INVEST

FOREIGN DIRECT INVESTMENT

According to UNCTAD's World Investment Report 2023, foreign direct investment inflows to the Philippines decreased from USD 11.9 billion in 2021 to USD 9.2 billion in 2022 (-23.2%) owing to acquisitions by local investors of foreign affiliates; for example, Union Bank of the Philippines acquired the Philippine consumer banking business of Citigroup (United States) for USD 1.4 billion. At the end of 2022, the total stock of FDI stood at USD 112.9 billion, around 27.9% of the country’s GDP. In the same year, the majority of inflows were directed towards the manufacturing (44.1%), financial and insurance (12.4%), real estate (10.6%), and ICT (10.1%) sectors; whereas Japan (35.1%) was the main investor, followed by Singapore (28.8%), the U.S. (14.7%), and Malaysia (6.4% - data Congressional Policy and Budget Research Department of the House of Representatives). According to the latest figures from the Central Bank, in the period Jan-Nov 2023, FDI inflows totalled USD 7.6 billion, 13.3% lower than the same period one year earlier.

Despite growing FDI inflow levels, the Philippines continues to lag behind regional peers, in part because the Filipino constitution limits foreign investment, and also due to the threat of terrorism in some parts of the country. This can be partially explained by the fact that the country is evolving into a service society with low capital strength, which means that it needs only minimal equipment. In addition, the government favours subcontracting agreements between foreign companies and local enterprises rather than FDI in the strict sense of the term. Lastly, factors such as corruption, instability, inadequate infrastructure, high power costs, lack of juridical security, tax regulations and foreign ownership restrictions discourage investment. Nonetheless, the country offers many comparative advantages, including an English-speaking and well-skilled workforce, a strong cultural proximity to the U.S., exposure to an emerging market, and a geographical location in a dynamic region. Furthermore, the Philippines has been substantially improving its business climate in recent years. The country now permits international investors to establish and wholly own small and medium-sized enterprises, with full equity ownership also granted in sectors where foreign investment was already permissible. Previously, foreign investors were restricted to investing in small businesses only if they employed a minimum of 50 Filipino workers. The Philippines ranks 56th among the 132 economies on the Global Innovation Index 2023 and 88th out of 184 countries on the 2023 Index of Economic Freedom.

Foreign Direct Investment	2020	2021	2022
FDI Inward Flow *(million USD)*	6,822	11,983	9,200
FDI Stock *(million USD)*	103,394	111,526	112,965
Number of Greenfield Investments*	50	66	134
Value of Greenfield Investments (million USD)	1,454	1,375	3,508

Source: UNCTAD - Latest available data.

*Note: * Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.*

Country Comparison For the Protection of Investors	Philippines (the)	East Asia & Pacific	United States	Germany
Index of Transaction Transparency*	9.0	5.9	7.0	5.0
Index of Manager's Responsibility**	4.0	5.2	9.0	5.0
Index of Shareholders' Power***	7.0	6.7	9.0	5.0

Source: Doing Business - Latest available data.

*Note: *The Greater the Index, the More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. *** The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action.*

WHAT TO CONSIDER IF YOU INVEST IN THE PHILIPPINES

Strong Points

The country's main strong points in terms of FDI attractiveness include:

- A skilled young English-speaking workforce
- A large domestic market (with a population of over 114 million people)
- A gateway to other countries in the region facilitated by the country's membership in ASEAN
- An economy that has successfully integrated enterprise outsourcing (BPO)
- A very advanced legal system
- Considerable natural wealth

Weak Points

The main weaknesses of the country include:

- Political instability
- Poor quality of its infrastructure
- Restrictions on foreign investment in certain sectors
- Legal uncertainty and a lack of transparency of procedures (total banking secrecy favouring money laundering) generating tensions and a lack of confidence of the business community towards the legal system
- High level of corruption in the administration and various state agencies
- Strong disparities in development according to the regions: income and security inequalities (problematic security situation in the Muslim regions of the South)

Government Measures to Motivate or Restrict FDI

Legislation liberalising business practices has opened up more areas for investment, granting foreign investors the same incentives as other ASEAN members while simplifying procedures. The government has planned to increase investments to improve infrastructure (roads, bridges, railways, health and education) and to encourage social programs (child vaccinations, support for poor families, extension of health insurance coverage, primary education).
Recent changes to the Foreign Investment Negative List (FINL) allow foreign companies to have a 100% investment in internet businesses (not a part of mass media), insurance adjustment firms, investment houses,

lending and finance companies, and wellness centres; as well as 40% in construction and repair of locally funded public works (the previous cap was at 25%).

INVESTMENT OPPORTUNITIES

The Key Sectors of the National Economy

The majority of FDI investments includes manufacturing, financial/insurance activities, real estate, tourism/recreation, and transportation/storage.

High Potential Sectors

Gold and copper industry, e-commerce, biotechnology, business services (call centers and content control), education and insurance, energy sector, retail trade (the 2019 Retail Trade Liberalization Act reduced the minimum investment per store requirement for foreign-owned retail trade businesses from USD 830,000 to USD 200,000).

Privatization Programmes

The Philippine Government's privatization program is managed by the Privatization and Management Office (PMO). At the moment, no regulations discriminate against foreign buyers and the bidding process appears to be transparent.

Tenders, Projects and Public Procurement

Tenders Info, Tenders in the Philippines
Asian Development Bank, Procurement Plans in Asia
DgMarket, Tenders Worldwide

Sectors Where Investment Opportunities Are Fewer

Monopolistic Sectors

The "Negative List" has several economic sectors reserved entirely or partially for nationals. Among others there are: mass media, the retail trade, advertising, public services, small-scale mining, private security and utilization of marine resources.

Sectors in Decline

The agricultural and mining sectors.

Finding Assistance For Further Information

Other Useful Resources

Philippine Economic Zone Authority (PEZA)
Philippine Chamber of Commerce and Industry

Doing Business Guides

Business Guide to the Philippines - Deloitte
World Bank's Doing Business - Philippines
Deloitte Tax Guide - Philippines