

# **Foreign Direct Investment Across APEC** *Impediments And Opportunities For Improvement*



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***Marshall School of Business***  
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***\*Condensed Findings Presented To***  
***APEC 2014 SOM1***  
***February, 2014***

# Introduction

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## Business Perspective of FDI Impediments within APEC

A recent study by the University of Southern California's Marshall School of Business, undertaken at the request of APEC's Business Advisory Council, identified a more comprehensive set of impediments and deal-killing pain points to Foreign Direct Investment in APEC than those on which policymakers traditionally focus. By conducting extensive secondary research and interviewing nearly 300 executives in all 21 APEC economies, the researchers captured the voice of business within APEC. Because businesses don't look at FDI the same way policymakers do, it follows that policymakers should examine FDI issues utilizing a framework that stems from the actual process that business entities undertake.

## Stop fighting the last war

Traditional models of analyzing impediments to Foreign Direct Investment are from a policymaker perspective and thus pay much greater attention to "at the border" restrictions. Because it turns out that the most pernicious impediments are in fact "behind the border," this is the wrong way to think about policy solutions. Because of the ever-increasing speed with which the world now moves and business decisions must now be undertaken, it is imperative that future FDI policy be forward looking, and constructed utilizing a similar viewpoint as businesses themselves utilize. Businesses look to the future and see an ever increasingly connected world driven by technology – a more and more interdependent web of activities in which they, by necessity, must push supply chains and talent to multi-locational operations. This rapidly changing environment of internationalized business compels firms to rethink their portfolio of activities and seek multi-locational landing spots that ideally enhance but at the very least cause minimal disruption to the flow of their necessary business activities. In order for individual economies and APEC as a whole to keep up, FDI policy must be more futuristic. The world is moving too fast for making policy based on today's or yesterday's realities. This will only lead to an economy or entire region of economies being left behind.

## Consistency, predictability, and stability are critical

Because of the extent to which uncertainty frustrates business planning and disrupts operations, those impediments whose resolution would be most impactful are those having to do with consistency, predictability and stability. Although specific areas needing focus vary by economy, across APEC and in individual economies impediments related to these three issues were the most troublesome to business leaders. This can range from

infrastructure uncertainties in Indonesia, to the Byzantine and incomprehensible tax code faced in the United States, to, as has been starkly illustrated in recent weeks in Thailand, political instability.

## The FDI challenge is more than just at the border

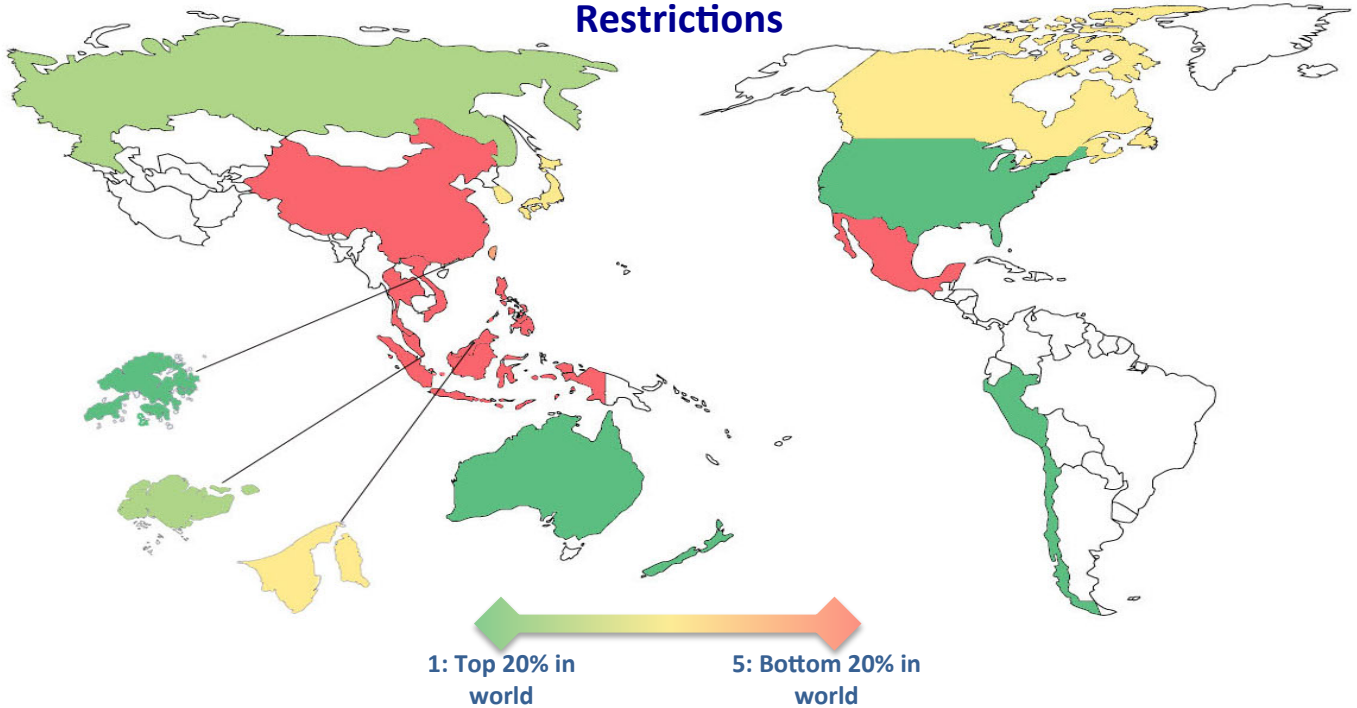
While USC's researchers expected to hear tales of businesses' struggles with traditional notions of "at the border" barriers, this was not the case. Field research indicated that weakening or removal of these barriers is a necessary but not sufficient condition for attraction of greater FDI flows and the increased revenues and prosperity they bring. There is, both APEC-wide and within each economy, a whole other set of investment conditions which must be amenable or at least not obstructive in order for an economy to reap the benefits of increased FDI. In military parlance, a "mission critical list" is a list of those components on any large asset (ship, aircraft, etc.) without which the asset cannot be utilized or deployed. These items can be thought of as those which prevent the take-off or launch of that asset. With respect to impediments or enhancers to FDI, USC's researchers encourage APEC and its' member economies to consider which items are "mission critical" to a given economy's ability to truly take off and launch its people to the next level of prosperity.

## APEC economies lead and lag the world

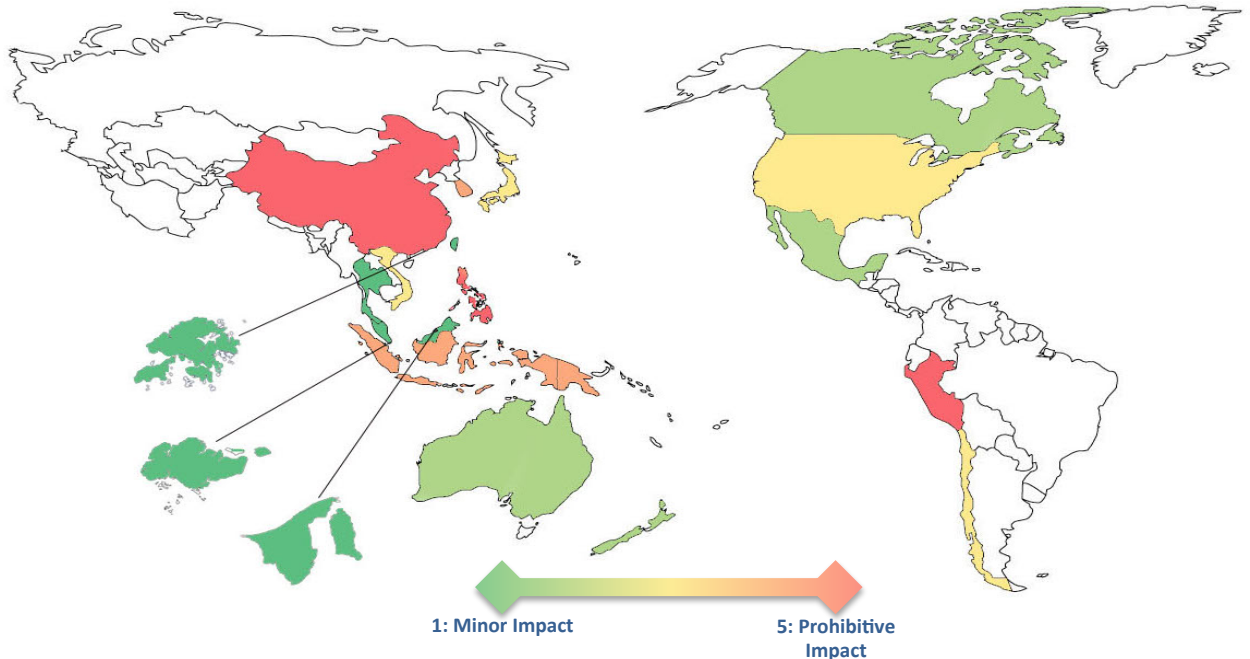
The report's findings, confirmed by previous World Bank data, also found a bipolar aspect to APEC's performance when it comes to FDI flows and liberalization: it both leads and lags the world. For instance, economies such as Singapore, Hong Kong and New Zealand lead not just APEC but the world with respect to FDI openness and deliberate efforts to maintain and enhance this attractive environment. Sadly, economies that truly need FDI the most, such as Papua New Guinea, the Philippines, or Indonesia, lag not just APEC but the world in terms of ease of committing and executing on FDI. These and other economies like them, whose citizens would benefit from greater FDI flows far more than the average citizen of Singapore would, have also often exhibited more recalcitrant tendencies regarding failure or slowness to liberalize, or reversing course in some areas without warning. This is not to say that even so-called star performers don't have issues that need attention or room to improve and realize even greater FDI benefits. USC's research uncovered interesting impediments and enhancers in each economy, some of which is detailed in this condensed report. Readers are encouraged to further explore the full report at <http://classic.marshall.usc.edu/assets/159/25803.pdf>

# Did You Know?

## APEC Leads And Lags The World World Ranking of Foreign Ownership And Control Restrictions



## Previously Unstudied Impediments Are Significant Business Impact of Inconsistency Across Levels Of Government

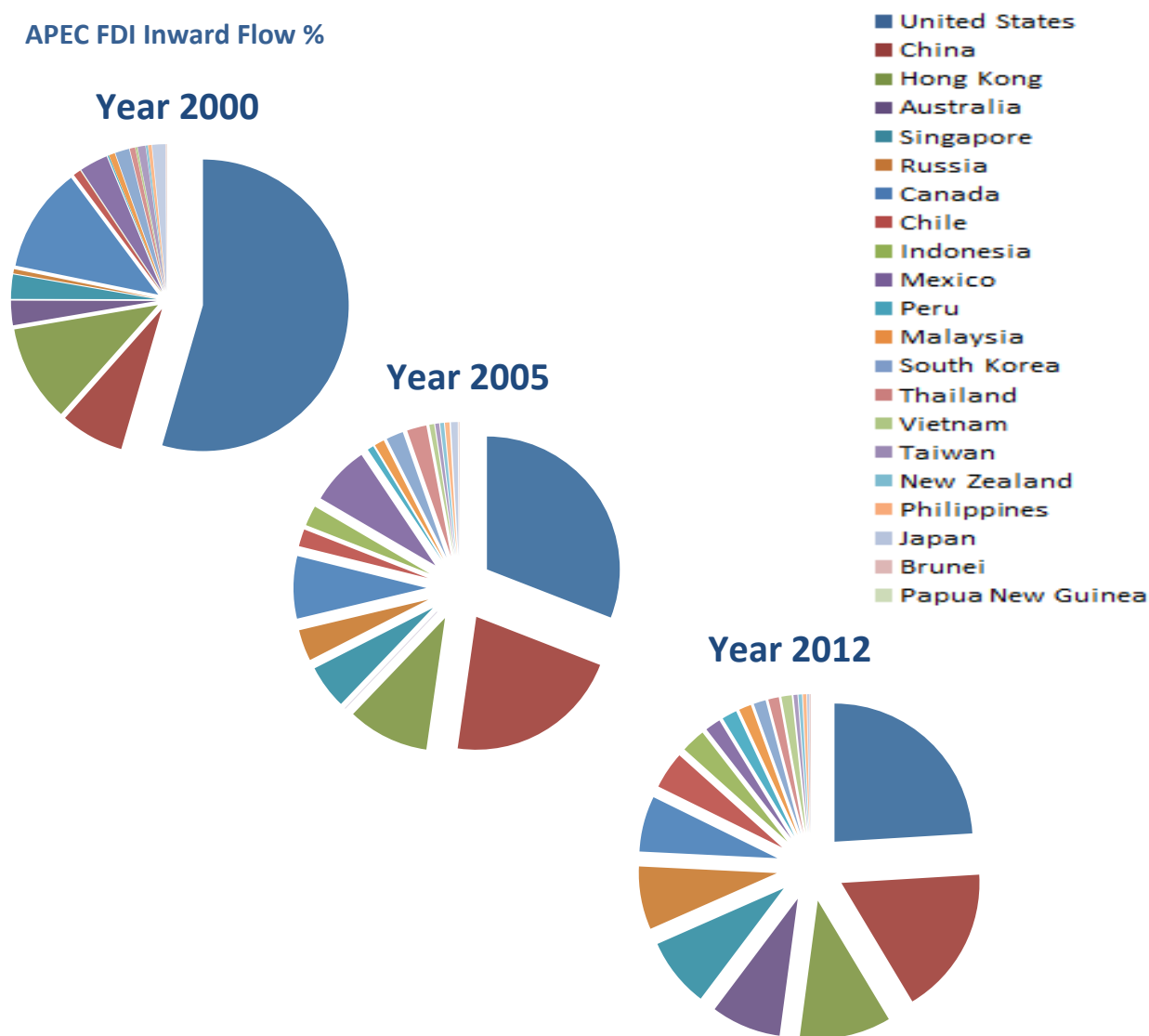


# APEC Trends in the 21<sup>st</sup> Century

## Non-US APEC members are increasing influence

The graphs below show the percentage of APEC's inward FDI flow attributed to each economy for the years 2000, 2005, and 2012. Some economies, notably the United States, Canada, and Mexico, make up less of the overall share of APEC's inward FDI flows now than they did in 2000. Most notably, the United States' percentage of APEC's inward FDI flows was 54.94% in 2000, and only 24.04% in 2012. In general, APEC's inward FDI flows have become more evenly distributed across economies.

### APEC FDI Inward Flow %



## Surprising Trends

Some of the surprises encountered in overall FDI flow data can be explained by examining more fine grained sectorial data. For example, the decline in the US overall FDI flow can be largely explained by the Global Financial Crisis. Lack of detailed FDI statistics reported in standardized fashion by all economies presented a barrier to performing an in-depth analysis of these FDI flows, such as those in the US, Singapore, Canada, Chile, and Japan since 2006.

# Data Challenges And Opportunities

## Challenges

While there is high-quality data available for general FDI flows and stocks by economy, there is also a lack of high-quality sectorial and intra-economy FDI data. Any sectorial or intra-economy analysis was done only on the data available.

More alarmingly, FDI data may be tainted due to high FDI flows into and out of tax haven economies and intermediary economies. An illustrative example of this is the United States, whose outward FDI flow to tax haven economies in 2012 was nearly 50% of its total outward FDI flow (calculated from data provided by the United States Bureau of Economic Analysis). The FDI flows into and out of these tax haven economies taint the data. They obscure intra-economy FDI flows, hide laundered money, and possibly inflate FDI flows by showing local investments filtered through these economies as FDI.

Given these limitations and concerns, the following are key takeaways from this analysis:

- **APEC makes up the majority of inflows in the world**
- **APEC FDI decreased in 2012, driven primarily by the US**
- **FDI in APEC's developing economies is lagging developing economies in the world**
- **APEC FDI inflows have become more evenly distributed amongst the economies**
- **APEC outward FDI flow overtook EU in 2009**
- **APEC FDI flows are less volatile than the world**

## Opportunity to evaluate FDI by sector

While interesting trends across economies were noticed during analysis of the FDI data, an exhaustive sectorial analysis was not feasible. UNCTAD's FDI statistics were the most thorough and uniform FDI statistics, but lacked detailed data by sector and by investor economies. The attempt to acquire more detailed FDI data from each APEC member economy's national statistics department also failed to draw meaningful comparisons as the data did not have common formats, industry classifications, currencies or timeliness. Beyond that, some APEC economies lacked publicly available FDI data by sector and by investor economies in any format. The lack of standardized FDI statistics for APEC members is a significant barrier to a thorough study of FDI trends and further restricts the accuracy of current status analysis.

It is therefore recommended that APEC develop comprehensive FDI reporting standards for their member economies. The standardized statistics would allow for more thorough and accurate studies of FDI within APEC that would offer better insight to support policymakers.

**Inward FDI Flow into APEC for 2006-2012**

(US\$B)	2006	2007	2008	2009	2010	2011	2012
<b>APEC</b>	<b>580.22</b>	<b>738.49</b>	<b>794.1</b>	<b>478.34</b>	<b>632.09</b>	<b>732.64</b>	<b>697.24</b>
<b>US</b>	237.14	215.95	<b>306.37</b>	<b>143.6</b>	<b>197.91</b>	<b>226.94</b>	<b>167.62</b>
<b>China</b>	72.72	83.52	108.31	95	114.73	123.99	121.08
Hong Kong	45.06	54.34	59.62	52.39	71.07	83.16	74.58
Australia	31.05	45.54	47.22	26.55	35.56	41.32	56.96
<b>Singapore</b>	36.7	<b>46.93</b>	<b>11.8</b>	<b>24.42</b>	<b>48.64</b>	<b>64</b>	56.65
Russia	29.7	55.07	75	36.5	43.29	52.88	51.42
Canada	60.29	114.65	57.18	21.41	23.41	40.93	45.38
Chile	7.43	12.57	15.52	12.89	15.37	17.3	30.32
Indonesia	4.91	6.93	9.32	4.88	13.77	18.91	19.85
Mexico	20.12	31.49	27.14	16.12	20.71	19.55	12.66
Peru	3.47	5.49	6.92	6.43	8.46	8.23	12.24
Malaysia	6.06	8.6	7.17	1.45	9.1	11.97	10.07
Korea	4.88	2.63	8.41	7.5	8.51	4.66	9.9
Thailand	9.5	11.36	8.46	4.85	9.73	9.57	8.61
Viet Nam	2.4	6.7	9.58	7.6	8	7.43	8.37
Chinese Taipei	7.42	7.77	5.43	2.81	2.49	-1.96	3.21
New Zealand	4.53	3.13	4.39	-0.76	0.64	3.37	2.91
Philippines	2.92	2.92	1.54	1.96	1.3	1.26	2.8
Japan	-6.51	<b>22.55</b>	<b>24.43</b>	<b>11.94</b>	<b>-1.25</b>	<b>-1.76</b>	<b>1.73</b>
Brunei	0.43	0.26	0.33	0.37	0.63	1.21	0.85
Papua New Guinea	-0.01	0.1	-0.03	0.42	0.03	-0.31	0.03

FDI into US finance sector declined dramatically since financial crisis

FDI inflow to manufacturing and pharmaceutical sectors in Singapore declined in 2008

Strong JPY/USD rate deteriorated FDI attractiveness in Japan.

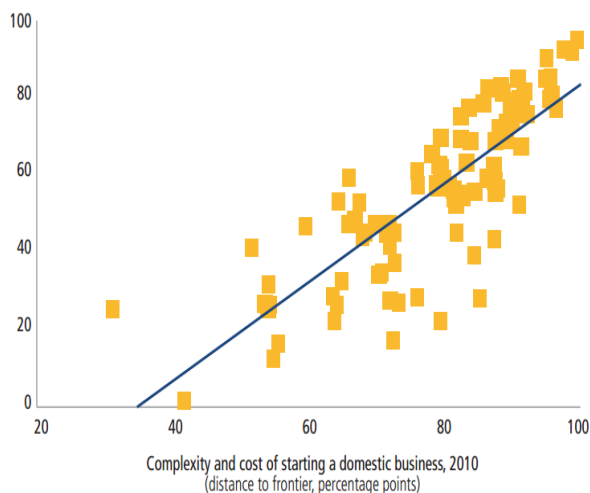


# Investment is Investment

## Hurting foreign businesses can hurt domestic businesses

Policy makers, with responsibilities for trade policy, focus on specific “at the border” barriers and “behind the border” restrictions that are in place as part of an economy’s legalistic attitude toward FDI and their response to managing it. However, USC’s study found that FDI frameworks should not differentiate between foreign and domestic businesses, because the businesses themselves often do not distinguish between foreign and domestic investments. All are just investment decisions, and the things that foster or impede investment for foreign operators are often the factors that foster or impede investment and successful operation for domestic actors as well. It is more sensible to examine the FDI decision-making process and environment for a given economy as an interconnected ecosystem of factors.

Complexity of starting a foreign business, 2010  
(distance to frontier, percentage points)



This chart, from WB - IAB report (2010), demonstrates the strong correlation between the complexity and cost of starting a domestic business and the complexity of starting a foreign business. This suggests that policies which are good for foreign investors may also be good for domestic investors, and vice versa. Evidence from our own investigations support this. The most often cited barriers to FDI were those that would affect domestic investors as well: unreliable court systems, changing tax laws, poor infrastructure, inconsistency across levels of government in regulatory enforcement, and corruption, for example.

## Governments are awful at “picking winners”

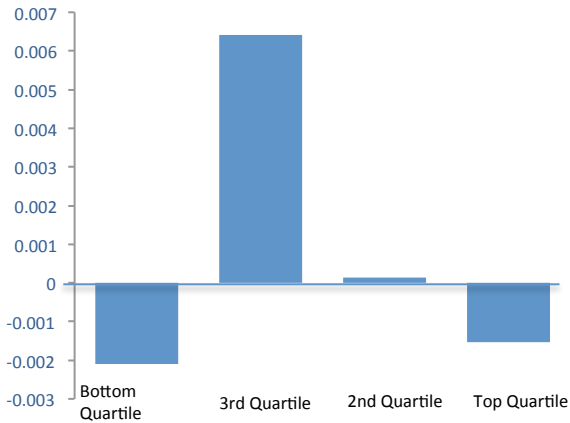
Governments justifiably want to encourage “good” FDI (creates jobs and tax revenue without consuming revenue) and discourage “bad” FDI (creates no jobs or revenue while consuming resources, or which is counter to national security interests). Governments also have every right, indeed responsibility, to protect national security, resources, and other legitimate national interests. Businesses seeking to invest, however, never classify their own projects as “bad” FDI. They instead describe the benefits the investment will bring to the host economy, including improved standards of living, and lower goods prices.

The fact that governments view some investment as undesirable or some sectors as off-limits manifests itself in outright restrictions. Whether safeguarding legitimate national interest or seeking to protect domestic industry, however, policymakers must take caution from the adjacent chart and “investment is investment” theme it supports. They may well find they are hampering domestic businesses as much as outsiders.

# Opportunity Trumps Access

## Data Analysis: Lessening barriers does not necessarily lead to improvement in FDI

Change in FDI as % of GDP, 2007 - 2010



The investigation revealed instances where a country had made great strides in removing impediments, but little progress in attracting FDI. Conversely, situations existed where impediments did not improve, but FDI continued to flow in. Market opportunity seems to trump access restrictions in these situations.

Data show that improvement in severity of foreign investment rules does not necessarily result in an improvement in FDI inflows. The chart at the left groups the APEC economies in quartiles based on the change in their severity of investment rules, as measured by the Global Competitiveness Report's rating for Business Impact of Rules. The top quartile contains those economies which improved the most in this metric between 2007 and 2010. The Y-axis value shows the change in the economy's inward FDI as a % of GDP over that same time period. If there were a strict correlation between the two measures, one would expect to see successively better quartile performance.

## Perception is key

One potential explanation for why removing investment barriers is not enough to spur investment: it may take considerable time for investors outside the economy to believe that the barriers have been removed.

### Outside Perception

### Inside Perception

**Physical Security in the Philippines**

• "I'm a big guy, alright? I can throw my weight around if I need to take care of myself. Even so, and even though there's money to be made there, I won't go in. It's not safe, and I don't have time to waste worrying about watching my back. And I certainly wouldn't take my wife and kids there."  
- Executive's comment on The Philippines

• "Manila is closer to Hong Kong than it is to Davao [largest city in Mindanao and site of 2003 airport bombing]."  
- Executive's comment on The Philippines

**FDI Restrictions in Malaysia**

• "Indonesia and Malaysia are two of the most difficult APEC economies for firms to enter."  
- Executive's comment on Indonesia and Malaysia

• "Branding is our most pressing issue. People associate us with our neighbors, but we have great infrastructure, we are very developed. We must work to let people know how much progress we have made and differentiate our image."  
- Executive's comment on Malaysia

**Political Instability in Thailand**

• "Absolutely we are concerned whether or not we will see rioting again, especially as conditions may be susceptible to deterioration based on power plays at high levels."  
- Executive's comment on Thailand

• "Political instability is seen as a big issue outside the country, but inside the country, coups are seen as not a big deal. A supply chain logistics firm was pushing for more investment inside the country, but the outside components of the company put the kibosh on it."  
- Executive's comment on Thailand

# But that's not the full story

## Risk versus cost

Most studies of impediments to FDI—including those done by the WEF and WB—use cost-related terminology. Even studies which do comment on whether an impediment increases risk or increases cost, such as the APEC 2007 report, have tended to put both risk and cost on equal footing. However, interviewees most often cited impediments which raised the risk of an investment, rather than the cost, as the deciding factors in their investment decisions.

## Risk-increasing impediments are deal-breakers

FDI decisions do encompass some “chain-linked” aspects: certain minimum criteria must be met on items that are go/no-go matters before the organization will proceed to examining the remainder of the investment environment in an economy. Many of those matters which are classically considered to be barriers, and with which policymakers typically concern themselves, are *cost-increasing* impediments. In reality, these are easier to overcome if the market is attractive enough. The most problematic impediments, those that consume the greatest amount of business decision-makers’ time and can cause them to decide against investing in an economy entirely, are those impediments which are *risk-increasing*. Businesses also consider the entire investment environment when making these decisions, and this reinforces the notion that systemic, localized risks to their business activities in a given economy are in fact much more important to them than traditional “at the border” barriers.

While policymakers have made progress in combating cost-increasing impediments, it is risk-increasing impediments that were cited as the most problematic in interviews. There are a number of potential explanations for this; costs can be easily compensated for by incentives, while risks cannot. Further, costs are additive, but risks can be go / no-go propositions.

	Key Impediments Identified by this Study	Risk or Cost
1	Availability of Human Capital	Both
2	Ease of Hiring / Firing Workers	Risk
3	Consistency Across Levels of Government	Risk
4	Independence of Regulatory Process	Risk
5	Jurisdictional Overlap between Government Agencies	Cost









# APEC-wide Comparative Performance

World Ranking	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
<b>Market Access Issues</b>																					
World Ranking from Benchmark Data																					
World Ranking of Intentional Restrictions																					
Access to Land by Foreign Firms (WB-IAB)																					
Foreign Ownership & Control Limitations (WB-IAB)																					
Sector-specific Restrictions (WB-IAB)																					
Ease of Hiring Foreign Workers (WEF ET)																					
(Investment) Freedom (Heritage Foundation)																					
Business Impact of FDI Rules (WEF)																					
<b>Approval Implementation</b>																					
World Ranking from Benchmark Data																					
World Ranking of Transparency of Process																					
Impartiality of government officials (Favoritism) WEF																					
Transparency of government policymaking (GCR 2012-13)																					
<b>World Ranking of Efficiency of Processes for Obtaining Approval</b>																					
Ease of Establishment Index (WB IAB)																					
Time to obtain approval (WB IAB)																					
Number of procedures to obtain approval (WB IAB)																					
Burden of Government (WEF)																					
<b>Regulatory Environment</b>																					
World Ranking from Benchmark Data																					
World Ranking of Predictability of the Regulatory Environment																					
Public Trust in Politicians (WEF)																					
Regulatory environment (2012-13) WEF ET																					
Transparency of government policymaking (GCR 2012-13)																					
Impact of National Treatment																					
Fair application of regulations to foreign firms																					
World Ranking from Benchmark Data																					
World Ranking of Accessibility & Clarity of Investment Regulations																					
Availability of online information (WEF)																					
<b>Judicial Environment</b>																					
World Ranking from Benchmark Data																					
World Ranking of Dispute Resolution																					
Arbitrating Commercial Dispute (Composite WB IAB Score)																					
Strength of Law Index (WB IAB)																					
Ease of Process Index (WB IAB)																					
Extent of Judicial Assistance																					
Ability to Challenge Regulations (sue Government) (WEF)																					
Dispute Resolution (Doing Business - APEC)																					
Efficiency of legal framework in settling disputes (WEF)																					
World Ranking from Benchmark Data																					
World Ranking of Judicial Independence																					
Judicial independence, WEF GCR																					
World Ranking from Benchmark Data																					
World Ranking of IP Protection																					
Intellectual property protection (WEF)																					
<b>Business Environment</b>																					
World Ranking from Benchmark Data																					
World Ranking of Capital Markets																					
Investor Protection (WEF)																					
Efficacy of Corporate Boards (WEF)																					
Protection of minority interests (WEF)																					
Financial Market Development (WEF)																					
<b>World Ranking of Human Capital</b>																					
World Ranking from Benchmark Data																					
Hiring and firing practices, GCR 2012-13																					
Country Capacity to retain talent																					
Country Capacity to Attract Talent																					
Human Development Index (UNDP)																					
Quality of Education System																					
World Ranking from Benchmark Data																					
World Ranking of Infrastructure																					
ICT Use (WEF)																					
Infrastructure (WEF)																					
<b>World Ranking of Related &amp; Supporting Industries</b>																					
World Ranking from Benchmark Data																					
Quantity of local suppliers (WEF)																					
Existence of industry clusters (WEF)																					
Supplier Quality (WEF)																					
<b>World Ranking of Physical Security</b>																					
World Ranking from Benchmark Data																					
Reliability of Police (WEF ET)																					
Business Cost of Crime & Violence (WEF ET)																					
Organized Crime (WEF)																					
Business Cost of Terrorism (WEF)																					
Property rights protection (WEF)																					
Physical security (WEF ET)																					
<b>World Ranking of Openness of Markets</b>																					
World Ranking from Benchmark Data																					
Effectiveness of Anti-monopoly policies (WEF)																					
Intensity of local competition (WEF)																					
Extent of Market Dominance (WEF)																					
Technological readiness (WEF)																					
Domestic Competition (WEF ET)																					
<b>World Ranking of Tax Environment</b>																					
World Ranking from Benchmark Data																					
Extent and effect of taxation (GCR 2012-13)																					
<b>World Ranking of Corruption</b>																					
World Ranking from Benchmark Data																					
Irregular Payments & Bribes (WEF)																					
Corruption Perception Index (WEF ET)																					
Corruption Index (Heritage Database)																					

Business Impact	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
<b>Market Access Issues</b>																					
Impact of Intentional Restrictions																					
Impact according to USC Index																					
Access to Land by Foreign Firms																					
Foreign Ownership & Control Limitations																					
Local Content Requirements																					
Sector-specific Restrictions																					
Work Requirements for Management Level Experts & Families																					
Impact according to USC Index																					
Impact of International Investment Agreements																					
Number of International Investment Agreements																					
Quality of International Investment Agreements																					
Impact according to USC Index																					
Impact of FDI Openness to Promotion																					
Accessibility and Clarity of Investment Information																					
Exposure to Unknown Investors at Promotion Agencies																					
Political Support for FDI																					
FDI Incentives and Tax Benefits																					
Balance of Fiscal Expenditures																					
Approval Implementation																					
Impact according to USC Index																					
Impact of Transparency of Processes																					
Sight to see and Predictable Processes																					
Time to clear decisions in writing																					
Impartiality of government officials																					
Impact according to USC Index																					
Impact of Efficiency of Processes for Obtaining Approval																					
Time to obtain approval																					
Number of documents to obtain approval																					
Availability of online information																					
Impact according to USC Index																					
Impact of Jurisdictional Overlap																					
Coordination among responsible agencies																					
Alignment of FDI policies across ministries																					
Impact according to USC Index																					
Impact of Consistency across Levels of Government																					
Consistency between central, provincial and local policies																					
Regulatory Environment																					
Impact according to USC Index																					
Impact of Predictability of the Regulatory Environment																					
Tendency of new governments to make regulatory changes																					
Ability to make and commit to high quality regulations																					
Consistency of regulations over time																					
Independence of the regulatory process from politics																					
Impact according to USC Index																					
Impact of National Treatment																					
Fair application of regulations to foreign firms																					
Impact according to USC Index																					
Impact of Accessibility & Clarity of Investment Regulations																					
Extent to which regulations are easily available																					
Extent to which regulations are clear																					
Changes to regulations are published in advance																					
Regulations are available online																					
Single window or contact point for all inquiries																					
Impact according to USC Index																					
Impact of Community Consultative Process																					
Clearly defined process for Community Approval																					
Ability of few people to hold up approval process																					
<b>Judicial Environment</b>																					
Impact according to USC Index																					
Impact of Dispute Resolution																					
Existence of formal mechanisms for dispute resolution																					
Ability to effectively sue the government																					
Adoption of international dispute resolution standards																					
Impact according to USC Index																					
Impact of Judicial Independence																					
Extent to which the judicial is independent of political influence																					
Extent of bureaucratic discretion and interpretation permitted																					
Impact according to USC Index																					
Impact of IP Protection																					
Acceptance of international law protecting IP																					
IP protection enforcement																					
<b>Business Environment</b>																					
Impact according to USC Index																					
Impact of Capital Markets																					
Quality of domestic capital markets																					
Availability of alternative forms of domestic capital																					
Readiness of local firms to accept investment																					
Impact according to USC Index																					
Impact of Human Capital																					
Availability & quality of human capital																					
Ease of hiring/firing workers																					
Wage willingness to live in region																					
Quality of employee contracts																					
Impact according to USC Index																					
Impact of Infrastructure																					
Availability and quality of roads, ports, airports, rail																					
Availability and quality of utilities (water & energy)																					
Availability and quality of ICT infrastructure																					
Impact according to USC Index																					
Impact of Related & Supporting Industries																					
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Existence of industry clusters																					
Supplier Quality																					
Distributor Quality																					
Impact according to USC Index																					
Impact of Physical Security																					
Reliability of Police																					
General level of crime																					
Personal & employee safety																					
Property rights protection																					
Impact according to USC Index																					
Impact of Openness of Markets																					
Presence of FSO and government supported entities																					
Extent of policy and informal markets																					
Government price controls																					
Impact according to USC Index																					
Impact of Tax Environment																					
Double Taxation																					
Level & burden of taxation																					
Impact according to USC Index																					
Impact of Extent of Nationalism																					
Nepotism																					
Economic domestic workers																					
Potential for protectionist policies and stop FDI projects																					
Impact according to USC Index																					
Impact of Political & Economic Stability																					
Foreign Exchange Stability																					
Fiscal & monetary policy conducive to business																					
Impact according to USC Index																					
Impact of Cultural Embeddedness																					
Extent of affinity for "like" cultures																					
Importance of personal relationships to do business																					
Impact according to USC Index																					
Impact of Corruption																					
Corruption impeding access to resources																					
Corruption in the implementation of regulations																					
Corruption in the regulatory environment																					
Corruption in the legal system																					
Corruption in the Market Environment																					

1: Top 20% in world

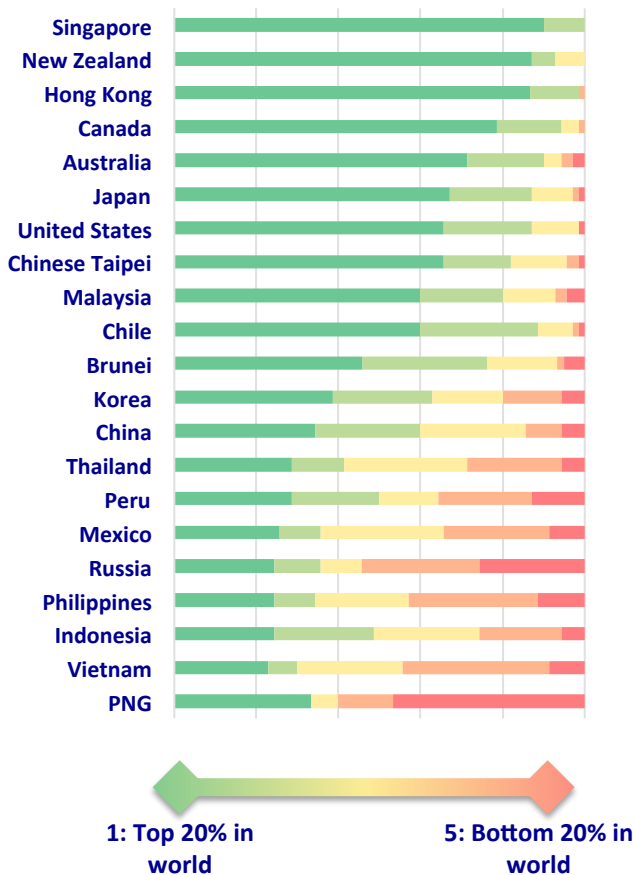
5: Bottom 20% in world

1: Minor Impact

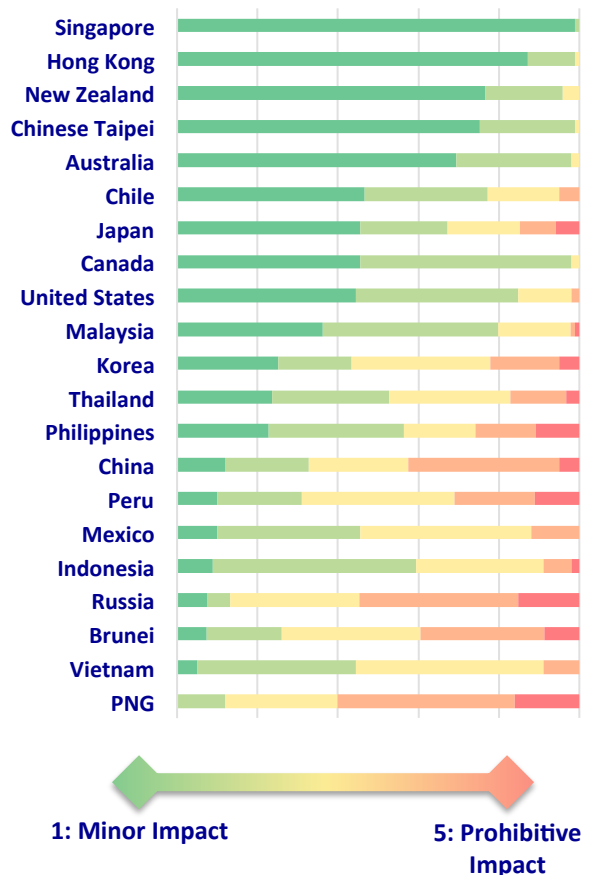
5: Prohibitive Impact

# APEC-wide Comparative Performance

## World Ranking



## Business Impact



These exhibits demonstrate a comparison of economy performance according to both previously conducted World Bank, World Economic Forum, and Heritage Foundation research (left) and the business impact of FDI impediments (right). Visually in both charts, the economies are arranged with “best practice” performers at the top, and essentially cascade in order of number of best practices that each economy demonstrates. For instance, when assigned impact scores on each of the 101 impediments that Marshall’s interviews revealed to be factors, Singapore received 100 ones and 1 two, whereas Papua New Guinea received no ones, 12 twos, 28 threes, 44 fours, and 16 fives (scales are also displayed above). As previously discussed, Marshall’s framework revealed the existence of 24 more impediments impacting business than previous models (such as those used by WB, WEF, etc.) had considered or scored.

With each set of measurements, there are probably no surprises in terms of which economies demonstrate the highest number of best practices, nor those which present the greatest challenge to FDI. However, when distinguishing performance according to NGO ranking from the actual business impact of those impediments, note a distinct shift to the left. This indicates that while there were only a few notable movements in terms of where individual economies fall in the comparison cascade, all economies have more room for improvement than is indicated by exclusive reference to previously published data. According to business executives actually operating in APEC’s economies, many more impediments fall into the cautionary range. In some economies this may come in spite of efforts at liberalization, and merits policymaker attention.

# Lower Middle Income Economies

Because a comprehensive heat map of the research results was created, USC's report allows for the slicing of the findings numerous ways. Several of these are presented on the following pages (income level and geography). This enables further identification of trends and commonalities.

In order of severity, APEC's Lower-Middle Income economies ten most critical issues are:

- 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

In instances where rankings according to both previous NGO research and Marshall interviews are available, both appear. In the instances where critical impediments were issues not addressed in previous research, the severity of the business impact as reported to USC's researchers is presented.

## Intergovernmental Consistency: NGO Benchmark Rating vs. Business Impact

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

Lower-Middle Income economies are presented first because these mission critical lists can be thought of as a sequential set of building blocks. Items that are critical to Lower-Middle Income economies are typically foundational and also critical to High Income economies, but have been obviated to a greater extent in High Income economies. As such, High Income economies move on to a new set of items critical for the growth of FDI inflows and the prosperity it brings, but must not fail to mind the fundamentals.

Many of these issues are fundamental because they undermine the ability of businesses to implement their entire business model. Because businesses are so comprehensive and holistic in their consideration process, so too must be governments when considering not just restrictions placed on FDI, but other important elements of the investment environment.

In APEC's Lower-Middle Income economies, most of the critical issues are those having to do with a business' ability to implement basic aspects of their operations. These impediments are issues which usually equally negatively impact domestic businesses as well. As such, progress on these matters should bring increased prosperity to the people of these economies not just through higher levels of outside investment, but also through providing the opportunity for domestic businesses to be more productive and efficient.

\* In determining APEC's Lower-Middle, Upper-Middle, and High Income economies, the World Bank's lending categorization metric was utilized (Gross National Income per capita of \$1,036-\$4,085 for Lower-Middle Income, \$4,086-\$12,615 for Upper-Middle, and greater than \$12,616 for High Income).



# Upper Middle Income Economies

In order of severity, APEC's Upper-Middle Income economies ten most critical issues are:

- 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**

Once again, in those instances where no comparable proxy existed in previous research, only the business impact of such significant impediments as Consistency Across Levels of Government and the Community Consultative Process is presented

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						

There are some commonalities with the Lower-Middle Income economies, but as these economies have developed, they have addressed some of the more foundational issues and moved on to a somewhat more sophisticated set of critical issues.

Regrettably, APEC's Upper-Middle Income economies still demonstrate deficiencies in areas that are foundational to an efficient, globalized economy. Significant impediments shared with the Lower-Middle Income economies, such as Judicial Independence, Physical Security, Corruption, Transparency of Processes and Efficiency of Processes represent institutional voids of the sort that cause businesses to quickly determine it's not worth their while to bother with a certain economy. These impediments are driving away investment, but are such deep-seated fundamental flaws that improving them over the short term will prove difficult. Nonetheless, it is imperative that they be addressed if these economies are to take the next step on the path to sustained growth, full participation in the global economy, and increased quality of life for their citizens.

Noted with particular concern is the continued presence of corruption and its malignant effects on the investment environment in both Lower-Middle and Upper-Middle Income economies. Time and again executives indicated it remains a significant problem. Unfortunately, it may be one of the hardest to eradicate: in some economies the line between certain cultural traditions and corruption is thin.

Note also that on an absolute basis, the Upper-Middle Income economies demonstrate progress. While this is a positive trend, it does not relieve economies of the need to make further efforts to facilitate trade and investment.

\* In determining APEC's Lower-Middle, Upper-Middle, and High Income economies, the World Bank's lending categorization metric was utilized (Gross National Income per capita of \$1,036-\$4,085 for Lower-Middle Income, \$4,086-\$12,615 for Upper-Middle, and greater than \$12,616 for High Income).

# High Income Economies

In order of severity, APEC's High Income economies ten most critical issues are:

- 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
<b>World Ranking of Intentional Restrictions</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Intentional Restrictions</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>World Ranking of Efficiency of Processes for Obtaining Approval</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Efficiency of Processes for Obtaining Approval</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Consistency across Levels of Government</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>World Ranking of Predictability of the Regulatory Environment</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Predictability of the Regulatory Environment</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>World Ranking of Accessibility &amp; Clarity of Investment Regulations</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Accessibility &amp; Clarity of Investment Regulations</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Community Consultative Process</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>World Ranking of Dispute Resolution</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Dispute Resolution</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>World Ranking of Human Capital</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Human Capital</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>World Ranking of Tax Environment</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Tax Environment</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
<b>Impact of Extent of Nationalism</b>	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green

According to the World Bank's lending group designations, half of APEC's economies are High Income. Although troublesome impediments remain APEC-wide, there is a distinct first-world slant to the FDI challenges faced in High-Income economies. Sometimes the same impediments are problematic in different economies, but for distinctly different reasons.

The most easily noticeable difference between this heat map and the two preceding is the movement from colors closer to red to colors closer to green. In an absolute sense, the High-Income economies do not score as poorly as lower income compatriots – to be expected given their level of economic and governmental sophistication. They also exhibit more of what might be termed “first world problems” – things like the Tax Environment, or those impediments that are outgrowths of, as one interviewee put it, “countries that do bureaucracy well.”

Oftentimes, the same impediment is problematic at different income levels for different reasons. For instance, with respect to human capital, in Lower-Middle Income economies, the problem arises out of the difficulty in finding adequately skilled and educated workers. As an economy's Human Development Index rises, this challenge lessens. Human capital issues in High-Income economies revolve more around things like difficulty bringing in adequate numbers of appropriately qualified employees, or difficulty in finding school places for expatriate children.

Anti-FDI sentiment still exists across APEC, but is relatively worse in High-Income economies (manifested here by impact of nationalism). The research and interviews indicated it is tied to and discernibly more hysterical during election cycles as political opponents use it as a blunt instrument against one another.

\* In determining APEC's Lower-Middle, Upper-Middle, and High Income economies, the World Bank's lending categorization metric was utilized (Gross National Income per capita of \$1,036-\$4,085 for Lower-Middle Income, \$4,086-\$12,615 for Upper-Middle, and greater than \$12,616 for High Income).

# South East Asian Economies

In order of severity, the ten most problematic issues exhibited in APEC's South East Asian members are:

- 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	Yellow	Orange	Green	Green	Green	Orange	Orange
Impact of Intentional Restrictions	Yellow	Yellow	Green	Green	Green	Green	Yellow
World Ranking of Transparency of Process	Green	Green	Green	Orange	Green	Orange	Orange
Impact of Transparency of Processes	Yellow	Green	Green	Yellow	Green	Yellow	Orange
World Ranking of Efficiency of Processes for Obtaining Approval	Yellow	Orange	Yellow	Red	Green	Orange	Orange
Impact of Efficiency of Processes for Obtaining Approval	Orange	Green	Green	Green	Green	Orange	Yellow
World Ranking of Predictability of the Regulatory Environment	Green	Green	Green	Orange	Green	Orange	Orange
Impact of Predictability of the Regulatory Environment	Yellow	Green	Green	Orange	Green	Green	Yellow
World Ranking of Accessibility & Clarity of Investment Regulations	White	Yellow	Green	Yellow	Green	Orange	Orange
Impact of Accessibility & Clarity of Investment Regulations	Yellow	Green	Yellow	Yellow	Green	Yellow	Yellow
World Ranking of Dispute Resolution	Green	Green	Green	Yellow	Green	Yellow	Yellow
Impact of Dispute Resolution	Orange	Yellow	Green	Orange	Green	Orange	Yellow
World Ranking of Judicial Independence	Green	Yellow	Green	Orange	Yellow	Yellow	Orange
Impact of Judicial Independence	Orange	Yellow	Green	Green	Yellow	Yellow	Yellow
World Ranking of Human Capital	Green	Green	Green	Green	Green	Green	Orange
Impact of Human Capital	Orange	Yellow	Orange	Green	Green	Yellow	Orange
World Ranking of Infrastructure	Yellow	Orange	Green	Orange	Green	Orange	Orange
Impact of Infrastructure	Green	Red	Green	Red	Green	Yellow	Yellow
World Ranking of Corruption	Green	Orange	Orange	Orange	Green	Orange	Orange
Impact of Corruption	Yellow	Yellow	Yellow	Orange	Green	Yellow	Yellow

Previous pages examined impediment trends by income level. In the next few pages, trends by geographic area or “like” economies are displayed. First presented are the South East Asian economies, defined as those economies which hold both ASEAN and APEC membership: Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

With the obvious exception of Singapore, APEC's South East Asian members are plagued by impediments of a very foundational and interrelated nature (not unlike Lower Middle Income economies). There is a relationship between the corruption on the level suffered in these economies, and their lagging both the rest of APEC and the world on matters such as Transparency of Processes and Accessibility and Clarity of Investment Regulations. Failure to make processes and regulations more transparent and accessible enables corrupt elements to continue their ways. As business leaders stated, this costs the economy inward FDI and is contrary to leaders' stated goals of increasing prosperity for their citizens.

Three South East Asian economies overlap with APEC's Lower Middle Income Economies. This is not enough overlap to explain the fact that both Lower Middle Income economies and, unfortunately, South East Asian economies are the drivers of those areas in which APEC lags the world. Recognition of these issues and significant progress toward trade facilitation and investment environment improvement in these economies will contribute to APEC taking its place as a true economic powerhouse much more quickly.

Eight of APEC's twenty-one economies rank in the bottom 40% of the world according to the World Bank's measures of openness. Of these, five are South East Asian (the others are China, Mexico and Papua New Guinea). This supports the appearance that APEC's South East Asian members are laggards potentially holding the larger Cooperation back. However, it also makes obvious the potential that exists for APEC to work closely with ASEAN to improve these areas and facilitate greater investment flows into the common members.

Because APEC hosts economies which lead the world in these areas, it is recommended that economies suffering greater levels of challenge benchmark leading APEC economies for best practices and aid in improving and even eradicating these problematic issues. In South East Asia's economies, the “Mission Critical List” includes a preponderance of items that are foundational, and critical to the basic implementation of a business model – impediments such as Corruption, Infrastructure, Predictability of the Regulatory Environment, Judicial Independence, etc. Sadly, this means that many of these economies will quickly be bypassed by investors without receiving much consideration until such time as these issues are improved.

# Eastern Pacific Economies

In order of severity, the ten most problematic issues exhibited in APEC's Eastern Pacific members are:

## Intergovernmental Consistency: NGO Benchmark Ranking vs. Business Impact

- 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

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

Geographic proximity does appear to lead to sharing of both critical issues and successes. Notably absent from the "Mission Critical List" of the Eastern Pacific economies are Intentional Restrictions and related issues. These economies have all striven to implement FDI and free-trade friendly policies, with discernable result. Contributing to this is the placement of all five of these economies in the top 40% of the world with respect to International Investment Agreements (number, quality, scope, etc.). In compliance with these agreements, these economies have reduced the deliberate barriers to foreign investment to the point where this is the only grouping of APEC economies not overly bedeviled by Intentional Restrictions and their impact. As such, other APEC economies may wish to examine and benchmark the agreements that the Eastern Pacific economies have implemented.

Regrettably there are still significant issues to overcome in these economies. Some of these, such as Infrastructure or Physical Security, are foundational but within this grouping are dragged down by two economies. Others which are more common to the group as a whole, such as Community Consultative Processes, are indicative of economies struggling to reconcile investment with the rights and concerns of native populations. Still more issues which are especially problematic in one economy (such as the Tax Environment in the United States) do not make the list of issues most plaguing the group as a whole.

# Oceanic Economies

In order of severity, the ten most problematic issues exhibited in APEC's Oceanic members are:

- 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	Green	Green	Orange
Impact of Intentional Restrictions	Green	Green	Yellow
World Ranking of Efficiency of Processes for Obtaining Approval	Green	Green	Orange
Impact of Efficiency of Processes for Obtaining Approval	Green	Green	Orange
World Ranking of Predictability of the Regulatory Environment	Green	Green	White
Impact of Predictability of the Regulatory Environment	Green	Green	Yellow
World Ranking of Human Capital	Green	Green	Red
Impact of Human Capital	Green	Green	Orange
World Ranking of Openness of Markets	Green	Green	White
Impact of Openness of Markets	Green	Green	Orange
World Ranking of Tax Environment	Yellow	Green	White
Impact of Tax Environment	Green	Green	Yellow
World Ranking of Nationalism	Green	Green	Green
Impact of Extent of Nationalism	Green	Green	Green

Unsurprisingly for geographically and culturally similar economies, Australia and New Zealand share many of the same challenges for businesses and approaches by policymakers. Papua New Guinea is the outlier here, and the significant challenges facing that economy must be considered independently of those facing Australia and New Zealand.

In the case of Australia and New Zealand, it is not possible to discern whether geography, cultural similarities, and/or similar national priorities and concerns are the main driver of shared challenges. For all three of the Oceanic economies, Intentional Restrictions remain a top challenge. Potentially this is driven by the fact that all three are resource-rich lands, with populations understandably concerned about safeguarding the country's agricultural and mineral blessings. This may partially explain the presence of Nationalism as an investment-impeding factor as well. During the time the interviews for this report were conducted, Australia was approaching an election. Many business leaders inside and outside Australia commented that anti-FDI sentiment and nationalism were much inflamed and predictably so, since it seems to be a reliable pattern in Western economies' election cycles. Business leaders in both Australia and New Zealand commented that amongst these populations, opposition to investment from China was significantly greater than opposition to investment from those viewed as fellow Occidental economies. This was noted in the United States as well, and may be indicative of an unfortunate latent, retrograded attitude toward Asian nations held by some citizens of these economies.

# North East Asian Economies

In order of severity, the ten most problematic issues exhibited in APEC's North East Asian members are:

- 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

		China	Chinese Taipei	Hong Kong	Japan	Korea	Russia
	<b>World Ranking of Intentional Restrictions</b>	Orange	Green	Green	Yellow	Green	Yellow
	<b>Impact of Intentional Restrictions</b>	Yellow	Green	Green	Green	Green	Green
	<b>World Ranking of Efficiency of Processes for Obtaining Approval</b>	Yellow	Yellow	Green	Green	Yellow	Orange
	<b>Impact of Efficiency of Processes for Obtaining Approval</b>	Orange	Green	Green	Green	Yellow	Orange
	<b>World Ranking of Jurisdictional Overlap</b>	Orange	Green	Green	Yellow	Red	White
	<b>Impact of Jurisdictional Overlap</b>	Red	Green	Green	Yellow	Orange	White
	<b>World Ranking of Dispute Resolution</b>	Green	Yellow	Green	Green	Yellow	Orange
	<b>Impact of Dispute Resolution</b>	Yellow	Green	Green	Green	Yellow	Orange
	<b>World Ranking of IP Protection</b>	Yellow	Green	Green	Green	Yellow	Orange
	<b>Impact of IP Protection</b>	Orange	Green	Green	Green	Orange	White
	<b>World Ranking of Human Capital</b>	Green	Green	Green	Green	Green	Yellow
	<b>Impact of Human Capital</b>	Orange	Green	Green	Orange	Green	Orange
	<b>World Ranking of Openness of Markets</b>	Green	Green	Green	Green	Green	Orange
	<b>Impact of Openness of Markets</b>	Orange	Green	Green	Green	Red	Orange
	<b>World Ranking of Tax Environment</b>	Green	Green	Green	Yellow	Orange	Red
	<b>Impact of Tax Environment</b>	Yellow	Green	Green	Orange	Yellow	White
	<b>World Ranking of Corruption</b>	Yellow	Green	Green	Green	Green	Orange
	<b>Impact of Corruption</b>	Orange	Green	Green	Green	Yellow	Orange

**Intergovernmental Consistency:  
NGO Benchmark Ranking  
vs. Business Impact**

The remaining economies defy easy grouping (and in some instances may be displeased to be lumped together). The remaining economies were grouped together as North East Asian. Geographically this fits as these economies are all located or have their "APEC borders" within the northeastern part of the Asian continent. These economies are: China, Chinese Taipei, Hong Kong, Japan, Korea and Russia. Current and historical hostility these economies may hold toward being associated with one another is acknowledged. However, like the other groups, the issues facing these economies feature striking similarities and would benefit from both coordinated policy efforts and greater overall levels of cooperation between their governments on economic, social, and political issues.

An interesting commonality of the most significant impediments suffered by North East Asian economies is that many of them are of the sort often manifested in command economies. However, of these six economies, only one is technically not an open market economy (China). These findings suggest that Russia may not have moved as far from a command economy as desired, and that Japan and Korea can also demonstrate challenges and policies more commonly found in command economies. Hong Kong, while geographically grouped with these economies, is regularly cited as one of the most open economies in the world. Given its' level of success in attracting capital, talent and investment to enhance the prosperity of its' residents, it is arguably desirable for other APEC economies to craft policies that will foster launching themselves up to the level of a Hong Kong or Singapore, rather than holding on to policies that will keep them stagnant and perpetually behind.

North East Asia is also home to most of the territorial conflict within APEC. Business leaders acknowledged the sovereign prerogative of border defense, but many of them emphasized the uncertainty engendered by these disputes is deleterious to regional stability and hence the attraction of investment. Because of some of these confrontational policies, businesses are anxious about the potential for a simple accident to escalate into a wider regional conflict. Executives are especially scornful of "aggressive" political leaders and "stupid" policies that, in their view, jeopardize regional stability, flow of business, and even human lives "over a bunch of uninhabited rocks."



# “Mission Critical” List – Each Economy

Below is a brief summary of the top 5 impediments negatively impacting each economy. Interviewees and research indicate, and economies may wish to consider these, as a starting “mission critical list.” There are a few important caveats: 1) in some economies there are not 5 issues holding them back that require immediate attention. In these cases (Hong Kong, New Zealand and Singapore) we did not provide a Top 5 just to have 5 items. 2) In other economies, there are more than 5 issues that, from a business perspective, require immediate attention. For reasons of practicality and space, and in the hope it will not be seen as too overwhelming to even attempt improvement, items presented here are limited to five. 3) The same impediment can mean different challenges in different economies. For instance, the issues surrounding Human Capital can be as varied as difficulty bringing in a sufficient number of appropriately qualified workers (Australia), difficulty finding places in international schools for expatriate children (Hong Kong), difficulty finding enough English-speaking management-level personnel due to changes in the educational system years ago (Malaysia), or a poor educational system resulting in the lack of a highly educated populace (Papua New Guinea).

## **Australia**

- 1) Intentional Restrictions
- 2) Human Capital
- 3) Tax Environment
- 4) Nationalism
- 5) Consistency Across Levels of Government

## **Brunei**

- 1) Intentional Restrictions
- 2) Efficiency of Processes for Obtaining Investment Approval
- 3) Predictability of Regulatory Environment
- 4) Human Capital
- 5) Corruption

## **Canada**

- 1) Intentional Restrictions
- 2) Efficiency of Processes for Obtaining Investment Approval
- 3) Consistency Across Levels of Government
- 4) Community Consultative Process
- 5) Tax Environment

## **Chile**

- 1) Consistency Across Levels of Government
- 2) Community Consultative Process
- 3) Human Capital
- 4) Cultural Embeddedness
- 5) Infrastructure

## **China**

- 1) Consistency Across Levels of Government
- 2) Transparency and Efficiency of Processes for Obtaining Investment Approval
- 3) Judicial Independence
- 4) IP Protection
- 5) Corruption

## **Chinese Taipei**

- 1) Intentional Restrictions
- 2) Efficiency of Processes for Obtaining Investment Approval
- 3) Dispute Resolution
- 4) Tax Environment
- 5) Accessibility and Clarity of Investment Regulations

## **Hong Kong**

- 1) Human Capital

## **Indonesia**

- 1) Predictability of the Regulatory Environment
- 2) Intentional Restrictions
- 3) Infrastructure
- 4) Consistency Across Levels of Government
- 5) Corruption

## **Japan**

- 1) Human Capital
- 2) Tax Environment
- 3) Nationalism
- 4) Cultural Embeddedness
- 5) Jurisdictional Overlap

## **Korea**

- 1) Openness of Markets
- 2) IP Protection
- 3) Transparency of Processes
- 4) Jurisdictional Overlap
- 5) Predictability of Regulatory Environment

## **Malaysia**

- 1) Human Capital
- 2) Corruption
- 3) Intentional Restrictions
- 4) Openness of Markets
- 5) Efficiency of Processes for Obtaining Investment Approval

## **Mexico**

- 1) Physical Security
- 2) Corruption
- 3) Judicial Independence
- 4) Transparency of Processes
- 5) Dispute Resolution

## **New Zealand**

- 1) Consistency Across Levels of Government
- 2) Community Consultative Process
- 3) Nationalism
- 4) Intentional Restrictions

## **Papua New Guinea**

- 1) Dispute Resolution
- 2) Corruption
- 3) Human Capital
- 4) Infrastructure
- 5) Transparency of Processes

## **Peru**

- 1) Physical Security
- 2) Judicial Independence
- 3) Community Consultative Process
- 4) Consistency Across Levels of Government
- 5) Infrastructure

## **Philippines**

- 1) Corruption
- 2) Infrastructure
- 3) Physical Security
- 4) Judicial Independence
- 5) Consistency Across Levels of Government

## **Russia**

- 1) Judicial Independence
- 2) Physical Security
- 3) Openness of Markets
- 4) Corruption,
- 5) Tax Environment

## **Singapore**

- 1) IP Protection

## **Thailand**

- 1) Dispute Resolution
- 2) Corruption
- 3) Political and Economic Stability
- 4) Intentional Restrictions
- 5) Efficiency of Processes for Obtaining Investment Approval

## **United States**

- 1) Consistency Across Levels of Government
- 2) Community Consultative Process
- 3) Tax Environment
- 4) Jurisdictional Overlap
- 5) Efficiency of Processes for Obtaining Investment Approval

## **Viet Nam**

- 1) Intentional Restrictions
- 2) Transparency and Efficiency of Processes for Obtaining Investment Approval
- 3) Human Capital
- 4) Judicial Independence
- 5) Capital Markets

# What Should APEC Do?

## Stop fighting the last war!

In her Pulitzer Prize-winning 1962 book *The Guns of August*, Barbara Tuchman detailed the preparations made by World War I's soon-to-be combatant powers. These preparations, based on outdated modes of warfare, were woefully inadequate to incorporate or even cope with technological advancements and other paradigm shifts. Naturally and tragically, these backward-looking preparations proved insufficient to meet contemporary realities, at a staggering cost in lives and treasure. Military planners and politicians before and since have often been guilty of preparing for and trying to fight the last war, when the "ground truth" has long since passed them by. It is this trap that APEC's policymakers must now take care not to fall into.

Policymakers are often forced to deal with problems of an immediate nature. Businesses continuously operate at the frontier and make their plans based on projections for 5-10 years out. This leads to a mismatch wherein today's policies are based on an outdated world view. Policymakers and business leaders must work cooperatively to enact policies that will foster a more open, prosperous, growing APEC. These policies must be forward-looking and cannot be made based upon yesterday or today's conditions on the ground, which will be outdated by the time such policies are fully ratified. They must concentrate on creating a farsighted constellation of FDI policies that focus on fostering an environment of consistency, predictability, and stability for both foreign and domestic investors. Time and time again throughout this research, those three matters were validated as the triad of not just most valuable, but most necessary attributes when it comes to attracting and fostering FDI.

## Political will matters...and appears lacking

Businesses are frustrated by political leaders who profess to desire increased prosperity for their citizens, yet obstruct policies would bring wide swaths of their populations the benefits of freer trade and more open investment environments. To business leaders, obstructing policies or agreements or that would ultimately benefit so many looks like kowtowing to small but powerful domestic interest groups. The same is true when politicians promote or pass regulations that are clearly intended to protect domestic businesses at the expense of foreign ones. Interviewees complained vociferously about what they view as pandering and a lack of political courage. Sadly, they will ultimately vote with their feet, to the detriment of economies who could have benefited from their investment and corporate citizenship. Political leaders must mind that even small gestures or comments likely intended for domestic

consumption can have a large impact on both ongoing trade negotiations, on business decision-making, and on the businesses of the home nation of the commenter trying to operate in other economies. Free Trade Agreements have another benefit in this regard: they bind the behavior of politicians while also providing them with cover.

## Leading economies must share best practices

Many APEC economies are world leaders when it comes to openness and trade facilitation. Conversely, APEC economies that would benefit the most from FDI are those burdened by the most impediments: the "laggards" in more ways than one. This manifests itself in dramatically lower inward FDI flows to APEC's developing economies compared to the rest of the world's developing economies. As part of a powerful economic cooperation, these lagging economies can benefit greatly by benchmarking best practices from the leading economies. Surely it is also only in the interest of those leading economies to help lift up the lagging economies by sharing their best practices.

## Standardize as much as possible

Standardized policies, procedures, systems and reporting conventions provide a multitude of benefits. They increase efficiency by reducing cost in both time and money, and by reducing risks associated with lack of clarity. Standardized systems and procedures, preferably online, foster greater transparency, which tends to reduce corruption (still a significant issue in too many APEC economies, and particularly those that really need FDI). A standardized format and mechanism for reporting sectorial and historical FDI inflow data will provide a much more granular and clearer picture of trends in FDI in APEC to identify issues and aid business leaders and policymakers in their push for reform. Ultimately, standardization will help raise all economies to a minimum standard of capability.

## Keep pushing forward

By and large, APEC is pushing on the right things (laid out in the IEG's *Enhancing Investment Liberalisation and Facilitation in the Asia-Pacific Region, Stages 1 and 2*). However, the rate of change is slow – too slow and unimaginative from the business point of view. Just as political leaders are responsible to their constituents, business leaders are responsible to their stakeholders. When these stakeholders get impatient, businesses are forced to move their money accordingly. This movement leads to clusters of excellence in some economies, but leaves other economies out in the cold. Cooperative doggedness is needed from business and political leaders to craft forward-looking FDI policies: policies that foster the clarity, consistency, predictability and stability needed to launch the 40% of the world's population who live in APEC economies to new heights of prosperity.

# Acknowledgments

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This condensed report is an outgrowth of the full report researched and written by the University of Southern California Marshall School of Business APEC Business Advisory Council Research Team. We wish to gratefully acknowledge the efforts of the team members:

David Strimple, United States (Team Lead)  
Dean Croshere, United States (Project Manager)  
Deying Fan, China  
Weiwei Han, Chinese Taipei/Singapore  
Dan Hauser, United States  
James Hays, United States  
Gavin Johnson, United States  
Jangwook Lee, Republic of Korea  
Kenji Miyoshi, Japan  
Sharayu Rao, India  
Stephanie Soltis, United States  
Di Wang, China  
Dr. Carl Voigt, New Zealand (Faculty Advisor)

We further wish to thank the following ABAC members and staffers, without whose gracious gifts of time and guidance this research could not have been completed:

Tony Nowell, New Zealand  
Fiona Cooper-Clarke, New Zealand  
Anthony Nightingale, Hong Kong  
David Dodwell, Hong Kong

Special thanks to Saurabh Poddar for graphical assistance on this condensed report.

For a full list of individuals who facilitated this research and participating companies that provided the invaluable business perspective, please see the full report: <http://classic.marshall.usc.edu/assets/159/25803.pdf>