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UNLOCKING GROWTH OPPORTUNITIES: THE PHILIPPINES' CORE ADVANTAGES AS AN INVESTMENT DESTINATION

UNLOCKING GROWTH OPPORTUNITIES: THE PHILIPPINES' CORE ADVANTAGES AS AN INVESTMENT DESTINATION

This paper explores the Philippines' core advantages in attracting foreign direct investments (FDIs). These advantages especially focus on geostrategic location, abundant critical natural resources, and young population. These factors present significant opportunities for foreign investors looking to diversify supply chains and position the Philippines as a key player in the Indo-Pacific region. Hence, these advantages must be supported to enhance the country's appeal, in addition to government policy reforms

Foreign investments are among the various factors driving a country's economic growth and development. Specifically, they create jobs, bring in substantial capital, facilitate technology transfer, and encourage innovation – all vital for long-term prosperity.

The Philippines, in particular, holds distinct historical, geographical, and economic advantages that position it to leverage foreign direct investments (FDIs) as catalysts for growth and development. These include its geostrategic location, abundant natural resources, and a large, young population that supplies both a strong workforce and a robust consumer base. All these attributes present an opportunity not only to attract foreign investors looking to diversify their supply chains but also to establish the Philippines as a key player in the Indo-Pacific supply chain, thus strengthening its economic influence in the region.

However, the country still faces obstacles such as bureaucratic red tape, inconsistent policies, gaps in infrastructure, corruption, and concerns over political stability, which have limited its ability to attract and retain foreign investment. With the upcoming midterm elections in 2025, there is an opportunity for new leadership to implement reforms and address these issues, paving the way for a more favorable investment climate.

THE PHILIPPINES' INVESTMENT CLIMATE AMID GEOPOLITICAL AND GEOECONOMIC SHIFTS

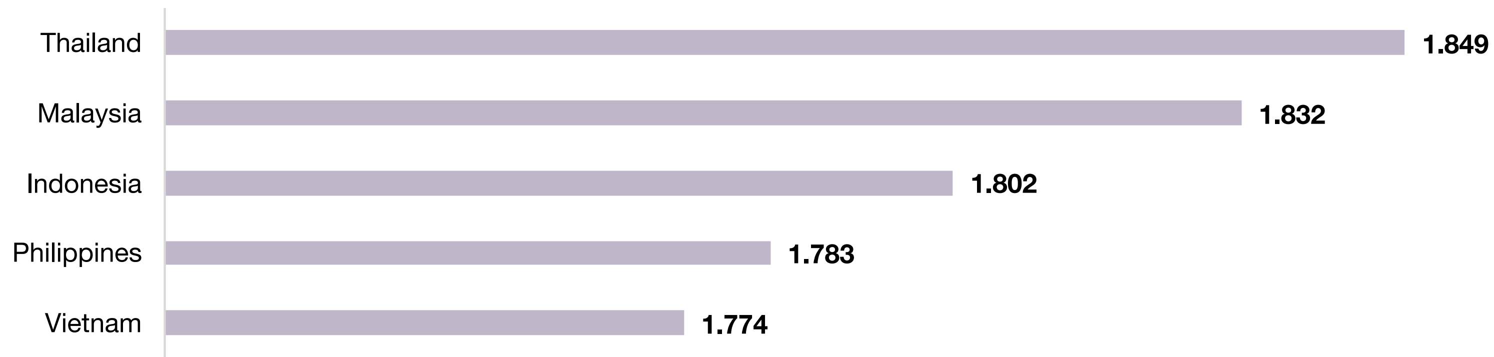
The current era is marked by significant geopolitical and geoeconomic shifts in the Indo-Pacific region, where geopolitical positioning is crucial for investments, affecting global markets, trade routes, and stability. Changes in political alliances, trade agreements, and economic policies create both risks and opportunities for investors. The Indo-Pacific's growing importance stems from its impact on global investments, including major economies like China, India, Japan, and Australia. It is vital for international trade and economic growth, and provides investors access to some of the fastest-growing markets.

However, heightened trade tensions, exacerbated by the COVID-19 pandemic, present challenges to global supply chains. The US-China trade war has forced companies to reevaluate their global supply chain strategies, leading major global economies such as Japan, South Korea, and Taiwan to seek alternatives for investment that align with their values.

Amid these global shifts – including technological advancements and increasing climate change concerns – the Philippines has a unique opportunity to attract foreign investors. To boost its investment appeal, the country must stay attuned to evolving political and economic landscapes while understanding the priorities of key nations and regional partnerships. By aligning with global trends and strengthening international collaborations, the Philippines can enhance its market position and drive sustainable economic growth.

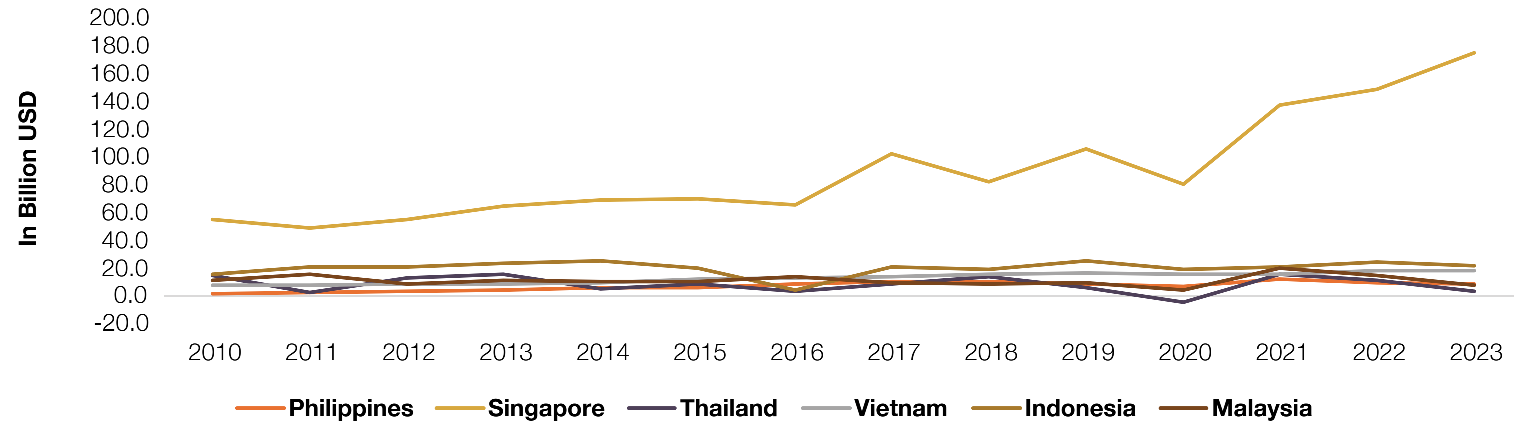
The Kearney FDI Confidence Index of 2024 highlights the emerging markets that are most appealing to investors over the next three years (Figure 1).[1] Thailand ranks 9th with a score of 1.849, followed by Malaysia in 10th place, while Indonesia and the Philippines are positioned 12th and 13th, respectively, out of 25 countries. Vietnam

FIGURE 1 . MOST ATTRACTIVE EMERGING MARKETS: THAILAND, MALAYSIA, INDONESIA, PHILIPPINES, VIETNAM



SOURCE: 2024 KEARNEY FDI CONFIDENCE INDEX

FIGURE 2 . NET FDI INFLOWS IN SOUTHEAST ASIAN COUNTRIES
2010-2023



NOTE: IN CURRENT US DOLLARS
SOURCE: THE WORLD BANK

ranks 18th. Among developed markets, Singapore has fallen to 12th place, down from 9th in 2023.

According to the latest data from the World Bank,[2] Singapore has consistently outpaced its Southeast Asian neighbors, attracting net FDI inflows of USD175.2 billion in 2023 (Figure 2). In contrast, the Philippines received only USD8.9 billion in net FDI during the same period. This difference highlights the need for the Philippines to enhance its investment climate to compete effectively.

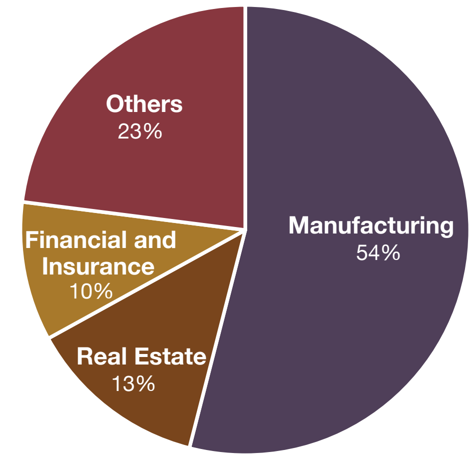
The Bangko Sentral ng Pilipinas (BSP)[3] reported that the Philippines' USD8.9 billion net FDI inflows for the full year 2023 were mainly sourced from Japan (51%), the United States (13%), Singapore (12%), and Germany (8%). Despite sound macroeconomic fundamentals, investor interest was moderated by global economic uncertainties and geopolitical risks. Most of these investments were channeled into manufacturing (54%), real estate (13%), and financial and insurance (10%) activities (Figure 3), underscoring key areas of interest for foreign investors in the country.

Beyond net FDI inflows, tracking approved foreign investment commitments is equally important in understanding potential economic activities in the country. According to the Philippine Statistics Authority (PSA),[4] the country secured a total of PHP889.1 billion in foreign investment pledges for 2023, a significant rise from PHP241.9 billion the previous year. A large portion amounting to PHP732.4 billion – or 82% of the total – is allocated to the electricity, gas, steam, and air conditioning sector. The manufacturing sector is set to receive 13% of the approved foreign investments. Notably, the top source of the total foreign investment pledges is Germany, accounting for 44.3% of the total, followed by the Netherlands at 39.4%. In terms of location, Western Visayas is the top recipient of foreign investment pledges with PHP 295.3 billion. These commitments are expected to materialize over the next 2-3 years, generating jobs and boosting productivity.

It is important to note that investors are drawn to environments with predictable leadership, stable and consistent policies, and minimal risk of abrupt changes. The Kearney FDI Confidence Index for 2023 highlighted that the main challenges to investment in emerging markets such as the Philippines are political instability, regulatory environment, and the quality of infrastructure (Figure 4).

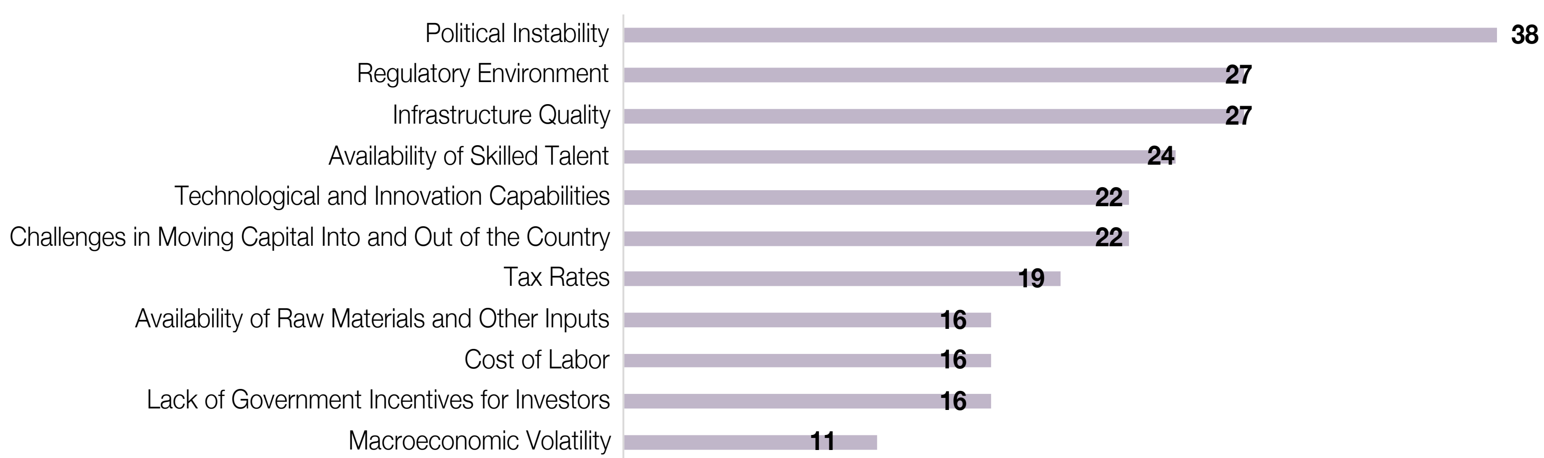
These findings are consistent with the results of a survey commissioned by Stratbase to Pulse Asia Research, Inc. in September 2024, which found that Filipinos identified complicated rules and regulations like red tape (52%) as the biggest obstacles, followed by changing government policies and regulations (51%) and corruption in the public sector (46%) (Table 1).

FIGURE 3 . NET FDI INFLOWS BY INDUSTRY
2023



SOURCE: BANGKO SENTRAL NG PILIPINAS (BSP)

FIGURE 4 . KEY FACTORS PREVENTING INVESTMENT IN EMERGING MARKETS



SOURCE: 2023 KEARNEY FDI CONFIDENCE INDEX

Notably, in the Philippine CEO Survey 2024 of PwC Philippines and the Management Association of the Philippines (MAP),[6] it was revealed that while majority of the CEOs in the Philippines believe that government is performing well on infrastructure development, in forging international relations, and managing inflation and interest rates, only 10% of them believe that the government is effectively combating corruption (Figure 5). The same survey also found that geopolitical uncertainty is the top concern among business leaders in the country.

According to the BSP's latest *Business Expectations Survey*,[7] business sentiment in the Philippines remained optimistic in the third quarter of 2024, with the confidence index (CI) slightly improving to 32.9% (Figure 6). This optimism is attributed to increased demand for goods and services, easing inflation, seasonal business activity, and expansion and operational improvements. While the CI has risen significantly from its low of -5.3% during the COVID-19 pandemic, it still lags behind the pre-pandemic average of 41.6%.

These insights present opportunities for the Philippines to enhance its business environment. In fact, another survey commissioned by Stratbase to Pulse Asia Research, Inc. found that Filipinos believe that the private sector is vital for achieving economic security. They see the private sector and government working together to promote economic growth and development by expanding livelihood opportunities (52%), making goods more affordable and accessible to consumers (51%), and creating higher-quality jobs (48%). Other contributions include improving healthcare services (43%), developing the skills of the Filipino workforce (36%), improving the quality of digital services (33%), and developing public infrastructure (26%). These findings suggest that the private sector is crucial for the growth of several sectors in the economy and must therefore be supported.

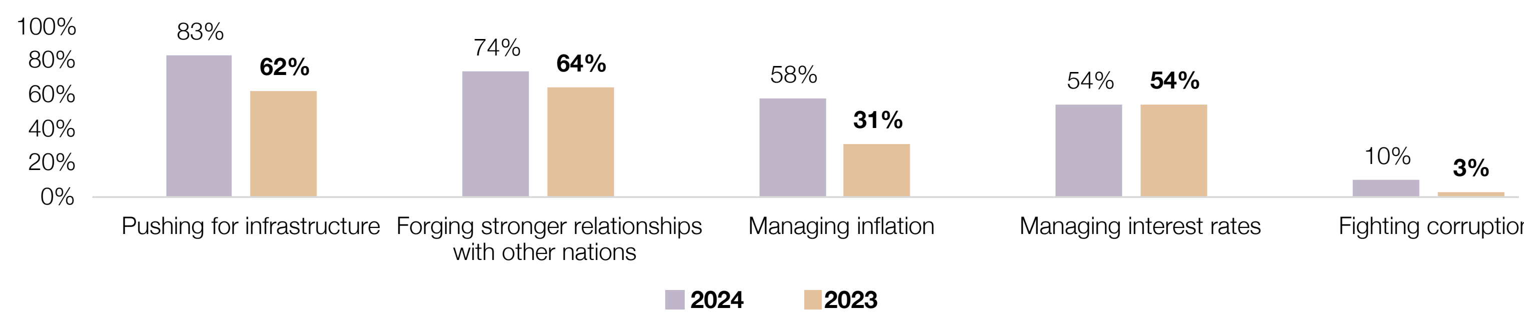
TABLE 1 . MOST SIGNIFICANT FACTOR THAT HINDERS FOREIGN INVESTMENT: PHILIPPINES
SEPTEMBER 6-13, 2024
(IN PERCENT / MULTIPLE RESPONSE/ UP TO 3 ALLOWED)

Base: Those who are registered voters in their city/municipality, 91%

Which of the following are the most significant factors that hinder investments in the Philippines? You may choose up to three. You may mention others not in the list	RP	LOCATION				CLASS		
		NCR	BL	VIS	MIN	ABC	D	E
Complicated rules and regulations like red tape or a lot of requirements and demanding process in government	52	59	52	51	47	64	50	55
Changes in government policies and regulations	51	64	46	59	49	62	52	44
Corruption in the public sector	46	41	45	47	48	36	46	50
Restrictive rules on foreign ownership	44	42	50	35	41	39	46	38
High cost of electricity	33	28	29	41	35	32	33	28
Inadequate infrastructure	22	16	26	20	19	19	23	19
The incentive for investors is not enough	22	22	21	23	22	23	21	24
Changes in government officials every election cycle	13	6	12	16	17	9	13	17
I don't have enough knowledge to give an opinion	4	6	6	1	0	2	3	6
UNAIDED None	0.1	0	0	0	0	1	0	0

SOURCE: PULSE ASIA RESEARCH, INC.

FIGURE 5 . AREAS WHERE THE GOVERNMENT IS PERFORMING WELL



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

By addressing the challenges of political instability, regulatory consistency, corruption in the public sector, and infrastructure quality, the country can create a more attractive investment climate. Improvements in these areas can not only promote greater investor confidence but also support long-term economic growth and development.

THE EVOLVING POLICY ENVIRONMENT

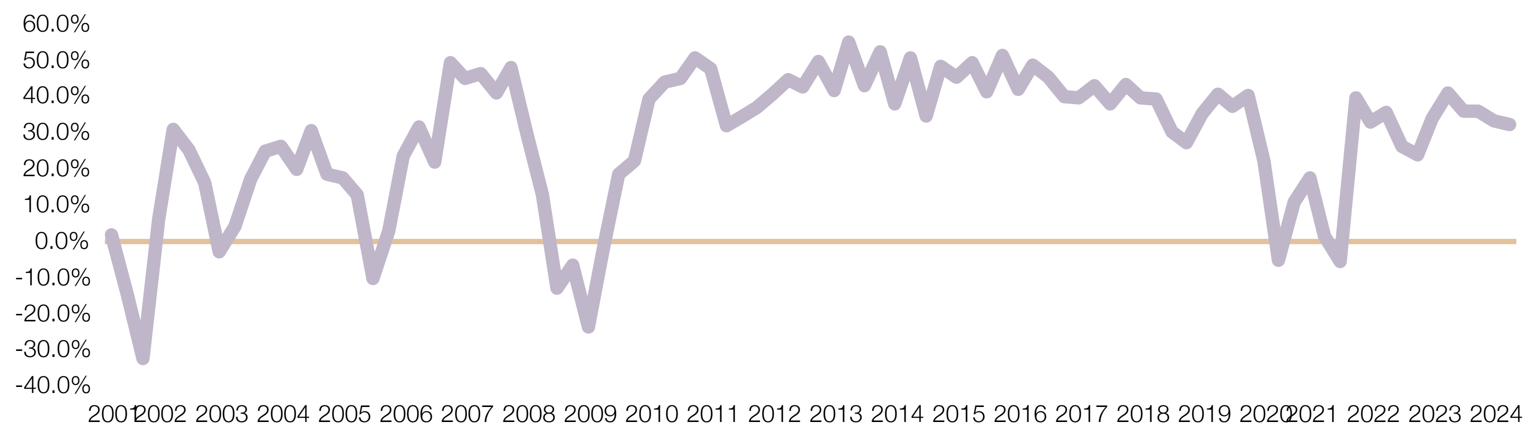
Considering the recent initiatives undertaken by the Philippine government, the policy environment offers both opportunities and challenges for foreign investment.

Reforms aimed towards economic liberalization, ease of doing business, and infrastructure development have supported key sectors like manufacturing and Information Technology-Business Process Outsourcing (IT-BPO), thereby driving economic growth. The creation of special economic zones (SEZs) also provided benefits to locators operating within them. As of April 2023, the Philippine Economic Zone Authority (PEZA)[8] oversees 419 ecozones, including 297 IT parks and centers, 78 manufacturing economic zones, 24 agro-industrial economic zones, 17 tourism export enterprises, and three medical tourism parks and centers. BPO firms are the main locators in the tax-advantaged IT parks and centers.

However, addressing obstacles such as bureaucratic red tape and corruption, which deter potential investors, remains critical to fully harness the benefits of FDI for the country's prosperity.

In 2018, the Philippines enacted the Ease of Doing Business and Efficient Government Service Delivery Act to reduce bureaucratic hurdles and streamline government processes. In the succeeding years, further reforms opened the economy to more trade and investment, with the amendments to the Public Service Act, Foreign Investments Act, and the Retail Trade Liberalization Act. These measures complement the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, which seeks to attract foreign investors by lowering corporate income tax from 30% to 25%. Approved projects or activities are granted with incentives based on the Strategic Investment Priority Plan (SIPP), depending on industry and location.

FIGURE 6 . PHILIPPINE BUSINESS CONFIDENCE INDEX
2001-Q3 2024



SOURCE: BANGKO SENTRAL NG PILIPINAS (BSP)

Amendments to the CREATE Act are outlined in the Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE) Act, which was signed into law by President Ferdinand Marcos Jr. in November 2024. This measure, which is among the priorities of the Legislative-Executive Development Advisory Council (LEDAC), seeks to further reduce taxes on domestic and foreign companies from 25% to 20%. Moreover, the Fiscal Incentives Review Board (FIRB) will be empowered to grant tax incentives for projects exceeding PHP15 billion, while applications below this threshold will be delegated to investment promotion agencies (IPAs).

In terms of infrastructure, the Duterte administration's "Build, Build, Build" program, which was transformed by the Marcos Jr. administration into the "Build, Better, More" program, focuses on modernizing the country's transportation, energy, and communication systems. In April 2024, Executive Order No. 59[9] was issued to streamline the permitting process for flagship projects. The Public-Private Partnership (PPP) Code also institutionalized PPPs and established a comprehensive legal framework for enhanced infrastructure development.

A significant recent policy is Executive Order No. 18,[10] issued in February 2023, which established "green lanes" to the process of acquiring permits for strategic investments. This initiative targets high-value investments with substantial labor potential, such as highly desirable projects, FDIs, and projects or activities under the SIPP. In January 2024, Secretary Frederick Go of the Office of the Special Assistant to the President for Investment and Economic Affairs (OSAPIEA) announced that the Board of Investments (BOI) had certified 23 projects worth around PHP 500 billion for green lane services, with 16 projects related to renewable energy. He highlighted five priority sectors for investments: mining (i.e., nickel and copper), semiconductors and microelectronics, agriculture, steel, and pharmaceuticals.

Moreover, during the trilateral summit of President Marcos Jr. with United States President Joe Biden and Japanese Prime Minister Fumio Kishida in April 2024, the leaders announced the development of the Luzon Economic Corridor that is aimed to accelerate investments in critical sectors. The Luzon Economic Corridor, which will link Subic, Clark, Manila, and Batangas, is expected to create investment opportunities in high-impact infrastructure, including rail, ports modernization, clean energy, and semiconductor supply chains and deployments, and agribusiness.[11]

The 2022 United States' Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act aims to diversify supply chains by investing in allied nations, including the Philippines. Through the Act's International Technology Security and Innovation (ITSI) Fund, the United States plans to double the number of semiconductor factories in the Philippines, strengthening their long-standing partnership. This initiative will allow for more investments in the Philippines, projecting significant growth in the tech sector.

Together, the reforms implemented across various administrations, supported by the Philippine Development Plan (PDP) 2023-2028 as the medium-term blueprint for socioeconomic development, aim to create a more conducive business environment that attracts investment and stimulates economic growth. These efforts underscore a sustained, strategic commitment by both past and current administrations to strengthen the Philippines' global competitiveness and cultivate a stable foundation for growth.

THE PHILIPPINES' CORE ADVANTAGES

The Philippines possesses several strengths that enhance its appeal to investors, including its geostrategic location in the Indo-Pacific region, and its abundant natural resources, such as critical minerals. Moreover, the country's young population provides both a vibrant workforce and a substantial consumer market. With these assets, the Philippines is well-positioned to become a key player in the global supply chain, especially as investors seek to diversify their portfolio across the region.

GEOSTRATEGIC LOCATION

A country's geographic position is a vital factor in determining its economic potential as it shapes access to regional markets, trade routes, and global supply chains. In today's interconnected global economy, countries face risks from over-reliance on specific resources or suppliers, especially for critical raw materials.

The extensive coastlines of the Philippines – the fifth longest in the world[12] – not only facilitate access to major global shipping routes but also improve connectivity for international trade. This strategic advantage creates opportunities for investments in port infrastructure and the sustainable development of the blue economy, supporting fisheries, tourism, coastal livelihoods, and even renewable energy.

With foreign investors increasingly diversifying their operations, the Philippines presents an attractive relocation option due to its geostrategic location in the Indo-Pacific. Positioned as a potential middle power and geostrategic anchor in the region, it offers an appealing hub for trade, logistics, and supply chain diversification – particularly for companies aiming to reduce dependency on China. Its proximity to major markets such as Japan, South Korea, and Taiwan further enhances its appeal as a base for multinational operations in Asia.

The Philippines' participation in the Indo-Pacific Economic Framework for Prosperity (IPEF) and the development of the Luzon Economic Corridor also highlight its strategic position as a key player for regional economic cooperation and infrastructure growth.

ABUNDANT CRITICAL NATURAL RESOURCES

The Philippines stands out as a mineral-rich country with vast resources that have significant economic potential. Its diverse landscape is home to abundant deposits of metals, non-metals, and other minerals, ranking the country among the leading producers of gold, copper, nickel, iron, and chromite.[13] However, the industry must navigate increasing geopolitical risks and competitive pressures to realize its full potential for driving economic growth.

With its substantial untapped reserves of copper, gold, and nickel (Figure 7), the Philippines is positioned to leverage the increasing global demand for these minerals, highlighting the need for greater investments in its mining sector. With an estimated USD1 trillion in mineral reserves, only 5% has been explored, and a just 3% is currently under mining contracts.[14]

According to the Department of Environment and Natural Resources-Mines and Geosciences Bureau (DENR-MGB),[15] the Philippines has a total land area of 30 million hectares, of which 9 million hectares are identified as having high mineral potential. However, as of June 2024, only 2.52%, or around 755,960 hectares, of this total land area is covered by active mining tenements. This represents a significant opportunity for growth in the mining sector, given the largely untapped resources.

Demand for critical minerals – which are important for clean energy, advanced electronics, and healthcare – has been increasing as countries utilize these resources to expand their geopolitical influence. This demand presents an opportunity for the Philippines, whose mineral wealth could attract FDI and bring about economic benefits like technology transfer, job creation, and infrastructure growth.

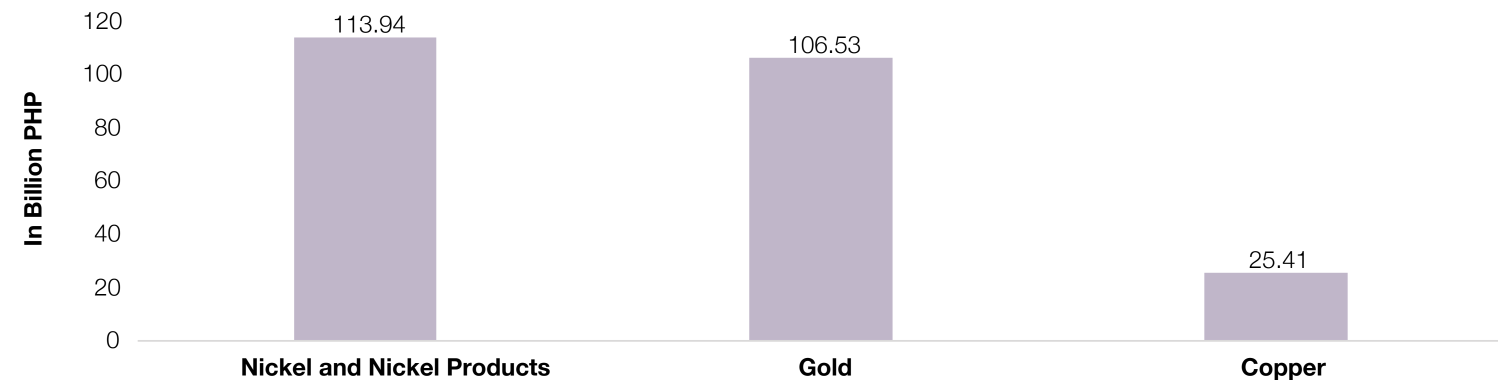
LARGE, YOUNG POPULATION AND CONSUMER BASE

The Philippines' large, young population has become a key economic advantage in recent years, providing both a dynamic workforce and a growing consumer base. In fact, according to the World Bank,[16] the Philippines ranked as the 13th most populous country in 2022, with a population of 115.6 million. Having this large population creates a virtuous cycle: employment provides workers with income, which, in turn, spurs consumer spending.

According to data from the PSA,[17] the Philippines has a notably young demographic profile, with a median age around 25 years old. In 2020, the country's population reached 109.04 million, with 30.7% under 15 years of age (Figure 8). The working-age population (15-64 years) accounted for 63.9%, or 69.4 million, while 5.4% of the populated were comprised of those 65 years of age and older. This young demographic is advantageous compared to aging populations in other Asian nations, thereby providing a vibrant labor force and a growing consumer market.

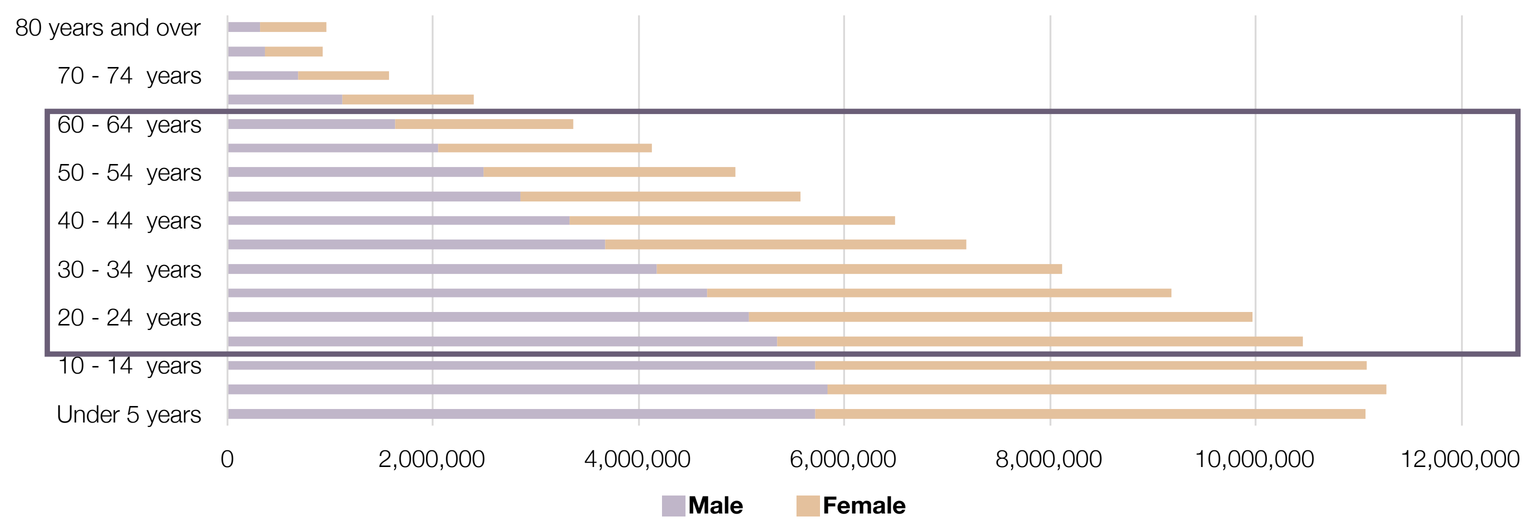
With a young median age and a highly adaptable workforce, the Philippines offers an attractive labor pool for businesses. A literacy rate of 97%, as reported by the PSA,[18] highlights the country's educational strengths and positions the country as an ideal base for industries in need of skilled, responsive workers.

FIGURE 7 . VALUE OF KEY METALLIC MINERAL COMMODITIES PRODUCED IN 2023



SOURCE: DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES-MINES AND GEOSCIENCES BUREAU (DENR-MGB)

FIGURE 8 . HOUSEHOLD POPULATION BY AGE GROUP: PHILIPPINES
2020



SOURCE: PHILIPPINE STATISTICS AUTHORITY (PSA)

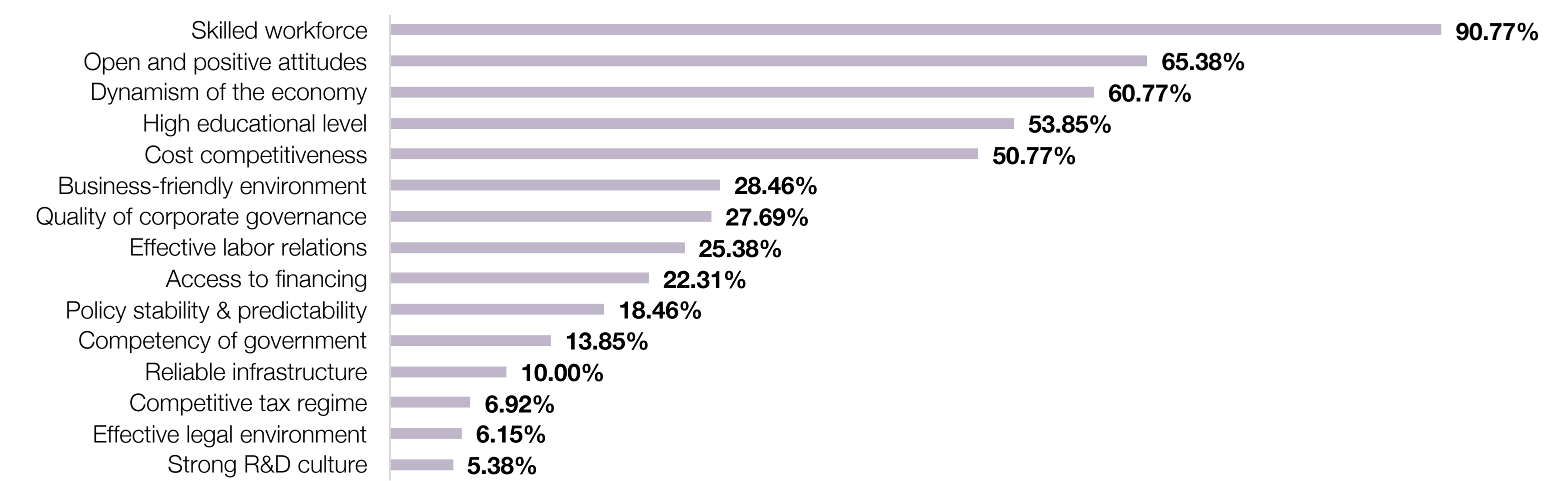
A key differentiator for the Philippines in Southeast Asia is its widespread command of English, one of the country's official languages, which gives it a competitive edge in accessing global markets. English is the medium of instruction in schools, is widely used in legal and business settings, and facilitates smooth operations for foreign investors by reducing language barriers. Moreover, the cultural adaptability of the Filipino workforce enhances its appeal as Filipinos are known to work well in diverse, multicultural environments, creating strong ties with both Western and Eastern markets.

This explains why Filipino workers are the employees of choice in many countries, with over 2 million overseas Filipino workers (OFWs) currently employed abroad. The Philippines is also among the top countries hosting contact center companies, which generated 1.44 million direct jobs and 3.61 million indirect jobs in 2021. These business process outsourcing companies cite Filipinos' English proficiency as a major factor for employment.[19]

In the 2023 World Competitiveness Ranking by the International Institute for Management Development (IMD),[20] international business executives cited key factors that make competitive economies attractive. The Philippines was noted for its skilled workforce, open and positive attitudes, and economic dynamism (Figure 9), which enhance its appeal to global executives. These findings indicate the country's potential for growth and its capability to meet the demands of an increasingly competitive global market.

Consumer spending plays a crucial role in the Philippine economy. Household consumption typically accounts for around 70% of the country's gross domestic product (GDP), which is high by any standard. According to the PSA,[21] spending on food and non-alcoholic beverages makes up the largest share of this consumption, accounting for 35.6% in 2023. This is followed by miscellaneous goods and services at 14.6% and housing, water, electricity, gas, and other fuels at 12.6%.

FIGURE 9 . KEY ATTRACTIVENESS INDICATORS: PHILIPPINES
2020



SOURCE: INTERNATIONAL INSTITUTE FOR MANAGEMENT DEVELOPMENT

Interestingly, malls are commonly located in major cities that cater to a large consumer base, enabling both local and international brands to engage with consumers and enhancing economic activity. This large spending capacity of the people makes the Philippines an important consumer market.

The Philippines' digital space has also amplified its consumer market potential as young, tech-savvy individuals embrace e-commerce. This shift has transformed shopping behaviors, which led to a rise in online purchases and increased usage of digital platforms for various services.

It is important to note that remittances from OFWs also drive this growth. According to the BSP, the Philippines received USD37.2 billion in remittances in 2023, which can increase household incomes and allow families to spend more on a variety of goods and services.

MOVING FORWARD

The Philippines has made many important strides in enhancing its policy environment. However, these measures must continually adapt to the rapidly changing global market dynamics. To attract high-value investments in key emerging sectors, such as renewable energy, electric vehicles, green metals, and data centers, the country needs to ensure that its incentives remain competitive, as regional neighbors are aggressively updating their policies to attract global investors. Notably, as the Philippines' IT-BPO industry expands, there is an opportunity to develop the creative industry, such as animation and gaming, which are key components of the IT-BPO sector. Moreover, investments in agro-industry manufacturing can play a vital role in ensuring food security, further supporting the country's economic stability and growth potential.

But then again, it is equally crucial to exert efforts to retain existing investors in the country. Notably, key players in the light manufacturing and semiconductor industry are present in the country. The Philippines should institutionalize assistance for expansion and helping investors navigate the country's regulatory environment.

initiatives such as the green lanes for strategic investments, should also be institutionalized through legislation. To improve the ease of doing business, the Philippines should enhance efforts in streamlining and digitalizing government services as well as ensuring consistency in the permitting processes between national and local governments.

Given the vital role of the private sector in stimulating the economy, PPPs are an effective way to finance and implement large-scale infrastructure projects without placing excessive burdens on the public sector. Expanding the use of PPPs can accelerate infrastructure development across critical sectors like transport (i.e., roads, railways, ports, and airports), energy, and telecommunications, thereby improving the overall business environment and making the Philippines a more competitive and attractive investment destination.

While the Philippines has a young workforce, a significant skills gap exists between current labor capabilities and the needs of industries, worsened by a brain drain as many seek jobs abroad. To address this challenge, there is a need to upgrade educational, skills development, and vocational programs and to foster closer collaboration between industry and the academe. Implementing a training approach where students split their time between classroom learning and practical work experience can also enhance employability and ensure that their skills are better aligned with market demands.

Most importantly, the country must prioritize good governance and transparency. Effective governance ensures a stable investment climate by fostering trust and facilitating smoother business operations. By engaging all stakeholders – from local communities to foreign investors – the Philippines can create a conducive environment that promotes shared prosperity. With a focus on strategic reforms and strong governance, the nation can transform challenges into opportunities and position itself as a leading choice for global investments sooner than expected.

ENDNOTES

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