FDI slowdown seen for Asia as tariffs roil trade

ASIA is expected to experience a slowdown in foreign direct investment (FDI) as trade shifts in response to US tariff policy, ANZ Research said.

"The collective net FDI into India, Indonesia, Malaysia, the Philippines, South Korea, Taiwan, Thailand, and Vietnam dropped to -0.1% of gross domestic product (GDP) in 2024, marking the weakest outcome since 2012," it said in a report.

The FDI of 'net contributor' economies such as Thailand, South Korea and Taiwan was -1.6% of their GDP last year. This was 30 basis points (bps) below the long-term average," ANZ said.

"The 'net recipient' economies (India, Vietnam, Indonesia, the Philippines and Malaysia) recorded a sharper decline — their total net FDI dropped to 0.7% of GDP in 2024 versus the long-term average of 1.5%."

The Bangko Sentral ng Pilipinas reported that net FDI fell 20% year on year to $731 million.

In 2024, Philippine FDI net inflows rose 0.1% to $8.93 billion. In December, inflows plunged 85.2% to $110 million.

"This decline is due to a broader downtrend in the region's inward FDI cycle, which has been brewing for a while and is not due to geopolitical factors alone," ANZ said.

"A structural uptrend in the region's outward FDI, even from low per capita income economies, has also contributed to the net FDI slowdown."

ANZ Research said the main driver of weak FDI is the "stagnation in global trade-to-GDP."

"Trade or tariff wars hurt global trade, unequivocally posing structural risks to global FDI," it added.

"The current trade war is much bigger than the one in 2018 — the US now wants to correct bilateral trade imbalances with most of its trading partners (not just mainland China) by deploying universal tariffs as an indiscriminate policy tool."

Southeast Asia was assigned some of the most punitive tariffs by US President Donald J. Trump, including Vietnam (46%), Thailand (36%), Indonesia (32%) and Malaysia (24%).

The Philippines was assigned a 17% rate, second lowest in the region.

These reciprocal tariffs were put on hold for 90 days, though the baseline 10% is still in effect for most countries.

"However, FDI drivers have also become nuanced. The importance of product sophistication, export promise and service export potential has surpassed that of traditional drivers such as domestic market size, cheap labor, or the quality of regulations."

"Not all economies in Asia have progressed meaningfully on these fronts in the last decade or so," it added.

Based on the latest edition of Kearney's FDI Confidence Index, the Philippines fell three spots to 16th place out of 25 emerging markets. The index ranks markets that are likely to attract the most FDI in the next three years.

"Going forward, manufacturing FDI will likely favor new-age goods, for which capacities are yet to build up to cater rising global demand," ANZ said.

"The FDI composition itself is expected to skew further towards services, which are rapidly gaining global trade share."

The report said that to mitigate the impact from these uncertainties, Asian economies must "work harder to create and support ecosystems to attract FDI."

"Policy focus must shift to supporting factors such as research, intellectual property, labor skills, and export infrastructure."

"Even so, outward FDI will likely remain on an uptrend, driven by rapid growth of the global service sector, acquisition of strategic resources, and risk mitigation practices among large firms in a fragmented global geopolitical order."

ANZ also noted that these spillovers from trade tensions could also "re-energize Asia's intra-region trade that has otherwise stagnated as a share of the region's total trade in the past decade."

If the region can shift to "value-creating ecosystems," this could attract investment in local production, research, and distribution capabilities.

"There is a real second chance for Asia ex-China to attract FDI in the medium term due to the current trade war, as the rift between the US and mainland China is widening with their reciprocal tariffs reaching prohibitive levels."

"Overall, while the recent FDI trends have been disappointing, it will be imprudent to write off the region's long-term investment promise, especially amidst a fractious global economic order. While opportunities exist, tasks are cut out, and FDI investors will be discerning." — **Luisa Maria Jacinta C. Jocson**

Gov't procurement portal handles P80 million in Q1 orders, DBM says

THE e-marketplace for government procurement booked P80 million worth of transactions in the first quarter, the Department of Budget and Management (DBM) said.

DBM Procurement Service Executive Director Genmarie S. Entredicho-Caong told reporters that the e-marketplace processed 86 orders, with 15 of these delivered.

"These 15 (are worth) around P31 million. The 86 orders amount to around P80 million," she said in a briefing on Monday.

The e-marketplace started receiving orders in January and turned over its first deliveries in February.

Savings from online procurement, which accounts for 70% of the government budget, were estimated at P10 million in the first quarter.

She noted that prices of common-use supplies and equipment on the e-marketplace are 30-40% lower than market prices.

The portal was established under Republic Act 12009 or the New Government Procurement Act, signed by President Ferdinand R. Marcos, Jr. in July.

Budget Secretary Amenah F. Pangandaman said the earlier government agencies procure goods and services, the faster it helps the economy. — **Aubrey Rose A. Inosante**

BPOs to set up council to establish quality norms

THE IT & Business Process Association of the Philippines (IBPAP) said it will organize a quality council next month to set performance standards for the industry.

"You have to think of our industry as being composed of all industries. Because business services cover all industries ... so what we get certified for, whoever we train, the curriculum, the way we work, it all has to be done excellently," IBPAP President Jonathan R. Madrid said on Monday.

"We will set this up in the next, I would say, 30 days," he added.

The council is among the key commitments outlined in a memorandum of understanding (MoU) signed between the industry group and the Department of Trade and Industry (DTI).

The MoU also seeks to promote Philippine Quality Awards (PQA) within the industry.

The PQAs are the highest level of national recognition for exemplary organizational performance in the Philippines.

"The DTI is committed to supporting the IBPAP as best as we can. The information technology and business process management sector has been a pillar of economic resilience and a powerful engine of job creation in the Philippines," Trade Secretary Cristina A. Roque said.

Meanwhile, Ms. Roque said that the department is also enhancing efforts to ensure that only quality construction materials are being sold to consumers.

"We need to protect consumers. We cannot be selling substandard steel ... because if there is an earthquake, buildings will fall," she said.

"For the steel industry, we will strictly monitor and enforce (standards), even on e-commerce platforms," she added. — **Justine Irish D. Tabile**

Economy,
from S1/1

"Nonetheless, we remain acutely aware of the uncertainties that confront the global economy — ranging from systemic risks in economic institutions and technological disruption to environmental challenges."

However, Mr. Varela said the Philippines would only be able to graduate to the upper middle-income level next year if it is able to deliver an "outstanding growth performance."

"With our forecast that is just out, it will not be 2026. Does that mean that it cannot be 2026? No, it can if you deliver much faster growth... we believe that it's more likely for it to be 2027," he added.

The World Bank slashed gross domestic product (GDP) growth forecasts for the Philippines this year and next year amid uncertainty and the looming global slowdown. Philippine GDP is now expected to expand by 5.3% this year and by 5.4% in 2026, well below the government's 6-8% target for both years.

Mr. Varela said the Philippines needs to ensure sustained growth of per capita income.

"Given the rates of growth that we have been seeing and given the conditions of the domestic economy and the global economy, under reasonable scenarios, we think that in the next couple of years, this is feasible for the Philippines to achieve," he added.

The Philippines will also need to implement key reforms to hurdle its current income class and sustain the growth needed to remain in the upper middle-income level.

Mr. Varela cited the amended Public Service Act, which allows full foreign ownership in key public services like telecommunications, airlines and railways.

"On paper, it has been passed. But there are a number of actions that need to be taken so that its full implementation happens. That is something that is going to create a lot of opportunities for investment and for productivity growth."

He also noted reforms that will simplify regulations to make it easier for foreign players to enter the country.

"For a foreign firm, it takes 106 days for a foreign firm to be registered in the Philippines. That is substantially more than what we see in the rest of the world. In Singapore, it takes about 10 to 15 days," Mr. Varela added.

He noted these reforms will help the Philippine economy growing "past the threshold."

IMPACT OF US TARIFFS

Meanwhile, Mr. Varela also cited the impact of the tariff policies on the country's growth outlook.

"The Philippines is a small open economy. As a small open economy, what happens in the rest of the world matters for the Philippines," he said.

"An increase in global uncertainty is going to be detrimental for the Philippines' growth prospects. It will likely affect exports, and it will affect investment. Investment is heavily affected by policy uncertainty."

The United States slapped a 17% reciprocal tariff on the Philippines in early April but paused this policy for 90 days. However, the baseline 10% tariff remains in effect.

As global uncertainty weighs on investment, Mr. Varela said doubling down on domestic reforms will help support growth.

"That's why I was mentioning streamlining regulations, so that you reduce the costs of foreign and domestic investment in the Philippines. It's something that is going to help offset that."

These reforms should also make logistics cheaper, which is crucial for the Philippines, being an archipelagic country.

"Reforms that open up the domestic trade, domestic transport sectors. These are reforms that are going to help the economy keep growing, even with global uncertainty increasing," he added.

Once the country transitions to the next income level, Mr. Varela said there will be many opportunities it can capitalize on.

"For example, after graduation, (though) not immediately, after three consecutive years of keeping that level of income above the threshold of upper middle-income, there are some developed countries that reduce concessions on trade," he said.

The Philippines being a beneficiary of the EU Generalized Scheme of Preferences Plus (GSP+) could also be affected after it graduates.

"This is why the government of the Philippines has been working with the European Union in negotiating a free trade agreement," Mr. Varela said.

"That way, the idea there is that while you lose GSP+, you can move into an agreement in which you have an FTA."

Meanwhile, DEPDev Undersecretary Joseph J. Capuno noted that the transition to an upper middle-income level will entail a "shift in access to resources."

"As countries move up the income ladder, eligibility for concessional financing and access to traditional official development assistance begin to diminish," he said at the same event.

"With this, new priorities arise — necessitating stronger domestic institutions, heightened international cooperation, more sophisticated mechanisms for managing debt and raising revenue, provision of innovative solutions, and a renewed focus on effective financing for development."

Mr. Capuno said there is a need to adopt new frameworks for sustainable development and establish more and stronger partnerships.

"Improving coordination among development partners can better harmonize support to the country. This means working together to design strategies that support transitions of middle-income countries (MIC) to a higher income threshold."

The government will implement reforms in its Medium-Term Fiscal Framework 2022-2028 as it prepares to transition to an upper middle-income economy, Mr. Capuno said.

This will "rebuild fiscal space and improve credit ratings, emphasizing the government's commitment to fiscal consolidation and debt sustainability."

"We also underscore the importance of technical and financial assistance that international organizations and financial institutions can extend to MICs to assist in the formulation of sound revenue and tax policies and strengthen capacity for tax collection and revenue generation," he said.

COUNTRY PARTNERSHIP

Meanwhile, the World Bank is currently in the process of preparing its new country partnership framework for the Philippines.

"The Philippines remains a very important country for the World Bank. Our partnership with the Philippines is extremely important... that partnership is going to turn 80 this year," Mr. Varela said.

The framework, which will cover 2025 to 2031, is set to be finalized and released by the end of June.

"We are thinking of around three main outcomes that have to do with improving quality and access to human capital. That has an element related to education, but also an element related to nutrition and health," Mr. Varela said.

Meanwhile, the second outcome is related to job creation in the private sector, while a third outcome involves resilient communities.

"We are expecting the Philippines to become an upper middle-income economy within the time frame of that framework," Mr. Varela added. — **Luisa Maria Jacinta C. Jocson**

Infrastructure,
from S1/1

It noted that agencies were expected to have accelerated disbursements ahead of the election ban on the release of public funds that started on March 28.

"Spending for April 2025 is expected to temporarily slow down as the election-related prohibition might impede the implementation of some programs and projects," the DBM said.

However, the department noted that disbursements will likely pick up in the latter part of May to June after the election ban is lifted.

The midterm elections are scheduled for May 12.

The DBM noted that Commission on Elections had exempted some key infrastructure projects, as well as some major health, housing, agriculture, education and labor sector programs, were exempted from the election ban.

Rizal Commercial Banking Corp. Chief Economist Michael L. Ricafort noted the government accelerated the progress of infrastructure projects ahead of the election ban.

"Completions would serve as metric of achievements especially by incumbent elected officials who will run again and for the groups/parties that they represent," he said in a Viber message.

PHILIPPINE STAR/ RYAN BALDEMOR

THE Department of Public Works and Highways (DPWH) conducts clearing operations in Manila.

Reinielle Matt M. Erece, an economist at Oikonomia Advisory and Research, Inc. said the expected lower infrastructure spending in April is merely "transitory."

"I see infrastructure spending growing faster this year as (interest) rates are expected to go down, higher fiscal space, and fiscal efforts for growth," he told *BusinessWorld* via Viber on Monday.

Mr. Erece said the higher spending can also boost "fiscal efforts to support economic growth amid global uncertainty and faltering demand."

The government's infrastructure program for this year is set at P1.538 trillion, equivalent to 5.4% of gross domestic product.