



American Chamber of Commerce

Workshop on Foreign Direct Investment

Hotel InterContinental, Makati City

05 October 2006

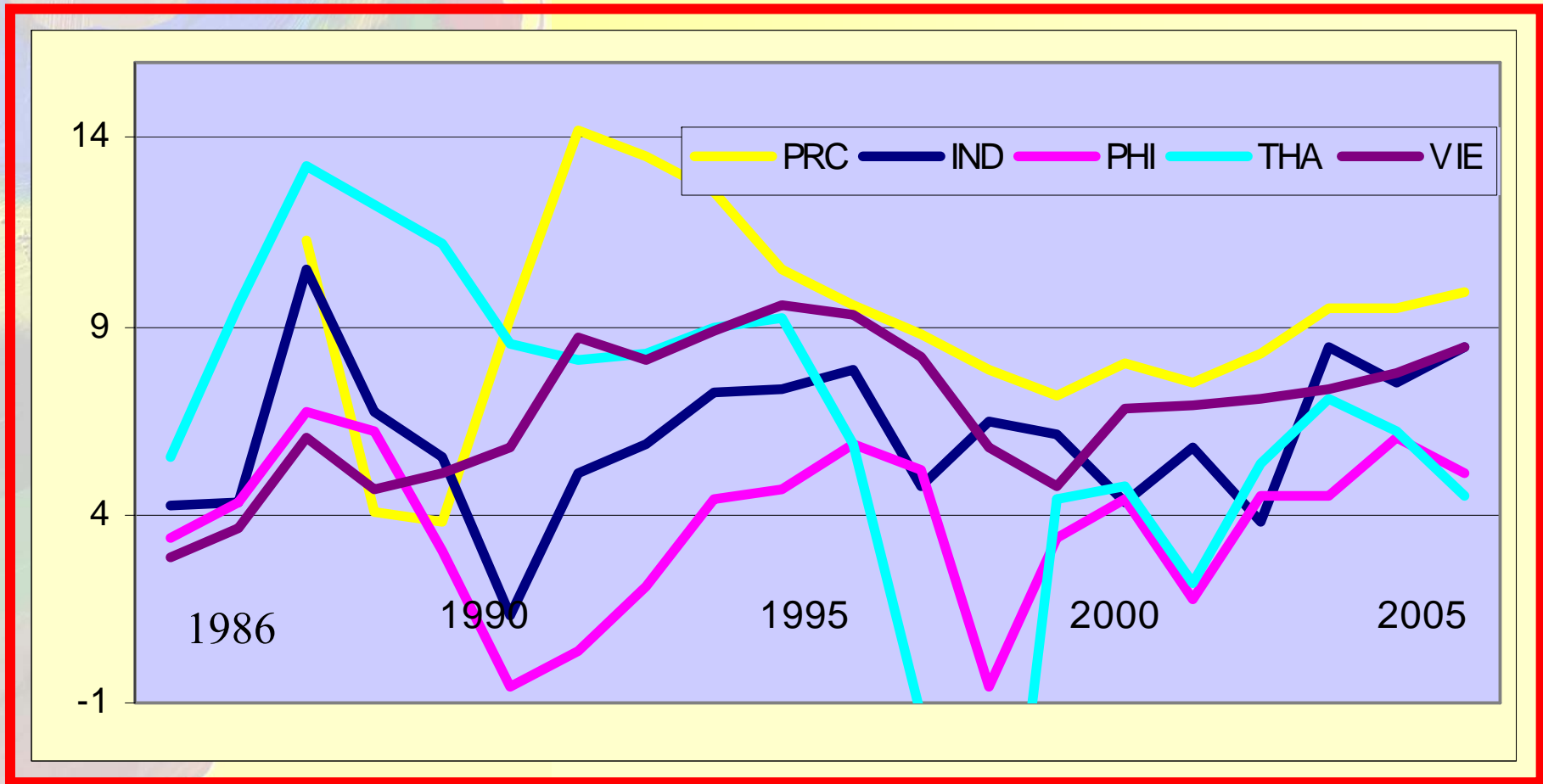
***Philippines and FDI :
getting to \$3 billion a year***

**Tom Crouch
Country Director**

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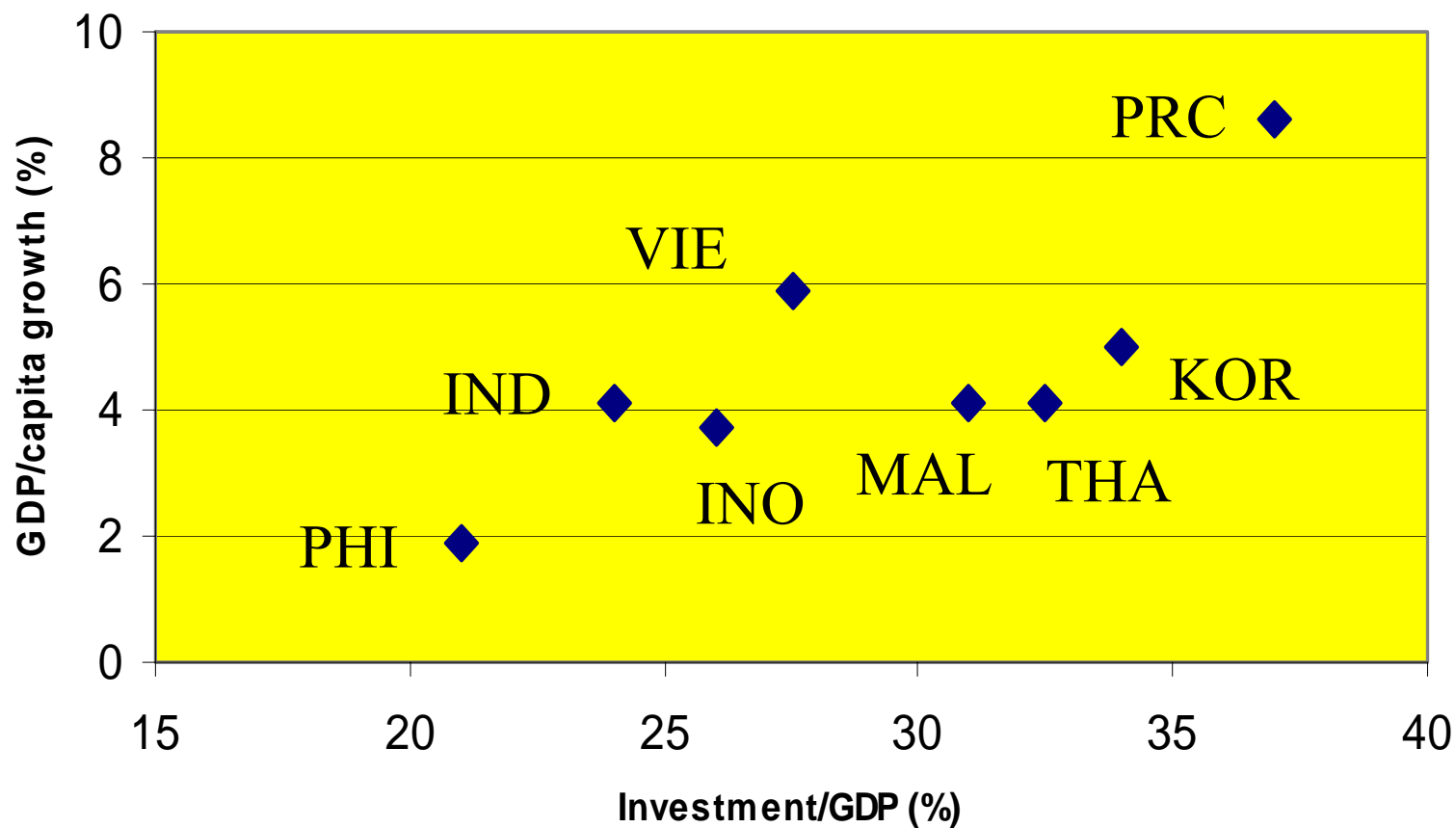
GDP Growth (%) 1986-2005



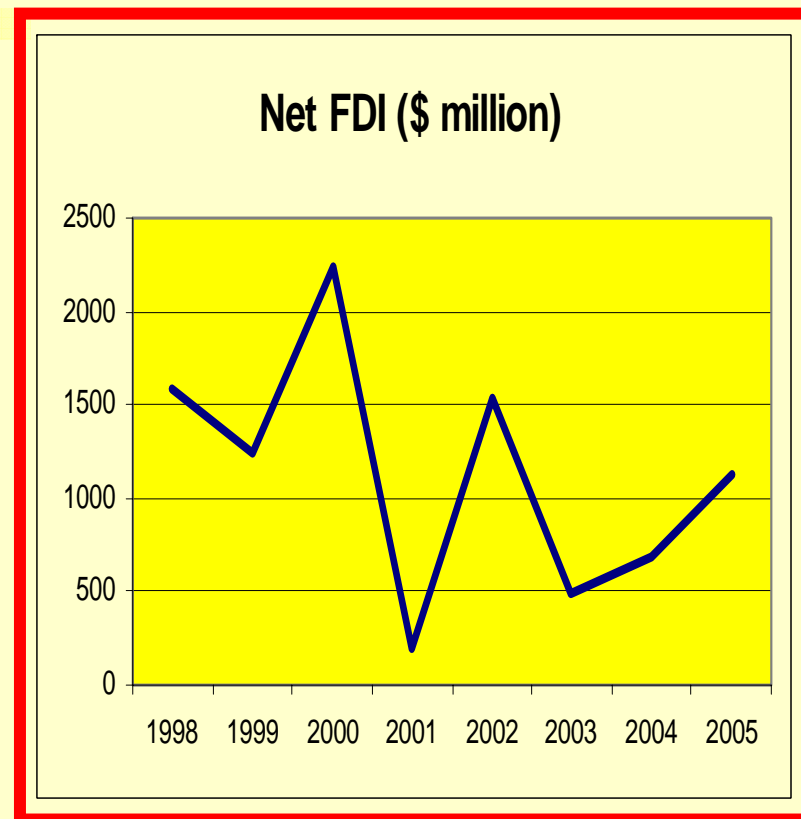
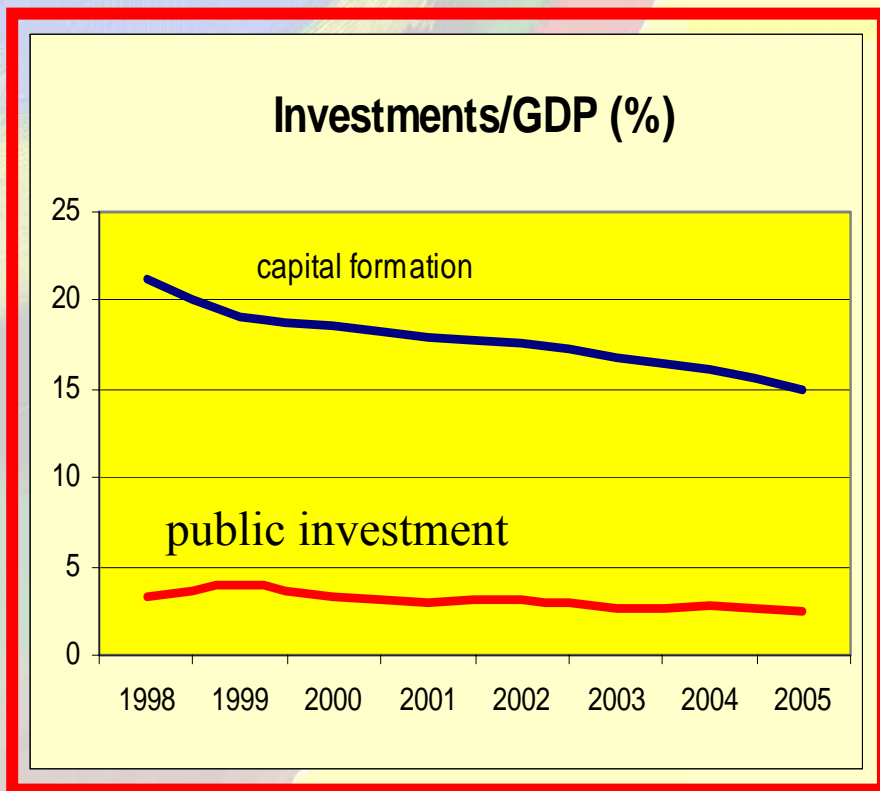
Source: ADB. *Key Indicators*

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Investment and Growth 1990-2005

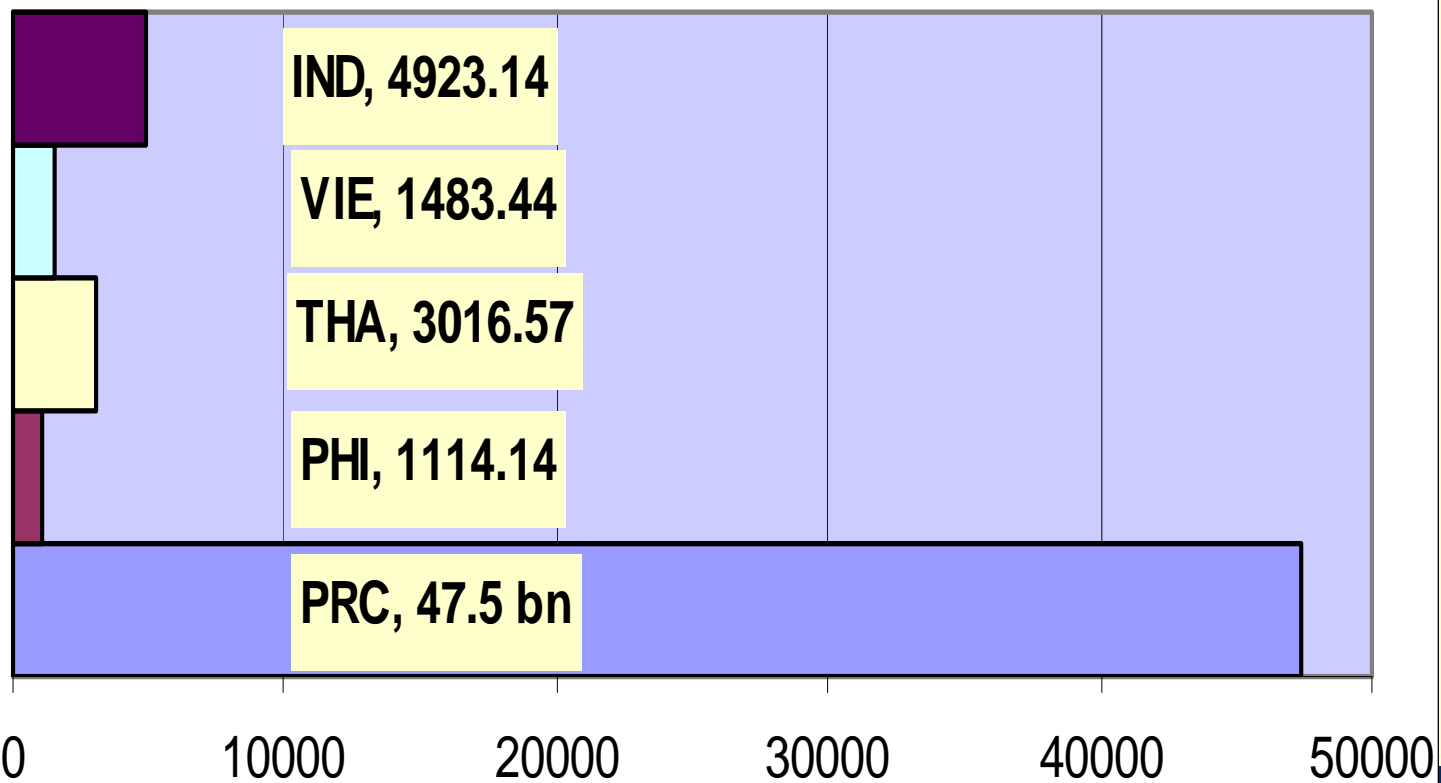


Philippine Investment Trends

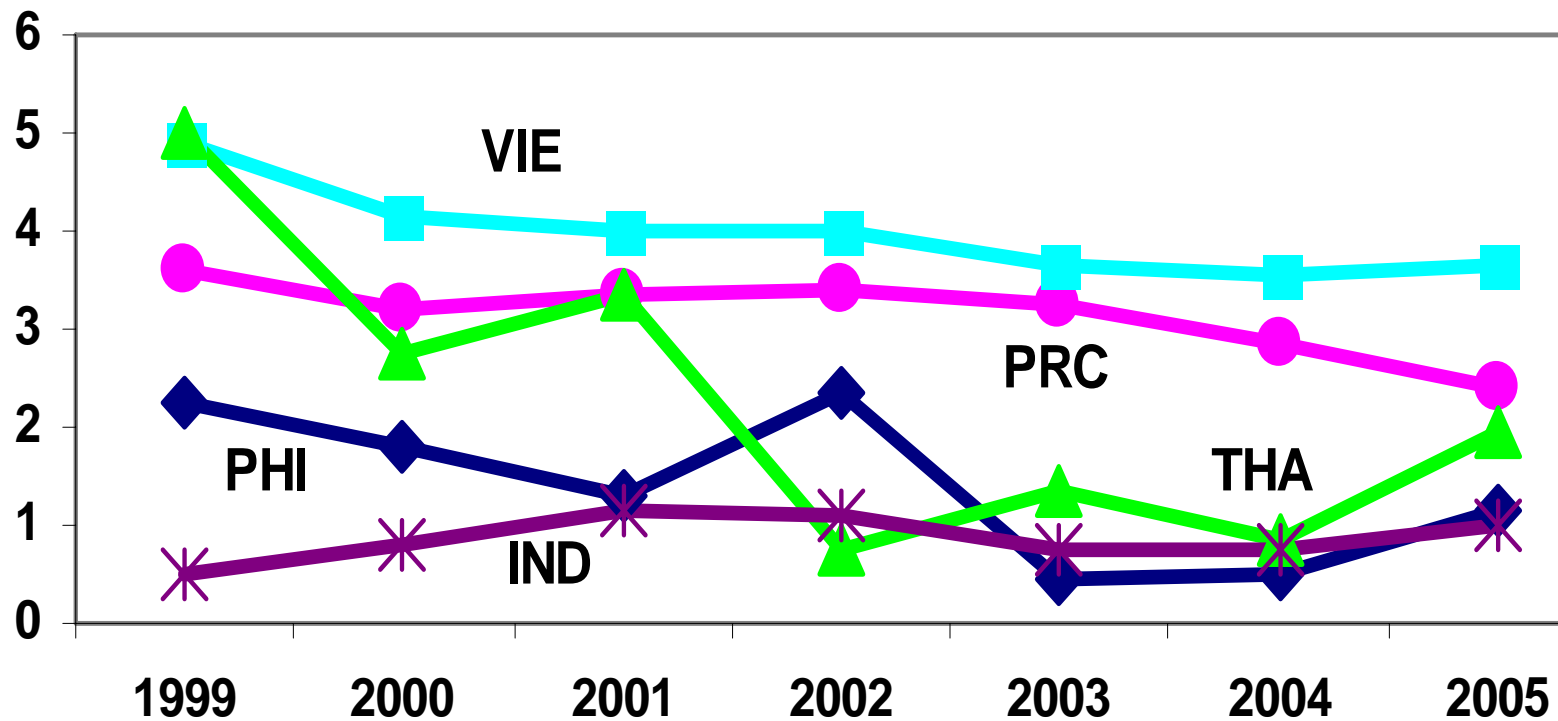


Source: ADB. *Key Indicators 2006*; BSP.

AVERAGE NET FDI (\$m, 1999-2005)



FDI/GDP (%)



Source: ADB. *Key Indicators 2006*

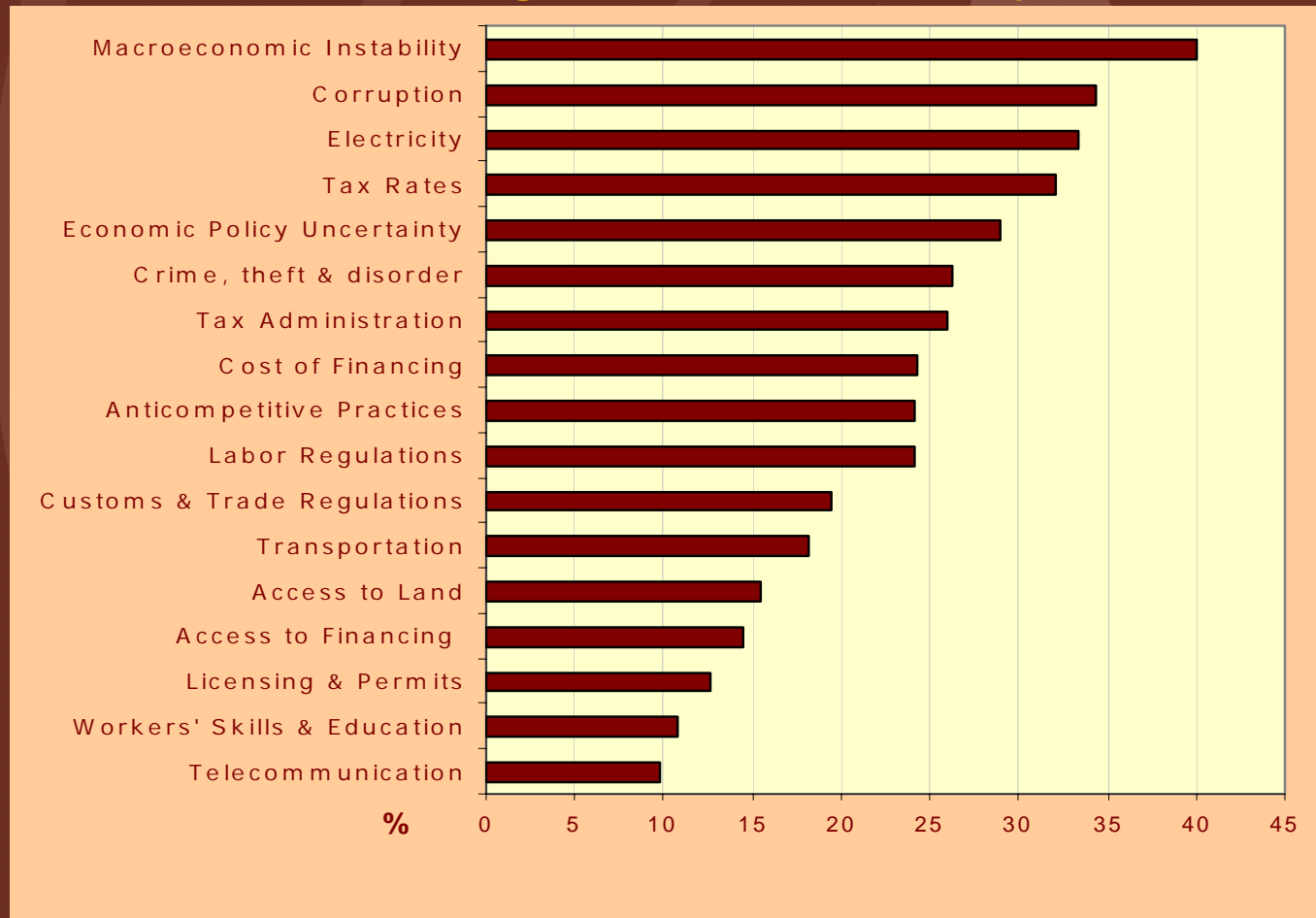
Philippines: Investor Perception



Source: *The Philippine Star*, Editorial "Risky Business", 16 Sep '05.
7 Commentary on ADB's *Private Sector Assessment* (May 2005).

Philippines: Moving Toward A Better Investment Climate

Share of Firms Rating Constraints as Major or Severe



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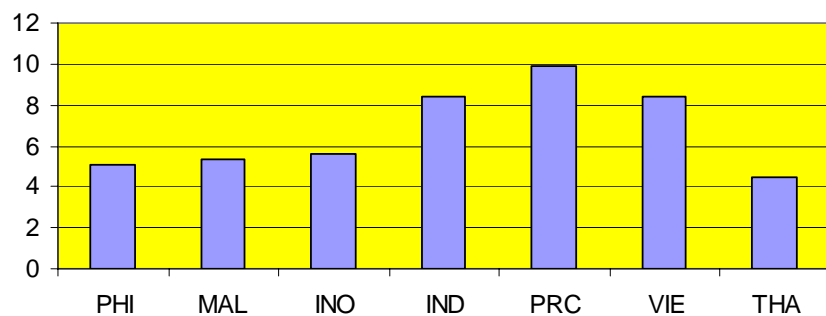
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What is “the investment climate”?

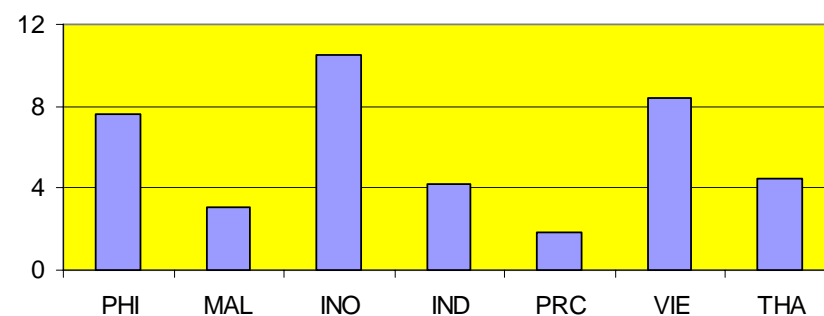
- **Incentives** Macro-economic fundamentals; political & social stability
- **Infrastructure** Access to and quality of physical assets - roads, ports, power, water, telecommunications
- **Institutions** Governance, corruption, regulation, taxation, legal system, financial sector, labor market flexibility, skilled work force

INCENTIVES – internal balances

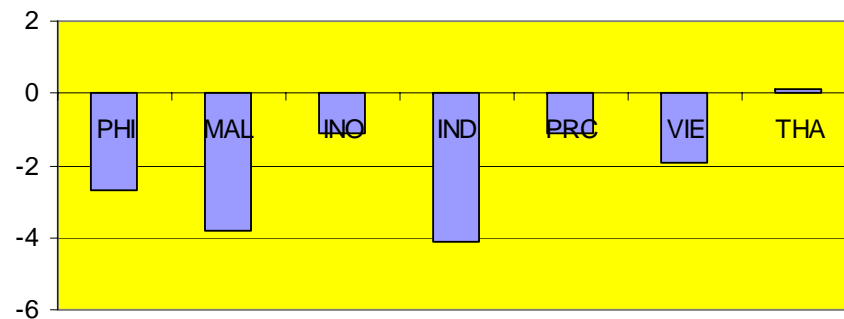
GDP Growth 2005 (%)



Inflation 2005 (%)

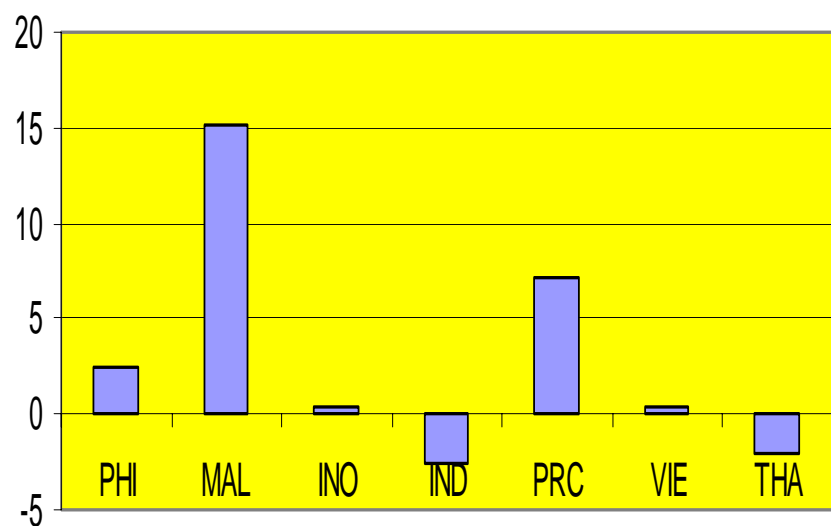


Budget Deficit 2005 (%GDP)

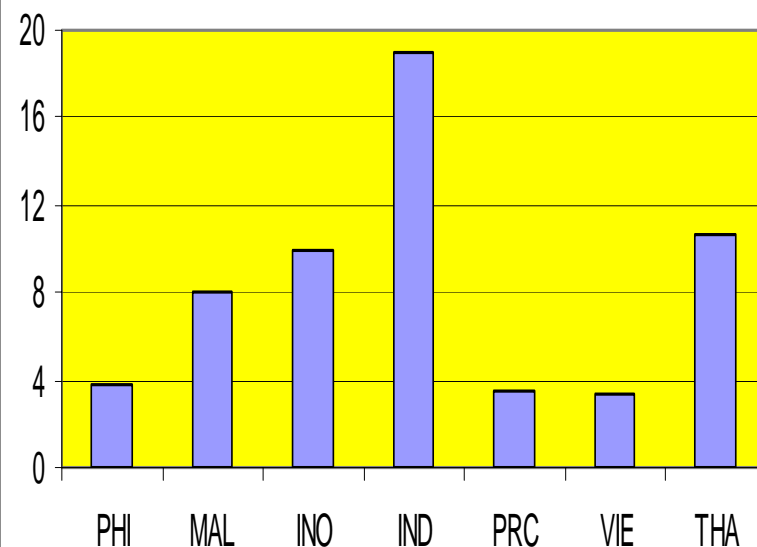


INCENTIVES – external accounts

Current Account/GDP, 2005 (%)



Debt Service/Exports 2005 (%)



Source: ADB. *Key Indicators 2006*

INCENTIVES: complex economic-political environment

- Transfer of executive power between successive administrations
- Executive-legislative alignment
- Cha-cha, con-ass, con-con, and people's initiatives
- Political cycles and economic priorities
- Risk mitigation

INFRASTRUCTURE

Power, water, transport, sanitation, telecommunications

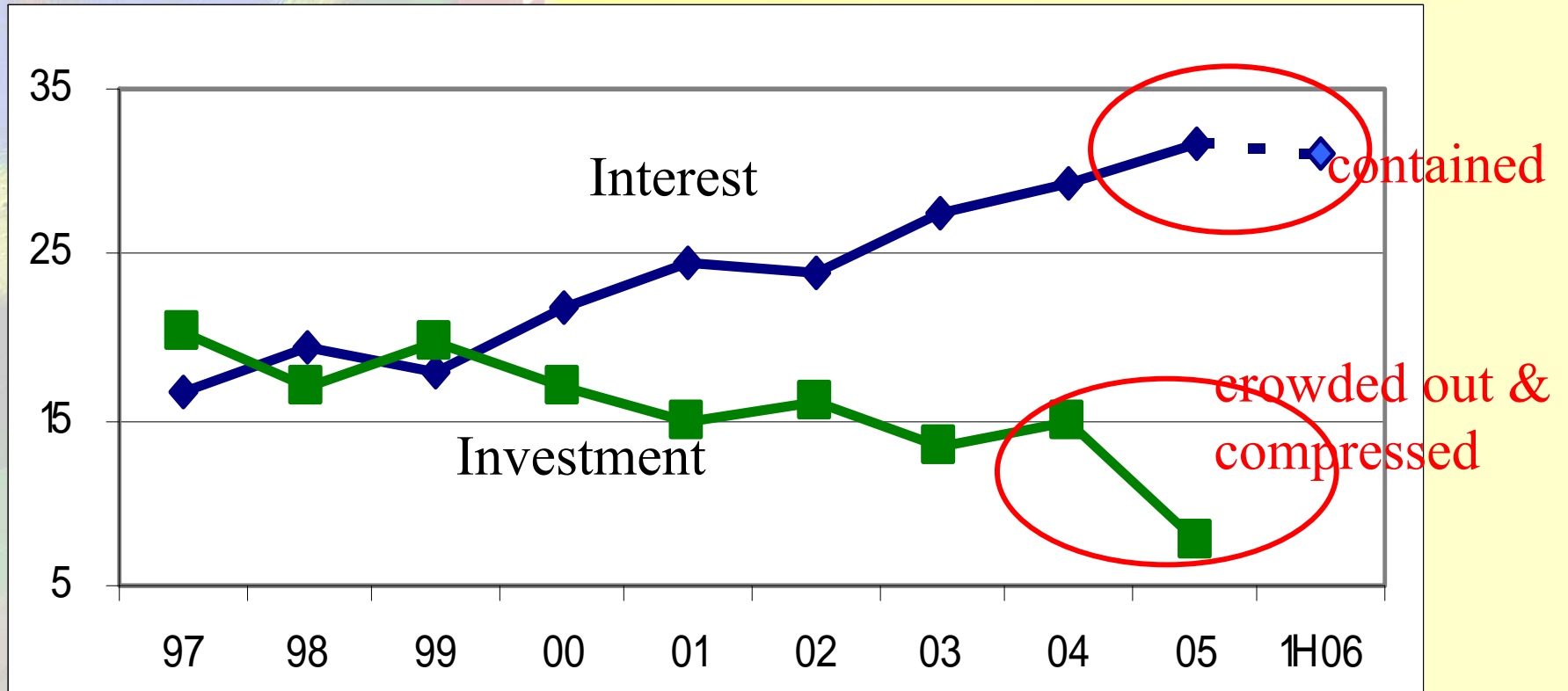
- Access and quality
- Philippines comparative standing
- Public infrastructure
- Crowding in the private sector
- Public-private partnerships

Infrastructure Investment %GDP

0%-4%	4%-7%	>7%
Cambodia Indonesia Philippines	Lao PDR Mongolia	PRC Thailand Viet Nam

Source: ADB, JBIC, World Bank. 2005. *Connecting East Asia: A New Framework for Infrastructure*, Table 1.2.

Public Infrastructure Spending



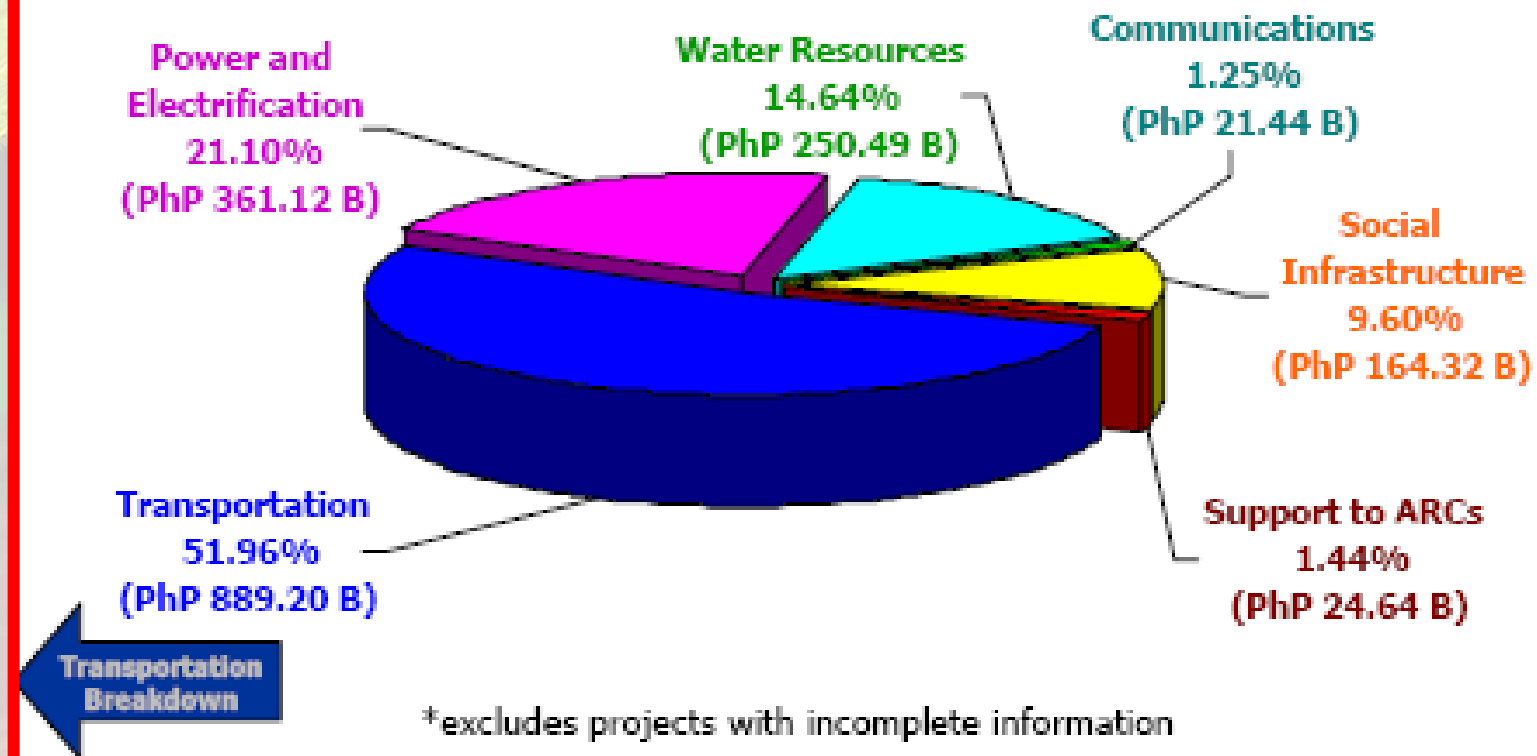
↑ Tax revenues → ↓ borrowing → ↓ interest → ↑ fiscal space for capital spending

↑ ODA → ↓ interest → ↑ fiscal space for capital spending

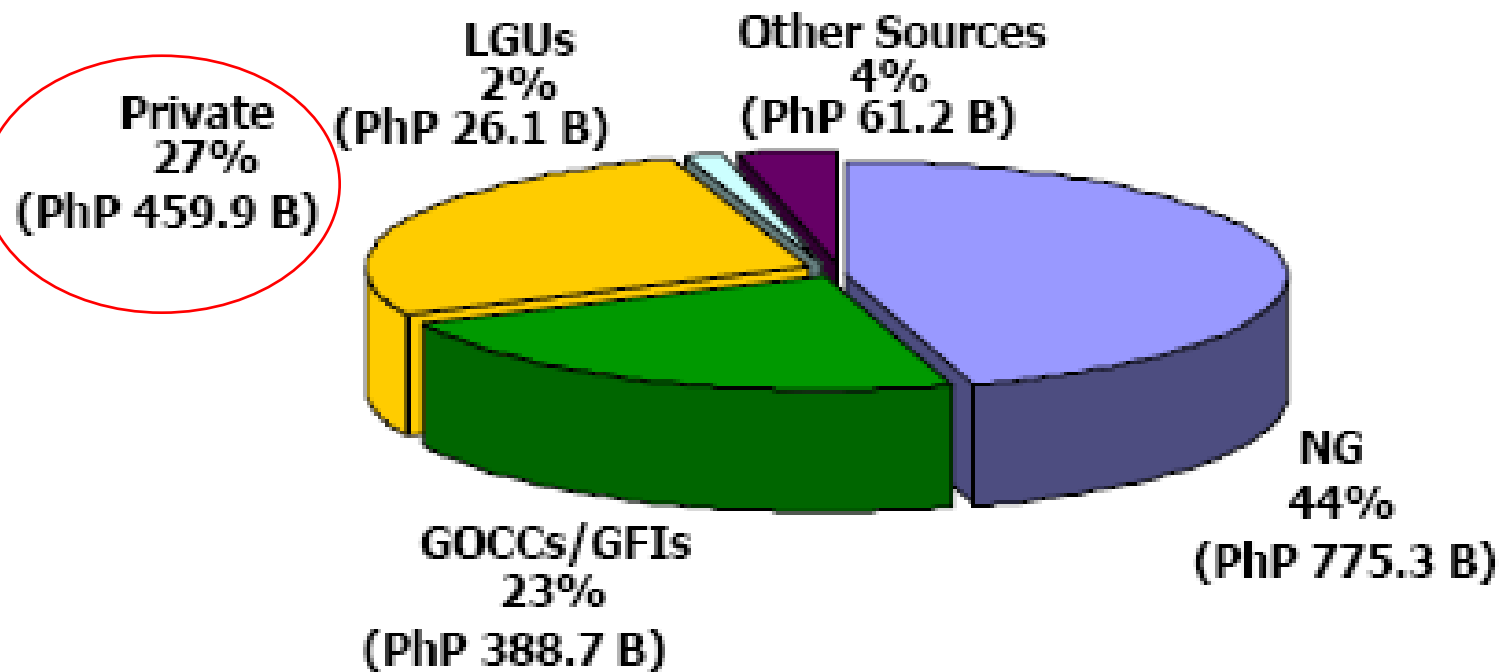
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Future Infrastructure Investment

Total investments = PhP 1,711 billion
(4.45 % of total GDP for 2006-2010)*



Financing Infrastructure Investments



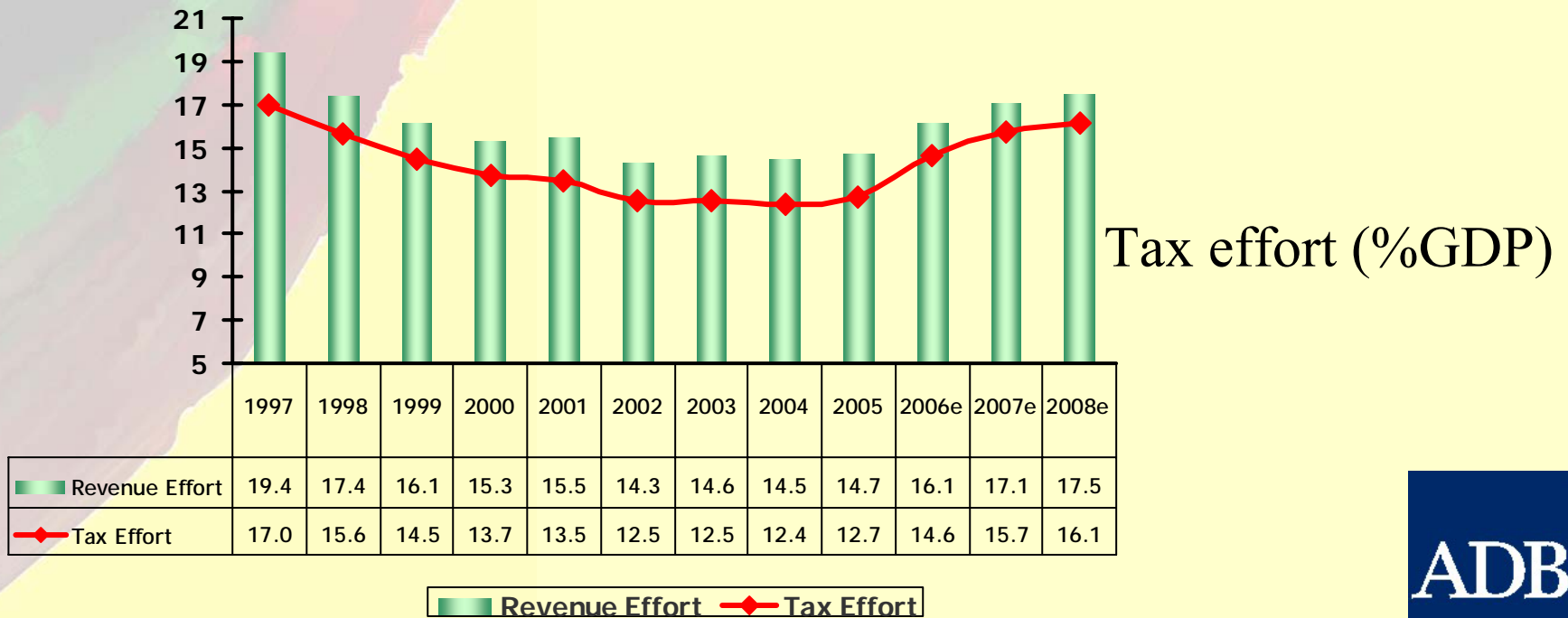
Source: *Comprehensive Integrated Infrastructure Program 2006-2010*, NEDA, 18 August 2006

Institutions

- Governance
- Corruption
- Supreme Court and the economy
- Financial sector
- Labor market
- Regulation, red tape and regulatory agencies

Parting Shot: Leveraging Success

Govt Deficit	2004	2005	2006	2007
National - % GDP	P187bn 3.9%	P146bn 2.7%	P125bn 2.1%	P63bn 0.9%
Consolidated - % GDP	P235bn 4.9%	P183bn 3.4%	P131bn 2.2%	P81bn 1.2%



Fiscal consolidation: the tipping point?

- **Proxy** for capacity and credibility
- Creating **fiscal space** for prioritized public spending on infrastructure and social sectors
- Creating **confidence** and crowding in private investment
- Triggering higher levels of **ODA support**
- Improving **perceptions** of financial markets, leading to less costly financing
- Creating **policy space** to concentrate on other areas of the economic reform agenda

ADB-PHILIPPINES PARTNERSHIP: our vision

*As a long term development partner,
living and working in Manila, ADB
understands the challenges and shares
the aspiration of **a Philippines free of
poverty.***

*We are committed to continue to **work
with all Filipinos** to move more rapidly
to this goal*





thank you