

Original Article

# Governing Foreign Capital: State Intervention and Sectoral Divergence in Indonesia and the Philippines, 2000-2019

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**Abstract:** *This study examines how state intervention shapes sectoral Foreign Direct Investment (FDI) inflows in Indonesia and the Philippines from 2000 to 2019. Although both countries actively seek foreign capital, Indonesia has secured larger and more diversified inflows, particularly in manufacturing, strategic infrastructure, and resource-based sectors. The Philippines, by contrast, has experienced more volatile, enclave-oriented FDI, concentrated in manufacturing and Information Technology–Business Process Management (IT-BPM) services. Drawing on a comparative analysis of constitutional foundations, national development plans, and key investment policies, the study argues that FDI inflows are shaped not by openness or restriction alone, but by the character of state intervention. Indonesia adopts a directive, strategic approach that channels investment into priority sectors and reserves smaller-scale activities for domestic actors, whereas the Philippines relies on a more regulatory, facilitative model centered on liberalized special economic zones and constitutionally embedded ownership constraints. While both countries restrict foreign participation in similar sectors, they do so through distinct policy logics. Divergent FDI inflows thus reflect not mere openness, but how states structure investment policies and embed foreign capital within broader development strategies.*

**Keywords:** *Foreign, Direct Investment, Investment Policy, Indonesia, Philippines, State Intervention, Sectoral FDI.*

## I. INTRODUCTION

For decades, policymakers and international institutions have promoted Foreign Direct Investment (FDI) as a pathway to economic growth. The prevailing rationale posits that the liberalisation of domestic economies to foreign capital yields not only financial resources but also technology, employment opportunities, enhanced human capital, and greater integration into global markets [1]-[3]. The connection between welcoming FDI, bringing it in, and using its supposed benefits has not been easy to see, especially in Southeast Asia. Malaysia, Thailand, Indonesia, and the Philippines (the "ASEAN-4") have all welcomed foreign investment, but they have seen different amounts of FDI coming in and different levels of development. Indonesia, for example, has attracted substantially larger inflows in recent years, while the Philippines has consistently lagged [4].

Scholarly research indicates that government intervention has significantly influenced the investment and growth trajectories of Malaysia and Thailand, especially in contrast to the Philippines [5-6]. These findings underscore a transition from an emphasis on the volume of FDI and underscore the necessity for investment policies that are congruent with overarching development objectives. In this context, the role of the state and domestic policymaking becomes invaluable, not just for attracting investment but for ensuring that foreign capital contributes to long-term growth. This study expands upon existing research by examining the impact of state intervention on foreign direct investment (FDI) inflows in Indonesia and the Philippines, two nations confronting comparable developmental challenges yet exhibiting significantly divergent FDI and economic results.

Looking at these two cases shows that scholars have different ideas about their economic policies: Indonesia is more nationalist, while the Philippines is more neoliberal and focused on the market [7-8]. If these labels were accurate, the Philippines would get more Foreign Direct Investment (FDI) and use it to improve its own economy. But the facts show a different story, which is a puzzle that goes against what most people think. This paper contends that mere receptiveness to foreign capital is insufficient. The key consideration is not whether nations embrace or limit FDI, but how they govern, promote, and direct it, consequently influencing the nature of investments and the sectors they target.

Beyond simplistic ideological labels, differences in FDI between Indonesia and the Philippines are shaped by variations in state intervention, reflecting their divergent development visions and conceptions of the state's role in economic development. Consequently, this research is driven by the following central question: *How do differences in state intervention explain foreign direct investment outcomes in Indonesia and the Philippines?* The study employs a comparative case analysis of Indonesia and the Philippines from 2000 to 2019, a period following the Asian financial crisis and preceding the disruptions



of the COVID-19 pandemic. It analyzes quantitative data on sectoral FDI inflows alongside a qualitative examination of major investment laws, sectoral regulations, and policy instruments. The study offers insights for developing economies seeking to leverage foreign capital for long-term economic growth.

## **II. LITERATURE REVIEW**

FDI is commonly defined as a cross-border investment undertaken to establish a lasting interest and significant influence in an enterprise located in another economy [9]. Despite being promoted as a development strategy because of its relative stability compared to portfolio flows, a well-established body of scholarship demonstrates that these benefits are neither automatic nor uniform [10]-[12]. The impact on economic growth is largely determined by the sector in which FDI is directed: manufacturing FDI, particularly when export-oriented, produces stronger linkages, technology diffusion, and productivity spillovers than extractive or low-value service investments [12]-[15]. Given that the developmental effects of FDI are conditional rather than inherent, a key question is how governments manage and direct foreign investment to maximize its potential benefits.

Two competing models frame state intervention in FDI within the longstanding debate on the role of the state in economic development. The neoliberal model sees the state mostly as a way to help the market work. Instead of pulling out completely, the state changes itself to protect property rights, enforce contracts, make it easier for capital to flow, and lower the barriers to entry [16]-[19]. When it comes to FDI, this method puts openness, making rules easier to follow, and treating domestic and foreign investors the same at the top of the list. People expect that competition in the market and integration with the rest of the world will make good use of resources and create positive spillovers [20]. In contrast, the developmental state model sees the state as a strategic coordinator [21], [22]. It does not reject markets or foreign capital; rather, it aims to integrate them into long-term national development strategies via selective restrictions, performance criteria, and targeted incentives [23, 24]. The primary difference between these models is not the state's intervention, but rather the passive accommodation or strategic discipline of foreign capital. From this viewpoint, the developmental influence of FDI is contingent not solely on the attraction of capital, but rather on the efficacy with which states integrate and incorporate foreign investment into domestic enhancement strategies.

These theoretical models elucidate the rationale behind state intervention; however, comprehending the variability in outcomes necessitates an examination of how intervention is implemented via specific policy instruments. At the national level, laws about foreign investment and negative lists control access to certain sectors, ownership limits, and approval processes [25]. Development plans set strategic priorities and indicate which sectors should move in which directions [26]. In addition to entry regulations, states use performance requirements like local content mandates, export targets, technology transfer obligations, and equity participation rules to strengthen connections and encourage spillovers [11], [27]. Governments use special economic zones (SEZs) as policy regimes with limited space to try out different regulatory frameworks and incentive structures [28, 29]. The design of these instruments shows what the state wants to do with its economy and how it plans to deal with foreign investment.

Comparative Southeast Asian scholarship indicates that varying state strategies yield unique patterns of industrial upgrading; however, comprehensive instrument-level comparisons between Indonesia and the Philippines have garnered insufficient scrutiny [8]. Current research predominantly characterises Indonesia as nationalist and prescriptive, indicative of its post-colonial focus on economic sovereignty and state-driven industrialisation [30], [31]. The Philippines, by contrast, is frequently characterized as liberal and market-oriented, following the democratic transition after the Marcos Sr. regime when extensive state intervention came to be viewed with increasing skepticism [32], [33]. Nonetheless, both nations have alternately liberalised and restricted foreign investment at various points in history, complicating simplistic ideological categorisations. A comparative understanding of how variations in state intervention—rather than ideology alone—shape foreign capital in diverse manners remains underdeveloped. This study fills this gap by looking at how Indonesia and the Philippines use specific policy tools to regulate, discipline, and embed foreign investment in a comparative way.

This research employs a comparative case study methodology, which systematically examines and integrates similarities, differences, and patterns across multiple cases to enhance comprehension of causal enquiries related to intricate social and political phenomena [34]. The analysis is based primarily on documentary research using both qualitative and quantitative data available to the public. State intervention is scrutinised via legal and policy documents, encompassing foreign investment laws, negative investment lists, special economic zone legislation, constitutional provisions, and national development plans. Official statistics are used to determine how much FDI is coming in. These include FDI realisation data from Indonesia's Investment Coordinating Board (BKPM) and approved FDI data from the Philippine Statistics Authority. Philippine data show a change in classification in 2010, when the 2009 Philippine Standard Industrial Classification (PSIC) was adopted. This made the number of industry categories go from 13 (2000–2009) to 19 (from 2010 onwards).

### III. ANALYSIS AND DISCUSSION

This section analyzes how state intervention has shaped sectoral FDI inflows in Indonesia and the Philippines from 2000 to 2019. The analysis is organized thematically to highlight how divergent state strategies have produced distinct patterns of foreign capital inflows across major economic sectors.

#### A) Constitutional and Ideological Foundations

The divergence between Indonesia and the Philippines begins with the constitutional and ideological foundations that define the state's role in the economy. These foundations shape not only the scope of state intervention but also how FDI is conceptualized and governed.

The Indonesian state's role in the economy is enshrined in the 1945 Constitution [35], particularly Article 33, which assigns the state a central role in economic management. It mandates state control over key sectors of production and natural resources in pursuit of the people's welfare. This constitutional vision was ideologically reinforced by a strong nationalist conviction rooted in Indonesia's post-colonial experience, specifically the belief that political sovereignty was incomplete without economic decolonization. As [36] argues, Indonesian nationalists regarded the colonial economy's ethnically plural structure as an obstacle to development and therefore sought to transform it into a unified "national economy." Within this state-led development framework, and as explicitly stated in the 1967 Foreign Investment Law [37], FDI is conceived as a strategic instrument to supplement domestic capabilities while avoiding external dependence.

The Philippine state's role in the economy and its approach to FDI are grounded in the 1987 Constitution. Article XII mandates the State to promote equitable economic development, exercise ownership and full control over natural resources, and serve as the principal regulator of economic activity to safeguard the public interest [38]. While certain sectors are reserved for Filipino citizens through ownership thresholds (i.e., the 60-40 Filipino-foreign equity rule), the Constitution explicitly recognizes the "indispensable role of the private sector," supports private business activities, and provides incentives to attract investment [39]. Historical experience, shaped both by the early privileging of foreign interests during the American colonial period through "parity rights" and by post-Marcos skepticism toward expansive state intervention [32], [40], has reinforced an orientation toward private-sector-led growth. The Constitution thus seeks not to displace private capital, but to structure and "nationalize" it through regulatory authority, ownership thresholds, and preferential treatment for Filipino-controlled enterprises.

These distinct foundations produce correspondingly distinct policy frameworks and, as the following analysis demonstrates, markedly different sectoral patterns of FDI inflows.

#### B) Overall FDI Trajectories

The aggregate FDI data from 2000 to 2019 reveal contrasting trajectories that reflect these divergent state philosophies. Indonesia experienced sustained growth and increasing diversification, more than doubling its average annual FDI intake from US\$11.47 billion (2000-2009) to US\$26.5 billion (2010-2019). The Philippines, by contrast, exhibited volatile growth characterized by sharp annual fluctuations rather than steady expansion. Total approved FDI increased over the two decades, but only surged near the end of the study period.

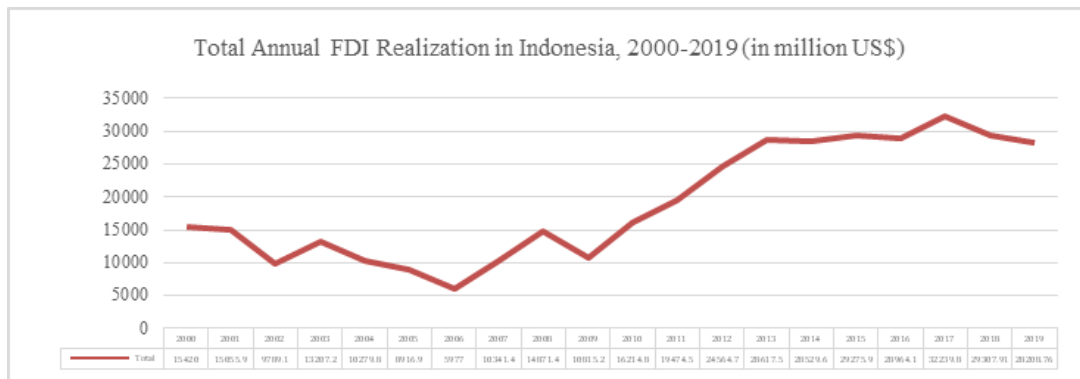
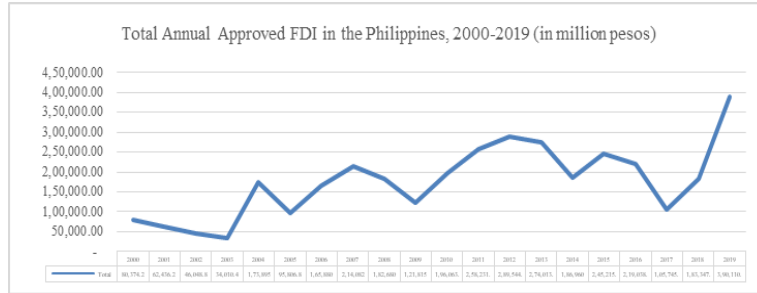


Figure 1. Total Annual FDI Realization in Indonesia, 2000-2019



**Figure 2. Total Annual Approved FDI in the Philippines, 2000-2019 (in million pesos)**

More significant than aggregate volumes, however, are the sectoral patterns beneath these totals. In both countries, the sectoral composition of FDI shifted markedly after 2010, but in directions that reflect different priorities.

**C) Manufacturing as the Primary Destination for FDI**

The Manufacturing sector became the main place for FDI in both countries, but this was done in different ways through regulations.

From 2000 to 2009, manufacturing made up 45.4% of all FDI in Indonesia, and from 2010 to 2019, it made up 42.3% (Table 1). This shows that Indonesia is a manufacturing-oriented country. The sector's dominance was clear as early as 2000, when it got 69.4% of all FDI (over US\$10.7 billion) and continued to get the most foreign investment throughout the early and mid-2000s. Manufacturing continued to be a major area for investment from 2010 onwards, reaching a record US\$16.7 billion in 2016, which was 57.6% of all inflows that year (Figure 3).

Indonesia’s investment regime has consistently prioritized manufacturing as a preferred destination for foreign capital, beginning with Law No. 1 of 1967 and reinforced under Law No. 25 of 2007 [37], [41]. The 1967 law provided basic fiscal incentives, such as tax holidays and duty exemptions, while reserving strategic sectors for state control. The sector's expansion was consolidated through Law No. 25 of 2007, which strengthened investor protections, introduced targeted fiscal incentives aligned with employment generation, export expansion, and technological upgrading, and extended land-use rights up to 95 years based on investment scale and developmental contribution. This approach is reflected in successive National Development Plans (*Rencana Pembangunan Jangka Menengah Nasional, RPJMN*), which have consistently positioned manufacturing as a driver of growth, initially focusing on labor-intensive, export-oriented industries, then emphasizing high-value-added manufacturing alongside traditional sectors, and finally linking economic transformation to regional expansion of industrial activities [42]-[44].

**Table 1: Total FDI Realization by Economic Sector in Indonesia, 2000–2009 and 2010–2019**

Economic Sector	2000-2009		2010-2019	
	FDI Realization (in Million US\$)	Percentage Share to Total FDI	FDI Realization (in Million US\$)	Percentage Share to Total FDI
Agriculture, Hunting, Forestry, and Fishery	3,189.30	2.78%	16,261.53	6.13%
Mining and Quarrying	1,202.90	1.05%	35,986.97	13.56%
Manufacturing	52,056.40	45.40%	112,273.04	42.30%
Electricity, Gas, and Water Supply	1,435.70	1.25%	27,993.59	10.55%
Construction	4,756.20	4.15%	4,897.95	1.85%
Wholesale Retail Trade, Restaurants, Hotels	15,646.30	13.64%	13,631.51	5.14%
Transportation, Warehousing, Communications	29,654.30	25.86%	29,824.51	11.24%
Real Estates and Business Services	1,847.50	1.61%	18,317.08	6.90%
Community, Social, and Personal Services	4,885.50	4.26%	6,211.50	2.34%
TOTAL	114,674.10	100.00%	265,397.68	100.00%

**Source:** Author’s calculation based on data from Badan Koordinasi Penanaman Modal (BKPM), Foreign Direct Investment Realization by Economic Sector (Million US\$).

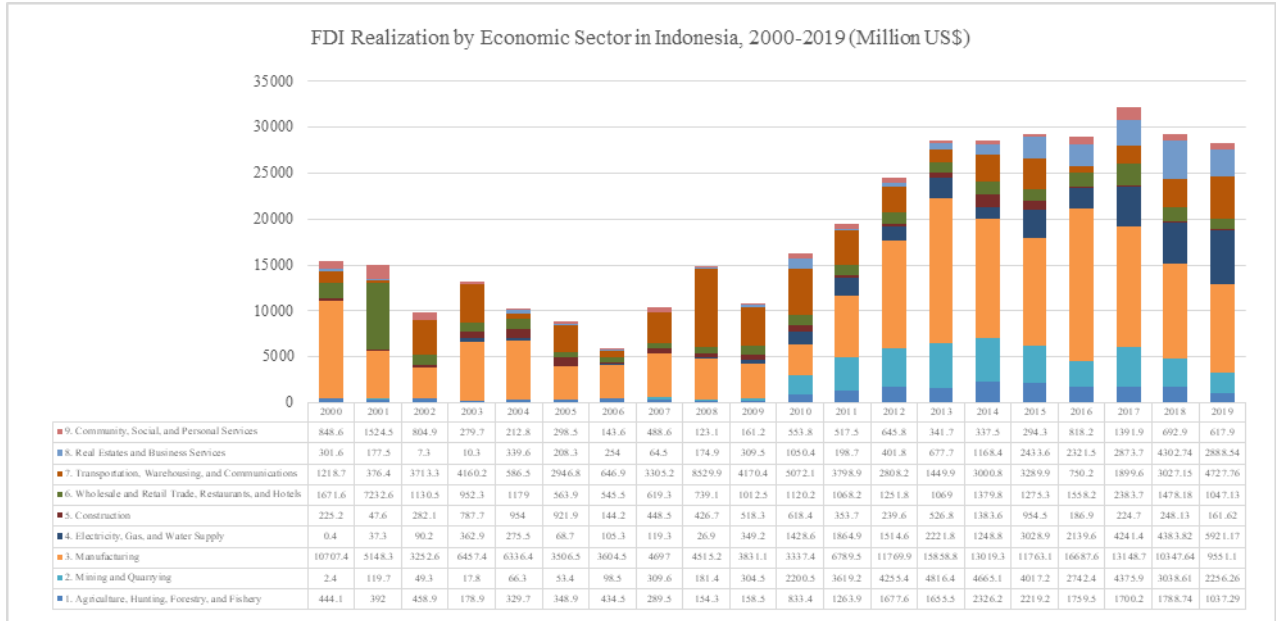


Figure 3. FDI Realization by Economic Sector in Indonesia, 2000-2019 (Million US\$)

In the Philippines, manufacturing was also the dominant recipient of FDI throughout the 2000–2019 period, though its relative share shifted over time. In the first decade (2000–2009), manufacturing absorbed roughly 50% of total approved FDI, peaking at ₱112.7 billion in 2006 (67.9% of total approved FDI) and remaining above 70% by 2009 (Figure 4). Manufacturing continued to attract substantial inflows, attracting 46.6% of approved FDI from 2010-2019 (Table 2) and reaching an absolute peak of ₱169.5 billion in 2012 (59% of total approved FDI) (Figure 5). However, as other sectors expanded, Manufacturing’s relative share gradually declined, falling to 16% by 2019.

This leading position was established earlier through a broad liberal regime: the 1991 Foreign Investment Act removed limits on foreign ownership in export-oriented enterprises and allowed 100% foreign equity in domestic market enterprises in sectors not on the Negative List [45]. The 1995 Special Economic Zone Act (RA 7916) made this openness even stronger by giving businesses a lot of tax breaks and other benefits [46]. This law explains the policy tools and incentives that registered businesses can use, even if they are owned by people from other countries. The FDI data seems to support this policy direction, which focuses on attracting export-oriented manufacturing investment by lowering operational costs and regulatory requirements in certain areas. While land ownership remains constitutionally restricted, the SEZ law permits foreign investors to lease land for up to 75 years, exceeding the standard constitutional limit by 25 years.

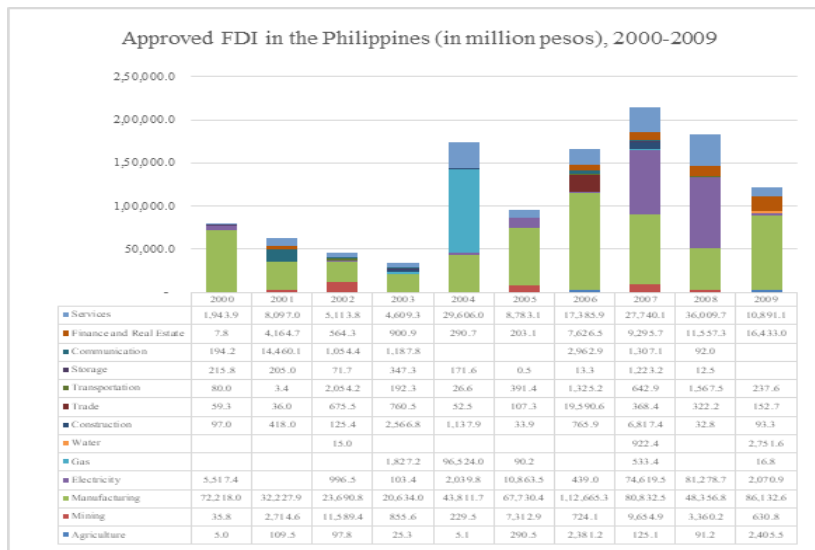


Figure 4. Approved FDI in the Philippines (in million pesos), 2000-2009

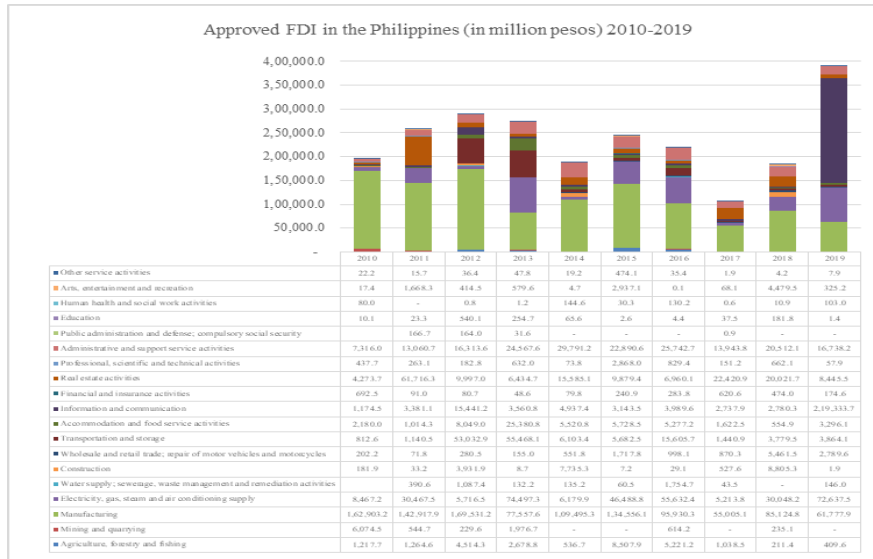


Figure 5. Approved FDI in the Philippines (in million pesos), 2010-2019

Table 2: Total Approved FDI by Economic Sector in the Philippines, 2010–2019

Economic Sector	Approved FDI (in million pesos)	Percentage Share of Total FDI
Agriculture, forestry, and fishing	25,600.70	1.09%
Mining and quarrying	9,674.80	0.41%
Manufacturing	1,094,799.40	46.62%
Electricity, gas, steam, and air conditioning supply	335,349.10	14.28%
Water supply, sewerage, waste management, and remediation activities	3,750.10	0.16%
Construction	21,262.10	0.91%
Wholesale and retail trade; repair of motor vehicles and motorcycles	13,098.70	0.56%
Transportation and storage	146,930.20	6.26%
Accommodation and food service activities	58,624.20	2.50%
Information and communication	260,479.90	11.09%
Financial and insurance activities	2,786.60	0.12%
Real estate activities	165,734.40	7.06%
Professional, scientific, and technical activities	6,158.00	0.26%
Administrative and support service activities	190,876.40	8.13%
Public administration and defense; compulsory social security	363.10	0.02%
Education	1,121.40	0.05%
Human health and social work activities	501.70	0.02%
Arts, entertainment, and recreation	10,494.50	0.45%
Other service activities	664.70	0.03%
<b>TOTAL</b>	<b>2,348,269.80</b>	<b>100.00%</b>

Source: Author's calculation based on data from the Philippines Statistics Authority (PSA), Approved Foreign Investments by Industry: 2011 to 2019.

**D) FDI Diversification: State Strategy versus Market-Driven Comparative Advantage**

After 2010, both economies exhibited greater FDI diversification, but into different sectors shaped by national policy priorities. Indonesia's diversification favored strategic, capital-intensive, and resource-based industries. From 2000–2009, FDI in Electricity, Gas & Water accounted for only 1.25% of total FDI, but from 2010–2019 its share rose to 10.55% (Table 1). By 2019, inflows peaked at US\$5.9 billion, representing 20.99% of total investment for that year, highlighting a substantial capital increase directed toward the nation's energy infrastructure (Figure 6).

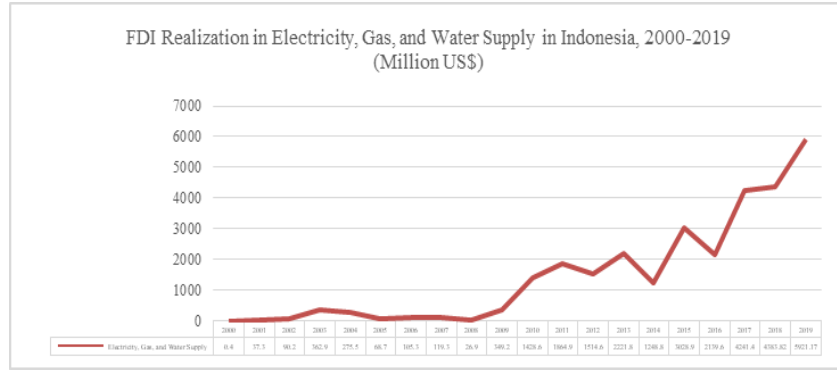


Figure 6. FDI Realization in Electricity, Gas & Water in Indonesia, 2000-2019 (Million US\$)

This shift shows a policy-driven reorientation. The Negative Investment List (Daftar Negatif Investasi, DNI) allowed foreigners to invest in a range of capital-intensive, technologically advanced sectors, such as energy, large-scale plantations, and critical infrastructure [47]. Indonesia's foreign direct investment (FDI) in energy is in line with the country's development goals. The RPJMN plans that come after each other stress the need for a reliable, diverse, and sustainable energy supply. Over time, energy security changed from making systems more reliable and cutting down on fuel imports to institutional reform and using more renewable energy. The Third RPJMN made "energy sovereignty" a key national development goal [42]-[44].

The Mining and Quarrying sector also transformed from a minor player, accounting for only 1.05% of total FDI in 2000–2009, into a major recipient of foreign investment, representing 13.56% of total FDI inflows from 2010–2019 (Table 1). Total inflows increased from US\$1.2 billion in the first decade to US\$36 billion in the second, peaking at US\$4.8 billion in 2013.



Figure 7. FDI Realization in Mining and Quarrying in Indonesia, 2000-2019 (Million US\$)

Sector-specific legislation, notably Mining Law No. 4 of 2009, strengthened the regulatory framework by expanding allowable mining areas and replacing the contract-based system with a license-based regime [48]. However, some important conditions still apply. For example, mineral output must be processed and refined in the country, and after five years of production, foreign equity must be gradually sold to state or national entities. These steps are meant to bring in foreign investment while making sure that it helps long-term development goals, especially building up infrastructure and making the best use of natural resources.

This policy-driven change is further strengthened by Indonesia's SEZs, established by the 2009 SEZ Law [49]. Indonesia's SEZs are meant to be specific tools for directing foreign investment into certain strategic activities, while also requiring local connections and processing of goods. Indonesia set up SEZs later than the Philippines, but by 2019, its three main zones clearly showed this strategic direction: Galang Batang SEZ focuses on processing minerals, making renewable energy, and making basic chemicals; Sei Mangkei SEZ focuses on processing palm oil and rubber; and Mandalika SEZ focuses on tourism and hospitality services [50]. These zones demonstrate how the state uses spatial policy instruments to advance industrial deepening and resource-based value addition, consistent with the processing requirements embedded in sectoral legislation.

In the Philippines, diversification shifted toward modern services and Information Technology (IT)-enabled industries. The second decade saw sharp increases in Information and Communication, which accounted for 11.09% of total approved

FDI from 2010–2019 (Table 2). In 2019 alone, the sector attracted 219 billion pesos, representing 56.2% of all approved FDI that year (Figure 8). Administrative and Support Service Activities (which include call center and business process outsourcing activities) displayed a more stable and resilient investment pattern compared with other service industries. Approved FDI in this sector increased steadily from 7.3 billion pesos in 2010 to a peak of 29.8 billion pesos in 2014, when it accounted for 15.9% of total investment (Figure 9). Although inflows moderated after 2014, the sector maintained consistently high levels, remaining above 13 billion pesos annually and reaching 16.7 billion pesos in 2019.

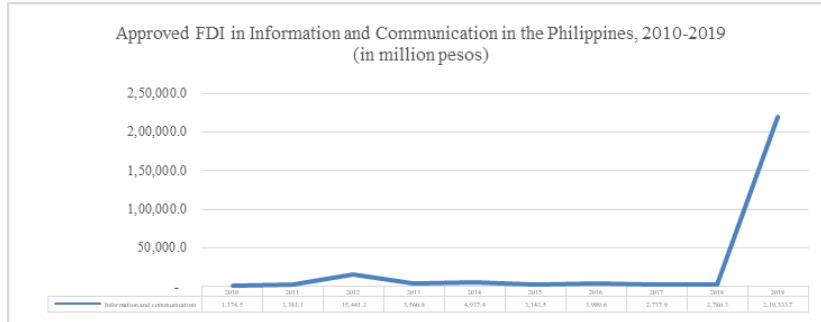


Figure 8. Approved FDI in Information and Communication in the Philippines, 2010-2019 (in million pesos)

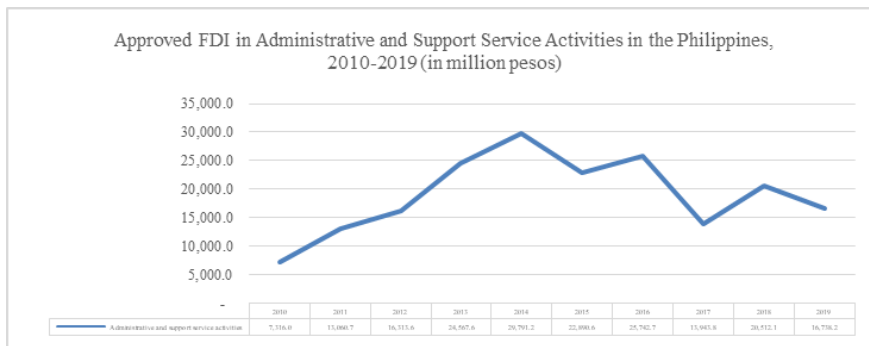


Figure 9. Approved FDI in Administrative and Support Services, 2010-2019 (in million pesos)

This expansion was facilitated by the development of IT economic zones within the SEZ framework. This pattern is further reflected in the sectoral composition of investments registered with the Philippine Economic Zone Authority (PEZA), with manufacturing representing a substantial share of approved projects and investment value, while IT accounts for the largest number of operating economic zones (Table 3).

The increase in Information and Communication Technology (ICT) and Business Process Management (BPM) investments reflects the evolving priorities outlined in successive Medium-Term Development Plans (MTDPs), which gradually shifted from a general promotion of ICT in the early 2000s to the targeting of higher-value IT-BPM areas. Successive Medium-Term Development Plans (MTDPs) reinforced this trajectory: the 2001-2004 MTDP envisioned the Philippines as "a knowledge and software development center and an e-service hub of Asia" [51]; the 2011-2016 Philippine Development Plan (PDP) acknowledged the Business Process Outsourcing (BPO) sector as the "driving force for economic growth" [52]; and the 2017-2022 PDP emphasized "moving up the global value chain of the IT-BPM industry." [53] In this context, diversification reflected a strategy of building on the country's comparative advantage in global services. In addition, the increase in investment in the Information and Communication sector in 2019 was preceded by the removal of foreign equity restrictions on "Internet Business" under the 2018 Foreign Investment Negative List (FINL), effectively allowing for 100% foreign ownership in this area [54].

Table 3: PEZA Operating Economic Zones (2004-2010)

Operating Economic Zones	2004	2005	2006	2007	2008	2009	2010
Manufacturing	53	51	53	60	62	63	64
IT	16	28	37	88	112	127	148
Tourism		1	2	5	7	9	12
Medical Tourism Park				1	1	1	1
Medical Tourism Center					1	1	1
Agro-Industrial EZ						6	13
Total Operating	69	80	92	154	183	207	239

Source: Philippine Economic Zone Authority

Although FDI in infrastructure, such as the Electricity, Gas, Steam and Air Conditioning Supply, also received substantial investment in the second decade (14.28% of total FDI), these were characterized by sharp year-to-year variations rather than steady growth.

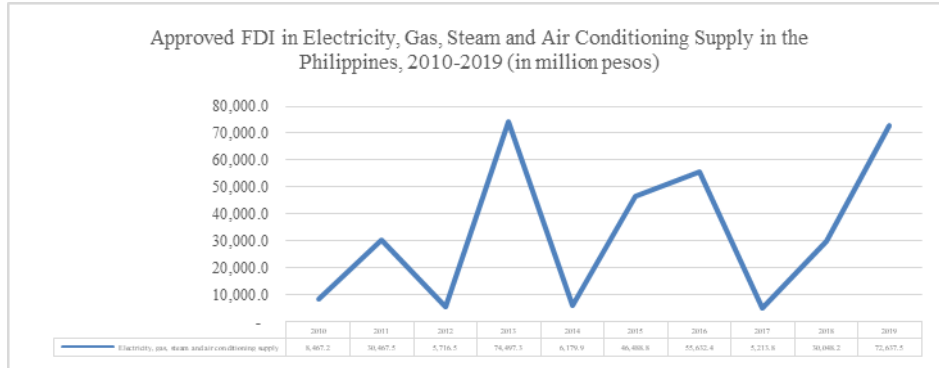


Figure 10. Approved FDI in Electricity, Gas, Steam, and Air Conditioning Supply in the Philippines, 2010-2019 (in million pesos)

These sectors are subject to the 40 percent foreign equity limit and are predominantly developed through Build-Operate-Transfer (BOT) and Public-Private Partnership (PPP) arrangements. Across successive MTDPs, the development of energy and transport infrastructure has been consistently framed around private-sector participation, with the state serving as a facilitator, regulator, and gatekeeper. Since 2019, however, several legislative changes have further modified the Philippines’ investment framework, including the extension of land leases up to 99 years and the allowance of 100% foreign ownership in sectors that were previously limited to 40%, such as railways, telecommunications, and renewable energy [55], [56].

**E) Restricted Sectors: Calibrated Selectivity vs. Constitutional Protection**

Both countries marginalize foreign capital in similar sectors, notably in agriculture, retail, and small-scale activities, but they do so through fundamentally different state logics.

In Indonesia, protection of agriculture and retail is calibrated through the Negative Investment List, which imposes size thresholds to reserve these activities for Micro, Small, and Medium Enterprises (MSMEs), cooperatives, and domestic investors. In agriculture, small-scale cultivation (plots below 25 hectares) is reserved for domestic actors, while large-scale, capital-intensive plantations are selectively opened to foreign investors with ownership caps up to 95%. In forestry, core activities such as timber extraction from natural forests are reserved exclusively for Indonesian entities, while foreign involvement is permitted only in limited downstream or ancillary activities, such as non-timber forest product industries and nature-based tourism, and even then, subject to strict ownership caps (typically 25–49 percent). In fisheries, restrictions tied to vessel size and fishing zones protect small-scale local fishermen, with foreign participation largely confined to aquaculture, processing, and marketing under partnership arrangements [47], [57], [58].

For wholesale and retail trade, all traditional and small-scale retail is fully reserved for domestic capital, including minimarkets under 400m<sup>2</sup>, supermarkets under 1,200m<sup>2</sup>, and department stores under 2,000m<sup>2</sup>. These protections have persisted across successive DNIs with only limited adjustments. Restrictions for hotels and restaurants evolved gradually, balancing liberalization with domestic protection. In 2007, foreign ownership was capped at 50% for restaurants and lower-tier hotels, subject to local approval. By 2010, tiered caps differentiated by classification and location, with higher limits for MSME partnerships and up to 100% foreign ownership in Eastern Indonesia (up to 100%). In 2016, 4-5 star hotels were fully open to foreign investment, and smaller hotels and food service enterprises were allowed up to 67% foreign ownership (70% for ASEAN investors). Tourism lodges and homestays, however, remained reserved for domestic MSMEs. This reflects the state’s goal, grounded in the constitutional principle of “economic democracy,” to protect domestic livelihoods and prevent foreign dominance in socially embedded activities, while allowing foreign participation in larger, capital-intensive operations to boost productivity. The low FDI in these sectors thus reflects a choice to limit foreign capital in favor of domestic economic actors.

In the Philippines, restrictions on FDI in agriculture, mining, and retail are strongly rooted in constitutional principles. The 1987 Constitution says that private ownership of alienable agricultural lands is limited. Corporations can only lease these lands for up to 25 years, with the option to renew for another 25 years, and they can’t be more than 1,000 hectares. The FINL

makes these protections official by setting foreign equity limits of 40% in agriculture (including rice and maize production, milling, and processing) and mining. It also says that only Filipino citizens can use marine resources [54], [59-61].

The retail sector is also protected by capital thresholds. Businesses with paid-up capital of less than US\$2.5 million are only open to domestic investors. This is a deliberate policy to protect small and medium-sized businesses from competition from abroad. The FINL also says that foreign investors can only own up to 40% of a domestic business if the business has less than US\$200,000 in paid-in capital, or less than US\$100,000 if the business employs at least 50 people or uses advanced technology. The FINL also says that foreign ownership can't be more than 40% in the exploration and use of natural resources, some private land ownership, and the operation of deep-sea commercial fishing boats [54], [59-61].

Indonesia takes a more calibrated approach, letting foreigners take part in bigger projects while protecting small farmers. The Philippines, on the other hand, has the same rules for all projects, no matter how big or small they are. This is based on a constitutional logic that puts Filipino control over national resources first, as shown by the 60% domestic equity requirement and the protection of small businesses, rather than aiming for strategic economic outcomes.

#### **IV. CONCLUSION**

This study examined how differences in state intervention shape the sectoral patterns of FDI inflows in Indonesia and the Philippines between 2000 and 2019. The comparative analysis finds two different ways that the state can work with foreign capital. Each is based on a different set of constitutional and institutional rules, and each leads to different patterns of investment in different sectors.

Indonesia is an example of a strategic, directive state. It only works with some of its policies. The Negative Investment List allows a lot of foreign ownership in important, capital-intensive industries like mining, energy, and large-scale plantations, but keeps smaller businesses for domestic players. Sectoral rules require processing and divestment to make sure that foreign investment adds value to the national economy. Special economic zones, including Galang Batang and Sei Mangkei, spatially concentrate on these strategic activities, reinforcing industrial deepening and resource-based value addition. The result is a diversified FDI profile in which foreign capital is channeled toward manufacturing, strategic infrastructure, and resource-based sectors aligned with national development priorities.

In contrast, the Philippines has a facilitative model in which the government mainly acts as an enabler of private sector activity. The constitution of the country clearly states that private business is essential, and the national policy focuses on openness and encouraging investment. Liberalised special economic zones offer fiscal incentives and regulatory flexibility. However, this openness is offset by constitutional ownership limits and sectoral restrictions that create an uneven investment landscape. As a result, FDI has become more focused on enclaves, with most of it going to manufacturing and IT-BPM services. Inflows into capital-intensive infrastructure are still unstable, and agriculture gets very little investment. Focusing on the country's comparative advantage in modern services has brought in money from abroad and created jobs, and this strategy has led to real economic growth. However, FDI could also be used more strategically to help achieve bigger development goals, like building infrastructure and growing crops that need a lot of capital.

The examination of restricted sectors in Indonesia and the Philippines illustrates that the marginalisation of foreign capital is not a singular occurrence but includes distinctly different state strategies. Indonesia's calibrated selectivity exemplifies a proactive, developmental strategy for regulating the boundary between foreign and domestic capital, aiming to maximise the balance between protection and productivity. The Philippines' constitutionally mandated limitations demonstrate a more defensive stance, emphasising national sovereignty and domestic preference over economic advantages. These results back up the study's main point: being open to foreign investment isn't enough. It doesn't matter if countries welcome or limit FDI; what matters is how they regulate, facilitate, and direct it. This affects the kinds of investments that come in and the sectors they go into.

The analysis centers on formal policy frameworks and sectoral inflows, yet it overlooks firm-level decision-making and informal institutional practices that could influence investment behaviour. These aspects necessitate additional scrutiny. Future research may analyse recent legislative reforms in both countries and their impact on investment trends, as well as broaden the comparative framework to include other ASEAN economies to examine how differences in state intervention influence FDI inflows.

#### **Interest Conflicts**

The author declares that there is no conflict of interest concerning the publication of this paper.

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