OPENING STATEMENT

CARLOS G. DOMINGUEZ
Secretary of Finance

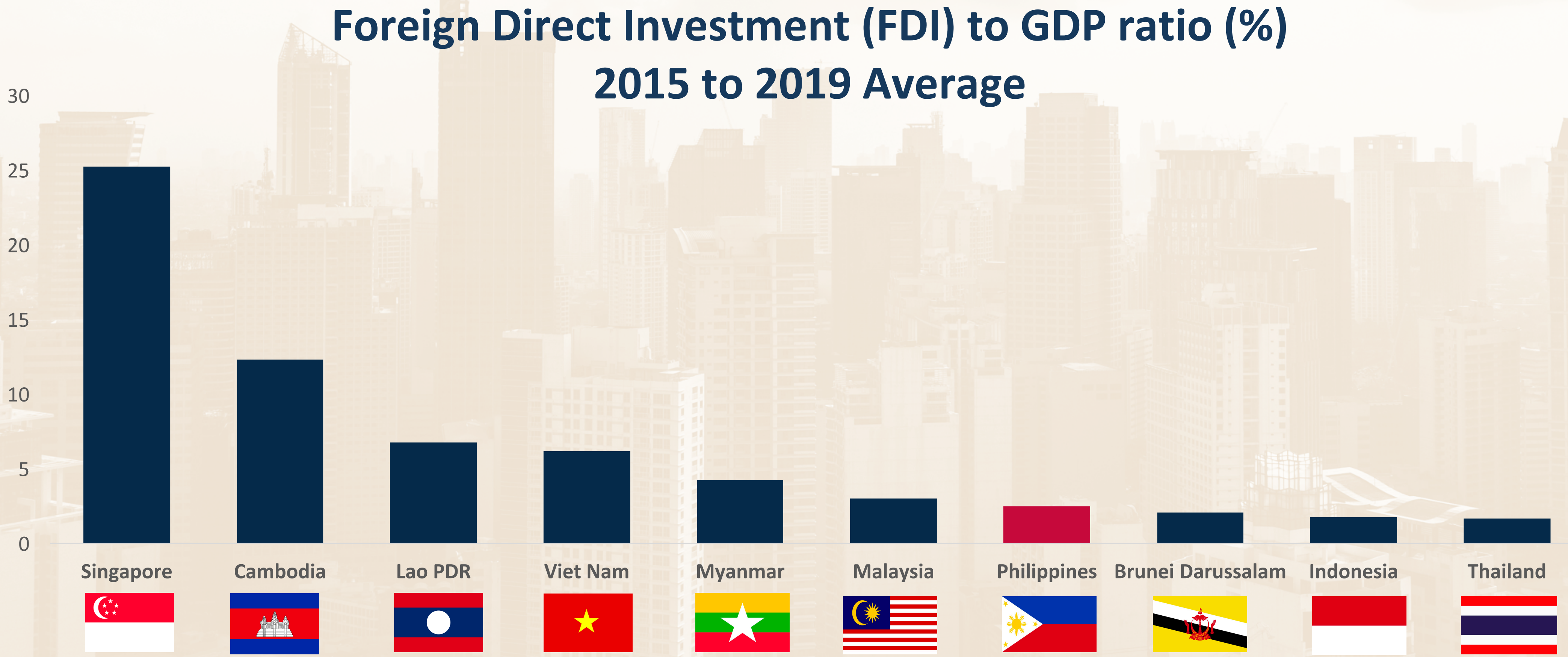
Committee on Constitutional Amendments 9th Regular Meeting
January 26, 2021

Removing the restrictive economic provisions in the 1987 Constitution would be **a significant factor in revving up the Philippine economy and sustaining its recovery.**

I ask our legislators to act on something that is doable.

What is most important is to undertake what is immediately achievable.

The Philippines ranked seventh out of the ten countries in the ASEAN in terms of its average foreign direct investment inflows to GDP ratio from 2015 to 2019.



Source: World Bank Database

The Philippines is perceived by the international investment community as the most restrictive among the ASEAN countries.

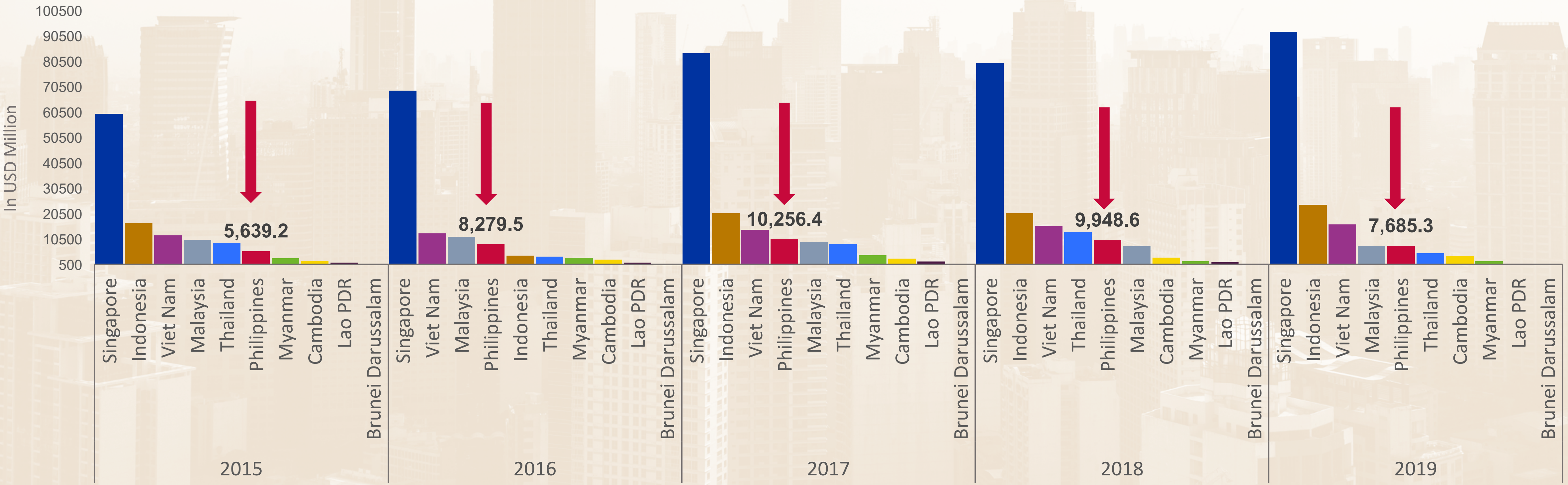
2019 Foreign Direct Investment Regulatory Restrictiveness Index

Country	Global Ranking*	FDI Regulatory Restrictive Index**
Philippines	**4**	**0.374**
Indonesia	5	0.345
Thailand	6	0.268
Malaysia	8	0.252
Lao PDR	14	0.190
Viet Nam	24	0.130
Myanmar	29	0.110
Singapore	46	0.059
Cambodia	50	0.054

Source: Organization for Economic Cooperation and Development
**Out of 84 countries; **0-open, 1-closed*

A comparison of the foreign direct investment inflows from 2015 to 2019 among ASEAN countries underscores the small share we received compared to the relatively more liberalized economies.

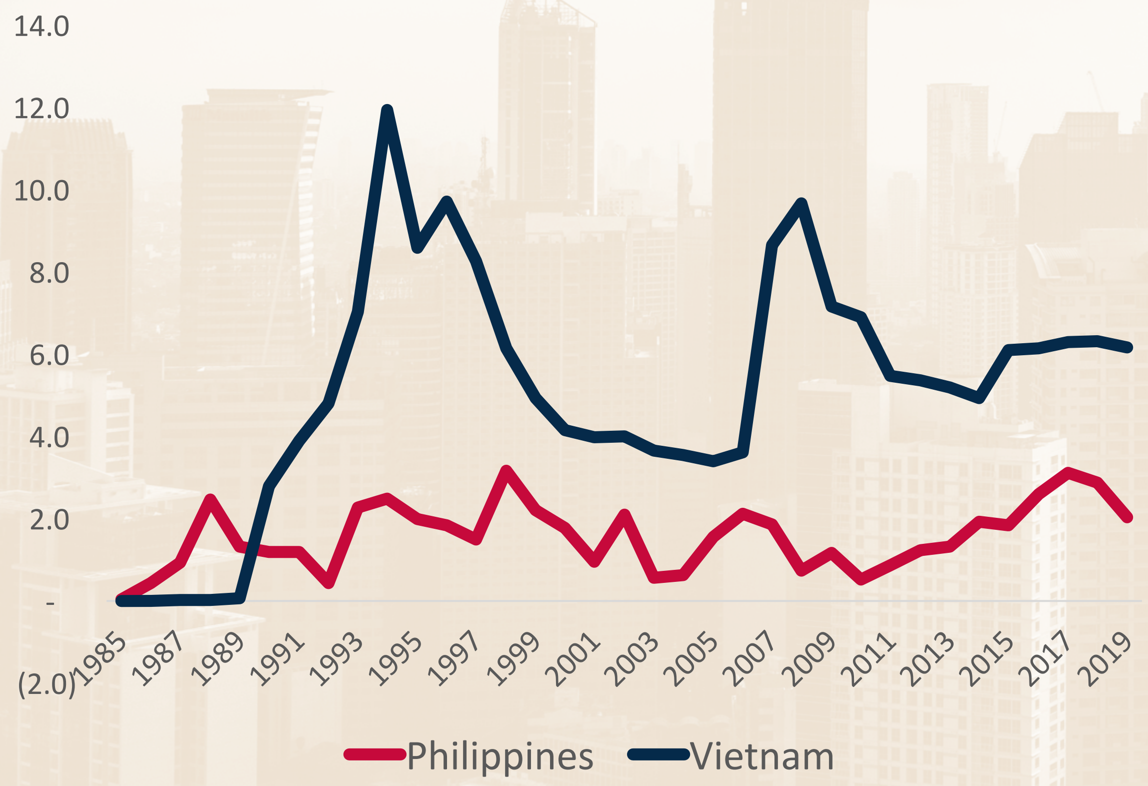
Foreign Direct Investment (FDI) Inflows, World (in USD Million)



Source: ASEANStats

When the Philippines affirmed in 1987 its Constitution with restrictions to investments not based on practicality but on some notions of nationalism, Vietnam fully opened its doors to the world.

Foreign Direct Investment (FDI) to GDP ratio (%)



Source: World Development Indicators, World Bank (December 2020)
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Vietnam's enlarged economic engagement with the world began in 1986 with the introduction of "Doi Moi", a series of economic and political reforms aimed at making Vietnam more market-oriented.

The Law on Foreign Investment (LFI) of 1987 which, among others, allows 100% foreign ownership in an enterprise was the first ever economic legislation enacted by the Vietnamese Congress.

Vietnam's four-pronged foundations to success are:

- **Trade liberalization as a path to industrialization** – Vietnam lowered its tariffs, entered into various bilateral and multi-lateral trade agreements, and opened the economy to foreign capital;
- **Investment in social capital**;
- **Ease of Doing Business** – Vietnam cut red tape. Subsequent amendments to the 1987 LFI precisely streamlined processes; and
- **Investment in infrastructure** (power and connectivity).

Soon, Indonesia is also set to dramatically change its investment policies in a bid to boost its economy crippled by the pandemic, and create more jobs.

- **On November 2, 2020, Indonesia enacted the Omnibus Law on Job Creation**. The law reduces the red tape on the country's current business and labor laws.

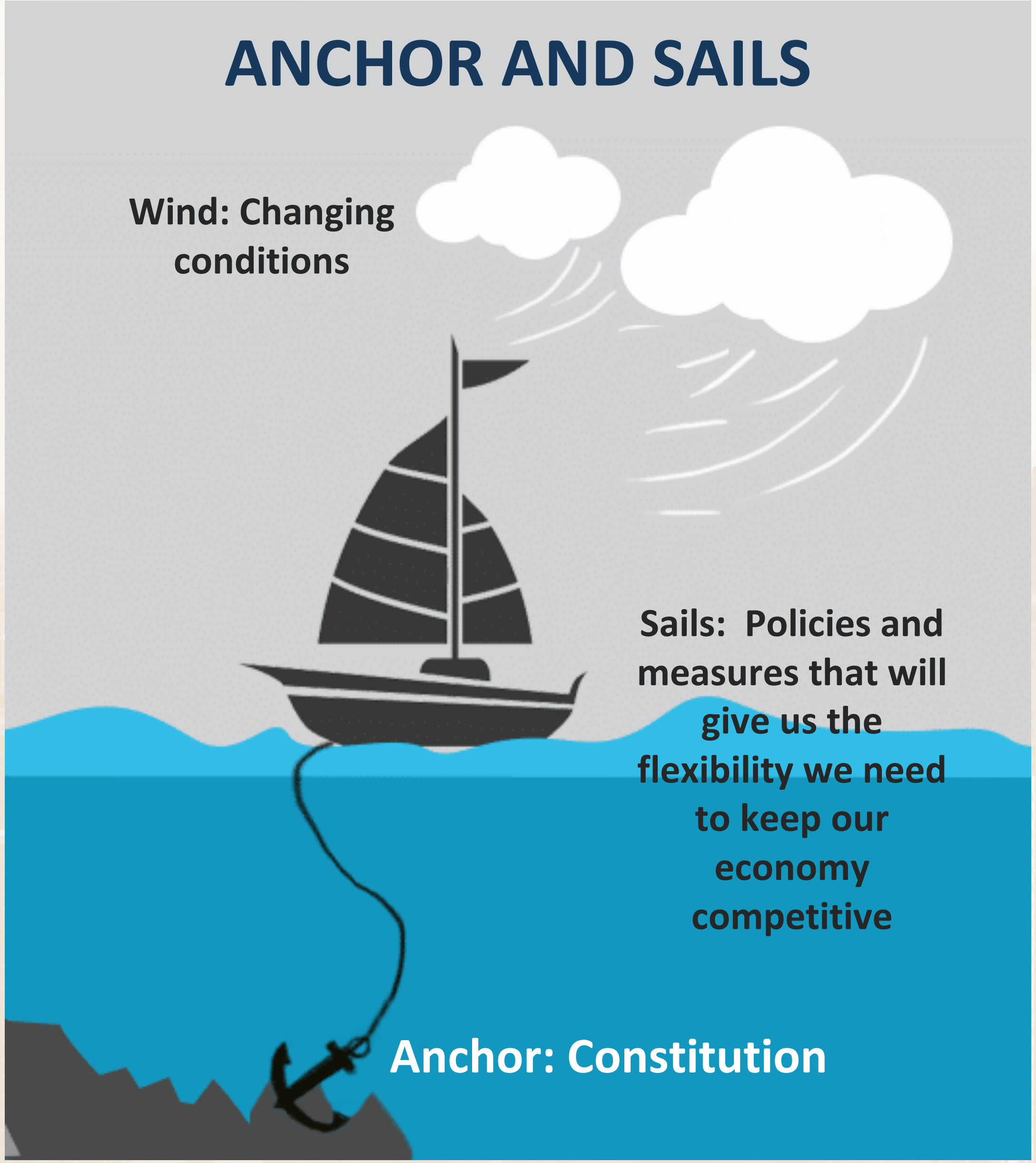
- According to news reports, **Indonesia is set to remove energy, communications, and tourism from a list of sectors restricted to foreigners in a bid to boost investments and create jobs.** The list of industries limited to foreign investment has been cut to just 48, from more than 300, according to a draft of the presidential decree.

- According to news reports, Indonesia also plans to maintain a list of priority sectors. **The list includes industries eligible for fiscal incentives and non-fiscal incentives.**

Source: Bloomberg: https://www.bloomberg.com/news/articles/2021-01-20/indonesia-to-cut-foreign-ownership-curbs-to-add-jobs-lure-funds

It is never a good idea to tie down our economy to a fixed set of policies.

In a world that is constantly innovating, it is always better to have an adaptable economic policy regime.



We must adhere to our anchor, which is our core set of principles. This will keep us grounded.

But we should also be flexible enough to adjust our sails when the winds change direction.

Image Template Source: https://luis-goncalves.com/sailboat-exercise-sailboat-retrospective/

Restricting economic activity is an outdated nationalistic concept, overtaken by technological developments. Maintaining preferential treatment of Filipino citizens in certain areas of concern no longer serves any imperative purpose.

- The restriction of foreign investments in public utilities **forced us to depend on undercapitalized Filipino businesses.**

- The restrictive provision banning foreign investment in exploiting our natural resources is **the outcome of an erroneous understanding.** Our natural resources belong to the State. This should not necessarily mean only Filipinos may exploit them.

- The ban on foreign professionals from practicing in the country has **deprived our people of the opportunity to absorb and learn new ideas and standards. This has barred us from receiving the best professional services and availing of cutting edge technologies.**

- The limitation of ownership of educational institutions to Filipinos is **surely obsolete in this age of remote learning.**

- In the age of the Internet that has seen the migration of the audience to digital sources of information, the prohibition of foreign ownership in the mass media and advertising is **most anachronistic**. All the prohibition accomplishes is to **prevent our own media and advertising companies from building international networks that will enhance their viability**.

Those who insist on maintaining protectionist policies might learn much from our experience in liberalizing the rice trade.

- The Philippine Statistics Authority (PSA) projected that palay harvest in 2020 will log a **record high of 19.44 million metric tons (MT)**. This is a 3.33-percent increase from the 2019 production of 18.81 million MT and higher than the previously held record of 19.27 million MT in 2017.
- The price of rice has **remained under control mainly due to the Rice Tariffication law**. On the average, today's Filipino consumer enjoys a reduction in the price of rice of up to 10 pesos per kilo from its peak in 2018.
- Revenues from the tariffs provided a fund to help **modernize our farms and improve the incomes of our farmers.**
- Consumers also have **a variety of rice choices** now under a liberalized rice trading regime.

Should we start the process towards a more liberal investment regime, this will be a **strong signal to the international investment community that the Philippines is open for business.**

Immediately, the Congress can help in restarting our economy by acting on our pending priority economic bills.

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)	Retail Trade Liberalization Act	Foreign Investments Act	Public Service Act
Aims to reduce the corporate income tax rate and enhance the flexibility of our incentives system so that we can proactively attract investments that will bring exceptional benefits to the Filipino people.	Aims to remove barriers to foreign investments in the local retail sector.	Seeks updates to the declaration of policy to encapsulate inclusive economic growth, advancements in technology, and the dynamic relationships among global and regional economies.	Aims to open more businesses to foreign participation and make our economy more progressive.

Opening up our economy is indispensable to achieving a truly **inclusive investments-led economic growth that will open more employment opportunities for our people.**

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