of GDP)



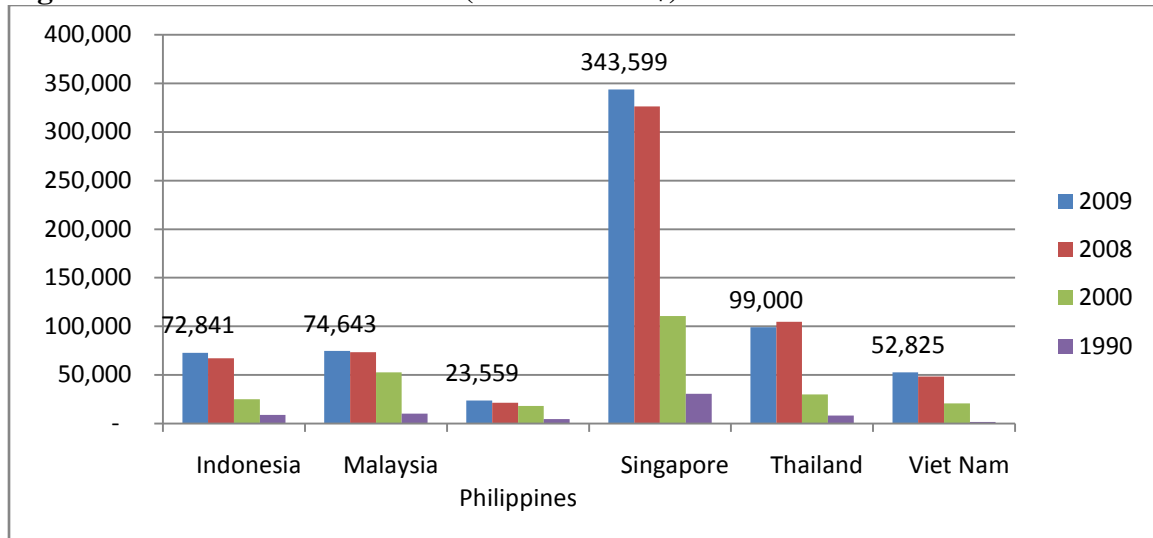
Ave FDI as % of GDP per period	CAM	INDON	LAO	MAL	PHIL	THAI	SING	VN
1995-1999	5.70	0.74	3.71	3.50	1.58	3.40	14.03	6.24
2000-2004	6.61	1.09	5.19	4.56	2.00	3.32	12.91	7.53
2005-2010	3.09	-0.81	1.03	2.75	1.25	3.41	14.57	3.87
1995-2010	7.11	1.75	4.72	3.23	1.51	3.45	14.52	7.15

Source: World Bank, World Development Indicators.

Figure 7 presents the FDI stock in the ASEAN countries. In 1990, cumulative FDI inflows to the Philippines amounted to US\$ 4.5 billion while Vietnam registered a total of US\$ 1.65 billion. In 2000, Vietnam surpassed the Philippines total of US\$18.2 billion as

its total FDI reached US\$20.6 billion. In 2008, Vietnam soared to US\$48 billion while the Philippine total barely increased at US\$21.5 billion. The same is observed in 2009 as Vietnam increased to US\$52.8 billion, the Philippines to only US\$23.6 billion.

Figure 7: FDI Stock in ASEAN 6 (in million US\$)



Source: UNCTAD FDI Indicators (World Investment Report 2010)

Table 4 presents three sets of competitiveness indicators: growth competitiveness, macro environment, and public institutions indices along with the rankings of the Philippines and other Southeast Asian countries out of a total of 102 countries and 134 countries for the years 2004 and 2010, respectively. The macro environment index is based on macroeconomic stability, country credit risk, and wastage in government expenditures while the public institutions index is based on measures of the enforcement of contracts and law and degree of competition. The results show that the Philippines performed substantially poorly than Malaysia, Thailand, and Indonesia in 2004, 2010 and 2011. While the Philippine ranking for global competitiveness worsened from 66 in 2004 to 87 in 2010, it slightly improved to 85 in 2011. Its macroeconomic stability index ranking also improved from 76 in 2010 to 68 in 2011. However, its public institution index continued to deteriorate from 85 in 2004 to 113 in 2010 and 125 in 2011.

Table 4: Competitiveness indicators rankings for selected Southeast Asian countries

Country	Growth Competitiveness Index			Macro Environment Index			Public Institution Index		
	2004	2010	2011	2004	2010	2011	2004	2010	2011
Malaysia	29	24	26	27	42	41	34	43	42
Thailand	32	36	38	26	22	46	37	60	64
Philippines	66	87	85	60	76	68	85	113	125
Indonesia	72	54	44	64	52	35	76	58	61

Source: World Economic Forum, Global Competitiveness Report, 2003-2004, 2009-2010, and 2010-2011.

Based on the World Bank's cost of doing business, Table 5 shows a comparison of the business costs indicators for the Philippines and its East Asian neighbors. The table reveals that in general, the Philippines along with Indonesia, performed significantly

below the other East Asian countries especially in corruption-related indicators such number of start-up procedures, cost to register business, and time to enforce contract. Between 2004 and 2011, improvements were observed for time to start a business, cost to register business and time to enforce a contract for the Philippines. Overall, however, Philippine ranking worsened from 134 in 2010 to 136 in 2011.

Table 5: Cost of doing business indicators for selected East Asian countries

Country	Number of start-up procedures			Time to start a business (days)			Cost to register business (% of GNI pc)			Procedures to enforce a contract			Time to enforce a contract (days)			Rigidity of employment index	
	04	09	11	04	09	11	04	09	11	04	09	11	04	09	11	04	09
Phils	15	15	15	60	52	35	25.4	28.2	19.1	37	37	37	862	842	842	29	29
China	13	14	14	48	37	38	15.9	4.9	3.5	35	34	34	406	406	406	28	31
Mal	9	9	4	30	11	6	25.1	11.9	16.4	30	30	29	600	585	425	10	10
HK	5	3	3	11	6	3	3.4	1.8	1.9	24	24	26	211	280	280	0	0
Indon	12	9	8	151	60	45	131	26	17.9	39	39	40	570	570	570	40	40
Korea	10	8	5	17	14	7	15.7	14.7	14.6	35	35	33	230	230	230	27	38
Sin	7	3	3	8	3	3	1	0.7	0.7	21	21	21	120	150	150	0	0
Thai	8	7	5	33	32	29	6.7	6.3	6.2	35	35	36	479	479	479	11	11
Viet	11	11	9	56	50	44	30.6	13.3	10.6	34	34	34	356	295	295	33	21

Note: Rigidity of employment ranges from 0 (less rigid) to 100 (very rigid)

Source: World Bank, Doing Business (<http://www.doingbusiness.org>)

Table 6 shows a comparison of the number of the documents needed, time, and cost to import and export in the same group of countries. Between 2005 and 2011, except for number of documents to export (which has remained the same), there are improvements in the trading across borders indicators for the Philippines. However, the country (\$730) together with Thailand (\$750), Korea (\$695), Vietnam (\$670), and Indonesia (\$660) are the highest in terms of cost to import. In terms of number of documents needed to import, the Philippines (8) and Vietnam (8) are the highest. In terms of documents to export, the Philippines (7) and China (8) are the highest. In terms of cost to export, the Philippines (\$630) is also included among the high cost countries together with Korea (\$680), Indonesia (\$644), and Thailand (\$625).

Table 6: Trading across borders indicators for selected East Asian countries

Country	Documents to export (number)			Time to export (days)			Cost to export (US\$ per container)			Documents to import (number)			Time to import (days)			Cost to import (US\$ per container)		
	05	09	11	05	09	11	05	09	11	05	09	11	05	09	11	05	09	11
Phils	8	8	7	17	16	15	800	816	630	8	8	8	18	16	14	800	819	730
China	6	7	8	18	21	21	390	500	500	11	5	5	24	24	24	430	545	545
Mal	7	7	6	18	18	17	432	450	450	7	7	7	14	14	14	385	450	435
HK	6	4	4	13	6	5	525	625	575	8	4	4	17	5	5	525	583	565
Indon	7	5	4	25	21	17	546	704	644	9	6	7	30	27	27	675	660	660
Korea	5	3	3	12	8	7	780	742	680	8	3	3	12	8	7	1040	742	695

Sin	4	4	4	5	5	5	416	456	456	4	4	4	3	3	4	367	439	439
Thai	9	4	5	24	14	14	848	625	625	12	3	5	22	13	13	1042	795	750
Viet	6	6	6	24	22	22	669	756	580	8	8	8	23	21	21	881	940	670

Source: World Bank, Doing Business 2006, 2010, and 2011 (<http://www.doingbusiness.org>).

Tables 7 and 8 present infrastructure indicators measured by utility and real estate costs. Electricity and land acquisition costs in the Philippines are the highest in the region. The country is also among the highest in terms of internet and telecommunications costs as well as in facilities lease.

Table 7: Utility Costs for selected East Asian countries

Country	Electricity (US\$/KwH)	Water (US\$/cubic meter)	Sewer (US\$/cubic meter)	Telecom (US\$/minute to the US)	Internet (US\$/mo. T1 line equiv)
PRChina	0.08	0.21	0.18	0.25	5452
Indonesia	0.07	0.59	0.80	1.00	4863
Malaysia	0.07	0.51	0.66	0.24	4388
Philippines	0.10	0.21	0.19	0.30	5452
Thailand	0.06	0.31	0.17	0.56	4283
Vietnam	0.07	0.25	-	1.30	7497

Source: MIGA and World Bank, Benchmarking FDI Competitiveness in Asia, 2004.

Table 8: Real Estate Costs for selected East Asian countries

Country	Land acquisition costs (US\$/square meter)	Building Construction Costs (US\$/square meter)	Facilities Lease (US\$/square meter gross/mo.)	Office Lease (US\$/square meter gross/mo)
PRChina	35	97	-	25
Indonesia	66	221	7	11
Malaysia	60	282	-	12
Philippines	61	1022	5	7
Thailand	52	329	2	5
Vietnam	-	-	3	12

Source: MIGA and World Bank, Benchmarking FDI Competitiveness in Asia, 2004.

IV. Analysis of Survey Results

To provide a better understanding of the issues surrounding the current investment facilitation environment in the country, a survey-interview was conducted to elicit information among firms (both local and foreign) located in the Philippines. The survey highlights the factors affecting the firms' decision to invest in the country as well as their perceptions on the effectiveness of the IPA's investment facilitation and promotion tools/activities.

A total of 31 firms from the electronics, automotive, chemicals, plastics and wood manufacturing industries responded to the survey. In terms of ownership, 37% of the firms are fully-owned foreign firms, 30% are fully-owned multinationals, 10% are joint ventures and 23% are fully-owned domestic firms. The sample is dominated by large

firms with more than 100 workers accounting for a share of 61%; 35% are medium-sized firms with workers ranging from 20 to 99. The average number of workers is 356. In terms of years of operation, a great majority of the firms have been operating between 11 to more than 20 years. The firms are mostly old with average age of about 20 years. 87% of the respondents are exporters with 22 firms exporting to and 21 firms importing from ASEAN (see Table 9).

Table 9: Profile of respondent firms

Firm Type	No.	Size by no. of workers	No.	Number of years in operation	No.	Firm's trading activities in ASEAN	No.
Fully Owned Multinational	9	Micro (1-4)	0	1 - 5 years	3	Number of exporters	27
Folly Owned Foreign Firm	11	Small (5-19)	1	6 - 10 years	3	No. of firms exporting to ASEAN	22
Fully Owned Domestic Firm	7	Medium (20-99)	11	11 - 20 years	12	No. of firms importing from ASEAN	28
Foreign - Domestic Joint Venture Firm	3	Big (=>100)	19	> 20 years	13	No. of firms importing from row	21
Total	30	Total	31	Total	31	Total	31

A. Firms' Perception of Factors Affecting Investment Decision

Figure 8 shows that the major factors affecting firms' decision to invest in the country are investment incentives; low tax rate/total tax liability; time/cost of starting a new business; transparent government policy; strategic location; and low corruption. These are followed by very good infrastructure, available domestic supplier, and protection of intellectual property.

Comparing the firms' perception of the factors that affected their investment decision now and two years ago, the overall results show no change in their perception of the various factors (see Table 10). In the case of political stability and level of corruption, the results show improvement in the perception of firms with 48% of the respondents indicating that political stability and level of corruption are both better now than two years ago.

In terms of expectation of their continued presence in the Philippines, 72% indicate that they would expand while 21% indicate that they would stay the same. Regarding the role of ASEAN, 60% of the respondents indicate that the ASEAN market is a significant factor in their investment decision. 23% indicate that the ASEAN market played a marginal role in their decision to invest. With respect to the importance of the ASEAN market in the firm's present and future operations, 63% indicate that ASEAN is significant in their current operations while 23% indicate that ASEAN would be an important factor in their future operations.

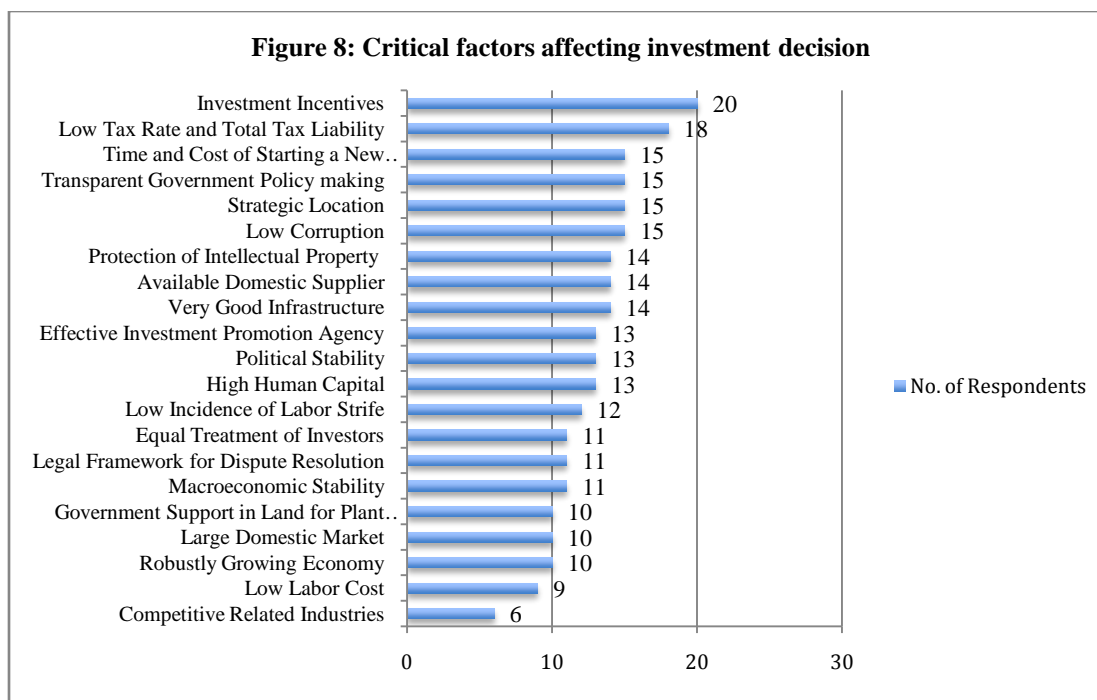


Table 10: Factors affecting firms' decision to invest

Factors	Number of Respondents							Total
	Much Worse	Worse	Same	Better	Much Better	NA/ Don't Know	No response	
Labor Cost	0	10	16	4	0	1	0	31
Human Capital	0	4	15	9	1	2	0	31
Infrastructure	1	2	15	12	0	1	0	31
Macro Stability	0	7	14	6	2	2	0	31
Foreign Exchange Restrictions	0	2	20	7	0	2	0	31
Availability of domestic suppliers / support industries	0	4	17	8	1	1	0	31
Political Stability	1	2	9	15	3	1	0	31
Level of Corruption	1	4	9	15	1	1	0	31
Incidence of Labor Strife	2	1	14	9	3	2	0	31
Government Support for Land Clearance for Plant Sites	1	1	18	3	0	8	0	31
Tax Rates & Tax Burden	0	4	25	1	0	1	0	31
Transparency of Government Policy Making	1	0	20	7	1	2	0	31
Legal Framework for Dispute Resolution	1	0	24	4	0	2	0	31
Equal Treatment of Investors	0	0	24	5	0	2	0	31
Time and Cost of Starting a New Business	1	4	15	3	0	7	1	30
Quality of IPA	0	4	18	5	0	3	1	30

Quality of Government Institutions & Bureaucracy	0	4	17	8	0	0	2	29
Protection of Intellectual Property	0	2	19	4	0	4	2	29

B. Investment Promotion and Facilitation

A great majority of the firms view the paper processing and approval/permit process implemented by various government agencies as alright (refer to Table 11). The process includes IPA for investment incentives, firm incorporation, tax concessions, local government permits, and environmental impact assessment, among others. Note that only a small proportion of firms indicated that they were assisted by IPAs in fulfilling these various activities. Mostly, IPA assistance was reported in firm incorporation, tax concessions, customs duty waiver, work permits of foreign staff, and environmental impact assessment.

Table 11: Government Paper Processing and Approval/Permit Process

Activities	Very Slow	Slow	Alright	Quick	IPA Assisted		Number of Respondents
					Yes	No	
IPA for investment incentives	0	5	17	2			24
Firm incorporation	1	6	17	4	5	12	28
Tax concessions	0	9	20	1	6	11	30
Customs duty waivers	0	12	18	0	7	10	30
Work permits of foreign staff	0	3	22	2	6	10	27
Social security	0	3	24	1	2	14	28
Utilities connection	0	4	22	2	4	13	28
Local government permits	1	11	16	1	4	13	29
Foreign exchange regulations	0	2	23	1	3	10	26
Leasing land for business	0	3	22	1	4	10	26
Environmental impact assessment	1	7	18	2	7	9	28

With respect to the firms' perception of various factors affecting their investment decision, a great majority of the firms indicate that these factors have remained the same (Table 12). It is important to note that for computerization and streamlining of government procedures, a substantial proportion of the respondents (39%) indicate improvement in this area. The same proportion of respondents indicated that performance of the investment one-stop shop is better. A quite significant proportion of the respondents (35%) also indicated improvements in responsiveness and response quality of IPA to investor inquiries, while 32% perceived better availability and contactability of IPA personnel to investor inquiries, as well as improved overall investment climate of the country.

Regarding rate of information on investment laws, policies, regulations, rules and procedures, a great majority of the respondents provided a satisfactory rating (Table 13). This is based on the following criteria: clarity and understandability, completeness, up to date and availability/accessibility on line. Note that in terms of on-line availability and accessibility of information, 39% of the respondents gave a non satisfactory rating.

Table 12: Firms' perception compared to two years ago

Factors	Number of Respondents					Total
	Much Worse	Worse	Same	Better	Much Better	
Cost and time required for approvals for investment incentives	1	2	16	8	0	31
Cost and time required for approvals for firm incorporation	0	0	18	7	0	31
Cost and time required for approval for tax concessions	0	2	20	5	0	31
Cost and time required for approval for customs duty waivers	0	3	19	5	0	31
Cost and time required for approval for work permits of foreign staff	0	2	17	5	0	30
Cost and time required for approval for public utilities connection	0	1	19	8	0	31
Cost and time required for local government permits to start business	0	3	14	5	0	31
Cost and time required for approvals to lease land	0	0	17	5	1	31
Cost and time required for approval for environmental impact assessment	0	3	18	6	0	31
Computerization and streamlining of government procedures	0	9	8	12	0	31
Availability and contactability of IPA personnel to investor inquiries	0	2	9	8	2	31
Responsiveness and response quality of IPA to investor inquiries	0	1	10	9	2	31
Performance of the investment OSS	0	2	11	9	3	31
Transparency, fairness and objectivity of the investment process and assessment of investment proposals	0	1	17	8	1	31
Intra-government cooperation to ease cost of doing business	0	5	21	1	1	31
Private sector representation in councils and programs to ease cost of doing business	0	2	17	6	1	30
Clearer focus on sectors and regions in investment promotion strategies	0	3	16	6	1	31
Presence of effective mechanism for dispute settlement between investors and domestic authorities	0	2	13	6	1	30
Investment protection climate in the country	0	4	17	5	0	30
Overall effectiveness of investment facilitation of the country	0	2	17	8	0	30
Overall investment climate of the country	0	3	14	8	2	30

Table 13: Information on investment laws, policies, regulations, procedures and rules

Factors	Number of Respondents				Total
	Not Satisfactory	Satisfactory	Very Good	No response	
Clarity and understandability	6	25	0	0	31
Completeness	7	23	1	0	31

Up to date	9	21	1	0	31
Availability / Accessibility on line	12	17	2	0	31

Table 14 shows that in terms of information on investment laws, policies regulations, rules and procedures in setting up business, majority of the respondents also provide a satisfactory rating.

Table 14: Information on investment laws, policies, regulations, procedures and rules in setting-up business

Factors	Number of Respondents				
	Not Satisfactory	Satisfactory	Very Good	No response	Total
Clarity and understandability	6	25	0	0	31
Completeness	7	24	0	0	31
Up to date	8	23	0	0	31
Availability / Accessibility on line	9	21	0	1	30

In terms of providing information to public and investors, an average of 64.7% of the respondent firms provided a satisfactory rating to IPAs. This covered information on the country, economy and investment priority industries. On the average, 29.4% expressed some dissatisfaction particularly in terms of providing information on area/industry cluster, success stories highlighting key aspect of country's competitiveness, and how IPA helps investors make a project happen (see Table 15).

Table 15: Information provided by IPAs to the public and investors

IPA's Information	Number of Respondents				
	Not Satisfactory	Satisfactory	Very Good	No response	Total
Adequate information on the country and its economy	5	18	1	7	24
Substantive information on investment priority industries	6	15	2	8	23
Information on area / industry clusters	8	15	1	7	24
Success stories highlighting key aspect of country's competitiveness	8	15	1	7	24
How agency helps investors make a project happen	8	14	2	7	24

In terms of IPAs' response to firms' or potential investors' inquiries during the start-up phase of the company, the respondents indicate that IPAs gave satisfactory information, responded quickly and competently, made convincing investment case for the country, made follow ups on initial inquiries and facilitated contact with other government agencies and domestic private sector. Although in case of the latter, 26% of the

respondents perceived that the IPAs did not facilitate contact with other government agencies and domestic private sector. 22% indicated that the IPAs did not make follow ups on initial inquiries (see Table 16).

Table 16: IPAs’ response to firms or potential investors’ inquiries during the start-up phase of the company

IPA's Response	Number of Respondents			
	Yes	No	No response	Number
Gave satisfactory information needed by investor	25	0	6	25
Responded quickly and competently	21	2	8	23
Made convincing investment case for country	20	4	7	24
Made follow ups on initial inquiries	18	5	8	23
Facilitated contact with other government agencies	17	6	8	23
Facilitated contact with domestic private sector	17	6	8	23

On the average, 35% of the respondents perceive that whenever there are changes in investment rules, regulations, and policies, the government and its agencies usually notify stakeholders, ask for written comments, hold face to face consultations with narrow selection of stakeholders and consult with all stakeholders. On average, 10% of the respondents viewed that the government and its agencies often do these. However, an average of 31% of the respondents indicated that the government and its agencies seldom do these (see Table 17).

Table 17: Government and its Agencies on changes in investment laws, regulations and policies

Government Action	Number of Respondents						Total
	No	Seldom	Usually	Often	Always	No response	
Notify Stakeholders	3	7	14	2	3	2	29
Ask for written comments	3	14	7	2	3	2	29
Hold face to face consultations with narrow selection of stakeholders	6	7	9	3	3	3	28
Consult with all stakeholders (incl. foreign investors, NGOs)	5	7	10	4	2	3	28

Table 18 tabulates the results on the assessment of the administration of registration, authorization, and permit formalities by the government and its agencies. An average of 56% of the respondents viewed the process as transparent, uniform and impartial and speedy. An average of 44% however perceived the opposite.

Table 18: Government and its Agencies on the administration of registration, authorization and permit formalities

Government Response	Number of Respondents			
	Yes	No	No response	Total
Transparent	20	10	1	30
Uniform and impartial	18	12	1	30
Speedy	12	18	1	30

In terms of IPAs' response to investors' inquiries or requests for assistance in addressing problems with other government agencies, the results indicated that 37.5% of the firms expressed that IPAs usually provide help competently, expeditiously, and proactively (refer to Table 19). 36% indicated that IPAs often provide competent, expeditious, and proactive assistance.

Table 19: IPAs' response to investors' inquiries or requests for help in solving problems faced with other Government Agencies

IPA's Response	Number of Respondents						Total
	No	Seldom	Usually	Often	Always	No response	
Competently	1	3	9	8	3	7	24
Expeditiously	1	4	9	9	1	7	24
Proactively	2	3	9	9	1	7	24

With respect to top problematic procedures, permits, or licenses in business establishment, the firms indicated government red tape, too many paper works and corruption. They cited the following as problematic procedures:

- BIR registration
- LGU permits
- Obtaining income tax holiday
- Bureau of Customs regarding the taxation of domestic sales
- Application for increase in authorized capital stock
- Environmental permits (Laguna Lake Development Authority)

The respondents also cited the different incentives granted by different IPAs leading to confusion.

With respect to the top problems in business operations, the firms cited the following:

- Importation permits
- Unstable operations at the Bureau of Customs in releasing imports
- Changes in Bureau of Internal Revenue (BIR) regulations
- Registration of foreign denominated loans and movement of foreign funds other than for payment of goods and services

- Contradictory policy of PEZA and BIR on taxation issues.

Other problematic areas reported by the respondents include: high cost of electricity, high logistics costs, difficulties in finding good technical staff, and lack of support of the national government for locally made products.

Finally, to improve the country's investment facilitation environment and overall investment climate, the respondents put suggested the following:

- Elimination of bureaucratic red tape and corruption in government
- Strengthen tax rules applicable to all locations
- Clear, consistent and investor-friendly laws that would not be repealed for at least 15 years, except if amendment would benefit the investors
- Improvement of infrastructure (road and traffic conditions) within and outside special economic zones
- Allow foreigners to own land and buildings for commercial and industrial use
- Develop support industries to electronics and semiconductor industry to improve the competitiveness of the country in this sector
- Improve security and peace and order condition in the country.

C. Integrating Current Results with Previous ERIA Investment Surveys

The ERIA Study to Further Improve the AEC Scorecard: Philippine Country Report (2010) also surveyed private firms to gather information on their experiences of investment facilitation and promotion in the country. The Report highlighted the same problematic procedures, permits, or licenses that firms face in establishing a business including bureaucracy & too much red tape, lengthy procedures, delayed issuance of permits due to slow processing, lack of transparency in the guidelines and procedures, and corruption. The firms also cited the non-uniformity of investment incentives among government IPAs (see Table 20 for details).

Table 20: Problematic procedures in establishing a business

Area of concern	Government Agency	Problems/Comments
Certification	<ul style="list-style-type: none"> • Department of Environment and Natural Resources (DENR) • Bureau of Customs (BOC) 	<ul style="list-style-type: none"> • Bureaucracy & too much red tape • Lengthy procedures that take up too much time
Registration	<ul style="list-style-type: none"> • Bureau of Internal Revenue (BIR) • Board of Investments (BOI) 	<ul style="list-style-type: none"> • Too many signatories • Too many agencies needed to secure permits
Permits	<ul style="list-style-type: none"> • Local Government Units (LGU) • Laguna Lake Development Authority (LLDA) • Philippine Economic Zone Authority (PEZA occupancy permit) 	<ul style="list-style-type: none"> • Delayed issuance of permits due to slow processing • Lack of transparency in the guidelines & procedures
Visa	<ul style="list-style-type: none"> • Department of Foreign Affairs (DFA) • Bureau of Immigration (BI) 	<ul style="list-style-type: none"> • Corruption • Local ordinance fees, local business permits
Land acquisition, leasing, conversion from agricultural to industrial	<ul style="list-style-type: none"> • Department of Agrarian Reform (DAR) 	<ul style="list-style-type: none"> • Some requirements are impractical such as employment of full-time doctor & dentist

Incentives	<ul style="list-style-type: none"> • Qualification requirements to avail of incentives are difficult • Non-uniformity in investment incentives among economic zones & IPAs
------------	--

Table 21: Problems faced by firms and recommendations

Concern area	Problems and General Comments	Recommendations
Infrastructure & logistics	<ul style="list-style-type: none"> • High cost & unpredictability of power supply • High cost of other utilities • Congestion in Manila airport resulting in delays in shipment of goods • High cost of domestic shipping (sea) 	<ul style="list-style-type: none"> • Improve roads, airports, telecommunications services & other infrastructure • Pursue an open skies policy • Maximize use of Subic port to save trucking cost from Manila Port to Subic • Privatize facilities
Tariffs & taxes	<ul style="list-style-type: none"> • BIR tax assessments and refund • Slow processing of tax incentives under Japan-Philippines Economic Partnership Agreement (JPEPA) • High taxes • Confusing government charges • BOC evaluation and refund • Inconsistent tariff and non-tariff barriers 	<ul style="list-style-type: none"> • Review tax scheme • Design capacity building programs for BOC & BIR personnel • Simplify rules & policies • Improve automation in business transactions • Pursue a level playing field • More stable policies on tax & other charges & implement these effectively
Labor	<ul style="list-style-type: none"> • Lengthy & non-transparent process in dealing with labor issues • Minimum wages are too high to makes us competitive internationally • Competent & highly skilled workers are difficult to find 	<ul style="list-style-type: none"> • Relax Labor Code rules on outsourcing & contractual workers • Formulate education & training reforms to match what the country needs
Raw material supply & domestic market size	<ul style="list-style-type: none"> • Absence of downstream industries in parts and related components • High cost of raw materials (chemicals and machineries) • Small domestic market 	<ul style="list-style-type: none"> • Develop support industries particularly in electronics to improve competitiveness
Regulatory environment	<ul style="list-style-type: none"> • Corruption • Bureaucracy & red tape: too many government agencies such as Department of Finance (DOF), BOC, DENR, BIR, Securities & Exchange Commission (SEC), etc • Lack of streamlining of interrelated business procedures handled by different government agencies such as BOC, BIR, & Land Transportation Office (LTO) • Clarity & stability of regulatory environment • Lack of clarity in implementation of importation procedures by BOC • Inconsistent regulatory policies & weak enforcement (used vehicle importation) • Changes in government policies & necessary information are not effectively disseminated • Incentives among government IPAs are not unified 	<ul style="list-style-type: none"> • Integrity & consistency among government officials • Stable, transparent, & reliable government agencies • Consistent & stable policies needed by firms for long-term planning • Simplify rules, procedures, & polices • Automation of business processes to reduce cost • Streamline interrelated government procedures • Arrange periodic sessions with investors on how they can help in improving investment & regulatory policies • Unify investment incentives • Adopt a more comprehensive & effective marketing program • More collaboration among national government agencies & LGUs

	<ul style="list-style-type: none"> • Lack of comprehensive effort for country promotion 	
Investor After care	<ul style="list-style-type: none"> • After care program for investors is missing/weak 	<ul style="list-style-type: none"> • Government agencies, IPAs & park administrators should be actively involved in support programs for locators
Security, peace & order	<ul style="list-style-type: none"> • Increasing incidence of hijacking of shipped goods 	<ul style="list-style-type: none"> • Improve peace & order condition

Table 21 presents a summary of problems faced by firms in operating a business in the country. These are grouped into five covering infrastructure and logistics: high utilities' costs, poor infrastructure; tariffs and taxes: tax assessment & refund; labor: lengthy & non-transparent procedure; raw material supply and size of domestic market: lack of parts and components industries, regulatory and policy environment: bureaucracy & red tape, policy inconsistency and security and peace and order condition. Recommendations for the overall improvement of the country's investment climate include lower costs of doing business, simplify rules & policies, improve automation, more stable policy, increase collaboration between national agencies & LGUs, develop support industries, and unify investment incentives.

Additional recommendations included speedy processing of permits, simplify procedures in starting a business, improve automation of business procedures in government agencies, synchronize efforts of the national government and local government units (LGUs) in promoting the country and implementing our investment plan, increase collaboration among government agencies in assisting prospective investors as well as existing investors in securing necessary permits and licenses in business operations, adopt more effective marketing tools both in print and on-line should be made available and updated regularly, improve BOI's website to include updated and timely business news, aggressively promote that foreigners can own land under certain special arrangements, and unify investment incentives among the IPAs.

In the ERIA Phase Two Study Toward a More Effective AEC Scorecard Monitoring System and Mechanism Philippine Report (Medalla et al. 2011), a scorecard for investment facilitation and promotion was calculated based on survey-interview of major IPAs in the country (Table 22). The score was calculated based on the following criteria: improving Investment Promotion Agency (IPA) quality, investment promotion & strategy, investment generation, servicing and policy. The Philippines obtained an overall weighted score of 71%. As earlier indicated, the country's major IPAs, BOI and PEZA, have one-stop shops and investment aftercare departments. They focus more on investment promotion activities such as providing information assistance and investment facilitation.

Among the five investment promotion and facilitation components being evaluated, the Philippines received a quite modest score in investment promotion and facilitation strategy. The Philippines started to formulate its investment and facilitation strategy only recently. As earlier noted, the coordinating mechanism between the DTI and the various IPAs for the formulation of the country's first investment promotion was established only in late 2009. There is no central body coordinating and monitoring the different investment promotion and administration of investment incentives (this is, however, one

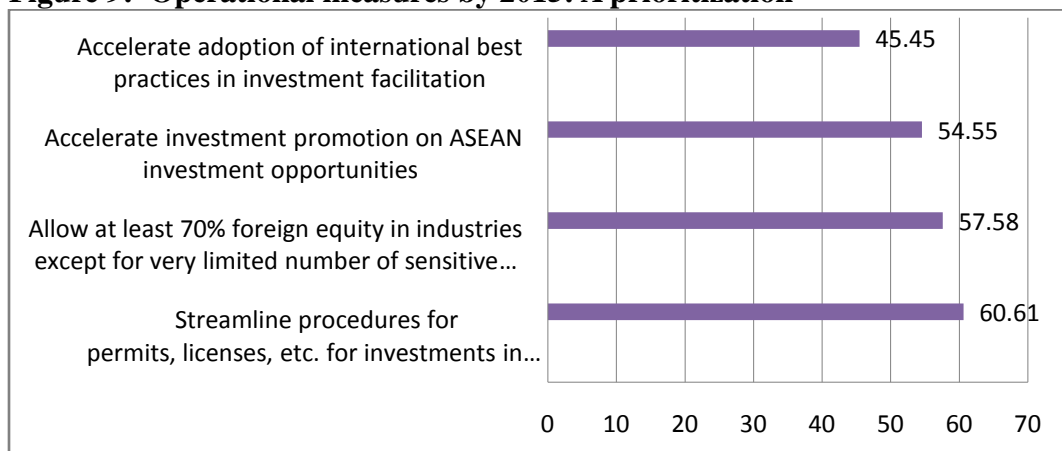
of the planned measures). There is no strategy in place regarding details of human resource needs and financial requirements as well as a time table for comprehensive review of the plan.

Table 22: Philippine scorecard for investment promotion and facilitation

Component/Area	Weight	Score	BOI&PEZA (weighted)
I. Quality of IPA (10%)	0.1	0.8625	0.08625
II. Investment Promotion & Facilitation Strategy (10%)	0.1	0.8	0.08
III. Investment Generation (5%)	0.05	1	0.05
IV. Investor Servicing (40%)	0.4	0.895	0.358
V. Investment policy (15%)	0.15	0.92	0.138
Total Score	0.8		0.71225

The weighted average for investor servicing is quite high due to PEZA’s score perfect score in the operations of its one stop shop (OSS). However, the same does not hold for BOI due to some challenges that its OSS currently faces, in particular, the difficulties in obtaining licenses and permits from local government units and some national agencies. These difficulties are attributed to the following factors: absence of standardized operational procedures, too many documentary requirements for the issuance of permits and licenses, lack of skills and know-how among local government units (LGUs) in promoting investments, and absence of information materials. Apart from the difficulties in obtaining licenses and permits in establishing a business, other problematic permits involved the issuance of environmental clearance certificate, building permits, tree cutting permits, and environmental pollution control.

Figure 9: Operational measures by 2015: A prioritization



Source: ERIA Survey of Core Measures (2011).

It is also important to note that in the ERIA Survey of Core Measures (2011) which conducted a survey to identify the priority investment measures to be operational by 2015, the surveyed firms highlighted the need for streamlined procedures for permits and licenses. As Figure 9 shows, the bulk of the firms surveyed (61 percent) indicated the need for streamlined procedures for permits and licenses for investments in starting business as the most important measure to be operational by 2015. This is followed by

measures allowing at least 70 percent foreign equity in industries with some exemptions (58 percent). Around 55 percent of the respondents considered the acceleration of the adoption of investment promotion measures as the third most important followed by measures focusing on the adoption of international best practices in facilitation.

V. Summary of Insights, Lessons Learned, and Recommendations on the Way Forward

A. Summary of Findings

Through a survey of firms from various industries, the report gathered the experiences, perceptions, and self-assessment of the state of investment facilitation and promotion in the Philippines. The present survey highlights the following results:

Investment incentives, low tax rates and time/cost of starting a business are critical factors affecting the firms' decision to invest in the Philippines. The results also show that compared to 2 year ago, there is no change in their perception of the different factors affecting their decision to invest. However, the respondents note significant improvements in political stability and level of corruption in the Philippines, two problematic factors which always dragged down the country's image in international surveys such as the World Bank's Cost of Doing Business. The election of a popular President and his continued reforms to reduce corruption and strengthen institutions bode well for the country's efforts to increase investment flows and to expand the investments of those who are already operating in the country. As the survey shows, a great majority of the firms indicate that they would expand their operations. Similarly, a great majority of the firms view the ASEAN market as a significant factor in their investment decision.

In terms of the firms' assessment of government agencies' investment facilitation and promotion, the results indicated the following:

- A great majority of the firms gave a rating of "alright" for the paper processing and approval and permit process implemented by various government agencies.
- Compared to two years ago, a great majority of the firms perceived that the various factors affecting investment decision remained the same. Note that for computerization and streamlining of government procedures, an improvement was indicated by a substantial proportion of the respondents (48%). A quite substantial proportion of the respondents (29%) also indicated improvements in the availability and contactability of IPA personnel to investor inquiries; performance of investment one-stop shop; and responsiveness and response quality of IPA to investor inquiries.
- A great majority of the respondents gave a "satisfactory" rating for the rate of information on investment laws, policies regulations, rules and procedures. Note that in terms of on-line availability and accessibility of information, 47% of the respondents gave a non satisfactory rating.

- In terms of information on investment laws, policies regulations, rules and procedures in setting up business, majority of the respondents also gave a “satisfactory” rating.
- In terms of providing information to the public and investors, the respondent firms provided a “satisfactory” rating to IPAs. A quite significant share (35%) of the respondents were not satisfied in terms of how IPA helps investors make a project happen, although the results showed that 53% are satisfied.
- In terms of IPAs’ response to firms’ or potential investors’ inquiries during the start-up phase of the company, the respondents indicate that IPAs gave satisfactory responses.
- On the average, 33% of the respondents perceive that whenever there are changes in investment rules, regulations, and policies; the government and its agencies “usually” notify stakeholders, ask for written comments, hold face to face consultations with narrow selection of stakeholders and consult with all stakeholders. On average, 15% of the respondents viewed that the government and its agencies “often” do these.
- Regarding the administration of registration, authorization, and permit formalities by the government and its agencies, an average of 59% of the respondents viewed the process as transparent, uniform and impartial and speedy.

From the perspective of firms, the most problematic issues indicated are bureaucracy and too much red tape and delayed and slow processing of permits. The firms pointed out the lack of transparency in guidelines and procedures, corruption, and the non-uniformity of investment incentives given by the four IPAs.

In operating a business in the country, the firms cited high cost and unpredictability of power supply, high cost of other utilities and domestic shipping, high taxes, confusing government charges, lengthy and non-transparent process in labor disputes, lack of highly skilled workers, and absence of support in the parts and components sectors. Problems in the regulatory environment were also indicated such as policy inconsistency, lack of streamlining of interrelated government procedures handled by different agencies, and ineffective dissemination of policy changes. The lack of comprehensive effort in government to promote the country was also cited.

The IPAs indicated that the most problematic procedures that investors typically face in establishing a foreign business in the Philippines are (i) permits from Local Government Units (LGUs), (ii) environmental compliance certificate from the DENR-Mines and Geosciences Bureau, as well as (iii) visa from the Bureau of Immigration. Other problematic procedures include costly and lengthy inspection for fire clearance application, product registration from 90 to 120 days with the Food and Drug Administration, and other permits from the Department of Environment and Natural Resources. Note that the same problems were reiterated by their OSS in facilitating investors establishing a business: absence of standardized operational procedures and too many documentary requirements for the issuance of permits and licenses, lack of skills and know-how among LGUs in promoting investments, and absence of advocacy information materials. Other problematic permits involved the issuance of environmental

clearance certificate, building permits, tree cutting permits, and environmental pollution control.

It is important to note that amid these problems and weaknesses in the system, PEZA's experience in effectively streamlining its procedures is worth emulating. To address the slow processing of environmental certificates, PEZA signed a Memorandum of Agreement (MOA) with the Department of Environment and Natural Resources allowing it to issue environmental certificates for its locators. With the MOA, PEZA has trained personnel and created its own environmental unit that handles the pre-processing of environmental clearance applications. PEZA also has an agreement with the Bureau of Immigration which allows visa processing in PEZA within 20 to 30 days. PEZA takes care of local government clearance requirements along with revenue payments and local government fees. Note also that companies inside PEZA are exempted from Local Government Business Permits. Building and occupancy permits are also issued by PEZA.

Regarding customs documentation, import and export permits are issued by PEZA. The issuance of import permits is already automated and electronic payment is also in place. Starting March 2012, export permits will also be automated. In fact, PEZA has been the model of single window in the country. PEZA works closely not only with government agencies such as the Bureau of Customs, Bureau of Immigration but also with local government units in order to make the registration process and other documentary requirements and procedures for the operations of firm-locators as easy as possible. Registration requirements have been simplified, registration forms made simple, and approval has been made easy. There has been no reported case of graft and corruption in PEZA. All PEZA zones are manned by PEZA officers and staff to immediately respond to locators' needs and concerns. Complaints and queries are always acted upon within 24 hours. PEZA is a full service agency and is on call 24/7. They also noted that their focus is always on investment promotion rather than regulation of incentives.

Given these good practices in PEZA, it is important for other IPAs to learn and adopt the "PEZA way" in dealing with issues particularly the slow processing of environmental, LGU, and other government clearances and permits. It is also important to note that Clark and Subic have implemented measures to harmonize their customs and other business regulations. They are also coordinating to unify their rates and fees.

Note that early this year, the Department of Trade and Industry (DTI) launched the Philippine Business Registry (PBR), a web-based business registration system that will allow entrepreneurs to start their businesses quicker and at the least cost. The PBR is a one-stop shop for entrepreneurs who need to transact with the DTI (business name certificate number), Bureau of Internal Revenue (taxpayer identification number), Social Security System (employer's registration number), Home Development Mutual Fund (employer's registration number), Philippine Health and Insurance Corporation (employer's registration number) and the Securities and Exchange Commission. Among local government units, Quezon City has already connected with the PBR system. Mandaluyong and Caloocan are expected to connect with the system soon.

The DTI and the Department of Interior and Local Government (DILG) are implementing the Business Permits and Licensing Systems (BPLS) in cities and municipalities to speed

up the issuance of business permits and licenses through the adoption of a unified application form, standard steps, standard processing time and standard signatories to permits. As a result, the issuance of business permit at the LGU level has been reduced to five days from the usual ten days and one day for the release of business of business renewal permit.

To improve the country's investment facilitation environment and overall investment climate, the respondents suggested the following:

- Elimination of bureaucratic red tape and corruption in government
- Strengthen tax rules applicable to all locations
- Clear, consistent and investor-friendly laws that would not be repealed for at least 15 years, except if amendment would benefit the investors
- Improvement of infrastructure (road and traffic conditions) within and outside special economic zones
- Allow foreigners to own land and buildings for commercial and industrial use
- Develop support industries to electronics and semiconductor industry to improve the competitiveness of the country in this sector
- Improve security and peace and order condition in the country.

B. Lessons from Philippine Experience

In the last two decades, the Philippines has implemented substantial market-oriented reforms covering liberalization, privatization, and deregulation in both the manufacturing and services sectors. Economic growth, however, has been characterized by a boom-bust cycle which placed the Philippines significantly behind its neighbors. The shift from a highly protectionist, inward oriented strategy to a more open economy requires not only changes in laws and policies but also efficient institutions and good infrastructure that will support growth and the new economic environment. While the Philippines has done a lot of market-oriented reforms; much remains to be done in terms of creating efficient institutions and regulatory mechanisms (Aldaba, 2005). As the foregoing discussions on investment facilitation illustrate; there exists a large gap between policy and practice; coordination among government agencies has remained ineffective; governance has been weak; poor infrastructure continues to hamper efficient business operations; and many processes such as registration and applications for permits and licenses remained complex, problematic, and costly. It is important to note, however, that one government institution, the Philippine Economic Zone Authority, has made a strong impact due to its efficient operation and management. The DTI and the DILG are also intensifying their efforts to improve the business permit and licensing system.

On the overall, one important lesson that can be drawn from Philippine experience is that market-oriented economic reforms need to be accompanied by good infrastructure and efficient institutions to support the new economic environment.

To effectively implement economic reforms, the government must substantially increase its investment spending and strengthen its weak institutional and regulatory environment. Many complementary policies and institutions that are necessary to support the reforms and generate supply-side responses leading to employment and growth are missing. This is one of the important factors for our disappointing growth. If market reforms are to have their intended effects, “behind the border” complementary policies that define the business environment must be addressed including investment in human capital, infrastructure, and the quality of governance in the country (ibid). Note, however, that Constitutional restrictions still limit foreign participation to 40% in sectors such as public utilities, Build-Operate-Transfer (BOT) projects, and similar private sector-led infrastructure arrangements.

C. Ways Forward

All these pose a great challenge to the Aquino Administration. In view of the deepening regional economic integration via the implementation of country’s commitments to the AEC Blueprint, the paper puts forward policy recommendations which are necessary in order to reduce the gap between policy and implementation, improve the investment climate, and boost the country’s competitiveness to enable us to catch up with our neighbors and take advantage of the opportunities offered by the AEC. The Aquino government should make full use of its popularity and wide support from broad sectors in society to carry out these badly needed institutional and regulatory reforms together with huge infrastructure spending.

Building on the recommendations highlighted not only in the present survey but also in the other investment surveys covering both IPAs and firms, the following recommendations are proposed:

- 1) Unify and centralize the investment promotion and facilitation efforts by all IPAs under one agency with strong leadership. The IPAs were created by different legislations administered by different government bodies without an overall coherent and integrated investment promotion and facilitation strategy that would guide IPA activities. Each IPA individually coordinates with national agencies and LGUs. In the absence of standard procedures and processes for all IPAs, different arrangements emerged with some IPAs facing more difficulties than others. It is important to establish a single mechanism to coordinate the business registration and investment promotion and facilitation policies with the national and local governments including standard procedures for granting of tax incentives and exemptions to investors. The case of Singapore’s Economic Development Board (EDB) shows how a one-stop and lead agency for investment promotion has played a crucial role in Singapore’s continued economic success. The crafting and passing of a legislation to centralize investment promotion and facilitation activities under a single agency should therefore be prioritized.
- 2) Strengthen the current efforts of the PIPP inter-agency committee to coordinate the various IPAs’ actions and plans. This may be viewed as a transitional arrangement while a lead agency for investment promotion and facilitation is yet to be created. IPAs should synchronize their efforts in promoting the country, image-building

activities, providing after sales service to investors and implementing the country's investment plan. They should update information regularly and make these easily available on-line. To be effective, IPAs should have sufficient resources.

- 3) Other IPAs in the country should learn and adopt the "PEZA way" in dealing with operational issues such as slow processing of permits and other clearances required by national agencies and local government units. As studies by Akinci (2008) and Booz Allen Hamilton (2008) showed, PEZA has successfully combined regulation and promotion. Its one-stop shop is very efficient and effective and has reduced the cost of doing business leading to increased competitiveness of firms.
- 4) To improve the operational environment and investment climate, IPAs should closely collaborate with national agencies and local government units particularly in the following areas:
 - Automation of business procedures in national government agencies, procedures and guidelines should be transparent
 - Streamlining interrelated procedures handled by different national government agencies
 - Implementing clear and consistent policies, any policy changes should be communicated effectively
 - Providing assistance to prospective investors as well as in promoting the country.
- 5) To review the existing investment incentives towards a more comprehensive and harmonized set of incentives governing all the IPAs. IPAs cannot and should not compete on the basis of fiscal incentives, but rather differentiate themselves in terms of facilities, services, and most importantly through streamlined procedures (FIAS 2008). As the survey results showed, most of the firms used IPAs primarily to get fiscal incentives. Currently, investment incentives have also widely differed from each other. PEZA offers income tax holiday (ITH) and a 5% income tax rate after; BOI has ITH but no 5% tax rate while both Subic and Clark have only a 5% tax rate but no ITH.

As the survey results showed, AEC 2015 is seen by most firms as providing both challenges and opportunities. To take advantage of the opportunities, the above suggested reforms must be accompanied by the following:

- 6) Increase infrastructure investment in physical infrastructure, power and logistics in particular, to reduce the cost of doing business in the country. Modern and efficient air, land, and sea infrastructure should be built fast enough.
- 7) Review the Constitutional limitations on foreign equity particularly the 60-40 rule. While limitations on foreign equity in these sectors cannot still be directly addressed, the government has to continue implementing measures to promote competition and strengthening institutional and regulatory framework particularly in public utilities. The Philippines is already considered as relatively open vis-à-vis its ASEAN neighbors. Foreign entry remains restricted in a substantial number of important economic sectors.

- 8) Improve institutional infrastructure by addressing corruption, which together with poor infrastructure, has severely weakened our competitiveness.

Note that although a large domestic market remains a powerful market for investors, multinational companies serving global markets increasingly look for world-class infrastructure, skilled and productive workers, innovative capabilities, and an agglomeration of efficient suppliers, competitors, support institutions and services (UNCTAD 1999). At the regional level, individual ASEAN countries are facing the huge challenge of improving their competitiveness. To be successful, the AEC must be accompanied by complementary policies and programs especially at the national level (Aldaba, Yap and Petri 2009). Member States should continue to implement their investment and trade reforms in line with the ACIA simultaneous with reforms to improve their domestic business environment, including economic regulations, corporate governance, and labor laws. Member Countries should also develop their logistics infrastructure and create stable legal and economic systems to increase FDI inflows. At the same time, ASEAN Member Countries need to come up with, unilaterally and collectively, structural adjustment and reform assistance and capacity building measures to help those sectors that would be adversely affected by the reforms.

References:

- Aldaba, R., D. Lazaro, G. Llanto, E. Medalla and F. Quimba. 2010. "ERIA Study to Further Improve the AEC: The Philippines". PIDS DP 2010-24. Makati City, Philippines.
- Aldaba, R., E. Medalla, F. Quimba, J. Yap and G. Llanto, 2011. "ERIA Survey of Core Measures: The Philippines". Report submitted to ERIA.
- Aldaba, R., E. Medalla, V. Lleda, B. Alano and G. Llanto, 2011. "ERIA Phase 2 Study: Toward a More Effective AEC Scorecard Monitoring System and Mechanism: The Philippines". Report submitted to ERIA.
- Aldaba, R. J. Yap and P. Petri. 2009. The AEC and Investment and Capital Flows, Chapter 4 in *Realizing the ASEAN Economic Community*, edited by Michael Plummer and Chia Siow Yue. Institute of Southeast Asian Studies. Singapore.
- Aldaba, R. 2007. FDI Investment Incentive System and FDI Flows: The Philippine Experience, PIDS Research Paper Series 2007-03 and as PIDS Discussion Paper 2006-20. Makati City, Philippines.
- Aldaba, R. 2005. Impact of Market Reforms on Competition, Structure, and Performance of the Philippine Economy. PIDS Discussion Paper 2005-24. Philippine Institute for Development Studies, Makati City Philippines.
- Akinci, G. 2008. "Special Economic Zones". A PowerPoint presentation. FIAS, IFC-WB.
- Bautista, C. 2010. "Strengthen Investors' Assistance Toward Sound Investment Climate". Philippine Daily Inquirer. April 19, 2010.
- Booz Allen Hamilton. 2008. "Chapter 2: Enhancing Cross-Border Trade Flows: Tariffs, Trade Zones, Customs Currency, and Community" in SEA CLIR-Trade

- Advancing a Regional Agenda for Shared Growth. Report for the US Agency for International Development.
- FIAS. 2008. Special Economic Zones Performance, Lessons Learned, and Implications for Zone Development. The World Bank Group. USA.
- Forbes, J. 2010. “Building the Seven Big Winners and High Growth”. Powerpoint presentation. Conference on Seven Big Winners: High Growth Sectors for Investment and Jobs. Organized by Joint Foreign Chambers of the Philippines. April 10, 2010. The Peninsula. Makati City, Philippines.
- NEDA. 2009. Updated Medium Term Philippine Development Plan: 2004-2010. National Economic and Development Authority. Philippines.
- OECD. 2006. Policy Framework for Investment. Paris, France.
- Urata, S. and M. Ando. 2010. “Investment Climate Study of ASEAN Member Countries”. Chapter 4 in Urata, S. & Misa Okabe. eds. Tracing the Progress Toward the ASEAN Economic Community. ERIA Research Project Report 2010.