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REBUILDING THE ECONOMY THROUGH INVESTMENTS



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After more than two years, the Philippines continues to grapple with the detrimental impacts of the COVID-19 pandemic. With a new government expected to take the lead soon, the country's next chief executive will inherit the critical task of mitigating the pandemic-induced socio-economic challenges of millions of Filipinos and bring the Philippines towards long-term economic growth and development, particularly by shifting to a more investment-driven growth. But the next leadership should not just focus on economic resilience.

A change in leadership means new expectations. On June 30, 2022, the top posts in government will be replaced by new officials. This comes at a time when the impact of the COVID-19 pandemic has begun to show some signs of easing and, as such, more areas of the economy have reopened.

Data from the Department of Health (DOH) show that 1,674 new COVID-19 cases were recorded in the country from April 11 to 17, 2022, with an average of 239 daily cases.¹ Since the pandemic broke out in early 2020, total reported COVID-19 cases in the country have climbed to over 3.68 million as of April 22, with 3.61 million recoveries and 60,118 deaths.² The total cases represent 0.73% of the global total of 505.04 million, while the COVID-19 casualties in the Philippines represent 0.97% of the global number of 6.21 million deaths.³ Meanwhile, as of April 18, nearly 67 million Filipinos have been fully vaccinated and almost 13 million have received their booster dose.⁴

Looking past the prolonged public health crisis, the national and local elections on May 9, 2022 will be an important milestone that will reshape the Philippines' future and determine the country's growth trajectory for

the next six years. The main issues that the next administration will face are tremendous, ranging from unemployment, poverty, and hunger to the mounting national government debt incurred by the outgoing Duterte administration. On top of these, the intensifying conflict between Ukraine and Russia may also create challenges and derail the country's path to recovery as massive oil price hikes drive up inflation.

While green shoots have emerged over the past year and life seems to be gradually returning to normal, much remains to be done. The country's next chief executive will have to shoulder the enormous responsibility of addressing all the lingering socio-economic challenges faced by millions of ordinary Filipinos on the ground and steer the country towards the path to long-term economic growth and development.

However, amid the external and internal factors coming into play, a cloud of uncertainty continues to hang over the economy's growth prospects. Can economic recovery post-pandemic be truly sustained as planned,

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especially since the positive numbers obtained in 2021 were mostly attributable to the low base year in 2020?

The imminent changes in the Philippines’ top leadership may either present opportunities or pose risks, depending on who will be elected. Not only will the next chief executive of the land determine the country’s future, but his or her assumption into office will also influence the decisions of prospective investors wishing to conduct business in the country.

This paper highlights the need for the country’s next set of leaders to calibrate its growth strategies by shifting to a more investment-driven growth in order to sustain the Philippines’ recovery moving forward. This study discusses the latest economic data in 2022, as well as the risks that the country might face in the near-term. The impending top leadership changes can turn to an opportunity for the nation to attract more investments, which are expected to not only create jobs, spur consumer spending, and revitalize the economy, but also help mitigate the risks and uncertainties that cloud the nation’s outlook for a sustainable recovery post-pandemic.

But for all this to be achieved, the next leaders should prioritize the most essential aspect of growth – that is, by improving the country’s reputation on the world stage through good governance.

THE PHILIPPINE ECONOMY: TWO YEARS INTO THE PANDEMIC

Bright spots have been emerging as the Philippine economy continues to see improvements in the past several months, alongside the decline in COVID-19 cases and the subsequent further reopening of businesses and other commercial establishments.

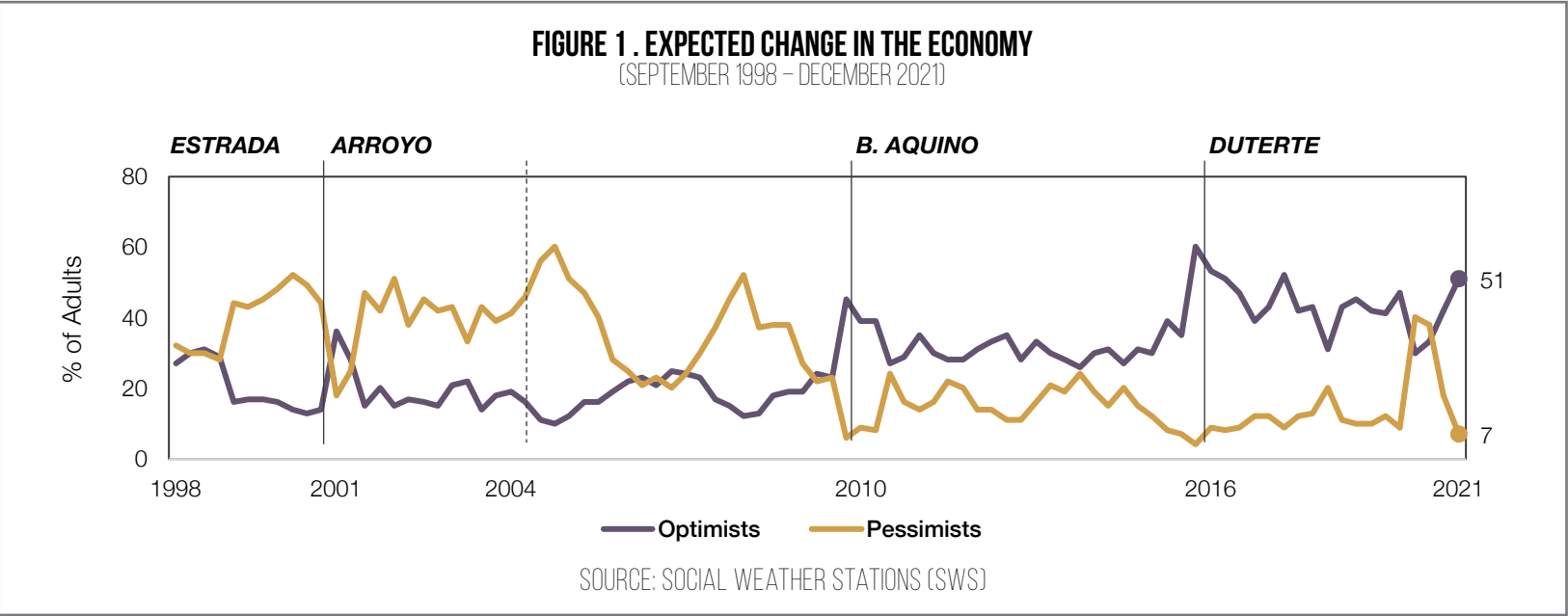
As the daily COVID-19 caseload decreases and the number of people getting vaccinated against the virus increases, more areas in

the country have been downgraded to Alert Level 1, thus allowing for the further resumption of economic activities. Interestingly, when several provinces shifted to Alert Level 1 in March 2022, the National Economic and Development Authority (NEDA) estimated that this move benefitted 62% of the economy and 20.3 million workers, or some 48% of the workforce. Furthermore, based on NEDA estimates, the shift to the lowest alert level generated PHP 9.4 billion per week of economic activity and PHP 3 billion in salaries per week.⁵ By April 1, 2022, around 79% of the economy had been placed under Alert Level 1.⁶

The Philippine economy finally exited a recession in the second quarter of 2021 – after recording economic contractions for five consecutive quarters – and continued to post growths in the succeeding quarters.⁷ In April 2022, the Philippine Statistics Authority (PSA) revised the fourth quarter gross domestic product (GDP)

growth rate upward to 7.8% from the preliminary estimate of 7.7%. Likewise, the annual GDP growth rate of 5.6% in 2021 was revised upward to 5.7%,⁸ far from the annual growth rate of -9.6% in 2020. In light of the developments seen in the past few quarters, the government expects the economy to recover to pre-pandemic levels within 2022. The Development Budget Coordination Committee (DBCC) expects the Philippine economy to grow by 7.0-9.0% in 2022 and by 6.0-7.0% in 2023 and 2024.⁹

Prior to the abrupt but short-lived new wave of COVID-19 cases in January 2022, Filipinos were optimistic about the country’s economic growth prospects as more sectors of the economy resumed operations in late 2021. The latest Social Weather Survey conducted by the Social Weather Stations (SWS) in December 2021 found that 51% of Filipinos said that the Philippine economy will improve, 30% said it will stay the same, while 7% said it will worsen in the next 12



months (Figure 1). This resulted in a Net Economic Optimism score of +44, classified by the SWS as “excellent”, the highest since September 2016.¹⁰

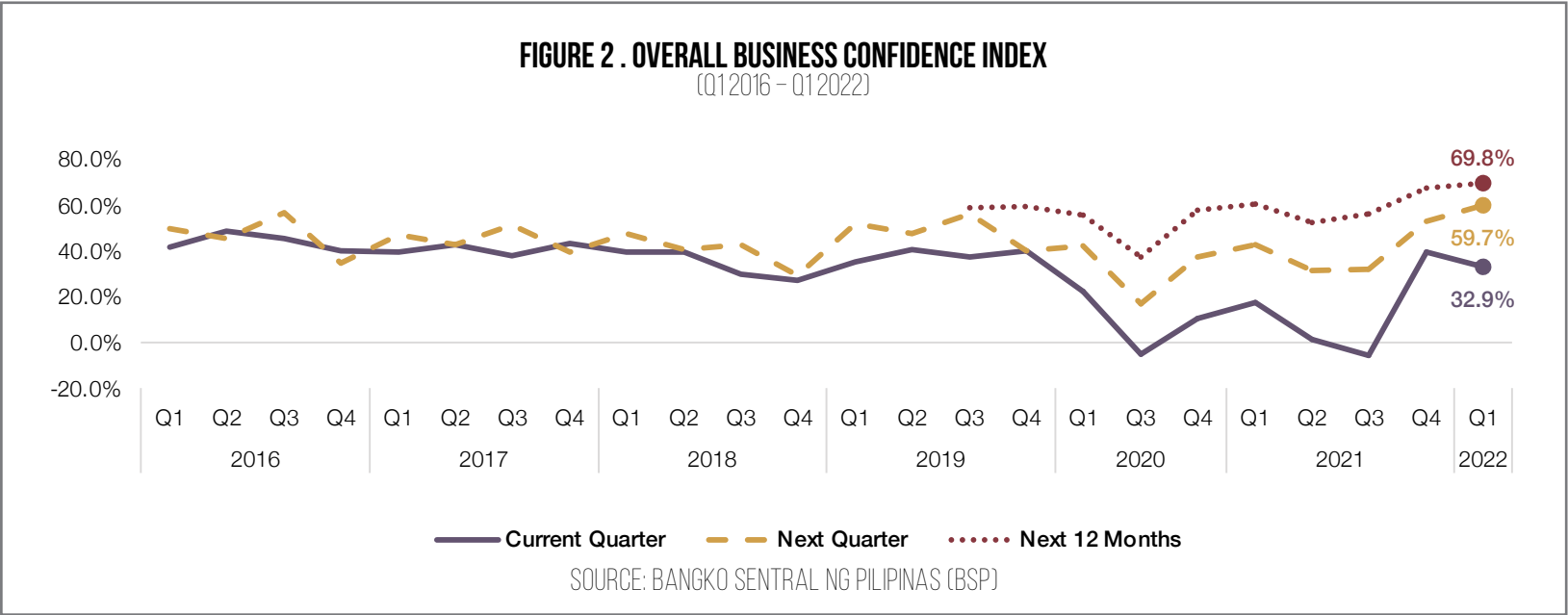
The sentiment of businesses in the country has been quite optimistic thus far. The latest Business Expectations Survey¹¹ of the Bangko Sentral ng Pilipinas (BSP) found that business confidence in the first quarter of 2022, albeit remaining positive, waned as the overall confidence index (CI) declined to 32.9% from 39.7% posted in the previous quarter (Figure 2).

According to the survey,¹² the dramatic surge in COVID-19 cases in January 2022 due to the spread of the Omicron variant – which saw a record-high of almost 40,000 new cases in one day and led to the reimposition of stricter quarantine measures – heavily impacted businesses’ outlook. Other factors cited were as follows: (1) increase in prices of raw materials and fuel; (2) decrease in sales and demand for certain goods and services; (3) weakening peso; and (4) adverse impact of natural calamities, particularly of Typhoon Odette in December 2021.

The same survey¹³ revealed that this optimism is expected to continue for the next quarter due to businesses’ expectations of the following: (1) decrease in the number of COVID-19 cases; (2) further easing of quarantine restrictions; (3) improvement in economic conditions and prospects of a recovery; (4) increase in volume of sales and orders; and (5) increase in economic activity due to the upcoming elections.¹⁴

Likewise, for the next 12 months (i.e., first quarter of 2023), business sentiment is more positive. The following factors are attributed to this buoyant outlook: (1) easing of quarantine restrictions; (2) further reopening and improving state of the economy; (3) uptick in the volume of demand and sales; and (4) increase in economic activity due to the upcoming elections.

FIGURE 2 . OVERALL BUSINESS CONFIDENCE INDEX
(Q1 2016 – Q1 2022)



Additionally, economists have noted the positive impact of the election season to the economy. According to former NEDA Director-General Cielito Habito, the GDP growth rate in non-election years is usually lower compared to that in election years, which record a 2-3% point increase. He pointed out, however, that growth tends to focus on the services sector, most especially on mass media, where most of campaign spending is channeled to.¹⁵

Meanwhile, in terms of consumer spending, NEDA Undersecretary Rosemarie G. Edillon stated that election campaign spending by political parties and candidates – particularly in the form of paraphernalia, media, meetings and sorties, and administrative expenses – “inject billions of pesos to the economy, which, in turn, create jobs in select industries and further spur domestic demand.”¹⁶

In addition, BSP¹⁷ data showed that inflation has generally moved

within the government’s target range of 2.0-4.0% throughout the two-year period of the pandemic from March 2020, when the lockdowns in the Philippines were first imposed, to March 2022 when the mobility restrictions in the country were downgraded to Alert Level 1. Inflation was driven by various factors depending on the time frame. In the early days of the pandemic, inflation was caused mainly by the mobility restrictions due to the lockdowns, which resulted in supply chain problems. Other contributing factors were the natural disasters like typhoons and earthquakes. Average inflation for the whole year 2020 was at 2.4% versus 3.9% for 2021. In 2022, inflation was at 3.0% in January and February and 4.0% in March.

The country’s employment situation has also seen some improvements over the past several months, after reaching a record-high unemployment rate of 17.7% exactly two years ago in April 2020. According to the PSA’s latest Labor Force Survey, the

unemployment rate in February 2022 stood at 6.4% – or 3.13 million jobless Filipinos – the same rate recorded in the preceding month. This was lower than the 8.8% posted in February 2021.¹⁸

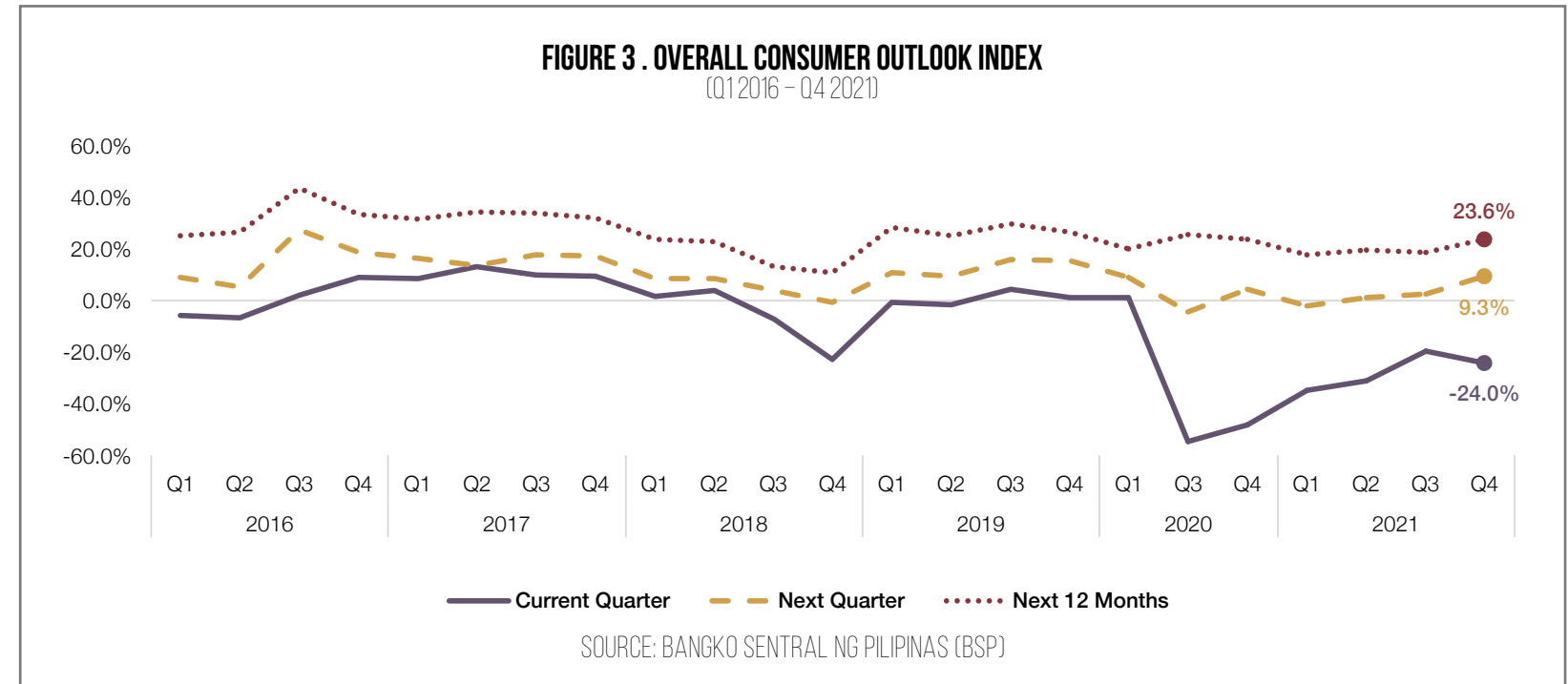
MITIGATING THE RISKS

Despite positive developments, there are still potential risks on the horizon.

For one, the Philippine government had to resort to additional borrowings for its enormous COVID-19 emergency response measures given the drop in revenues caused by the pandemic-induced mobility restrictions and subsequent economic slowdown. Data from the Bureau of the Treasury (BTr) show that the national government's total outstanding debt continues to grow as it ballooned to a staggering PHP 12.09 trillion by the end of February 2022, exceeding the record-high of PHP 12.03 trillion in the previous month. Furthermore, by the end of 2021, the debt-to-GDP ratio rose to 60.5%, far from the pre-pandemic level of 39.6% in 2019.¹⁹

The country's piling debt will ultimately be paid for by Filipinos through taxation. The Department of Finance (DOF) reported that as of January 14, 2022, the country's COVID-19 borrowings had amounted to PHP 1.3 trillion. In addition, the country also obtained grants worth PHP 2.7 billion to finance anti-COVID-19 programs, on top of the 76.8 million doses of donated COVID-19 vaccines. The loans, according to the DOF, will have to be repaid over a period of 40 years beginning in 2020 – or a period of two generations – which will therefore entail a fiscal consolidation program as well as improvements on revenue collection.²⁰

DOF Secretary Carlos Dominguez III proposed in February 2022 the imposition of new or higher taxes to raise revenues that could help pay for the debts incurred by the Duterte administration in its



efforts to combat the COVID-19 pandemic. While Sec. Dominguez has yet to disclose the specific taxes that may be included in this fiscal consolidation package that will be presented to the next administration, officials from the DOF had hinted that the next administration could focus on “relatively untaxed” sectors.²¹ Aside from this fiscal package, he stressed that the next administration needs to exert efforts for the economy to expand by more than 6% every year until 2028 to repay all these pandemic debts.²²

For some time, the government has been looking into a possible carbon tax, a tax on cryptocurrencies, the removal of all exemptions from 12% value-added tax payments, as well as increasing excise taxes on cigarettes, e-cigarettes, alcoholic drinks, and sugar sweetened beverages in recent years.²³ Sec. Dominguez has also

considered a wealth tax focusing on reforming the real property valuation system, especially since land cannot be hidden away.²⁴

While taxes are integral revenue sources for the government, increasing these would undoubtedly add even more burden to ordinary Filipinos – whose resources have already been strained as a result of the pandemic and the subsequent lockdowns – and, at the same time, discourage potential investors.

Perhaps one of the COVID-19 pandemic's most detrimental impacts was exacerbating the poverty situation in the Philippines and reversing the already downward trend in poverty incidence prior to the pandemic. The PSA reported that the poverty incidence in the Philippines rose to 23.7% – translating to 26.14 million Filipinos – in the

first half of 2021, from 21.1% – or 22.26 million Filipinos – in the same period in 2018. This meant that 3.88 million more Filipinos became poor.²⁵ These developments will delay the Philippines’ upgrade to the level of an upper-middle-income economy by a few years.²⁶

The World Bank also pointed out that Russia’s invasion of Ukraine in early 2022 may lead to the increase in poverty incidence in the Philippines by 1 percentage point – or 1.1 million more people – if cereal prices rise by 10%. The multilateral lender further noted that while the East Asia and Pacific (EAP) region’s direct dependence on Russia and Ukraine through imports and exports of goods, services, and capital is limited, the war and related sanctions could, nevertheless, push up the global prices of food and fuel, especially since the countries involved are large suppliers.²⁷

The BSP’s latest Consumer Expectations Survey²⁸ shows that consumer sentiment turned more pessimistic in the fourth quarter of 2021, with the overall CI dropping to -24.0% from -19.3% (Figure 3). Unemployment, low income, the COVID-19 pandemic, inflation, and less working family members were cited as the factors that contributed to this outlook.

INVESTMENTS: KEY TO SUSTAINABLE GROWTH

Given the continuing pandemic-induced socio-economic challenges faced by millions of ordinary Filipinos – which may be aggravated by new external factors such as the tensions between Ukraine and Russia, and the renewed COVID-19 lockdowns in China that may obstruct the supply chain – some uncertainties remain as to whether the Philippines will succeed in sustaining the economic gains achieved thus far and ensuring long-term recovery.

While the country has exhibited some signs of recovery from the adverse impacts of the pandemic, the time might be ripe for the

country to reshape its strategy using a different model to achieve long-term growth. Although the country has been exerting efforts to attract more foreign direct investments (FDIs), it was consumption that drove much of the economic growth for decades, powered by overseas remittances sent in by the huge number of Filipinos working overseas.

Hence, now may be a good opportunity to shift to a more investment-driven economy that will create more jobs, provide income security, boost consumption, and spur economic growth.

FOREIGN INVESTMENTS IN THE PHILIPPINES

Most recent data released by the BSP show that net FDI inflows in January 2022 amounted to USD 819 million, which was 16.0% lower than the USD 975 million registered in January 2021 (Figure

4). The BSP attributed this decline to concerns on the part of investors in light of the surge in COVID-19 cases due to the spread of the Omicron variant in January 2022 as well as the subsequent reimposition of stricter quarantine measures. Equity capital placements were mostly from Japan, the United States, the Netherlands, and Malaysia, and will be channeled to the following industries: manufacturing; financial and insurance; and real estate industries.²⁹

Foreign investment commitments made earlier are expected to be realized in the coming months. In the fourth quarter of 2021, approved total foreign investments amounted to PHP 133.47 billion, according to the PSA.³⁰ This was 265.8% higher than the PHP 36.49 billion recorded in the same period in 2020 (Figure 5). This brought the total approved foreign investments in 2021 to PHP 192.34 billion, an increase of 71.5% from the previous year’s PHP 112.12 billion.

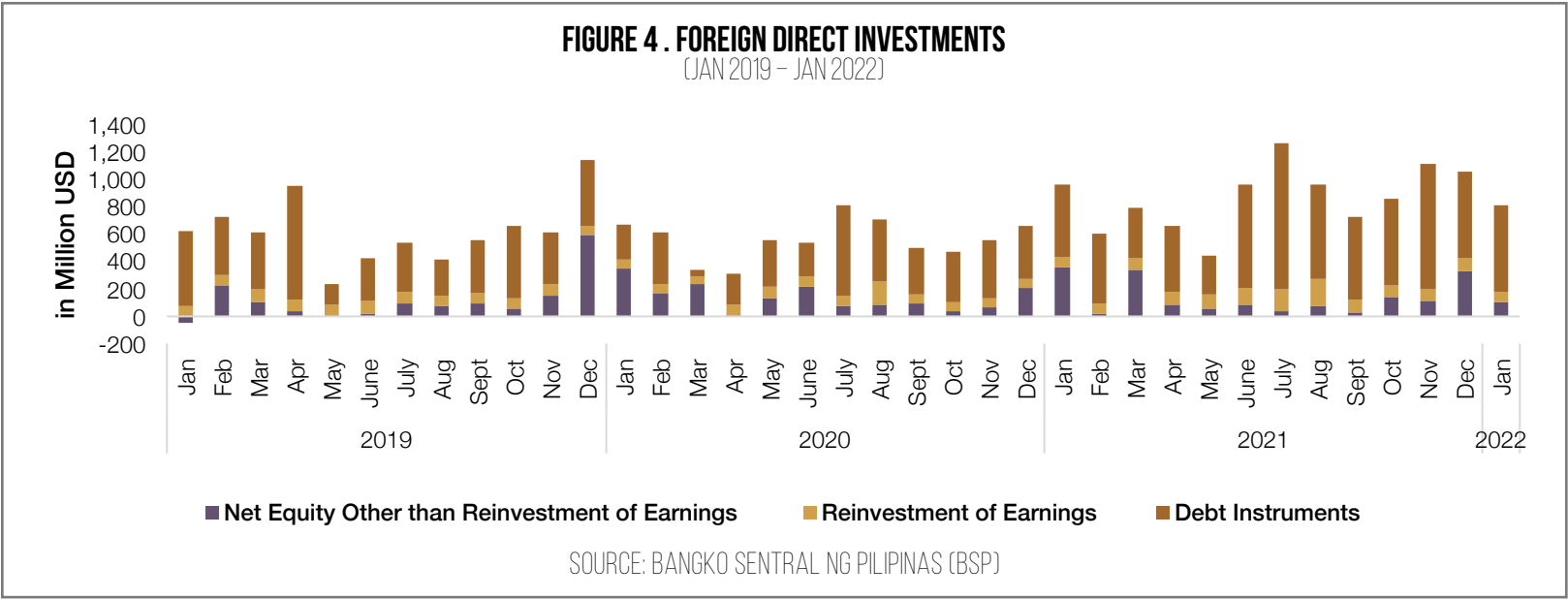
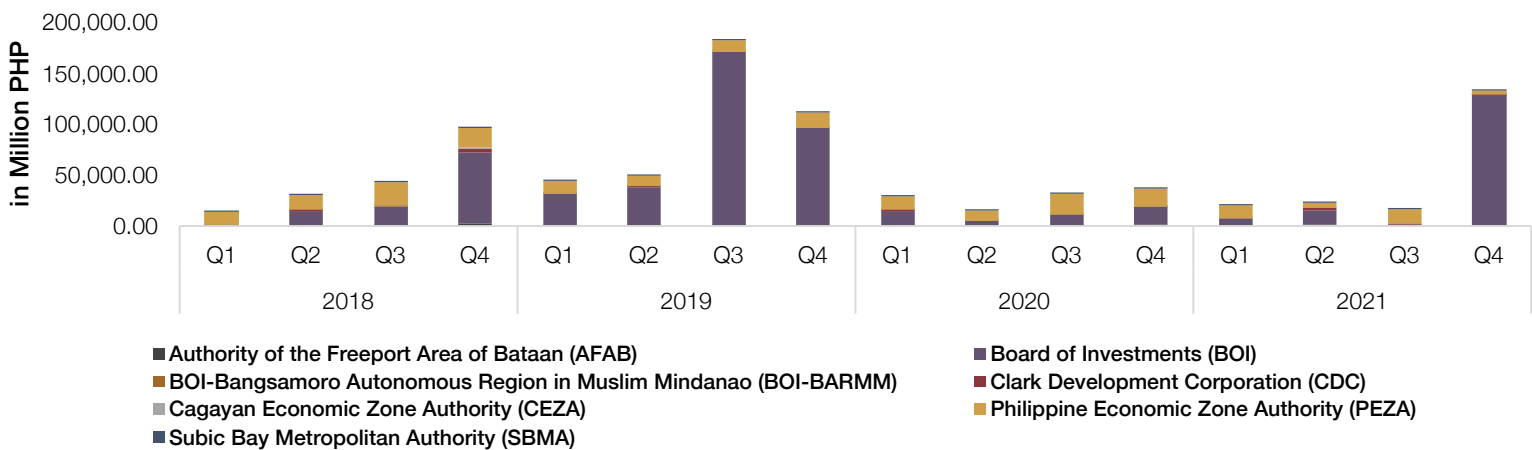


FIGURE 5 . TOTAL APPROVED FOREIGN INVESTMENTS BY INVESTMENT PROMOTION AGENCY
(2018-2021)

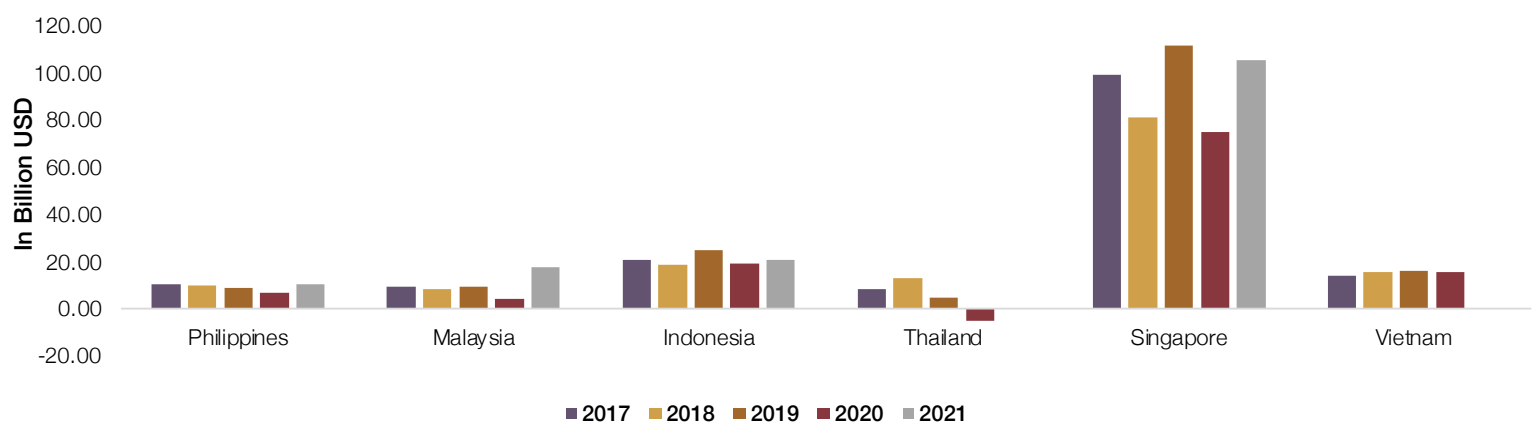


SOURCE: PHILIPPINE STATISTICS AUTHORITY (PSA)

Most of the foreign investment pledges in 2021 were from Singapore, which accounted for 59.4% of the total. This was followed by the Netherlands (18.4%) and Japan (1.1%). Meanwhile, the top three sectors with the most investment pledges in the same year were Information and Communication (75.0%), Manufacturing (13.8%), and Administrative and Support Service Activities (3.8%). Overall, these approved investment projects with foreign interest in 2021 are projected to generate a total of 66,251 jobs.³¹

In light of the US-China Trade War and the COVID-19 pandemic, the Philippines has been actively striving to pursue crucial reforms to further liberalize the economy and attract more foreign investors, especially those that want to relocate and diversify their supply chains. Based on data from the BSP,³² the Philippines’ net FDI flows from 2017 to 2021 were quite lackluster compared to its neighbors in the Southeast Asian region (Figure 6).

FIGURE 6 . NET FOREIGN DIRECT INVESTMENT FLOWS
(2017-2021)



SOURCE: BANGKO SENTRAL NG PILIPINAS (BSP)

Notably, three game-changing economic reforms that are intended to attract investments in the country were passed into law in recent months. Republic Act (RA) No. 11595, or the amendment to the Retail Trade Liberalization Act of 2000, reduces the minimum paid-up capital requirements for foreign retail enterprises to PHP 25 million from USD 2.5 million. RA 11647 amends the Foreign Investments Act of 1991 to allow non-Philippine nationals to do business or invest in a domestic enterprise up to 100% of its capital. Lastly, RA 11659 or the amendment to the Public Service Act provides more clarity on the distinctions between “public services” and “public utilities” to ease foreign ownership restrictions in vital industries such as telecommunications, railways, expressways, airports, and shipping.

These three measures complement RA 11534, widely known as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act. Signed into law in March 2021, the CREATE Act is intended to stimulate economic growth and attract investments by lowering

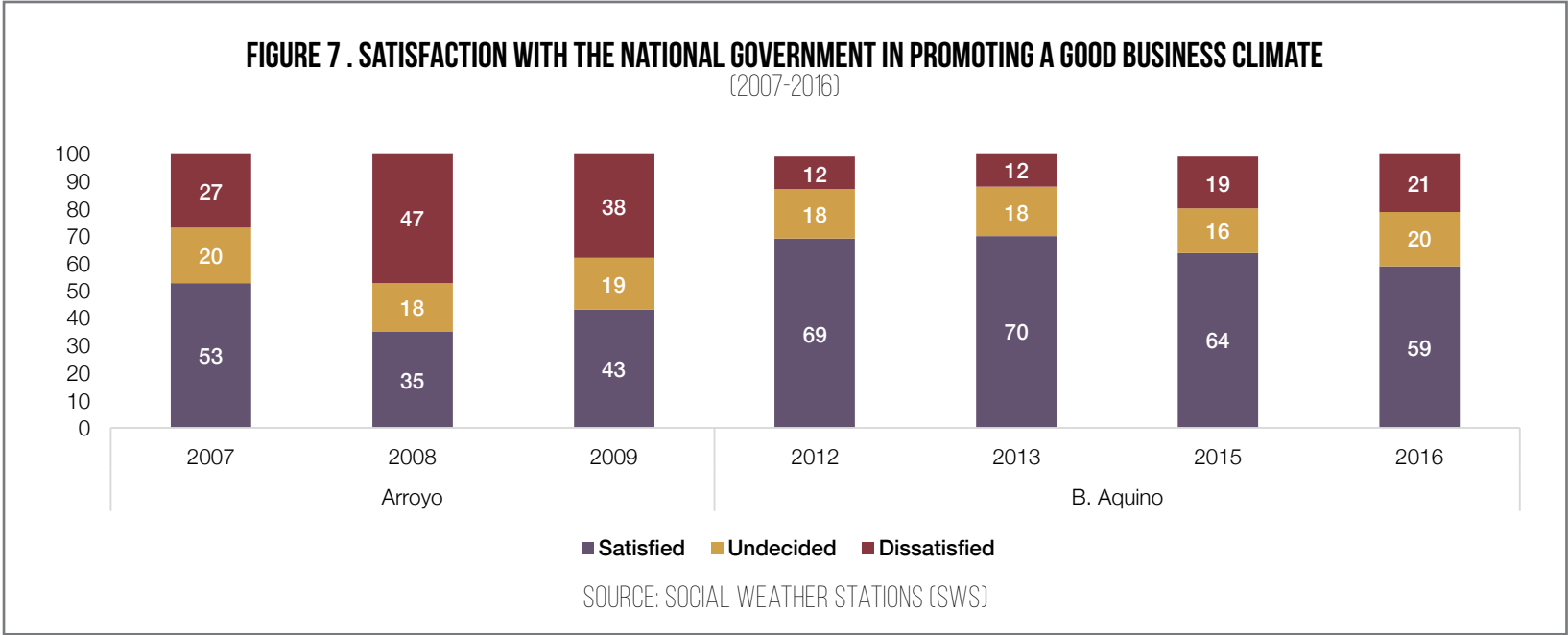
corporate income taxes from 30% – one of the highest in Southeast Asia – to 25%. Moreover, under the law, a Strategic Investment Priority Plan (SIPP) will be formulated every three years to identify priority projects or activities that are eligible for incentives.

With the long-term benefits that are expected to be generated by these economic reforms, the country’s business community have expressed support for these measures. All in all, these reforms could serve as the driving force for the creation of more jobs and livelihood opportunities, greater competition, innovation, and therefore cheaper yet high-quality goods and services that would be more accessible to everyone.

EASE OF DOING BUSINESS

The recently-passed economic liberalization laws could, hopefully, further contribute to improving the country’s investment climate. In recent years, the government exerted efforts to make it easier and more convenient for businesses to conduct business in the country. RA 11032, or the Ease of Doing Business and Efficient Government Service Delivery Act of 2018 seeks to improve the competitiveness of and ease of doing business in the country by streamlining the procedures and systems of government services. This piece of legislation provides for the creation of the Anti-Red Tape Authority (ARTA), which will be responsible for administering and implementing RA 11032 and its Implementing Rules and Regulations (IRR).

As early as 2016, the Survey of Enterprises on Corruption³³ that was conducted by the SWS in the same year found that 58% of executives said that the process of business permits/licenses renewal had become easier compared to three years ago. With the enactment of RA 11032 in 2018, government transactions are likely to have become much easier as well. The same survey also revealed



that Filipinos were generally satisfied with the national government in promoting a good business climate (Figure 7).

Despite these, the DOF reported in January 2022 that investment promotion agencies (IPAs) identified the COVID-19 pandemic, high costs of doing business, and foreign equity restrictions in the Philippines as the primary barriers to foreign investments. Some IPAs also noted that the lack of basic utilities and quality internet connectivity impede the entry of investments.³⁴ A study conducted by the European Chamber of Commerce of the Philippines (ECCP) between May and July 2020 on the impact of COVID-19 on European businesses in the Philippines found that health and safety concerns, unclear government policies, and higher operational costs were the top three factors restricting European investments in the Philippines.³⁵

Moreover, corruption is perceived as a persistent ill in the public sector. Concerns about corruption and the weak rule of law in various areas of government may restrict the efficiency of businesses operating in the Philippines, one of the concerns of which is the quality of governance in a country.

Based on the 2021 Corruption Perceptions Index of Transparency International,³⁶ the Philippines’ score declined to a “historic low” of 33 out of 100, ranking it 117th out of 180 countries. Depending on the kind of administration that will take over in the second half of 2022, these corruption perception scores may change.

In the same vein, the results of the SWS Survey of Enterprises on Corruption³⁷ in 2016 indicated that 63% of executives believed there was “a lot” of corruption in the public sector, higher than the

56% recorded in 2013. Another 35% had personal knowledge of a corrupt transaction with government in their line of business within the three months before the survey was conducted. 42% also said that most companies in their sector of business gave bribes to win public sector contracts, while 26% claimed that most companies in their sector of business do the same to win private sector contracts.

It is important to note, however, that the degree of corruption may have something to do with the administration currently in charge. As such, the degree of corruption could change – or be eliminated altogether – when a new administration takes over.

THE PRIVATE SECTOR

Interestingly, the main driver of investments in the country is the private sector. A survey conducted by the SWS³⁸ in October 2021 found that private investors are perceived by majority of Filipinos to hold the key in boosting the Philippine economy, particularly by creating jobs, expanding livelihood opportunities, and helping uplift the lives of Filipinos out of poverty (Table 1). Specifically, 82% of Filipinos believe that the growth of the Philippine economy will be accelerated if the government collaborates with the private sector.

The same survey also showed that 81% of Filipinos agree that the government should engage the private sector to invest in public infrastructures such as roads, bridges, and airports to save government funds for COVID-19 response.³⁹ The findings of the survey indicate that the belief in the private sector as a vital driving force of economic growth is something shared by most Filipinos.

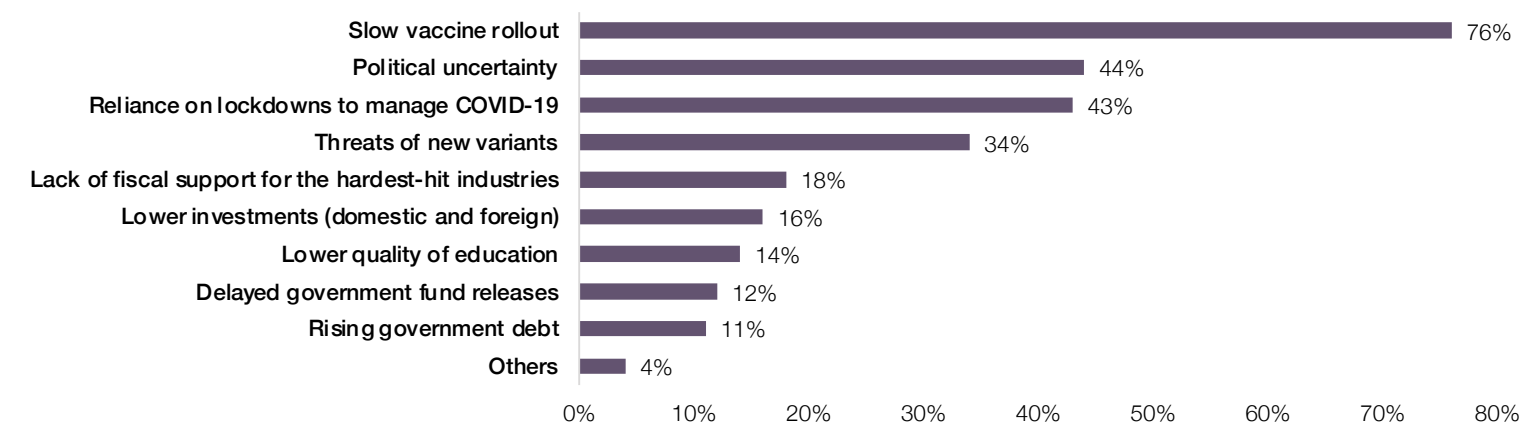
According to the Asian Development Bank (ADB): “Investments are naturally attracted to areas with adequate roads, ports, and other essential infrastructure because such facilities affect a firm’s

TABLE 1 . ISSUES THAT PRIVATE INVESTORS CAN ADDRESS TO BOOST THE PHILIPPINE ECONOMY
(OCTOBER 2021)

	<u>PH</u>	<u>NCR</u>	<u>BAL.</u> <u>LUZ</u>	<u>VIS</u>	<u>MIN</u>
Creating jobs	65%	74%	65%	61%	63%
Expanding livelihood opportunities	57	54	58	54	60
Help uplift the lives of Filipinos out of poverty	46	48	43	51	47
Improving healthcare systems	30	20	32	26	32
Improving the quality of education	22	18	26	27	14
Managing natural resources and taking care of the environment	12	16	13	9	11
Improving the quality and access of digital services	11	10	11	13	11
Developing public infrastructure	11	11	13	10	8

SOURCE: SOCIAL WEATHER STATIONS (SWS)

FIGURE 8 . FACTORS THAT DELAY THE PHILIPPINES’ ECONOMIC RECOVERY



SOURCE: PWC PHILIPPINES AND THE MANAGEMENT ASSOCIATION OF THE PHILIPPINES (MAP)

profitability due to the reduction in production costs and ability to reach wider markets.”⁴⁰

Infrastructure projects, including those that are public-private partnerships (PPPs) in nature, will not only improve the country’s connectivity, but will also open the door for more job and livelihood opportunities, income security, as well as spurring the economy. With improved infrastructures in place, the Philippines will be able to better accommodate the growth requirements of various foreign companies intending to relocate to this part of Southeast Asia in a bid to sustain their supply chains. Essentially, infrastructure development creates a game-changing domino effect.

The 2021 CEO Survey⁴¹ of PwC Philippines and the Management Association of the Philippines (MAP) found that 16% of CEOs believe that lower domestic and foreign investments in the country delay the Philippines’ economic recovery (Figure 8).

As the Philippines tries to overcome the devastating impacts of the COVID-19 pandemic, it is imperative to focus on a growth strategy that will be sustainable and able to benefit the future generations – by zeroing in on investments with the help of the private sector. The private sector has proven itself as a highly capable, trustworthy, and reliable partner of government, most especially at the height of the pandemic in 2020 when it went beyond its core operations to provide unsolicited assistance to vulnerable groups that were most affected by the public health emergency. It also undertook a crucial role in the country’s mass vaccination program in order to save lives as well as to further reopen the economy. These demonstrated the private sector’s willingness to fill in the gaps of government and take part in the crusade towards national development and collective growth.

INSIGHTS: OPPORTUNITIES FOR THE GROWTH OF INVESTMENTS

Given the lingering socio-economic impacts of the COVID-19 pandemic as well as the uncertainties that cloud the Philippine economy’s prospects for long-term recovery, the next leaders that will take the reins of government in mid-2022 may need to prioritize policies and programs that are directed towards helping millions of Filipinos rebuild their lives and making the country more resilient to future shocks. Incidentally, the platforms put forward by presidential aspirants center on creating jobs, strengthening PPPs, and accelerating infrastructure development, among others.

BSP Governor Benjamin Diokno also stressed that the next president must prioritize investments – particularly in infrastructure, human capital, healthcare, and agriculture – to secure the country’s path to economic recovery.⁴²

Indeed, this impending major political development can be a much-needed opportunity to turn the tide and transition to a more sustainable growth strategy.

STRENGTHENING THE PHILIPPINES’ ROLE IN THE GLOBAL SUPPLY CHAIN

The World Bank recently identified three new growth risks that are expected to shape the external environment of East Asia and the Pacific region in 2022. These are the following: (1) financial tightening in the United States; (2) structural slowdown in China due to a resurgence in COVID-19 cases; and (3) the Russia-Ukraine war. Ultimately, these may lead to lower economic growth and higher poverty in the region.⁴³

However, there is also a silver lining. The World Bank pointed to three opportunities that can be maximized despite the aforementioned

shocks. First, amid the shifts in the trade landscape, new export niches have been emerging as producers, especially in manufacturing, opt to leave China and relocate to other countries in the East Asia and the Pacific region. Second, the diffusion of digital technologies could help accelerate productivity. Lastly, the use of green technologies could enable countries in the region to reduce carbon emissions.⁴⁴

As China responds to the wave of COVID-19 infections through its strict containment measures – or the “zero-COVID” policy – a survey published by the European Chamber of Commerce in Hong Kong in March 2022 found that 49% of European businesses in Hong Kong consider relocating their offices fully or partially in the next 12 months due to the current COVID-19 restrictions. On the other hand, 34% are not sure about relocating their offices, while the remaining 17% stated that they do not have plans to relocate in the next 12 months.⁴⁵ On top of these, many manufacturing firms such as Sharp, Sony, Panasonic, Hyundai, and Head International have opted to depart China and relocated to Southeast Asia due to the US-China trade conflicts, accelerated by the COVID-19 pandemic that first emerged in China.⁴⁶

The next leadership in the Philippines should take note of the shifts in global trade and strengthen the country’s role in the global supply chain by highlighting the country’s advantages as a potential hub for foreign investors. Among these are its strategic geographical location, abundance of natural resources that would allow investors to branch out to secondary or tertiary business options, relatively lower cost of living, and a young, educated and English-speaking workforce.

In light of the global uncertainties with regard to the supply chain, the Philippines’ next leaders could look into promoting the country’s exports and strengthening the manufacturing sector, especially amid

its own widening trade deficit. According to the PSA,⁴⁷ the country's trade deficit in 2021 amounted to USD 43.23 billion, the widest since the USD 43.53 billion deficit recorded in 2018.

Manufacturing companies relocating from other parts of Asia may find viable opportunities in the Philippines in the production of finished goods, food processing, renewable energy, information technology, financial technology, public transport, tourism, public health, and even research and development. As investors overseas relocate and diversify their supply chains, the Philippine government should grab this opportunity to make its presence felt as a worthy destination for long-term investments.

The government could also consider the conversion of certain areas into economic zones to enable industries to enhance job creation and productivity. Interestingly, the passage of the CREATE Act in early 2021 may have provided more stability in the country's investment climate. As of November 2021, the Philippine Economic Zone Authority (PEZA) operated a total of 415 economic zones: 297 information technology parks/centers; 76 manufacturing economic zones; 22 agro-industrial economic zones; 17 tourism export enterprises; and 3 medical tourism parks/centers.⁴⁸

In view of the ongoing shifts in the geopolitical landscape around the world, this may be an opportune time for the Philippines to take advantage of the investor relocations departing China and Russia, and boost its ability to host many of them by highlighting its home-grown strengths in manufacturing and trade.

PUBLIC-PRIVATE PARTNERSHIPS (PPPS)

PPPs are a good opportunity source for investors interested in infrastructure development and other endeavors. These ventures

are less costly to the government since much of the funding is sourced from the private sector. As such, there is less pressure for the government to borrow funds overseas and less occasions for corruption since all the working areas are under the control of the private sector partners. The downside is that customers pay higher fees or charges for the actual use of the facilities. But since private sector entities are involved, PPP projects usually last longer because they have better construction and maintenance, leading to lower usage costs in the long run.

Hence, PPPs can complement the government's infrastructure program, which was funded largely by the national budget and Official Development Assistance (ODA) during the Duterte administration. Whereas the Aquino administration focused on expanding PPPs in infrastructure development, President Rodrigo Duterte's "Build, Build, Build" program veered away from this, which reduced the participation of the private sector in this area. It is important to note, however, that it might be more beneficial to focus on infrastructure development in areas such as healthcare and education, and not just roads and highways.

THE PHILIPPINES MOVING FORWARD

Indeed, investors, whether domestic or foreign, thrive better in an environment that is predictable, sustainable and conducive for business growth. As such, investors anticipate clear policies and business directions, ease in doing business, transparency and corruption-free working culture.

Still, an enabling regulatory environment to attract FDIs may not be enough. Beyond economic and business resilience, the next administration should be forward-looking and improve the country's reputation in the international arena by upholding the rule of law,

promoting good governance in public administration, and tapping competent professionals to lead the country forward.

In cross-border investing, the most important factor to consider is reputation, because reputational risk is a business risk. A government run by people whose reputation is well-received by the general public will find less challenges in getting their tasks done. The lack of it will lead to the grim opposite, and failure in economic governance.

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