

*Executive Summary***Foreign Direct Investment across APEC**
Impediments and Opportunities for Improvement

This report offers a detailed analysis of impediments to Foreign Direct Investment across the APEC region. Specifically, it identifies and quantifies the most significant impediments to FDI inflows by incorporating a business-executive view of the impacts of impediments. Our objective is to highlight the areas where focused attention would have the greatest impact on increasing FDI inflows.

There are significant impediments to FDI inflows within the APEC region, and the associated benefits of FDI inflows to the APEC economies are being lost. Understanding which impediments are the most impactful to business, and addressing these impediments specifically, could lead to increased prosperity. This reports suggests APEC has an important role to play in continuing to set the agenda for needed regional discussions and debate on FDI. Currently, APEC economies differ widely in openness to FDI, and the rate of progress being made in removing barriers. Much can be gained by the sharing of good practices, and lessons from bad experiences, among APEC economies.

The report develops a comprehensive conceptual framework to identify impediments to FDI, and estimates their respective impacts on investors. Policy responses toward mitigating FDI impediments have typically focused on “at the border” impediments with an emphasis on removing market access barriers to improve FDI inflows. Our research findings, however, strongly suggest that the most important impediments to FDI take place “behind the border”. Impediments such as inconsistencies across levels of government, fair and fast dispute resolution, infrastructure development, clarity to investment rules and regulations, and quality of human capital, among many others, pose the greatest risks and costs to operations. Businesses approach investment decisions holistically and with real concerns for success over the long term. “At the border” concerns are only a small part of the larger, more complex investment decision. Business is concerned with not only the start-up investments but the ability to make on-going investments. For business, the coherence and efficiency of an economy’s entire investment policies and procedures, and its business environment is critically important.

Our research included the following

- **Capturing the Business Voice in APEC.** In depth interviews with 271 business executives, government officials, and experts and specialists about FDI challenges within their economies, across APEC, and globally.
- **Meta-analysis.** Extensive examination of existing research on FDI to understand, identify, and quantify FDI inflows impediments.
- **APEC FDI Impediments Framework.** Developed a comprehensive, targeted FDI inflows impediments framework based on interviews with business.

- **Global benchmarking of APEC economies.** Using available indexes and measures drawn from the World Economic Forum and World Bank, each APEC economy's relative performance was ranked and compared to all global economies.
- **Assessing the impact of FDI impediments on APEC business.** The relative impact of each impediment was assessed, for each APEC economy, using qualitative data obtained from business executives in the interviews.
- **Conclusions and recommendations.** Generalizable conclusions are drawn from the interviews and data analysis. A set of actionable recommendations are proposed.

KEY FINDINGS

1. **Intentional FDI restrictiveness remains high in APEC.** While much progress has been made, APEC continues to lag the world in the removing of FDI restrictiveness barriers. Eighteen APEC economies retain minor to major sector restrictions; only three APEC economies do not have some form of limitation on ownership and control.
2. **Business impact of FDI rules is *lower* in APEC.** While restrictiveness remains high, the relative impact of FDI rules on APEC business is lower when compared to other global economies. This is an anomaly that requires additional research. Perhaps, for political reasons, FDI policies remain but exemptions are regularly given to investing firms.
3. **The FDI liberalization challenge is much more than removing intentional restrictions.** The “at the border”/ “behind the border” distinction proved unhelpful to business. Business examines the coherence and conduciveness of an economy's *entire* investment framework. The chain-linked nature of investment decisions makes business sensitive to chokepoints anywhere in the investment environment.
4. **Absence of detailed data required for rigorous analysis.** Available sectorial and historical FDI inflows data is limited. Any robust model of FDI inflows flows will be based on deep analysis of sectorial data however, few economies were willing to provide consistent sectorial data. The creation of a strong business case for change is limited without it.
5. **Unpredictability takes many forms.** Across time, layers of government, and geographies – it plays a significant role in the investment decision making process. FDI sentiments receive voice for multiple reasons, however they do not seem to produce changes in laws.
6. **Providing national treatment is not enough to spur investment.** Economies, which have relaxed the severity of their investment rules in recent years, have not always shown increased FDI inflows.
7. **No perceived increase in anti-FDI sentiment.** Anti-FDI sentiment exists in all APEC economies but our research did not identify any substantive changes.
8. **Non-investment flows of cash distort gross FDI inflows data.** Investors frequently move capital in and out of tax haven economies without making a business investment. This data is difficult to differentiate from traditional definitions of investment
9. **FTAs have dual benefits for FDI.** As MNCs increasingly expand their global value chains across borders, trade and investment agreements are increasingly important to their locational decisions. FTAs can increase market opportunity. Additionally, and perhaps more importantly, negotiation of high-quality FTAs provides cover to politicians to commit to more liberalized FDI policies that they would be reluctant to do so because of political expediency.
10. **Corruption exists at all stages of the investment process.** Corruption is an especially complex issue, affecting processes and decisions throughout an investment's lifecycle. It can appear at the border or behind the border, and while it always adds costs, it can also add a great deal of risk.

11. **Most problematic FDI business concerns.** Across economies the most problematic impediments were concerns about human capital, consistency across levels of government and jurisdictional overlap, judicial independence, efficiency of government processes, dispute resolution, and community consultative processes.

ACTION AGENDA

This report argues for a strong role by APEC in liberalizing Foreign Direct Investment to foster economic development. The alternative of continued tolerance of existing impediments has proven to be inefficient. Collective attention and focus is needed to spur growth and prosperity, particularly in developing economies.

1. **Measurement matters.** Collect and publish APEC FDI benchmark report, annually, including rankings and relative performance information.
2. **Get the data.** The analysis and conclusions reached in this study could have been improved if greater granularity of data were available. The data that is currently available is not sufficient to analyze thoroughly, especially when evaluating sectors. Better data collection by both business and government would allow the creation of a stronger business case for change.
3. **Accelerate single-window adoption across APEC; but with coordinated approaches.** Business is impatient for single-windows for investment. But they are concerned that each economy will select and implement different approaches. This will unnecessarily increase costs and complexity for businesses that make multi-locational investments.
4. **Further accelerate and coordinate the initiative for online information and processing.**
Economies stand to gain much from moving to online systems. APEC should establish standards and protocols and coordinate the sharing of good practices. Much is gained in terms of improved transparency and speed, and it also has the added benefit of discouraging corruption.
5. **Establish and recognize international commercial arbitration standards.** Allowing foreign firms to specify international arbitration in all contracts will ensure the fairness and speed of dispute resolution. International arbitration would use domestic law but give needed judicial independence.
6. **Promote international talent mobility.** Business cannot make investments if needed talent is not readily available. Accessing talent and moving talent to market opportunity is critical. APEC must continue and accelerate its initiatives.