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Assessing the Spillover Effects of FDI: Case of the Philippines

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FDI spill-over may be transmitted

Horizontal linkages

- connections bet. MNCs & local firms within the same sector
- Spill-over: dom. firms copy technology

Vertical linkages

- Forward: for. firms supply inputs to dom. firms
- Backward: local firms supply inputs to foreign firms
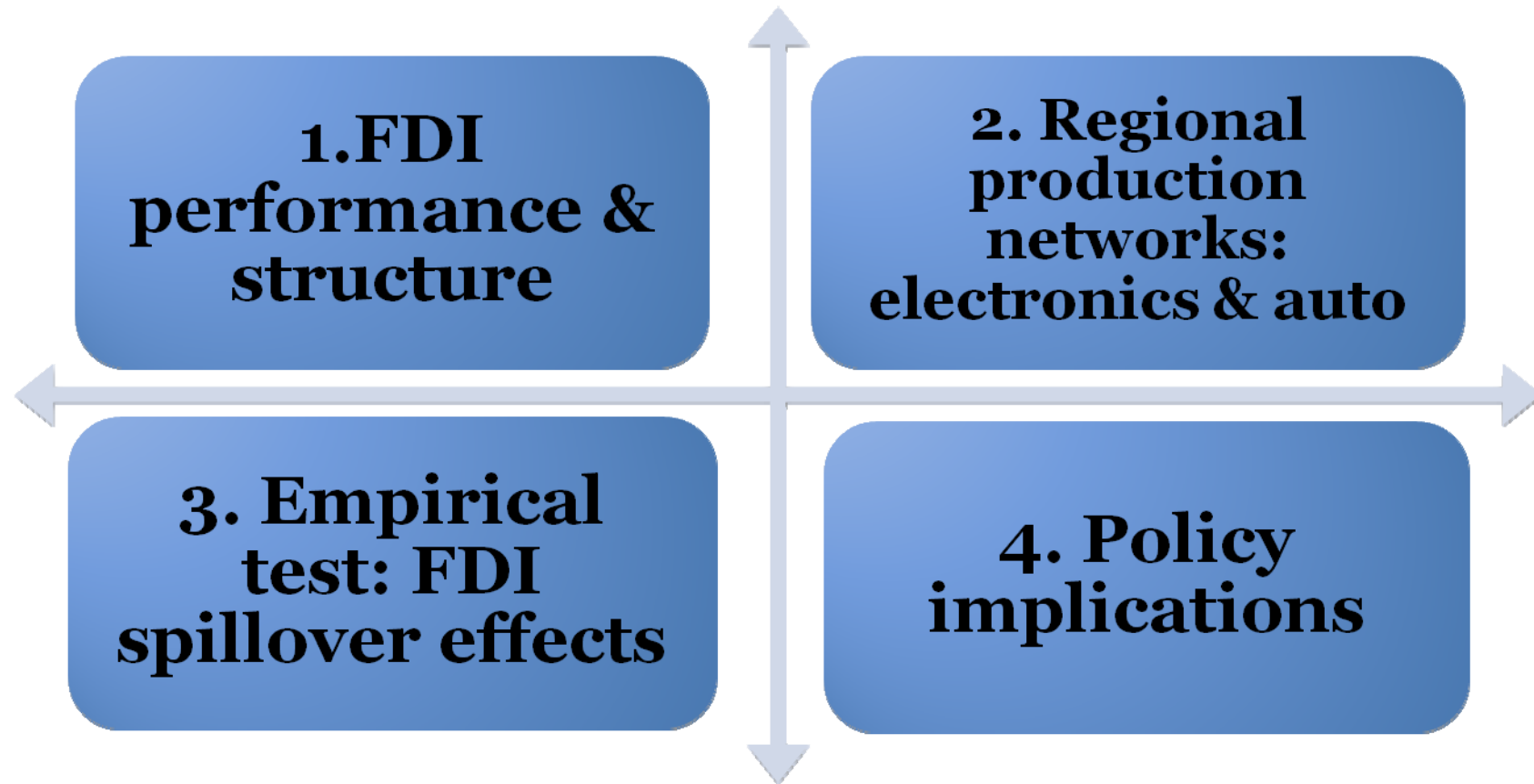- Spill-over: technical assistance, information

Main Objective

Does FDI generate spillover effects (horizontal or vertical) to domestic firms?

If yes, how can this be strengthened?

If no, what are the major constraints & how can these be addressed?

Outline

1. FDI performance & structure

2. Regional production networks: electronics & auto

3. Empirical test: FDI spillover effects

4. Policy implications

1. FDI Policy, Structure, Performance

Prior to 1990s
- restrictive & complicated investment incentive system

Early 1990s
- Foreign Investment Negative List
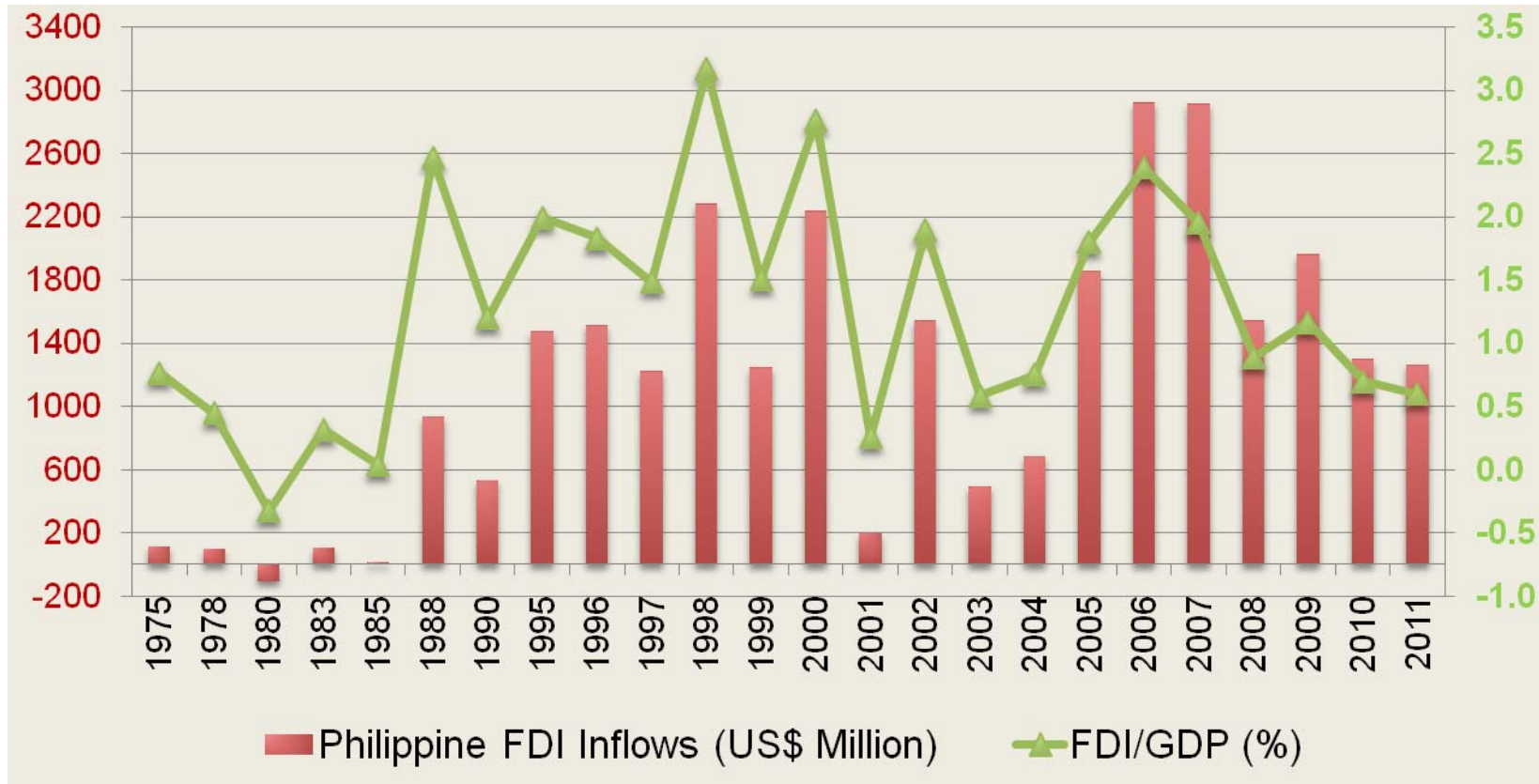- New Omnibus Investments Code
- Philippine Economic Zone Authority

2000s
- banking, retail trade
- Remaining restrictions – mass media, land ownership, public utilities

Fiscal Incentives

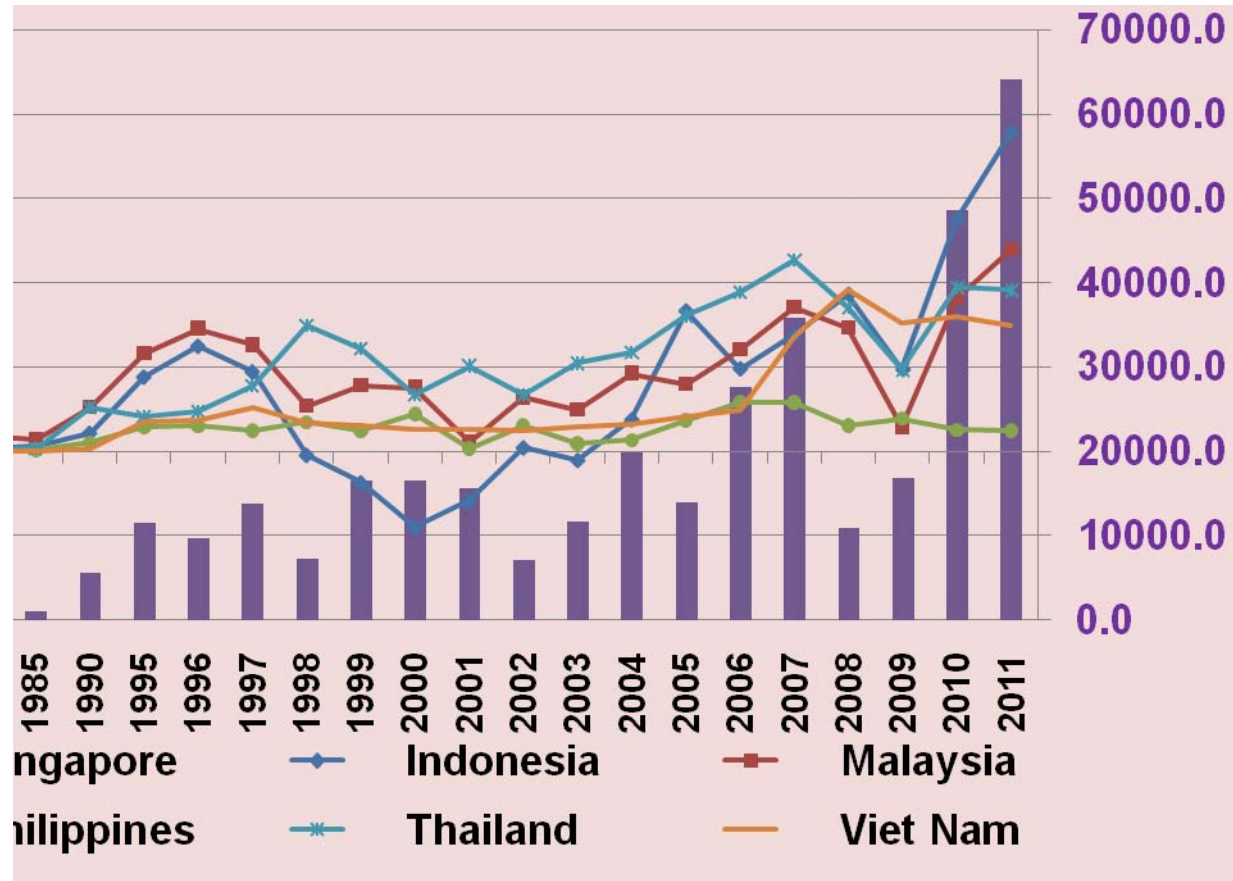| Incentive	BOI OIC	PEZA	SBMA & CDC
Income Tax Holiday (ITH)	3-8 years ITH	3-8 years ITH	No ITH
Others: After ITH	Payment of the regular corporate tax rate of 30%	Special rate of 5% tax on gross income	5% tax on gross income
Importation of raw materials	Tax credit	Tax & duty exemption	Tax & duty exemption
Imported capital equipment	Tax & duty exemption on spare parts	Tax & duty exemption	Tax & duty exemption
Additional deductions	Training expenses	Training expenses	Training expenses

Performance: FDI Inflows (in US$m)

- FDI flows: erratic
- By source country, Japan & the US account for the largest shares

AN FDI Inflows (in US$m)

es lagged behind its neighbors in attracting
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