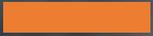


Institutions, Investment Policies, and Macroeconomic Conditions

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In attracting investments, countries should consider having sound:

1. Macroeconomic conditions – natural resource endowment, human capital, infrastructure, economic growth, etc.
2. Trade policies – tariffs, non-tariffs barriers, investment/trade treaties, etc.
3. Institutional quality - voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, control of corruption, economic freedom, etc.



Importance of investment

- Investments, particularly foreign direct investments, are important since they increase productivity, facilitate transfer of technology, reduce unemployment, provide support to their host countries, among others.



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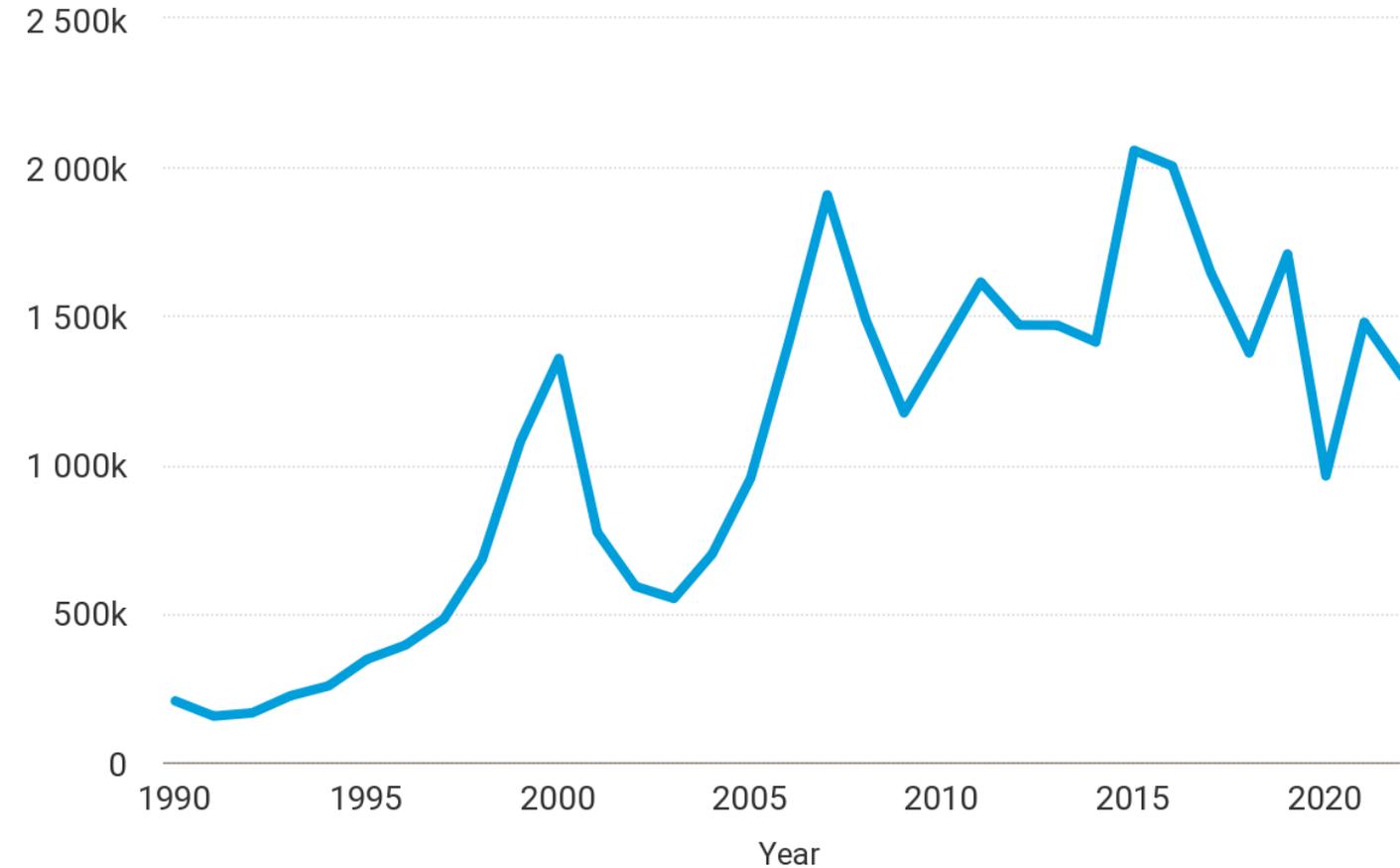
Foreign direct investment flows

By selected region or economy in selected time period

World economy at a glance

- FDI inflows worldwide started to show a declining trend starting 2015

Millions of dollars



World

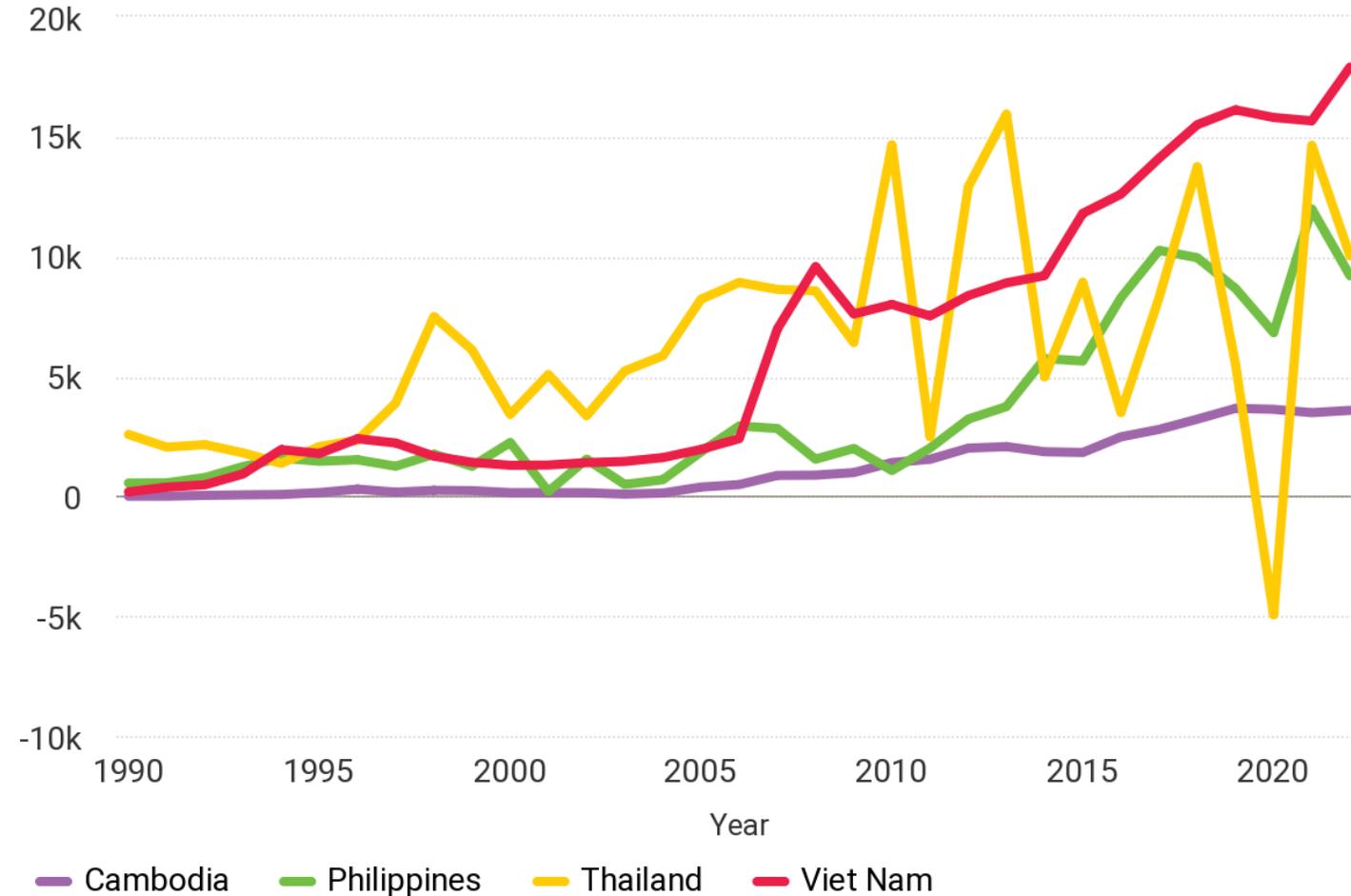


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Foreign direct investment flows

By selected region or economy in selected time period

Millions of dollars



- General trend for Vietnam and Cambodia is increasing.
- Philippines, generally increasing but has started to decline even before the pandemic started

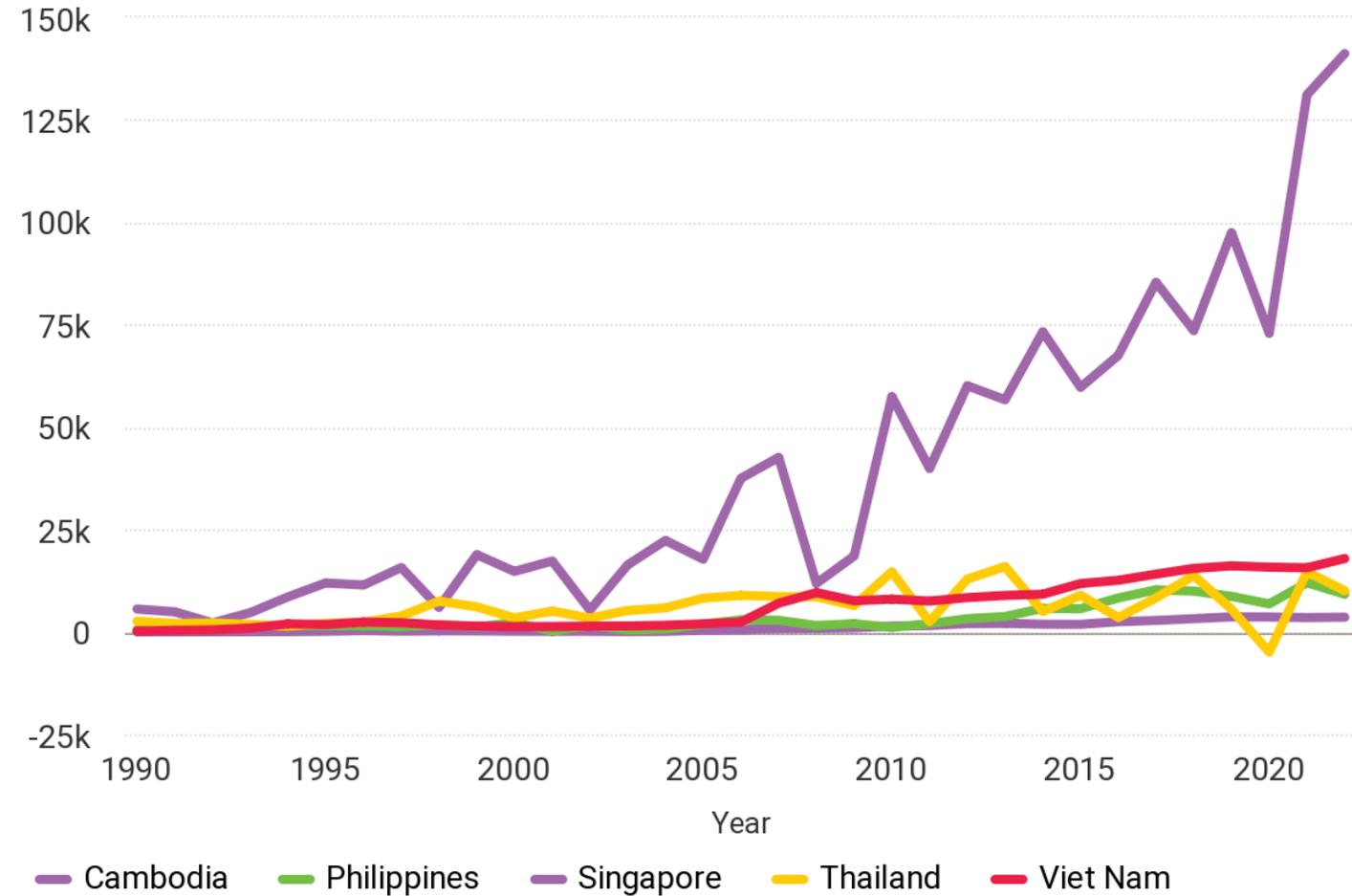


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Foreign direct investment flows

By selected region or economy in selected time period

Millions of dollars



- The general trend of foreign direct investment flows for Singapore, Cambodia and Vietnam is increasing.



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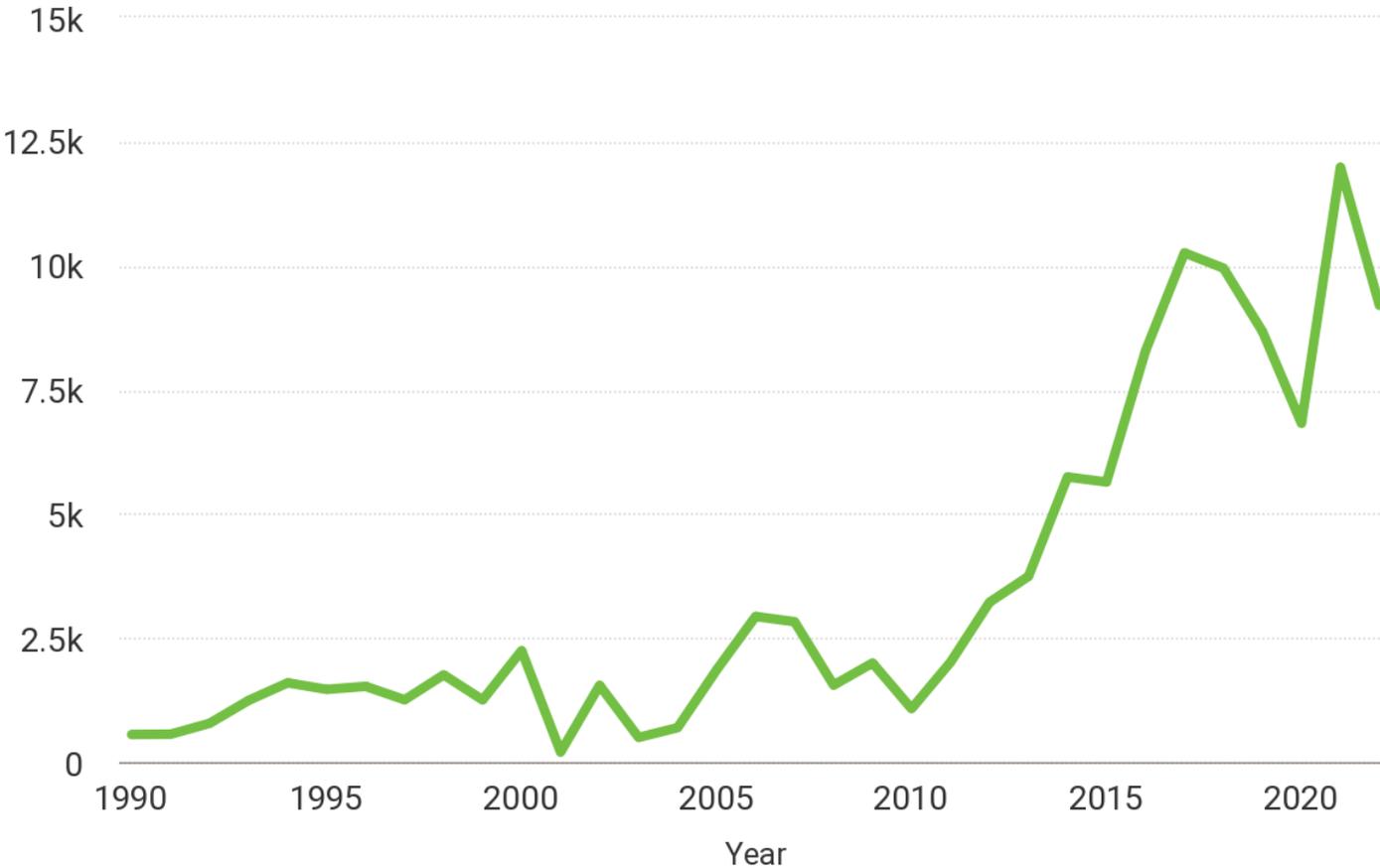
Foreign direct investment flows

By selected region or economy in selected time period

Local economy at a glance

- The country experienced a declining investment climate even before the onset of COVID-19

Millions of dollars



— Philippines

Local economy at a glance

Anti-democracy rhetoric and a pivot to China has resulted in trade losses



Source: Bangko Sentral ng Pilipinas

Our study

- Investigates how institutions, macroeconomic conditions, and trade policies affect foreign investments
- Data: Worldwide Governance Indicators and World Development Indicators
- 126 countries from 1996 to 2019
- Countries classified as developed or developing
- Panel data estimation technique (fixed-effects)

Our study: model

$$\begin{aligned} \ln(FDI_{it}) &= \beta_0 + \beta_1 institution_{it} + \beta_2 gdppc_{it} + \beta_3 mobile_{it} + \beta_4 inf_{it} + \beta_5 gfcf_{it} + \beta_6 lf_{it} + \beta_7 lifeexp_{it} \\ &+ \beta_8 schoollifeexp_{it} + \beta_9 pop_{it} + \beta_{10} merchandisetrade_{it} + \beta_{11} \ln(FDI)_{lag_{it}} + v_i + u_{it} \end{aligned}$$

- i represents country i ; t represents year t
- $\ln(FDI_{it})$ is the log of FDI net inflows
- $institution_{it}$ corresponds to an institutional dimension
- $gdppc_{it}$ is the gross domestic product per capita
- $mobile_{it}$ is the mobile subscriptions per 100 people
- inf_{it} is the inflation rate
- $gfcf_{it}$ is the gross fixed capital formation
- lf_{it} is the labor force participation rate
- $lifeexp_{it}$ is the life expectancy at birth
- $schoollifeexp_{it}$ is the expected number of years of schooling
- pop_{it} is the total population
- $merchandisetrade_{it}$ is the sum of merchandise exports and imports
- $\ln(FDI)_{lag_{it}}$ is the one-year lag of $\ln(FDI_{it})$
- v_i is the time-invariant country fixed effect
- u_{it} is the error term that varies across time and space



Our study: model

- Institutional dimensions considered are:
 - 1) voice and accountability (*vae*)
 - 2) political stability and absence of violence (*pve*)
 - 3) government effectiveness (*gee*)
 - 4) regulatory quality (*rqe*)
 - 5) rule of law (*rle*)
 - 6) control of corruption (*cce*)
 - 7) aggregate governance index (*gov*), which is the sum of the above dimensions



Our study: model

- The variables *gdppc*, *mobile*, *inf*, *gfcf*, *lf*, *lifeexp*, *schoollifeexp*, and *pop* all describe the macroeconomic conditions and characteristics of a country.
- The variables *merchandise trade* and $\ln(FDI)_{lag_{it}}$, on the other hand, can describe a country's trade policies.

Our study: results

For both developing and developed countries, infrastructure (as proxied by mobile subscriptions), the domestic investment climate (as proxied by gross fixed capital formation), the expected number of years of schooling, and lagged FDI all help in attracting FDI.

On the other hand, a country's level of development (as proxied by gross domestic product per capita) and trade openness (as proxied by merchandise trade) only attract FDI for developed countries.

For developing countries, life expectancy and surprisingly, inflation, helps attract FDI.

Our study: results

Various literature found that good institutions attract investments, which may be more pronounced to developed countries (Peres et al., 2018 and Sabir et al., 2019).

Our study, on the other hand, provide evidence that good institutions may be more beneficial for developing countries.

Also, while our results show that macroeconomic conditions and trade policies are indeed important in attracting investments, institutional quality may have a more pivotal role (as evidenced by its higher positive coefficients than the other two factors).

Hence, improvement of accountability, transparency, elimination of corruption, enforcement of the rule of law, regulatory quality, political stability, and government effectiveness will be beneficial for the Philippines and must be considered as a development priority.

Our study: results (developing countries)

	vae	pve	gee	rqe	rle	cce	gov
institutional dimension	-0.33574	0.44680***	0.12147	0.63471**	-0.14519	-0.02096	0.08504
gdppc	0.00019	0.00011	0.00014	0.00016	0.00014	0.00014	0.00014
mobile	0.00336	0.00542**	0.00312	0.00318	0.00258	0.00292	0.00373
lf	-0.00173	0.00071	-0.00071	0.00003	-0.00109	-0.00097	-0.00001
inf	0.02042*	0.01973*	0.01882*	0.01914*	0.01846*	0.01881*	0.01866*
gfcf	0.05722***	0.04639***	0.05642***	0.05550***	0.05705***	0.05697***	0.05369***
merchandisetrade	-0.0004	0.0014	0.0001	0.00028	0.00001	0.00015	0.00065
lifeexp	0.08827**	0.05851	0.07932*	0.04628	0.09462**	0.08715**	0.05993
schoollifeexp	0.22415***	0.27020***	0.24424***	0.31279***	0.22704***	0.23356***	0.27169***
pop	-0.00	0.00	-0.00	-0.00	-0.00	-0.00	0.00
lnFDI_lag	0.13951***	0.11348**	0.13950***	0.13695***	0.14522***	0.14144***	0.13236***
constant	6.84577***	9.25514***	7.46710***	9.09883***	6.43755**	6.95909***	8.75438***
R-square overall	0.15	0.09	0.16	0.15	0.16	0.16	0.14
R-square within	0.62	0.63	0.61	0.62	0.61	0.61	0.62
R-square between	0.03	0	0.03	0.02	0.03	0.03	0.01
Observation	240	240	240	240	240	240	240
Groups	44	44	44	44	44	44	44
Average Group Size	5	5	5	5	5	5	5

Our study: results (developed countries)

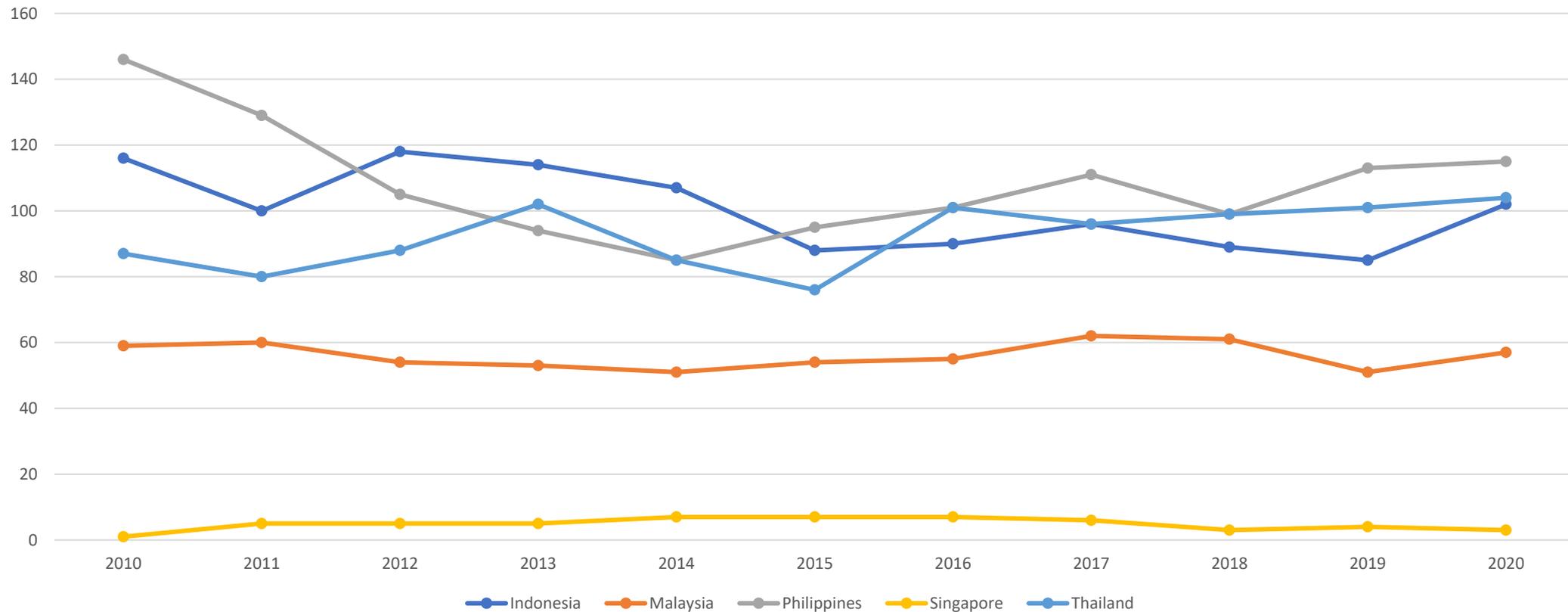
	vae	pve	gee	rqe	rle	cce	gov
institutional dimension	0.40494**	-0.04396	-0.1079	0.05368	-0.01338	0.07403	0.00986
gdppc	0.00002**	0.00002*	0.00002*	0.00002*	0.00002*	0.00002*	0.00002*
mobile	0.00373***	0.00381***	0.00389***	0.00370***	0.00379***	0.00376***	0.00375***
lf	-0.00574	-0.00378	-0.00348	-0.00482	-0.00417	-0.0048	-0.00465
inf	-0.00674	-0.00844	-0.00868	-0.0079	-0.00822	-0.0077	-0.00789
gfcf	0.03524***	0.03617***	0.03587***	0.03554***	0.03586***	0.03533***	0.03560***
merchandise trade	0.00620***	0.00654***	0.00663***	0.00650***	0.00651***	0.00648***	0.00647***
lifeexp	-0.04097	-0.04227	-0.03958	-0.04021	-0.04046	-0.04167	-0.04077
schollifeexp	0.08716**	0.07657*	0.07605*	0.07660*	0.07632*	0.07883**	0.07747*
pop	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00	-0.00
lnFDI_lag	0.38169***	0.38386***	0.38417***	0.38390***	0.38396***	0.38338***	0.38373***
Constant	13.85168***	14.20352***	14.06329***	14.05965***	14.08718***	14.13242***	14.08136***
R-square overall	0.39	0.44	0.41	0.45	0.44	0.46	0.44
R-square within	0.37	0.36	0.36	0.36	0.36	0.36	0.36
R-square between	0.36	0.44	0.39	0.46	0.43	0.46	0.44
Observation	1002	1002	1002	1002	1002	1002	1002
Groups	82	82	82	82	82	82	82
Average Group Size	12	12	12	12	12	12	12

How do we ensure the growth
and development of the
Philippines?

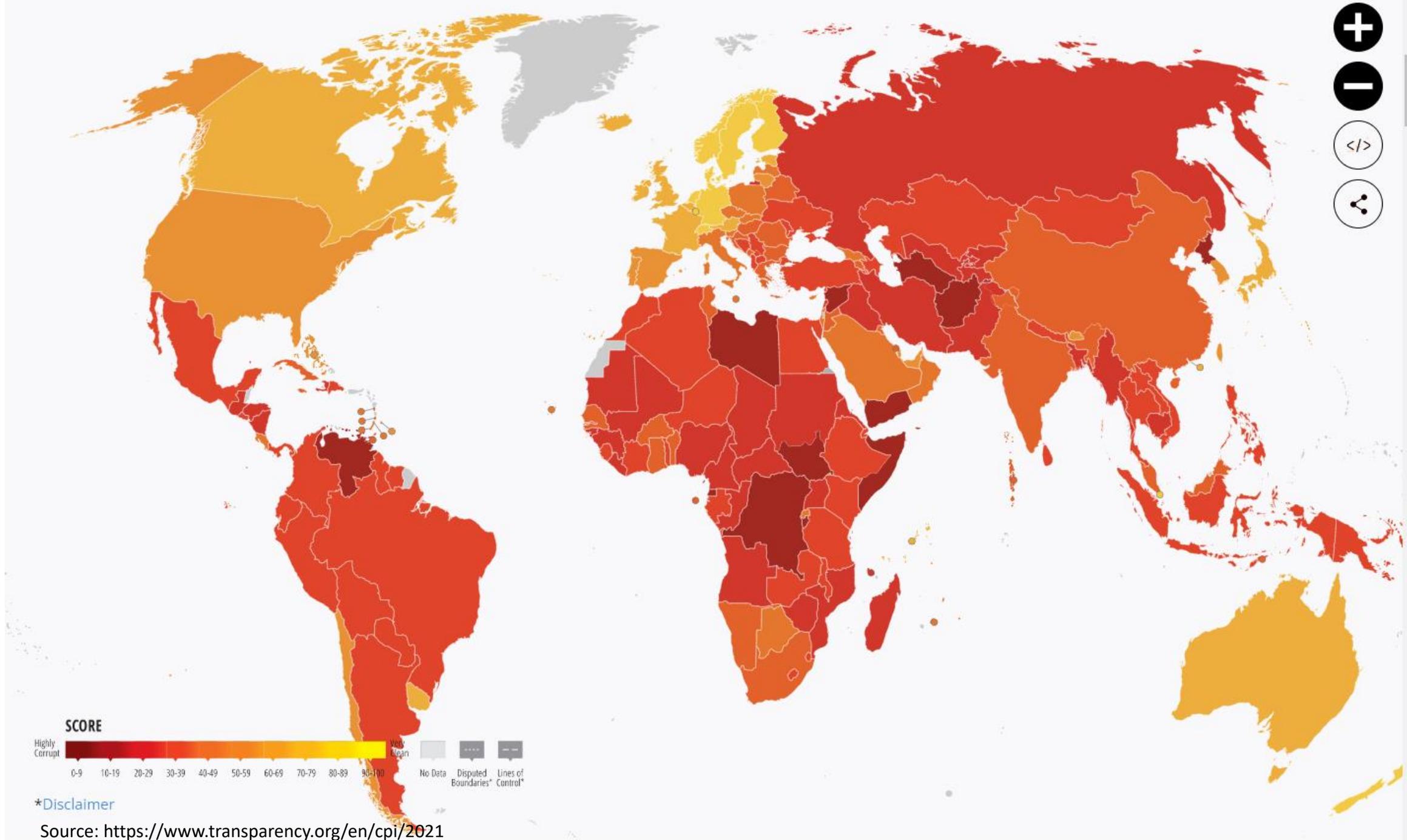
Corruption Perception Index

Corruption Perception Index 2010 - 2020

Source: Transparency International



- Philippines had the worst Corruption Perception Index for the most part of the period 2010-2020. For the period 2010-2015, the declining trend of CPI is statistically significant. The trend, however, reversed during 2016-2020.

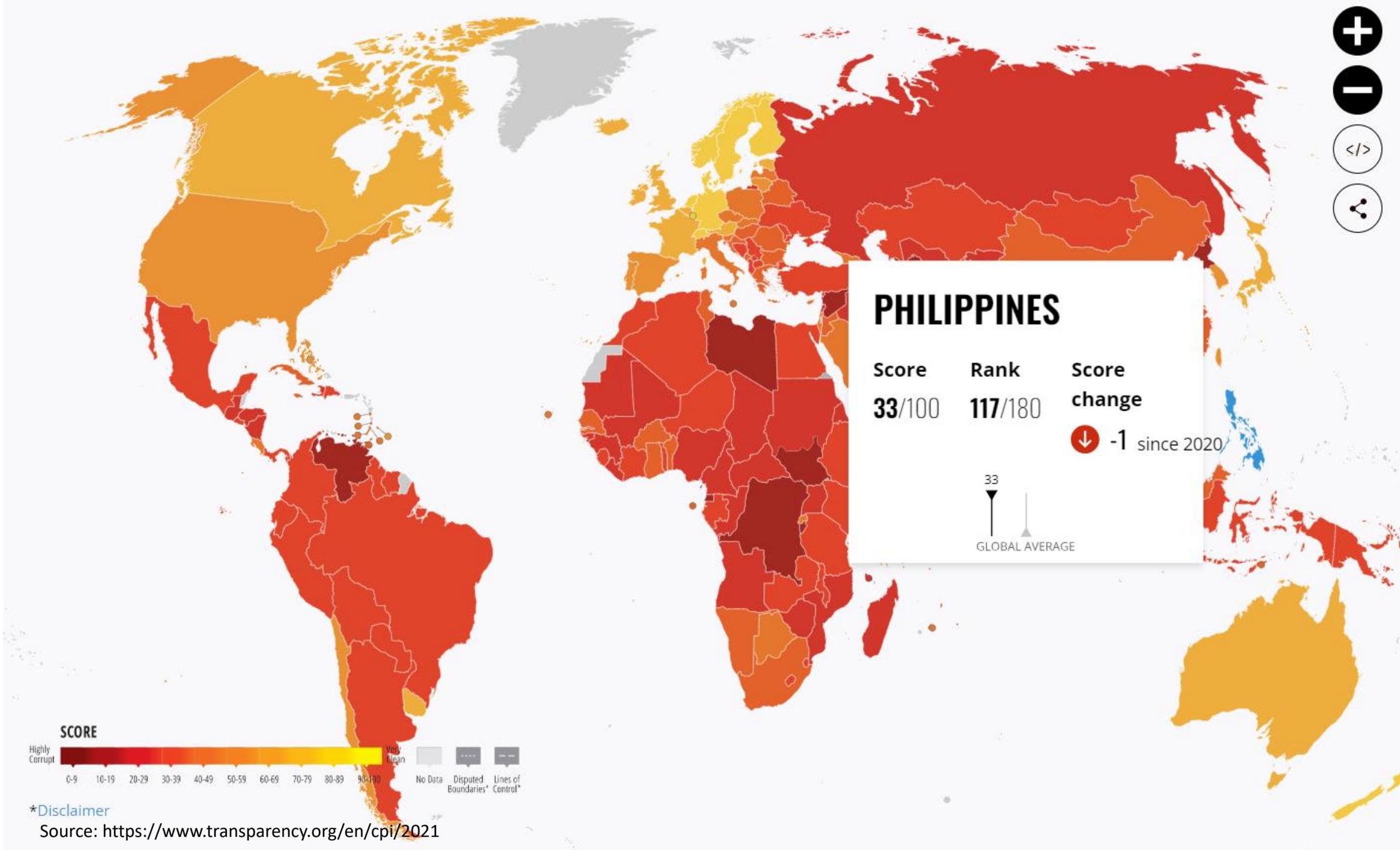


SCORE



*Disclaimer

Source: <https://www.transparency.org/en/cpi/2021>



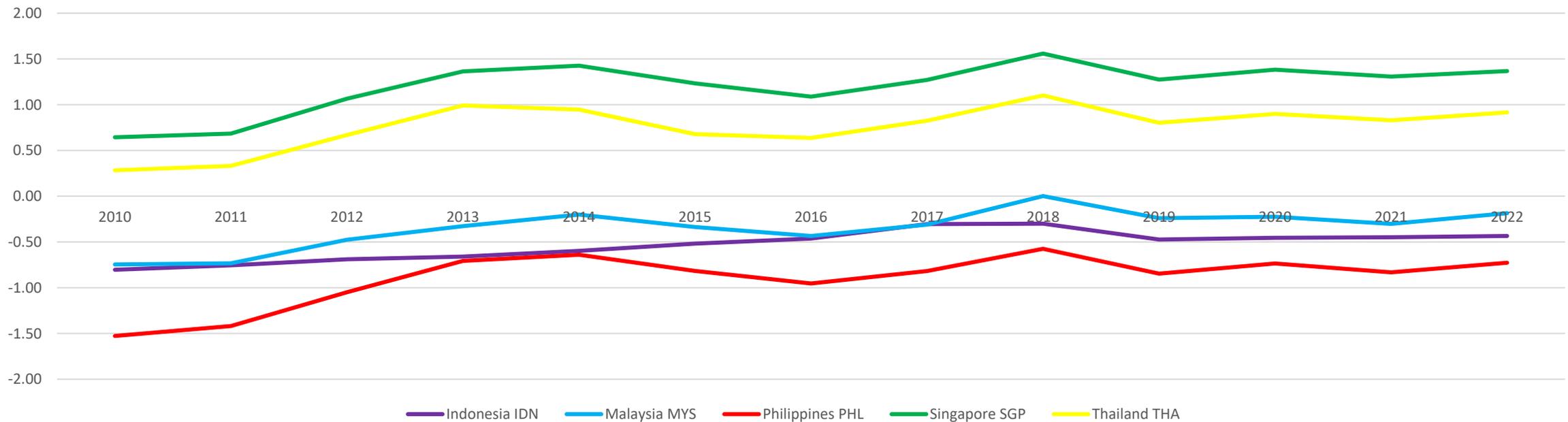
*Disclaimer

Source: <https://www.transparency.org/en/cpi/2021>

Control of Corruption

- In 2016-2022, the control of corruption index of the Philippines became the worst among ASEAN 5. In this period, the downward trend is statistically significant. This is the opposite to the upward trend in the previous period, which is statistically significant as well.

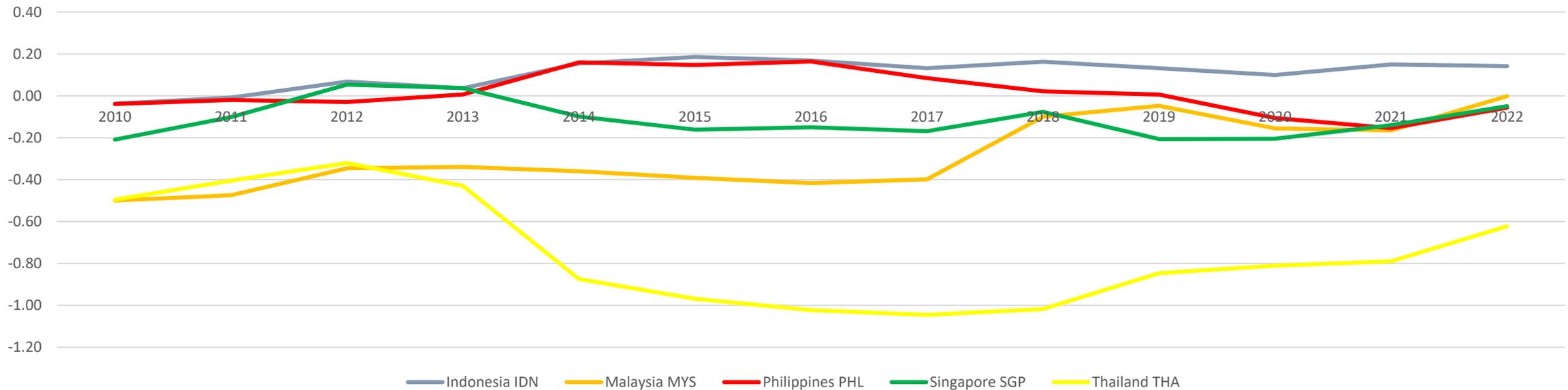
ASEAN-5 Control of Corruption



Voice and Accountability

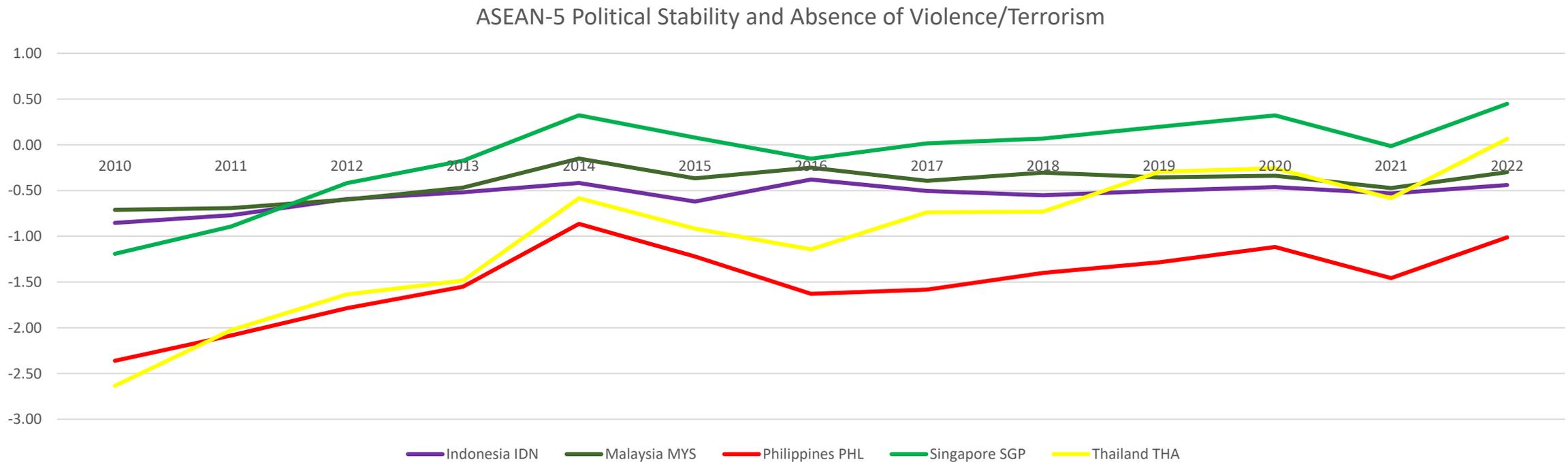
- In 2010-2015, the upward trend of the voice and accountability index of the Philippines is statistically significant. In 2016-2019, it demonstrated a decline, which is also statistically significant.

Voice and Accountability
2010-2015



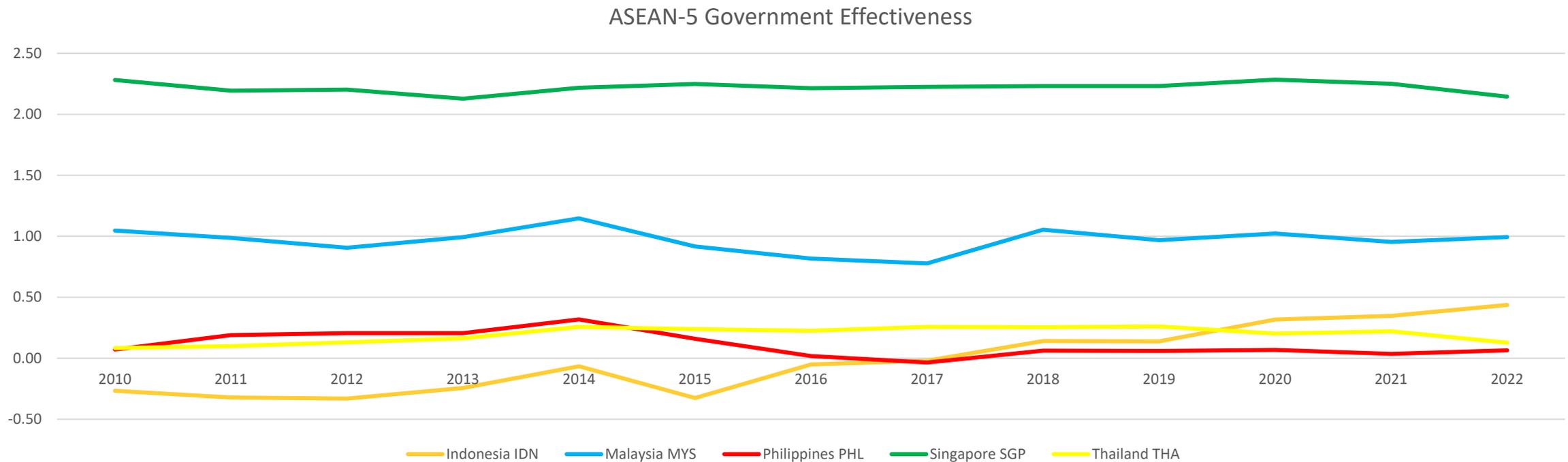
Political Stability and Absence of Violence

- In 2014-2022, the political stability and absence of violence index of the Philippines became the worst among ASEAN 5. The upward trend during this period became flatter than the previous period.



Government Effectiveness

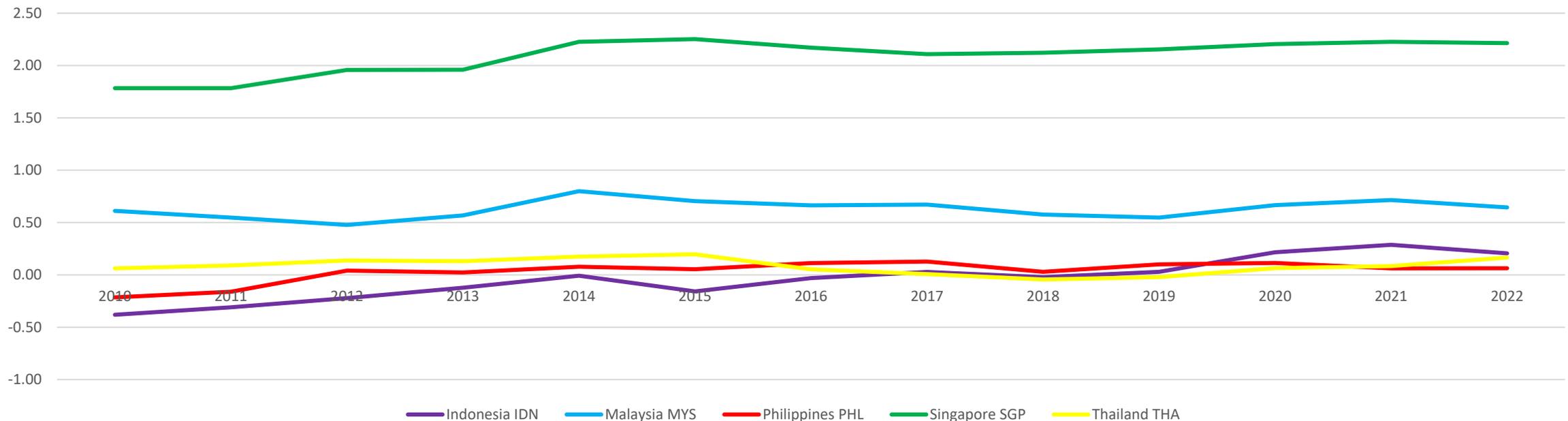
- In 2016-2019, the government effectiveness index of the Philippines became the worst among ASEAN 5. The upward trend in this period is not statistically significant, as opposed to the previous period.



Regulatory Quality

- In 2016-2022, the regulatory quality index of the Philippines became stagnant (remained in the bottom 2). In this period, the trend is downward, although it is statistically insignificant. This is opposed to the upward trend in the previous period, which is statistically significant.

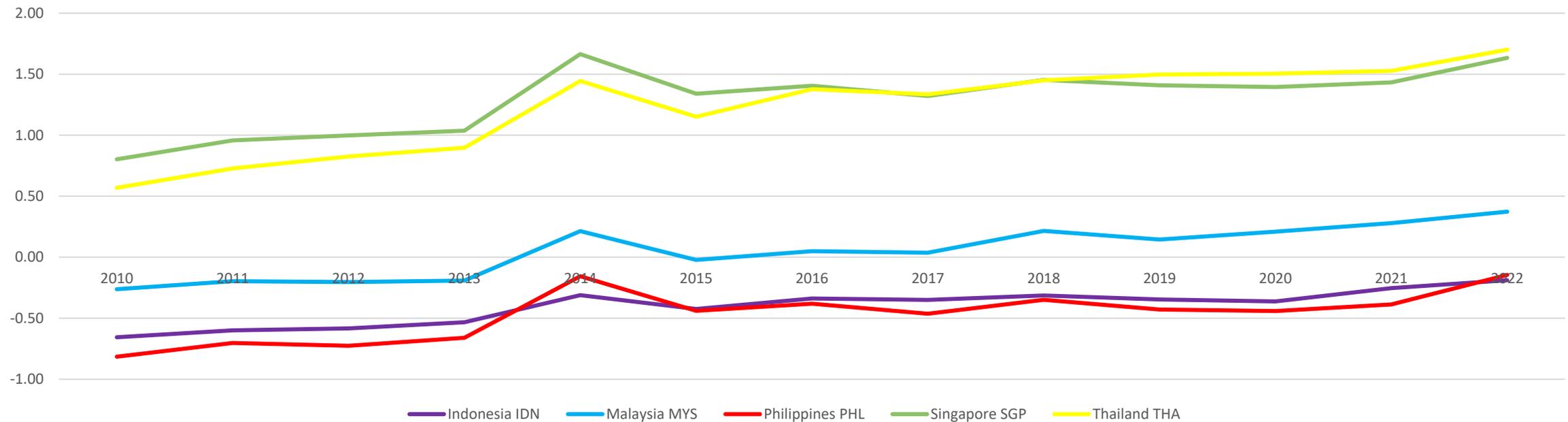
ASEAN-5 Regulatory Quality



Rule of Law

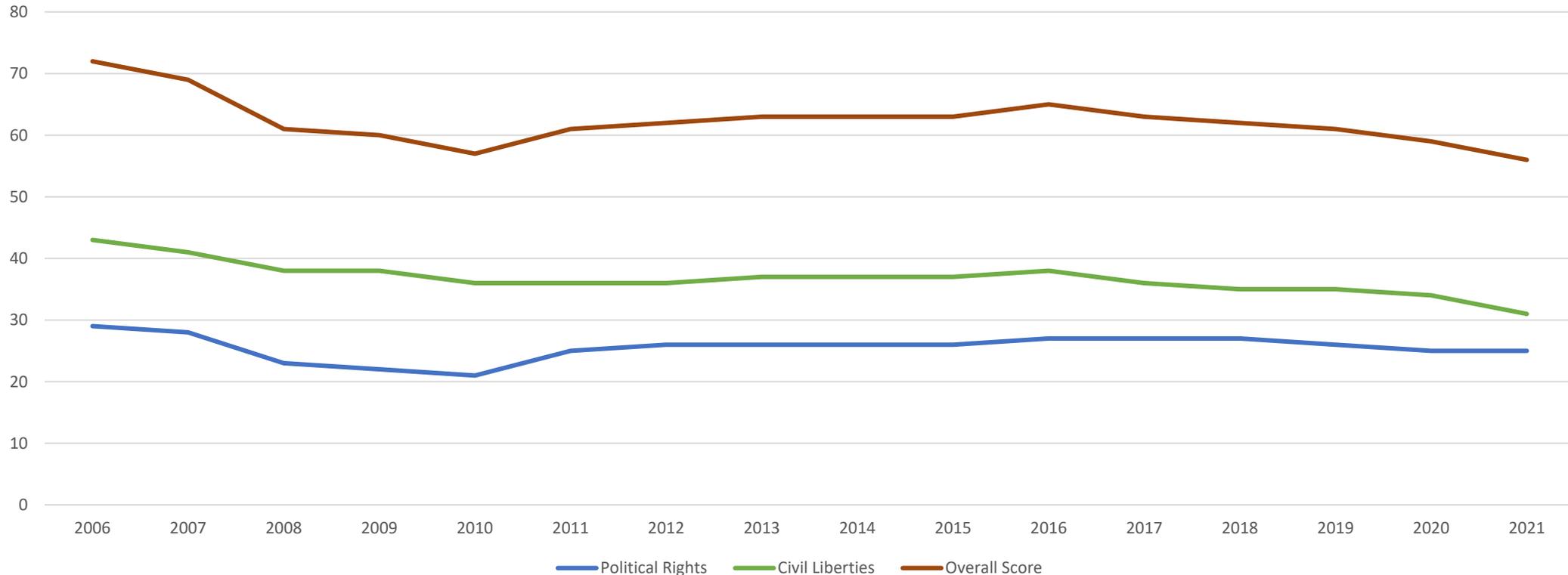
- In 2016-2022, the rule of law index of the Philippines became the worst among ASEAN 5. In this period, the downward trend is statistically significant. This is the opposite to the upward trend in the previous period, which is statistically significant as well.

ASEAN-5 Rule of Law



Freedom in World Index: Philippines

Philippines: Freedom in the World
2006-2021



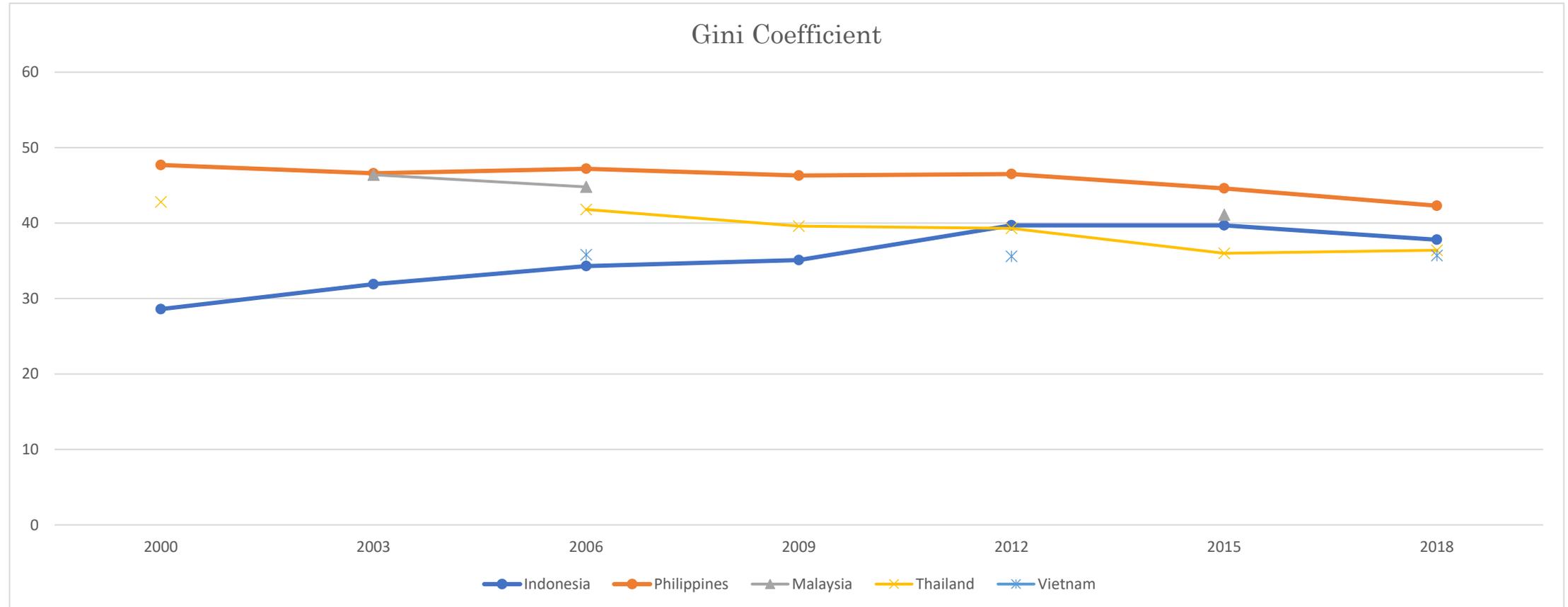
- Philippines had deteriorating freedom in the world indices during the same period.

Institutional Status

- Compared to our ASEAN 5 neighbors (Indonesia, Malaysia, Singapore, and Thailand), the Philippines is lagging in terms of various dimensions of institutional quality.
- In the recent years, 2016-2022, there are apparent declines or stagnation in the quality of institutions in the Philippines.

Improving human capital

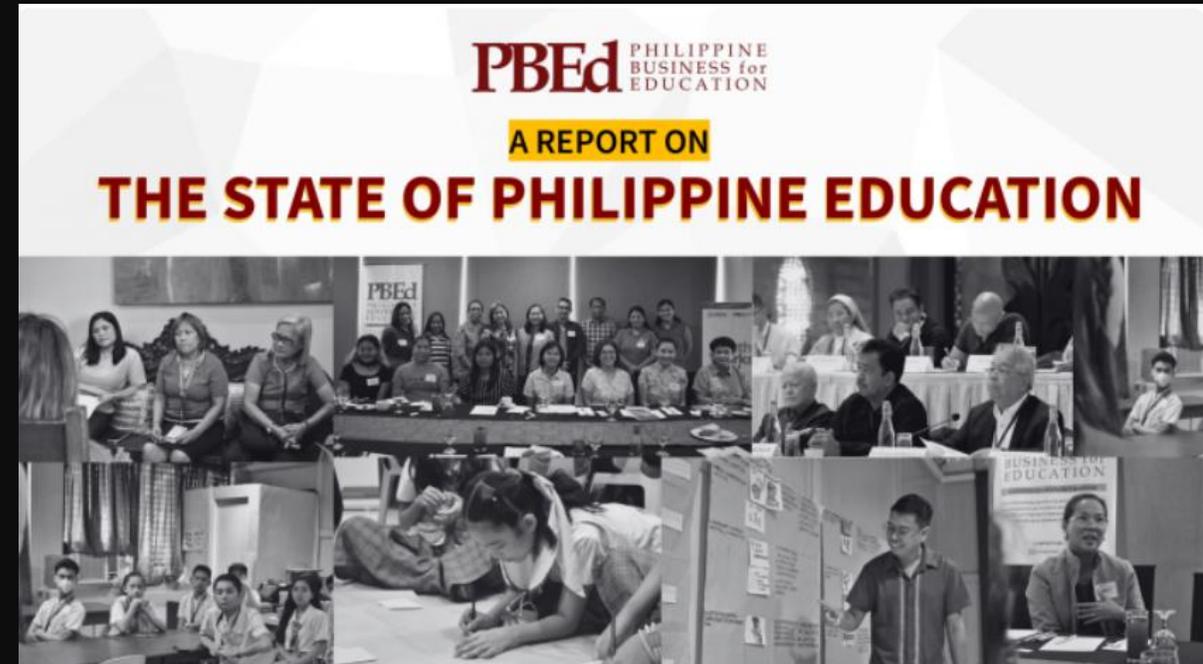
Improving Human Capital through Social Protection Programs: Measuring Inequality



- From the figure above, we can see that although the Gini coefficient of the Philippines improves over time, it still falls behind its ASEAN neighbors.

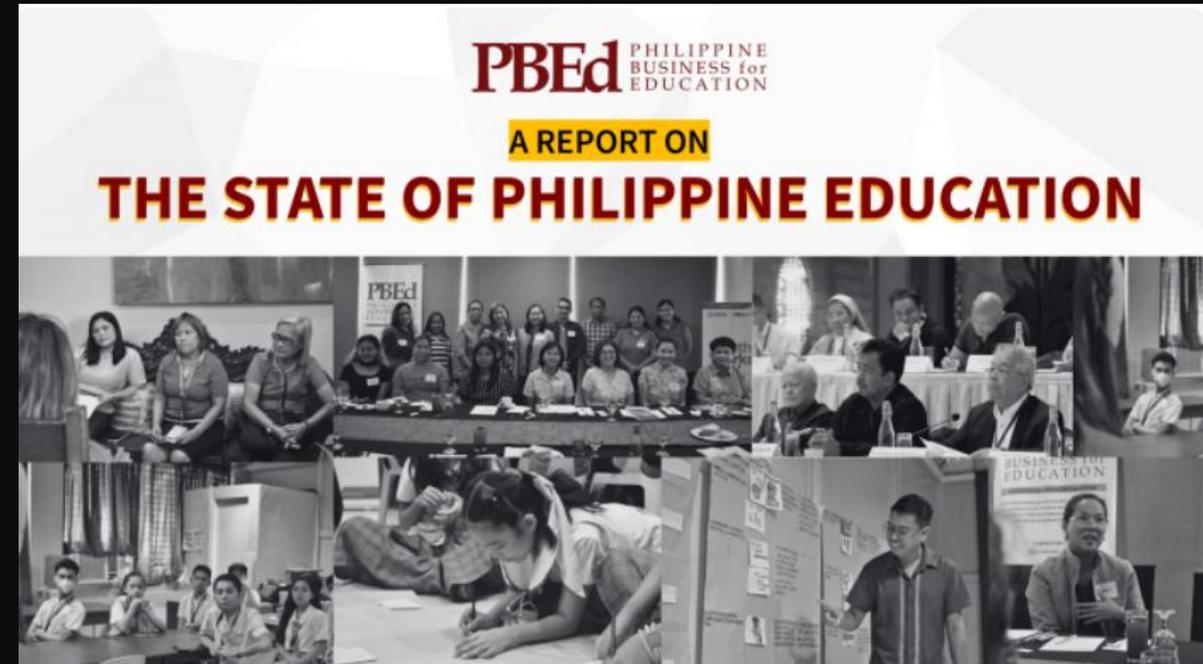
Education at a Glance

- Even before the COVID-19 pandemic, the Philippines faced a significant learning crisis. Statistics revealed that 9 out of 10 children aged 10 years old were unable to read simple texts.
 - The Constitution mandates that the 'State shall protect and promote the right of all' Filipinos to accessible and quality education. Despite this, cracks in the Philippine education system persists.
 - Equitable access to quality education remains elusive throughout the years of formal education. In 2019, while 82.4% of Filipinos aged 25 and over have reported completing primary education, completion rate for secondary education significantly drops to 30.5% for the said cohort. Completion rate for a Bachelor's or equivalent degree decreases even further to 24.4%.
 - Additionally, while 49% of the richest decile attend higher education, only 17% from the poorest decile can do so.
 - An average Filipino student spent more time in school but was less productive than their counterparts in comparator countries
-



Education at a Glance

- The enrollment rate in Philippine higher education is on par with middle-income countries' average. This is, however, rapidly eroding as neighboring countries continue to rise while the country's enrollment rate has stagnated
 - In the 2018 PISA, The Philippines ranked last among 79 participating countries and economies in reading and second to last in science and mathematics. At least 78% of students in the Philippines failed to reach minimum levels of proficiency in each of the three PISA subjects.
 - 19% achieved the minimum proficiency level of Overall Reading Literacy.
 - 19% achieved the minimum proficiency level of Overall Math Literacy, Level 2 or higher. 22% of students attained Level 2 or higher in Science.
 - The low share of 15-year-olds represented in PISA reflects a large proportion of school leavers and out-of-school youth in the country.
-



Supporting the development
of industries and enterprises
(industrial policy)

Target industries

Targeting sectors are those that are/have:

1. Significant multiplier effects in the economy (i.e. a production in these sectors will lead to significant production in other sectors),
2. Resilient (especially this pandemic), and
3. Sectors that a country has natural advantages (sectors where our country has advantage in terms of human capital, infrastructure, etc.).

Incentivizing social enterprises

1. Making traditional MSME support accessible to SEs and providing special programs and services to SEs
2. Recognition of SEs as a different business category
3. Government support to create demand for the products and services of SEs
4. Adoption of formal policies to promote SEs

To ensure the growth and development of the Philippines, what should we prioritize?

- Strengthen institutions/good governance
- Improving human capital and strengthening social protection
- Industrial policy

Thank you.

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