



Foreign Direct Investment Across APEC

Impediments and Opportunities for Improvement

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Ningbo, China**

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Marshall School of Business
2013 ABAC Research Team**

Business Perspective On FDI

Objectives

- Capture the voice of business within APEC through field interviews in each APEC economy
- Sort and report field research data with as little bias as possible
- Identify and quantify the impact of the primary impediments to FDI in APEC

What We Delivered

- A comprehensive framework based on the data received from field research
- An assessment of the impact of impediments on APEC economies
- A benchmark of impediment impacts against existing data on FDI

We sit and listen to your peers across APEC



We are not competing with existing research or attempting several analyses

Econometric study

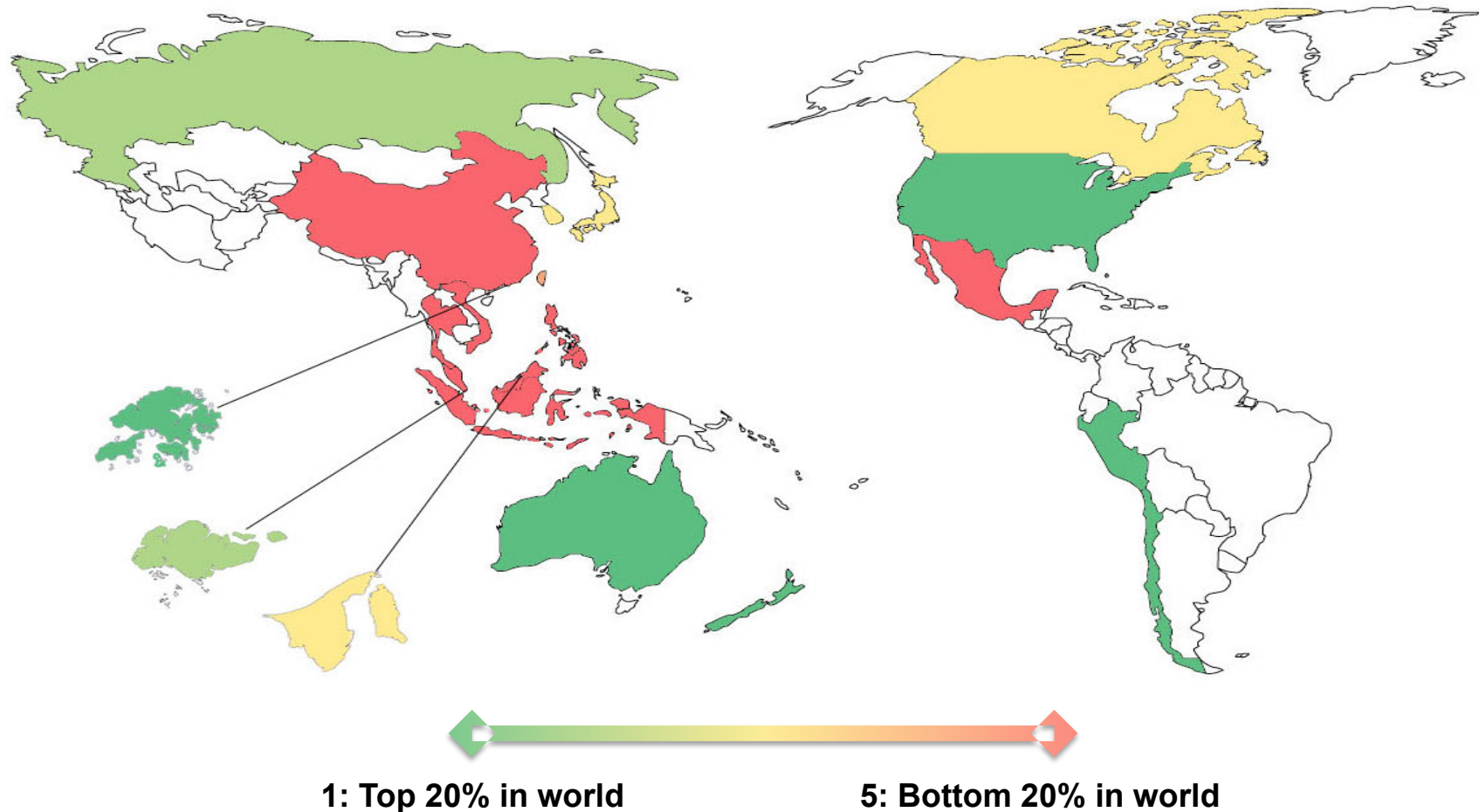
Predictive analysis

Longitudinal analysis

APEC Leads And Lags The World

World Ranking of Foreign Ownership And Control Restrictions

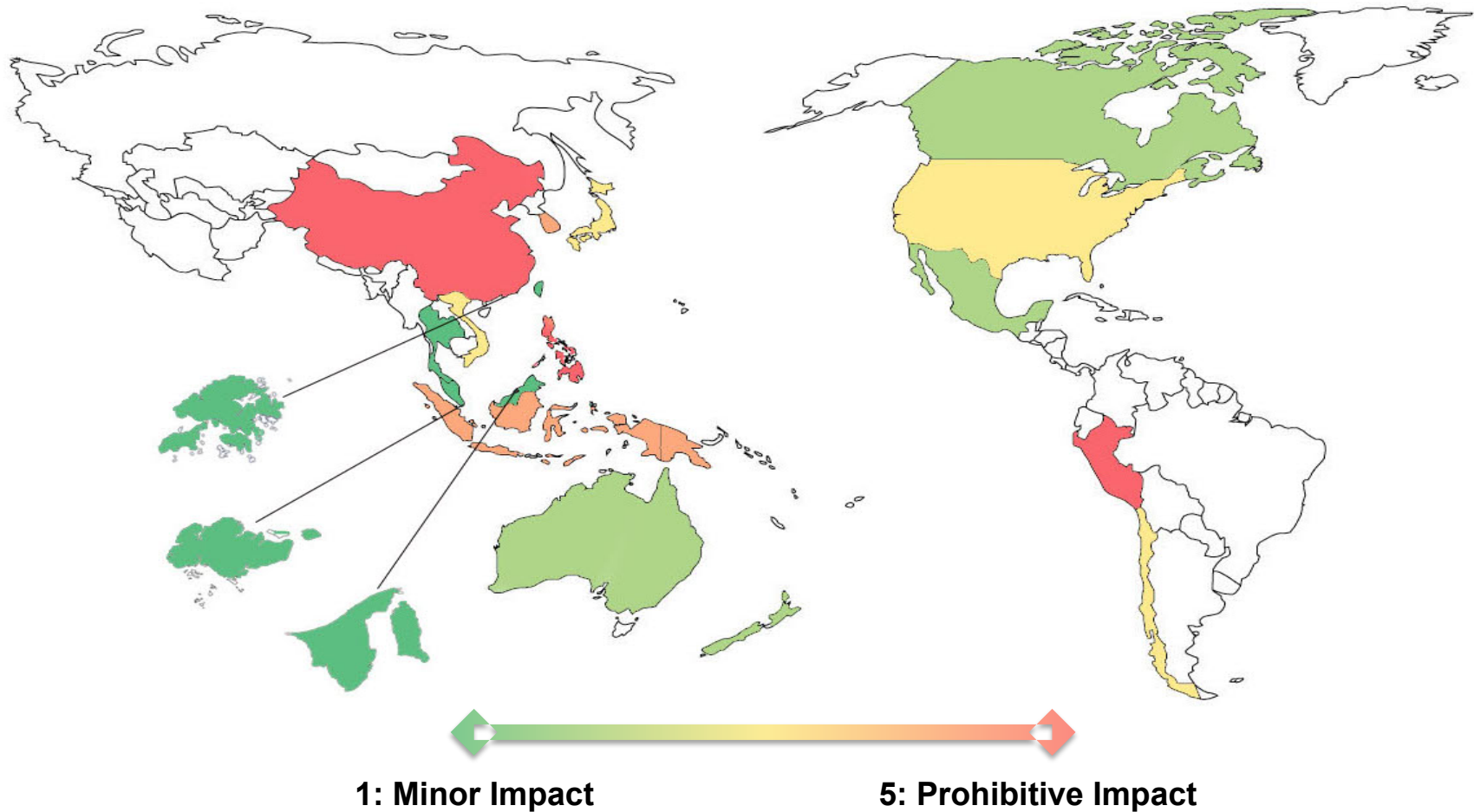
(from data in WB's *Investing Across Borders* 2010)



Previously Unstudied Impediments Are Significant

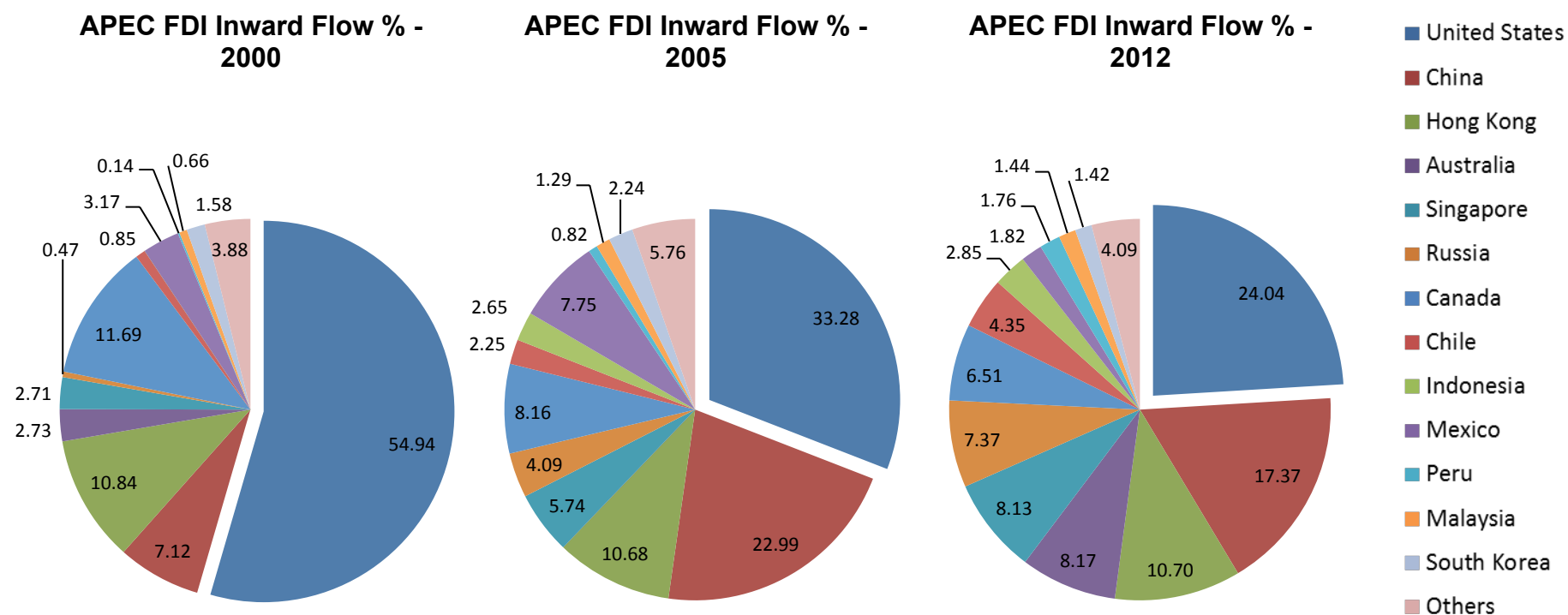
Business Impact of Inconsistency Across Levels Of Government

(from data collected in interviews/surveys with APEC business leaders)



APEC FDI Inflows Have Become More Balanced

The importance of non-US economies has grown significantly



Data Challenges And Opportunities

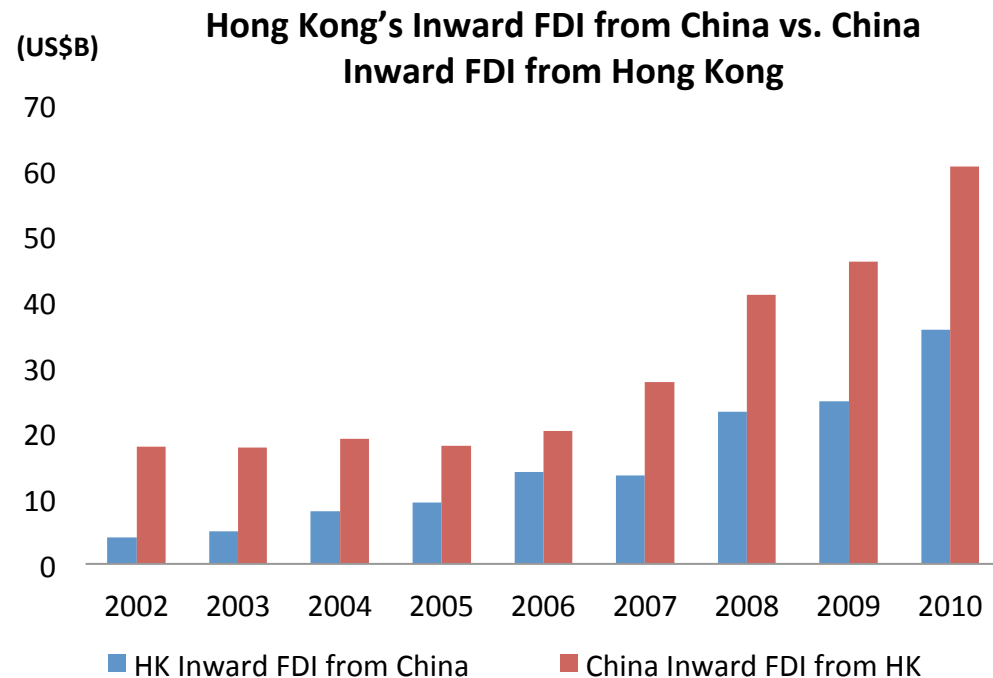
Round-tripping and Indirect Investments Distort FDI

Round-tripping investment:

Local capitals transferred outward and reinvested into the economy disguised as FDI.

Indirect investment:

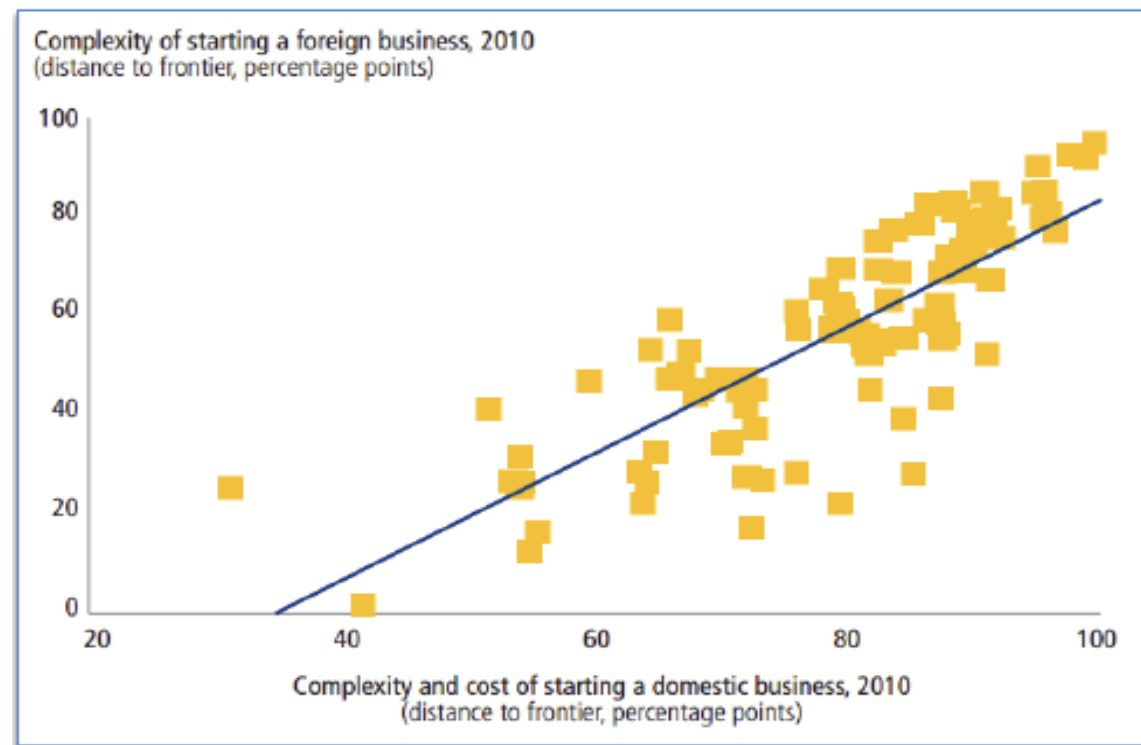
Capital transferred through tax-haven economies, obscuring origins of investment.



Open FDI Policies Promote Greater Domestic Investment

World Bank IAB report (2010) notes strong correlation between openness to FDI and strength of domestic investment environment

Coherent, well-implemented FDI policies benefit both FDI and domestic investment



Source: World Bank

Opportunity Drives FDI

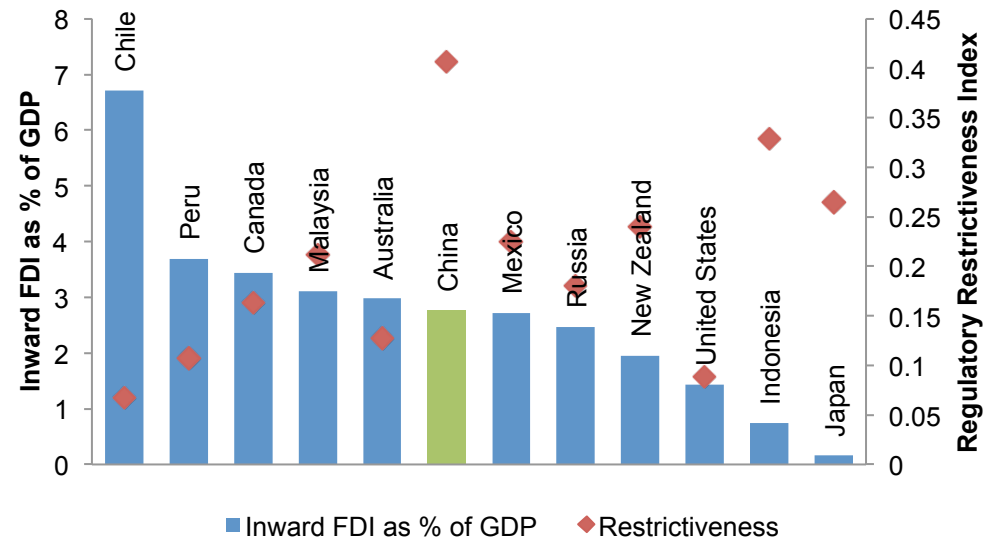
“If the market is attractive enough, we will go ahead with entry regardless of other administrative nitty-gritty.”

- Executive's comment on APEC

Companies found ways to invest in restrictive countries

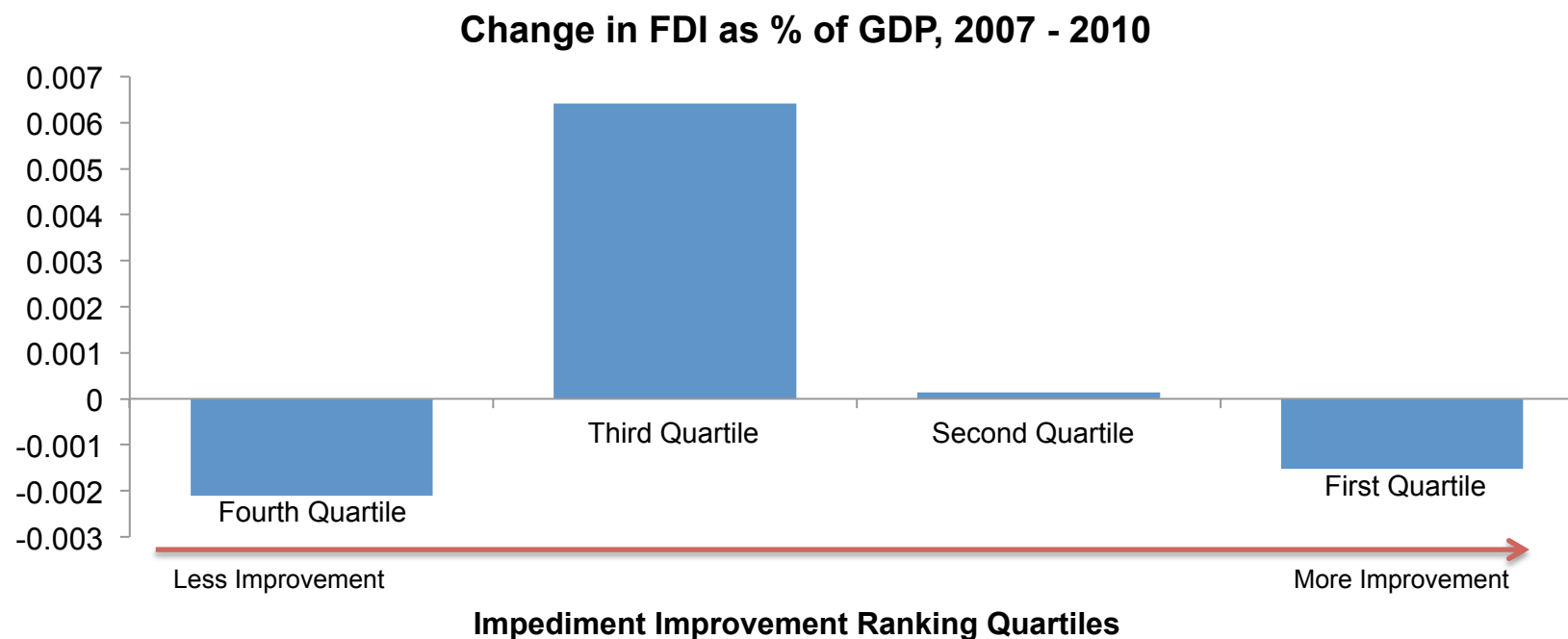
China has received a lot of investment despite challenges entering the market

Inward FDI against OECD RRI



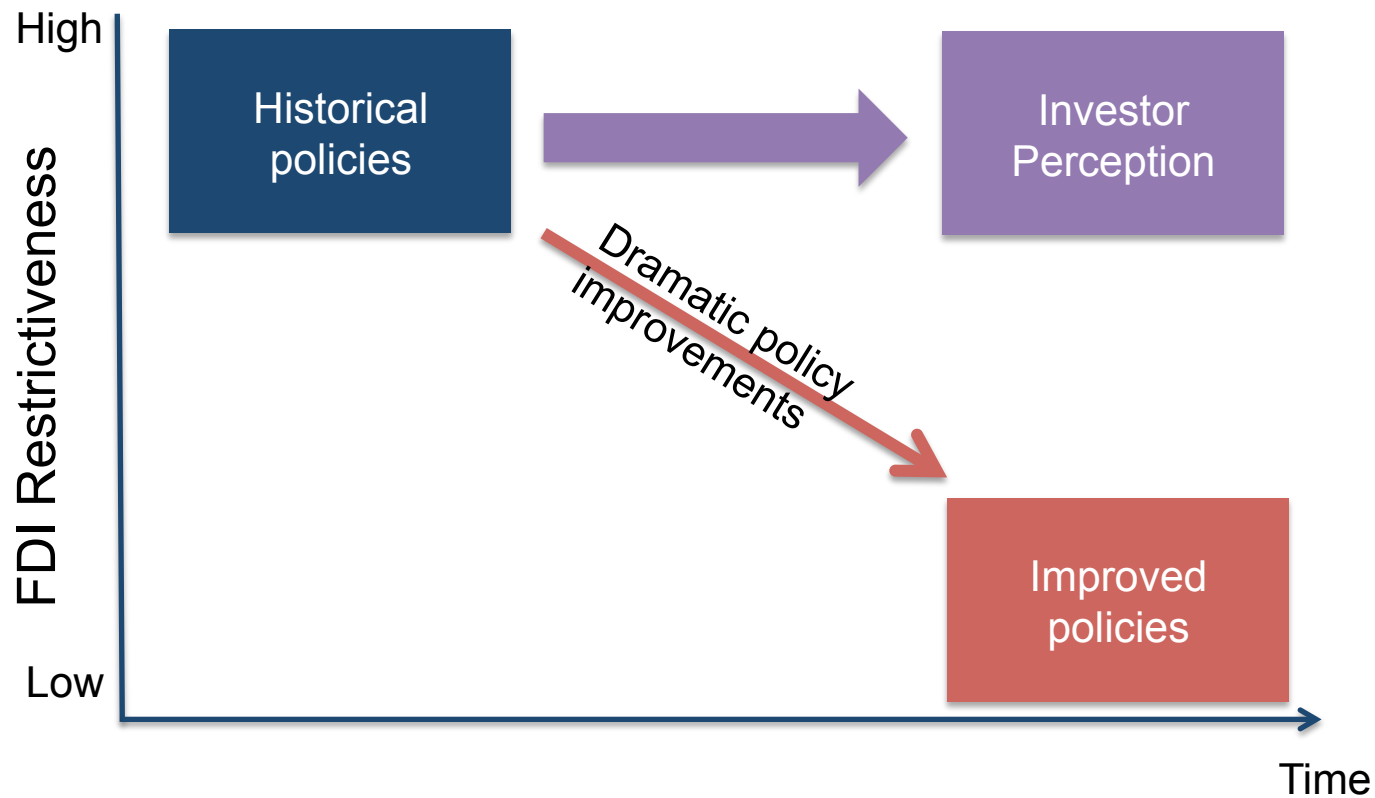
Removing Restrictive Barriers Is Not Enough

Economies that were among the worst in improving their performance on impediments saw the greatest positive change in FDI



Perception Can Lag Reality

Our research found that perceptions about FDI climates in APEC economies were often incorrect, and did not reflect changes made



FDI opportunity promotion is important in a world with many alternatives

Focus On Impediments That Increase Risk And Uncertainty

Focus is typically cost – time delays and added costs, but businesses cite risk issues as the largest impediments to investment

“I think the biggest reason that Australia is attractive to foreign firms is because it’s stable and consistent. You know exactly what you’re going to get, and it doesn’t change.”

-Executive’s comment on Australia

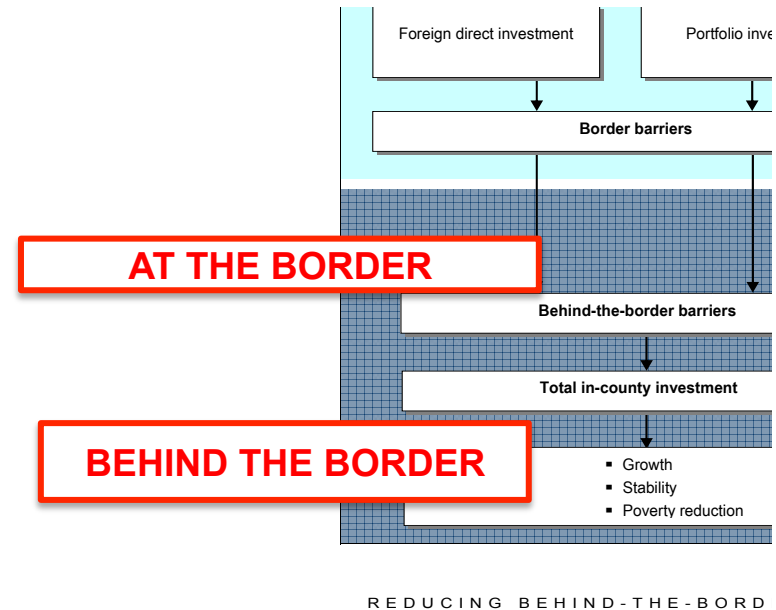
	Key Impediments	Risk or Cost
1	Availability Of Human Capital	Risk
2	Ease Of Hiring / Firing Workers	Risk
3	Consistency Across Levels Of Government	Risk
4	Independence Of Regulatory Process	Risk
5	Alignment Of Actions Across Agencies	Cost



FDI Impediments Framework

Building The FDI Impediments Framework

Existing reports identify FDI impediments as “At the Border” & “Behind the Border”...



Key Differences

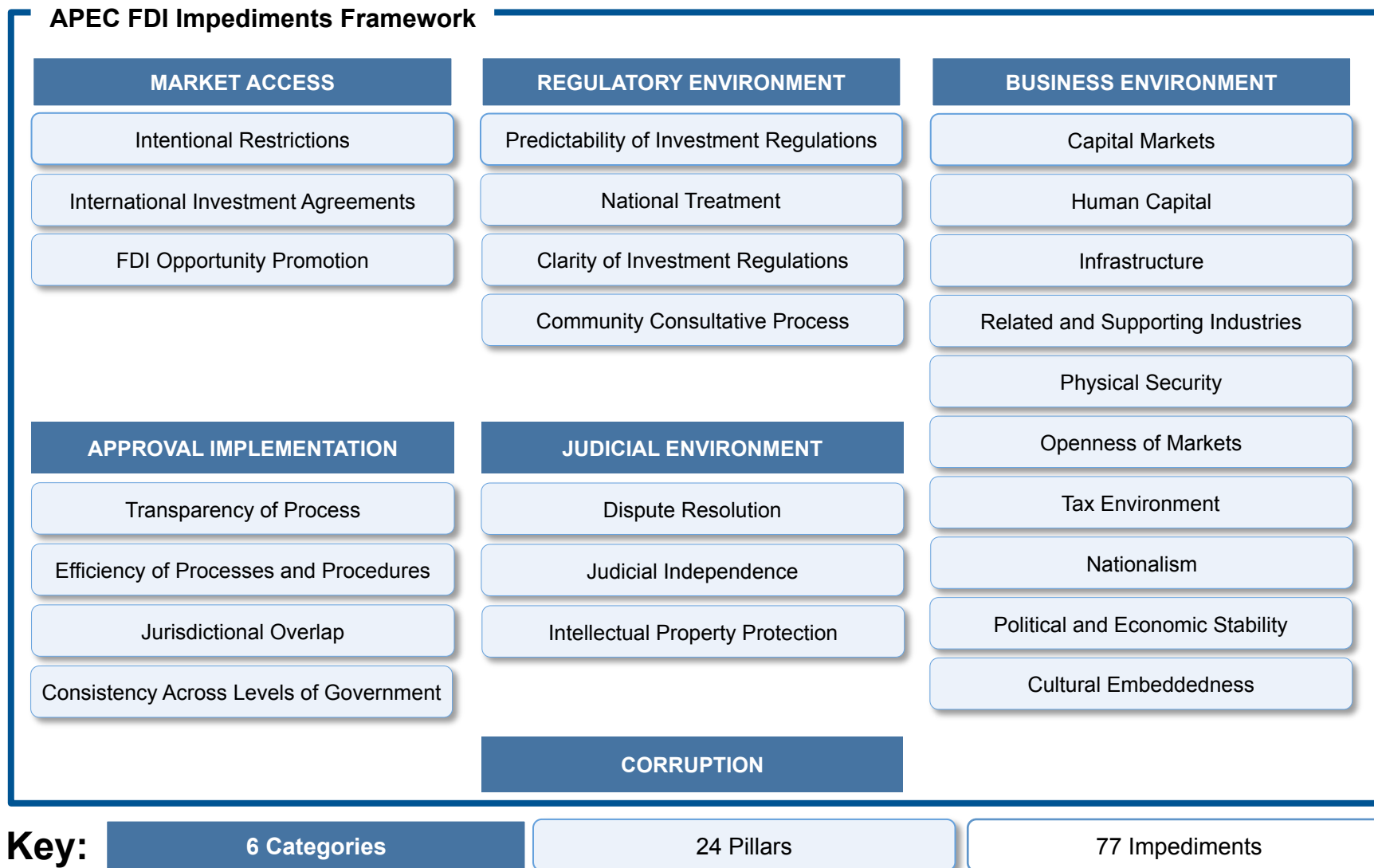
- We derived our framework based on interview responses
- Our framework is more business-oriented
- We do not divide impediments into “at the border” and “behind the border”

Capturing The Business Voice In All 21 APEC Economies

216 Companies & Organizations
271 Interviews



Business Perspective - FDI Impediments Framework





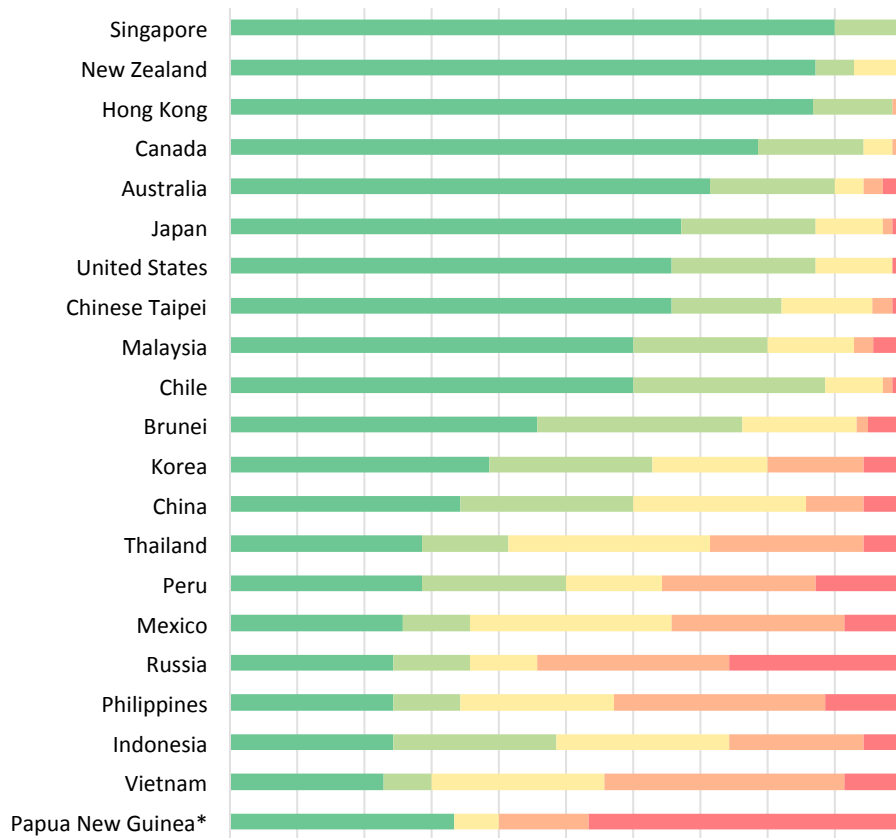
Scorecards:

Comparing Performance Across APEC Economies

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Our results follow closely with the benchmark results

Benchmark

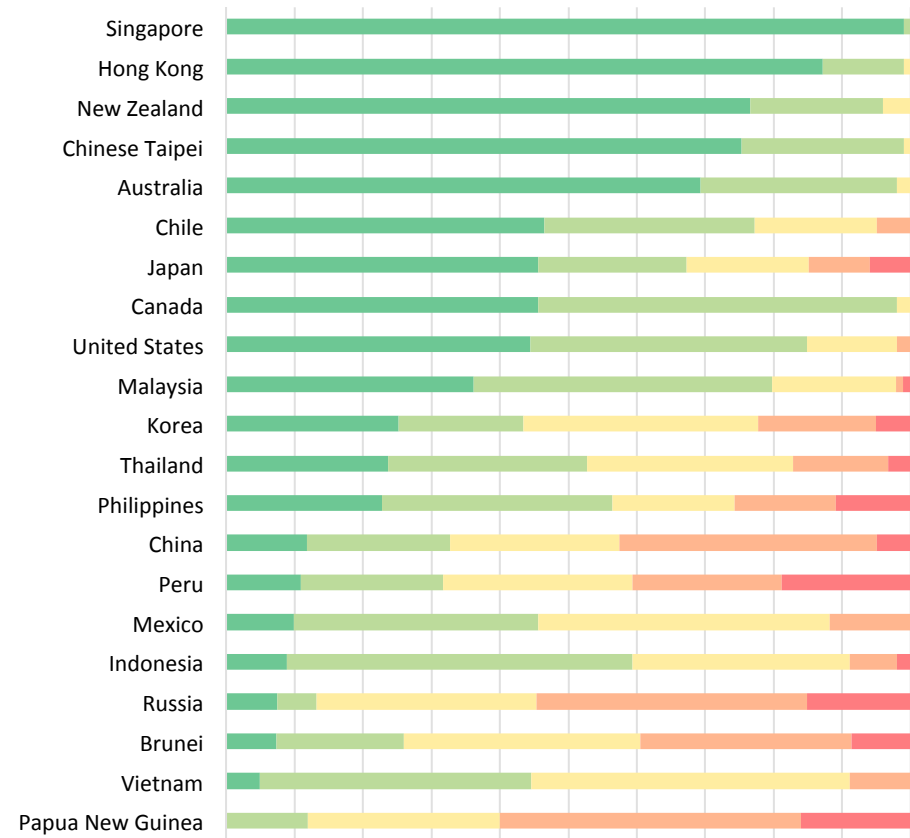


Total Impediment Rankings of Benchmarks on 1-5 Scale



1: Best in World
5: Worst in World
*Papua New Guinea is only ranked on 15 of 70 measures

Business Impact



Total Impediment Rankings of Impact on 1-5 Scale



1: Minor Impact
5: Prohibitive Impact

Problematic Impediments Across APEC

Most Problematic Impediments by Benchmark World Ranking Analysis

- Intentional Restrictions
- Efficiency of Processes and Procedures
- Human Capital

Most Problematic Impediments by APEC Business Impact Analysis

- Consistency Across Levels of Government
- Human Capital
- Infrastructure

Lower Middle Income Economies

MOST CRITICAL ISSUES

- 1) Infrastructure
- 2) Efficiency of Processes for Obtaining Investment Approval
- 3) Consistency Across Levels of Government
- 4) Jurisdictional Overlap
- 5) Dispute Resolution
- 6) Corruption
- 7) Physical Security
- 8) Transparency of Processes
- 9) Judicial Independence
- 10) Human Capital

Intergovernmental Consistency:
NGO Benchmark Rating
vs. Business Impact

	Indonesia	Papua New Guinea	Philippines	Vietnam
World Ranking of Transparency of Process				
Impact of Transparency of Processes				
World Ranking of Efficiency of Processes for Obtaining Approval				
Impact of Efficiency of Processes for Obtaining Approval				
Impact of Jurisdictional Overlap				
Impact of Consistency across Levels of Government				
World Ranking of Dispute Resolution				
Impact of Dispute Resolution				
World Ranking of Judicial Independence				
Impact of Judicial Independence				
World Ranking of Human Capital				
Impact of Human Capital				
World Ranking of Infrastructure				
Impact of Infrastructure				
World Ranking of Physical Security				
Impact of Physical Security				
World Ranking of Corruption				
Impact of Corruption				

Highest World Ranking

Lowest World Ranking



Upper Middle Income Economies

MOST CRITICAL ISSUES

- 1) Community Consultative Process
- 2) Judicial Independence
- 3) Human Capital
- 4) Physical Security
- 5) Intentional Restrictions
- 6) Corruption
- 7) Efficiency of Processes for Obtaining Investment Approval
- 8) IP Protection
- 9) Consistency Across Levels of Government
- 10) Transparency of Processes

Intergovernmental Consistency:
NGO Benchmark Ranking
vs. Business Impact

	China	Malaysia	Mexico	Peru	Thailand
World Ranking of Intentional Restrictions					
Impact of Intentional Restrictions					
World Ranking of Transparency of Process					
Impact of Transparency of Processes					
World Ranking of Efficiency of Processes for Obtaining Approval					
Impact of Efficiency of Processes for Obtaining Approval					
Impact of Consistency across Levels of Government					
Impact of Community Consultative Process					
World Ranking of Judicial Independence					
Impact of Judicial Independence					
World Ranking of IP Protection					
Impact of IP Protection					
World Ranking of Human Capital					
Impact of Human Capital					
World Ranking of Physical Security					
Impact of Physical Security					
World Ranking of Corruption					
Impact of Corruption					

Highest World Ranking

Lowest World Ranking

Minor Impact

Prohibitive Impact

High Income Economies

MOST CRITICAL ISSUES

- 1) Tax Environment
- 2) Intentional Restrictions
- 3) Human Capital
- 4) Consistency Across Levels Of Government
- 5) Dispute Resolution
- 6) Nationalism
- 7) Efficiency of Processes for Obtaining Approval
- 8) Predictability Of The Regulatory Environment
- 9) Community Consultative Process
- 10) Accessibility & Clarity of Investment Regulations

Intergovernmental Consistency:
NGO Benchmark Ranking
vs. Business Impact

	Australia	Brunei	Canada	Chile	Chinese Taipei	Hong Kong	Japan	Korea	New Zealand	Russia	Singapore	United States
World Ranking of Intentional Restrictions												
Impact of Intentional Restrictions												
World Ranking of Efficiency of Processes for Obtaining Approval												
Impact of Efficiency of Processes for Obtaining Approval												
Impact of Consistency across Levels of Government												
World Ranking of Predictability of the Regulatory Environment												
Impact of Predictability of the Regulatory Environment												
World Ranking of Accessibility & Clarity of Investment Regulations												
Impact of Accessibility & Clarity of Investment Regulations												
Impact of Community Consultative Process												
World Ranking of Dispute Resolution												
Impact of Dispute Resolution												
World Ranking of Human Capital												
Impact of Human Capital												
World Ranking of Tax Environment												
Impact of Tax Environment												
Impact of Extent of Nationalism												

Highest World Ranking

Lowest World Ranking



South East Asian Economies

MOST CRITICAL ISSUES

- 1) Intentional Restrictions
- 2) Corruption
- 3) Infrastructure
- 4) Efficiency of Processes for Obtaining Investment Approval
- 5) Judicial Independence
- 6) Dispute Resolution
- 7) Human Capital
- 8) Predictability of the Regulatory Environment
- 9) Transparency of Processes
- 10) Accessibility and Clarity of Investment Regulations

Intergovernmental Consistency:
NGO Benchmark Ranking
vs. Business Impact

	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
World Ranking of Intentional Restrictions							
Impact of Intentional Restrictions							
World Ranking of Transparency of Process							
Impact of Transparency of Processes							
World Ranking of Efficiency of Processes for Obtaining Approval							
Impact of Efficiency of Processes for Obtaining Approval							
World Ranking of Predictability of the Regulatory Environment							
Impact of Predictability of the Regulatory Environment							
World Ranking of Accessibility & Clarity of Investment Regulations							
Impact of Accessibility & Clarity of Investment Regulations							
World Ranking of Dispute Resolution							
Impact of Dispute Resolution							
World Ranking of Judicial Independence							
Impact of Judicial Independence							
World Ranking of Human Capital							
Impact of Human Capital							
World Ranking of Infrastructure							
Impact of Infrastructure							
World Ranking of Corruption							
Impact of Corruption							

Highest World Ranking

Lowest World Ranking



Eastern Pacific Economies

MOST CRITICAL ISSUES

- 1) Jurisdictional Overlap
- 2) Consistency Across Levels of Government
- 3) Community Consultative Process
- 4) Judicial Independence
- 5) Infrastructure
- 6) Predictability of the Regulatory Environment
- 7) Physical Security
- 8) IP Protection
- 9) Corruption
- 10) Efficiency of Processes for Obtaining Approval

Intergovernmental Consistency:
NGO Benchmark Ranking
vs. Business Impact

	Canada	Chile	Mexico	Peru	United States
World Ranking of Efficiency of Processes for Obtaining Approval					
Impact of Efficiency of Processes for Obtaining Approval					
Impact of Jurisdictional Overlap					
Impact of Consistency across Levels of Government					
World Ranking of Predictability of the Regulatory Environment					
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Impact of Community Consultative Process					
World Ranking of Judicial Independence					
Impact of Judicial Independence					
World Ranking of IP Protection					
Impact of IP Protection					
World Ranking of Infrastructure					
Impact of Infrastructure					
World Ranking of Physical Security					
Impact of Physical Security					
World Ranking of Corruption					
Impact of Corruption					

Highest World Ranking

Lowest World Ranking



Oceanic Economies

MOST CRITICAL ISSUES

- 1) Intentional Restrictions
- 2) Human Capital
- 3) Consistency Across Levels of Government
- 4) Tax Environment
- 5) Jurisdictional Overlap
- 6) Nationalism
- 7) Efficiency of Processes for Obtaining Approval
- 8) Predictability of the Regulatory Environment
- 9) Openness of Markets
- 10) Dispute Resolution

Intergovernmental Consistency: NGO Benchmark Ranking vs. Business Impact		Australia	New Zealand	Papua New Guinea
World Ranking of Intentional Restrictions				
Impact of Intentional Restrictions				
World Ranking of Efficiency of Processes for Obtaining Approval				
Impact of Efficiency of Processes for Obtaining Approval				
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Impact of Community Consultative Process				
World Ranking of Human Capital				
Impact of Human Capital				
World Ranking of Openness of Markets				
Impact of Openness of Markets				
World Ranking of Tax Environment				
Impact of Tax Environment				
Impact of Extent of Nationalism				

Highest World Ranking

Lowest World Ranking

Minor Impact

Prohibitive Impact

North East Asian Economies

MOST CRITICAL ISSUES

- 1) Efficiency of Processes for Obtaining Approval
- 2) Consistency Across Levels of Government
- 3) Jurisdictional Overlap
- 4) Tax Environment
- 5) Openness of Markets
- 6) Human Capital
- 7) IP Protection
- 8) Dispute Resolution
- 9) Corruption
- 10) Intentional Restrictions

Intergovernmental Consistency:
NGO Benchmark Ranking
vs. Business Impact

	China	Chinese Taipei	Hong Kong	Japan	Korea	Russia
World Ranking of Intentional Restrictions						
Impact of Intentional Restrictions						
World Ranking of Efficiency of Processes for Obtaining Approval						
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Impact of IP Protection						
World Ranking of Human Capital						
Impact of Human Capital						
World Ranking of Openness of Markets						
Impact of Openness of Markets						
World Ranking of Tax Environment						
Impact of Tax Environment						
World Ranking of Corruption						
Impact of Corruption						

Highest World Ranking

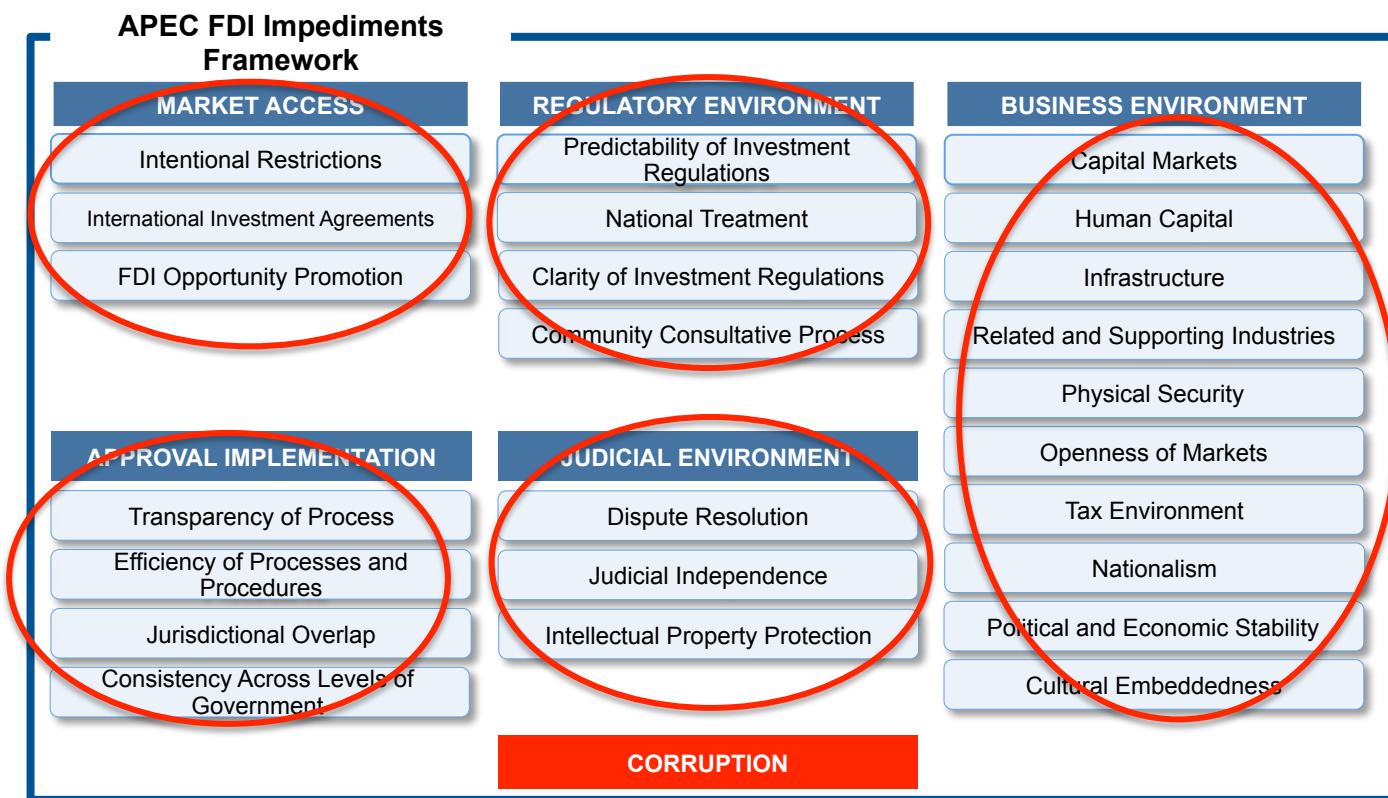
Lowest World Ranking

Minor Impact

Prohibitive Impact

Sadly, Corruption Remains A Real Challenge In APEC

Corruption was reported as being present in all phases of FDI to greater or lesser extent across all APEC economies.



Single-windows for investment, and online processing can do much to reduce opportunities for corruption.



Conclusion and Recommendations

Recommendations And Takeaways For APEC

STOP

Stop fighting the “last war”

STRENGTHEN

Political will matters...and appears lacking

SHARE

Leading economies must share best practices

STANDARDIZE

Standardize as much as possible

PUSH

Keep pushing forward

Recommendation #1: Have Forward-Looking Policies

STOP

Stop fighting the last war

Recommendation #2: Stronger Political Courage

STRENGTHEN

Political will matters, and appears lacking

Recommendation #3: Make Best Practices The Expectation

SHARE

Leading economies must share best practices

Recommendation #4: Make Policies/Procedures APEC-wide

STANDARDIZE

Standardize as much as possible

Recommendation #5: Increase Momentum

PUSH

Keep pushing forward

Recommendations And Takeaways for APEC

STOP

Stop fighting the “last war”

STRENGTHEN

Political will matters...and appears lacking

SHARE

Leading economies must share best practices

STANDARDIZE

Standardize as much as possible

PUSH

Keep pushing forward



Q&A

To Access Full Report And Materials...

- USC Marshall ABAC Page
 - Executive Summary
 - Final Report
 - Final Presentation
 - Economy Handout
 - Heatmap
 - Condensed Report to APEC SOM1 2014
- <http://classic.marshall.usc.edu/abac/past-research-projects.htm>