

MAKING INVESTMENTS WORK

PARADIGMS • PATTERNS • PROSPECTS

POLICY BRIEFS

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ABOUT THE POLICY BRIEFS

In the past decade, the Philippines had experienced unprecedented economic growth. This has been attributed to rising business confidence and increasing foreign direct investments. However, while this trend has earned the country the status of emerging economy, challenges remain. The twin problems of widespread poverty and rising income and wealth inequality persist. Calls for charter change have been revived partly in the hope of making our country more attractive to foreign capital.

These policy briefs discuss the challenges confronted by Philippine political economy and examine the nature of and the role played by foreign investments in the country. What is the pattern of foreign investment flows in the Philippines and how does this compare with that of other Southeast Asian emerging economies? How do foreign and domestic businesses interact? What is the role of policy in directing investments toward industries in which the country needs to build competitive advantage? What are the kinds of investments needed in the Philippines that will contribute toward the attainment of inclusive and sustainable development?

The three policy briefs of Dr. Josef Yap, Dr. Luis Dumlao, and Dr. Manuel F. Montes and Jerik Cruz are abridged versions of their papers presented at the policy forum, "**Making Investments Work: Paradigms, Patterns, Prospects**," held on 24 November 2016 at Balay Kalinaw, University of the Philippines Diliman. It was organized by the Bugkos—"Asia in Transition" institutional research program of the UP Asian Center. The three papers were funded by the UP System Emerging Inter-Disciplinary Research Program (OVPAA-EIDR-06-27).

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Policy Brief 1

Foreign Investment and Philippine Development: A Comparative Approach

Manuel Montes, PhD, and Jerik Cruz, MA

This study evaluates the role of foreign investment in Philippine development in the last two decades, by comparing the Philippine investment experience with that of Malaysia and Thailand. While it has become an article of faith that foreign investment is essential to successful economic development, we argue that political economy factors—via appropriate state interventions and the embedding of investment policy in broader visions of industrial development—have been decisive processes behind these countries' relative success at securing salutary investments and maximizing their benefits for industrial upgrading.

Policy Debates: Can Foreign Investment be *Harmful* for Economic Development?

Not all foreign investment is created equal. The International Monetary Fund (2009) defines foreign direct investment (FDI) as a financial transaction involving the purchase of an ownership share in an enterprise that is resident in one economy by a resident in another economy with the objective of establishing a lasting interest in the resident enterprise. Moreover, the purchase of a ten percent or higher of voting shares is considered a direct investment; anything below this is classified as portfolio investment. Portfolio investments occur through the purchase by non-residents of asset positions in the domestic equity and bond markets, bank deposits by non-residents, and the stock purchases of an existing enterprise. Foreign direct investment has three domestic destinations: (1) "greenfield" investment leading to the establishment of new facilities; (2) additional investment in existing foreign investment, and (3) cross-border mergers and acquisitions. Of these, only greenfield investments have a consistent connection with capital formation.

Impact of foreign investment on the balance of payments. Foreign investment is generally viewed as a boon to balance-of-payments performance for developing countries. However, foreign enterprises tend to depend more on imported equipment and imported inputs for their operations, offsetting foreign exchange inflows by equipment imports and imported production inputs. It is also reasonable for domestic authorities to presume that such investments will eventually be repatriated. At the same time, because portfolio positions are driven by portfolio motives, they can be subject to "mood swings." This is because portfolio flows are highly responsive to different interest rates between major financial markets, which are in turn driven by policies of national authorities of developed countries (Montes, 2014).

Impact on investment environment and macroeconomic stability. FDI can be associated with increased productive capacity, demand for domestic goods and services, technical change, and domestic business investment. Yet to catalyze such benefits, complementary public interventions have historically been of vital importance, whether in the form of domestic content and sourcing requirements, and technology transfer conditions.[1] Similarly, in terms of the macroeconomic environment, unregulated portfolio flows have had significant, and often

adverse, consequences. The IMF itself has linked open capital accounts to the inability of economies to achieve "durable expansion" (Ostry, Loungani, and Furceri, 2016, pp. 38–41), reflecting a growing consensus that high domestic interest rates, the channeling of finance to financial investment instead of real investment, and volatile exchange rates can have negative impact on domestic investment.[2]

Impact on structural change. In recent years, developing countries have been encouraged to participate in global value chains (GVCs) coordinated by multinational lead firms by liberalizing investments and extending foreign investor protections, among others. Yet, according to economy-wide studies, GVC participation has often failed to deliver promised dividends, either by triggering a shift to lower value-added GVC exports, sustained balance-of-payments difficulties on account of imported inputs, and, rather than technological upgrading, by facilitating the transition of countries into sinks of well-educated, flexible but low-cost labor (Montes and Lunenberg, 2016). Although participation in GVCs could be beneficial for developing economies, state strategic planning for production upgrading and negotiations with GVCs (to condition their entry on positive spillovers for the local economy) remains indispensable for realizing envisioned benefits. For such purposes, infant industry protections, performance requirements, and other well-known industrial policy tools may be more appropriate for achieving upgrading objectives.

The Philippine, Thai and Malaysian Investment Records: Why the Divergence?

The investment records of the Philippines, Thailand, and Malaysia have been distinguished by major long-term differences, with Malaysia largely leading the pack, the Philippines lagging, and Thailand boasting an initially-low but fast-improving position over the years. Especially striking has been Thailand's performance in terms of FDI levels: from levels below that of the Philippines (FDI share: 3.9% vs. 3.0% of GDP in 1980), the country has since overtaken the Philippines, and has, according to UNCTAD (United Nations Conference on Trade and Development) data, surpassed Malaysia in terms of total FDI as of 2015 (FDI: 44.4% vs. 39.7%). Despite this, Thailand's performance in attracting greenfield investment has still fallen below that of Malaysia throughout the 2000s and 2010s, indicating Malaysia's sustained advantages in attracting quality investment.

"Market"-oriented Philippine investment policy. What explains this divergence? Since the late 1980s, in this regard, the Philippines has stood out in its decisive pursuit of a pro-liberalization agenda that has downplayed the strategic role of government and relied greatly on foreign investment in fostering industrial growth (Action for Economic Reforms, 2014). Yet as the Philippine post-democratization experience demonstrates, the promises of this shift in investment policy have not been realized. Not only have market-oriented reforms been unsuccessful at drawing FDI relative to the country's peers; the limited FDI the Philippine government has secured has apparently failed to translate into an expansion and deepening of the country's industrial base. Amidst a broader trend of industrial malaise, the country's export base has become even less diversified than it was before liberalization—with 76% of total exports being concentrated in electronics, garments and textiles, and machinery and transport equipment manufacturing operations in 2008 (Aldaba, 2013, p. 29).

Idiosyncratic intervention in Malaysia. With the rise of Mahathir Mohammad as Prime Minister in 1981, strategic policy efforts in Malaysia towards promoting intermediate and heavy industrialization took shape, with the Proton car project being the single, most famous large-

scale industrial project. While controversial among neoclassical economists, this "*Look East"* policy nonetheless resulted in the formation of state-business ties, the accumulation of negotiation experience over technical upgrading, and the rationalization of industrial policy-making capacities that would continue to be harnessed as the country liberalized investment following 1985 (Khoo, 2012). Confronted with a mid-decade recession, the Mahathir government quickly opened up the investment policy regime. But far from epitomizing state rollback, these moves towards FDI-led growth also incorporated far more idiosyncratic strands of intervention for leveraging foreign investment for industrial priorities.[3] From the vantage point of technological upgrading, such efforts reaped visible dividends: between 1992 and early 1998, the Malaysian Investment Development Authority (MIDA) approved 21 mainly foreign, high-technology projects worth around 14 billion Malaysian ringgit (Felker, 2001, p. 152).

Government gatekeeping in Thailand. A similar trend has been evident in Thailand. To solve balance-of-payments difficulties and respond to changes in the international economic context (the Plaza Accord devaluations), Thailand's investment regime was liberalized throughout the 1980s and 1990s, with the Thai government loosening foreign investment restrictions to enable full foreign ownership of ventures exporting 80% of output as well as those establishing themselves in further-flung regions. Yet, even with liberalization, discretionary controls and state intervention have remained. Through upgraded local content programmes, joint venture-formation approaches, and the proactive efforts of the Thai private sector itself, the country was able to reap even greater success than Malaysia in fostering greater local business involvement in leading export industries, such as mould and die-making and metal parts fabrication.[4] As such, the Thai case demonstrates the consequences of a local business-led approach to leveraging FDI for achieving national development goals, with the state kept in tow as a guarantor of domestic private interest.

Revisiting the role of the state in investment policy. If a political economy analysis of the Philippine investment experience reveals the pitfalls of a scattershot-liberalization investment policy, Malaysia and Thailand's economic records attest to the centrality of appropriate government interventions in leveraging FDI for more successful industrial deepening. Not all foreign investment is likely to support domestic industrial upgrading, and even when those benefits exist, they will not automatically materialize. For this reason, strategic interventions remain necessary for attracting the *right kind* of foreign investment and *fully harnessing* the potential of such investment for local industrial development, technological upgrading and job creation. Ongoing industrial policy initiatives in the Philippines would be well-advised to pay heed to such lessons on investment-related intervention, so as to reform Philippine investment policies for maximum impact on long-term industrial development.

NOTES

[1] Unfortunately, international investment agreements, such as the Trade-Related Investment Measures (TRIMs) of the World Trade Organization, have curtailed the policy space of developing countries to undertake such interventions, forcing them to resort to indirect investment promotion activities.

[2] One might note that many issues with regard to the aggregate investment impact of portfolio flows had been observed before the Asian financial crisis of 1997–98 (Montes, 1997).

[3] Such strategic measures included, among others, the active solicitation of high-tech investments, the establishment of high-tech infrastructure complexes, intense technology-transfer bargaining, and supplier-developer schemes (Felker, 2001; Felker, 2003).

[4] By 1995, a Japanese International Cooperation Agency-led survey pinned down 402 electrical and electronics parts suppliers, 374 auto parts suppliers, the decisive majority of which were either fully Thai-owned or under joint-venture arrangements (79% and 97%); similarly, local businesses were able to make major inroads in resource-based agribusiness, textiles and light manufacturing (Felker, 2001).

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Policy Brief 2

Foreign Investment, the Manufacturing Sector, and Poverty: The Philippine Case

Josef T. Yap, PhD

This policy brief focuses on the lack of transformation of the economy, drawing on comparisons between the Philippines and its Southeast Asian neighbors. It asks why economies like Malaysia and Thailand grew faster after 1980 while the Philippines failed to do so. Moreover, poverty reduction was much faster in these countries. The role of foreign direct investment (FDI) in development is highlighted.

The manufacturing sector and inclusive growth

Data from the Family Income and Expenditure Survey (FIES) indicate that families whose household heads have a low educational attainment have a higher incidence of poverty. For example, in 2012, the poverty incidence of families whose household head completed an elementary education only was 24.5%. However, among families whose household head completed high school, the poverty incidence drops to 11.9%. The poverty incidence for those who completed college was a mere 1.4%.

The educational attainment of the workforce in the manufacturing sector is relatively lower than among workers in the service sector. The latter employs more college graduates whereas the manufacturing sector employs more high school graduates. The service sector appears to rely more on college graduates because of the surge in opportunities from the business process outsourcing (BPO) sector.

Because the manufacturing sector has a higher labor productivity, more high-paying jobs can be found here than in the other sectors. For instance, based on data in 2014, high school graduates and those with a high school education get an average wage of PhP 335.71 in the manufacturing sector compared to PhP 291.28 in the service sector. In other words, with the same educational attainment, a typical worker should find a higher paying job in the manufacturing sector. The conclusion derived from this analysis is that a more dynamic—and perhaps, more labor-intensive—manufacturing sector would have provided more higher-paying jobs to the less-educated workforce, thereby making poverty reduction faster.

Regional production networks, manufacturing sector, FDIs

Arguably, regional economic integration was largely driven by regional production networks (Fujita, Kuroiwa and Kumagai, 2011). Trade and investment flows that intensified over the years were compelled mostly by the international production system that emerged. Regional production networks, defined as “the internationalization of a manufacturing process in which several countries participate in different stages of the manufacture of a specific good” (Yeats, 1998, p. 1), were taken as one of the main drivers of the economic transformation in Southeast Asia.

TABLE 1: Share of Manufacturing in GDP in Selected Asian Countries, 1980–2014 (%)

	1980	1985	1990	1995	2000	2010	2013	2014
China	43.9	38.0	36.5	41.2	40.4	32.1	29.2	28.1
Indonesia	13.5	18.1	23.0	26.6	24.7	22.0	21.0	21.0
Malaysia	21.6	19.3	21.8	24.7	28.7	24.5	23.9	24.0
Philippines	27.8	27.0	26.7	24.7	24.5	21.4	20.4	20.5
Thailand	21.5	21.9	27.4	28.6	28.6	31.1	27.7	27.7
Viet Nam	16.1	16.4	12.3	15.0	18.6	18.0	17.5	17.5

Source: UN Statistics Division [http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx; Accessed [03 December 2016] China:1980-2000 share is composite of mining, manufacturing, utilities

The primary beneficiary of the expansion of regional production networks has been the domestic manufacturing sector. With a modest start in the electronics and clothing industries, multinational production networks have gradually evolved and spread into many industries, such as sports footwear, automobiles, televisions and radio receivers, sewing machines, office equipment, power and machine tools, cameras and watches, and printing and publishing (Athukorala, 2010).

Historically, economic transformation has been driven by the manufacturing sector. Hence, the surge of FDI flows in the region and the establishment of regional production networks which has accelerated the development of the recipient economies.

The economic transformation can be observed from the increase in the share of value-added from the manufacturing sector in relation to total gross domestic product (GDP) for Indonesia, Malaysia and Thailand between 1990 and 2014. Between 1993 and 2013, the Philippines experienced the largest increase in terms of the share of manufactured exports to total exports. Nevertheless, the manufacturing sector in the Philippines has stagnated, based on its share to total GDP. There has been a dichotomy between the export sector and domestic manufacturing sector.

Stagnant manufacturing sector

Although the Philippines may have been successful in dramatically changing its trade structure and latching on to regional production networks (being one of the region's major supplier of technology-intensive semiconductors), the country's manufacturing sector still stagnated and failed to generate needed growth and employment for the economy.

The Philippines has one of the lowest investment rates in the region. FDI inflows into the Philippines pale in comparison with what its neighbors attract, lagging behind even Viet Nam which lived with a trade embargo for a long while and has a lower per capita income.

Can the Philippines attract more FDIs?

The relatively low FDI inflows have limited the scale of Philippine participation in regional production networks and this is reflected in the relatively low level of exports. At this juncture, a key policy question is whether policymakers in the Philippines should focus on attracting more FDI. An important assumption is that the manufacturing sector is still the most important driver of sustainable economic development.

The increasing trend in wages and the shift in China's economic strategy will have profound effects on the pattern of regional production networks. Higher wages have already prompted many low-cost, labor-intensive industries, such as garments, toy and shoe manufacturing, to transfer some production to cheaper locations. China's role in processing trade will therefore diminish. This will provide opportunities for other economies in East Asia particularly the CLMV (Cambodia, Laos, Myanmar, Viet Nam) countries. Intra-regional trade will then be geared towards China as a destination of finished goods.

The realignment of regional production networks provides challenges and opportunities for the Philippines. The latter's political and diplomatic tensions with China will not influence the decision where to relocate components of the global value chain. However, the challenge lies in how the Philippines fares in terms of the factors that do matter.

Bhatia (2012) identifies four crucial factors that affect value-chain decisions: (1) the potential of the local market, especially when the country represents a potential large market; (2) availability of suitable human resources—for a technology-intensive company, productivity is more important than labor cost, and for design-intensive activities, access to the best possible knowledge is critical; (3) availability of physical infrastructure; and (4) strong legal and policy environments that embed the rule of law.

TABLE 2: Indicators of industrial performance in selected Asian Countries, 1993, 2005 and 2013

Economy	Share of manufactured exports in total merchandizing exports (%)			Share of medium- and high-tech value added in total manufacturing (%)			Share of medium- and high-tech exports in manufactured exports (%)		
	1993	**2005**	**2013**	**1993**	**2005**	**2013**	**1993**	**2005**	**2013**
China	90.2	95.0	96.3	37.2	41.6	40.7	28.5	57.7	59.8
Hong Kong	98.4	96.4	93.2	32.3	30.2	28.8	43.6	65.4	70.4
India	85.5	87.8	88.2	41.8	39.1	34.1	16.7	22.6	28.9
Indonesia	66.7	64.4	61.9	25.0	33.0	32.7	14.9	33.2	30.6
Japan	98.6	98.2	96.7	52.5	53.9	54.6	84.6	82.3	78.7
Korea	98.4	97.7	96.8	46.7	54.3	55.1	54.8	75.3	75.8
Malaysia	85.0	86.4	85.1	51.6	47.4	46.1	62.9	72.3	64.5
Philippines	**61.3**	**95.6**	**93.0**	**30.7**	**38.9**	**45.3**	**39.4**	**81.5**	**79.6**
Singapore	96.0	97.5	96.7	67.0	77.0	75.0	70.5	72.8	69.3
Thailand	91.3	88.3	83.7	21.4	42.0	46.2	38.1	61.9	59.6

Source: UNIDO (United Nations Industrial Development Organization) Industrial Development Report 2016

Unfortunately, the Philippines does not fare too well in these factors when compared to its neighbors in Southeast Asia. The challenge is to implement at the soonest possible time structural reforms to address what can be described as "supply side constraints."

Table 3: Growth Rate of the Manufacturing Sector in the Philippines

Year	Growth Rate
2006-2010 (Average)	3.68
2011	4.73
2012	5.39
2013	10.26
2014	8.29
2015	5.67
2016 (First Three Quarters)	7.04

Source: PSA

The Way Forward

Granted that it would be difficult for the Philippines to attract more FDI in the short-to-medium term, policymakers should explore more feasible alternatives to expand the manufacturing sector. There is a need for economic diversification in all three major sectors—manufacturing, agriculture, services—of the economy. To achieve this, the more important considerations are a strategic and coherent industrial policy, and maintaining a realistic exchange rate.

In addition to the low investment rate, other reasons for the lack of economic transformation relate to problems of market failure. Industrial policies are those that address market failure while promoting diversification of production activities into new areas, facilitating restructuring of existing activities, and fostering coordination between public and private entities to make all of this happen. These policies need not be restricted to the industry sector. They also apply to the development of non-traditional activities in agriculture.

In the context of a long-term development strategy, an industrial policy would therefore have two major objectives. One is to generate more employment by involving SMEs in global and domestic production networks and supply chains. This can be facilitated by improving their technological capability, which has a direct impact on labor productivity. The latter, together with improving the technological capability of larger firms, would be the second objective of industrial policy.

Another important supply-side constraint is poor physical infrastructure. Almost all ASEAN member states outrank the Philippines in terms of the quality of infrastructure. An ADB study concludes that "low levels of investment in and poor conditions of infrastructure in the Philippines have increased the cost of doing business in the country and has had significant adverse impact on the perceived competitiveness and attractiveness of the Philippines as an investment destination" (ADB, 2007, p. 25).

Complementary policies to the ASEAN Economic Community (AEC) are important because trade facilitation may only be of secondary importance in expanding economic activity in the region. For example, Cheewatrakoolpong, Sabhasri and Bunditwattanawong (2013) argue that investment promotion has been more important than free trade agreements in building regional production networks. Hence, the AEC has to go beyond the free flow of factors of production. Policies and reforms to attract investment have to be implemented, and none would be more important for the Philippines than improved physical infrastructure.

Meanwhile, growth of the manufacturing sector averaged 6.9% in the period 2011-2015, after averaging only 3.7% in the previous five-year interval. In the first three quarters of 2016,

growth was a robust 7%. One possible reason is the attention that the Department of Trade and Industry (DTI) gave this sector beginning in 2011 by supporting roadmaps for the different sub-sectors. The roadmaps yielded policy recommendations to address bottlenecks in the manufacturing sector.

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Policy Brief 3

Rechanneling Investments from Private to Business to Nation-building

Luis F. Dumlao, PhD

Since 2012, the Philippine economy has become one of the fastest growing in the world. In the process, even if the economy remains to be a consuming economy, it has slightly become an investing one. However, investment expenditure may tend to be confined to private gains as opposed to first, business gains, and second, gains in nation-building.

Consuming economy and investing economy

From the expenditure point of view, the economy remains to be a consuming economy. From 2000 to 2007, the share of household consumption increased from 71% to 77% while the share of investment decreased from 22% to 17%. This went down to 72% in 2008 and 73% in 2009, at the time of the global financial crisis.

The description of the economy remained the same from 2010 to 2012 with relatively the same shares of consumption, investment, and government consumption. But 2012 was a turning point. As the economy began to outgrow the world, the share of consumption decreased from about 70% to the present 65%, while the share of investment increased from 19% to the present 25%. With the share of government consumption relatively constant at around 10%, what the changes reveal is that the private sector has begun apportioning more of its expenditure from consumption to investment.

The growth in capital formation has been led by sub-expenditure categories construction, posting 15.7% growth, and durable equipment with 11.3%. The average percentage share of construction in capital formation is 39% and durable equipment is 51%. So it must be true that either households or government or both has been investing particularly in construction and durable equipment.

Investment in private, in business, and in nation-building

Consider the following distinctions between investment for private gains, investment in business, and investment in nation-building. The expenditure on home improvement is an investment because the expenditure raises the value of the property. To the extent that the property is used as a home, or privately, but not as a shop, a factory, or an office, or other commercial or public enterprise, then the investment is classified as investment for private gains. Investment expenditure can also be in the form of buying financial instruments as those offered by financial institutions and those offered in the financial markets for stocks and bonds. As such, we classify the purchase of financial instruments issued by the private sector as investments in business.

Finally, we define investment in nation-building as expenditure on financial instruments issued by the government. Some examples include the purchase of government securities that finance expenditures on infrastructure, education, social welfare, and others that literally contribute to nation-building.

Investing in business

Given that not all can be entrepreneurs at the same time, this paper discusses further why non-entrepreneurial households invest more in private gains as opposed to in business gains. To the extent that lack of both accessibility and inclusion in the formal financial markets limits households' ability to invest for business and nation-building, households will tend to invest more for private gains.

The concentration of general economic activity of financial institutions seems balanced with income. In terms of accessibility and inclusion, the allocation of financial resources seems to benefit the National Capital Region (NCR) at the cost of the rest of the country. While deposit liability is savings to defer expenditure, loans are to advance expenditure. Hence, while deposits are leakages to the economy, loans are injections. In the NCR, the share of leakage is 67.6%, while the share of injection is 85.3%, making it a 17.7% net recipient of financing. The rest are the opposite. For example, Region 4A's share of leakage is 6.8 %, while its share of injection is 2.0%, making it a 4.8% net benefactor of financing.

Instead of savings, which are investments in the financial markets through banks, households can invest through the securities markets. This would be the case of a household investing either in stocks in the Philippine Stock Exchange (PSE) or in stocks, bonds, and others in the Philippine Dealing and Exchange Corporation (PDEx). Whether households will do so depends on whether the rate of return on investment (ROI) at least matches the market's required rate of return.

It turns out that the latest estimate says the ROI is only 39% of the market's required rate of return (Dumlao, 2006) and the estimate in a separate study (Gugler et. al., 2003) is not much different in the group to which the Philippines belongs. That is, for every PhP 1 of return investors get in the rest of the economy, they get 39 centavos from investing in the PSE.

Conclusion

To the extent that investing in business and nation-building requires participation in the formal financial markets and that evidence indicates participation in such markets is low, it is argued that the increasing investment has primarily been devoted for private gains.

Two important factors that make households invest more in business are entrepreneurial mindset and management skills. But even with such, investment in business is argued to be constrained by the investing public's lack of financial inclusion. But even if reforms are advanced to make the formal financial institutions more inclusive, investment in business will be constrained to the extent that not all in the economy can be entrepreneurs at the same time. The good news is that others can invest in publicly listed firms. But the incentive to do so is not promising because of the lack of corporate governance.

That is, even if the system allows for anybody to invest in corporate Philippines, the investing public will be discouraged given that the ROI will be typically less than the opportunity cost. The obvious policy recommendation is to improve corporate governance.

One might argue that government can only borrow so much and therefore can only offer so many government securities to the investing public and thus limit the size of the market for investing in nation-building. Thanks to the size of the gross international reserve (GIR). The government need not increase its debt to increase the size of the market for investing in nation-building. In "external debt management," the government increases the size of the market by

Here is the case of a firm with perfect corporate governance. It has an unrealized asset of PhP1,000 which, for example, includes the value of the physical work station and equipment. In the process of conducting business, the firm acquires operating revenue of PhP100. On the liability side, the firm owes PhP1,000 worth of equity and PhP100 worth of dividends to its stockholders. Assuming that there are 10 stocks, the price of each is PhP100 and the dividend for each is PhP10 resulting in an ROI of 10% per stock. The firm delivers an ROI equivalent to the opportunity cost of investment. The result is a one-to-one ratio, a Tobin's q of 1 or a perfect corporate governance score of 1.00.

In the case of a firm with a corporate governance of 0.40 in the Philippines, the unrealized asset and equity are the same as the above example, and in the process of conducting business, the firm acquires an operating revenue of PhP 100. Since the family manages and owns the firm at the same time, there is never a conflict of interest and so the family chooses the best investment ventures. However, the management expropriates minority stockholders by allocating PhP60 for themselves and paying PhP40 worth of dividends. Consequently, the ROI for each stock is 4%. The firm delivers an ROI that is only 40% of the opportunity cost of investment.

Another case is when that management expropriates minority stockholders by allocating PhP36 for themselves, PhP 24 for social advocacy under the heading of corporate social responsibility (CSR) and paying PhP 40 worth of dividends. The result is an ROI of 4% that is only 40% of the opportunity cost of investment. Assuming the same distribution of ownership of stocks, the management distributes the PhP 36 among the six family managers at PhP 6 each. Distributing the PhP 40 dividends among the ten stockholders gives each PhP 4. The result is that instead of each stockholder receiving PhP 10, each family member stockholder receives PhP6 +PhP 4 or PhP 10 as they should in the case of perfect corporate governance, while each minority stockholder receives PhP4. In other words, family majority ownership donates to social advocacy as part of CSR but at the expense of taking from minority ownership.

increasing the part of the total debt that is financed by the investing public. In "active inclusion," the government uses the GIR either as a collateral asset or as a direct source of finance in nation-building. The government has not used either.

NOTE

[1] That is, whether the rate of ROI $\geq$ market rate of return or $i \geq r$.

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