COMPARISON OF FOREIGN DIRECT INVESTMENTS (FDI) IN NORTHERN MINDANAO, PHILIPPINES FOR FISCAL YEARS 2015 AND 2018

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ABSTRACT: *This study compared the Foreign Direct Investments (FDI) inflow in Northern Mindanao for the fiscal years 2015 and 2018. Using a systematic review research design, the data was collected from the Philippine Statistics Authority (PSA) and was analyzed using descriptive statistics. Results revealed that in the year 2015, the total FDI in the Philippines reached ₱245,215,700,000 and out of this amount, on average, Northern Mindanao got a share of 1.5% of the 17.6%, which, on average, amounted to ₱3,678,235,500 which given this size of FDI, it is, therefore, fair to declare that the economic growth and development of the said region in 2015 would comparatively lag behind compared to those regions with large FDI. However, in 2018, the total FDI in the Philippines reached Php 915 Billion, which is a 273.1 percent increase from 2015. The majority of this FDI was mostly dispersed outside Metro Manila and 25 percent went to Northern Mindanao in the amount of Php228.8 Billion, which is a 6,220.4 percent increase from the 2015 FDI. Thus, a tremendous upsurge of investments happened in Northern Mindanao in 2018, which in one way or another have an impact on the reduction of poverty in the region. This is an indication that the economy of Northern Mindanao is performing well in 2018, which could be partly attributed to the huge FDI inflow that boosted the region's economy. Hence, FDI is really an instrument for economic progress in the region and should be continued by the next administration. There might be factors that may affect the increasing trend and future research may analyze the empirical factors affecting the weak inflow of FDI in the other regions in the Philippines.*

Keywords: Foreign Direct Investments (FDI), economic progress, poverty incidence, foreign investments policy

1. INTRODUCTION

Compared to wealthy countries, the majority of emerging countries are capital-scared and have restricted access to international financial markets. Since it is well known that capital accumulation promotes economic progress, many developing countries provide incentives to entice FDI as a substitute source of capital. In addition to bringing in cash, FDI is anticipated to have a positive impact on productivity in the host nation through improvements in technology, R&D, management abilities, and marketing networks, among other things. FDI is therefore anticipated to encourage growth and improve wellbeing. Due to these anticipated advantages, developing nations including the Philippines are making a strong push to entice FDI [1].

The Philippines has significantly loosened its FDI policies over the past 20 years. The country permitted foreign equity participation up to 100% in all fields not listed on the Foreign Investment Negative List by the adoption of Republic Act 7042 or the Foreign Investment Act (FIA) in June 1991. In order to promote FDI inflows, the Philippines explored modifications to its investment incentive programs at the same time [2]. Building on these Constitutional provisions, the Philippines Foreign Investment Act and several Executive Orders limited foreign investment in several industries typically open to FDI, including utilities, retail, restaurants, and hotels. These restrictions have impacted the capacity of key sectors to attract the necessary capital for large infrastructure projects [3].

Northern Mindanao, a major agro-industrial region in the southern Philippines and home to one of the biggest industrial estates in the country, had an average growth rate of 6.6% from 2000-2019. Strategically located in the southern part of the Philippines' resource-rich island of Mindanao, Northern Mindanao or Region 10 is a highly-diversified region that enjoys quality living and sustained economic growth. It is home to the Phividec Industrial Estate, the country's largest industrial estate that hosts light to medium industries. The region is also a site for big multi-national corporations which existed for decades. It is an ideal business location. The international seaport and container terminals, serving the region and the rest of Mindanao, are considered the most efficient outside Metro Manila. Electricity is reliable and relatively cheap, water is abundant and telecommunications are modern. There is a large pool of skilled, English-speaking, and highly-trainable workforce [4].

The economic activities in Northern Mindanao were driven by FDI and this research would examine the foreign direct investments in the region for the fiscal years 2015 to 2018. These years are considered the last quarters of the previous administration and the Duterte administration. Although there has been extensive theoretical evidence of the positive impact of foreign direct investment (FDI) on economic growth, the empirical evidence is not well established for the Philippines, specifically in Northern Mindanao.

2. LITERATURE REVIEW

Foreign investments have been present for a long time. An assessment of any country's progress in numerous areas has historically been a key way to understand the significance of FDI. As stated by Yasmin et al., found that FDIs had a positive impact on a country's infrastructure, technical expertise, entrepreneurship, and financial resources, including government revenue and foreign exchange [5].

Valenton & Garcia-Vigonte investigated the current situation of the Philippine economy concerning Foreign Direct Investments (FDIs). Barriers to foreign direct investment (FDI) in the Philippines are highly restrictive. The Foreign Investment Act (R.A. 7042, 1991, amended by R.A. 8179, 1996) states that at least 60% of the business should be owned by a Filipino citizen, and the remainder can be owned by a foreign investor. FDI restrictions lead to a lack of competition in the country which reduces the need to invest because of the increased oligopolistic power. Oligopolies are the ones that benefit from profits, influence the law, and prevent foreign competitors to enter the Philippines [3].

Agbola empirically investigates the impact of foreign direct investment on economic growth in the Philippines, in a time-series theoretic framework, and using data spanning the period 1970 to 2006. The result indicates that FDI is an important vehicle for achieving economic growth only in the presence of sufficient absorptive capacity as created through increased private investment in the Philippines. The increased government expenditure is found to crowd out private investment, resulting in reduced economic growth within the Philippine economy. The result also suggests that economic growth in economies of the Philippinesí major trading partners does not greatly enhance economic growth within its economy, thereby providing justification for the Philippine government's stance on diversification of its exports to other emerging trading partners. Population growth is found to stimulate economic growth within the Philippine economy. The findings of this study provide strong empirical evidence to confirm the generally held view that, under a favorable economic environment, FDI does have the capacity to impact positively on economic growth in the Philippines [6].

Jiao on his blog reported that the Philippines has witnessed a rapidly rising trend of foreign direct investment (FDI) inflows since the 2008/09 Global Financial Crisis. FDI increased tenfold in less than a decade, from around USD1 billion in 2010 to around USD10 billion in 2018, making the Philippines the most rapidly growing FDI recipient in Asia. This has raised more attention on the country's potential for FDI inflows as the U.S-China trade tensions are expected to lead to a wave of industry relocations. However, to benefit from this unique window of opportunity, the country needs to put in place the right policies and reforms to win the battle of attracting FDI against regional peers. As a share of GDP, the FDI to of the Philippines rose from less than 1 percent in 2010 to around 3 percent in 2018, surpassing Malaysia, Thailand, and Indonesia [7].

3. METHODOLOGY

This study employed a descriptive and systematic review research design. The systematic review provides an exhaustive summary of the pooled data from government repositories and agencies to collect the data most especially from the Philippine Statistics Authority (PSA). The Northern Mindanao region, which included the provinces of Bukidnon, Misamis Oriental, Misamis Occidental, Lanao del Norte, and Camiguin, was the setting of this research study. Cagayan de Oro and Iligan, two heavily urbanized cities, are handled separately from the province. The data was collected from the PSA and the analysis was based on this data from 2015 to 2018. The data collected was analyzed using descriptive statistics.

4. RESULTS AND FINDINGS

Let us first look at the Gross Regional Domestic Product (GRDP) of Northern Mindanao, and juxtapose the 2015 and 2018 GRDP. We need to note though that GRDP measures the value of the economic activity, which in this context is the overall economic activity of Northern Mindanao. Furthermore, GDRP, as understood, is the totality of the market values, or prices, of all final goods and services produced by the different sectors of the economy, specifically the economy of Region-X – Northern Mindanao during a given period of time. Accordingly, the Philippine Statistics Authority (PSA) categorized these economic sectors to three, viz. Agriculture, Industry, and Services.

However, three important distinctions are contained in this definition of GRDP (cf. SparkNotes 2020). Firstly, GRDP is a figure that shows the worth of the output of Region-X – Northern Mindanao – in terms of our local currency. Secondly, GRDP tries to capture all final goods and services as long as they are produced within Region-X – Northern Mindanao, hence, indicative of the final monetary value of everything created in Region-X – Northern Mindanao, and this is therefore represented by GRDP. Thirdly, GRDP like the Gross Domestic Product (GDP) of a country is calculated for a specific period of time, usually on an annual basis, which is the case of the data utilized in this study.

Having said that, there is also a need to emphasize that Foreign Direct Investment (FDI) plays a positive substantial role in a region’s economy consequently it is a factor in the reckoning of GRDP (World Bank 2018). Meaning to say, the amount of FDI that enters Region-X has bearing on the growth of Northern Mindanao’s economy. Therefore, the amount of FDI that enters Northern Mindanao is reflective of the investment climate of the region, which can ultimately manifest in the region’s GRDP. Thus an increase in FDI also increases the GRDP of the region (cf. OECD 2002). In this regard, the positive effect of FDI is that it would enhance economic growth and development, which would outweigh the negative ones. Therefore, it is fair to say, the bigger the inflow of FDI in Region-X, the greater the economic growth of the region.

In 2015, the total FDI in the Philippines reached ₱245,215,700,000. Out of this amount, ₱91,955,887,500 (37.5 percent) went to IVA-CALABARZON, ₱46,590,983,000 (19.0 percent) to Cordillera Administrative Region, ₱37,763,217,800 (15.4 percent) to National Capital Region, ₱13,732,079,200 (5.6 percent) to Central Luzon, ₱11,770,353,600 (4.8 percent) to Western Visayas, and 17.6 percent were divided to the remaining twelve regions (PSA February 22, 2016). Therefore, on average, Region-X – Northern Mindanao got a share of 1.5% of the 17.6%, which, on average, amounted to ₱3,678,235,500. Given the size of FDI for Northern Mindanao, it is, therefore, fair to declare that the economic growth and development of the said region in 2015 would comparatively lag behind compared to those regions with large FDI. Consequently, this may have a trivial impact on the reduction of poverty in Northern Mindanao. This will be further discussed in the latter part of this paper.

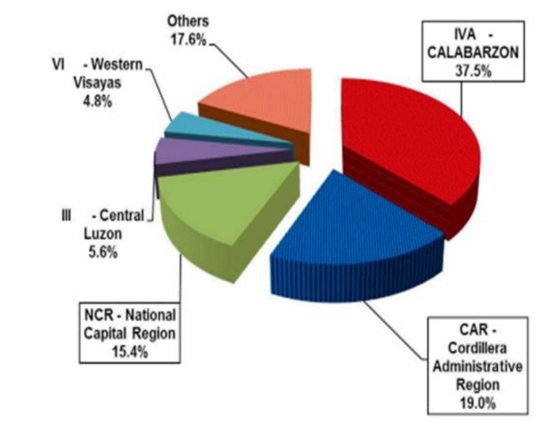

Figure 1. Foreign Direct Investment in 2015

As compared to 2018, the total FDI in the Philippines reached Php 915 Billion, which is a 273.1 percent increase from 2015. The majority of this FDI was mostly dispersed outside Metro Manila with total regional investments amounting to 85.6 percent. Out of these regional investments, 25 percent went to Region-X – Northern Mindanao in the amount of Php228.8 Billion, which is a 6,220.4 percent increase from the 2015 FDI. Thus, a tremendous upsurge of investments happened in Northern Mindanao in 2018, which in one way or another have an impact in the reduction of poverty in the region.

Figure 2. Foreign Direct Investment in 2018

In view of this remarkable upturn of FDI in Northern Mindanao, it is, therefore, reasonable to deduce that the economic growth and development of the said region in 2018 had resulted in a 33.6 percent increase in GRDP as compared

Table 1:

The calendar Year 2015 and 2018 Comparison of Selected Socio-Economic Indicators

Socio-Economic Indicators	2015	2018	Difference	% Change
Foreign Direct Investment (FDI)	3,678,235,500[6]	228,800,000,000[7]	669,784,300,000	273.1% (increase)
Gross Regional Domestic Product[1]	517,648,536[2]	691,655,647[3]	174,007,111	33.6% (increase)
Northern Mindanao Population	4,689,302[4]	4,922,257[5]	232,955	5.0 (increase)
Poverty Incidence Among Population (%)	23.5[8]	16.6[9]	-6.9	29.4 (decrease)

Source: Philippine Statistics Authority
*Poverty Incidence Among Population
[2] (PSA May 2017)
[3] (PSA April 2019)
[4] (PSA August 2016a)
[5] (DOH October 2018)
[6] (PSA May 2017) –No direct data available. This is a researcher's computed figure.
[7] (BOI 2 0 1 8)
[8] (PSA 2016b)
[9] (PSA December 2019b; PSA April 2019c)

to 2015, which of course may have an impact in the reduction of poverty in Northern Mindanao, and such will be discussed in the latter sections of this paper.

In relation to poverty reduction, the Northern Mindanao population in 2018 was 4,922,257 from 4,689,302 in 2015, a five percent increase over the last three years. Despite an increase in the region's population, Poverty Incidence Among Population (PIAP) in the region decreased in 2018 to 29.4 percent even though there was an 11 percent increase in the poverty threshold.

This is therefore an indication that the economy of Northern Mindanao is performing well in 2018, which could be partly attributed to the huge FDI inflow that boosted the region's economy.

Overall, as shown in Table 1, the economy of Northern Mindanao, based on the above selected socio-economic indicators (shown in Table 1), reflected a positive picture in the sense that FDI and GRDP increase while PIAP decreases despite an increase in population. This is because growth in GRDP which is reinforced by an increased inflow of FDI to the Northern Mindanao economy is correlated with the rate of PIAP (cf. ADB 2009). The fact there is a relationship between GRDP and poverty incidence, and given the fact that in Northern Mindanao as GRDP increases there was also a corresponding decrease in PIAP (as reflected in Table 1) despite an increase in its population, it raised the question as to whether the population had an effect on the relationship between GRDP and PIAP.

We need to note that in 2015, PIAP in Northern Mindanao was recorded at 23.5 percent. In absolute numbers, this translated to 1,101,986 individuals whose income was not sufficient to meet basic food and non-food needs. In 2018, however, PIAP in Northern Mindanao decreased to 16.6 percent. Again, in absolute numbers, this translated to 817,095 individuals whose income was not sufficient to meet basic food and non-food needs. Obviously, the PIAP decreased in 2018 vis-à-vis 2015 notwithstanding an increase in the region's population.

5. CONCLUSIONS

FDI is an important vehicle for achieving economic growth in Northern Mindanao, Philippines. The results indicate an increasing trend of FDI from 2015 to 2018 which indicated that the economy in Northern Mindanao was performing well in the year 2018 and FDI has the biggest role in this improvement. The potential of FDI as evidenced by the percentage increase of the GRDP from 2015 to 2018 proved its positive capacity to reduce poverty incidence in the region. Hence, FDI is really an instrument for economic progress in the region and should be continued by the next administration. There might be factors that may affect the increasing trend and future research may analyze the empirical factors affecting the weak inflow of FDI in the other regions in the Philippines.

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