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The Philippine Maharlika Investment Fund

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SYNOPSIS

The Philippines is establishing a sovereign wealth fund to spur public infrastructure investments in preparation for 2025 when it no longer qualifies for aid as an upper middle-income country. This move has several policy implications and practical impact on state management of financial resources and the capital market for a nation accustomed to another way of government provision for economic and infrastructural goals.

COMMENTARY

While the Philippines is currently a lower middle-income country (LMIC) with a gross national income (GNI) per capita of US$3,622, it is only US$400 shy of meeting the US$4,046 threshold to be classified as an upper-middle income country (UMIC). In 2022, its GDP grew by 7.6 per cent, the fastest in 40 years, putting it on track to become an UMIC by 2025.

Achieving UMIC status is an honour for the country, but it also comes with the disadvantage of being deprioritised for official development assistance (ODA) loans and grants, which are primarily for LMICs and low-income countries.

To prepare for the next stage of economic development, President Ferdinand "Bongbong" Marcos, Jr., has pushed for the development of the Maharlika Investment Fund (MIF) as the Philippines' first sovereign wealth fund (SWF), to be run by the Maharlika Investment Corporation (MIC).

A Form of State Capitalism?

The MIF's *raison d'etre* is to serve as an investment vehicle for drawing both domestic and foreign investments into infrastructure development initiatives in the Philippines, and to replace ODA when the Philippines no longer qualifies for it, which is likely to be in 2025.

The establishment of the Philippines' SWF can be seen as a form of state capitalism, or a market intervention by the state. Essentially, the government is taking control of infrastructure development ahead of the anticipated termination of ODA. This intervention is needed since ODA has historically contributed significantly to infrastructure development initiatives in the country. In fact, ODA provided 49 per cent of total financing for the preceding Duterte administration's flagship infrastructure development programme, "Build, Build, Build".

Through the proposed SWF, long-term economic development plans will be securitised, and infrastructure development projects accorded the highest national priority. Accordingly, President Marcos has highlighted big-ticket infrastructure among the key areas for investment by the MIF. Infrastructure such as roads, railways and airports contribute to greater economic inclusion of remote regions, hitherto inaccessible.

These expand the country's geographic base for economic activity and job creation, while also fixing congestion problems in Metro Manila. They contribute to the economic security of individuals, with multiplier effects that are reflected in improved health, sanitation and education outcomes. Moreover, MIF profits can further expand the country's fiscal space for redistribution programmes that support the country's poor, including income-support programmes.

Catching Up with Neighbours

The Philippines is not unique in establishing an SWF to prepare for UMIC status. Indonesia established the Indonesia Investment Authority under President Joko Widodo's leadership in 2021. This was also one year before Indonesia regained its UMIC status in 2022, after losing it briefly amid the COVID-19 pandemic. In fact, the MIF is being patterned after the Indonesian model, which had pushed infrastructure projects amid the pandemic.

Earlier, under then Prime Minister Mahathir Mohamad, Malaysia established Khazanah Nasional as a SWF in 1993, a year after reaching UMIC status. Brunei likewise established an SWF in the form of the Brunei Investment Agency in 1983, whose mission is to "safeguard Brunei Darussalam's Sovereign Nationhood (through) Dynamic Reserve Management."

Malaysia and Indonesia had been peers of the Philippines in economic development during the 1960s to 1980s. During those years, they trailed the "Asian Tigers" – South Korea, Singapore, Taiwan, and Hong Kong – all of which have reached high-income country (HIC) status, and which have their own respective SWFs.

State Capitalism vs. Laissez-Faire Approaches

The involvement of SWFs in infrastructure development can be seen in a 2018 PricewaterhouseCoopers (PwC) Singapore report, where the Abu Dhabi Investment Authority, the United Arab Emirates' SWF, was cited as the largest direct investor in unlisted infrastructure globally, and Malaysia's Khazanah Nasional as the second largest in Asia. It described infrastructure as an "asset class" which has received growing investment, reflecting internal rates of return (IRR) of 10-20 per cent, in a spectrum of low-to-high risk.

In the case of the Philippines, however, the MIF's interests may conflict with private sector interests in big-ticket infrastructure projects. For example, in 2022, an US$11 billion contract to build an international airport south of Manila was awarded to a consortium of businesses affiliated with the founder of the flagship carrier Philippine Airlines, South Korea's Samsung and Germany's Munich Airport. Likewise, San Miguel corporation, one of the largest conglomerates in the Philippines, succeeded in its PhP736 billion (approximately US$14 billion) bid to build and to operate a four-lane international airport north of Manila for 50 years.

An immediate implication of these conflicts of interests lies in the distribution of gains from such infrastructure investments. If the MIF should engage directly in big-ticket infrastructure projects, it could potentially crowd out the private sector. But at the same time, it could allow the state to reap some of the larger profits from these projects, in turn expanding the state's financial base for its redistributive food-and-income-support programmes.

Transparency as the Best "Defence"

The Marcos administration's proposal of a SWF has drawn flak because of reports about the misdeeds of the late President Ferdinand Marcos. Given that Bongbong Marcos envisions the MIF to engage in big-ticket infrastructure, a potential risk is that of rent-seeking as the government could potentially influence the bidding outcomes for such projects in favour of the MIF or the companies the MIF supports.

Transparency will be the current administration and the MIF's best defence against criticisms of corruption and misuse of public funds should losses occur. This is critically important since there is no guarantee that losses are completely avoidable in high-return infrastructure projects which come at higher risks. Transparency in the procurement process will also be needed to avoid criticisms of bias in the award of tenders for projects.

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