# Accelerating Investment in Services in APEC:
## Growing Businesses Globally for the Benefit of Economies

APEC Business Advisory Council
University of Southern California, Marshall School of Business
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Asia-Pacific
Economic Cooperation

# *Executive Summary*
# *Accelerating Investment in Services in APEC*

The APEC Business Advisory Council requested USC Marshall to interview APEC business leaders and to capture their views and experiences on the challenges to investing in services in APEC economies. This report presents those findings through a detailed comparative analysis of not only restrictiveness but the overall quality of investment environments for services across APEC economies.

Policy makers debate the best way to promote trade and investment in services. However, there is no dispute that investments in services contribute more to economic growth than investments in manufacturing and agriculture, and will contribute even more in the future. Investments in services have a multiplier effect and impact overall levels of competitiveness across economic sectors. Few yet understand the full implications of technological innovation on how services are produced and delivered. Economies must be proactive and forward thinking to create services policies that will promote FDI, anticipate changes, and improve the competitiveness of economies.

APEC has done much to encourage openness to investment in services, but business executives believe that APEC can and should do much more. The relative neglect of services within trade and investment discussions is understandable because of their complexity, but it has had a negative impact. Liberalizing and facilitating trade and investment in services will promote economic growth, create jobs, and improve levels of prosperity. Many APEC economies, those most in need for FDI, are currently ranked in the bottom 20% of all global economies in terms of barriers and impediments to FDI in services. All APEC economies have significant room for improvement.

Our research included:

- Taking a **sectorial approach** to identify and assess the challenges to FDI in services. This study evaluates the barriers and impediments to services by examining seven specific services sectors: *Trucking Services, Container Port Services, Retail & Restaurants, Telecom & Broadband Infrastructure, Software, Platform, & Cloud Services, Accounting Services, and Life Insurance.*

- **Interviewing 368 APEC business executives**, industry association leaders, consultants, and government officials to gather the data in this report for all 21 APEC economies.

- Cataloging what business executives identify, *at a services sector level*, as the **most important barriers and impediments to FDI** within each service sector.

- Rating how business executives, *at an economy level*, assess the **relative impact of those barriers and impediments to FDI on investment decisions in services** within each APEC economy.

- Developing a comprehensive **business perspective of FDI in services analytical framework** to assess the factors affecting FDI across all seven service sectors.

- Capturing business executives' **recommendations for changes** that will improve investment climates.

## Overall Findings:

- **Services remain overly restrictive and improvement has been slow.** Restrictions on investment in services are more limiting than those in manufacturing and *even* agriculture. Businesses are impatient for change and want stronger, more concerted efforts across APEC to liberalize services. While services require guiding regulations and consistent enforcement to dissuade problems of opportunism, most services regulatory environments remain weak and outdated, often discriminatory and protectionist, and sometimes counterproductive.

- **High quality FDI environments increase domestic investment in services.** Improvements to the quality of FDI environments to encourage greater-than-equal domestic business investment in services. Policies that seek to mandate local content discourage both foreign and domestic investment.

- **Technology is changing services**. Technology is enabling services, previously delivered by physical presence, to potentially become tradable services. Services such as accounting and life insurance are beginning to outsource elements of their value chains to more competitive economies. Policies that do not recognize these fundamental changes risk increasing transaction costs and harming the competitiveness of entire service sectors.

- **Human capital frustrations.** Quality services require a specialized, well-educated workforce. Access to domestic skilled talent and restrictions on movement of people are major concerns across all services sectors. Obtaining working visas and the lack of mutual recognition of qualifications are particularly problematic in developed economies.

- **Adopting global standards and ensuring coherence in services policies improves competitiveness.** Economies that adopt global standards improve attractiveness and lower investment costs. Additionally, services policies that are coherent with those in other economies greatly facilitate the investment process.

- **Common APEC-wide impediments**. The most problematic challenges for FDI in services are: jurisdictional overlap among oversight agencies, highly independent local governments that impose and enforce their own rules, overly bureaucratic institutions, and biased approval processes.

## Services Sector-Specific Findings

The seven service sectors examined in detail varied widely in FDI inflows, permissiveness, and the types of impediments that have the greatest impact on incentives to invest.

- **Trucking Services:** Two notable findings characterize APEC trucking — no improvements in the quality and performance of trucking services over the last 10 years within APEC economies and very little FDI. The core challenge in trucking is the provision of high-quality, reliable services in markets where competition is low cost driven. Major impediments include the lack of coordinated national policies, powerful competing stakeholders, regulatory inconsistencies, uncoordinated oversight, corruption, and unregulated informal trucking markets. In emerging economies, poor infrastructure, bureaucracy, and limits on foreign ownership are major challenges.

- **Container Port Services:** APEC ports currently handle 64% of global container volumes and continue to increase their role in global trade. Quality port infrastructure is strongly correlated with high-quality investment environments. Major impediments are access to land and long-term leases, bureaucratic and biased permit approval and enforcement processes, and existence multiple powerful stakeholders including local municipalities and community activism.

- **Retail & Restaurants:** Retail & Restaurants is the only sector in our study that has experienced increases in FDI. Market access restrictions remain problematic; while most economies allow 100% foreign ownership, restrictions on licenses for expansion, access to land, and needs/benefits tests remain as major FDI barriers in some economies. However, foreign firms encounter their most challenging problems in operating and expanding their businesses. Recurring biased enforcement and different requirements and approval processes imposed by autonomous local governments significantly increase transaction costs. Critical FDI impediments in developing economies are tariffs, customs delays, the ability to find competent, well-capitalized domestic partners, and the impact of unregulated informal markets.

- **Telecom & Broadband Infrastructure:** Across economies, telecom is the most restrictive services industry. Differences in national policies on ownership of backbone infrastructure influence openness to FDI. Foreign ownership limits, barriers to competition, especially the impact of strong incumbents and SOEs, access to spectrum, and the stability and predictability of regulations are the major impediments.

- **Accounting:** There has been essentially no FDI in accounting services. Global accounting firms are, in fact, coordinated networks of domestic partnerships. Resistance to full adoption of IFRS, strong self-regulating professional organizations, and complex and time-consuming accreditation processes severely limit FDI opportunities.

- **Software, Platform, and Cloud as a Service:** As a rapidly emerging service sector in most economies, the biggest threats to FDI are policy fumbles. These ICT services are tradable services. Competitive hubs will develop in economies with strong IP protection, high-quality ICT infrastructure, availability of high-quality skilled talent, and supportive venture capital industries.

- **Life Insurance:** Investment and development of life insurance in APEC closely follows economic development. Major impediments include limits on foreign ownership and requirements for joint ventures, inefficient approval processes, restrictive prudential rules, limits on movement of capital, limits on foreign workers, and a shortage of skilled labor.

## Recommendations

We offer the following recommendations to APEC and individual economies:

- **Take a whole-of-government approach to services:** Services regulatory regimes must be aligned and coordinated across ministries and levels of government, and must be coherent with other economies to accelerate growth in services.
- **Increased commitment to adopting global standards without modifications:** Adopting generally accepted global standards reduces transaction costs and lowers entry costs for foreign services investors.
- **Services FDI must be made a policy priority and championed:** FDI in services must be actively championed. It is not sufficient for policy makers to remove restrictive market access barriers and guarantee national treatment.
- **Keep access to talent and talent mobility on the APEC agenda:** APEC must address gaps in the human capital talent pool and update archaic talent mobility rules.
- **Track progress on key factors in APEC investment climates:** Much is gained by measuring and reporting progress on key factors that promote or inhibit FDI.
- **More public-private dialogues:** Inclusion in the regulatory process, especially for foreign firms, is a critical element of high-quality investment environments.
- **Accelerate the inclusion of services provisions in FTAs:** FTAs increase market size, encourage regulatory coherence, and improve confidence in long-term stability.

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# Introduction

The future of economic growth is tied to growth in services, but there remains much debate about the best way to promote trade and investment in services. What is not in dispute is that investments in services contribute more to economic growth than do similar investments in manufacturing and agriculture, and will contribute even more in the future. Also not in dispute is that massive changes are underway in the production and delivery of services. Few yet understand the full implications of technological innovation on services. Unless economies are proactive and forward thinking in creating new policies to keep up with and anticipate these changes, they stand a chance of being left behind.

APEC as a region has benefited directly from strong inflows of FDI in the form of increased levels of employment, improved economic growth, and reduced poverty. In 2013, APEC received 54% of global FDI inflows.[1] The region's growth, in no small part, can be directly attributed to opening up to FDI. Unfortunately, the benefits of FDI have not been shared equally across APEC. Openness to FDI varies widely across economies and across industries. Those APEC economies that most need the benefits of FDI have some of the most restrictive investment environments, not just in APEC, but in the world.

As Asia-Pacific's leading economic forum, APEC is ideally positioned to take a leadership role in creating a global services investment framework. Too much is at stake to continue with go-it-alone economy-by-economy approaches. Much can be gained by encouraging member economies to embrace APEC-wide FDI policies in services. Finding pathways to create better future-oriented investment policies for services is an important first step.

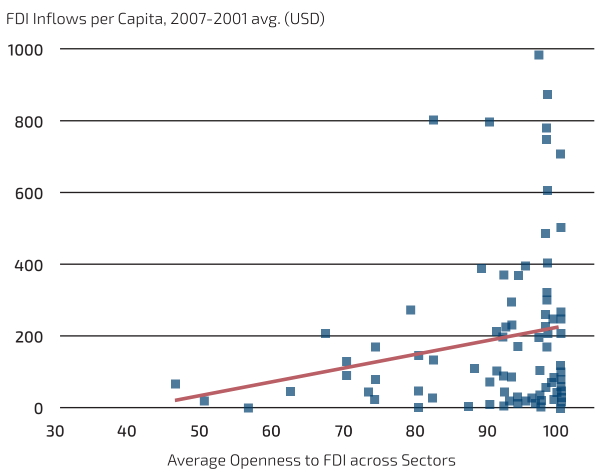
The APEC Business Advisory Council commissioned this study on the business perspective of impediments to investment in services. Gaining a better understanding of what major factors attract and repel investment in services is important so as to better understand where we are currently failing. By conducting in-depth interviews with APEC business leaders, this study builds a picture of what major barriers and impediments are discouraging businesses from investing.

[1] World Investment Report 2014: Investing in the SDGs, an Action Plan. UNCTAD. http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf

# Growing Businesses Globally For The Benefit Of Domestic Economies

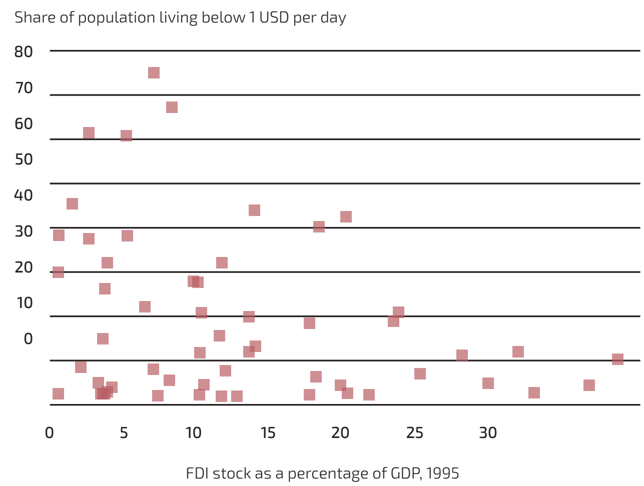
The creative destruction benefits of FDI have been well documented. There is now strong and widely-accepted empirical evidence of a positive link between openness, productivity, and productivity growth.[2] The figure on the left shows that openness to FDI leads to increased FDI investment. The figure to the right offers evidence that increased stocks of FDI reduce poverty and improve prosperity.

*Correlation Between Openness to FDI and FDI Inflows per Capita*




*Source: UNCTADstat, FDI Regulations database 2012* [3]

*Poverty and inward FDI stock*
(in 60 developing countries)




*Source: World Development Indications (OECD)* [4]

The benefits of FDI are strongest when investment is able to flow freely across borders. With FDI comes an expansion of available capital, increased productivity, better training for workers, the introduction of new technologies, increased employment, new products and services, higher economic growth, and more domestic investment. Increased competition from foreign firms also forces underperforming domestic firms to upgrade or exit. Overall productivity increases as resources are acquired by more productive and competitive firms that are better able to face global competition.

## Businesses Invest, Governments Create The Climate

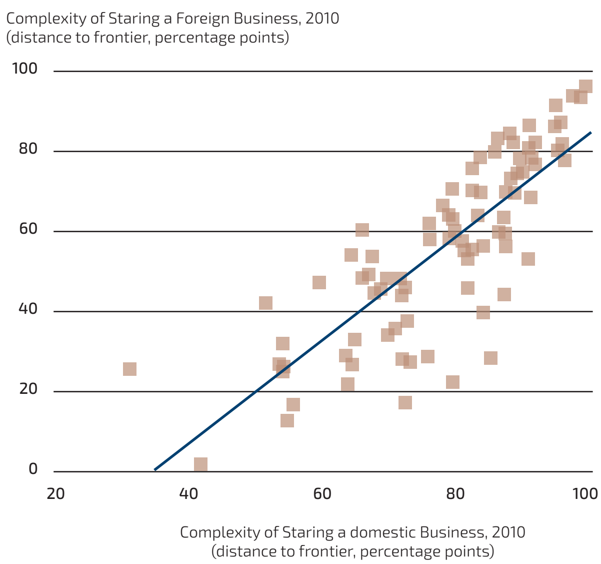
Lost in most discussions about investment in general and FDI in particular, is where investment comes from. Unless it is government-supplied, it is not "mana from heaven." Investment comes from businesses, domestic or foreign, that are willing to invest. For businesses, a decision to invest is a straight-forward consideration of the long-term risk-return profile. If there is an attractive market opportunity businesses will invest. Some factors that affect the attractiveness of an opportunity, like the size of the market, geographic location, and absences of critical resources, are beyond the scope of government influence. In these cases there is very little that governments can do to stimulate investments. However, over the course of this research project, we have learned from APEC business leaders that there is much that governments can do to change risk-return profiles. Overhauling overly bureaucratic institutions, eliminating unnecessary and counterproductive policies and regulations, working to ensure predictability and stability, tackling corruption and improving transparency, removing discrimatory policies, strengthing core institutions, ensuring fair competition, and focusing investment on infrastructure voids are all within the purview of APEC policy makers. Government can do much to increase the attractiveness of investment opportunities by developing better investment regulations and adopting coherent policies that make it easier for businesses to invest. As businesses grow globally, so do economies.

[2] Shepherd, Ben, and Erik Van Der Marel. "Trade in Services in the APEC Region: Patterns, Determinants, and Policy Implications." APEC Policy Support Unit, October 2010.
[3] De La Medina Soto, Christian, and Tania Ghossein. "Starting a Foreign Investment Across Sectors." The World Bank, November 2013, 17.
[4] "Foreign Direct Investment for Development: Maximizing Benefits, Minimizing Costs." Organization for Economic Cooperation and Development 4, no. 3 (2003): 20. doi:10.1163/221190003X00078.

## Quality Productive Investment, Foreign Or Domestic, Flows To Quality Investment Climates

Economies with more open and permissive investment environments attract higher quality foreign and domestic investment. The figure below draws data from the World Bank Investing Across Borders report. It shows a strong positive correlation between complexity of starting a foreign business and starting a domestic business. The USC Marshall ABAC study on Impediments to FDI in APEC (2013) drew a stronger conclusion. APEC economies that have quality FDI investment environments also have quality domestic investment environments.

### *Complexity In Starting Businesses, Foreign vs. Domestic*




*Source: World Bank IAB Report [5]*

Since all barriers and impediments to domestic investment are also barriers and impediments to FDI, those economies that have actively created permissive quality investment environments attract both domestic and foreign investments. Those that have not, stifle both FDI and domestic investment. Economies that have high-quality, permissive investment environments expose domestic firms to global competition encouraging them to compete with the best to become the best. In doing so, the benefits of improved productivity, better quality and lower prices are enjoyed domestically.

## Falabella And Chile's Investment Environment

Chile's commitment to maintaining an open and permissive investment environment has directly benefited its domestic firms. Falabella, one of Chile's leading retailers has benefited directly from being exposed to world class competition in its home market. In order to survive in the open market, Falabella was forced to upgrade its competencies, take on new technologies and improve its operations. In doing so, it built itself into an enterprise that only competes successfully in Chile, but also has the capability to expand across Latin America.

[5] Investing Across Borders. World Bank. 2010. http://iab.worldbank.org/~/media/FPDKM/IAB/Documents/IAB-report.pdf.

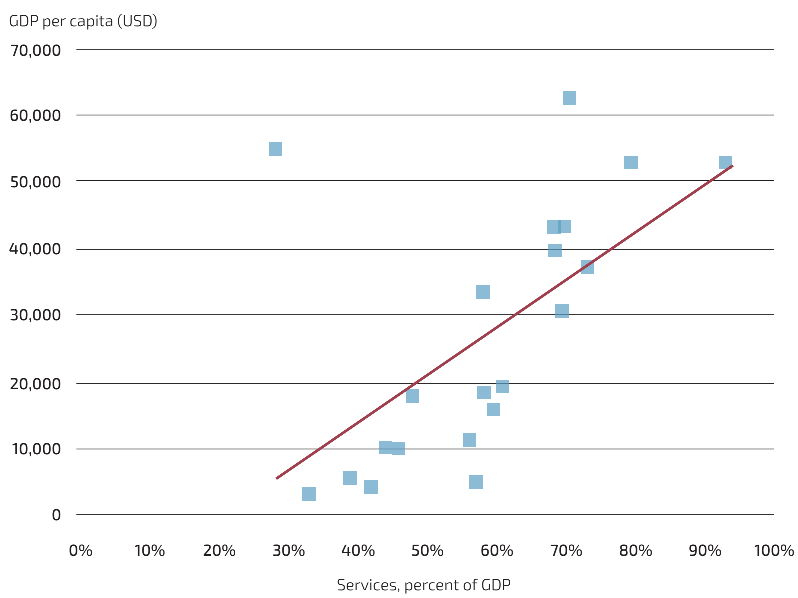
# Accelerating Investment In Services For The Benefit Of Economies

It is not the purpose of this study to make the case for investment in services. The benefits of investment in services are real and increasingly well known. Investment in services contributes more to economic growth than investments in manufacturing or agriculture because of the multiplier impact they create across the business ecosystem. In this way, efficient services contribute to the overall quality of goods. New technologies are also making services increasingly more tradable, unlocking new sources of economic growth.

## More Services, Higher Prosperity

Increased economic growth brought by services industries results in a higher GDP per capita in economies where services account for higher percentage of GDP. The chart below shows a strong correlation between the percent of GDP derived from services and GDP per capita.

*Greater Services Sectors Linked to Higher GDP*



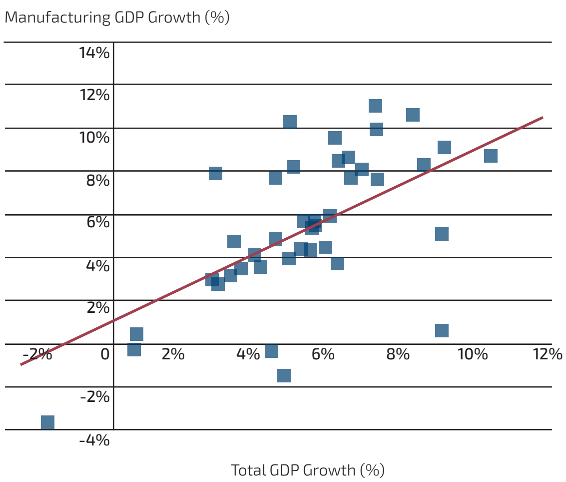

*Source: CIA World Factbook* [6]

[6] "The World Factbook." Central Intelligence Agency. Accessed October 17, 2014. https://www.cia.gov/library/publications/the-world-factbook/.

## Services Have A Multiplier Effect

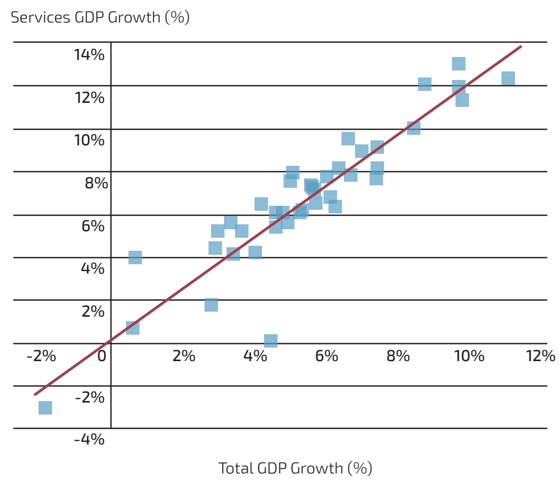
Creating a climate that encourages investment in services contributes more to economic growth than increased investment in manufacturing industries. Services create spillover effects for the entire economy and more of the added value is captured by the local economy. Regressions in the figures below show that for every dollar invested in manufacturing, the GDP of a country grows by $0.70. However, every dollar invested in service industries grows the economy b7 $0.92.

*FDI in Manufacturing and Growth 1981-1999*




*Source: Foreign Direct Investment and Growth: Does the Sector Matter* [7]

*FDI in the Service Sector and Growth 1981-1999*




*Source: Foreign Direct Investment and Growth: Does the Sector Matter* [7]

## Service Sectors Create Competitive Advantages In Trade

Spillovers effects provided by service industries throughout an economy can become a source of competitive advantage in trade. Reliable telecommunications, container port services, and accounting practices all contribute to the attractiveness of an economy. They make it easier for companies to conduct operations and reduce costs so much that they can even negate natural disadvantages economies may have, such as geographic distance or small market size. Efficient service industries, such as trucking and telecommunications, lower costs for other businesses throughout the value chain. This “services spillover effect” is one of the ways that APEC can reach its goal of 10% improvement in supply chain efficiency by 2015.

Recent research conducted by the APEC Policy Support Unit shows that higher restrictiveness on services negatively affects the competitiveness of downstream sectors that rely on them.[8] More openness in accounting services, computer services, distribution services, engineering services, legal services, and maritime services were all shown to be strongly correlated with higher levels of manufacturing exports.

*“Opening the retail market in China to global MNC retailers did not lead it to market dominance by foreign players. The openness of the market forced the domestic retailers to change business approaches and invest in new technology. Today local Chinese retailers hold their own and even out-compete global retailers.”*

[7] Alfaro, Laura. “Foreign Direct Investment and Growth: Does the Sector Matter?” Harvard Business School, April 2003, 22-23. Accessed October 19, 2014. http://www.grips.ac.jp/teacher/oono/hp/docu01/paper14.pdf.
[8] “Services and Manufacturing: Patterns of Linkages.” APEC Policy Support Unit, August 2014. http://publications.apec.org/publication-detail.php?pub_id=1540.

## FDI In Services Increases Domestic Content

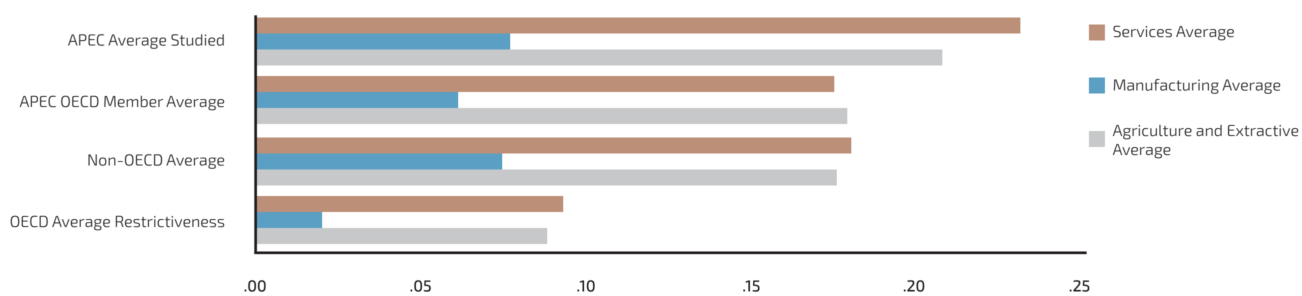
Despite fears that FDI in services destroys domestic services firms, the opposite is true. Traditional anti-FDI arguments of fears of job losses, market capture and manipulation by MNCs, "race to the bottom" effects, outsourcing of entire segments of value chains, and lost opportunities for domestic firms continue to be raised as a concern in the FDI debate. However, recent research by He and Findlay presents a different conclusion. Intentional policies designed to protect or "force" the use of local content and to grow domestic services industries end up repelling FDI and domestic investment rather than attracting it. More permissive investment regimes have been found to actually grow local service-providers' market shares and increase local content rather than inhibiting it.[9] Instead of forcing local service development with local content requirements, openness to services investment attracts investment and grows domestic services providers more quickly.

## Overall Restrictiveness Is Higher In Services Than Other Sectors

Despite available economic evidence that openness to FDI in services produces greater levels of economic growth, employment, and prosperity than FDI in non-service industries, services sectors remain more restrictive.

The table below presents a snapshot of the current debilitative state of FDI restrictiveness. Despite the importance of FDI in services to economic growth, investors in services sectors face more restrictive barriers than do investors in other economic sectors, even agriculture. Globally, services sectors are more restrictive than both agriculture and manufacturing.

*Comparison of FDI Restrictiveness across Economic Sectors*




*Source: Compiled from OECD FDI Restrictiveness Index data*[10]

This finding is equally true for APEC. The OECD FDI Regulatory Index shows that APEC economies have an average restrictiveness for services of 0.23. This compares unfavorably with average restrictiveness in manufacturing of 0.08 and an average restrictiveness in agriculture and extractive industries of 0.21. It is important to note that within the OECD data (not shown here), APEC's developed economies rank among the most permissive economies in the world. This suggests that other APEC economies lag significantly. The World Bank Investing across Borders (2014) data shows the same finding. The average ownership restrictiveness/ openness for non-services industries is 89%. The average ownership restrictiveness/openness for services sectors is 83%. Many APEC economies lag behind the world, not just other APEC economies, in liberalizing important FDI barriers resulting in loss of economic growth. In a world where MNCs are increasingly expanding their global value chains, these overly restrictive economies risk being skipped as locations for investment.

[9] He, Xiaobo, and Christopher Findlay. "Policy Restrictions and Services Performance: Evidence from 32 Countries." Journal of International Commerce, Economics and Policy 05, no. 01 (2014): 1440003. doi:10.1142/S1793993314400031.
[10] Services Trade Restrictiveness Index. OECD, 2014. http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm

# *Investment In Services: What's Different And Why?*

It is not profound to point out that services are not like goods. They are a much more complex economic activity that is produced, delivered, and consumed in a very different way. As a consequence, services present governments with real challenges in creating and enforcing effective services regulatory frameworks. The way services are produced, delivered, and consumed has real implications for the type of investment needed and where it is required.

## The Services Landscape: Change Is The Future

Services sectors in most economies, however, are undergoing massive changes. Advances in ICT technologies have eliminated the need for physical proximity and in-person delivery of services. Where Mode 3 physical presence was once essential to compete, some services are now becoming fully tradable, and value chains are being de-integrated in novel and innovative ways. Accounting firms, for example, are now outsourcing back-office computation work to central locations where the benefits of labor arbitrage and scale can be captured. It is possible that entire services sectors where services were once produced and delivered domestically will become tradable services sectors in the future. Traditional global MNC services firms are changing their investment approaches. They are organizing on an international, not economy-by-economy, basis. These MNCs are finding creative ways to de-integrate services value chains and locate different activities in different economies. These new firms are changing the rules within services.

All this greatly complicates the task of governments to create quality regulatory environments to attract quality investment in services. The reality is that the business world moves quickly, and regulations change slowly. Services policies and regulations that do not anticipate and allow for a radically different services landscape run the risk of repelling new investment and unintentionally disadvantaging domestic services providers. Given the importance of high quality services for the other sectors of economies, this creates a possibility of negatively impacting national competitiveness.

## Seeking Quality Regulations; Ending Up With Barriers And Impediments

The crux the of challenge for governments is that services markets intrinsically need more regulation and oversight than goods markets. However, those regulations can result in repelling the very business investment initially sought.

Services by nature must be regulated. Most services are "experience goods," meaning that the quality and value of the service is not known until it is "consumed." Moral hazard and severe information asymmetry problems can develop in services markets and market forces are often not capable of ensuring fair and efficient outcomes. Services markets potentially offer greater opportunities for unscrupulous and opportunistic behavior than goods markets. Consequently, services markets need the guidance of the "visible hand" of government in the form of standards and regulations, and oversight to ensure compliance.

Herein lies the problem. While the end goal is a quality regulatory environment with efficient oversight, the reality is often quite different. Complex, overly restrictive regulatory frameworks; domestic standards which are not coherent with global standards; burdensome, non-responsive and biased bureaucracies; multi-jurisdictional overlap and conflicts between different oversight bodies; lack of coordination between national policies; and how local municipalities set and administer rules, can quickly flip risk-return profiles against investing. Executives noted that rarely did they think the barriers and impediments they encountered were intentional. Unfortunately, these barries and impediments still influence their decisions to invest or re-invest. Services sectors need high quality regulations to support quality investment environments. Governments must sure that well-intentioned policies and regulations do not end up becoming barriers and impediments to investment.

Tackling this problem is a complex issue for policy makers and requires tact and courage. This report offers several recommendations for streamlining and building the international norms need to facilitate investment in services.

## Services Need People

Services rely more on people than most manufacturing industries. As such, human capital issues become a very important investment screen that businesses use when selecting investment opportunities in services. An economy's policies on temporary work visas and recognition of qualifications and skills can become substantial stumbling blocks for firms looking to import talent to support investments. Lack of recognition of qualifications can become binary go/no-go decisions. The quality and availability of domestic talent, rules on hiring and firing workers, work ethic and cultural issues, and the existence of quality supporting training and educational institutions are important decision variables. Something as simple as language proficiency becomes much more important as MNC firms increasingly organize themselves on an international or regional basis. Equally important is the quality of life for expatriates. The availability of enjoyable living communities, quality schools for children, and personal safety become important service investment decision criteria.

# This Study: Removing Barriers And Creating Growth

There is a real need for clarity on the key barriers and impediments in investment in services. APEC economies are not unaware of the importance of trade and investment in services to growing their economies and increasing levels of prosperity. The question, one that this report seeks to help address, is how economies can accelerate their transition to participate more directly in the benefits that come with increased trade and investment in services. If this study meets its mark, it will be because it has offered policy makers a better, more fine-grained understanding of the impact of the critical factors that shape business decisions to invest

This report is organized as follows:

- The next section provides an economy-level overview of the quality of investment environments in APEC. All data are drawn from public sources. World Bank Investing Across Borders assessments and the OECD Services Trade Restrictiveness indexes for APEC offer insightful pictures of the large differences in FDI climates across APEC. A more detailed analysis of specific barriers and impediments drawn from secondary sources for each APEC economy based on the USC Marshall-ABAC FDI impediments framework.

- A description of the goals and objectives of the study, and how it is intended to complement emerging research on services, is presented in the following section. It describes the business perspective conceptual framework of barriers and impediments to FDI in services developed to analyze and present the information obtained from the 368 interviews completed for this report.

- Main findings are then presented. Single page summaries of the key issues and investment challenges in each of the seven services sectors researched are presented. Generalizations drawn from the across the findings in each of the seven services sectors are then discussed.

- Separate sections presenting detailed discussion of each of the seven services sectors then follow.

- The last section draws conclusions from across the analysis of the seven services sectors, and offers recommendations for APEC and individual economies.

# APEC At A Glance

# APEC At A Glance:
# Ease & Difficulty of Foreign Investment in APEC

The purpose of this section is to present comparisons of the quality of investment environments in APEC economies. Three different comparative assessments of APEC economies are presented; all drawn from external sources.

- **World Bank Investing Across Borders**. Comparative charts were constructed from the World Bank Investing Across Borders (2014) database for all APEC economies for which data is available.
- **USC Marshall-ABAC Business Perspective FDI Framework.** Following the approach presented in the 2013 USC Marshall report on Foreign Direct Investment across APEC, an updated assessment of the quality of FDI environments was made of all APEC economies drawing information from publicly available data sources.
- **OECD Services Trade Restrictiveness Index.** Comparative charts were drawn from the most recently released 2014 OECD Services Trade Restrictiveness database (STRI) for the eleven APEC economies included in their database.

These assessments, unfortunately, have the major limitation of being made at the economy-level. They offer only a general picture of the barriers and impediments that influence the investment climates in each APEC economy.

Clear conclusions can be drawn be examining all three comparative assessments of APEC economies. APEC, as a region, is home to some of the world's most permissive and open investment environments. It is also home to economies that currently rank in the bottom 20% of all global economies in terms of barriers and impediments to FDI in services. All APEC economies have areas in need of improvement.

## World Bank: Investing Across Borders

The World Bank assesses the openness/restrictiveness of FDI climates along five broad dimensions. While recognizing that there are multiple factors that impact FDI decisions, the World Bank contends that these five dimensions serve as strong proxies for the overall quality of an economy's investment climate. The table below presents the five dimensions covered in the World Bank FDI Regulations Database. The five charts following show how APEC economies perform on the five dimensions measured by the World Bank.

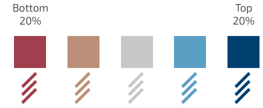
Where possible, OECD Average and World Average is calculated to show how APEC economies compare. The world ranking of APEC economies is shown by color. A dark red color indicates the economy falls in the poorest performing 20% of economies in the world. Dark blue, on the other hand, indicates the economy falls in the best performing 20% of economies in the world. (Note: Data is not available for Brunei Darussalam. Data for China is drawn from the 2010 report.)

| Investing Accross Sectors | Starting a Foreign Investment | Arbitrating and Mediating Disputes | Hiring Skilled Expatriates | Converting and Transferring Currency |
|---|---|---|---|---|
| *Foreign Equity Ownership Restricions in*<br><br>Primary Sectors:<br>Mining, Oil and Gas<br>Agriculture and Forestry<br><br>Manufacturing:<br>Electronics Manufacturing<br>Food Processing<br>Manufacturing of basic chemicals<br><br>Services:<br>Telecommunications: fixed-line and mobile infrastructure and service provision<br>Banking<br>Insurance<br>Accounting/Auditing<br>Transportation: Rail, Road (Truck), Air, Water (internal waterways), port operation<br>Electricity: Generation (including renewable)), transmission and distribution<br>Water Distribution<br>Waste Management and Recycling<br>Courier Services<br>Hotels/Accommodation<br>Media: Newspaper Publishing and TV Broadcasting<br>Higher Education | Rules and process of starting a foreign business<br><br>Land-Related legal rights and information access<br><br>Rules for Special Economic Zones (pilot/research section) | Strength of arbitration and mediation laws<br><br>Strength of arbitration and mediation institutions<br><br>Extent of judicial assistance<br><br>Ease of arbitration process<br><br>Ease of enforcemtn process | Rules and process of employing skilled expatriates<br><br>Process of appealing a rejected application for a work permit<br><br>Rules and process for obtaining a spousal work permit<br><br>Restrictions on the membership of the Board of Directors | Rules for currency convertibility and repatriation<br><br>Process of obtaining and servicing a foreing loan, and repatriating dividends<br><br>Restrictions on holding bank accounts |

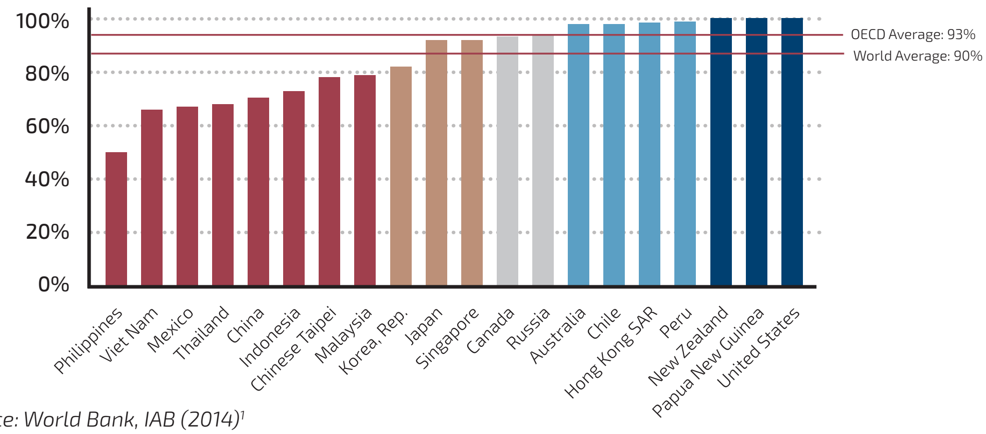
*Source: World Bank, IAB (2014)*[1]

[1] *World Bank, Investing Across Borders: Indicators of Foreign Direct Investment Regulation, 2014.*

# World Bank Investing Across Borders Assessments of APEC Economies

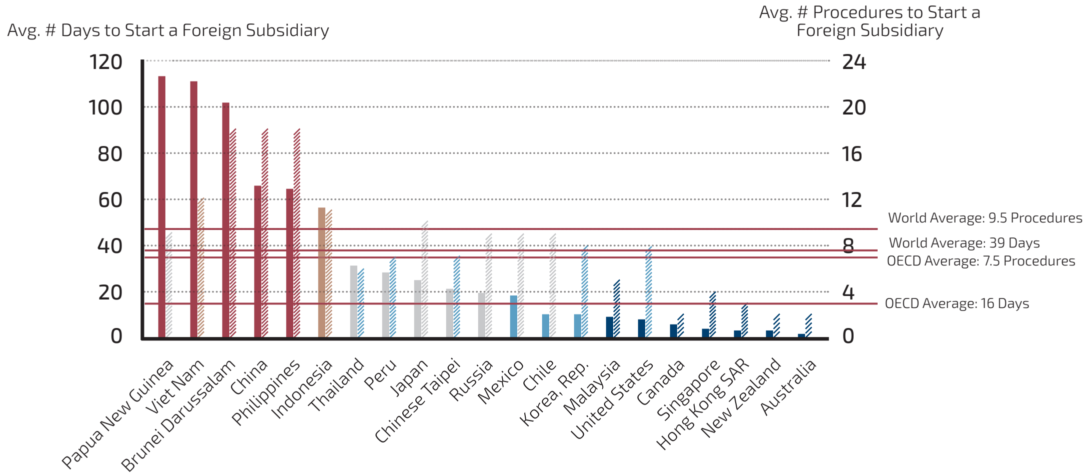



## *Restrictiveness on Foreign Ownership*



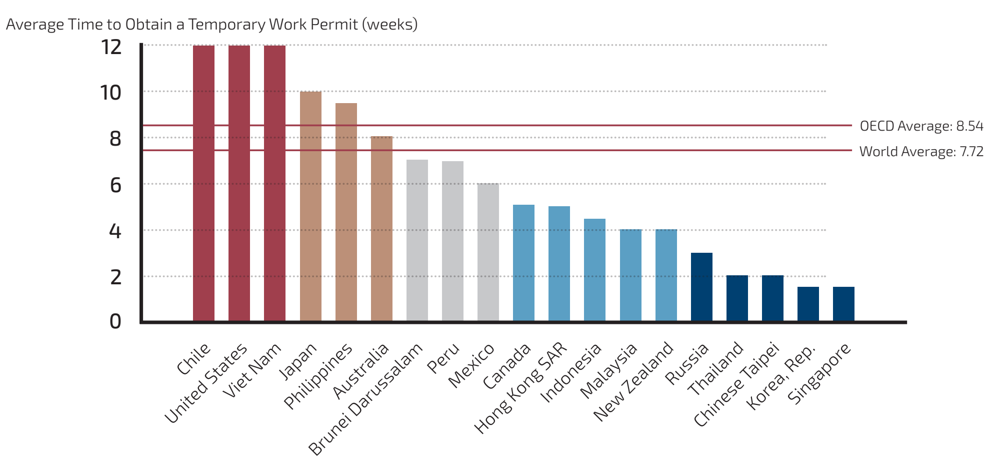

*Source: World Bank, IAB (2014)*[1]

## *Starting a Foreign Business*




*Source: World Bank, IAB (2014)*[1]

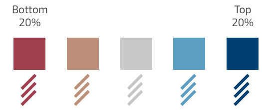
## *Hiring Skilled Expatriates*



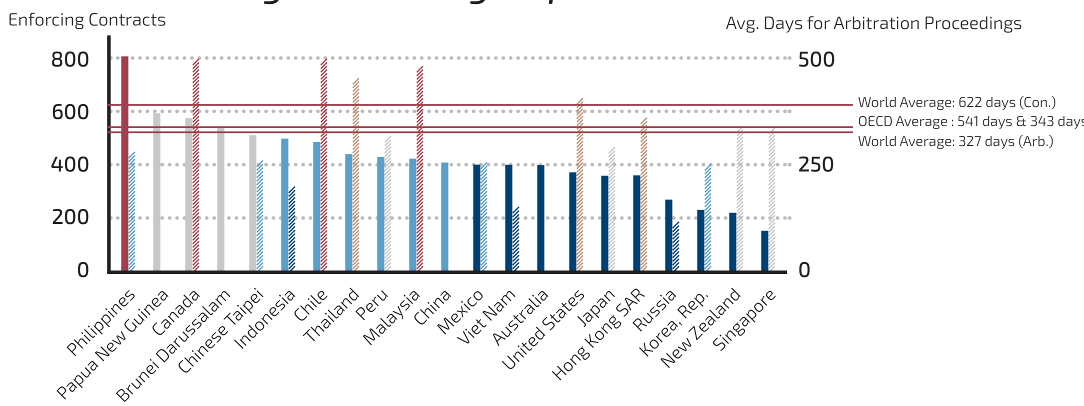

*Source: World Bank, IAB (2014)*[1]

[1] *World Bank, Investing Across Borders: Indicators of Foreign Direct Investment Regulation, 2014.*

# World Bank Investing Across Borders Assessments of APEC Economies

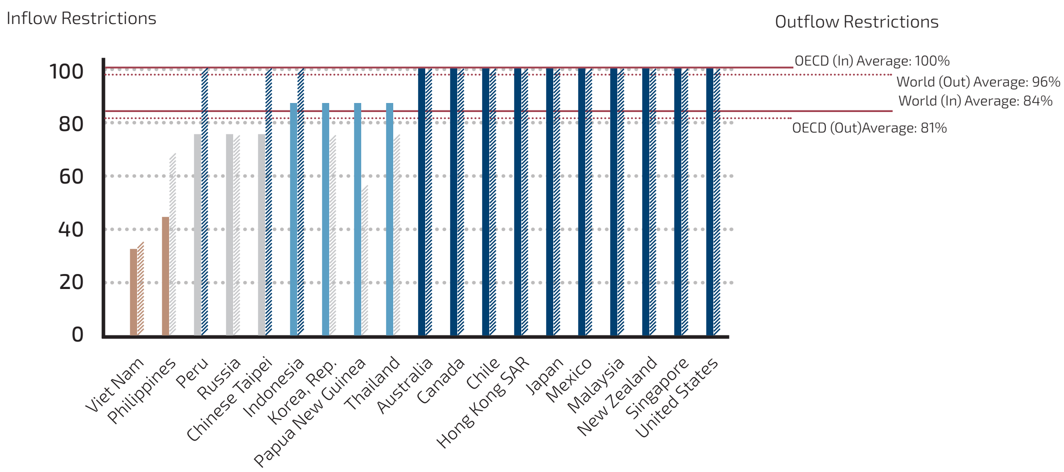



## *Arbitrating & Mediating Disputes*




*Source: World Bank, IAB (2014)*[1]

## *Converting and Transferring Currency*




*Source: World Bank, IAB (2014)*[1]

[1] *World Bank, Investing Across Borders: Indicators of Foreign Direct Investment Regulation, 2014.*

# *USC Marshall ABAC Business Perspective FDI Framework Assessment*

In 2013, USC Marshall developed a comprehensive Business Perspective FDI Impediments Framework consisting of 77 key factors. Assessments for the quality of the FDI environments were made for each APEC economy using both business interview data and proxy-measures drawn from external sources. That analytical exercise is repeated here.

The following table and chart presents a current assessment of the FDI climate in each APEC economy based on the updated/ revised USC Marshall ABAC Business Perspective FDI Framework presented in this report. (A more detailed description is presented in the next section of this report.) This revised framework builds on last year's findings and adds the insights and perspectives of an additional 368 interviews conducted this year with business leadership throughout APEC.

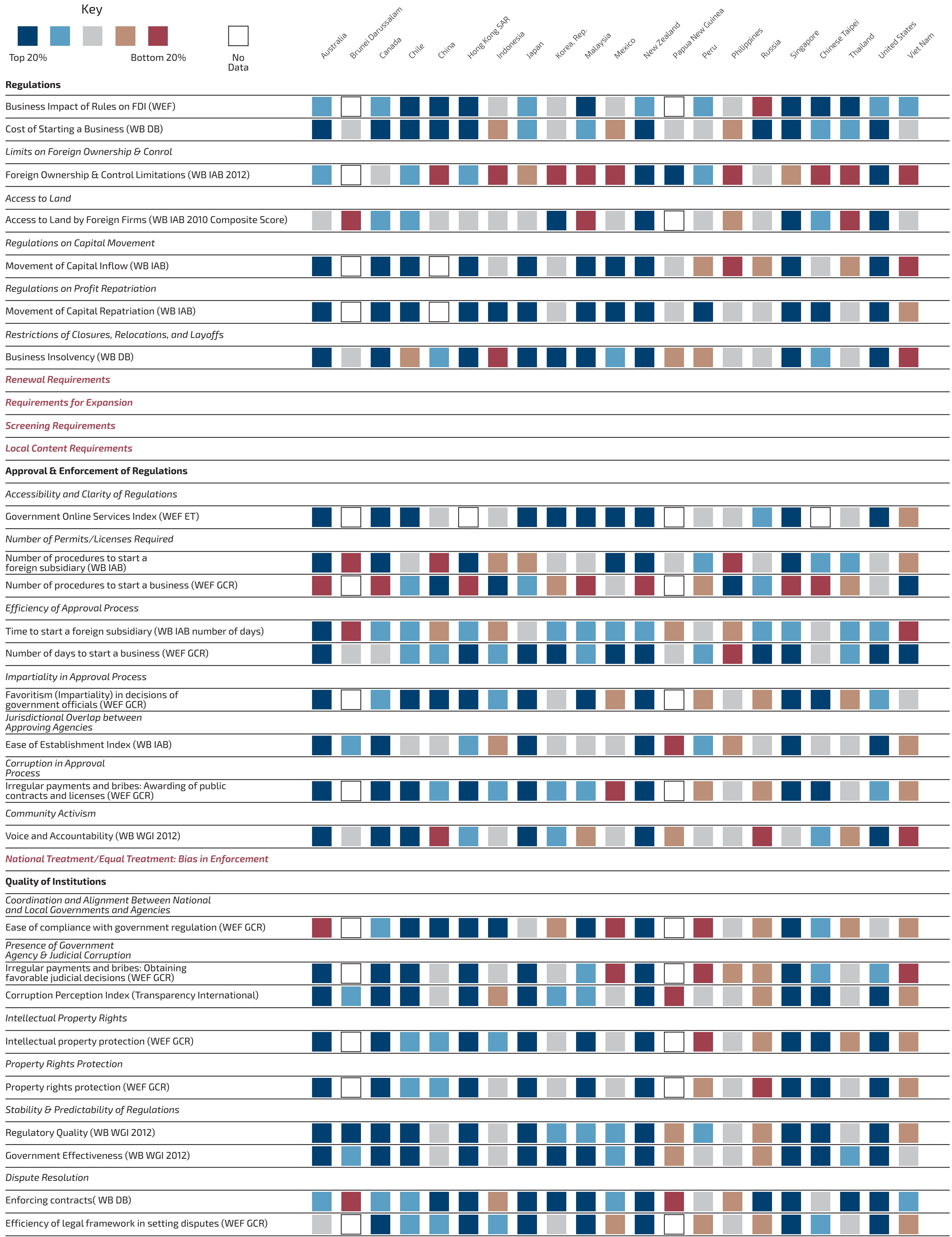
Barriers and impediments are categorized into six groups. The specific factors in each category are listed below.
**Regulations.** Restrictions and limitations on market access for foreign firms, and rules and requirements for establishing and operating a business.
**Approval and enforcement of regulations.** Efficiency and impartiality of processes for establishing and operating a business, including transparency of regulations, presence of corruption, and community activism.
**Quality of institutions.** Quality and effectiveness of government institutions, including the judiciary, dispute resolution mechanisms and IP protection that support business and society. Additionally, the stability and predictability of regulations and the overall political conditions within an economy.
**Enhancers.** Policies and regulations explicitly designed to attract FDI and improve market attractiveness for foreign firms, including tax incentives, FTAs, and government investment promotion agencies.
**Business Conditions**. The availability and quality of critical resources, the nature of market competitiveness, and the quality of capital markets.
**Human Capital.** Because of the importance of human capital to services, a separate category is created to assess the quality and availability of human capital.

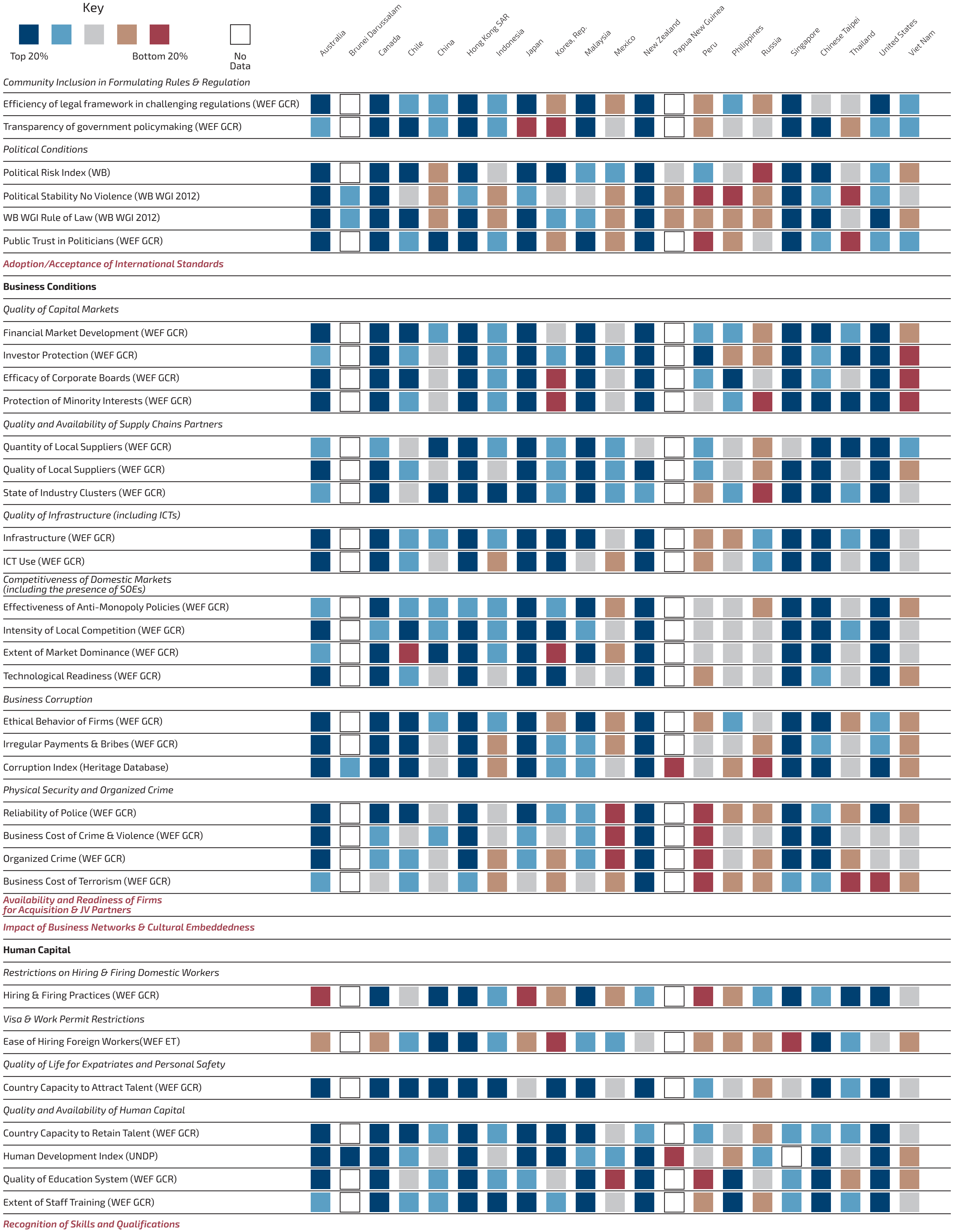
The revised Business Perspective FDI in Services Framework focuses on 51 factors. Proxy measures for the 51 factors, where available, have been drawn from publicly available data sources to validate the findings. Performance measures were drawn from the World Economic Forum's Global Competitive Index (2014, 2015), the WEF Global Enabling Trade Report (2014), the World Bank Investing Across Borders (2014 and 2010) reports, and the World Bank World Wide Governance Indicators. See Appendix for detailed descriptions of proxy measures used.

**Caveats**: There are a number of important limitations to applying outside data sources to our framework. First, it reduces variances in economies to five broad categories. Second, the relative importance of each FDI impediment is potentially lost. More specifically, all global economies may score high on a factor when compared to another more problematic FDI impediment. But because economies are "forced" into a one of five ranking scheme, that information would be lost. An additional important caveat is that for some important factors there are no direct proxies available that correspond to the factor described by APEC business leaders. In those situations, the most appropriate proxy measure available is substituted. No proxy measures were found for some factors. These are highlighted in red and italicized.

The color-coded quintile rating scheme of one of five colors (blue to red) corresponds to the economies' relative ranking in the world for that factor.

The following table presents the ratings by factor for each economy.


Key
Top 20%
Bottom 20%
No Data
Australia
Brunei Darussalam
Canada
Chile
China
Hong Kong SAR
Indonesia
Japan
Korea, Rep.
Malaysia
Mexico
New Zealand
Papua New Guinea
Peru
Philippines
Russia
Singapore
Chinese Taipei
Thailand
United States
Viet Nam
Regulations
Business Impact of Rules on FDI (WEF)
Cost of Starting a Business (WB DB)
Limits on Foreign Ownership & Conrol
Foreign Ownership & Control Limitations (WB IAB 2012)
Access to Land
Access to Land by Foreign Firms (WB IAB 2010 Composite Score)
Regulations on Capital Movement
Movement of Capital Inflow (WB IAB)
Regulations on Profit Repatriation
Movement of Capital Repatriation (WB IAB)
Restrictions of Closures, Relocations, and Layoffs
Business Insolvency (WB DB)
Renewal Requirements
Requirements for Expansion
Screening Requirements
Local Content Requirements
Approval & Enforcement of Regulations
Accessibility and Clarity of Regulations
Government Online Services Index (WEF ET)
Number of Permits/Licenses Required
Number of procedures to start a foreign subsidiary (WB IAB)
Number of procedures to start a business (WEF GCR)
Efficiency of Approval Process
Time to start a foreign subsidiary (WB IAB number of days)
Number of days to start a business (WEF GCR)
Impartiality in Approval Process
Favoritism (Impartiality) in decisions of government officials (WEF GCR)
Jurisdictional Overlap between Approving Agencies
Ease of Establishment Index (WB IAB)
Corruption in Approval Process
Irregular payments and bribes: Awarding of public contracts and licenses (WEF GCR)
Community Activism
Voice and Accountability (WB WGI 2012)
National Treatment/Equal Treatment: Bias in Enforcement
Quality of Institutions
Coordination and Alignment Between National and Local Governments and Agencies
Ease of compliance with government regulation (WEF GCR)
Presence of Government Agency & Judicial Corruption
Irregular payments and bribes: Obtaining favorable judicial decisions (WEF GCR)
Corruption Perception Index (Transparency International)
Intellectual Property Rights
Intellectual property protection (WEF GCR)
Property Rights Protection
Property rights protection (WEF GCR)
Stability & Predictability of Regulations
Regulatory Quality (WB WGI 2012)
Government Effectiveness (WB WGI 2012)
Dispute Resolution
Enforcing contracts( WB DB)
Efficiency of legal framework in setting disputes (WEF GCR)



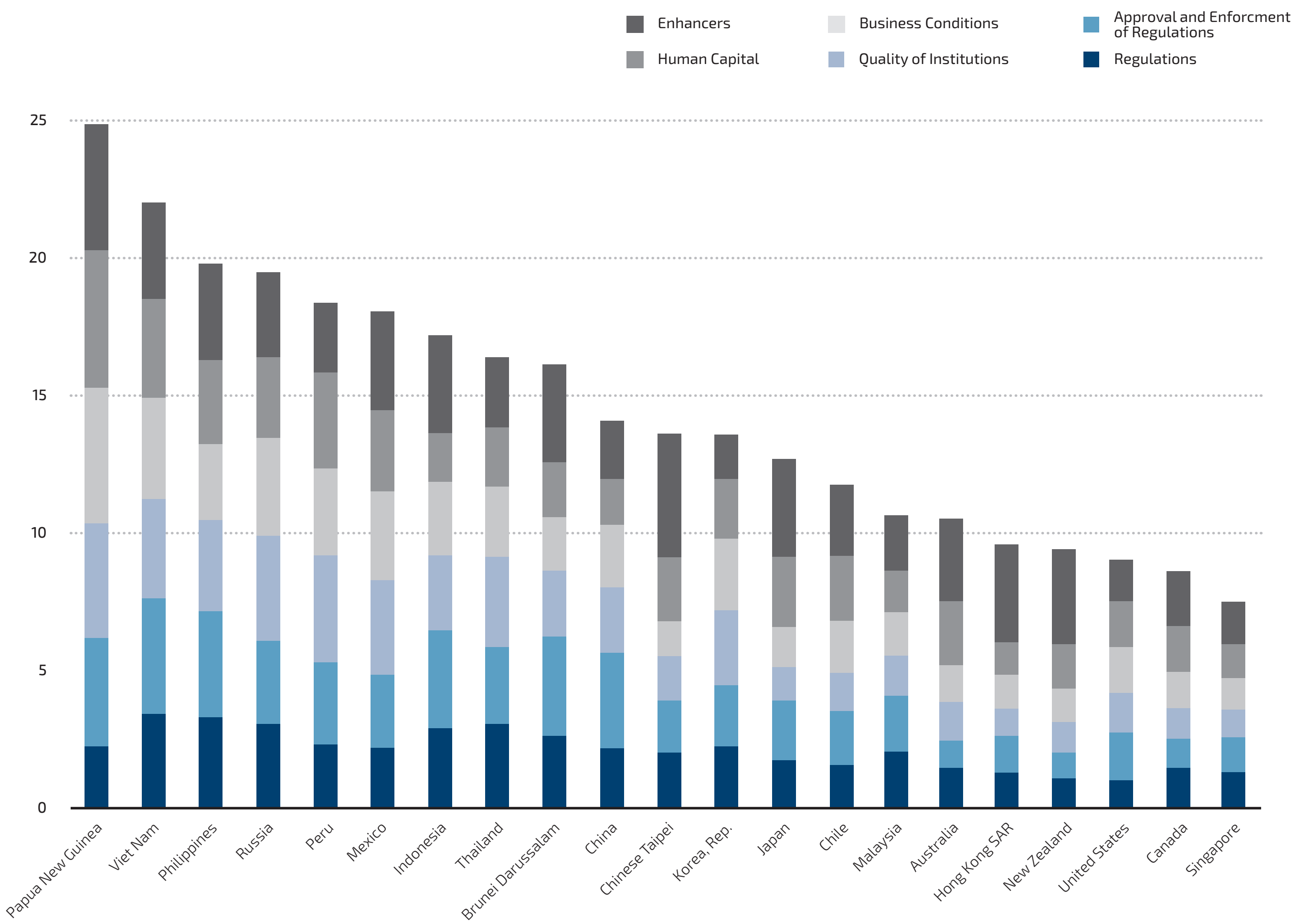
Key
Top 20%
Bottom 20%
No Data
Australia
Brunei Darussalam
Canada
Chile
China
Hong Kong SAR
Indonesia
Japan
Korea, Rep.
Malaysia
Mexico
New Zealand
Papua New Guinea
Peru
Philippines
Russia
Singapore
Chinese Taipei
Thailand
United States
Viet Nam
Community Inclusion in Formulating Rules & Regulation
Efficiency of legal framework in challenging regulations (WEF GCR)
Transparency of government policymaking (WEF GCR)
Political Conditions
Political Risk Index (WB)
Political Stability No Violence (WB WGI 2012)
WB WGI Rule of Law (WB WGI 2012)
Public Trust in Politicians (WEF GCR)
Adoption/Acceptance of International Standards
Business Conditions
Quality of Capital Markets
Financial Market Development (WEF GCR)
Investor Protection (WEF GCR)
Efficacy of Corporate Boards (WEF GCR)
Protection of Minority Interests (WEF GCR)
Quality and Availability of Supply Chains Partners
Quantity of Local Suppliers (WEF GCR)
Quality of Local Suppliers (WEF GCR)
State of Industry Clusters (WEF GCR)
Quality of Infrastructure (including ICTs)
Infrastructure (WEF GCR)
ICT Use (WEF GCR)
Competitiveness of Domestic Markets (including the presence of SOEs)
Effectiveness of Anti-Monopoly Policies (WEF GCR)
Intensity of Local Competition (WEF GCR)
Extent of Market Dominance (WEF GCR)
Technological Readiness (WEF GCR)
Business Corruption
Ethical Behavior of Firms (WEF GCR)
Irregular Payments & Bribes (WEF GCR)
Corruption Index (Heritage Database)
Physical Security and Organized Crime
Reliability of Police (WEF GCR)
Business Cost of Crime & Violence (WEF GCR)
Organized Crime (WEF GCR)
Business Cost of Terrorism (WEF GCR)
Availability and Readiness of Firms for Acquisition & JV Partners
Impact of Business Networks & Cultural Embeddedness
Human Capital
Restrictions on Hiring & Firing Domestic Workers
Hiring & Firing Practices (WEF GCR)
Visa & Work Permit Restrictions
Ease of Hiring Foreign Workers(WEF ET)
Quality of Life for Expatriates and Personal Safety
Country Capacity to Attract Talent (WEF GCR)
Quality and Availability of Human Capital
Country Capacity to Retain Talent (WEF GCR)
Human Development Index (UNDP)
Quality of Education System (WEF GCR)
Extent of Staff Training (WEF GCR)
Recognition of Skills and Qualifications

Key

Top 20% — Bottom 20% — No Data

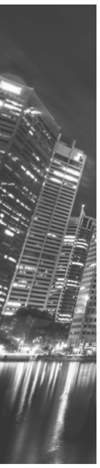
| Enhancers | Australia | Brunei Darussalam | Canada | Chile | China | Hong Kong SAR | Indonesia | Japan | Korea, Rep. | Malaysia | Mexico | New Zealand | Papua New Guinea | Peru | Philippines | Russia | Singapore | Chinese Taipei | Thailand | United States | Viet Nam |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Investment & Tax Incentives* | | | | | | | | | | | | | | | | | | | | | |
| Effect of Taxation on Incentives to Invest (WEF GCR) | grey | No Data | dark blue | light blue | light blue | dark blue | light blue | grey | tan | dark blue | tan | dark blue | No Data | tan | light blue | red | dark blue | light blue | light blue | light blue | tan |
| *Quality of Investment Promotion Agencies* | | | | | | | | | | | | | | | | | | | | | |
| Investment Promotion Agencies (Global Investing Promotion Benchmarking Report) | light blue | light blue | dark blue | grey | grey | light blue | tan | grey | light blue | light blue | grey | light blue | tan | grey | grey | grey | light blue | tan | grey | light blue | tan |
| *Existence of Free Trade Agreements and Investment Agreements* | | | | | | | | | | | | | | | | | | | | | |
| Total # FTAs (Asia Regional Integration Center, OAS ) | 18 | 18 | 23 | 26 | 29 | 5 | 25 | 28 | 33 | 27 | 16 | 16 | 6 | 24 | 19 | 15 | 40 | 13 | 30 | 15 | 20 |
| Total # FTAs in force/signed (Asia Regional Integration Center, OAS ) | 10 | 8 | 13 | 19 | 14 | 4 | 8 | 16 | 13 | 13 | 13 | 9 | 4 | 19 | 7 | 14 | 23 | 7 | 13 | 15 | 8 |
| Total # of IIAs in force/signed (UNCTAD) | 35 | 24 | 43 | 20 | 120 | 18 | 59 | 30 | 93 | 69 | 41 | 12 | 7 | 51 | 43 | 58 | 63 | 20 | 54 | 89 | 60 |
| ***FDI is a Policy Priority*** | | | | | | | | | | | | | | | | | | | | | |
| ***Availability and Reliability of Information on Investment Opportunities (including local partners)*** | | | | | | | | | | | | | | | | | | | | | |

The below chart summarizes all of the proxy measures into six indicies; Regulations (Market access and requirements for starting a business), Approval and Enforcement of Regulations, Quality of Institutions, Business Conditions, Human Capital, and Enhancers. (Please note that some economies may appear lower in restrictiveness due to missing data.



# OECD Services Trade Restrictiveness Index (STRI)

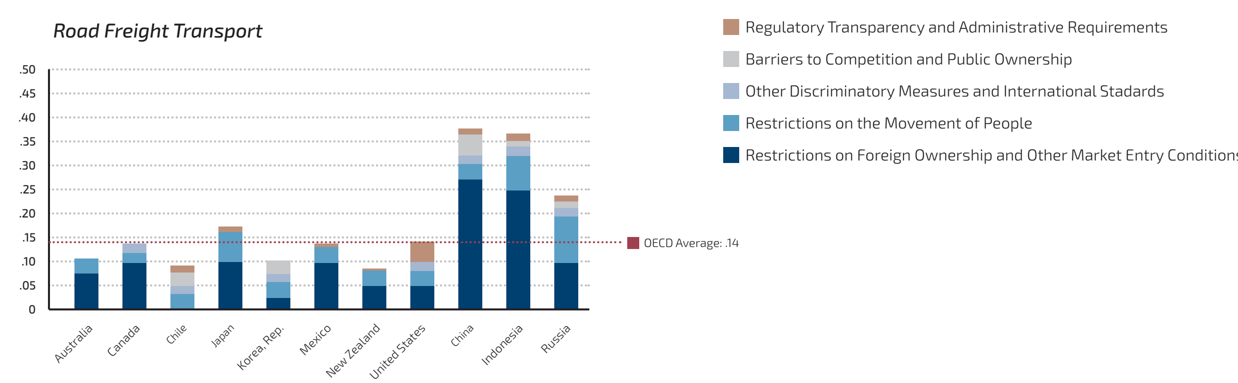
The OECD recently released the most thorough and comprehensive data on the restrictiveness and impediment to FDI in services publicly available to date. The database provides sectorial information on 18 services sectors for all the OECD economies plus China, Indonesia and Russia. The OECD assesses the openness/restrictiveness of economies to FDI across five different dimensions as defined below:



- Regulatory transparency and administrative requirements
- Barriers to competition and public ownership
- Other discriminatory measures and international standards
- Restrictions on the movement of people
- Restrictions on foreign ownership and other market entry conditions

The STRI database is based on regulations currently in force. STRI indices take the value from 0 to 1, where 0 is completely open and 1 is completely closed. A full methodology of the STRI stimulator can be found at http://www.oecd.org/tad/services-trade/STRI_scoring_methodology.pdf)

The charts below present the OECD estimates of restrictiveness to FDI in services in six services for 11 APEC economies covered in their database. These economies include Australia, Canada, Chile, Japan, Korea, Mexico, New Zealand, United States, China, Indonesia, and the Russian Federation. The OECD provides data for six of the seven services sectors examined in this report: Accounting Services, Computer Services, Distribution Services, Insurance, Road Freight Transport Services, and Telecommunications Services. The average score for restrictiveness across all OECD listed countries is provided for comparative purposes. This is illustrated with the red, dotted line entitled "OECD Average."

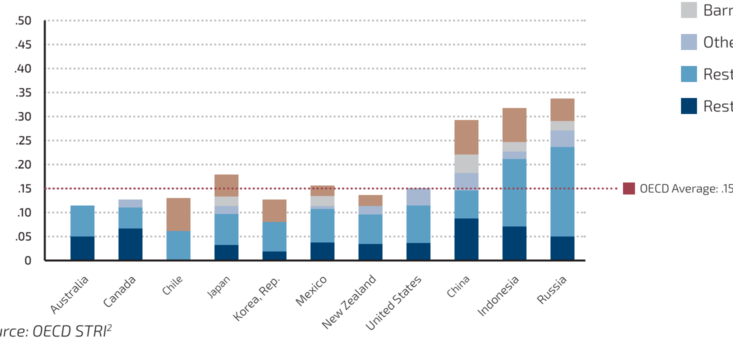



*Source: OECD STRI[2]*

[2] *Services Trade Restrictiveness Index. OECD, 2014. http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm*

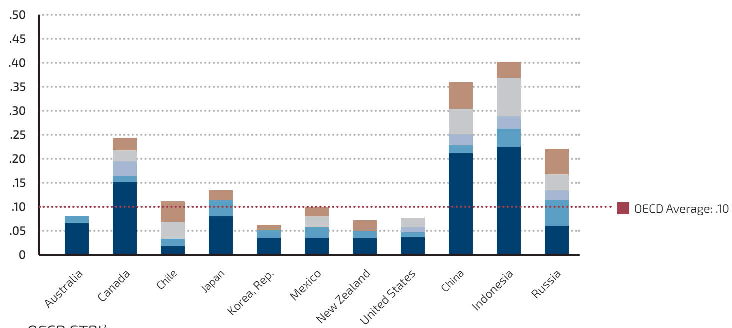
- Regulatory Transparency and Administrative Requirements
- Barriers to Competition and Public Ownership
- Other Discriminatory Measures and International Stadards
- Restrictions on the Movement of People
- Restrictions on Foreign Ownership and Other Market Entry Conditions

*Computer*



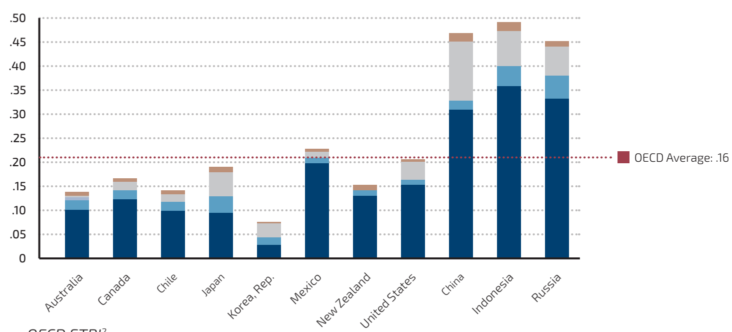

*Source: OECD STRI*[2]

*Distribution*



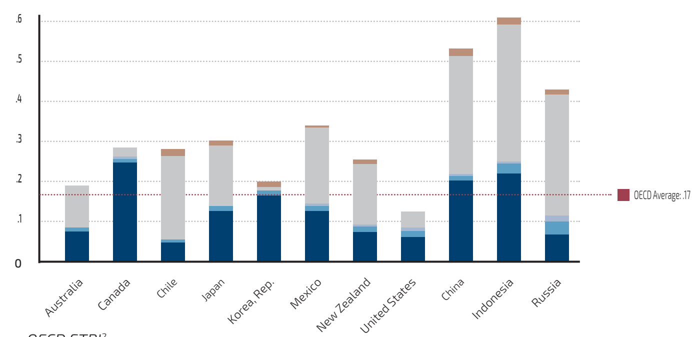

*Source: OECD STRI*[2]

*Insurance*



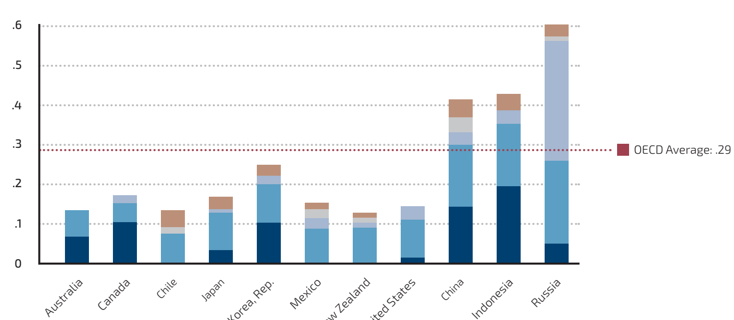

*Source: OECD STRI*[2]

*Telecom*




*Source: OECD STRI*[2]

*Accounting*




*Source: OECD STRI*[2]

[2] *Services Trade Restrictiveness Index. OECD, 2014. http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm*

# Analyzing the Quality of Investment Environments:

## A Business Perspective Approach

# Views And Experiences Of APEC Business: The Study

The goal of this USC Marshall-ABAC study is to identify, from a business perspective, the major factors that create and/or inhibit a high-quality investment environment for FDI in services. ABAC requested that USC Marshall interview APEC business executives to capture their views and first-hand experiences dealing with the challenges of investing in services in APEC economies. Building on the recent USC Marshall studies on trade in services (2012) and barriers and impediments to FDI (2013), ABAC requested a sectorial study of barriers and impediments in seven services sectors: *Trucking, Container Ports, Retail and Restaurants, Telecommunications and Broadband Services, Software, Platform, and Cloud Services, Life Insurance, and Accounting Services.*

The specific objectives of the study were to:

- Take a sectorial approach to identifying and assessing challenges to FDI in Services

- Catalogue what business executives identified, ***at a services sector level***, as the **most important** barriers and impediments to FDI within each service sector, and then

- Rate how business executives, at an economy level, assessed the **relative impact** of those barriers and impediments to FDI on investment decisions within each APEC economy.

In addition, the study sought to encourage APEC business leaders to offer recommendations about specific barriers or challenges that, if addressed, might have a multiplied impact on improving investment climates.

The intended purpose of this study is to complement the emerging stream of research from the APEC Policy Support Unit, the World Bank, and the OECD on the impact of the restrictiveness of investment regulatory frameworks in services on economic growth in APEC. In line with ABAC's role within APEC, this study's goal is to offer policy makers a richer, more fine-grained business perspective on specific problems and challenges that can better inform policy discussions focused on improving investment environments for services.

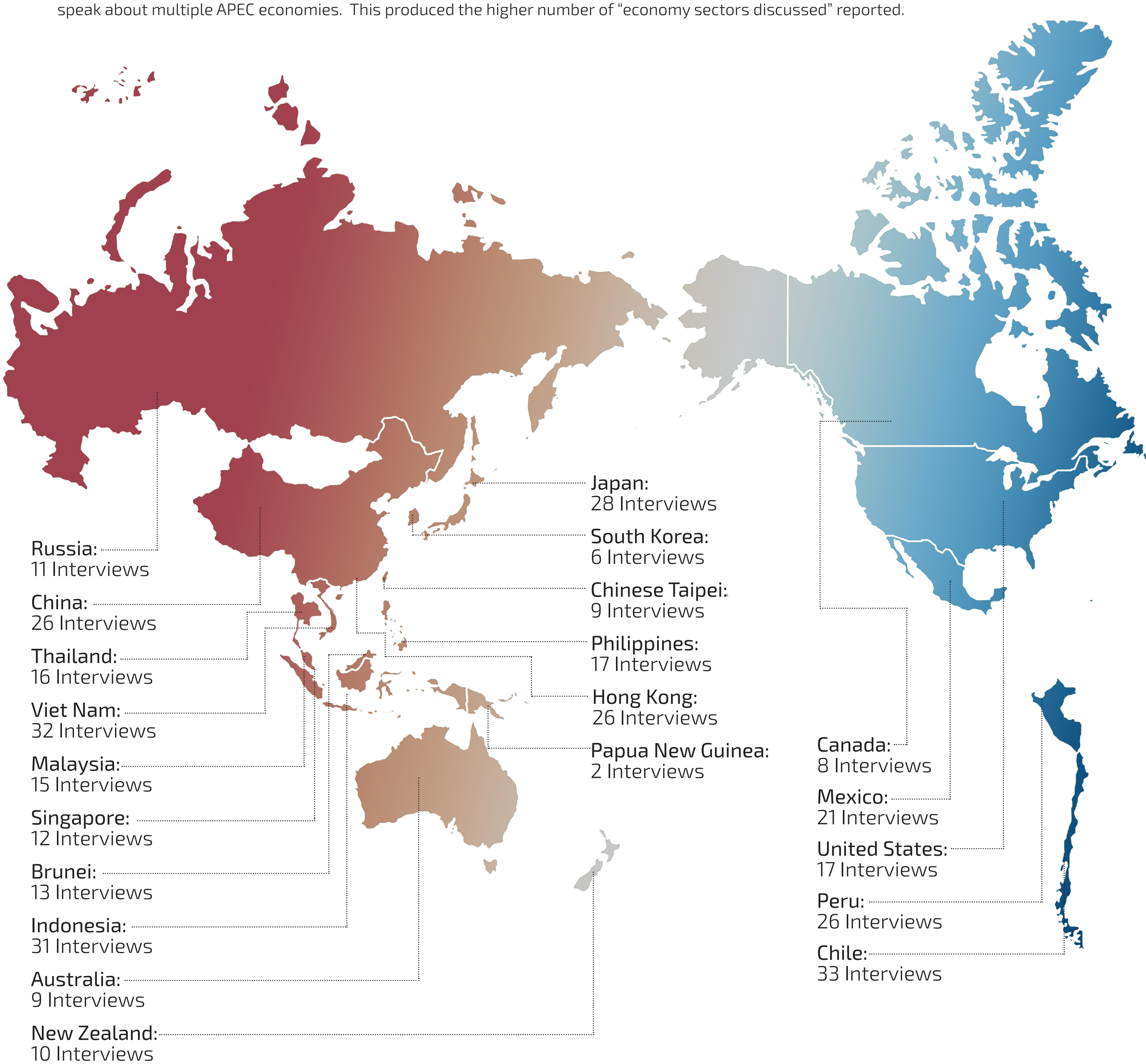
This study intentionally differs from other studies in at least one important way. It examines the quality of APEC investment environments, not just their restrictiveness. It adopts this focus because this is how business explained how they approach FDI in services decisions. Businesses weigh the long-term attractiveness of FDI against costs of entry, reinvestments in ongoing operations, and long-term risks when making FDI decisions. Factors that impact long-term market attractiveness, including investment enhancers, business conditions, the availability and quality of critical resources, and long-term political and economic conditions are included. Many of these factors are beyond the reach of policy makers, at least in the short-term, but they are included because they are decisive factors in determining decisions to invest.

USC Marshall researchers engaged 368 APEC business executives, industry association leaders, consultants, and government officials in gathering the data for this report. ABAC Secretariats assisted in identifying key thought leaders and "multipliers"—executives capable of providing deep insights across their services sectors. The study's participants collectively provided 496 detailed insights across APEC economies. A more detailed description of the objectives, research design, and method for this study is provided in the appendix of the report. In particular, it describes the business perspective conceptual framework created to analyze, rate, and then report the interview data which serves as the basis for the findings and conclusions presented in this report.

# *Interviews Across APEC*

## 368 Interviews In 21 Economies, 498 Sector Economies Discussed

The majority of the 368 interviews conducted were with leading executives, industry association leaders, and industry experts. These key individuals were identified and interviews because of their ability to add a "multiplier effect" to the information they provided. They spoke for large segments of service sectors or their entire industries. Many of these "multipliers" were able to speak about multiple APEC economies. This produced the higher number of "economy sectors discussed" reported.




Trucking Services:
82 Sector Economies Discussed

Telecom:
51 Sector Economies Discussed

Cloud Services:
56 Sector Economies Discussed

Life Insurance:
81 Sector Economies Discussed

Port Services:
53 Sector Economies Discussed

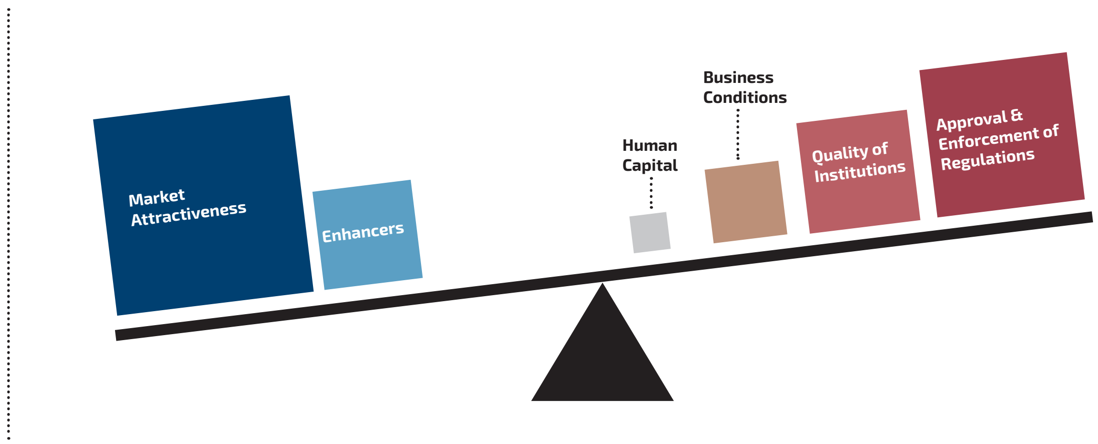
Retail & Restaurants:
103 Sector Economies Discussed

Accounting:
72 Sector Economies Discussed

# Business Perspective On FDI Barriers And Impediments In Services

Multinational firms weigh the barriers to foreign direct investment against the enhancers and market opportunities of those investments—much like a see-saw that maintains a complex balance where the financial reward of investment must outweigh the costs and risks posed by the impediments. Barriers to investment in services are diverse and inhibit investment in different ways, to different extents, in different services sectors. Impediments to FDI either increase costs (inefficiency in the approval process) or increase risks (political or economic instability). Some barriers such as foreign ownership restrictions and IP protection force firms into binary go/no-go decisions. Others are evaluated along a continuum, where firms weigh the relative impact of one barrier in one economy against the impact of a barrier in another economy.

This report, based on more than 600[1] in-depth interviews with APEC business executives, develops a conceptual framework which identifies and assesses the impact of the most critical barriers and impediments to investment in services. During our interviews, business leaders made it very clear that they consider the same factors for FDI decisions as they do for domestic investment. All factors, short and long-term, at-the-border and behind-the-border, are evaluated before investment takes place. Demand attractiveness is carefully weighed against the cost of entry plus the expense of cost-increasing and risk-increasing impediments that impact business returns over the long-run.




FDI decisions are not just market access decisions. Executives pointed to concerns over economic and political/social instability, the quality of institutions and legal system, access to critical resources and infrastructure, fairness and equal treatment, the competitiveness of markets, corruption and lack of transparency, bureaucratic and biased enforcement, the ease of establishing a business, and the ability to operate and expand after entry. Across APEC economies executives pointed to in-economy barriers and impediments as having the most significant impact on decisions to invest.

[1]600 interviews based on combined interviews from 2014 and 2013

# The USC Marshall-ABAC Marshall Business Perspective Framework

The chart below presents a conceptual framework of the most significant barriers and impediments to investment in services. Detailed descriptions of each factor are presented in the appendix. The framework attempts to capture the major barriers and impediments described by business leaders across services sectors and across APEC economies. Not all factors manifest themselves to the same extent in every APEC economy or in the same way in each service sector. This framework is deliberately simplified to focus on the most critical impediments to FDI in services. The framework reduces the 77 factors identified by the USC Marshall study on impediments to FDI in 2013, to the 51 factors most impactful to services.

This framework differs from the approaches that the OECD and the World Bank take to assess investment climate in services. Their approaches focus on factors that can be addressed by policy changes. This conceptual framework, based on the input of business leaders, includes factors—market attractiveness, political and economic stability, business conditions, the quality of institutions—that governments have little ability to correct in the short-term. The 51 factors are positioned in a matrix to reflect not only what the factor is, but also where and when the factor impacts the investment process.

*Location and Relative Importance of Critical FDI Factors (Within Service Sectors)*

*When*

*Categories*

| | Demand Attractiveness | Starting a Business | Operating a Business | Long-Term Stability |
|---|---|---|---|---|
| **Regulations** | | Limits on Foreign Ownership<br>Limits on Foreign Control<br>Screening Requirements<br>Regulations on Capital Movement<br>Local Content Requirements<br>Access to Land<br>Number of Permits/ Licenses Required | Regulations on Profit Repatriation<br>Restrictions of Closures, Relocations and Layoffs<br>Renewal Requirements<br>Requirements for Expansion | Stability & Predictability of Regulations |
| **Approval & Enforcement of Regulations** | | Accessibility and Clarity of Regulations<br>Efficiency of Approval Process<br>Impartiality of Approval Process<br>Jurisdictional Overlap between Approving Agencies<br>Corruption in Approval Process<br>Community Activistm | National Treatment/Equal Treatment: Bias in Enforcement<br>Enforcement of Ongoing Regulation<br>Coordination and Alignment between National and Local Governemt Agencies | |
| **Quality of Institutions** | | Adoption/Acceptance of International Standards | Property Rights Protection<br>Presence of Government Agency and Judicial Corruption<br>Intellectual Property Rights | Political Conditions<br>Dispute Resolution<br>Inclusion in Formulating Rules and Regulation |
| **Enhancers** | Existence of Free Trade Agreements and Investment Agreements | Availability and Reliability of Information on Investment Opportunities (Including Local Partners)<br>Quality of Investment Promotion Agencies<br>Investment and Tax Incentives | | FDI is a Policy Priority |
| **Business Conditions** | Market Size<br>Socio Economic Conditions<br>Domestic Favoritism | Availability and Readiness of Firms for Aqcuisition and JV Partners<br>Quality of Capital Markets | Impact of Business Networks and Cultural Embededness<br>Quality and Availability of Supply Chains Partners<br>Quality of Infrastructure (Including ICTs)<br>Competitiveness in Domestic Markets/ Presence of Monopolies and SOEs<br>Business Corruption<br>Physical Securtiy and Organized Crime<br>Tax Environment | Economic Conditions |
| **Human Capital** | | Visa and Work Permit Restrictions<br>Recognition of Skills and Qualifications | Quality of Life for Expatriates and Personal Safety<br>Restrictions on Hiring and Firing Domestic Workers<br>Quality and Availability of Human Capital | |

The most significant change in this framework from the FDI framework presented to ABAC last year is the addition of the "*where*" and "*when*" dimension. The investment process is divided into:

- **Demand Attractiveness:** Investment decisions begin with due diligence on market attractiveness, market size, growth of middle class consumers, the willingness of locals to purchase foreign-owned services, and the presence of FTAs and IIAs which have the potential to enlarge market size for tradable services.

- **Starting a Business:** The process of starting a business in a foreign economy presents multiple challenges. First are the binary regulations related to market access, ownership and control, and screening requirements that explicitly prevent FDI in some sectors in some economies. After establishing, if a firm is allowed to operate in a foreign economy, the company then evaluates if it is possible to obtain all required permits, find investment partners, raise local capital, engage local supply chain firms, and bring in key executives and employees. Mutual recognition of qualifications and adoption of global standards can be critical impediments to starting a business. Also, the presence of enhancers in the form of investment promotion agencies and tax incentives can strongly encourage foreign players to enter and invest.

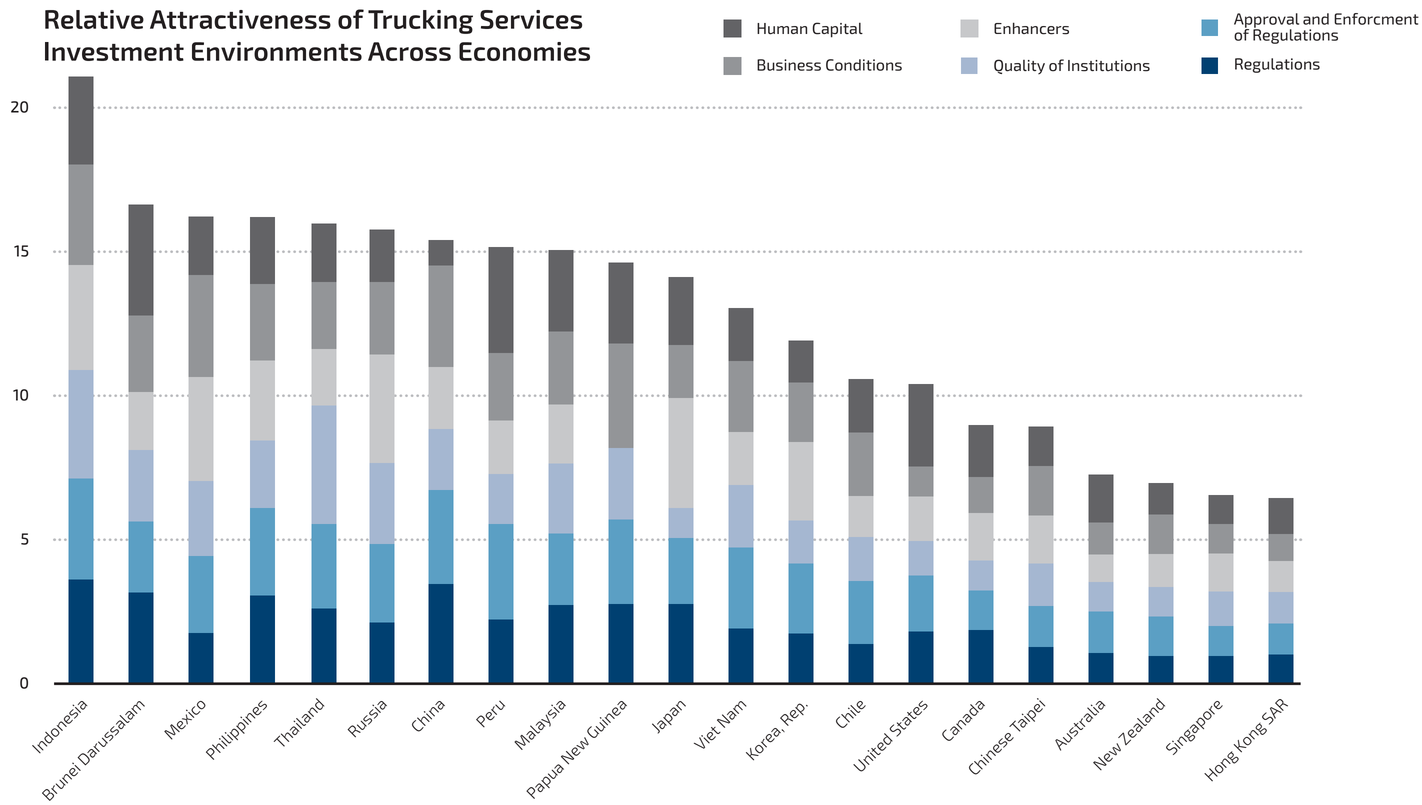
- **Operating a Business:** While many of the factors encompassed in opening a business mirror factors surrounding operating a business (i.e. approval process for starting a business and the ongoing approval process for operating a business), there are inherent differences in the way firms view each of these factors related to starting and operating a business. Impediments or enhancers that affect starting a business are one-time costs/credits; those relating to operating a business have ongoing ramifications. Different sectors prioritize the ease of starting a business (i.e. Software as a Service) while others will weigh the ease of operating a business more heavily (i.e. Retail and Restaurants). Foreign firms must navigate the same barriers domestic firms face when operating a business, in addition to the impediments imposed on foreign firms. These include domestic favoritism in the permit renewal process and biased enforcement of regulations.

- **Long-term Stability:** Any factors affecting the long-term stability of investments in new markets are especially influential in the FDI decision making process. These factors include political conditions, the stability of economic growth projections, and the degree to which FDI is a policy priority.

Our framework also keeps the more familiar categories of Regulations and Requirements, Approval and Enforcement of Regulations, and Quality of Institutions. In contrast to other FDI frameworks, this model includes Business Conditions. Interviews with business executives across economies and service sectors emphasized the impact of business conditions as cost-increasing impediments. Examples include the ability of foreign firms to penetrate dense and loyal business networks, the impact of informal markets and SOEs, and business corruption. Additionally, because our interviews highlighted the importance of human capital in services industries, Human Capital is separated out as its own category.

# The Framework In Action

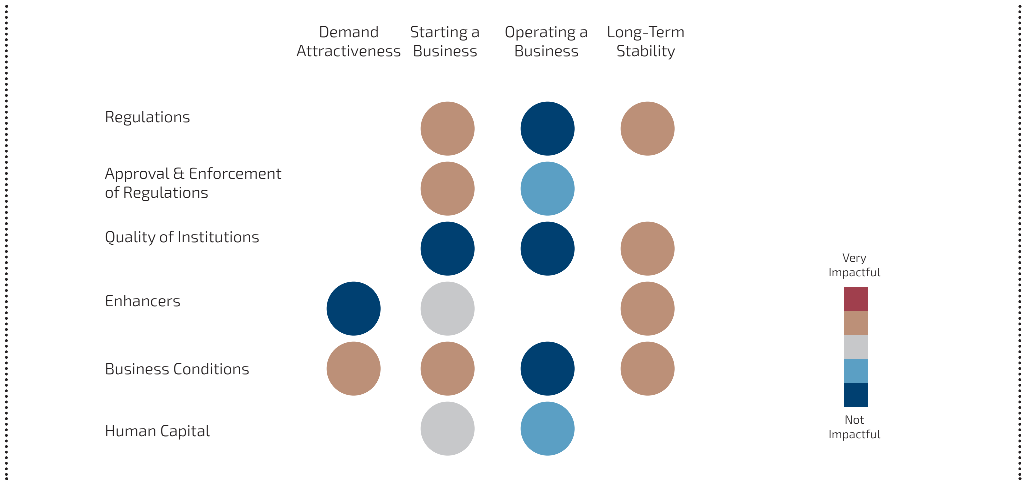
This framework is used to compare the relative openness of APEC economies to FDI within each of the focal services sectors. As an example, the chart below presents the relative openness of the trucking sector across each economy.




All the individual factors within each category are combined to create an index. While the impediment or enhancer category indexes are stacked for visual comparison, it is important to note that they represent different types of FDI challenges.

A second set of comparative charts have been created to show *"where"* and *"when"* the FDI factors have the most significant impact in each sector. The chart below presents the results for life insurance.

*Location and Relative Importance of Critical FDI Factors Within Life Insurance*




We use the color coding scheme to denote relatively low (blue) to high (burgundy) impact on investment. Please note that the analytical approach our team has adopted "forces" variance into the results. While an entire service sector may have few impactful impediments, the charts display where in the conceptual framework the most problematic factors are.

# Main Findings

This section presents brief one page synopses of the seven services sectors researched for this report, and it provides brief discussions of the report's main findings drawn from across the analyses of the seven services sectors.

## Services Sector Synopses

This section begins with synopses of the seven services sectors. Broad high level conclusions are presented and the overall key impediments in each services sector are identified. A ranking of the quality of the investment environment of all APEC economies for each services sector is presented. These synopses are intended as high level overviews. Separate sections of this report offer comprehensive analyses, detailed discussions, and conclusions for each services sector.

## Main Findings

The second part of this section provides brief discussions of findings that were common and generalizable across each of the seven services sectors. While it is important to note that there are unique sector-specific issues, our analyses identified several issues that are important to investment in services across economies and across services sectors. The main findings discussed below are:

- *Human Capital Frustrations*
- *Market Attractiveness Matters in FDI: Economies Can Improve Market Attractiveness*
- *Global Standards enhance FDI in Services*
- *Poor Coordination and Jurisdictional Overlap create Political Instability and Become a Further Barrier to FDI*
- *Political, Social and Economic Stability help Foster FDI*
- *Effective Liberalization in Services Means Creating Better, Not Fewer, Regulations*
- *Services Sector Differ in Important Ways; Don't Regulate them the Same Way*

# *Trucking Services*

As multinational companies continue to expand their global supply chains, the competitiveness and attractiveness of economies become increasingly defined by the availability of world-class trucking and logistics services. The prioritization of FDI in trucking services thus becomes a significant enhancer for long-term investment. The competitiveness of global trucking services is driven by more than just costs. Multinational companies consider the quality (defined by trackability, safety, reliability, and concern for the environment) of available services as far more important. So far, there has been little FDI in this sector because of the existence of various impediments.

Most problematic issues across all economies:

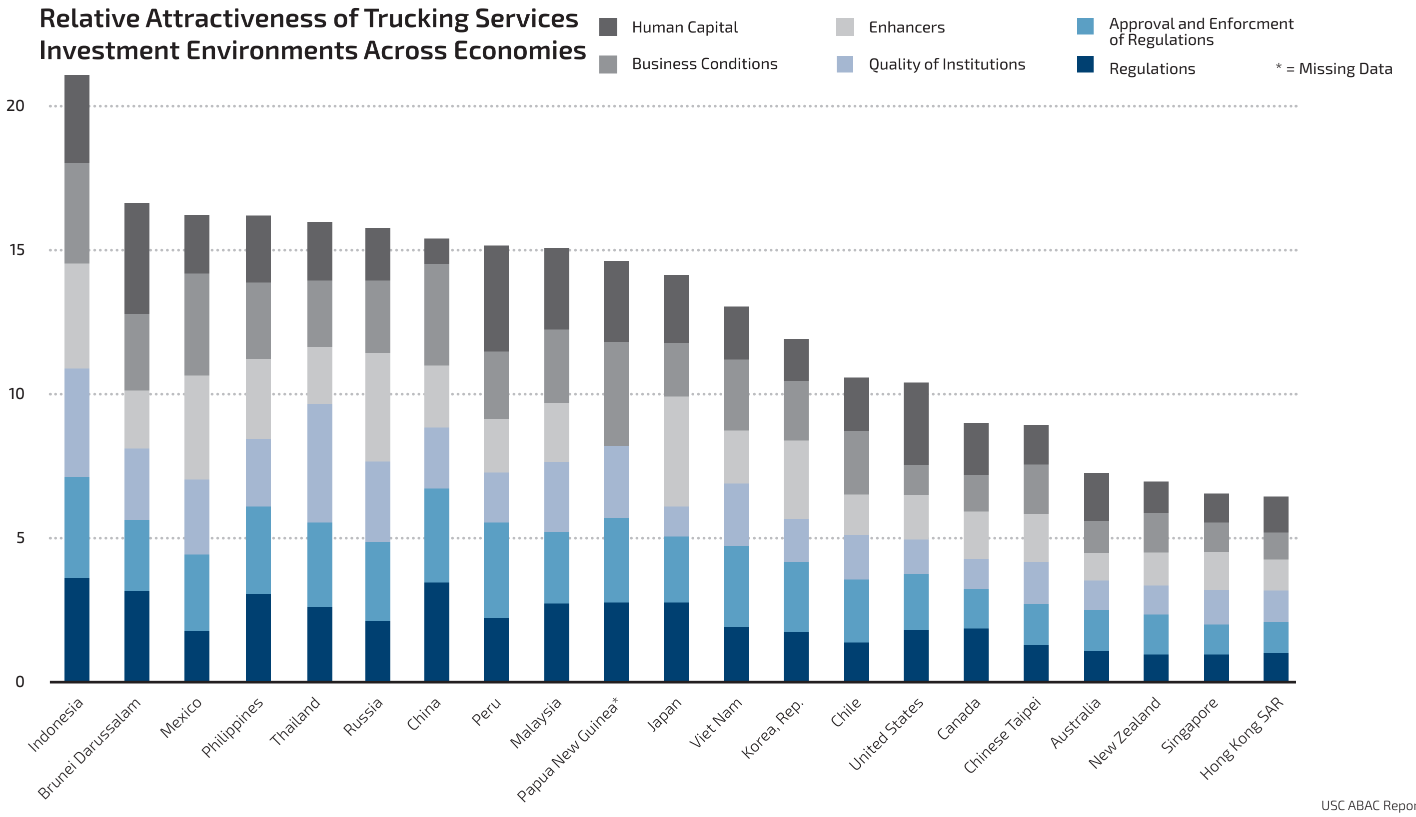
- Lack of a long-term national plan for investment in the transportation infrastructure network
- Regulatory inconsistency regarding weight limits, emissions, and other trucking regulations between national, state, and municipal agencies
- Fragmented and uncoordinated regulatory oversight (different modes of transport (air, rail, road, maritime) are regulated by different bodies)
- Access to certified and reliable drivers

Most problematic issues for less-developed economies:

- Quantity and quality of roads; the level of infrastructure development across metropolitan and rural areas
- Number of permits/licenses required to start or expand a business
- Equity ownership limits on foreign trucking firms
- Impact of delays, additional costs, and corruption in customs procedures
- Size and impact of informal trucking firms

Despite the minimal amount of FDI in this sector, foreign trucking firm executives have expressed great interest in growing their businesses and expanding their market access in emerging economies if go/no-go impediments are removed and add-on–costs are alleviated. In order to enhance competitiveness, economies should set FDI as a priority in the development of trucking services and logistics networks.

**Relative Attractiveness of Trucking Services Investment Environments Across Economies**



# Container Port Services

Container port services is the second most restrictive service industry in the study, and there is significant opportunity for improvement in the investment climate. Currently APEC accounts for 64% of global container volume and continues to grow faster than the rest of the world. The size of the market and future growth rates make investing in ports particularly attractive in the APEC region. While APEC has some of the most developed ports in the world, additional investment will be needed to access new markets and lower transaction costs for the entire supply chain network.

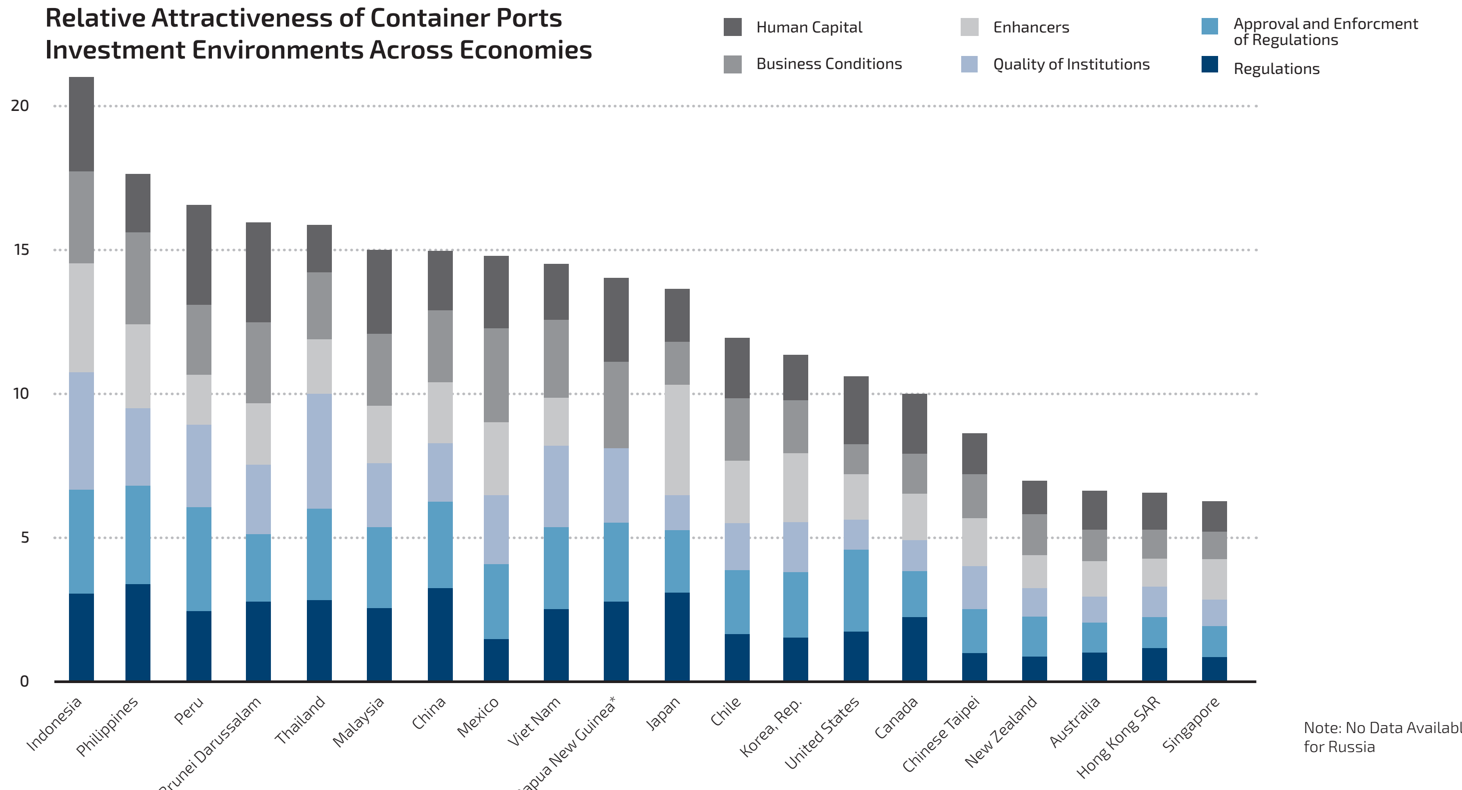
The five most problematic factors across all of APEC are:

- Ability to access land and obtain leases greater than 20 years
- Efficiency of approval process
- Number of permits and licenses required to start a port
- Autonomy of local states and governments to implement their own rules and regulations
- Jurisdictional overlap between approving agencies

Across APEC we see a high correlation between the degree of openness to foreign investment and the quality of port infrastructure as rated by the World Economic Forum. More developed economies have made investment easier across all factors. The complicated and time consuming nature of container port investments requires economies to reduce restrictions in all categories. Governments can also spur port investment by expanding public-private partnerships to stimulate investment and offset high initial construction costs.

Port services are important links in the transportation system. Because of the connected nature of transportation networks, the system is only as strong as the weakest link. While capacity may be strong in other parts of the network, ports have the ability to constrain capacity. Continued investment in container ports will allow economies to take advantage of increases in other parts of the supply chain.

## Relative Attractiveness of Container Ports Investment Environments Across Economies




Note: No Data Available for Russia

# Retail and Restaurants

Real growth opportunities exist within APEC. APEC is currently home to the largest retail markets in the world and the rapid transition of many APEC economies from producer to consumer markets will only increase this opportunity. Market attractiveness is the single most important factor in attracting FDI; with growth in middle class families and disposable income being the leading determinants. While market access limitations are issues in some countries, the majority of issues impacting investment are in business operations.

Across economies, the major deterrents to investment reported were:

- Power and discretion of local government agency to make and enforce their own rules.
- Efficiency of the approval process including domestic bias, timeliness, and corruption
- Judicial overlap of ministries and government agencies
- Stability and predictability of regulations
- Ability to expand and scale operations

Within emerging economies, the major deterrents to investments reported were:

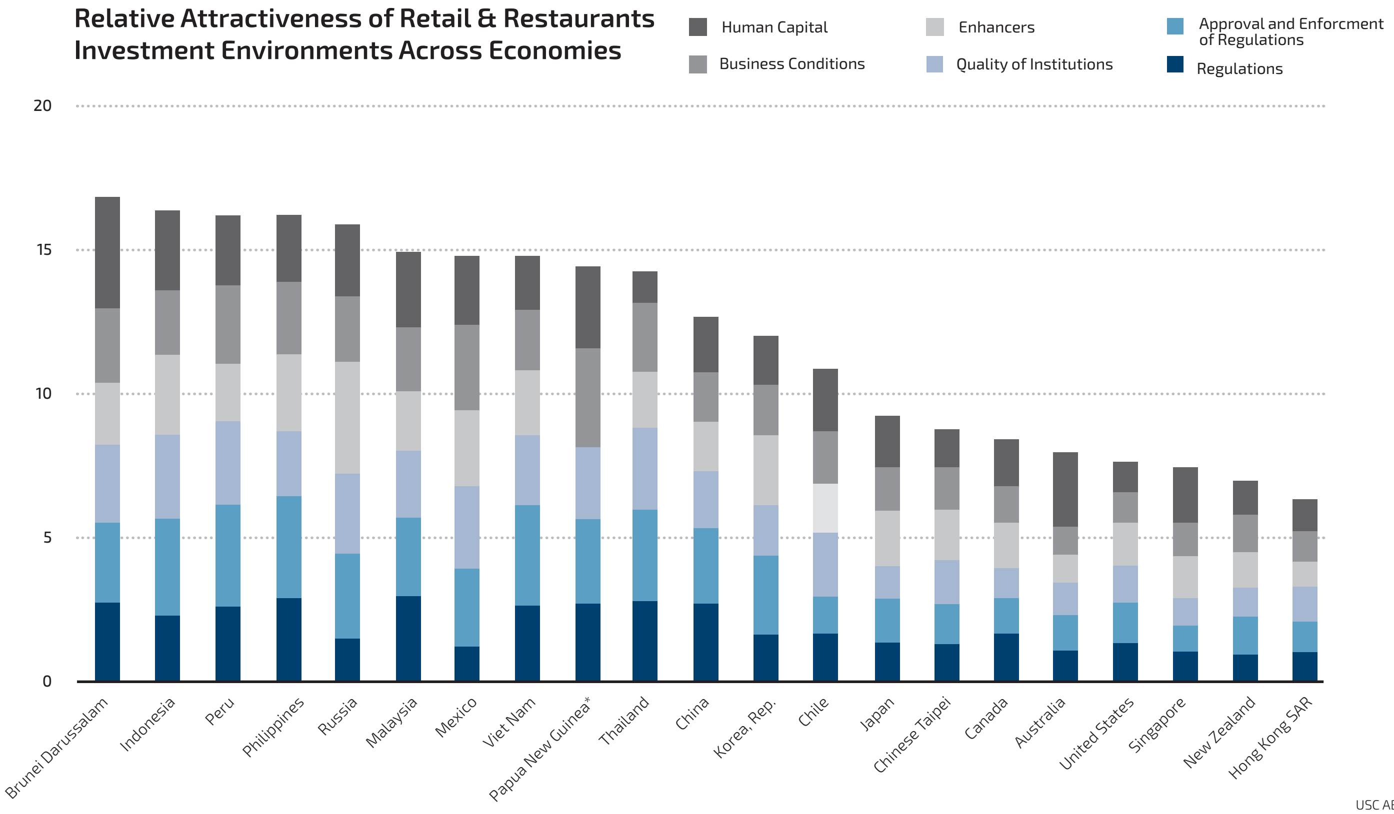
- Sourcing goods internationally, including tariff and customs delays
- Limits on foreign ownership
- Restrictions on hiring and firing workers
- Ability to find competent well capitalized domestic firms for partnerships, JV's, or acquisition
- Challenge with dispute resolution
- Competitiveness of local markets; particularly the impact of informal markets

Within developed economies, the major deterrent to investments reported were:

- Access to visas for foreign workers
- Access to land

Major changes within the retail and restaurant landscape in APEC are expected. Increasingly, MNC retailers are seeking cross border opportunities within the region. E-Commerce is likely to play a much larger role in emerging economies as firms seek to skip the need for heavy investment in brick and mortar retailing.

**Relative Attractiveness of Retail & Restaurants Investment Environments Across Economies**



# *Telecommunications and Broadband*

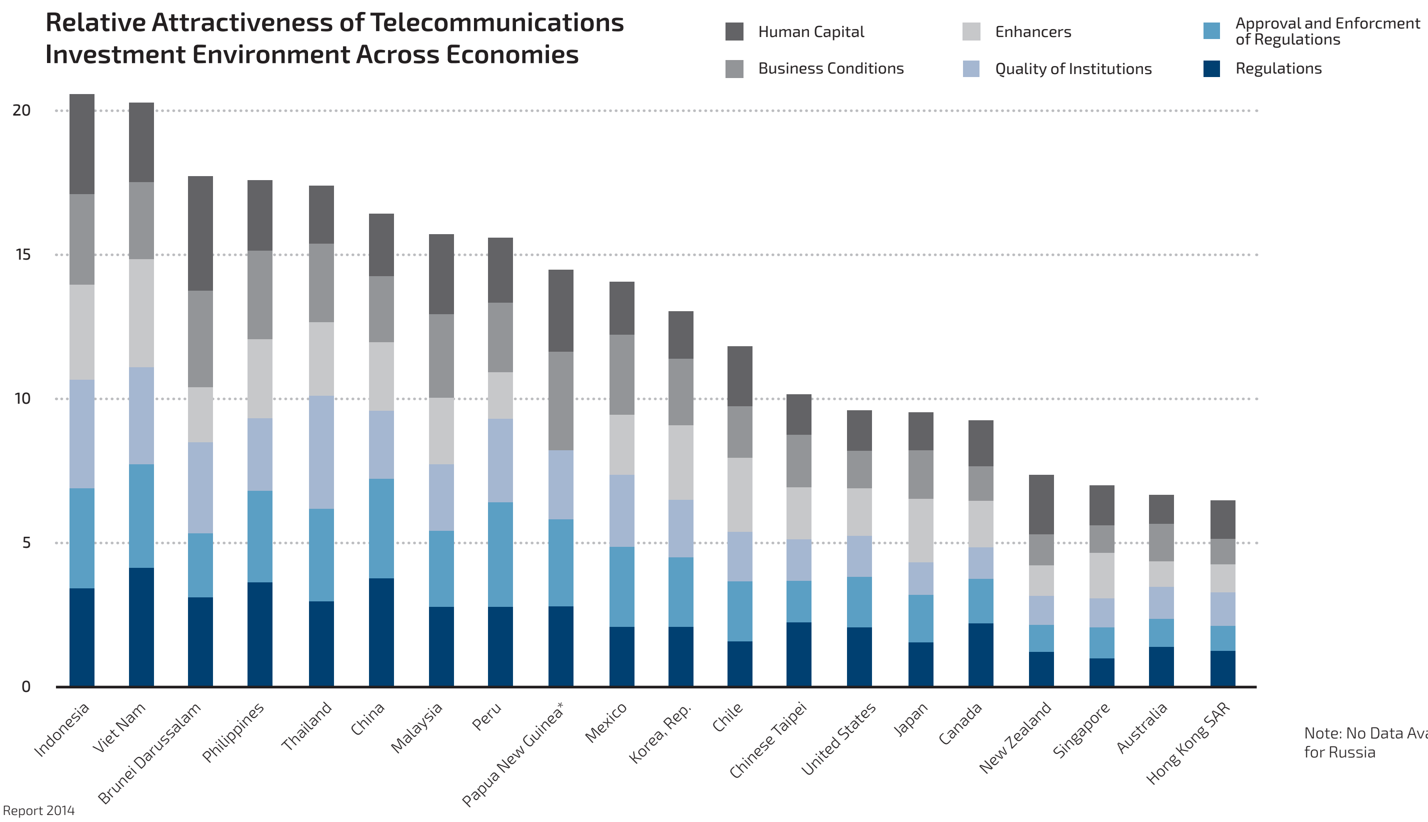
The telecommunications industry includes fixed-line, mobile, and broadband infrastructure and services. This is projected to be a major growth area. However, it is also one of the most restrictive sectors across APEC, due to a combination of regulations and business conditions. APEC economies employing the strictest regulatory constraints on new investment in telecom and broadband have fallen behind as a result of those choices. The five main impediments hindering investment in telecom and broadband are:

- Lack of Competitiveness
- Access to Spectrum
- Ability to Earn an Acceptable ROI
- Foreign Ownership Requirements
- Regulatory Stability and Predictability

Governments create anti-competitive markets by protecting incumbents or SOEs through their regulatory frameworks. Governments also hinder competition by restricting foreign entry because they view telecom as a strategic industry impacting national security. The business community is also frustrated by incoherent and unstable regulations.

Stable regulations, equal access to the network, and a level playing field are necessary to incentivize investment in telecommunications. Creating those conditions, particularly regarding broadband investment, will enhance economic growth in the short-term. Improving telecom infrastructure has the added benefit of lowering transaction costs across all industries. These effects will snowball, socially and economically. Conversely, failure to develop this sector will only serve to impede existing and future growth across all economic sectors, falling behind nations more open to investment. It is critical that APEC economies develop the telecommunications foundation required for future economic prosperity.

**Relative Attractiveness of Telecommunications Investment Environment Across Economies**




Note: No Data Available for Russia

# Software, Platform, & Cloud as a Service

The ecosystem surrounding cloud and software services is changing dramatically. As broadband and telecom infrastructures are becoming globally ubiquitous, newly burgeoning economies are now anxious to participate in the greater ICT industry: software as a service (SaaS), platform as a service (PaaS), and cloud as a service. Unlike broadband and telecom, which require physical presence in an economy, SaaS, PaaS, and cloud services are potentially tradable. While this section of the report includes cloud services, because of its ability to be delivered remotely, this section focuses on challenges facing software and platform services, which represent completely tradable, innovation-driven services. The most significant barriers to investment in these industries are:

- Quality of ICT Infrastructure: High-quality, affordable internet services are fundamental to further development in the ICT sector. Foreign firms use the quality of ICT infrastructure as a binary screen to make investment decisions; economies without affordable high-quality infrastructure are not considered candidates for FDI in SaaS and PaaS.

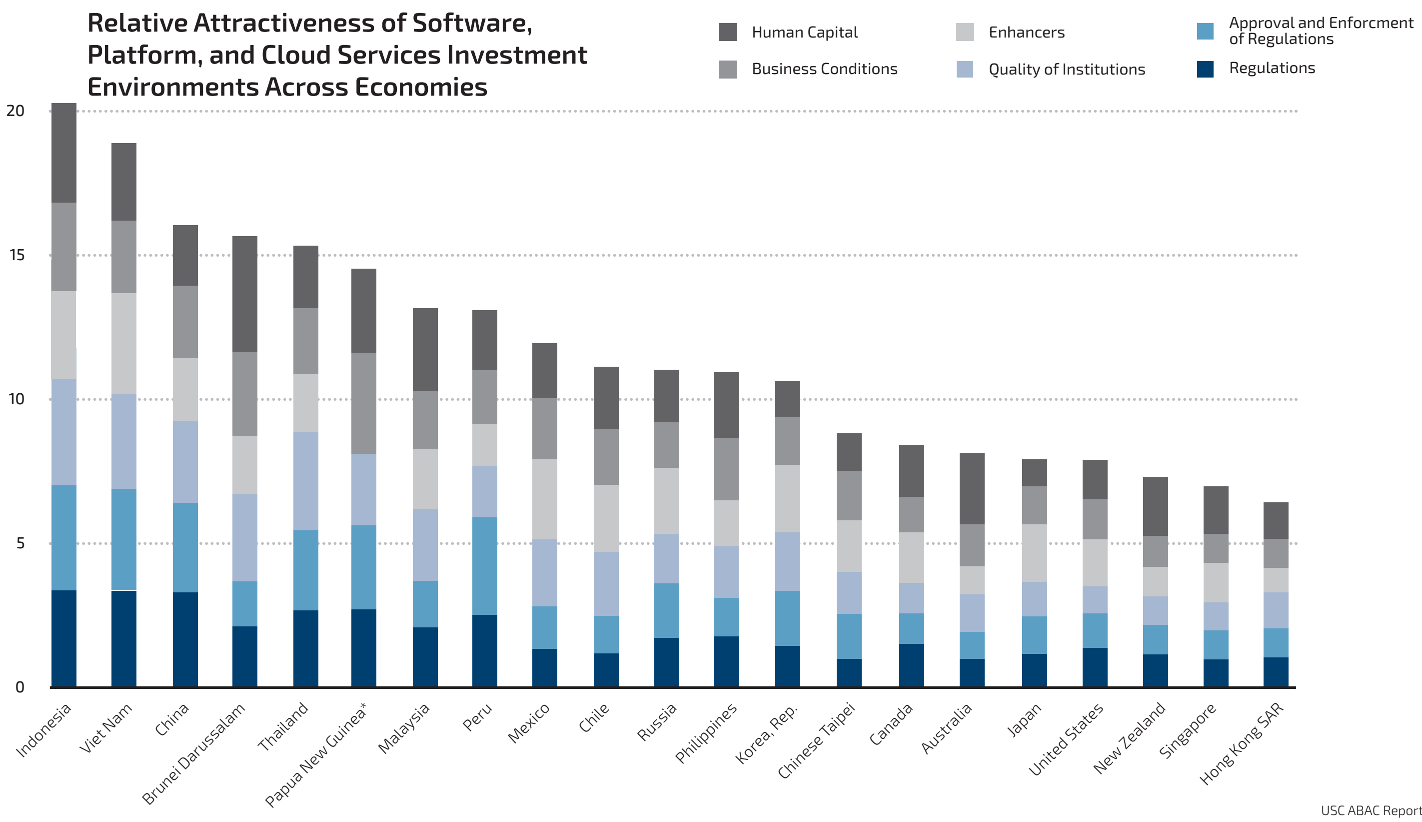
- Lack of IP Protection: The presence of sufficient IP protection is essential to attracting investment in these innovation-based services. Like infrastructure, foreign firms approach IP protection as a binary consideration, immediately passing over economies without adequate enforcement. IP protection is more important to software and sectors driven by patent innovation than to the more traditional investments in cloud servers.

- Human Capital: The quality and availability of human capital is arguably the most important factor to foreign players looking to invest in SaaS, PaaS, and cloud services. In contrast to other industries, SaaS, PaaS, and cloud services rely on the collection of the world's most innovative minds. Economies that offer an abundance of foreign visas to high-skilled workers and attract talent with top technical institutes and universities will be the economies that draw competitive clusters of high-tech firms.

- Availability of Venture Capital: This industry relies on small, nimble start-ups. Economies with fertile investment climates will be significantly more conducive to the competitive clusters required for a robust ICT ecosystem.

Moving forward, SaaS, PaaS, and cloud services will be provided nationally and internationally by the economies with the largest pool of skilled labor in computer science, the best ICT infrastructure, and the greatest ability to innovate. FDI in ICT will consist of foreign companies looking for a hospitable hub from which to export—not companies targeting attractive domestic markets, as is the case with broadband and telecom services. While economies have the opportunity to make immediate changes to help promote FDI in this sector, the real changes will come from long-term investment in education and the domestic industry.

**Relative Attractiveness of Software, Platform, and Cloud Services Investment Environments Across Economies**



# Accounting Services

The accounting industry is a highly self-regulated industry that has developed in a way that discourages foreign direct investment and traps investment domestically. The Big 4 firms are not truly multinational, but rather global networks of locally-owned accounting firms whose autonomous activities are coordinated under their respective brand names.

The three main barriers to FDI in this industry are:

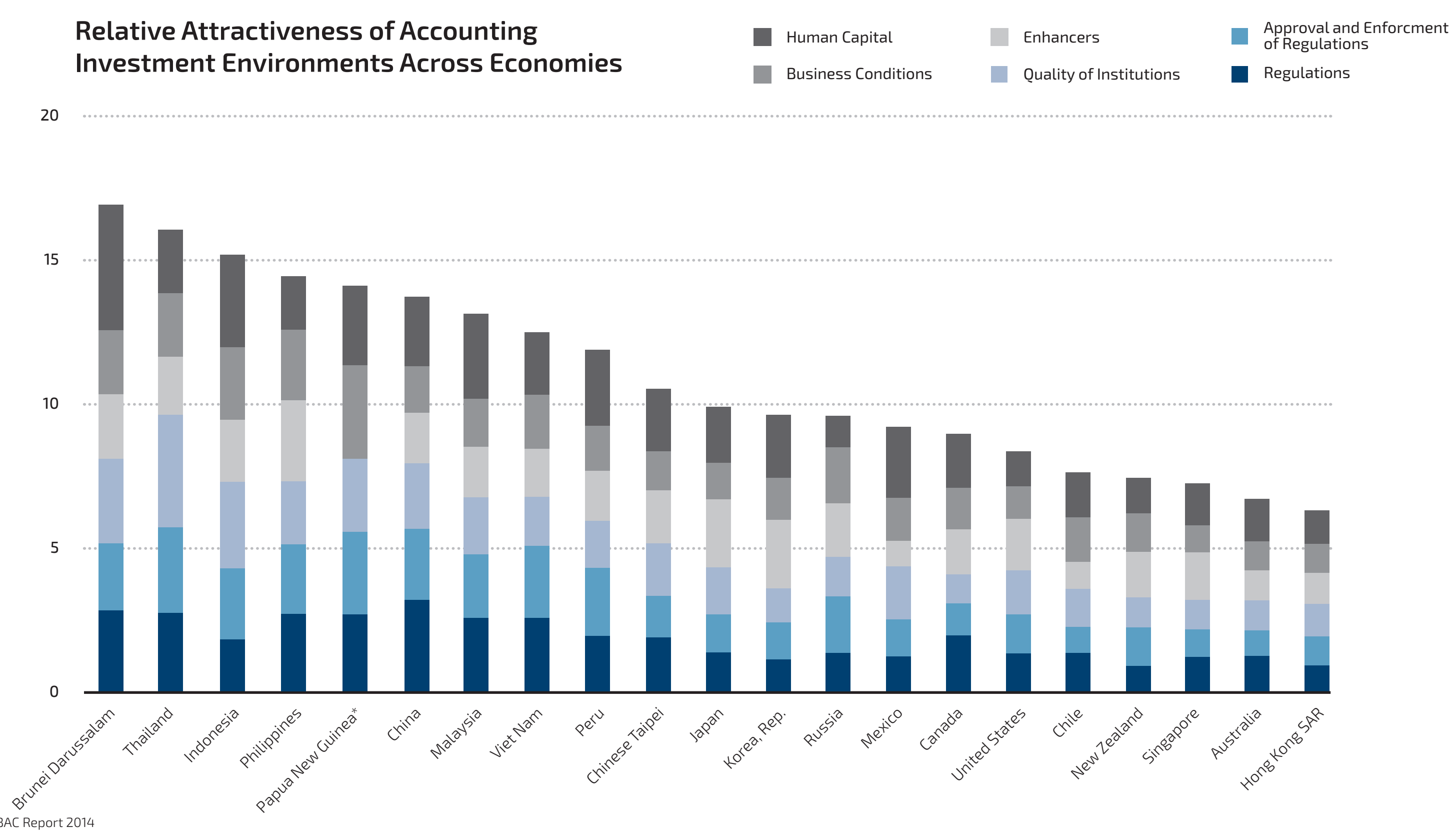
- Lack of mutual recognition of qualifications
- Varying degrees of IFRS adoption
- Self-interest within the accounting profession

These factors increase costs and lower efficiency for multinational corporations. Businesses are forced to hire local accountants at locally-determined rates to restate financial reports. While businesses understand the fiduciary responsibilities that necessitate accounting, many wonder why the costs need to remain so high.

De-regulating the accounting industry via worldwide adoption of IFRS in all economies and the creation of internationally recognized and accounting credentials will likely result in:

- Elimination of unnecessary transaction costs for businesses
- Enhanced global competitiveness in accounting services and downward pressure on prices
- Increased trade in accounting services
- Investment in economic hubs specializing the in various accounting services

**Relative Attractiveness of Accounting Investment Environments Across Economies**



# Life Insurance

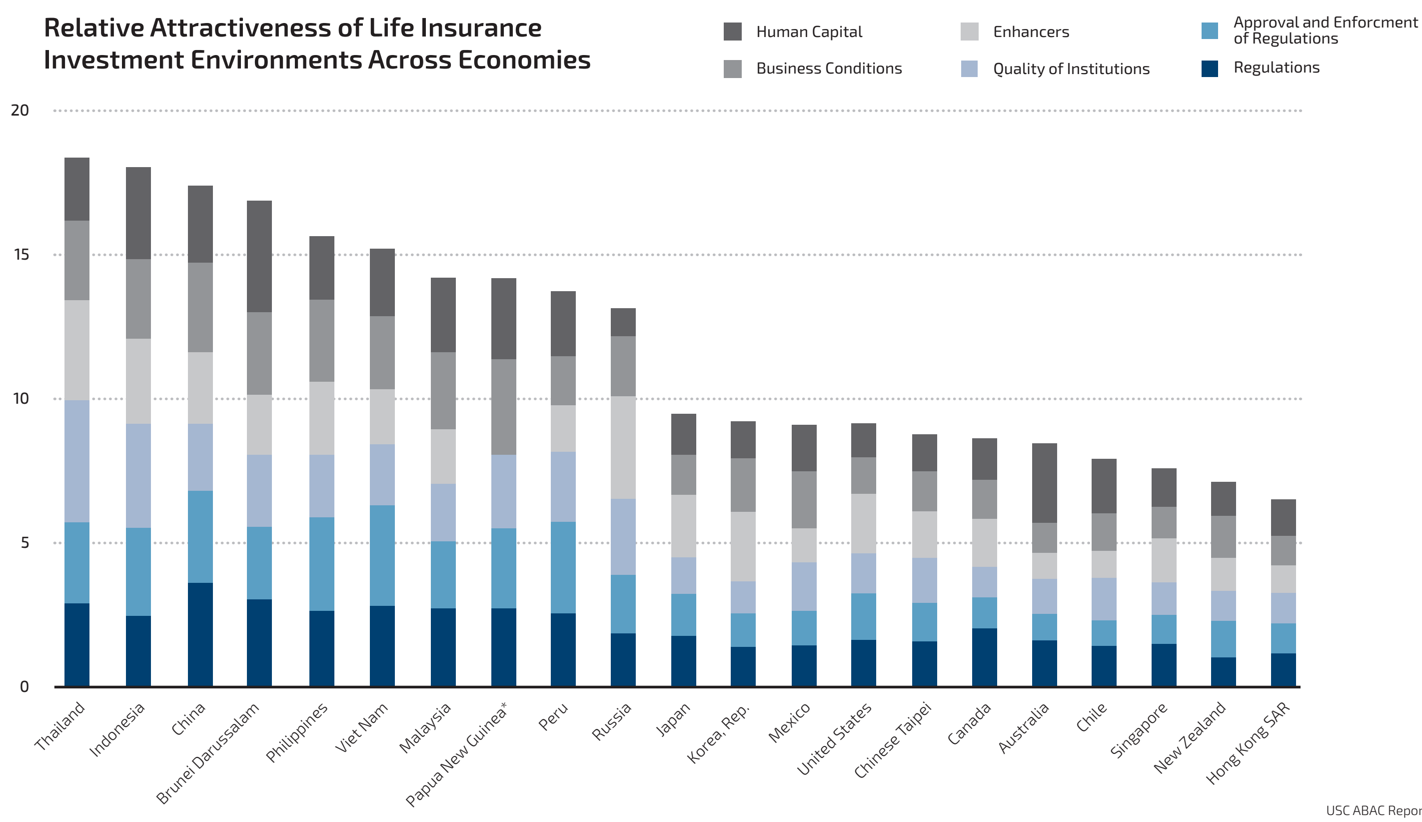
The life insurance industry within APEC economies displays a dichotomous split in terms of stages of development. While economies such as the United States and Japan have world-leading life insurance markets, economies such as the Philippines and  Viet Nam have severely underdeveloped markets. However, the flow of FDI from mature to emerging markets is already taking place. Across our interviews, market attractiveness— a substantial population, an emerging middle class, and low life insurance penetration rates— is widely considered the top factor in investment decisions. However, significant issues impact the investment climate. They are:

- Restrictive foreign ownership and market entry conditions and inefficient approval processes
- Shortage of local skilled labor, especially qualified sales agents, and limited foreign worker mobility
- Fair prudential rules and capital movement policies, well-developed capital markets, and ample private-equity investment opportunities for foreign investors to invest long-term

As shown below, economies with higher restrictions tend to be underdeveloped relative to market potential. To increase investment in the life insurance sector, APEC should:

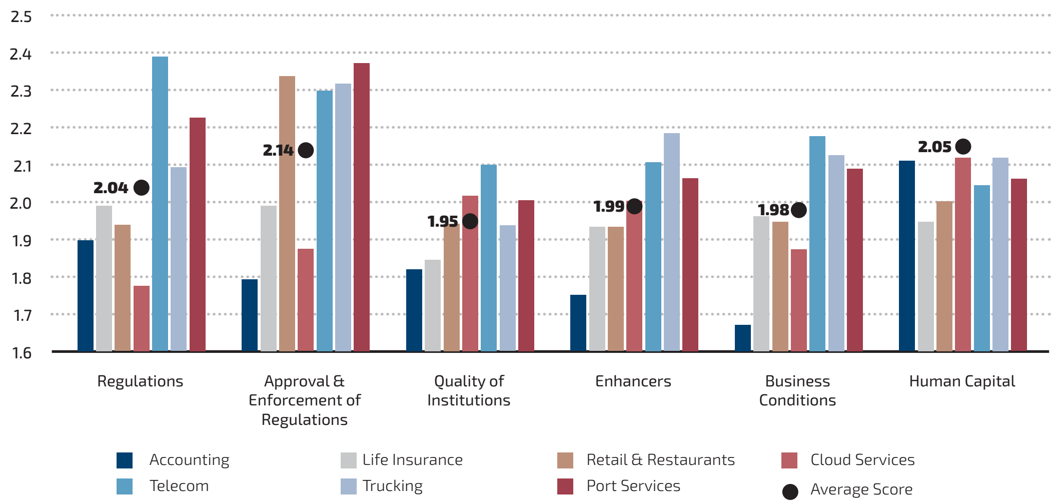
- Remove entry barriers such as foreign ownership restrictions and improve quality of investment promotion agencies to encourage FDI and facilitate search for JV partners.
- Reform approval processes to be more efficient, streamlined, and transparent.
- Relax regulations for hiring and transferring foreign labor to supplement local labor market. Require understudies if necessary to concurrently develop local talent. Implement laws to retain and protect talent to incentivize training.
- Foster a stable capital market, liberalize investment restrictions, and enact fair prudential rules to enable foreign investors to compete effectively.

**Relative Attractiveness of Life Insurance Investment Environments Across Economies**



# *Approval Bureaucracy and Biased Enforcement are Major Impediments to FDI in Services*

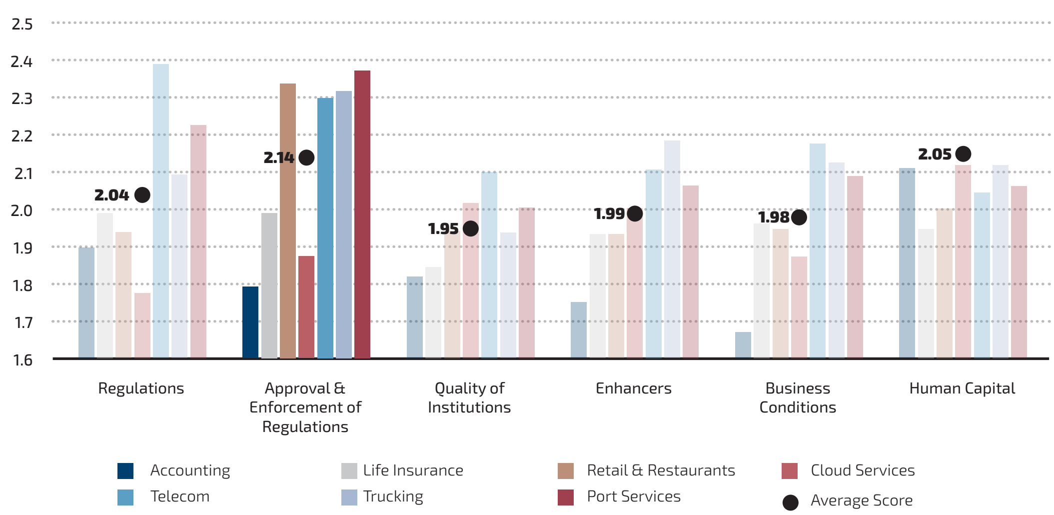
*Factor Impact Comparison Using Aggregate Sector Scores*




Overall, across services sectors, the most significant factor impeding FDI in services is not regulations and requirements, but the approval processes and enforcement of regulations. While there has been progress in removing overtly discriminatory rules against foreign firms, new and perhaps more deceptively pernicious impediments have arisen in approval processes and in the enforcement of regulations. In many economies, regulatory approval processes often allow for significant amounts of subjectivity and discretion, creating the potential for discrimination while still operating under the same rules. In order to encourage FDI, policy makers must focus efforts on creating a streamlined transparent approval process, and a stable, predictable operating environment. While it will require staunch courage and political will, improvements in this area are well within the reach of government policy makers to affect change.

Among the six categories of impediments within our Business Perspective framework, the Approval & Enforcement of Regulations ("AER") category ranks as the most impactful category across all service sectors and economies.

*Approval & Enforcements of Regulations is the Most Impactful Factor*



Our research found a strong positive relationship between overall economy restrictiveness (average of all 51 factors) and AER restrictiveness (9 factors). Approval and Enforcement of Regulations is not impactful in economies such as Hong Kong, Singapore, or Australia where overall restrictiveness is low. However, in economies such as Peru, Viet Nam, and the Philippines where restrictiveness is high, it is the top or second most impactful category. In these economies, the biggest hurdles that executives face are in the slow and/or discriminatory bureaucratic approval processes related to starting a business and simply continuing annual operations. At the sector level, AER is difficult across all industries, but it is significantly more a problem in the non-tradable services that require a physical presence, such as in Retail/Restaurants, Telecom, Trucking, and Ports. Overall, it is the most consistently impactful category, ranking no lower than 4th overall.

A key reason the approval process for obtaining permits and licenses to both starting a business and operating a business can be so difficult is the amount of subjectivity that is involved on the part of government officials and the perception by business executives of the fairness of that subjectivity. One executive describes the continuing operations approval process in China, saying, "Foreign firms are constantly undergoing inspections by authorities at rates significantly higher than domestic firms. We are consistently singled out and used to make an example instead of all firms being subjected to the same rules." This is corroborated by the most recent American Chamber of Commerce report on China.[1] that says that there has been "growing perceptions that multinational companies are selectively targeted" for "subjective enforcement by Chinese authorities." This is not a problem limited to China. Our research found this to also be true across other economies and industries in APEC.

It is exponentially more difficult to implement a solution for alleviating problems with Approving and Enforcing of Regulations than to change the actual regulations. The very act of enforcing laws carries with it a certain amount of subjectivity and interpretation that is inevitable. In some economies, the subjectivity allows and encourages corruption. This is the investment in services version of "the tariff has been removed but the non-tariff barriers remain."

Subjectivity allows for discrimination that can be difficult to prove and even more difficult to stop. In order to increase FDI and enhance the ability of foreign firms to compete, it is essential for economies to educate officials against making discriminatory decisions, to objectively examine the local enforcement of regulations, and to foster an enforcement environment that is streamlined and less vulnerable to subjectivity. In some economies a move to online "eGovernment" approval processes has done much to alleviate the problems discussed above.

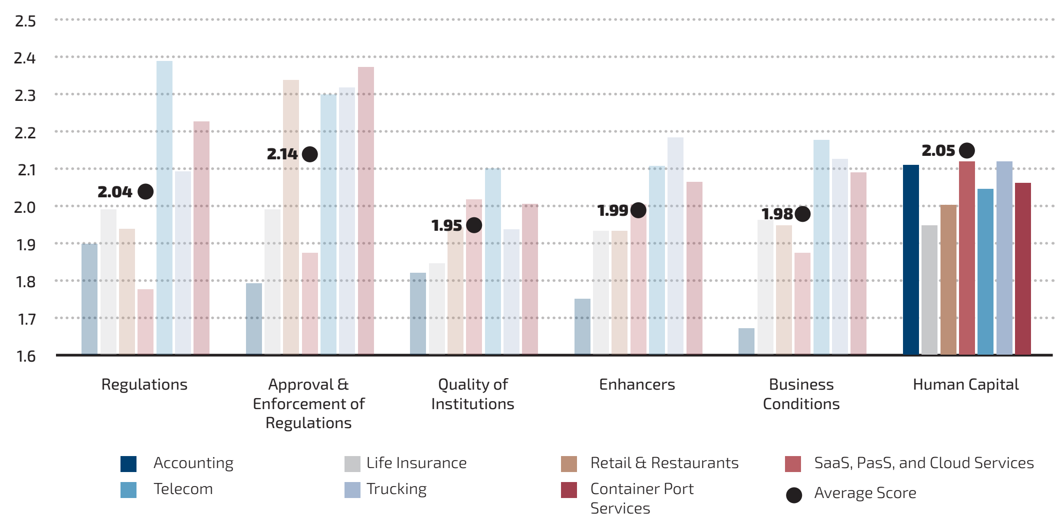
[1]http://www.scmp.com/business/china-business/article/1583536/china-targeting-foreign-firms-amcham

# Human Capital Frustrations

Quality services require a specialized, well educated workforce. Thus all dimensions of Human Capital becomes a significant factors for attracting and repelling foreign direct investment in services industries. In our study, businesses across APEC economies and service sectors echoed concerns about Human Capital as being a real challenge in investment decisions—enough of a challenge to deter investment. The shortage of available skilled domestic workers, restrictions on intra-company transfers, necessity of local language proficiency, lack of mutual recognition of qualifications, and the complexity of hiring foreign talent were highlighted as major cost-increasing factors and, in severe cases, as the tipping point in go-no go investment decisions.

The table below shows the Human Capital category as the second most impactful set of impediments on foreign direct investment decisions. Human Capital also has the least variance across the difference service sectors indicating the equal significance across each service industry.

*Human Capital is Another Major Factor Impacting FDI*

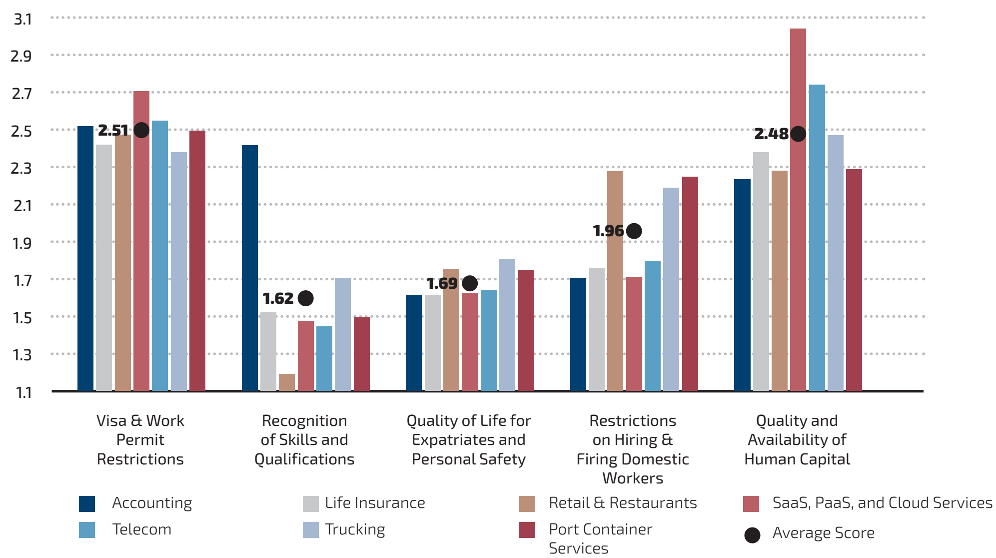



Business leaders reported major concerns with Human Capital in five different but related areas:

- Visa & Work Permit Restrictions
- Recognition of Skills and Qualifications
- Quality of Life for Expatriates and Personal Safety
- Restrictions on Hiring & Firing Domestic Workers
- Quality and Availability of Human Capital

The following table shows the five components of Human Capital and their impact on each service sector in APEC. The two most problematic factors are Visa & Work Permit Restrictions and Quality and Availability of Human Capital.

*Human Capital Factor Impact Ratings*




Across APEC, there needs to be a focus on improving the quality and availability of human capital. This was shown to be a large issue across all industries throughout APEC. Unfortunately, increasing skills of the labor force, such as language proficiency or math skills to meet the demands of service industries, will not be easy or quick. In order to fill potential labor gaps in the local economy, many firms need to move people across borders. Despite significant attention being paid to labor mobility issues across APEC in the past, there remains much work to do. Little has improved since USC Marshall prepared a study on issues in talent mobility in 2009. Visa and Work Permit Restrictions are the most restrictive factors across all industries and particularly impede the ability of foreign firms to start and operate businesses in foreign markets.

Restrictions on Hiring and Firing Workers are particularly problematic in those industries that have labor unions and in economies which have high local employee thresholds such as Mexico. Negotiating labor contracts are a significant hindrance to foreign firms that do not have a good understanding of local labor laws and restrictions.

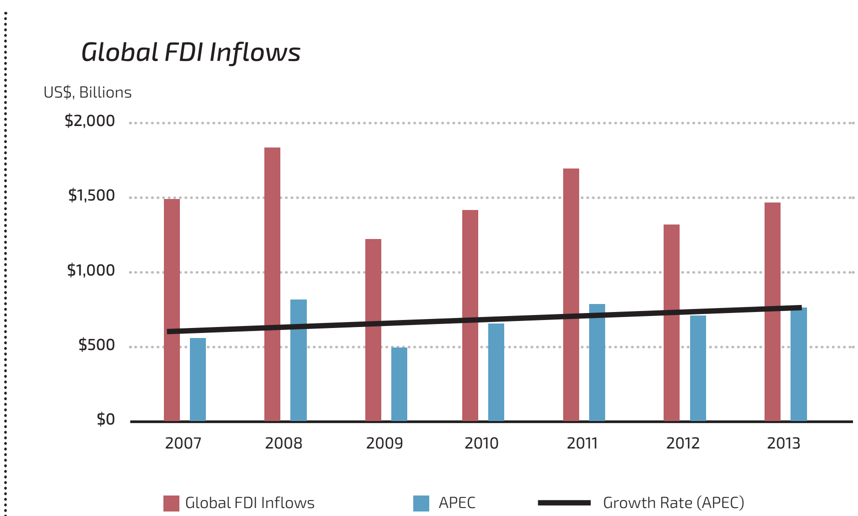
APEC must commit itself to finding the long-term solutions to building the work force of the future. Building the capabilities of the labor force to meet the high demands of service providers will be essential for not only attracting investment but growing the domestic service industry as well. Those economies that are able to navigate the politically difficult challenges of creating permissive regulatory environments for the movement of people stand to gain substantial competitive advantage for the industries.

# *Market Attractiveness Matters In FDI; Economies Can Improve Market Attractiveness*

A strong recurring theme across our interviews, economies and sectors, is that attractive market opportunities trump openness. Even if market access regulations and other impediments put a drag on prices and profits business executives stated that, if the economy were attractive enough, they would be motivated to find a way to make the investment work. Simply put, business executives impressed on us that it was the long-term risk-return payoff that ultimately tipped the balances in their decisions to invest. Regardless of the extent of openness, markets without viable attractive opportunities will not attract investment.

Market attractiveness includes GDP per capita, market size, long-term growth potential, socio-economic demographics, domestic favoritism/nationalism, profit potential, and input costs for the industry. A life insurance executive corroborates this by stating that "When looking at investing in the APEC region, one needs to take a critical look at interest rates, demographics of the economy, penetration rates, long-term economic growth, and market potential in determining to invest."

This market attractiveness argument is supported by FDI inflow numbers. FDI inflows to the 21 member economies of APEC amounted to some US$757 billion in 2013, an 8% increase over 2012. APEC's share of global FDI inflows rose to 52%. Overall, investors continue to invest in APEC economies because they present investors with large attractive market opportunities in services. FDI flows will continue to increase into the APEC region as FDI restrictions are eased and Free Trade Agreements continue to be negotiated.

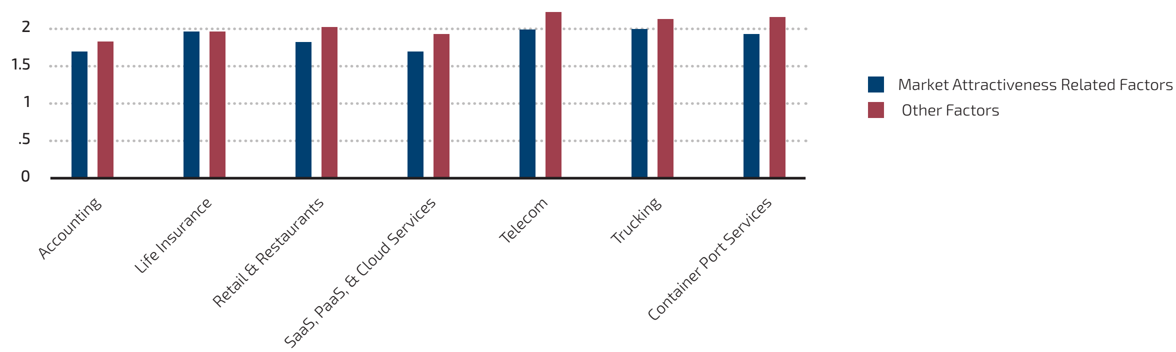



*Source: 2013 USC Marshall ABAC Report*[2]

[2] 2013 USC Marshall ABAC Report

APEC remains an attractive market for investment. Overall, demand attractiveness rates very well with regard to the impact scores in the data. The chart below shows that Demand Attractiveness is the most critical factor within APEC. While certain economies and industries may vary across APEC, there will be a continued desire for firms to invest across borders. APEC must think long and hard about how it can take advantage of these investment opportunities to improve economies, lower costs, and increase domestic competition.

*Market Attractiveness Factors vs. Other Factors Across Sectors in APEC*




Individual APEC economies cannot simply rely on market attractiveness to attract FDI. As economies improve the quality of their investment environments by increasing long-term stability, eliminating unnecessary burdensome requirements, improving transparency, strengthening key institutions, and removing discriminatory practices, previously unattractive markets will become much more attractive to business investors.

Economies can also increase overall market attractiveness, and improve competitiveness, and attract FDI in several important ways. Since firms look at market size, market growth potential, and ability to expand operations over time, any initiative an economy can take to increase market size and growth potential changes the risk-return profile in positive ways. For example, the presence of FTAs with adjacent economies significantly increases market size. An ability to quickly and easily expand across borders into new markets offers firms scale advantages. Similarly, efforts by policy makers within economies to formulate requirements and regulations that are coherent with those in other economies lower transaction costs and cost of entry for firms. An economy's commitment to adopting global standards can also lower transaction costs and tilt the risk-return payoff toward a decision to invest.

# Global Standards Enhance For FDI In Services

The varying degrees of adoption and adherence to global standards across APEC economies impose serious obstacles to investment in services and reduce the efficiency of global value chains. In every service sector in APEC, there are global standards that have been developed or are in the process of development. However, none have been fully adopted APEC-wide. These variances in competing standards, no matter how slight, significantly increase transaction costs to companies, who are then forced to unnecessarily spend time and capital to adjust their operations to local standards. Even local regulations that are not explicitly discriminatory or that are not intended to deter investment may cause harm and "de facto impose higher costs on foreign firms than on local players."

*A global insurance company that acquired a Japanese entity had to invest US $15 million to overhaul an IT system to allow both Japanese GAAP for domestic reporting and US GAAP for corporate reporting.*

| Sector | Items That Have Been Pushed for Global Standardization | Key Organizations Promoting Global Standards |
|---|---|---|
| **Accounting** | International Financial Reporting Standards; accredidation standards | International Accounting Standards Board |
| **Life Insurance** | International Financial Reporting Standards; Solvency II Directive | International Accounting Standards Board; European Union |
| **Retail & Restaurants** | Food safety standards; packaging standards; labor laws; cold storage standards; non-cash payment standards; scanning equipment | None |
| **Telecom** | 3G protocols; data transmission over telephone network; standard power level for grids; specific network components; security protocols; wireless network; interconnection rate | International Telecommunications Union; World Trade Organization; Global Standards Collaboration |
| **SaaS, Paas, & Cloud** | Programming Languages; common platforms; coding of digital media; data storage protocols; data transmission protocols; security protocols | None |
| **Trucking** | Safety laws; weight limits; trailer size; container size; labor laws; emission standards; required documentation | None |
| **Container Ports** | Container size; ship size; cranes | International Maritime Organization |

## Benefits and challenges of implementing global standards

The adoption of global or APEC-wide industry standards, and the adoption of domestic regulations that are coherent across economies will reduce transaction costs, increase FDI, and stimulate competition in local economies. However, there are two primary risks to the adoption of global standards. First, governments must invest in the infrastructure to support the newly adopted global standards. In the case of accounting, "[b]lind adoption of IAS by unprepared countries may be more detrimental than beneficial. Such countries must be given time to develop a sufficient infrastructure to effectively adopt IAS." Second, there is the complicated issue of which competing standards should be used. Many economies and regions have standards and APEC must take a leadership role to help economies decide which standards will work best and not allow compromises or changes by individual economies.

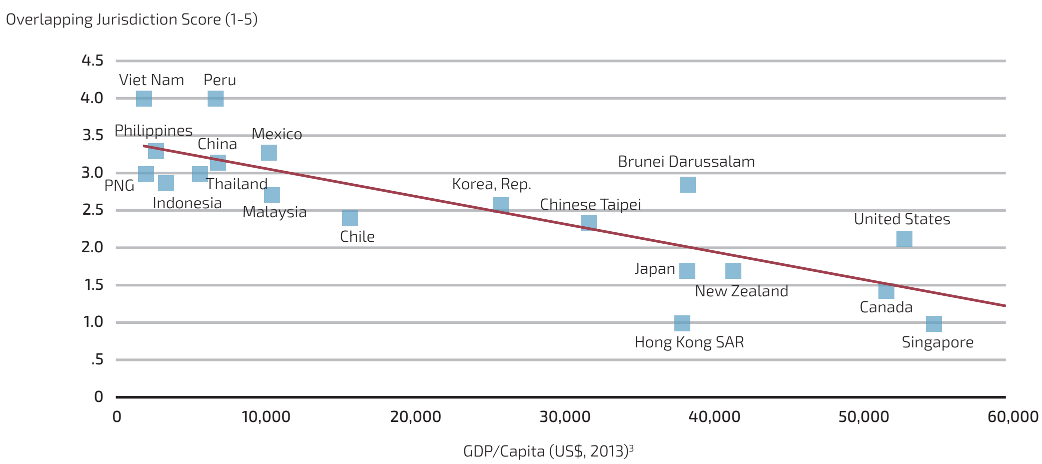
Despite these risks and costs to adopt global standards, there are significant benefits that outweigh short-term costs. Global standards will increase FDI, increase efficiency, and lower transaction costs. This is an important step for APEC to achieve its goal of 10% supply chain cost reduction in 2015.

# Poor Coordination And Jurisdictional Overlap Create Political Instability

Foreign services firms must work with various stakeholders across all levels of government to obtain investment approvals. These stakeholders often have different agendas and conflicting goals. Jurisdictional overlap at the national level, opposing policies in municipal governments, not to mention community activism, add time, risk, and cost to foreign firms' investments in service industries. Unfortunately, there is no cure-all for foreign firms from the pains resulting from working with these different stakeholders. As a result, foreign firms may refrain from investing. These pains are felt by service firms more than manufacturing or other industries due to their tendency to operate across the diverse municipalities and regions of an economy. While most APEC economies have achieved relative political stability at the national level, these coordination and jurisdictional overlap challenges create a level of political instability that can become so untenable that firms decide to exit or not invest at all.

Based on our research, jurisdictional overlap between approving agencies and national and local governments were among the top 10 most impactful factors influencing investment decisions. The graph below shows that jurisdictional overlap is adversely correlated to an economy's respective GDP per capita, indicating that the problem of jurisdictional overlap hampers developing economies from economic growth. However, jurisdictional overlap can still have a critical impact on foreign investments in some developed economies as well, including the United States, Chinese Taipei, and Korea.

### *Overlapping Jurisdiction Ratings vs. GDP per Capita*

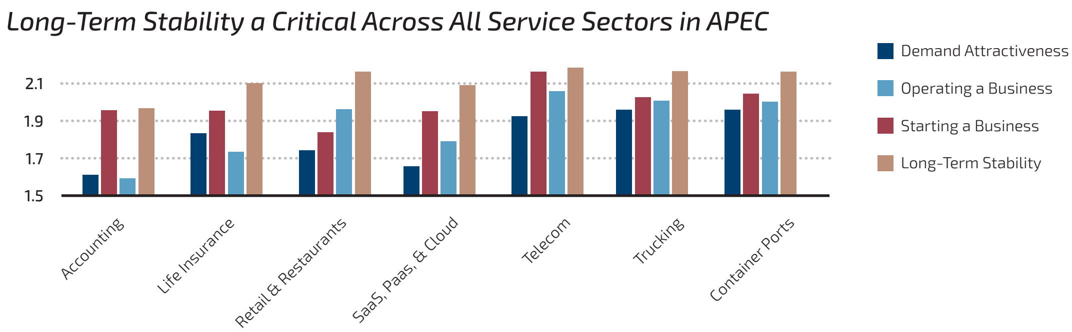



Foreign investors lack knowledge and connections at the local level, so the absence of agreement and coordination among municipalities or regulatory agencies creates a "moving target" that is "impossible to deal with," according to one executive. Another executive in Russia working in the retail industry shared his concern with Russia's difficulty in attracting Western investors, noting, "The degree of regulatory enforcement, such as taxes and customs, differs greatly in municipalities and places large multinationals at a disadvantage against pop-up companies that only look to turn a quick profit." An executive of an MNC entertainment company commented, "Multiple locations means interacting with local governments, which creates multiple opportunities for local officials to exploit bribes, create different requirements, and in general make doing business much more difficult than it needs to be."

Similarly, communities also often disagree with investment decisions. An executive of a port service company that invests in Mexico recounts how their company was forced to withdraw from Mexico due to severe community activism, despite having made a 3-year investment into a port project. Differences in language, culture, ethnicity, and nationality can lead to xenophobia in some communities, and can further act as a barrier to problem resolution. On the other hand, some communities may simply be against new investment. While governments can play an intermediary role to help resolve conflicts to the benefit of all parties, many remain passive.

[3] "The World Factbook." Central Intelligence Agency. Accessed October 17, 2014. https://www.cia.gov/library/publications/the-world-factbook/.

# Increased Stability Fostering FDI




Most services firms interviewed viewed their investments in new markets in the same way; they were investing for the long-term. A Canadian executive of a large MNC life insurance firm commented without emphasis, "When we invest in a market we invest for life. We enter with the objective of becoming a local firm. We are interested in the stability of the local capital markets, the political stability of the government. We aren't looking 10-15 years into the future; we are looking 50 years into the future."

Because service firms make long-term investments, the political and economic stability of an economy become vital to attracting services investment. The long-term nature of services investments mean that the foundations supporting economic growth and political stability are especially important. In comparison, manufacturing firms often look to take advantage of short-term arbitrage opportunities in labor, raw material, or logistic costs. When market forces change, a manufacturer will pick up and move to a location that better suits those needs. Extractive firms are looking to invest for the life of the mine. When the minerals are gone, so are they. Executives raised concerns about the following issues when addressing long-term stability issues:

- Stability and predictability of regulations
- Political conditions
- Dispute resolution
- Business inclusion in formulating rules and regulations
- FDI as a policy priority
- Economic conditions

From a business perspective, long-term stability was rated highly as an impediment category across all service sectors. When compared across services sectors, long-term stability was rated especially high in non-tradable services that require physical investment (Container Ports, Retail & Restaurants, Telecom, and Trucking). Intuitively, this makes sense as physical plants and infrastructure are needed in these businesses. Potentially tradable services (Accounting, Saas, Paas, & Cloud, and Life Insurance) do not require investment in physical plants to the same extent.

There are currently a number of long-term stability issues plaguing APEC: democratic protests in Hong Kong, sharia law in Brunei, border disputes between Russian and Ukraine, power of drug cartels in Mexico, the most recent coup in Thailand, territorial disputes in the South China Sea, and more.

All managers investing in these economies will consider the impact of these events on their firm, the industry, politics, supply chains, and the overall economy. Stable populations, governments, and regulations make an economy more attractive to FDI. Inclusion of foreign firms in processes for creating new industry regulations is an important way governments can communicate their intentions to be predictable, in spite of events beyond their immediate control. There is no prescription for ensuring political economic stability other than time and good governance.

## *Effective Liberalization In Services Means Creating Better, Not Fewer, Regulations*

A key conclusion of this study is that one of the most impactful things governments can do to attract FDI in service industries - along with all its associated benefits - is to create a clear, consistent, and transparent regulatory framework.

Services require regulations to protect against moral hazard problems that arise in the natural process of producing and consuming services. Services consumers often cannot know the quality of a service until it has been consumed. In the case of health services or life insurance, for example, unscrupulous actors can inflict serious harm. Governments have an obligation to put in place rules and monitoring mechanisms to safeguard citizens from potential exploitation and take steps to hold accountable would-be bad actors, be they individuals or firms. Service providers need good regulations to ensure a level playing field and fair competition. Across economies and across firms, executives asked for transparent well-formulated rules that provide the framework for firms to compete. Equal regulations, particularly for foreign firms, are the platform which allows for healthy competition among all companies.

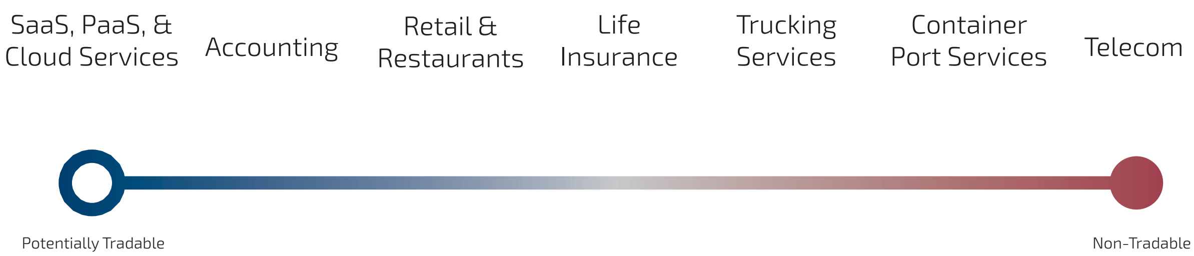
These findings are corroborated by outside studies from the WTO that show unclear regulations dampen overall investment. There are several reasons for this effect. They can double compliance costs for foreign businesses in every market they enter. New unfamiliar systems or rules and regulations cause businesses to be more risk averse when considering large long-term investments.

Good regulations and efficient processes attract FDI. Regulations and enforcement procedures that are transparent, not onerous or difficult to understand, matter for FDI. Unclear regulations create opportunities for administrators to use laws as weapons against businesses. In one interview in Southeast Asia, a CEO expressed concern that regulations were merely suggestions that could be wielded against his company at any time, and this has made him think twice about investing more money into the economy.

## *Services Sectors Differ In Important Ways; Don't Regulate Them The Same Way*

While service sectors share characteristics that allow high level comparisons to be made between sectors, they differ from each other in important ways. These differences, no matter how subtle, have important implications for policy makers.

A crucial and vital difference between services is their potential ability to become a traded service. Technological innovations have now made it possible for some services to be consumed in a different location than it is produced. No longer must all services be produced in real time in physical proximity of the final consumer. For example, Google's search engine can be accessed anywhere in the world even though the service is provided by servers and developers in the United States. Some services which have historically been provided by service providers with a physical presence in each market in which they operate, are now, because of new technologies, potentially tradable. Trucking services, on the other hand, cannot be consumed in a different location from where they are produced. Physical presence is necessary for the all non-tradable services. Of the seven service sectors analyzed in this study, life insurance, accounting, and software, platform and cloud services, either in part or in whole, could potentially become tradable services. Container ports, trucking, retail & restaurants, and telecom require physical investments and physical presence. Hence, these are essentially non-tradable services. Note, however, that some elements of the value chains of these "non-tradable" services might actually be obtained as traded services.




There are real implications for policy makers based on this simple tradable/non-tradable distinction. If, for example, policy makers were to unilaterally remove all regulations on services in the hope of attracting more FDI, they might be surprised to find that some previously domestically provided services, or parts of the value chains of those services, might now become traded as services. That is, the domestic service industry might decline as consumers seek services from foreign providers. A case in point is accounting services. Given advances in technology, accounting services could feasibly be provided by large-scale specialist firms in central hub locations. This, of course, assumes that local investment regulators and tax authorities are willing to accept accounting statements prepared in this way. Under the current structure of the accounting services industry, with its domestic requirements to obtain certification and a resistance in many economies to adopt IFRS, it is unlikely we will see wholesale changes in the near future. It is important to note that all the Big 4 accounting firm already outsource portions of their value chains to specialist third party companies.

The overall level of restrictions on what we are labeling as non-tradable services are generally more onerous than tradable services. The chart above shows how the sectors ranked from least restrictive to most restrictive. All of the tradable services are significantly less restrictive to FDI than the non-tradable services.

At the heart of the restrictions on tradable services are local content requirements that require certain amounts of assets to be kept domestically or certain activities to be performed locally. This is exemplified by capital requirements in life insurance, locally licensed accounting professionals, and domestically kept data in cloud services. As a result, these requirements force investment and limit the ability of the service to be traded. Please note that it is not our purpose to argue that these services should become tradable services. Rather, it is to make clear the point that some regulations act to "trap" or "force" investment domestically in addition to restricting new investment.

Policymakers have two primary reasons for enforcing local content requirements. The first is an attempt to develop local industries. The second pertains to potential security issues. For example, economies want to be sure that life insurance companies have enough capital reserves to pay out claims. While these regulations are designed to protect consumer interests, collective coordination between economies could create better regulatory constraints while allowing for cheaper, higher quality services to be provided. Allowing the trade of these services and investment in areas where they can be most efficiently produced will lead to better prosperity for both the consumers and the economies with regional investment hubs.

The issues with non-tradable services differ vastly from tradable services. The problems with non-tradable services manifest themselves typically as rules or processes that exist to keep foreign companies out or hinder the ability of foreign companies to compete on a level playing field. These are typically ownership restrictions, approval and enforcement issues, and limits on movement of human capital. Eliminating these barriers will ultimately increase investment, reduce costs, and increase competition in each of these service sectors across APEC.

# Service Sectors

# Trucking Services

# Introduction

The trucking industry is one of the most critical service industries in an economy. A well developed, efficient trucking system with high-quality service providers serves as a backbone industry for the rest of the economy. Globalization of trade has put an increased focus on transportation services to enable the high-quality, low-cost movement of goods. Trucking is important regardless of whether truckers are moving goods across borders themselves or if they are only delivering goods in domestic markets. Much of the focus on land transportation services has focused on the quantity and quality of infrastructure. While improvements in infrastructure have led to growth in many economies, infrastructure is only half of the story. There are many other factors that contribute to the development of trucking services across APEC, and APEC should focus on those factors to lead to the development of high quality trucking services.

As globalization continues to progress, multinational companies with complex inter-economy supply chains will begin to skip over economies that are not globally competitive in transportation services. Competitiveness, however, is not defined only by the assurance of low costs. Multinational companies and domestic firms increasingly require improved quality of services, defined as trackability, safety, reliability, and environmental concerns.

Two major challenges arise from the metrics of cost and quality. The primary challenge is to find the appropriate balance between cost and quality for local economies. The second challenge is to formulate and enforce regulations to achieve that balance between cost and quality. Unfortunately, in many APEC economies, inconsistent rules and the prevalence of informal players create an unfair competitive environment, which deters global players from entry and prevents the growth of the market.

Our research into trucking services reveals that it is largely a domestic industry. There is very little cross-border investment by foreign trucking firms. When asked about their willingness to enter new markets, foreign firms gave a very positive answer, saying that they are ready to invest and introduce their services. The global clients that rely on high quality trucking services also are ready for cross border investment in trucking. However, the issues hindering investment vary from economy to economy, and require analysis at both the sector level and the economy level to understand why each economy has having difficult attracting investment.

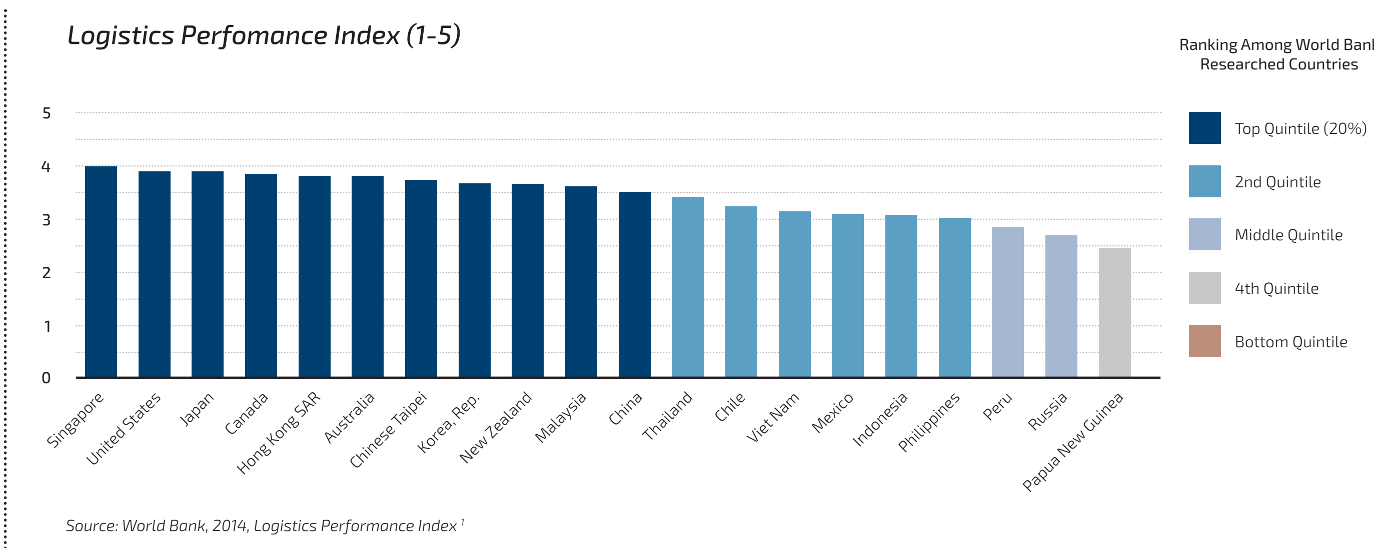
First, this section begins by presenting the performance of trucking services in APEC economies through various metrics. Second, it presents key factors identified by business executives in APEC as being critical to the trucking sector. Third, it identifies the top five major factors in APEC economies with illustrations of compelling business cases from different economies. Lastly, it concludes with a focus on areas for improvement and recommendations for industry leaders to enhance the quality of trucking services within domestic economies and throughout the APEC region.

# *Trucking, an Irreplaceable but Forgotten Link in the Improvement of Logistics Networks*

Trucking fulfills point-to-point freight delivery and has played a key role in enabling trade between economies. Looking forward, it will be even more critical as global supply chains expand and integrate. Without competitive trucking services, economies will be passed over by multinational companies as an investment target.

In recent years, multinational companies have been focusing on improving efficiency and reducing costs throughout their supply chains. Many initiatives have been developed and adopted in order to advance the development of transportation. (Please refer to the case study below: "Polaroid's Realization Of Costs Saving Through Integration Of Improved Trucking Systems"). With multinational companies looking to expand their supply chain and markets, the availability of world-class trucking and logistics is becoming an increasingly important investment decision screen.

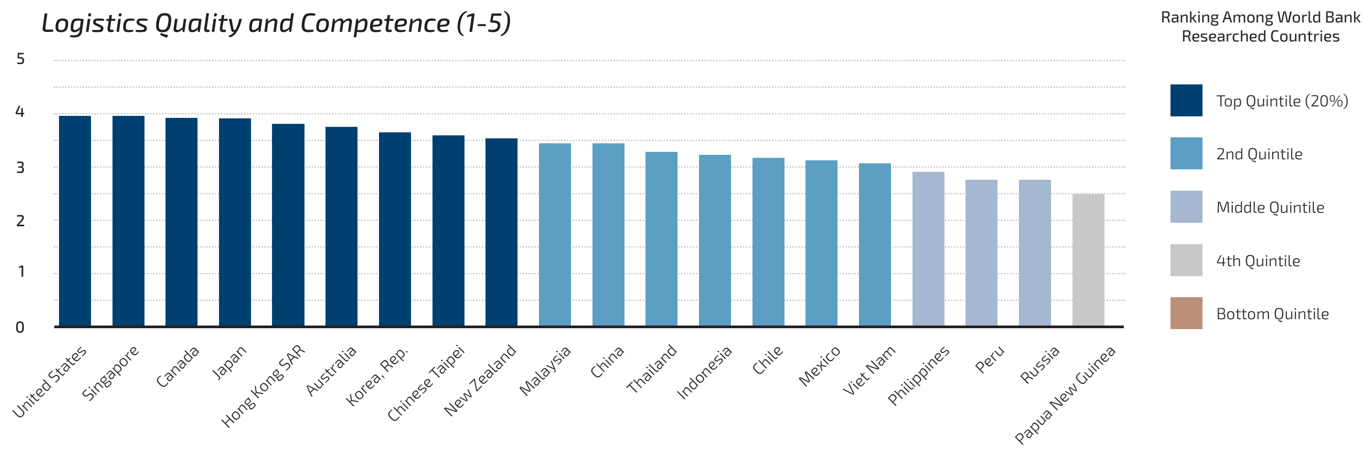
## APEC Economies Outperform Most of the World




*Source: World Bank, 2014, Logistics Performance Index* [1]

The table above presents a snapshot of the logistics quality and competence of 20 economies covered in the World Bank report on Logistics Performance. The Logistics Performance Index (LPI) is the weighted result of Logistics Quality and Competence, Customs, Infrastructure, International Shipments, Tracking and Tracing, and Timelines. Fifteen economies in APEC are above the 60th percentile. Eleven of those are above the 80th percentile, representing the highest level of logistics efficiency in the world. On the low end are Papua New Guinea, Russia, and Peru, which have the least competitive logistics networks in the APEC region.

[1] Arvis, Jean François, Daniel Saslavsky, Lauri Ojala, Ben Shepherd, Christina Busch, and Anasuya Raj. Connecting to Compete 2007, 2010, 2012, 2014 Trade Logistics in the Global Economy




*Source: World Bank, 2014, Logistics Performance Index* [1]

The table above displays the ranking of those same 20 economies for Logistics Quality and Competence, one of the metrics in the LPI which measures inland transport efficiency. It is interesting to note here that Malaysia and China move down to the second tier and the Philippines moves down to the third tier.

## APEC Economies Have Not Been Focusing Enough Effort on Improving Trucking Services

Overall rankings within the Logistics Performance Index from 2007 to 2014 have been relatively stable with no economies showing significant improvement.

Best performing economies: Singapore, US, Japan, Canada, Hong Kong China, Australia, Chinese Taipei, Korea
Lagging economies: Papua New Guinea, Russia, Peru, Philippines

### *Overall Logistics Performance Index Ranking*

| Economy | 2007 | 2010 | 2012 | 2014 |
|---|---|---|---|---|
| Singapore | 1 | 1 | 1 | 1 |
| United States | 5 | 5 | 4 | 2 |
| Japan | 2 | 2 | 3 | 3 |
| Canada | 4 | 4 | 5 | 4 |
| Hong Kong SAR | 3 | 3 | 2 | 5 |
| Australia | 6 | 6 | 6 | 6 |
| Chinese Taipei | 8 | 7 | 7 | 7 |
| Korea, Rep. | 9 | 9 | 8 | 8 |
| New Zealand | 7 | 8 | 11 | 9 |
| Malaysia | 10 | 11 | 10 | 10 |
| China | 11 | 10 | 9 | 11 |
| Thailand | 12 | 12 | 12 | 12 |
| Chile | 13 | 14 | 13 | 13 |
| Viet Nam | 15 | 16 | 16 | 14 |
| Mexico | 16 | 15 | 14 | 15 |
| Indonesia | 14 | 18 | 17 | 16 |
| Philippines | 18 | 13 | 15 | 17 |
| Peru | 17 | 17 | 18 | 18 |
| Russian Federation | 20 | 19 | 19 | 19 |
| Papua New Guinea | 19 | 20 | 20 | 20 |

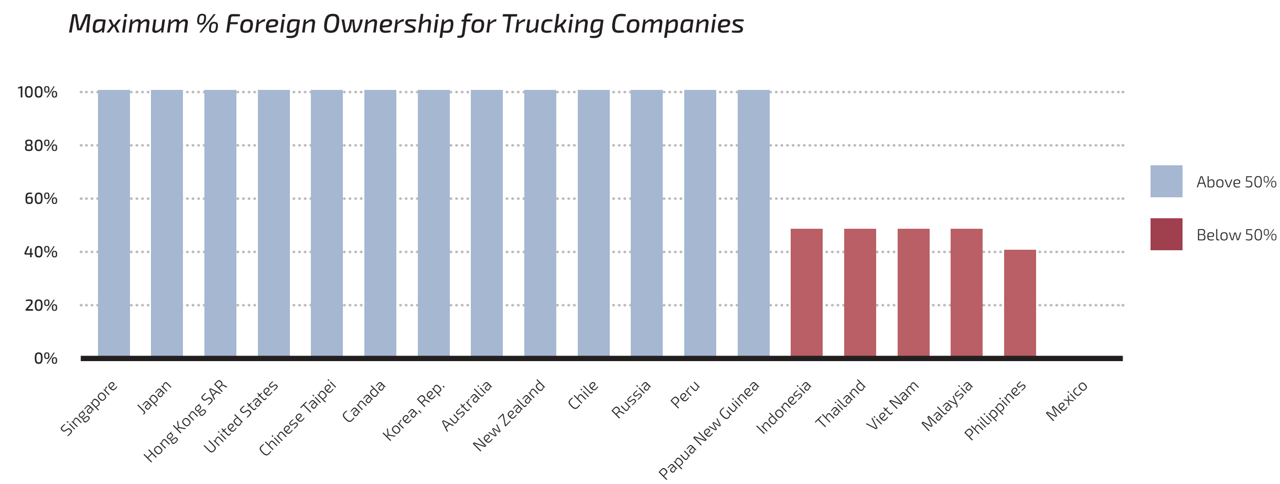
*Source: World Bank, Logistics Performance Index, 2007-2014* [1]

[1] Arvis, Jean François, Daniel Saslavsky, Lauri Ojala, Ben Shepherd, Christina Busch, and Anasuya Raj. Connecting to Compete 2007, 2010, 2012, 2014 Trade Logistics in the Global Economy

# *Market Entry Conditions Limit Foreign Investment in Trucking Services*

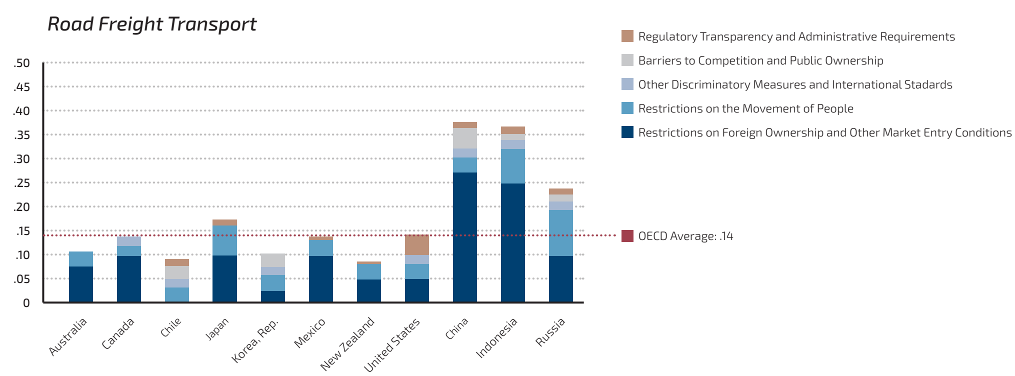
## Market Entry Restrictions Occur as the Major Obstacles for Foreign Investment

Unfortunately, Trucking in APEC is far from a free and open industry. The table below presents data from the World Bank IAB on the restrictiveness of the trucking sector across APEC. Six economies in APEC are not open to 100% foreign ownership in trucking, with Mexico being the only economy that prohibits foreign control completely.




*Source: World Bank IAB Report*[2]

The table below represents the OECD Services Trade Restrictiveness Index for the 11 APEC economies in their database. The findings confirm that "Restrictions on foreign ownership and other market entry conditions" is the most problematic factor. The second most impactful barrier is "Restrictions on movement of people". China, Indonesia, and Russia are identified as the three economies with the top three highest restrictiveness rating.

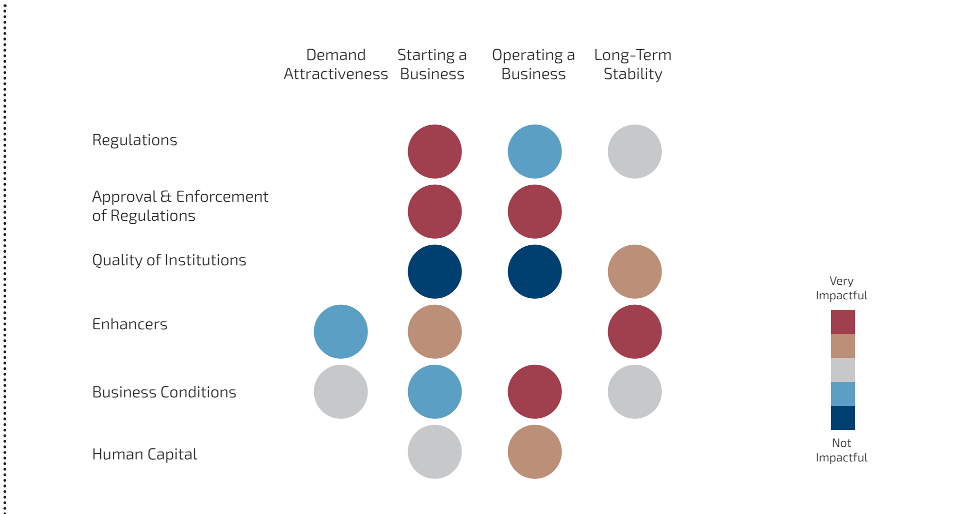



*Source: OECD STRI*[3]

[2] Investing Across Borders 2010. Report. Washington: The World Bank, 2010. Accessed October 3, 2014. Http://iab.worldbank.org/.
[3] "Services Trade - OECD." Services Trade - OECD. Accessed October 19, 2014. http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm

# Where Factors Are Inhibiting Trucking Investment In APEC

*Location and Relative Importance of Critical FDI Factors Within Trucking*




The chart above shows where APEC rates as a region for different areas in trucking investment. APEC economies show a promising and growing demand for trucking services. However, investment is hindered and slowed down by almost every factor examined in this matrix.

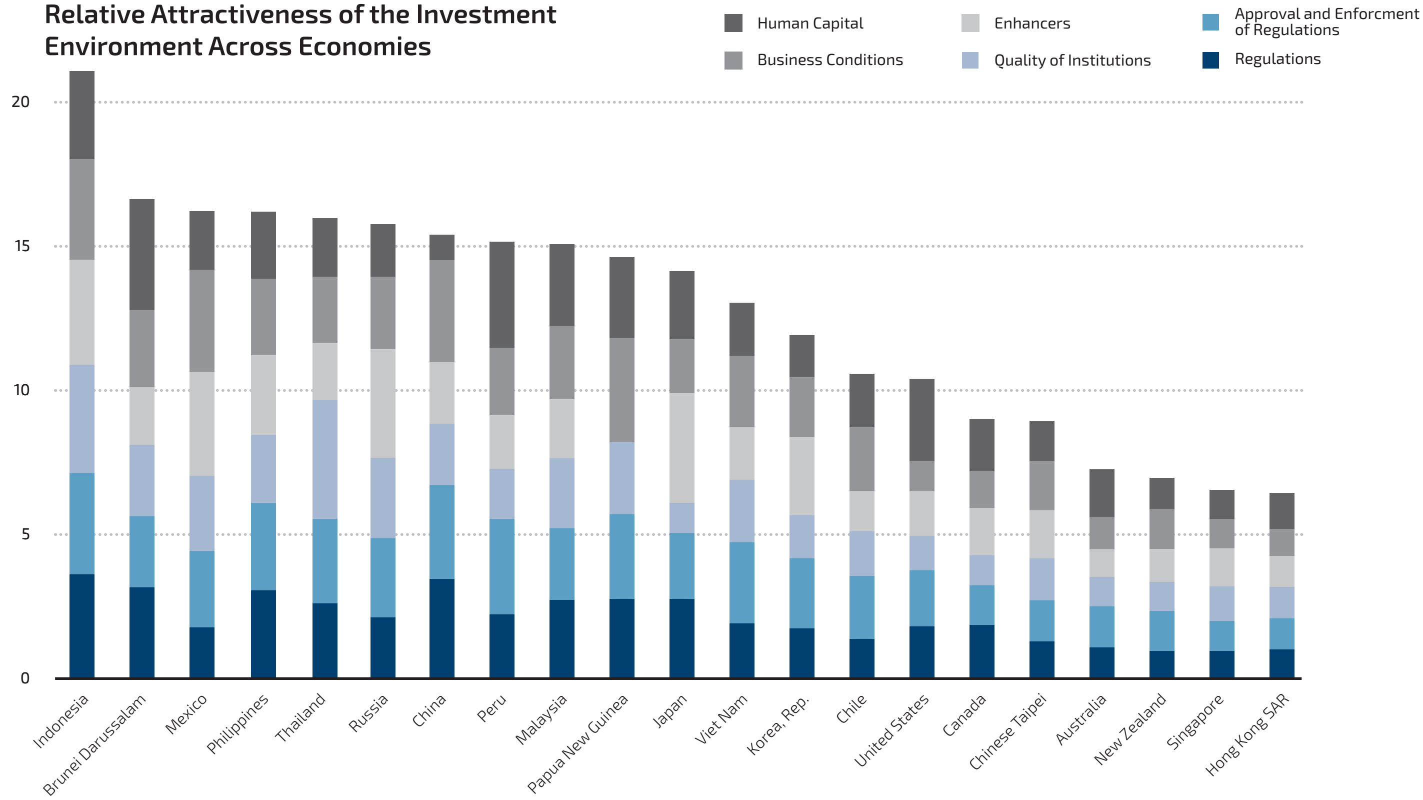
## Approval And Enforcement Of Regulations Are Complicated And Problematic

There are numerous levels of regulatory bodies, and for foreign firms, the enforcement of regulations turns out to be more problematic than inconsistent regulations. Trucking services demand expansive geographic coverage, and with every activity that crosses a border, the local government can impose additional rules and different standards upon the firm. As trucking companies work to comply with varying regulations, they also carefully examine these added-cost factors and begin to make new investment decisions based on a consolidated profitability analysis.

## Enhancers For Long-Term Stability Are Simple But Critical

FDI as a policy priority is the single most impactful factor for foreign trucking firms making long-term investment decisions. Foreign trucking firms, facing the challenge of unfamiliarity with local regulatory bodies and being at a disadvantage due to discriminative policy enforcement procedures, seek markets where the government has made a strong commitment to promote FDI in the sector. Firms expect that in economies with such an emphasis on FDI regulations and policies are gradually adjusted to facilitate healthy and fair competition in the near future.

## Relative Attractiveness of the Investment Environment Across Economies



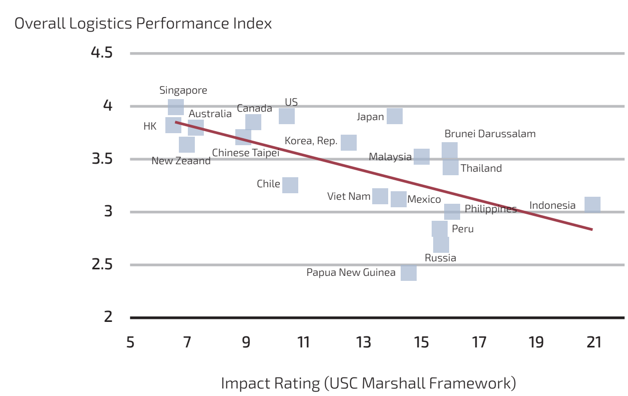

The chart above shows the relative attractiveness rating of the investment environment for every economy in the APEC region. Each bar is generated by stacking ratings for each impediment category (sum of sub-factor ratings). The taller the bars represent more difficult investment environments in APEC.

# Leaders Have Been The Best Performers For a Long Time

Overall, Hong Kong, New Zealand, Singapore, Australia, Chinese Taipei, and Canada are ranked as the best economies in trucking services. They are incumbent economies with developed transport networks, and take the lead for lowest restrictiveness in all impediment categories.

The chart to the right compares the Quality of Trucking Services ratings from the LPI with our impact ratings. As the line shows, there is a linear relationship between the restrictiveness of an economy and the LPI rating. The lower an economy is rated for restrictiveness, the higher the logistics performance an economy exhibits. Singapore and Hong Kong are located on the higher bound of the line with best performance and lowest restrictiveness ratings. These two economies are relatively small in size, thus requiring a low level of regulations to assure quality of trucking services. Australia and New Zealand adopted open policies some time ago to compensate for their distant location and attract investment from foreign firms. The United States and Canada are two examples of large size economies that consequently require more recourse than Singapore and Hong Kong to deliver quality services. On the lower bound of the LPI index, Indonesia presents as the economy with the most problematic issues blocking advancement of its industry. (Papua New Guinea is an outlier due to a lack of information on some impediments.)

### *High Correlation Between LPI and Impact*




*Source: World Bank*[4]

[4] Arvis, Jean François, Daniel Saslavsky, Lauri Ojala, Ben Shepherd, Christina Busch, and Anasuya Raj. Connecting to Compete 2007, 2010, 2012, 2014 Trade Logistics in the Global Economy

# *Most Problematic Investment Challenges in Trucking Services*

The discussion below focuses specifically on the most important challenges in trucking services. A careful analysis of all trucking interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the trucking sector. Twenty-one FDI factors were found to be important or very important across economies. The results are presented in the table positioned at the end of the trucking section. The relative impact of each barrier or impediment in each economy is reported. The horizontal bar chart below summarizes the impact of these factors for each APEC economy. The nine most critical challenges are discussed in more detail below noting the leading and lagging APEC economies on each investment factor.

***Long term national plan for investment in transportation infrastructure network***

***Regulatory consistency in weight limits, emissions, and other trucking regulations between national, state and municipal agencies***

***Fragmented and uncoordinated regulatory oversight (different modes of transport, air, rail, road, maritime, are regulated by different bodies)***

***Access to certified and reliable drivers***

***Quantity and quality of roads; Infrastructure development level across metropolitan and rural areas***

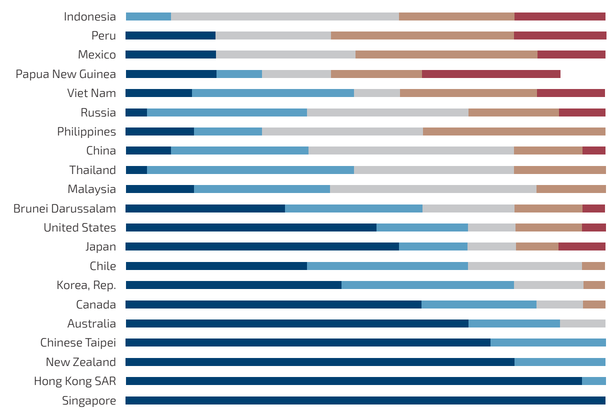
***Equity ownership limits on foreign trucking firms***

***Number of permits/ licenses required***

***Impact of delays, cost and corruption of customs procedures***

***Size and impact of informal trucking firms***

*Summary of Impact Ratings*




## Long-Term National Plan for Investment in Transportation Infrastructure Network

The lack of a plan for long-term transportation networks disrupts the growing demand for trucking services and other transport modes. It decreases efficiency in both foreign and domestic investments. Since there has been little amounts of FDI injected into this sector, there are very few markets available for foreign firms to invest in. When evaluating market attractiveness, foreign trucking firms seek long-term investment opportunities. Planning for future infrastructure is a deal breaker for serious investors.

*Best: Canada, Hong Kong, Singapore*

*Lagging: Papua New Guinea, Peru*

## Regulatory Inconsistency in Weight Limits, Emissions, and other Trucking Regulations Between National, State and Municipal Agencies

Powerful municipalities interfere with trucking operations by imposing additional taxes and rules that are not standardized with other regions and the central government. This significantly increases operational costs for trucking firms. While this factor by itself may be manageable for foreign firms, in reality, it is accompanied by many other impeding factors and becomes a multiplier for impediments. Corruption and prevalence of the informal market appear largely where an inconsistent rule is in place and backed by powerful municipal governments. This factor can be a test to flag possible corruption in a local economy.

*Best: Chinese Taipei, Hong Kong, Singapore*

*Lagging: China, Indonesia, Mexico, Peru, Philippines, United States, Viet Nam*

## Fragmented and Uncoordinated Regulatory Oversight for Different Modes of Transport, Air, Rail, Road, and Maritime

Regulatory oversight is highly fragmented and inconsistent, leading to an increase in operational complexity and costs that are passed to downstream industries. When trucking services are delivered, a physical truck moves across borders of municipalities, states, and economies. At each border, local regulatory bodies have their own rules and policies which not only consist of different requirements in different areas but also function inconsistently with nation-wide and regional guidelines. In most of the economies covered in this study, trucking and transportation are heavily regulated by multiple agencies. It is an industry where the fixed costs are low and the barriers to entry are high because of complicated permit approval processes. This combination of situations contributes to an environment where informal businesses thrive and entry for established and reputed trucking companies becomes less cost effective.

*Best: Chinese Taipei, Japan, Singapore*
*Lagging: China, Papua New Guinea, Peru, Philippines*

## Road Infrastructure

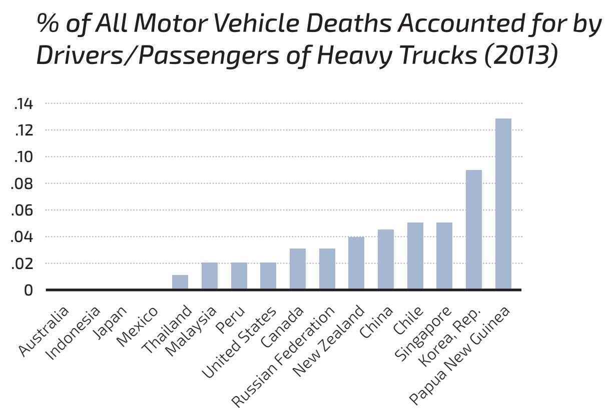
Global trucking and logistics companies, with massive multinational companies as clients, are aiming at offering quality transport services to cover big geographic areas, especially across borders. Underdeveloped road infrastructure makes it impossible to run heavy-duty trucks and therefore, discourages foreign trucking firms from entry. Economies with good trucking services, such as Hong Kong, Singapore, the United States, and Chinese Taipei, built a well-connected road infrastructure network as the first step. Imbalance of economic development within an economy makes an area less attractive for investment in its infrastructure. However, a lagging infrastructure that doesnt effectively connect rural areas creates huge holes in a network, weakening the foundation for a transport hub.

*Best: Hong Kong, Singapore, Chinese Taipei, United States*
*Lagging: Indonesia, Papua New Guinea, Peru, Russia, Viet Nam*

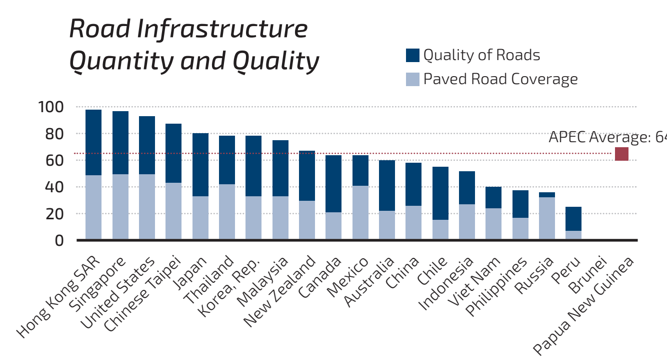
## Access to Certified and Reliable Drivers

Driving trucks is one of the most dangerous professions in the world. Currently, there is a mismatch between demand and supply in many APEC economies. The increase in investments in the development of specialized and heavy-load trucks demands adequate driver certification programs that have the tools and processes necessary to provide proper training and recognize specialized skills of drivers.

*Best: Canada, Hong Kong, Korea, Rep., New Zealand, Singapore*
*Lagging: Brunei Darussalam, Malaysia, Mexico, Papua New Guinea*




Source: World Health Organization[5]




Source: WEF Global Enabling Trade[6]

[5] World Health Organization. Global Status Report on Road Safety 2013
[6] Hanouz, Margareta Drzeniek, Thierry Geiger, and Sean Doherty. The Global Enabling Trade Report 2014

## Number of Permits/ Licenses Required

This is a barrier that increases the cost of trucking services, which is ultimately passed on to customers. It was ranked second not because it explicitly blocks FDI, but because it impedes daily business operation.

*Best: Hong Kong, Mexico, New Zealand, Singapore, Chinese Taipei, United States*
*Lagging: Brunei Darussalam, China, Indonesia*

## Impact of delays, cost and corruption of customs procedures

Trucking, as a door-to-door transport mode, is the backbone service sector to enable trade across borders. Customs efficiency is critical for on-time delivery, a key metric to evaluate the quality of trucking services, especially for foreign trucking firms. It is a deciding factor for full logistics solution providers who help multinational firms with their cross-border trading business or supply chains. As global supply chains progress, cross-border activities are becoming more and more frequent. Therefore, quality and transparency of custom services directly influence an economy's attractiveness for FDI as well as an economy's global image.

*Best: Australia, Brunei Darussalam, Canada, Hong Kong, Japan, New Zealand, Singapore*
*Lagging: Chile, Indonesia, Papua New Guinea, Philippines, Russia, Thailand*

## Equity Ownership Limits on Foreign Trucking Firms

Foreign firms will skip economies where 100% foreign ownership or control is not guaranteed for the trucking industry because the development of firms within this sector is highly skewed. Industry leaders are unlikely to find quality local partners due to the gap in operational efficiency and technology adoption levels between well-established firms and less-developed ones.

*Best: Australia, Chile, Hong Kong, New Zealand, Papua New Guinea, Peru, Russia, Singapore, Chinese Taipei*
*Lagging: Brunei Darussalam, Indonesia, Japan, Malaysia, Mexico, United States*

## Size and Impact of Informal Trucking Firms

The existence of informal businesses creates an unfair and unhealthy competitive environment. The significance of informal business as a key impediment to entry for firms with high compliance standards and business ethics has been recognized by regulation enforcement bodies. However, little action has been taken to eliminate such activities. To a large extent, informal businesses contribute to unfair competition within an industry. In trucking, an informal business can offer much lower prices than an established business. Price competition erodes the advantages of investment in specialized trucks and new technology. The existence of informal markets not only signifies lagging development of trucking, but also acts as the most significant blockage for improvement and advancement of trucking sector in an economy.

*Best: Australia, Canada, China, Hong Kong, Japan, New Zealand United States, Chinese Taipei, Singapore*
*Lagging: Papua New Guinea, Russia, Mexico, China, Peru*

# Consistent Themes Across Trucking

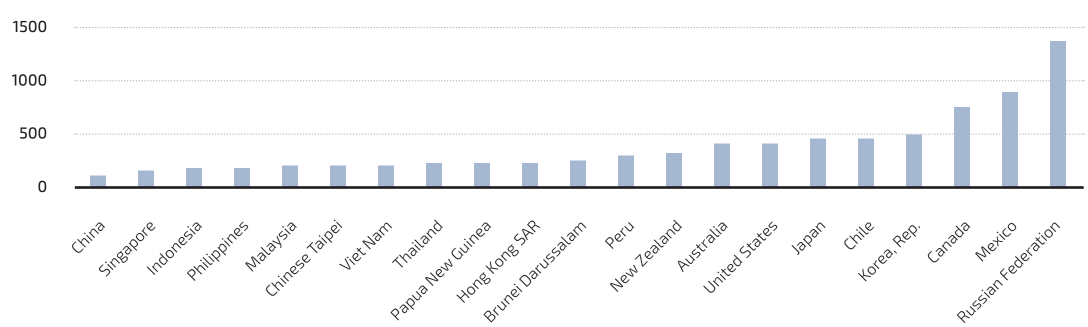
## Profitability is the Key Consideration for FDI Decisions

FDI in trucking is still low compared to other sectors. When business executives evaluate a new market, aside from barriers of road infrastructure and equity ownership, the key factor is profitability. All impediments discussed above (informal trucking market, number of permits or licenses required, inefficient customs, regulatory consistency, fragmented oversight bodies and quality of human capital) are added-cost factors. If one or more factors are severe enough to significantly add costs that jeopardize profit, this factor(s) will block FDI. Some of the other primary factors that add costs and increase risks are identified and discussed in detail in the following pages.

## Reliability of Trucking Services Has Been Ignored as a Measurement of Industry Competitiveness

The reliability of trucking services is often overlooked or considered less significant than other key performance measures, such as cost. However, lower cost does not always mean less reliability. Conversely, higher cost does not lead to reliable trucking services. To further illustrate the point, let's look at economies at two ends of the spectrum. For Singapore, lower costs are due to high industry competitiveness and the existence of many competent players, something which is healthy for the economy. Comparably, China bears the lowest cost but the service quality is not yet at the level of Singapore (China is ranked No. 10 in LPI list for APEC as No. 1 for Singapore). The major reason China offers a competitive price is the large existence of an informal market, which hurts profitability of reliable service providers and becomes the barrier for competent players to enter the market.

*Inland Transportation and Handling (Cost US$)*




*Source: World Bank*[7]

## Corruption Has a Multiplier Effect on Problematic Factors Which Make Bad Investment Situations Even Worse

Many business executives we spoke to discount the true impact of corruption, because they are typically well-established local players who have learned to minimize the impact of corruption. However, it is the top concern for new entrants. Corruption prevents an economy from developing quality institutions and regulation enforcement systems. Foreign firms, with little knowledge of a new market, will be turned down if corruption is rampant in local markets. Foreign firms embrace high standards to comply with the rules, regulations and laws of their home economies, and therefore expect quality institutions and low business corruption to ensure a fair competition environment.

[7] "Doing Business, Trading Across Borders." The World Bank

## Profitability is the Decisive Determinant in Trucking FDI Decisions

Trucking services in APEC economies outperform the world in transport availability and efficiency as the major indexes for service qualities. Being the only transport mode which fulfills point-to-point land freight delivery, trucking has been important to enable trade between economies and looking forward, it will be even more critical as global supply chains deepen. Without competitive trucking services, economies will be simply skipped by multinational companies as an target investment market.

*Trucking companies crossing from the U.S. to Mexico and vice versa have to offload and reload cargo before crossing the border due to differences in weight limits, container regulations, and cargo restrictions.*

There are many challenges, the foremost challenge is attention to the transformation from service cost to service quality. As multinational companies seek sources in APEC, the primary criteria for trucking services is high quality, defined as speed, trackability, safety, and reliability, instead of a simple cost comparison.

FDI in trucking is still at a low level compared to other sectors. Go-or-no-go factors are road infrastructure, equity ownership, and large existence of informal trucking market. Cost-increasing factors are number of permits or licenses required, inefficient customs, regulatory consistency, fragmented oversight bodies and quality of human capital. Risk increasing factor is lacking long-term national plan for transportation network development.

Challenges vary widely for different economies at different stages of economic growth and fixes for these issues will vary due to different difficulty levels to remove or reduce each impediment. In the short run, regulations like number of permits required, ownership restrictions on foreign firms, and customs complexity can be reduced or even removed completely. On the other hand, infrastructure, informal trucking market, long-term infrastructure plan, fragmented oversight and labor force will be gradually improved over a long period of time.

## Successful story: Deregulation in US helped Reduce the Trucking Cost

An old example to illustrate the effect of deregulation is what happens in US in 1980s. At that time, interstate trucking was heavily regulated at the federal level, even operating at a particular route required approval. In 1980 the deregulation of the industry started and it has significant impact on the industry in general and it opened flood gates to improvements and equipment modernization. Federal Trade Commission, a proponent of deregulation made a historic submission to Railroad Commission of Texas, in which FTC stated the cost of shipping of common consumer product between two cities in Texas was $2.52 per mile as compared to $1.46 per mile in the deregulated states. So, the cost of transportation was heavily reduced as well as no compromise on the quality or reach of the service. Another important outcome of the deregulation was an increase in employment and better wages for the employees. In 1987, there were 1.8 million people involved in trucking industry, a significant jump from 1.48 million back in 1980. One of the notable conclusions of the report was, "Regardless of whether these new entrants came from expansion or by bringing truckers from the informal to the formal sectors, deregulation reduced incentives for truckers to operate in the shadows." [8]

[8] http://www.justice.gov/atr/public/international/270445.pdf

# Recommendations

*Standardize requirements on weight limits, safety, emission and cargo requirements.*

Standardization is the way to eliminate wastes of time and costs spent on non-value-add processes when operating trucking business. With heavy-duty trucks covering big geographic areas, regional and cross-border activities exhibit an upward trend both in volume and frequency. One increasingly important factor is existence of various versions of requirements on weight limits, safety, emission and cargo content, which adds on complexity of doing trucking business. Standardization of rules is the direction for economies or industry associations to discuss and gradually introduce. One of the many ways is to benchmark with other industries with proven success in the same line, for example accounting services.

*Remove non-necessary regulations.*

Over regulation is common in trucking services, for example, permits/licenses required, tedious paper work at customs, local and regional taxes. Inconsistent and discriminative regulations should be either removed or adjusted to reduce costs of business operation for both domestic and international trucking firms. Complexity reduction in regulations not only improves easiness of doing business but also decrease likelihood of government officials to corrupt.

*Make and enforce fair and effective regulations.*

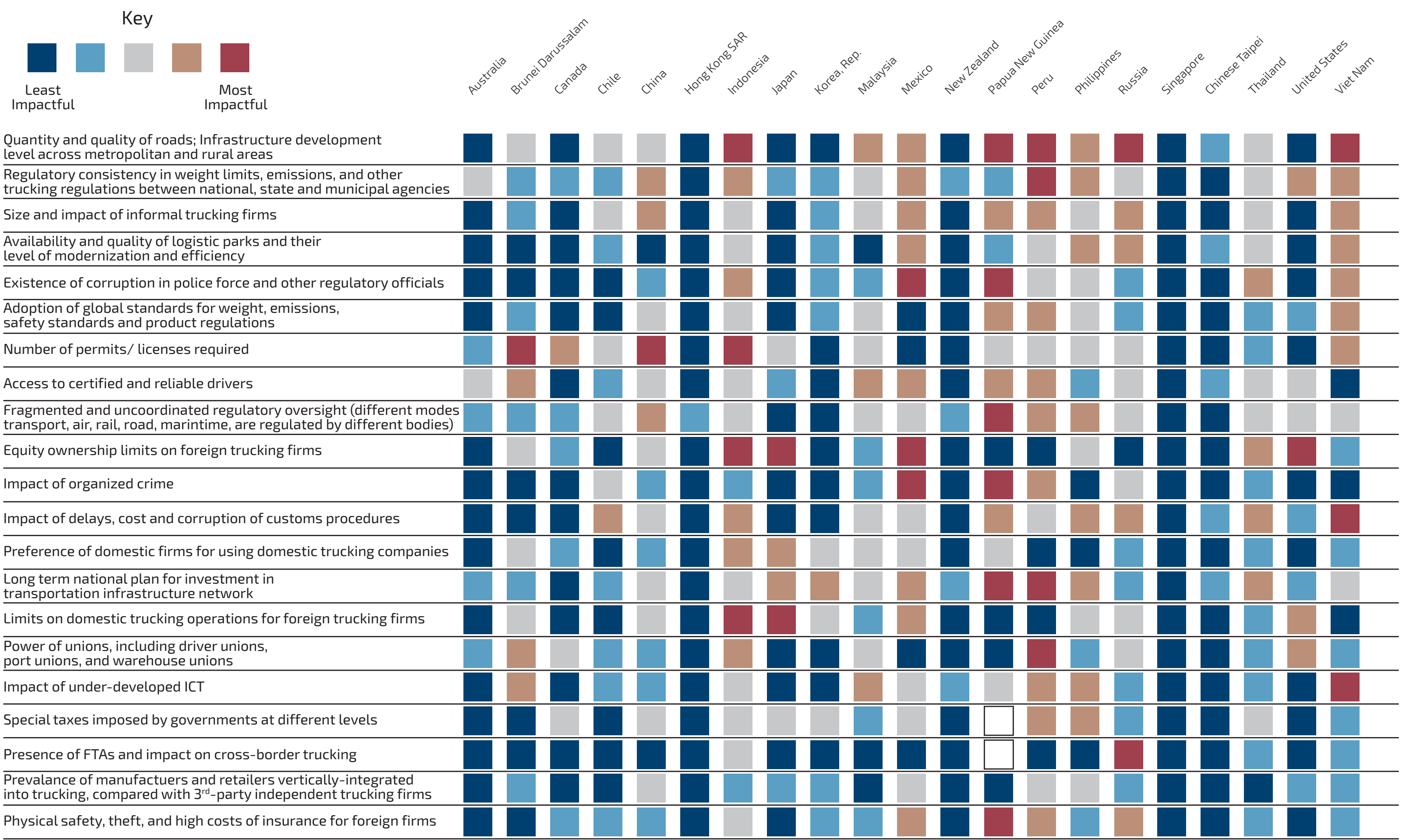
Regulations on weight limits, safety standards, emission requirement and cargo requirements are fundamentally necessary to ensure delivery of quality trucking services. More importantly, enforcement measures should be conducted fairly between domestic and foreign players and executed consistently at all different governance levels. A fair and effective competition environment attracts foreign firms' investment and facilitates long-term advancement of trucking sector to continuously provide high quality services at affordable costs to customers both multinational and domestic manufacturers, distributors and retailers.

*Draft long-term plan in building a transport network.*

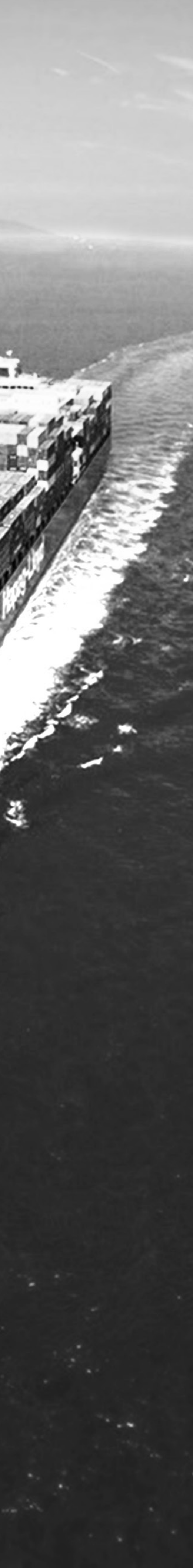
Transport network takes a long time to build and there is no universal answer which can be applied to different economies due to complexity of geographical features and logistics demands. There are plenty of study and research on cost-efficiency analysis of all transport modes. However, to best utilize performance of individual transport mode and build a network which optimizes the total investment efforts, a centralized transport body served as a designer and planner has to be in place to make sure that growing direction is in alignment with the benefits of the economy as a whole.

# Trucking Services-specific Barriers and Impediments (Impact Ratings) Economy Comparisons

The table below visually presents the **most important** barriers and impediments in trucking services across APEC economies. An analysis was made of the frequency to which different FDI challenges were raised by interviewees across economies. Twenty-one trucking-specific challenges were identified as having important impacts on FDI decisions. The table shows how impactful each challenges is in each APEC economy.



# Container Port Services



## Introduction

Container Ports are a key cog in the global transportation network. APEC continues to become more important in the world trade of goods and currently comprises 64% of world container traffic. Investment in port services will ensure APEC remains central to the world goods trade. Also, container port services are a principal component in APEC's goal of reducing supply chain transportation costs by 10%.

Overall the efficiency and quality of container port infrastructure varies widely across APEC. Quality of the ports as well as cost and time to import and export goods is drastically different in many APEC economies.

Transportation networks are only as strong as the weakest link. Improvements in efficiency can only be fully realized if all other parts of the transportation network also become more efficient. Otherwise bottlenecks simply move from one part of the supply chain to another. In addition to port infrastructure, the quality of connecting supply chain partners is very important for ports. Informal trucking markets are very common in many economies; however ports need high quality partners in order to operate efficiently.

Investment in container ports require significant time horizons resulting from long approval periods, long construction periods, and high capital costs. If capacity is not added when needed, manufacturing and other industries that require strong freight transportation networks may not invest in the economy.

Ports require a significant amount of public private partnerships. Often governments provide basic infrastructure for the container port itself and provide a significant amount of the connecting infrastructure to new port operations. Public support, planning, and investment are needed to attract additional port investment.

Governments are not the only entities that can create cumbersome or onerous issues for port investments. Local communities often have the ability to delay, add significant cost, and stop new port investments. Foreign investors have a particularly difficult time working with local communities, and policy makers can be intermediaries to help both sides.

This section examines the investment climate for container port services in APEC. For the purpose of this section, container port services are the stevedores that transfer containers to and from maritime vessels. First, is a description of the current state of the industry in APEC including size, growth, and investment. Second, a thorough discussion of the current issues inhibiting cross border investment in port services is presented. Third, the section will discuss the bigger picture issues affecting investment in the port services industry. Finally, this section will conclude with a focus on areas for improvement and the role that APEC can play in enhancing the quality of port services throughout APEC.

# Ports, the gateway to trade...

APEC has benefited from outsourcing and globalization of supply chains to take a dominant position in the world trade of goods. Container port services play an important part in the continued development of APEC's position in global trade and the ability of goods to move cheaply into and out of the region. APEC currently accounts for 64% of world container traffic as measured by the number of 20-foot equivalent units (TEUs) handled per year.[1] As seen in the chart below, China alone accounts for 26% of world container traffic, moreover, the seven largest economies of containers handled by volume exist within the APEC region. As a result, many APEC economies have had significant investment in port infrastructure. Container traffic in APEC has grown at a 3.4% annual CAGR compared to 3.1% for the rest of the world.Some economies are growing significantly faster. For example, Peru and Viet Nam are growing at rates above 8% per annum. Growth will likely continue as some Asian economies transition from manufacturing centers to consumption driven economies.

| *World Ranking* | *Economy* | *2012 TEU Volume* | *% of Global* | *CAGR* |
|---|---|---|---|---|
| | **World** | **601,772,123** | | **3.11%** |
| 1 | China | 155,017,351 | 26% | 5.98% |
| 2 | United States | 43,098,222 | 7% | 0.32% |
| 3 | Singapore | 32,421,602 | 5% | 0.97% |
| 4 | China, Hong Kong SAR | 23,100,000 | 4% | -1.17% |
| 5 | Korea, Repblic of | 21,453,964 | 4% | 4.26% |
| 6 | Malaysia | 20,866,875 | 3% | 5.33% |
| 7 | Japan | 18,475,667 | 3% | -0.50% |
| 11 | Chinese Taipei | 13,977,453 | 2% | 1.51% |
| 16 | Indonesia | 9,324,792 | 2% | 4.72% |
| 20 | Thailand | 7,372,298 | 1% | 1.85% |
| 22 | Australia | 7,182,854 | 1% | 3.31% |
| 23 | Viet Nam | 6,588,855 | 1% | 8.44% |
| 27 | Philippines | 5,720,749 | 1% | 5.05% |
| 28 | Canada | 5,296,488 | 1% | 2.33% |
| 31 | Mexico | 4,243,651 | 1% | 5.08% |
| 32 | Russian Federation | 3,942,628 | 1% | 3.18% |
| 33 | Chile | 3,588,417 | 1% | 2.55% |
| 37 | New Zealand | 2,799,272 | 0% | 3.85% |
| 45 | Peru | 1,887,332 | 0% | 8.85% |
| 84 | Papua New Guinea | 326,142 | 0% | 5.08% |
| 108 | Brunei Darussalam | 109,219 | 0% | 3.86% |
| | **APEC Total** | **386,793,830** | **64%** | **3.43%** |

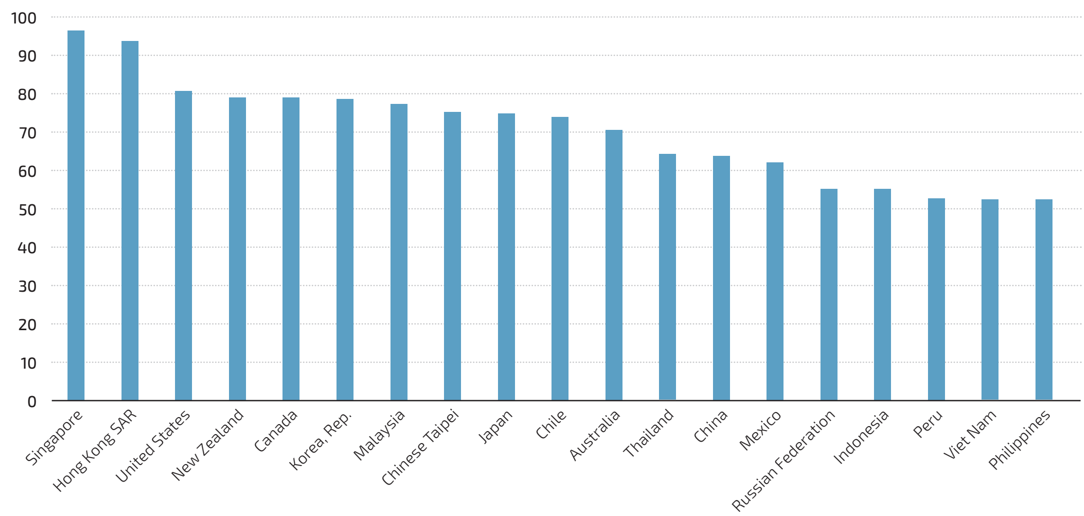
*Source: UNCTAD Statistics Database* [1]

[1] "UNCTAD Statistics Database." Container Port Throughput, 2008-2012. Accessed October 19, 2014. http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=1332

# A mixed bag of current port investment levels

A wide variance exists in the quality of port services throughout APEC. Overall, Hong Kong and Singapore were rated as the best economies for port infrastructure by the World Economic Forum, whereas the Philippines, Viet Nam, Peru, and Indonesia are lagging behind the rest.[2] The ranking for Viet Nam and the Philippines is especially concerning given the high volume of growth that both economies have in container volume.

*Quality of Ports in APEC*




*Source: WEF GCR[2]*

Part of this gap can be explained by the economy's stage of development. Economies that are still developing may not have completely established their port infrastructure. For example, only over the last twenty years has China seen a significant need to grow ports. As outsourced manufacturing continues to move to China, the economy saw a need to invest in infrastructure to facilitate trade. As less developed economies continue to attract manufacturing or consumption continues to rise, the need to develop additional port infrastructure is necessary.

[2] World Economic Forum, 2014-2015 Global Competitiveness Report

## Geography, a Factor that Can't Be Changed

There is also a geographic difference between economies in APEC and the need for ports. These differences are primarily predicated on geography. Nations such as New Zealand and Chinese Taipei are island nations where ports are essential for cross border trade. Other nations such as China and the United states have significantly larger land masses and require several different ports. It is increasingly more important for economies to allow private investment to help develop and run container terminals. Allowing private and foreign investment will also drive competition between regional ports. For example, both the Port of Los Angeles and Seattle compete for business moving inland to Chicago. Allowing open markets to determine the amount of investment will serve the economy well and help supply match demand.

## Time and Cost: The Heart of the Problem

Large voids still exist in APEC on the lead times required to import and export goods within the region. The chart to the right shows the number of days it takes to export goods throughout the region. [5] The time and cost to export includes the time to clear customs and air freight in addition to maritime ports, it is still representative of issues throughout the region. The World Bank shows that within APEC it can take between one and three days to export goods depending on the economy. While some of the time is due to customs clearance issues not directly caused by port services companies, ultimately the customs process does have a significant effect on the efficiency of container port services. There are also substantial differences in the cost to export goods in APEC across economies. The differences are striking and exemplify why economies such as Hong Kong continue to be used as hubs because of their speed, efficiency, and low cost of doing business. Lower costs and faster times create an environment for the retail and manufacturing sectors to thrive. Economies that are able to continue to drive down time and costs will remain as the centers for global trade.

*Export Time And Cost / Port or Airport Supply Chain*

| Economy | Distance (km) | Lead Time (days) | Cost (US$) |
|---|---|---|---|
| Australia | 41 km | 2 days | $1,033 |
| Canada | 65 km | 1 day | $542 |
| Chile | 227 km | 1 day | $931 |
| China | 198 km | 2 days | $494 |
| China, Hong Kong SAR | 36 km | 1 day | $194 |
| Chinese Taipei | 300 km | 1 day | $500 |
| Indonesia | 133 km | 3 days | $579 |
| Japan | 25 km | 2 days | $500 |
| Korea, Repblic of | 300 km | 1 day | $500 |
| Malaysia | 512 km | 1 day | $3,000 |
| Mexico | 714 km | 2 days | $1,348 |
| Peru | 237 km | 3 days | $500 |
| Philippines | 36 km | 2 days | $572 |
| Russian Federation | 286 km | 2 days | $1,225 |
| Singapore | 30 km | 2 days | $323 |
| Thailand | 25 km | 1 day | $250 |
| United States | 177 km | 2 days | $921 |
| Viet Nam | 36 km | 1 day | $237 |

*Source: World Bank, Connecting to Compete(2014)* [3]

[3] Arvis, Jean François, Daniel Saslavsky, Lauri Ojala, Ben Shepherd, Christina Busch, and Anasuya Raj.Connecting to Compete 2014 Trade Logistics in the Global Economy. Report. Accessed October 3, 2014. http://lpi.worldbank.org/.

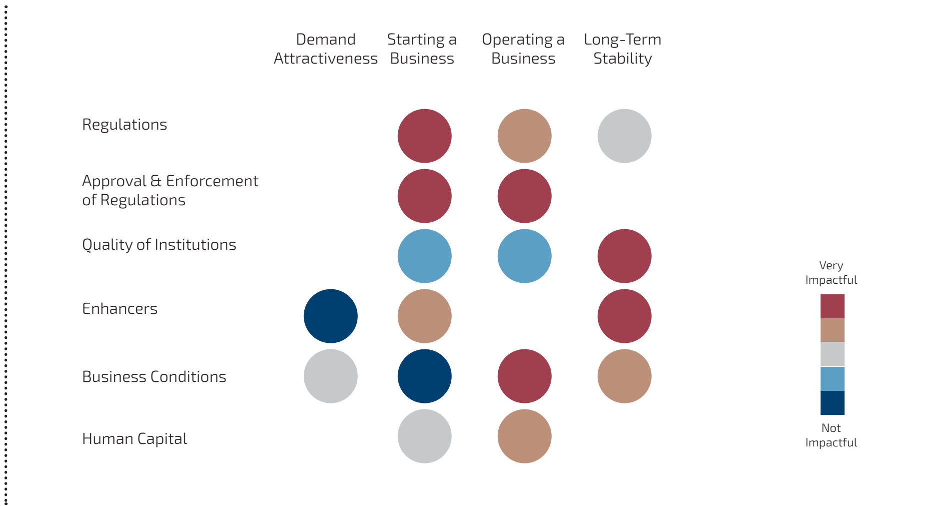
## Port Investors are Partners

Governments must plan in advance for new port infrastructure because of the significant time required to invest in new ports. Yet, connecting transportation modes of the supply chain can change at a quicker pace. Because ports are changing slower, many of the benefits and efficiencies in other parts of the supply chain cannot be fully realized. For example, the industry has moved towards larger container ships. Governments need to ensure the ability for ports to handle vessels with over 18,000+ containers. These larger vessels drive efficiency in the entire supply chain only if the ports used by these massive ships are able to handle the size.[6] The current largest container ships cannot even dock at many ports because of their large size. Even the few ports capable of handling the large ships do not have cranes large enough to fully load the ships. As a result, the lower costs that the ships provide are not able to be fully realized. In order to help ports meet the demand for docking large vessels and other changes in connecting supply chains, governments have moved to public private partnership models that allow investment costs to be shared.

[4] Hakim, Danny. "Aboard a Cargo Colossus." The New York Times. October 04, 2014. Accessed October 17, 2014. http://www.nytimes.com/2014/10/05/business/international/aboard-a-cargo-colossus-maersks-new-container-

# Where Factors Are Inhibiting Ports Investment In APEC

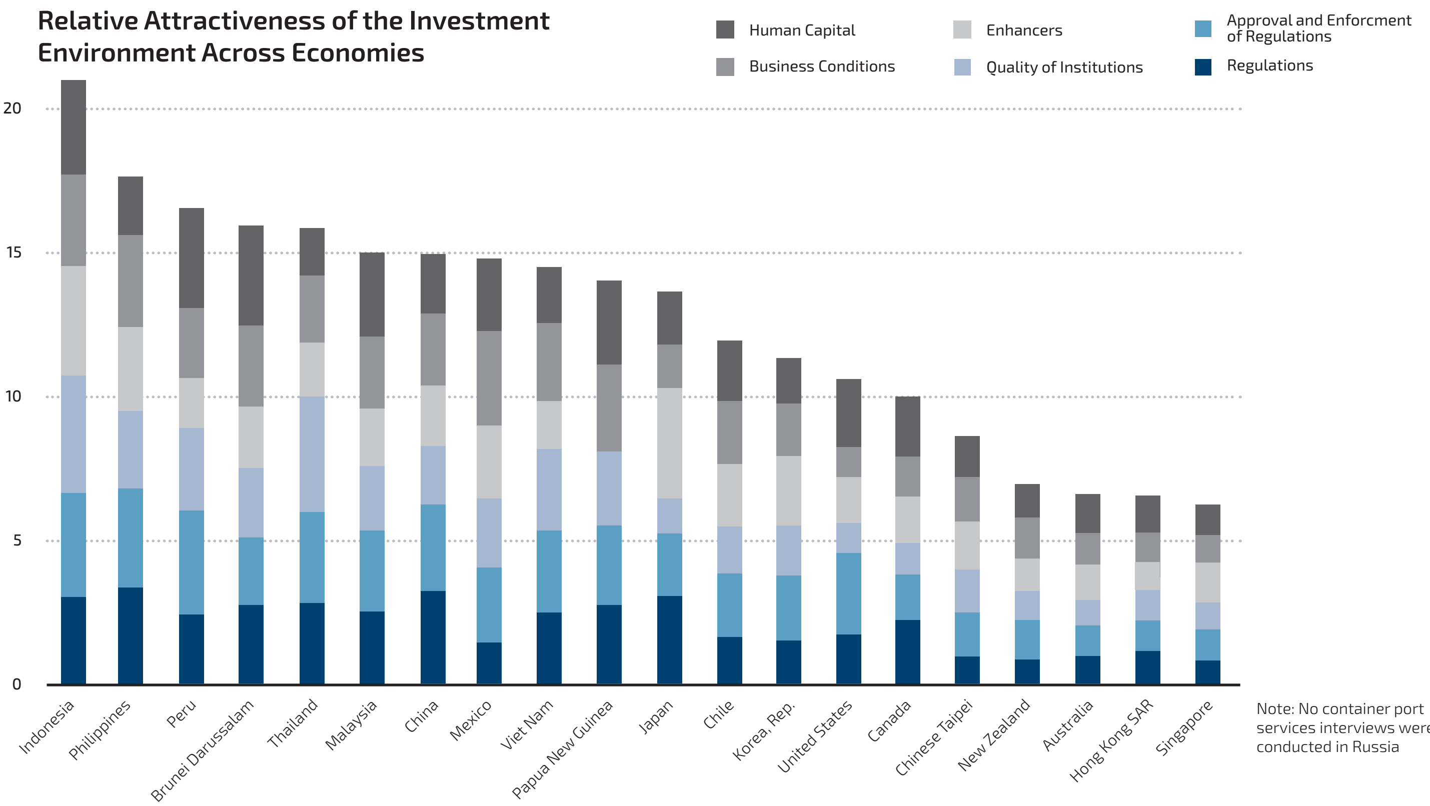
*Location and Relative Importance of Critical FDI Factors Within Container Ports*




The chart above shows where APEC rates as a region for different areas in port investment. Overall the demand attractiveness in APEC is very good. This is supported by the growth in container volumes throughout the region. However, as noted by the number of red circles, there are many areas for improvement throughout APEC to make investing in port services easier.

## Long-Term Stability and Starting a Business Matter Most

Port investors care primarily about two categories. The time it takes to invest in a new container port and the long-term stability of an economy. One executive noted that typical approval and construction process takes at least five years in even some of the most efficient economies. Further delays that hinder investment can cause companies to walk away. Additionally, because ports have a long-term view of investing the stability of an economy becomes very important. Ports drive returns over twenty year time horizons. Any potential risk of long-term economic or political instability will cause investors to look for opportunities elsewhere.




Note: No container port services interviews were conducted in Russia

## The Good, The Bad, and The Ugly

The above chart illustrates the relative attractiveness of the investment environment of each APEC economy. The larger the bar, the more impact there is in attracting foreign investmnet. Based on these results, some broad conclusions can be drawn. As stated above, the demand for container ports vary across APEC. While the quality of institutions rates very well across APEC, it is one of the major reasons for the differences between economies.

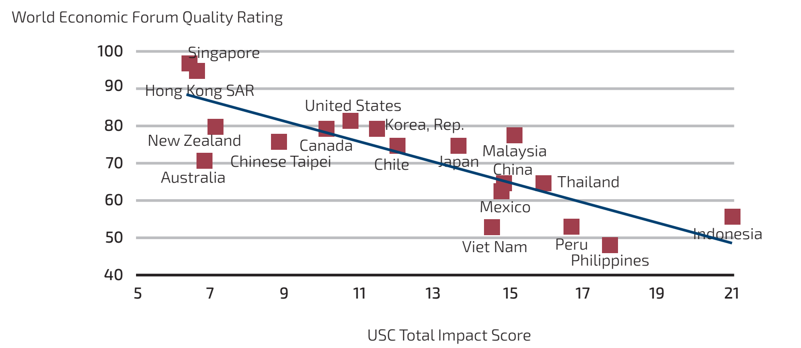
## Policy Makers are Actively Making Investment Difficult

The poorest rated categories across economies are restrictive regulations and problematic approval and enforcement of regulation processes. Arguable, policy makers have the most control over these factors and are actively creating regulations that make processes more difficult. Policy makers can also easily improve these factors and eliminate the barriers to investment. There are issues that are not as easy to change, such as human capital. While this is not the worst rated factor, it has the lowest variance and is consistently rated as a difficult category to work with in APEC. Human capital issues are not surprising because unions in the industry are often very powerful.

## Leaders of the Pack

The chart to the right shows the relationship between the openness to FDI investment on the horizontal axis and the WEF quality of ports ratings on the vertical axis. The horizontal axis is the total scores from the USC study on the stacked bar chart presented above. The vertical axis is the World Economic Forum scores for quantity and quality of port infrastructure as shown earlier in this section. There is a strong correlation of over 0.81 for the development of port infrastructure and overall openness to investment. Hong Kong and Singapore are the most developed and are the most open to foreign investment. Equally, Indonesia and the Phillippines are most problematic for investing and have the lowest port quality rating.

*Strong Correlation Between Impact Score and Quality Rating*




*Source: WEF GCR 2014*[5]

It is important to note that Hong Kong and Singapore have consistently ranked well for port infrastructure and at various times over the past twenty years have had the largest ports in the world by container volume. Over time both economies have continued to upgrade the existing infrastructure and remained among the best in the world despite the long lived assets by attracting foreign investment. This includes upgrading cranes and berth sizes to be able to load and accommodate large ships. Private investment helps fill these gaps and keep Hong Kong and Singapore's infrastructure the best in the world.

## Most Problematic Investment Challenges in Container Port Services

The discussion below focuses specifically on the most important challenges in container port services.  A careful analysis of all container port interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the container port sector.  Twenty FDI factors were found to be important or very important across economies.  The results are presented in the table positioned at the end of the container port section.  The relative impact of each barrier or impediment in each economy is reported.  The horizontal bar chart below summarizes the impact of these factors for each APEC economy. The five most critical challenges are discussed in more detail below noting the leading and lagging APEC economies on each investment factor.

***Efficiency of Approval Process***

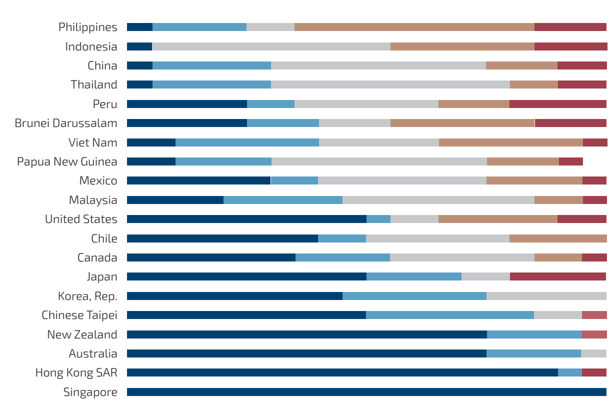
***Ability to access land and gain lease terms greater than 20 years***

***Number of Permits/Licenses Required to start a port***

***Autonomy of states and local governments to impliment their own regulations***

***Jurisdictional Overlap between Approvin Agencies***

*Summary of Impact Ratings*




[5] World Economic Forum, Global Competitiveness Report, 2014-2015.

## Access to Land

Foreign investors are faced with two critical issues. First, owning or gaining favorable lease terms for extended periods of time in excess of 20 years is critical to earning back initial investments. Second, it is difficult to access land in or near current ports. Many container ports are in urban areas that make expansion or new berths very expensive and capacity difficult to add. This significantly raises costs and time for new investments. One company was initially deterred from investing in a new port in Chinese Taipei because the initial lease term was only 20 years. After initially refusing the lease term, the company was able to negotiate a 30 year lease term to invest in the new port.

*Best: Chile, Mexico, New Zealand, Singapore*
*Lagging: Brunei, Japan, Malaysia, Thailand*

## Efficiency of Approval Process

The time it takes to invest in a new port is already significant. According to one executive the most efficient economies take one to three years. Coupled with a long construction timeline, any further delays in the approval process exacerbate this already long timeframe. One international port services company chose not to invest in a terminal in the United States because of the onerous and long approval process.

*Best: Australia, Hong Kong, Mexico, Singapore*
*Lagging: Philippines, Papua New Guinea, United States*

## Jurisdictional Overlap Between Approving Agencies

This issue is directly related to the efficiency of the approval process. Port investments often require significant government approval from many different government agencies including finance institutions, environmental agencies, and transportation authorities. With this many agencies, the chance for redundancy and repeating procedures is quite high. A streamlined process that creates a single point of contact to coordinate the entire process and reduction in the number of ministries will create advantages for economies.

*Best: Australia, Hong Kong, Singapore*
*Lagging: Mexico, Peru, Viet Nam, United States*

## Coordination and Alignment Between National and Local Agencies

Because of the national interest most economies take in port investments, the national government is often involved, however, the largest impact can often be felt in local communities where the new port investment occurs. Local governments are often concerned with the impact that new container ports will have on traffic congestion, the environment, and local communities. The local processes are often vague and have less rigorous oversight adding additional time and cost. Time must be spent planning and working with the local municipalities to receive approval to invest.

*Best: Australia, Hong Kong, Singapore, Chinese Taipei*
*Lagging:  Viet Nam, United States, Philippines, Peru, mexico, Indonesia, Chile*

## Number of permits / Licenses Required

The number of processes needs to be reduced in a number of economies. This is an issue that can be easily addressed in economies by looking at potential benchmarks and other economies' processes.

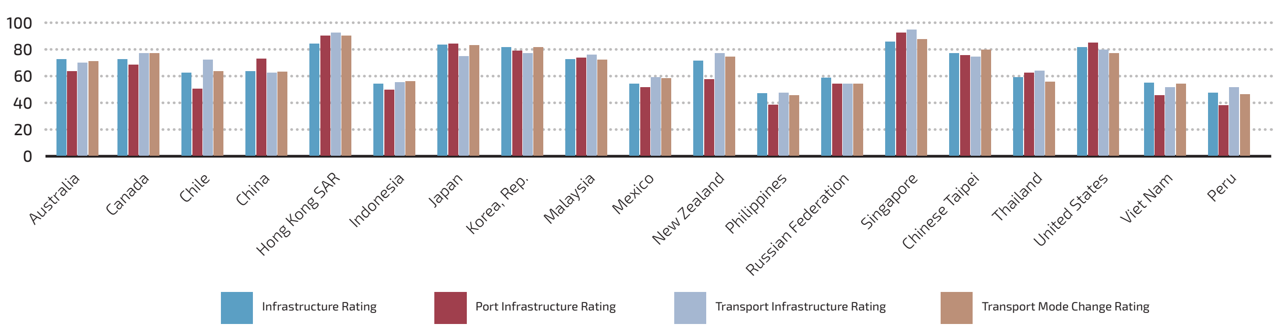
*Best: Australia,Hong Kong, Mexico, New Zealand, Singapore, Chinese Taipei*
*Lagging: Brunei, China, Indonesia*

# *Transportation Network Drives Efficiency*

## Port Efficiency is determined by total transportation infrastructure…

Efficiency in ports is not driven by technology. Overall there is very little to no difference in technology at various ports across the world. Efficiency in ports is directly related to the overall connection that ports have to the rest of the transportation infrastructure. The greater interconnectedness of different modes of transportation directly increases the efficiency of the entire system. The system is only as efficient as its least efficient mode of transportation.

**Infrastructure and Transportation Ratings for APEC Economies**




*Source: WEF GCR 2014*[5]

The efficiency of port services is connected to the transportation infrastructure as a whole. Ports can have the capacity to handle more volume but true efficiency comes in the overall infrastructure and efficiency of the entire transportation system. There are little differences in port technology and the ability to get containers moved efficiently between large population centers is crucial. As one executive stated, "Viet Nam has some beautiful new ports but there isn't an efficient transportation network to get the containers out of the ports." As a result, this executive chose to invest in China over Viet Nam. When speaking about the United States an executive noted, "the Port of LA and Long Beach have a lot of issues but the connections to road and especially rail infrastructure help increase the efficiency of all the port services there. That connectivity helps drive down total transportation costs."

The infrastructure is only part of the problem. In many economies today, infrastructure is less of a challenge; however, the quality of connecting service suppliers can be a significant issue. The quality of truckers and the standardization of equipment across economies and modes of transportation can drive down costs for port services companies. All modes of transportation should be able to handle the same weight and size of containers easily. High quality trucking partners are essential for the efficient movement of goods to and from container terminals. High quality trucking companies can actually provide cost efficiencies at container ports as well. Impacts of inefficient and informal trucking markets can wreak havoc at the stevedore terminals.

Ports can also be the problem holding back investment. Global trade is changing, especially in maritime shipping. Larger ships are being built and ports have failed to invest in new infrastructure to allow maritime shippers to take full advantage of larger ships. As a result, ships are not being loaded to full capacity and efficiency is lost. Significant investment must occur in order for ports to keep pace with the efficiency in other parts of the supply chain.

[5] World Economic Forum, Global Competitiveness Report, 2014-2015.

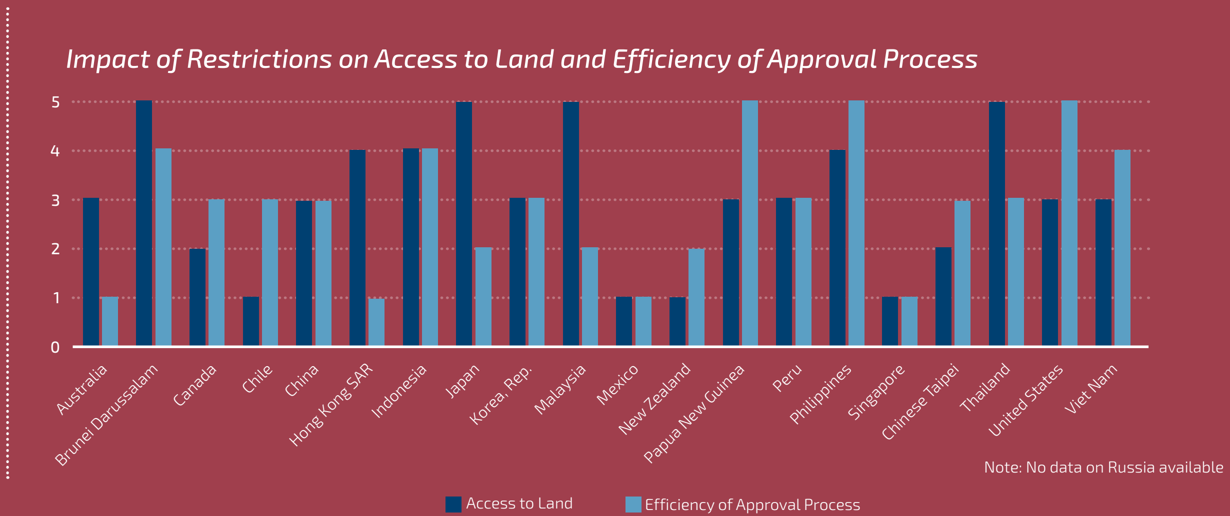
# *Ports take the long view*

## Ramification of upfront investments…

Because of the high upfront investment, it is important that the long-term political and economic stability of an economy remain stable. Port services companies look at the long-term economic stability of a nation as it relates to the product of finished or semi-finished goods and the consumption habits of a nation. The important factors to include within this are that the port services companies care about both the production and the consumption of a nation. As one executive said, "I invested in China because even if they are not the world's producer, they will then need to import all of the finished goods for their large rising middle class."

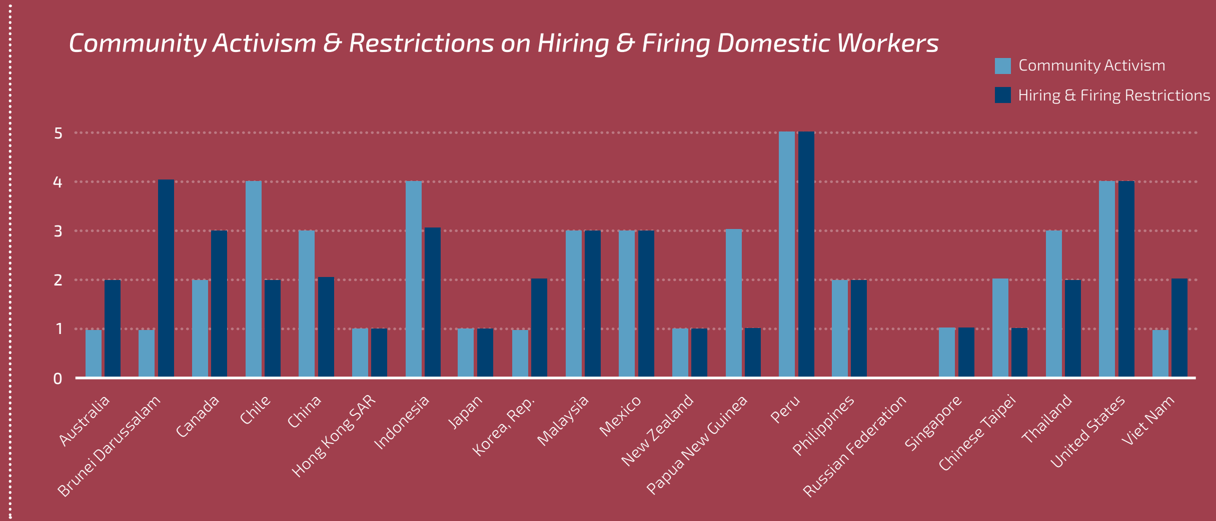
As already noted, the port approval process is often very difficult. As one executive put it, "Port approval process takes anywhere from 1-3+ years, with another 2 years of construction and the entire process taking at least 5 years." This is before any unnecessary or inefficient delays and is the best case scenario. Any delays that add on to that time period postpone revenues and the payback period on investments.

Combining the high upfront costs and the long approval timelines, container port companies have long time horizons to make back the initial investments. Access to land becomes vitally important at this point. However, this is also one of the biggest problems in APEC. Port services need to be able to get leases for 20+ years in order to have a chance at making money back on the initial investment.



## Non-government groups can add more time...

Community activism has a large impact on the ability to start up new projects in a timely manner. New port developments can cause damage to the natural environment, increase traffic, and increase pollution. The communities surrounding port developments and expansions, especially near population centers are very active in their ability to delay, add litigation, or increase total costs to the project. Strong engagement with the community and the ability to have the community input throughout the project is important to port services. "In Chile, you get approval from the government and then you are on your own to get approval from the community groups." – Latin American Port Operator Executive. After receiving approval from the necessary government officials in Chile, this executive eventually walked away from the investment because of significant protests from local communities. Without policymakers taking significant steps to include local communities in decision making processes and actively working with local communities, foreign investment will continue to be deterred.



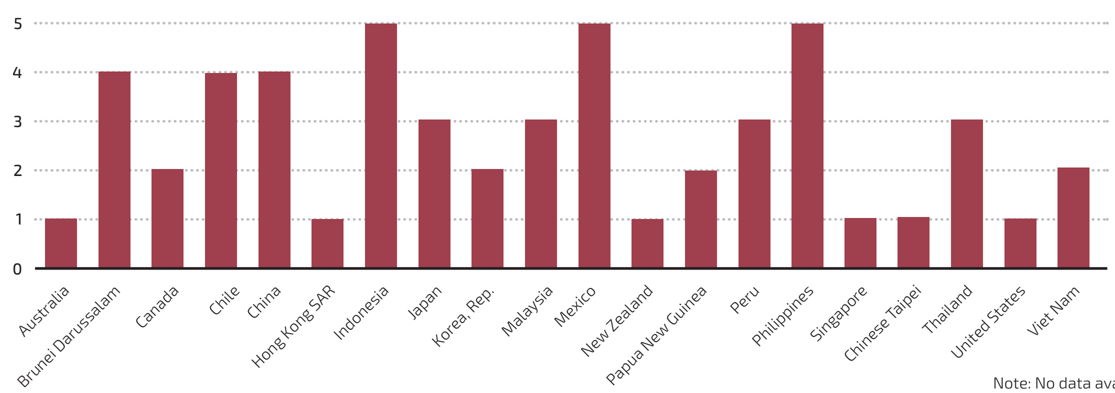

Port terminals have a long history of active unions. Negotiating contracts with the local longshoremen union is a necessity for any new container port investment. Union contracts that do not align with investment timelines can cause serious risks to profits in future years. The longshoremen have had work stoppages that halt work at ports in the United States, Chile, and other economies that caused serious disruptions to shipments all across each economy. Economies can do more to both protect the rights of workers but also help foreign or new investors with mediating disputes and helping negotiate initial contracts on new investments.

# Competition Forces

## Open and Fair Competition is Difficult in Port Services…

Both market and non-market forces impact open competition in port services. First, because of the large up front costs involved in ports, the barrier to entry into the industry is very high. Second, the market is an oligopoly and the potential for incumbents to block or overbid new entrants to existing markets is very high. The four largest industry players account for 47.2% of industry revenue.[6] There is also a prevalence in many economies for governments to participate directly in the industry. This could mean anything from state owned enterprises competing against private entities to governments controlling the bidding process for new terminal space. One Latin American port operator after having won a concession in Mexico walked away after years of legal challenges by incumbents intent on controlling the competitive environment.

*Competitiveness of Domestic Markets (Including the Presence of SOEs)*




Note: No data available for Russia

Economies need to facilitate the bidding process for new port development projects to ensure that preference does not go to incumbents. Additionally, special attention should be paid to ownership and JV requirements. Because of the high up front cost of port services, there are often few JV partners to work with when ownership requirements exist. This means that these firms will be in high demand and often end up controlling a significant amount of the port services operations within a region and new investment is stifled.

Finally, there are serious issues of nationalism with governments seeking to keep out investors from certain regions or areas. Recently the United States denied investment from Dubai Ports on the basis of national interest. As the container port industry is highly consolidated, eliminating certain companies on the basis of national interest can significantly reduce the ability of economies to increase competitiveness. As economies increase competition, prices and costs will be driven down as different ports and terminals within a port compete with each other for business.

[6] IBIS World Industry Report, "Global Marine and Container Terminal Operations." November 2013.

# Conclusions

The investment environment for port services is extremely strong in APEC. APEC's position in global trade is expected to continue to increase which will create a demand for more port container services.

APEC does have the risk of missing out on these opportunities for two primary reasons. First, in order to achieve gains in lowering transaction costs, the entire transportation system must be considered to ensure efficiencies can be fully realized. Second, the time to make a port investment is very long and the timing of new investments must be done correctly.

The table below shows the five most problematic factors within APEC. These issues center primarily around the difficulty, cost, and time it takes to make a port investment. Improving these factors will greatly increase cross border investment.

## The five worst factors in APEC...

***Efficiency of Approval Process***

***Ability to access land and gain lease terms greater than 20 years***

***Number of Permits/Licenses Required to start a port***

***Autonomy of states and local governments to impliment their own regulations***

***Jurisdictional Overlap between Approvin Agencies***

The variation between economies openness to attracting investment is large. Below are listed the most open and the most problematic economies for investing in container ports. There is a large range between these economies and the investment climate in port services.

## Most Problematic Economies

Indonesia

Philippines

Peru

Brunei Darussalam

Thailand

## Best Performers

Singapore

Hong Kong

Australia

New Zealand

Chinese Taipei

APEC has opportunities to affect positive change for the benefit of the region, increase investment, and lower transaction costs.

- The easiest change is to the increase the efficiency of gaining approval process for new port investments.
- Long term infrastructure planning is needed to meet changes in demand.
- In many developing economies the long-term political and economic stability will need to be addressed. The long-term payback and investment nature of ports exacerbates these effects.
- Investment in transportation and supply chain infrastructure will allow APEC to sustain competitive advantages in global trade.

## Recommendations for APEC

APEC is an extremely fertile port services investment ground. Indeed, additional investment will allow further integration and full realization of improvements in other parts of the supply chain.

*Time to start a new terminal must be tracked and published on an annual basis across APEC*

The issues surrounding time and complexity need to be reduced. International standards for approval need to be created in order to increase the fluidity of investment decisions. APEC and its members need to reduce the onerous approval guidelines. Standard processes across economies for the approving agencies should be looked at as well as benchmarking across APEC for the approval timeline. The timelines today can often seem opaque in exactly how long the approval process takes from start to finish for a new investment.

*Develop Public Private Partnerships to spur investment*

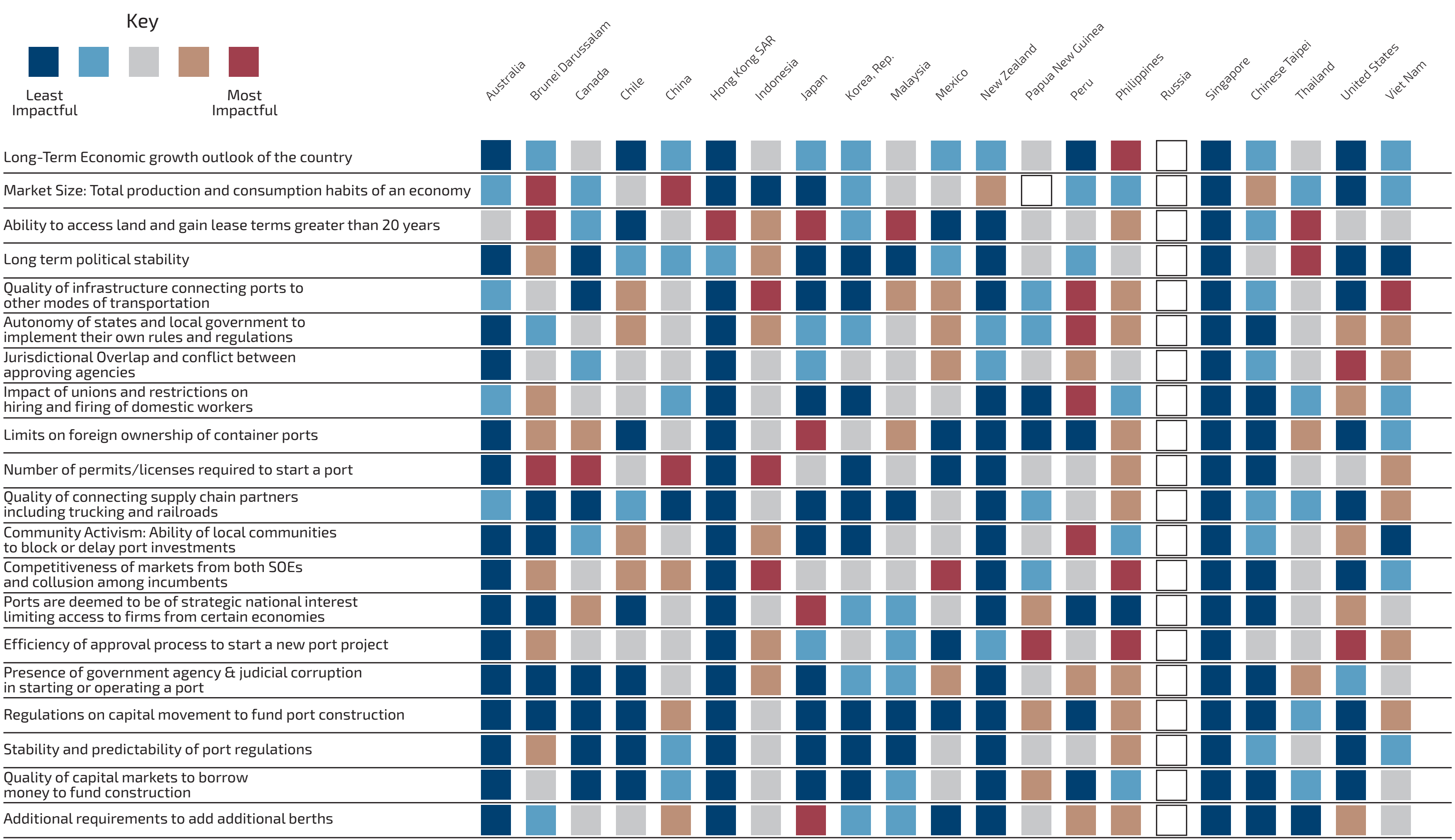
There is a significant upfront capital cost for investing in port infrastructure. Because of these long payback periods, there are often issues with ports not keeping up with changes and improvements in connecting supply chain channels. Even though Maersk and others have built 18,000 TEU ships, the port infrastructure rarely allows Maersk to drive efficiency from these large ships. The ships will improve efficiency throughout the global trade economy and help APEC achieve its goal of reducing supply chain costs by 10%. One option is to create a slush fund that will help offset some of the upfront investment costs for new cranes and larger berths. Keeping old ports in good condition is not easy and APEC can do a lot to help.

*Globalize and promote quality supply chain partners, especially the trucking industry*

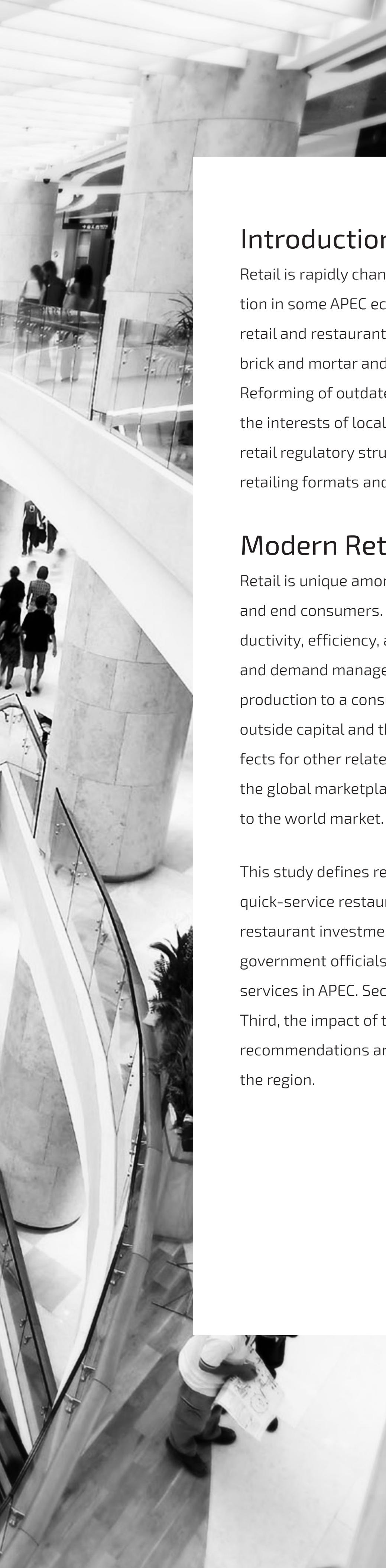
The globalization of connecting supply chain partners will be essential. Knowledgable supply chain partners that are efficient and have experience working in conjunction with major ports are needed. While informal markets and small trucking companies may help keep prices down, the number of containers needed to be moved from ports requires large efficient trucking companies. Opening up other areas of the global supply chain to further investment will increase the efficiency of port services and also increase the ROI of port companies.

# Container Port Services-specific Barriers and Impediments (Impact Ratings) Economy Comparisons

The table below visually presents the **most important** barriers and impediments in container port services across APEC economies. An analysis was made of the frequency to which different FDI challenges were raised by interviewees across economies. Twenty container port-specific challenges were identified as having important impacts on FDI decisions. The table shows how impactful each challenges is in each APEC economy.



# Retail & Restaurants



## Introduction

Retail is rapidly changing around the world, and in no place more than APEC. Given high rates of consumption in some APEC economies, and a burgeoning middle class in others, the attractiveness of investment in retail and restaurants in APEC is strong. APEC economies have the potential to dramatically expand their brick and mortar and eCommerce retail sectors. However, the industry has yet to reach its full potential. Reforming of outdated regulations, decreasing restrictive foreign ownership requirements, and aligning the interests of local and national governments will facilitate further investment. Improvements to the retail regulatory structure in developing APEC economies may allow them to leapfrog older more traditional retailing formats and move directly to newer 21st century forms of retailing.

## Modern Retail: Good for Consumers, Great for the Economy

Retail is unique among the industries studied in this report because it provides benefits to both producers and end consumers. The well documented benefits of modern retailing include increased economic productivity, efficiency, and consumer welfare through lower prices, increased variety, and improved logistics and demand management.[1] Modern retail plays an important role in the transitioning of economies from production to a consumption-based. Leapfrogging older less efficient traditional retail models will require outside capital and the knowledge brought by FDI. Retail and restaurants also have positive spillover effects for other related industries. Modern retailers improve supply chains by integrating the economy into the global marketplace. This reduces distribution costs for local businesses and can bring more local goods to the world market.

This study defines retail as hypermarkets, grocery, and consumer goods retailers. Restaurants include quick-service restaurants (QSRs) and chain restaurants. This section examines the landscape for retail and restaurant investment in APEC by drawing on in-depth interviews with leading business executives and government officials across the region. First, the study examines the current state of retail and restaurant services in APEC. Second, barriers and impediments to investment in retail are identified and analyzed. Third, the impact of those challenges is further analyzed and overarching themes are explored. Finally, recommendations are offered for improving the FDI investment environment retail and restaurants across the region.

[1] Pilat, Dirk. "Regulation and Performance in the Distribution Sector." OECD, 1997

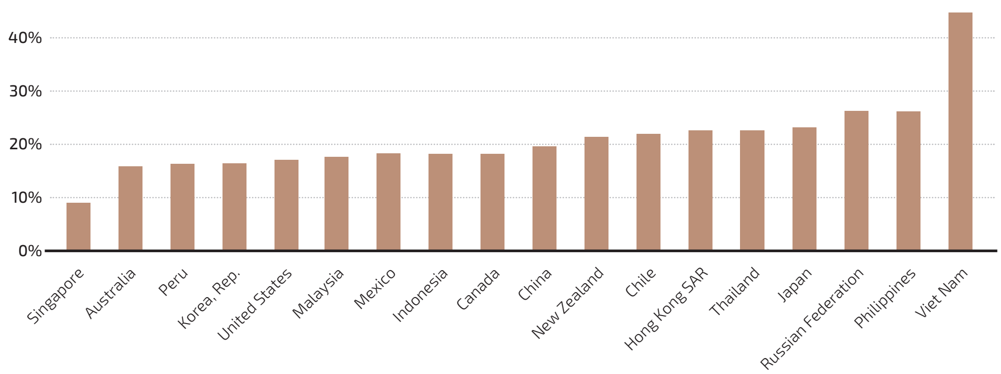
# Retail and Restaurants: More Than Just Storefronts

## APEC Consists of Two Very Different Retail Markets

Retailers throughout APEC face remarkably different challenges and concerns depending on the level of economic development in local markets. These different types of markets require different approaches to FDI. These difference manifest themselves in price levels and the sources of growth. Retail spending as a percentage of total income varies greatly across the region with economies like the Philippines and Viet Nam spending a very high portion of their income on few consumer goods.[2] However, these same economies along with China are poised to experience their highest retail growth rate in the near future.[3]

*"We are incorporating food into all of our retailing concepts. We need to attract customers and make them want to come visit and stay inside our stores. People's time and attentions are more fragmented than ever so we really need to provide them with a quality experience."*

*% of Household Spending Displaced by Retail Spending*




Retail represents a major household expense across APEC. Declines in retail prices have a huge potential to put more money in consumer's pockets and increase real wages. The increased capital builds prosperity by allowing for more investment and savings.

## Developed markets: shifting to new Omni-channel retailing

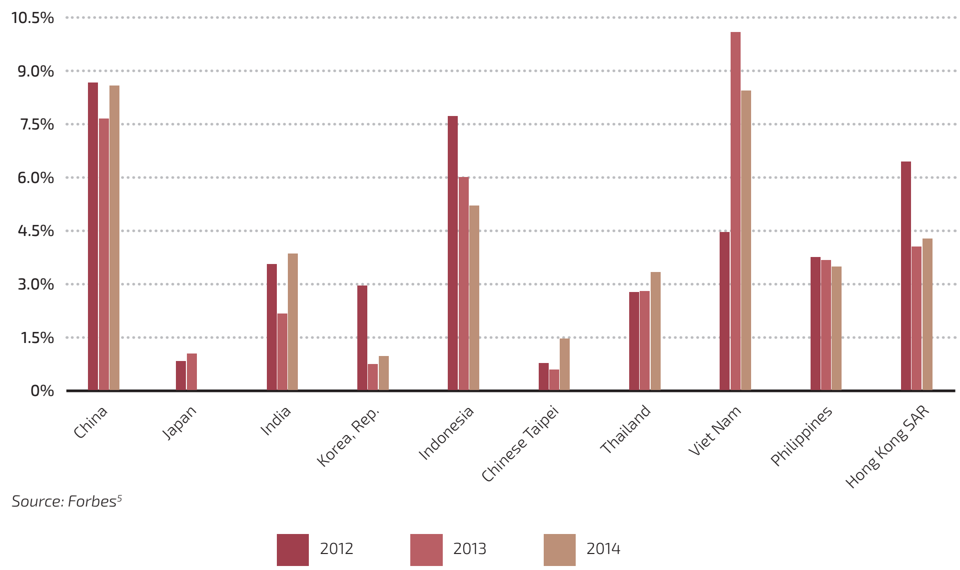
In developed economies, growth in retail will come from new business models. Consumers have more information about products and prices, which has forced retailers to drastically rethink their strategies.[4] Consumer experience is now the focal point of retailers and omni-channel retailing, an approach to sales that integrates stores with mobile and desktop applications is the largest area of growth. To capture investment in modern retailing, developed economies need high-performing ICT and telecommunications infrastructure and regulations that allow new technologies, such as mobile payments and online shopping, to flourish.

[2] "Retail Statistics." Passport Euromonitor International.
[3] Moreau, Raphael. "Year of the Horse: Outlook for Retailing in Asia Pacific in 2014 and Beyond."
[4] http://www.portal.euromonitor.com.libproxy.usc.edu/Portal/Pages/Search/SearchResultsList.aspx.

## Developing Markets: Battling Between Traditional and Modern Retailing

In developing markets, growth is coming from population growth and shifts. This is already creating social and economic conflicts between entrenched, traditional "mom and pop" stores and new, modern retailers. The displacement of small stores is at the core of the pain felt by globalization. Governments have responded to political pressure with well-meaning regulations created to protect traditional retailers from competition. Unfortunately, these actions have negative consequences that can potentially harm consumers, slow the modernization of the industry, and limit overall economic growth.

*Top 10 Largest Markets in Retailing YoY Growth %*



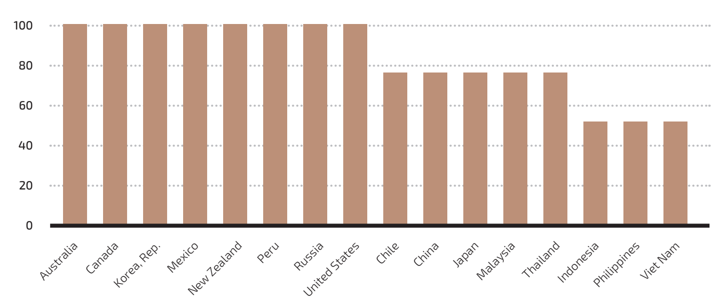

*Source: Forbes*[5]

## Restrictiveness in Retail Services in APEC

The chart to the right presents the World Bank Services Trade Restrictiveness Index for APEC economies. The index includes measures of policies restrictions such as minimum capital requirements, economic needs tests, limits on control, and even more obscure restrictions such as requirements for a five-year track record in retailing.

The data is grouped by developed and developing economies. Developed economies are more open to FDI. Developing economies tend to be more protectionist. Indonesia, Philippines, and Viet Nam are shown to be the least open. Interestingly, Mexico, Peru, and Russia are notable exceptions as they are more open than their levels of economic development would typically suggest. In contrast, Japan, a developed economy, is more closed than its level of economic development would suggest.

*Trade Restrictions Index: Retail*

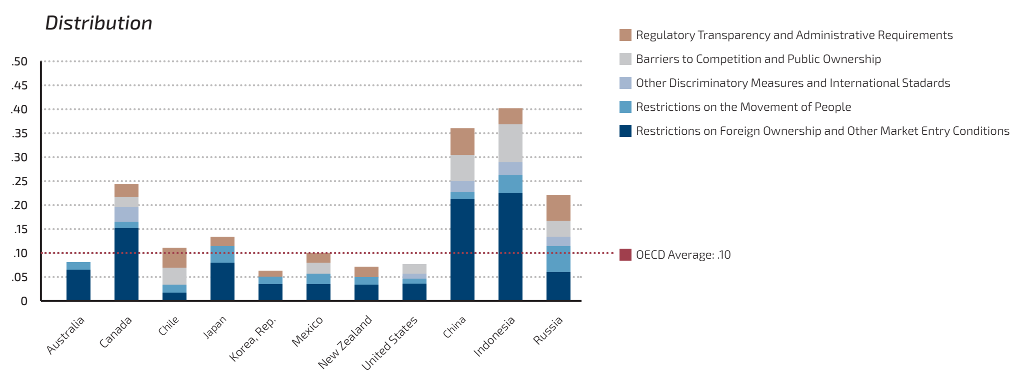



*Source: World Bank STRI* [6]

[5] "The Omni-Channel Experience: Marketing Meets Ubiquity." Forbes
[6] "World Bank Services Trade Dataset Search." Services Trade Dataset Search.

## OECD: Distribution Services Restrictions

The OECD restrictiveness index is based on the regulatory environment for foreign investment of distribution services, which is defined as wholesale and retail sales of consumer goods. The OECD data has several key takeaways for FDI in Retail, including:




*Source: OECD STRI [7]*

## Ownership Restrictions Are The Major Barrier In Distribution Services

According to the OECD, ownership restrictions are the major source of restrictions to investment. Ownership is especially important in Canada, China, and Indonesia. These restrictions are related to screening of investments, limitations on foreign board members and managers, economic needs tests for licensing, and restrictions on acquiring land.

## Barriers To Competition Create An Uneven Playing Field

Additionally, in both China and Indonesia, and to a lesser extent in Chile and Mexico, barriers to competition embodied by restrictions on hours of operations, seasonal fluctuations, and price regulations, were very restrictive. All of these countries have a strong, unregulated informal market, which magnifies the impact of these barriers to competition.

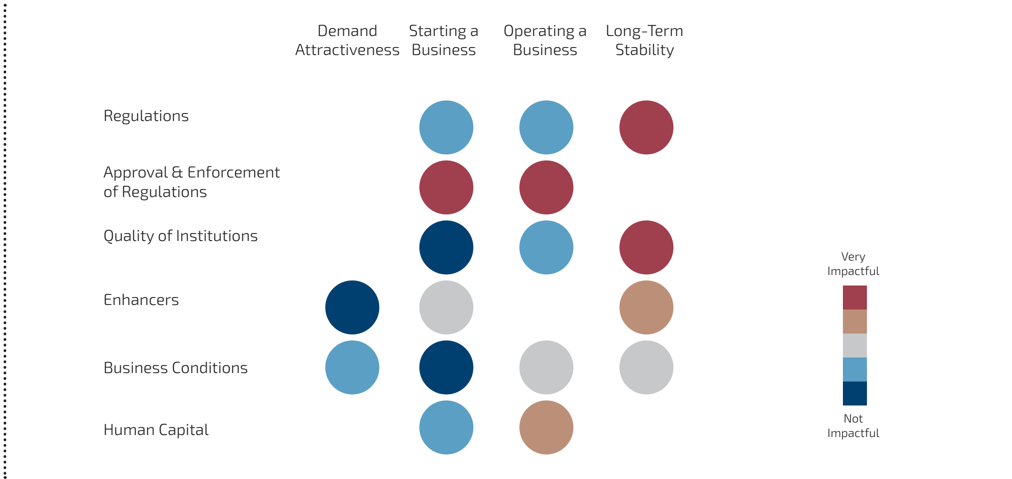
## Inefficient Regulatory Processes Are Difficult To Navigate And Reduce Investment

The next most restrictive barrier, according to the OECD, is regulatory transparency and administrative requirements. The data here shows that nontransparent regulatory processes and complex administrative systems delays reduces business investment in the sector. In practice, this occurs when a retailer attempts to expand operations within an economy. Businesses have to deal with municipalities and local governments that may have different requirements and agendas. The retailer must navigate this uncoordinated system while simultaneously managing one networked supply chain throughout the region.

[7] "Services Trade - OECD." Services Trade - OECD

# *Where Factors Are Inhibiting Retail & Restaurants Investment In APEC*

*Location and Relative Importance of Critical FDI Factors Within Retail & Restaurants*




The chart above presents impact ratings of impediment to FDI in retail and restaurants across APEC as a whole. It visually displays the location and relative importance of critical impediments to FDI in retail and restaurant. Long term stability issues and approval and enforcement problems are the most problematic issues. Long-term stability is in particular is a major area of concern for foreign firms entering a new economy. Executives interviewed in the sector frequently said that they enter a new economy with the intention of being there forever

## Long-term stability in regulations is the most important factor across all APEC economies

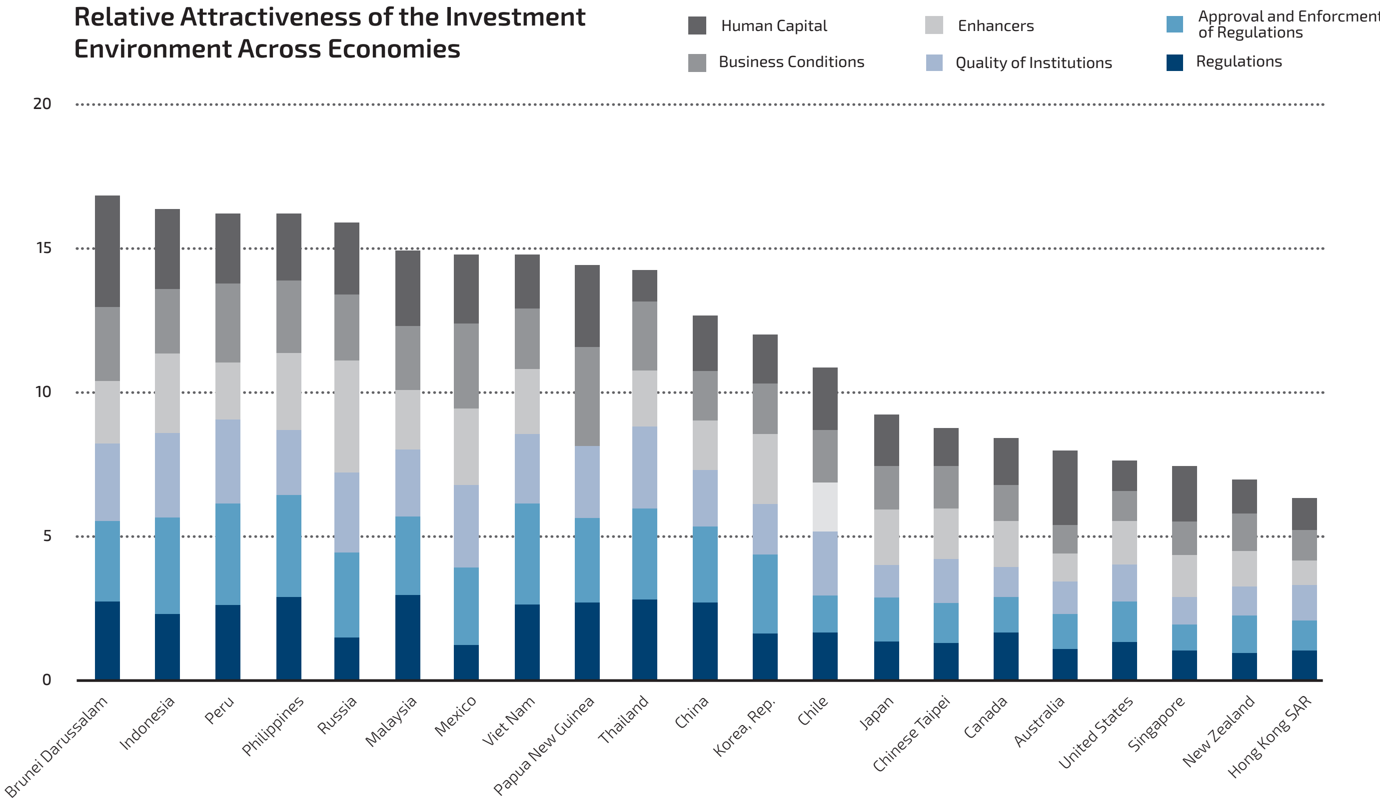
The highest rated and most impactful factor in retail is the long-term stability of regulations. When there is regulatory uncertainty, managers cannot execute long term strategies. The high fixed costs and long payback periods involved in retail combine to make investment grind to a halt if an economy's long-term stability is uncertain. The most important factors raised by business leaders include political conditions and government policy towards FDI.

*"Every year something happens. How am I supposed to make a five year plan up when I have to account for coups, floods, and street protests?"*

## The approval process for starting and operating a business can be daunting

The approval process for starting and operating a business is a source of frustration in nearly all economies. It is especially important in retail and restaurant services as these firms invest with the goal of opening more than one location. They often want to expand across the entire economy. To do that, they have to coordinate with local government institutions that sometimes have unique requirements that increase confusion and delay investment. In the Philippines, for example, local governments require arbitrary permits and impose taxes on retail chains.

Further, when there are vague regulations for starting and operating a business it leaves the approval process open to interpretation and the discretion of local officials, and creates opportunity for corruption. Executives were very concerned about corruption, especially in light of new aggressive anti-corruption laws. Some executives estimated that navigating the approval process without bribes adds years to the lead time to open a store.




# Relative Attractiveness of Retail and Restaurant Investment Environments across APEC

The above chart shows the differences in the investment quality of APEC economies. Overall, APEC rates well in attractiveness for investment, which is supported by the overall growth in the consumer middle class that supports retail and restaurant services. Approval and enforcement of regulations is the most impactful factor across APEC and is highly correlated with an economy's rating on restrictions to FDI. Quality of institutions was the next most impactful impediment and was also very strongly correlated with overall scores. Human capital was an important issue in nearly every economy, regardless of openness to FDI. The approval and enforcement of regulations and the quality of institutions were the best predictors of overall quality of the investment environment.

## Most Problematic Investment Challenges in Retail & Restaurants

The discussion below focuses specifically on the most important challenges in retail & restaurants. A careful analysis of all retail & restaurant interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the retail & restaurant sector. Twenty-two FDI factors were found to be important or very important across economies. The results are presented in the table positioned at the end of the retail & restaurant section. The relative impact of each barrier or impediment in each economy is reported. The horizontal bar chart below summarizes the impact of these factors for each APEC economy. The ten most critical challenges are discussed in more detail below noting the leading and lagging APEC economies on each investment factor.

***Long-term economic growth outlook for the country***

***Market Size: Consumer behavior in the economy***

***Efficiency of approval process: impartiality, timeliness, corruption***

***Land ownership or security of stable long-term leases***

***Ability to expand and scale retail and restaurant operations***

***Ability to find competent, well capitalized, domestic companies for partnership, joint venture, or acquisition***

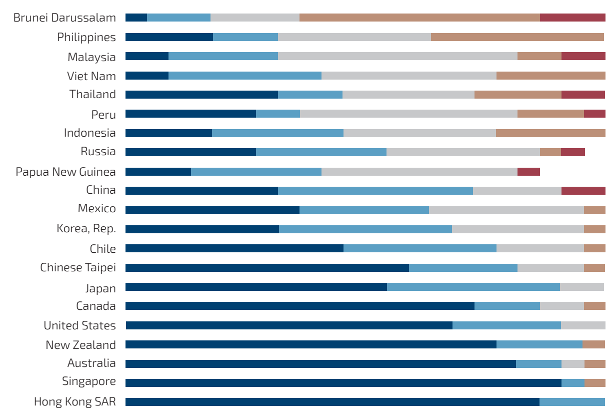
***Limits on foreign ownership and control: Requirements for joint ventures***

***Quality of supply chain partners: transportation, logistics, and refrigeration infrastructure***

***Global standards for food safety***

***Competitiveness of domestic market: impact of the informal market***

*Summary of Impact Ratings*




## Efficiency of Approval Process

There are two main issues embedded in the efficiency of the approval process. First, retail and restaurant firms often seek to open multiple locations. Expansion activities multiples any unique requirements imposed by local governments both time consuming and costly. Second, when the process is not transparent or consistently enforced, it creates a system ripe for corruption.

*Best: Hong Kong, Singapore*

*Lagging: Indonesia, Thailand, Mexico, Viet Nam*

## Access to land and lease

The success of a retail and restaurant operation is dependent upon finding appropriate locations. Firms must be able to sign a long-term lease and have confidence that contracts will be upheld.

*Best: Japan, New Zealand, Singapore, United States*

*Lagging: Brunei Darussalam, Thailand, Malaysia*

## Ability to expand and scale operations

As noted, most modern retailers and restaurant firms are not seeking single location investment opportunities. Typically they want to expand quickly to major centers of commerce within economies. The ability to expand and scale operations refers not only to the regulatory requirements and the approval process, but also to the quality of supply chain partners that are capable of providing necessary services. Without well-funded competent partners for all aspects of their businesses, foreign retailers are limited their potential to invest and grow.

*Best: Australia, Canada, Hong Kong, Singapore*
*Lagging: Brunei Darussalam, Philippines, Viet Nam*

## Global standards for food safety

For a grocery store, hypermarket, or restaurant, food safety standards are cited as being critical to the success of the business. A global firm must uphold its reputation across all of its locations. In developing economies, it is often international firms that drive improvements in food safety all across the supply chain.

*Best economies: Australia, New Zealand, United States*
*Worst economies: China, Malaysia, Viet Nam*

## Ability to find competent, well capitalized, domestic companies for partnership, JV, or acquisition

Foreign companies want typically want domestic partners even when there are no requirements mandating joint ventures. The local partners are instrumental in navigating the approval process and in adapting the business model to local tastes and cultures. This applies whether it is a restaurant, an apparel retailer, or a hypermarket.

*Best: Canada, Singapore, United States*
*Worst: Brunei Darussalam, Russia, Viet Nam*

# *On the Front Lines: Executive Insights in Retail and Restaurant Services*

## Market Demand: The Driving Force Of Growth

Within market demand there are a number of sub-factors. It is not enough to determine that in a certain economy there is enough GDP to support the retail outlet. GDP and market size are not the only significant factor.  As a prominent retail executive said, "Of course the size of the market is important but we are also looking at the availability of real estate and the quality of department stores." This sentiment was echoed by another executive who said, "We are completely aligned with the growth in shopping malls, not just in the capital city, but across the entire country. As they expand, we expand." Access to land and the development of retail in the region impact investment decisions. Even if the region were to have ideal demographics and socio-economic factors, a luxury retailer would not want to enter the economy if shopping malls were not of equal caliber.

To further support this idea, executives explained that retailers do not enter an economy to have just one flagship location. A wholly-owned flagship location is usually followed by an expansion through franchises across the country. This is especially true for apparel retailers who begin with a proof of concept on the main shopping street in the capital. An apparel retailer in an emerging market said, "Right now our focus is moving away from the capital and towards smaller cities of around 1-2 million people." It is in the smaller urban areas that retail is growing.

Another major determinant of market attractiveness is brand fit, particularly for apparel and luxury goods retailers. An apparel retailer told us, "We look for behaviors of the local population that mirror our core home consumer. We are also looking for a built-in base of brand awareness that we monitor through e-commerce and online engagement." If retailers do not believe the local population will gravitate towards their brand, it is hard to justify any level of foreign investment.

## The Approval Process is About More than Just Market Entry

A key challenge for retailers is dealing with local municipalities in multiple locations.  Where local municipalities are independent and have autonomy in regulating retail establishments within their jurisdiction, this can be an almost untenable challenge.  Additionally, the frequent turnover of local government officials adds to the uncertainty and instability that foreign firm must contend with.

A MNC retailer noted, "A regulation that is difficult to comply with is difficult. I can deal with the issue and incorporate it into my business plan if it's consistently enforced. However it is trying to hit a moving target that is held up by multiple authorities that is impossible to deal with."

> *"A regulation that is difficult to comply with is difficult. But I can deal with the issue and incorporate it into my business plan if it's consistently enforced. However it is trying to hit a moving target that is held up by multiple authorities is impossible to deal with."*

A Latin American retailer noted "Multiple locations means multiple headaches.  Every location gives a local government official a new opportunity leverage their power against us."

When the approval process is vague and open to interpretation it can create an opportunity for corruption. One executive said, "Before we were able to get the required business permits in China, domestic firms had already received permits, built their stores and have begun selling goods." The firm lost out on ideal locations and first-mover advantages.  Foreign firms often biased enforcement and corruption when entering economies with non-transparent approval processes.  In a very real way, uncertainty in the approval process at the municipal level is the real source of political instability.

## Land, Lease, Location

The retail and restaurant business is all about location. However, signing a lease and owning land as a foreign company can be complicated. Many economies have land ownership restrictions and many limit or make leases less competitively priced. This can only be mitigated through strategic partnerships. One executive spoke of the "marriage" that they had with shopping mall owners. They built a relationship and "anytime they build a new shopping mall location, that means we get to open a new store and we hesitate to go into business with others." Sometimes, however, it is not about regulations or ownership restrictions, but availability. One executive said, "In Asia nobody walks on the sunny side of the street. So I have to have all of my retail locations on the side of the street that gets afternoon shade."

*"In Asia nobody walks on the sunny side of the street. So I have to have all of my retail locations on the side of the street that gets afternoon shade."*

## Ability to Expand and Scale Operations is Essential for Long-Term Investments

Retailers and restaurant operators do not enter an economy to establish one location. There are a number of factors that make expansion difficult. First, in countries that have many strong local governments and municipalities, the permitting process can be very difficult. In attempting to execute a business plan, executives do not expect that the second, third, and fourth stores to be as much of a hassle as the first. However, when trying to open in different locations, municipalities must coordinate with national agencies, which can increase lead times. Second, finding the suppliers, transportation, and logistics partners that can scale across an entire country with a business can also increase lead times. As succinctly summarized by a retailer in Latin America, "Many locations means many headaches." There are so many factors that become exponentially more painful when building a business that spans across an economy. Reducing these impediments and barriers will result in an immediate boost in investment.

## The Importance of Finding a Local Partner

Finding an appropriate, trustworthy local partner is important for both operating a business and navigating regulatory requirements. An apparel executive said, "If we cannot find the right local partner in that region that has previous luxury retailing experience, a great marketing background, and the necessary capital, we do not go." This shows how important retailers consider the input, advice, and experience of locals to adapt merchandise, customer service, and the entire shopping experience to local tastes and preferences.

Not every business desires a partner, however. Another executive said, "If the business and regulatory landscape is easy to understand, we don't need a partner." Naturally a market is more attractive to a foreign firm when the rules are clear, the process transparent, and there is no need to split revenues with a local partner.

Governments set policies that encourage joint ventures because they are attempting to increase the knowledge transfer involved in FDI. However, requiring limits restricts the type of businesses that are willing to open in a given economy. Restricting the variety of businesses is what will ultimately keep knowledge and cutting-edge retail operations out of an economy.

## The Power and Discretion of Local Governments: The Case of Indonesia

The power and influence that local governments can have on retail and restaurant operations is illustrated by the story of Carrefour in Indonesia. In Jakarta, strict zoning laws required all large format retailers to be located some distance from traditional markets. Carrefour was forced to work with the local government over a period of time in a location that would support its format. In this situation, the biggest losers are consumers. The presence of a new store lowers prices by breaking up local price monopolies, and they also give consumers greater variety of choice. This improves the lives of ordinary citizens living close to the store. The subjectivity of local laws creates an uneven playing field and is only advantageous to those who can navigate through the rules, while hurting consumers.

## Importance of Restaurants and Food Retailers, Improve an Economy's Food Safety Measures

Food safety is linked with the development of the export market for food and restaurants. The World Bank calls food safety not just a public health issue, but also a market development issue.8 Improved food safety measures enhance developing economies' ability to provide restaurant services and create an immediate impact on that economy's ability to export food products. Furthermore, as developing economies become consumption economies, improved food safety measures will allow local companies to better serve their own market.

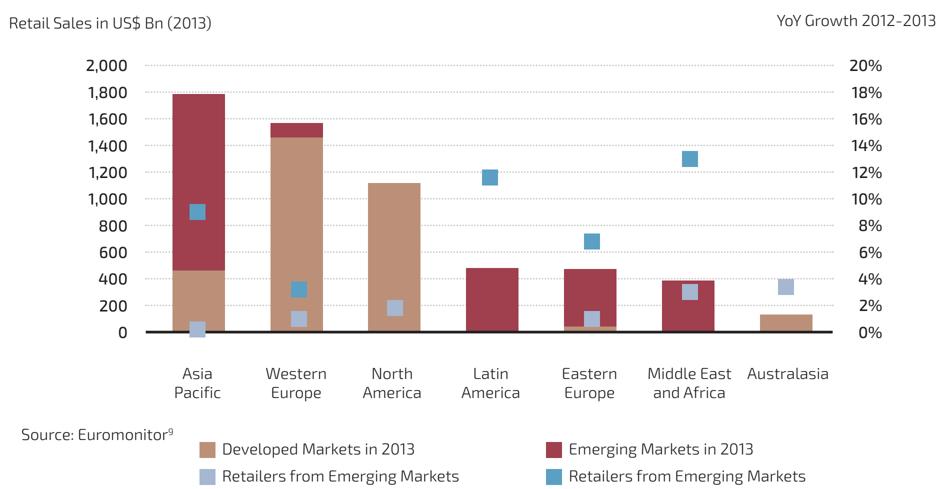
*Differences in food safety standards significantly raised cold storage costs for a Japanese retailer who expanded into the U.S. and Chinese Taipei.*

Increasing FDI in restaurants and food retailers is shown to improve infrastructure, transfer knowledge of food handling best practices, and create a supply of food that meets international safety standards. These benefits will only be realized if policy makers link FDI with the benefits of market development for local firms. They are intrinsically linked and will benefit from a global food supply chain that meets global standards.

## APEC Home to Economies With Highest Projected Retail Growth

As many APEC economies transition from producer to consumer-based economies, retail and restaurant services will continue to increase in importance. The chart below shows the Asia Pacific region has the least developed modern retailing capacity, which represents opportunities for growth and investment. Furthermore, to create the most value for both consumers and producers, this sector needs to be a strong service sector as it is the final step in the value chain before product reaches the end-user.

*Emerging vs. Developed Grocery Markets by Region*



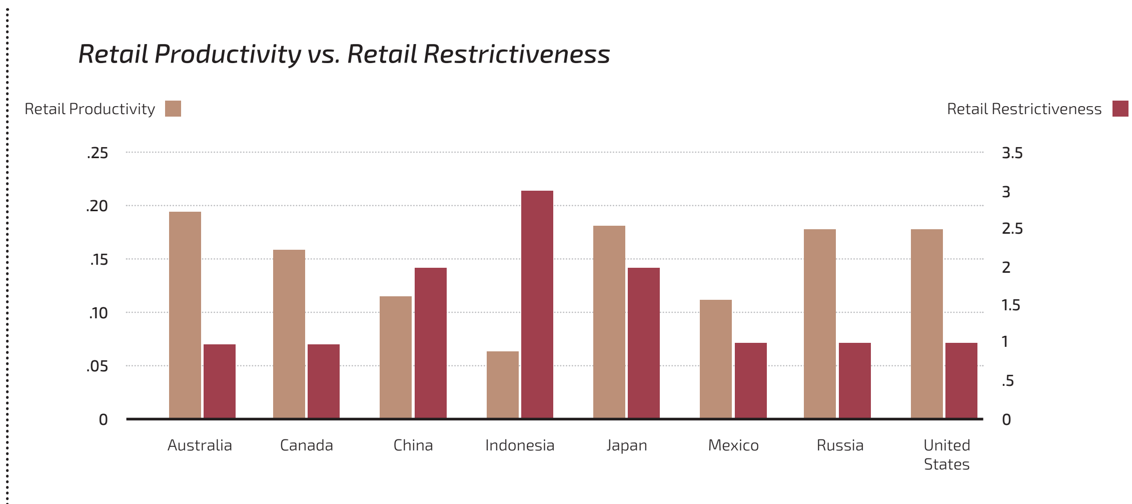

Source: Euromonitor[9]

The importance of creating a fair and open market in this service sector cannot be understated. International retailers make investments in logistics that support retail and further integrate economies into the global supply chain. Local businesses benefit from the knowledge transfer and investment and are able to enhance the quality and efficiency of their operations. Additionally, shopping malls anchored by international retailers foster new centers of commerce where domestic businesses thrive alongside multinationals and consumers receive lower prices and a wider variety of choices.

[8] Agriculture & Rural Development - Designing Effective Food Safety Interventions in Developing Countries." Agriculture & Rural Development - Designing Effective Food Safety Interventions in Developing Countries.
[9] "White Paper: The Internationalisation of Retailing." Passport Euromonitor International.

## Barriers to FDI must fall to achieve the benefits of modern retail

There is a wide gap in restrictiveness to FDI in retail across APEC. The economies that might benefit the most from new investment are those that continue to struggle with overly restrictive investment environments. This hinders business and economic growth. The graph below shows the link between the openness of an economy and the productiveness per person in the retail sector; these were the only economies where for where the data was available.  This chart shows retail productivity, measured as Retail GDP/Number of Retail Employees (from Euromonitor), plotted against restrictiveness as measured by the World Bank STRI Index.




Source: Euromonitor [10]

There is a clear correlation between productivity of workers in the retail sector with the level of restrictiveness, according to the World Bank, higher openness is directly correlated with higher productivity.

[10] "Retail Statistics." Passport Euromonitor International.

## Recommendations for APEC

***Standardize the approval process within an economy.***

Retailers and restaurants invest to serve the local economy. The most impactful step APEC could take would be to simply allow them to do so. We urge APEC to improve transparency, increase speed, and eliminate corruption in the approval process to immediately boost investment. An unclear approval process creates opportunities for graft. This increases a firm's risk, and slows investment, especially as firms look to increase the number of locations. Firms in this service sector are always looking to increase the number of locations. This means many trips through the approval process, navigating local requirements of the various municipalities. These distinct local requirements cause major problems for firms as they expand across an economy.

***Legislate for the future, not the past.***

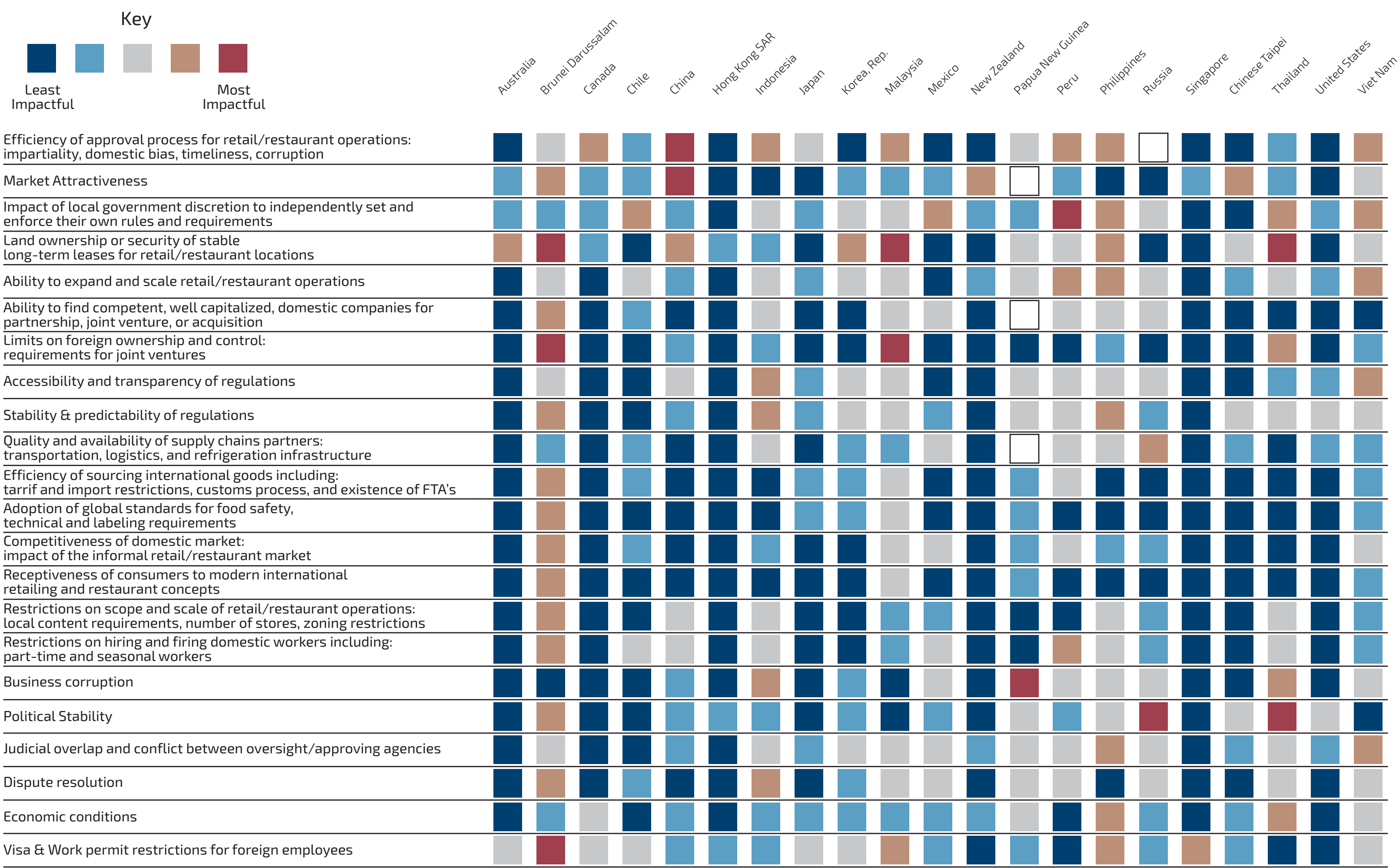
The retail and restaurant sector is rapidly changing. As a result, there is a need to legislate for the future but a tendency to legislate for the past. E-commerce will change the way that all consumers around the world shop for goods and even order from restaurants. It is a disruptive technology that benefits consumers and retailer or restaurant service providers who can adapt. It will be important to avoid creating regulations that protect firms that do not adapt to changing consumer behavior. We urge APEC to build smart policies that encourage companies to invest in supply chains and internet platforms that link economies, businesses, and consumers.

***Create and empower investment authorities to help businesses find partners, suppliers, and navigate the approval process.***

It takes time and man power to navigate the approval process, find the right local partner, develop supply chain relationships, and source the right product mix. This is an issue of asymmetrical information: firms know what they need to establish a business but not how to get it upon entering a new economy. It takes time to develop these business relationships. Because firms in this service sector look to establish many locations, it is especially difficult to find the right partners and suppliers. Creating and empowering a local investment authority to improve the time to market will encouraged increased levels of investment in the sector.

# Retail & Restaurant-specific Barriers and Impediments (Impact Ratings) Economy Comparisons

The table below visually presents the **most important** barriers and impediments in retail & restaurants services across APEC economies. An analysis was made of the frequency to which different FDI challenges were raised by interviewees across economies. Twenty-two retail & restaurants-specific challenges were identified as having important impacts on FDI decisions. The table shows how impactful each challenges is in each APEC economy.



# Telecom

# Introduction

Telecom services are one of the most crucial yet complex services in all of APEC. As backbone industries and supply chain partners their availability and efficiency impact foreign investment decisions across all sectors. In the 21st century, an economy without robust telecommunications is equivalent to a 20th century economy without roads, bridges, or ports.

Investment in telecom is crucial for future prosperity. The “Information Age” is still in its nascent stage; economies have the opportunity to develop telecom infrastructure now before falling drastically behind. The time horizon for doing so, however, is short.

Foreign direct investment in telecom manifest as foreign firms acting as potential stockholders in economies, while domestic economies act as businesses seeking investment. The foreign firm seeks an ROI while the domestic economy seek additional capital. For each agreement, the terms of the deal differ depending on the economy’s long-term vision for its telecom and economic future, policy structure, and political system. As such, investing in telecom is filled with challenges.

A society’s fear of giving control of its domestic communication network to foreign enterprise is a major issue in FDI in telecom. Economies face enormous challenges financing and developing telecom infrastructure. Yet while there are enormous costs involved, there are also real long-term social and economic benefits that come from providing connectivity to everyone home. The challenge for many economies is that there is just no risk-return profile that will attract businesses to invest without government subsidies or involvement.

To maximize the benefits of telecom investment, APEC economies are forced to adopt approaches that are tailored specifically to their economies. Each economy differs in its level of development, topography, investment structure, government policies, and quality of existing telecom infrastructure.

When governments create a comprehensive national strategy for their economies, they are creating an ecosystem to support the industries of the future. E-commerce, e-health, e-government, and other ICT services depend upon reliable, efficient infrastructure. Governments must prepare for the future by developing the foundational infrastructure today.

The focus of this section is to identify major barriers and impediments to foreign direct investment in telecom and broadband infrastructure. First, the next section discusses the quality and quantity of investment in telecom across APEC economies, specifically in fixed-line, mobile, and broadband infrastructure and services. It discusses where APEC economies rank in terms of telecom investment. Second, levels of restrictiveness to FDI in telecom across APEC economies is addressed. The subject the impact major impediments to FDI in telecom will be analyzed. Thirdly, overarching themes and their impact on telecom investment across APEC are discussed. Lastly, recommendations for the growth and development of the telecom sector are offered.

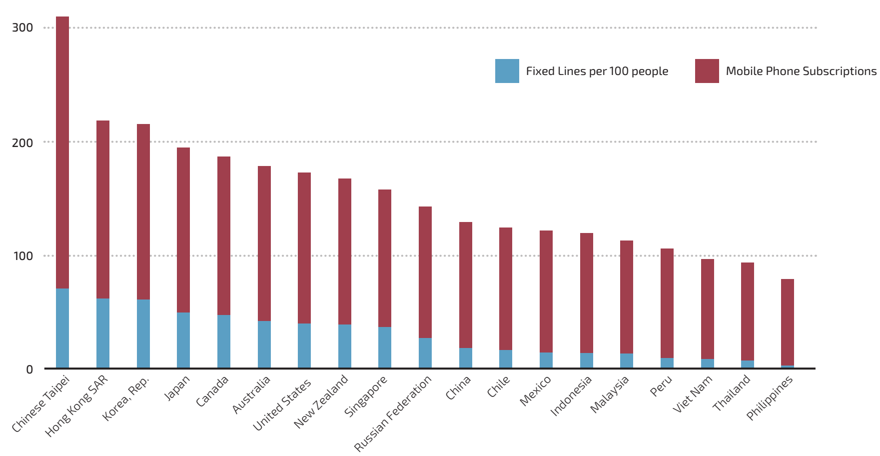
[1] Internet share includes parts of other sectors (e.g. communication).

# *Investment In Telecom: Where APEC Economies Rank*

APEC includes the most developed economies in the world. It also includes economies that are still developing. This discrepancy is reflected in the disparity in fixed, mobile, and broadband penetration.

## Fixed & Mobile Subscriptions Vary Significantly Across APEC

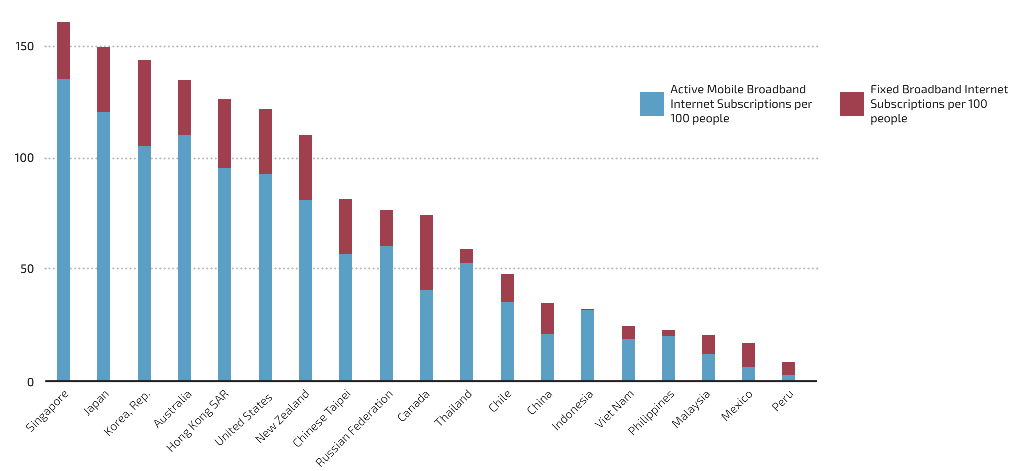
**Fixed & Mobile Subscriptions per 100 pop**




*Source: WEF Global Competitiveness Report 2013*[2]

While technologically advanced economies like Chinese Taipei and South Korea have high mobile and fixed phone line penetration, economies like Viet Nam and the Philippines are leap-frogging over fixed line directly to mobile. This highlights the opportunity for economies still developing their IT systems to leapfrog the decades of technological development that other developed economies went through to establish a modern digital ecosystem.

**Active Mobile & Fixed Broadband Subcsriptions per 100 pop**




*Source: WEF Global Competitiveness Report 2013*[2]

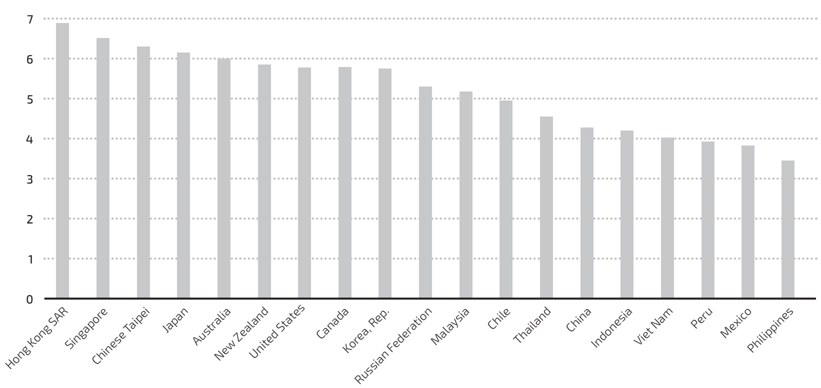
[2] The Global Competitiveness Report 2013-2014." World Economic Forum.

Broadband, fixed-line, and mobile networks are all heavily dependent on supporting infrastructure. The quality of electricity and telephony infrastructure closely mirrors broadband and mobile penetration rates.

The economies with the highest broadband subscription rates have the best electricity and telephony infrastructure. Similarly, the economies with the lowest broadband and telephone penetration have the worst electricity and telephony infrastructure, highlighting the need to invest in basic infrastructure in order to grow the telecom sector.

**Electricity and Telephony Infrastructure**

1 - 7 (best)



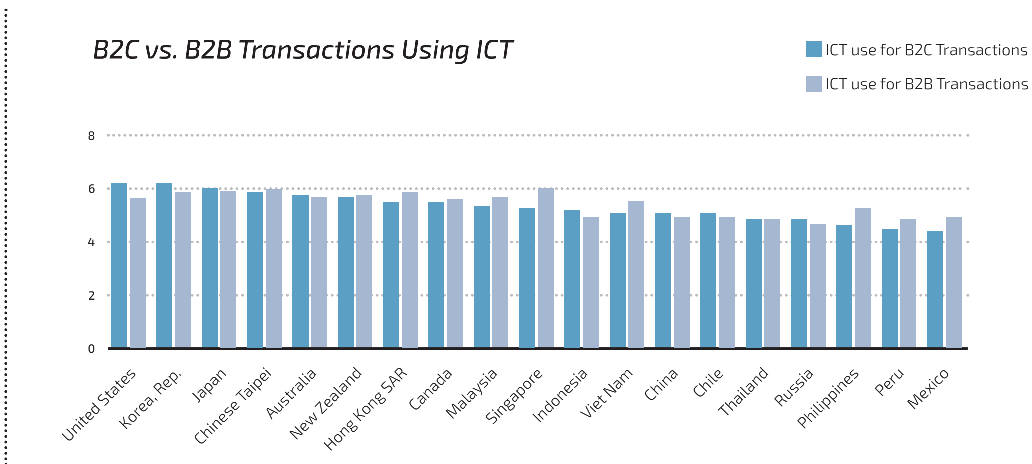

*Source: WEF Global Competitiveness Report 2013[3]*

[3] "The Global Competitiveness Report 2013-2014." World Economic Forum.

## Internet Use for Business-Consumer and Business-Business Transactions Differ Significantly Across APEC

APEC economies differ in their ICT use for B-C and B-B transactions. Given the US' rankings in broadband penetration and telephony infrastructure, the US is unexpectedly number one. However, the US ranks 7th in B-B ICT use and Japan ranks first. Some of the economies that ranked in the bottom quartile for broadband and fixed-line/mobile penetration and electricity and telephony infrastructure remain in the bottom quartile for B-C transactions. However, they jump from the bottom 25% to the bottom 40% for B-B transactions.

This could be due to an emphasis on ICTs for B-B transactions in some economies, while other economies emphasize B-C services as consumer products. It also reflects consumption trends of the general population and of business operations across APEC economies. In Malaysia for example, 80% of businesses still rely on hardcopy records instead of electronic records. Different economies are in different stages of transitioning to digital operations.




Source: WEF Global Competitiveness Report 2013[4]

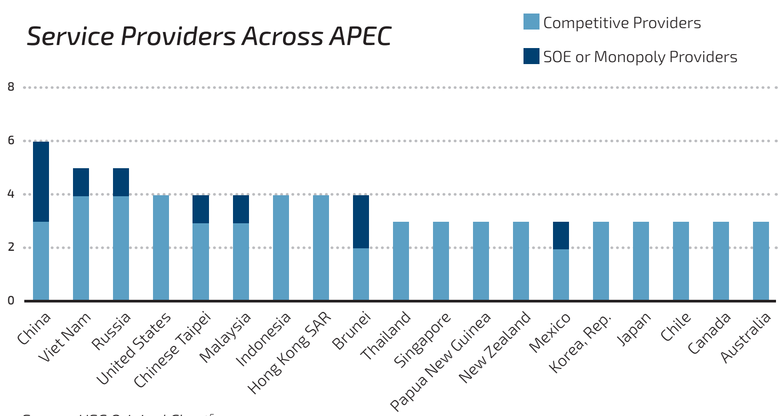
## Competition is Limited Across APEC

Across every APEC economy, there are typically no more than four primary players. Those players have the ability to influence legislation, spectrum allocation, prices for services, and infrastructural development. For the economies in which SOEs dominate the market landscape, SOEs yield far greater power and market share than other competitors.

[4] "The Global Competitiveness Report 2013-2014." World Economic Forum.

## There Are Few Service Providers and Several Across APEC Are Monopolies or SOEs

Governments often provide additional support to SOEs and incumbents over foreign companies or new domestic entrants because they view telecom as a strategic industry that requires additional protection. They also assert that telecom is a national security concern and so foreign companies operating in this sector pose a potential national security threat. As such, governments impose stringent entry regulations on foreign players. Our study finds that entry for domestic new-entrants is also daunting given the favoritism towards the incumbents. However, those impediments pose greater challenges for foreign new-entrants than domestic ones.



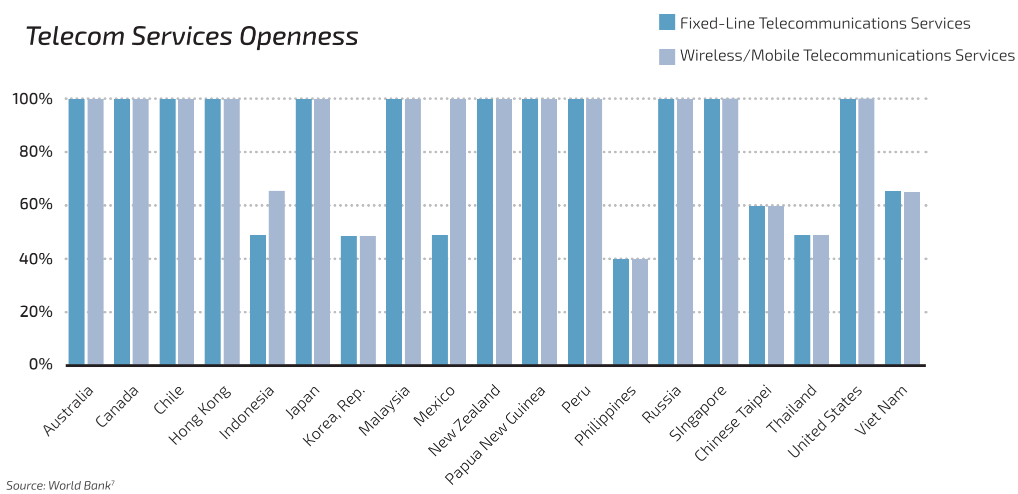

*Source: USC Original Chart*[5]

[5] Original chart created by the USC Marshall ABAC Research Team.
[6] "The Global Competitiveness Report 2013-2014." World Economic Forum.

# *Barriers And Impediments To Investments In Telecommunications*

Telecom is one of the most restrictive economic sectors in APEC, if not the most restrictive. Studies undertaken by the World Bank and the OECD have identified major market access barriers that limit foreign ownership, require joint ventures, or otherwise limit the scope of activities of foreign telecom firms. Additionally, substantial impediments have been noted in approval and enforcement of requirements and rules for starting a business, and operating a business over time.

The chart below presents the World Bank's research on the restrictiveness of APEC economies in telecom. APEC economies vary significantly in terms of telecommunications openness; from the Philippines which limits foreign ownership to 40% through to economies like Australia, Chile, Japan and others that allow 100% foreign ownership. Twelve APEC economies allow 100% foreign ownership in their telecom sectors.

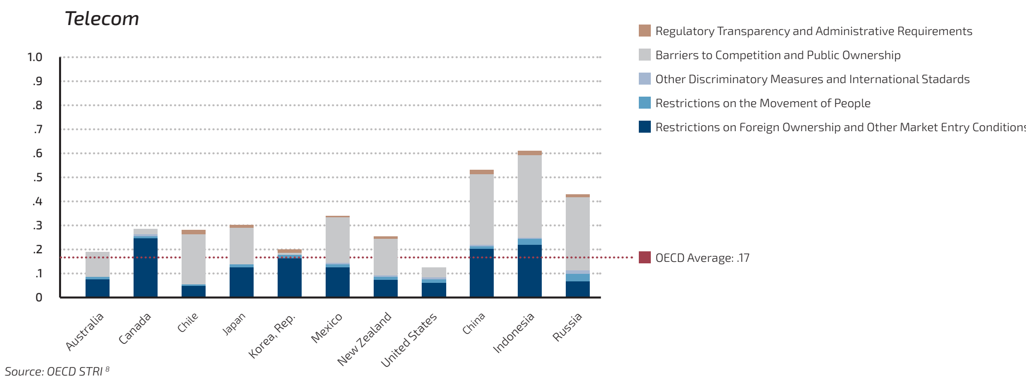



*Source: World Bank*[7]

Some economies like New Zealand and Papua New Guinea actively promote FDI in their telecom sectors and have actively reduced entry barriers. In contrast, China (not included in the World Bank report in 2014) and Indonesia imposed restrictions on foreign ownership and have in place barriers to competition.

[7]. Investing Across Borders 2010. Report. Washington: World Bank Group, 2010
[8] "Services Trade - OECD." Services Trade - OECD

The chart below presents the OECD services restrictiveness indicies for eleven APEC economies.  It highlights substantial differences between developed and developing APEC economies.  Market access restrictions and barriers to competition are the most prominent impediment to FDI.

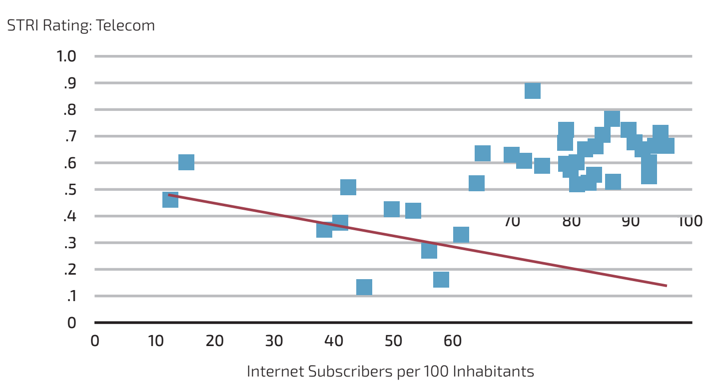



*Source: OECD STRI [8]*

The OECD notes that the capital intensive nature of telecom industry which have high upfront investments with long pay back periods, and the strategic importance of telecom industries have lead many economies to carefully manage investment in telecom.  Direct government ownership, the presence of SOEs, or highly subsidized private enterprises impose significant competitive barriers to foreign firms.  The industry intrinsically favors incumbents making it even harder for potential new entrants to see attractive investment opportunities.  The OECD chart highlights the existence of real barriers in both Indonesia and China. While Mexico has an infamously anti-competitive market, both China and Indonesia have even greater barriers to FDI.

## An Increase in Restrictiveness Results in Decreased Broadband Penetration

While restrictions on foreign ownership and levels of competitiveness do not negatively impact prices, they decrease broadband penetration across economies. OECD data indicates that a 0.1% increase in restrictiveness results in 0.5% decrease in internet subscriptions per 100 inhabitants across OECD. Unsurprisingly, the two economies that are most restrictive, China and Indonesia, have the lowest penetration rates.  The chart below shows a strong correlation services restrictiveness and internet subscriber penetration.  While causality is difficult to determine, economies that have low levels of restrictiveness have achieved higher levels of internet penetration.

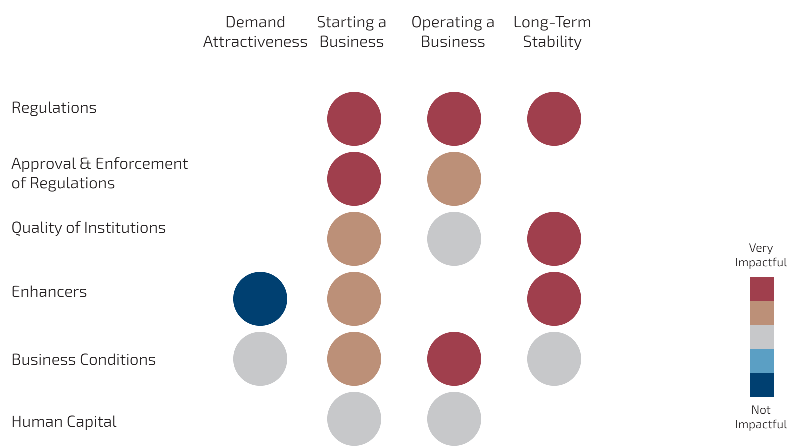



*Source: OECD STRI [9]*

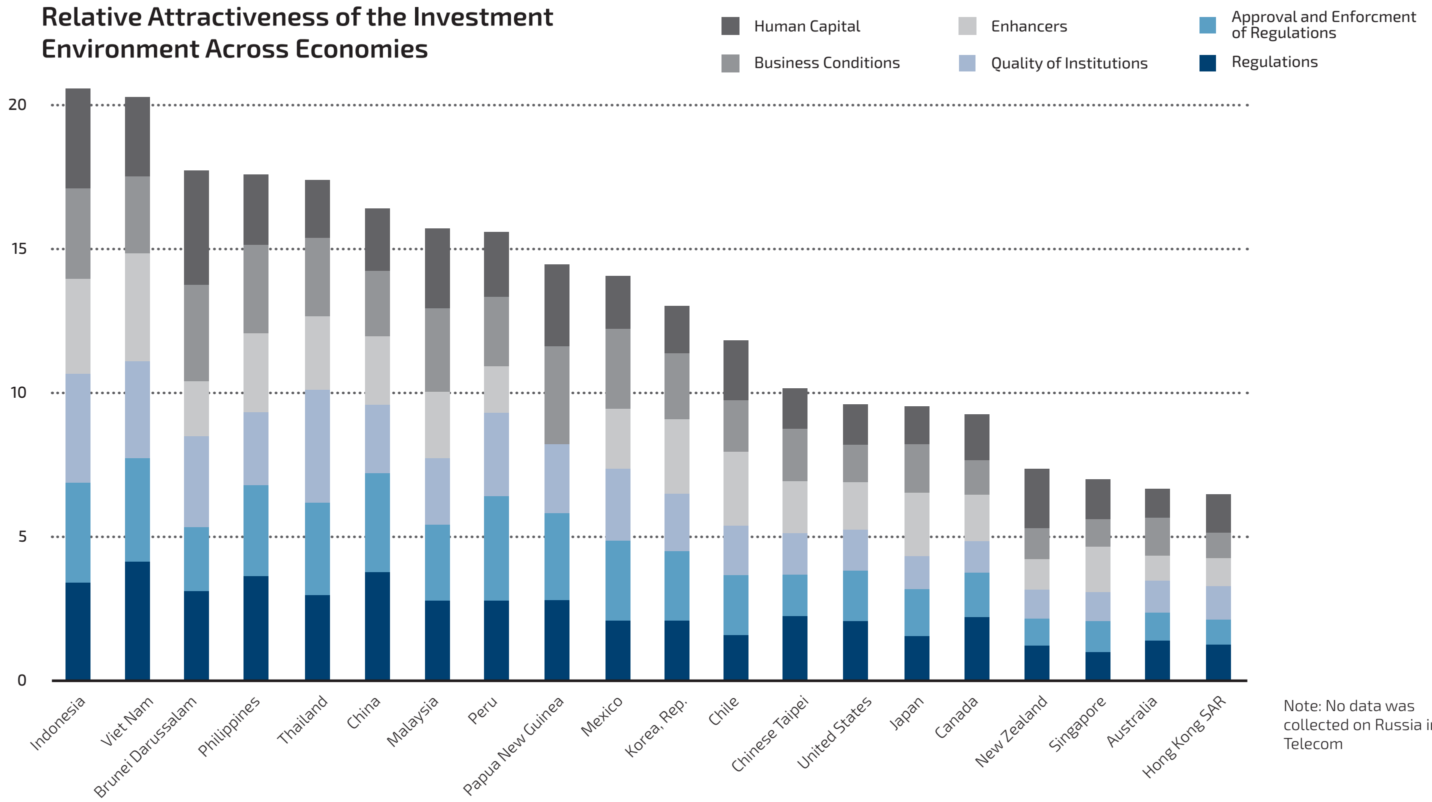
Slowing broadband penetration negatively impacts economies across APEC. A 10% increase in broadband penetration in Peru, for example, results in a 0.3% increase in overall GDP. In the more developed economies, internet business makes up 20% of GDP. Increased broadband penetration is essential for economic growth and the prosperity of economies. As such, the greater the broadband restrictiveness, the greater the impediments to prosperity.

# Where Factors Are Inhibiting Telecom Investment In APEC

*Location and Relative Importance of Critical FDI Factors Within Telecom*




The chart above visually presents location and relative importance of critical FDI impediments in telecom across all APEC economies. The data is drawn from our interviews with APEC business leaders in the telecom sector. The first conclusion to be drawn is the severity of the FDI impediments – denoted by the very impactful "red dots." Restrictive regulations to start and operate a telecom business are important, as is the impact of the approval process of establishing a foreign business. The approval and enforcement of regulations are particularly severe and reduce the attractiveness of economies that impose stringent regulations. Also of importance are factors that influence long-term stability of investments. The long time horizons needed to justify investments in telecom services force business to look very carefully at long-term political, economic and social conditions. Details of the actual factors causing these severe ratings can be found in the appendix.




Note: No data was collected on Russia in Telecom

The chart above provides an assessment to the quality of each APEC economy's investment environment for telecom. The data suggest that impact of specific impediments changes with an economy's overall level of economic development.

Quality of institutions, autonomy of local governments, adoption of global standards, intellectual property protection, were not significant impediment in developed economies but were significant in emerging economies. Similarly, the approval and enforcement of regulations factors such as consistency of implementation, were not major issues in developed economies butproved to be significant in emerging. Access to spectrum and restrictions on expansion were much more impactful in developed economies.

As a group within APEC emerging economies are most in need of investment in telecom. However, they have the highest barriers to FDI. Impediments to FDI are highest in Brunei, China, Philippines, Indonesia, and Viet Nam. All of these developing economies impose restrictive foreign ownership restrictions. The exceptions were Chile, Peru, and Papua New Guinea which have eliminated foreign market access barriers entirely. Additionally, the impact of stable and predictable regulations was critical in developing economies. This time the exceptions were for Chile, China, and Malaysia.

There were several investment challenges that are common across all economies. Human capital, including access to highly trained workers and ease of obtaining visas for foreign workers, was impactful across all economies regardless of the region or the socioeconomic standing.

Best Economies: Hong Kong, New Zealand, and Singapore have the fewest impediments to FDI in telecom. They are the only economies that do not struggle with a lack of competitiveness, foreign ownership requirements, human capital, stability of regulations, and access to spectrum.

## Most Problematic Investment Challenges in Telecommunication Services

The discussion below focuses specifically on the most important challenges in telecom services. A careful analysis of all telecom interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the telecom sector. Seventeen FDI factors were found to be important or very important across economies. The results are presented in the table positioned at the end of the telecom section. The relative impact of each barrier or impediment in each economy is reported. The horizontal bar chart below summarizes the impact of these factors for each APEC economy. The ten most critical challenges are discussed in more detail below noting the leading and lagging APEC economies on each investment factor.

***Extent of Competitiveness***

***Access to Spectrum***

***Stability and Predictability of Regulations***

***Human Capital***

***Access to Land***

***Third Party Access to the Network***

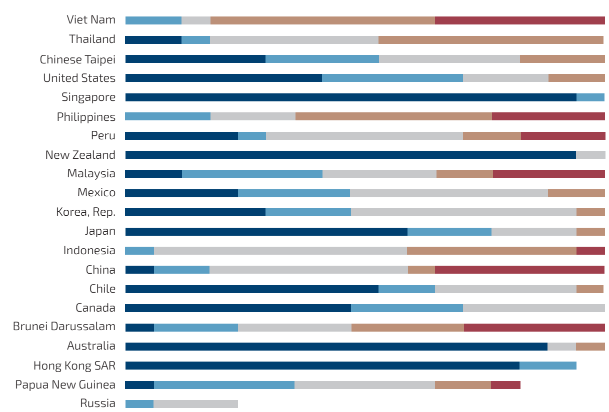
***Adoption of Global Standards***

***Access to Energy and Raw Materials to Power the Grid***

***Ability to Earn an Acceptable ROI***

***Limits on Foreign Ownership***

*Summary of Impact Ratings*




## Extent of competitiveness

The lack of competition in this sector makes FDI unattractive for most MNCs unless they JV with the domestic monopoly or SOE. Additionally, the MNC is automatically disadvantaged because government policy skews towards the incumbent.

*Best: New Zealand, Peru, Singapore*

*Lagging: Brunei, Mexico, Indonesia*

## Access to spectrum

The inability to access spectrum equates to a ban on foreign ownership. Spectrum is the tool leveraged to control potential competitors and third party players from accessing the telecommunications and broadband infrastructure and providing services across the grid. The inability to obtain spectrum prevents FDI. Difficulties in obtaining it make it a more risky investment.

*Best: New Zealand, United States*

*Lagging: Brunei, Indonesia, Mexico*

## Stability & Predictability of Regulations

Unstable and unpredictable regulations act as an at-the-border barrier that significantly reduces market attractiveness. This impediment is one of the most important exogenous factors in the decision to invest in an economy because it is the ultimate game changer that can make or break a business. Changing regulations increases risk for FDI, reduces the attractiveness of that market, and does not incentivize foreign businesses to invest in hard infrastructure because the capital costs are not worthwhile when the regulations vacillate arbitrarily.

## Human Capital

The quality and availability of human capital stands as a behind-the-border, exogenous impediment. Foreign service providers have even shifted operations from Thailand to Singapore because the quantity of quality human capital in Thailand is non-existent. For providers that still enter markets with an insufficient supply of human capital, they must invest in training their employees or move people from other economies if governments ease visa restrictions. There is also insufficient human capital in its government ministries with jurisdiction over communications, as many government officials do not understand technology and its applicability and implementation. Especially in developing countries where no blueprint exists specific to that economy for developing infrastructure, highly-trained government officials are crucial to the long-term success of telecom infrastructure.

*Best: United States, Singapore, South Korea*

## Access to land

Many MNCs have difficulty obtaining access to land through ownership or lease because of the domestic economy's regulatory policies. However, without access to land, businesses cannot build the infrastructure necessary to develop and maintain the network. As a result, they are forced to partner with domestic businesses or else abandon operations in that economy.

*Best: Japan, Chile, New Zealand*
*Lagging: Brunei, Malaysia, Philippines*

## Access to energy and raw materials to power the grid

Raw materials like fiber cables and electricity are essential to not only a functioning telecom system, but to all IT services and therefore all other economic sectors. As such, the inability to access those raw materials significantly reduces market attractiveness because it increases operational costs and reduces the stability and reliability of services that business could provide.

*Best: Hong Kong, Singapore, China*
*Lagging: Papua New Guinea, Philippines, Indonesia*

## Adoption of Global Standards

Economy-specific standards increase the costs of FDI and serve as an entry barrier to foreign providers that adhere to global protocols. In China, for example, local standards act as an anti-competitive measure as businesses must assume heavy costs and high risks to adopt local standards if they want to invest. Lack of global standards prevents them from scaling their equipment and learning from other economies. Even seemingly insignificant factors, such as standardized frequency rates, have a significant impact on the services foreign companies can provide in that specific economy.

*Best: Singapore, United States, South Korea*
*Lagging: China*

## Third Party Access to the Network

Third-party telecom and broadband service providers depend upon access to the grid to provide their services. Doing so depends upon their ability to lease spectrum from incumbent service providers or the government. Economies that allow third-party access without requiring them to develop or own infrastructure allows those third parties to differentiate on services rather than quality of infrastructure, which enhances the user experience and access to services.

*Best: Singapore, United States, South Korea*
*Lagging: Brunei, Philippines*

## Ability to Earn an Acceptable ROI

The difficulty in earning a favorable ROI due to high capital investments in infrastructure reduces the attractiveness of FDI for most foreign-service providers since they are beholden to their shareholders to earn a specific return. Existing policy also deters companies because it creates unfavorable business conditions that require businesses to invest in areas where they cannot make a return. However, many of those existing policies exist to enhance social welfare across an economy. Economies face the challenge of balancing infrastructural development with providing the necessary incentives for telecom companies to develop that infrastructure.

*Best: Singapore, Chinese Taipei, Hong Kong*
*Lagging: Peru, Papua New Guinea, Chile, Philippines*

## Limits on foreign ownership

Although some business leaders believe that 40% of something is better than 100% of nothing, many business leaders shared that restrictions on foreign ownership that require them to accept minority ownership or enter through a joint venture significantly reduce market attractiveness. They perceive the regulatory framework to be inherently structured against them, making FDI much riskier.

*Best: New Zealand, Peru, Hong Kong*
*Lagging: China, Brunei, Malaysia*

## Lack of Competition Across APEC

Service providers across APEC struggle with uncompetitive business conditions when attempting to cross-borders. In the Philippines for example, business leaders stated they need laws such as the Sherman-Anti Trust Act to increase competition and incentivize the two incumbent service providers to offer better services. However, in economies with several service providers, such as Chile, providers struggle to earn margins that justify the investment. This dilemma begs the question of how the relationship between government and telecom companies should be structured so that consumers are offered the best services and companies can earn a high enough ROI to justify continuing to invest and operate in that economy.

By increasing contestability, businesses will have to become more efficient and operate according to market forces. While a small number of players currently govern each telecom market, opening it up to competition would allow the most efficient players to offer their services to consumers and for consumers to ultimately dictate which companies remain in the arena. When the United States opened the telecom sector to foreign players in the Telecommunications Act of 1996, foreign players did not enter the market because it was already so competitive, prices were low, infrastructural costs were high and incumbents had the advantage.

Increasing competition is not easy. In sectors dominated by SOEs and/or monopolies, regulations and business conditions keep the incumbent deeply entrenched. For example, in Viet Nam where the largest providers are SOEs , price controls have been placed on foreign providers who were capturing market share from the incumbent. Even in the absence of SOEs, incumbents maintain a distinct advantage over new entrants through influencing telecommunications regulations and service-based as opposed to price-based competition, such as AT&T influencing the FCC's telecom policies in the United States.

Because of the challenges of enhancing competition in telecom services, businesses and policy makers must work in tandem to identify the competitive segments of the market. One can contend that the competition lies in services as opposed to infrastructure because infrastructure should be standardized in every economy and there are not differentiating factors aside from speed. As such, the competition lies in services. Providers like Bharti Airtel are finding unique business models for providing their services. However, they need to be able to provide services in an environment that enhances contestability in telecom services.

## Case Study: Challenges In Mexico's Telecom Ecosystem

High prices, lack of competition, and low investment stifle the development of telecommunications in Mexico. Telcel maintains a 70% market share and so has little incentive to invest in infrastructure and even fewer incentives to reduce costs for customers. As a result, Mexico has the highest prices in telecom and the lowest percent of the population subscribing to and using broadband across OECD economies.

*Source: OECD Communications Outlook (2013)[10]*

# Access to Spectrum and Foreign Ownership Requirements Prevent Foreign Providers from Entry

## Spectrum

Access to spectrum is the key factor in access to the telecom market. Spectrum bidding is used to raise capital for the network and to increase the quality and quantity of services that fit within the government's national strategic telecom plan. Spectrum is allocated either through administrative or market systems. In the administrative system, businesses apply for spectrum directly from the government and the government allocates spectrum accordingly. In the market system, businesses bid for spectrum in an open auction.

*"The bidding process is supposed to be transparent but more often you need to partner with someone who knows the right people"*

## Administrative Allocation Leaves Spectrum Allocation to Government Discretion

Our analysis of broadband and cellular spectrum indicates that spectrum allocation is depressed both due to collusion and scarcity. Economies in which telecom is tightly controlled use administrative allocation, frequently referred to as "beauty contests." The process is subject to the influence of business relationships and corruption.

*Spectrum Allocation Across APEC*

| Administrative Allocation | Market Allocation with External Influence | Market Allocation |
|---|---|---|
| Philippines | Thailand | Canada |
| China | Viet Nam | United States |
| Brunei Darussalam | Mexico | South Korea |
| Malaysia | Indonesia | Singapore |
| Russia | | Hong Kong |
| | | New Zealand |
| | | Australia |
| | | Chile |
| | | Chinese Taipei |
| | | Peru |
| | | Japan |

*Source: Original USC Chart [11]*

10 "OECD Communications Outlook 2013." OECDpublishing.
11 Original chart created by the USC Marshall ABAC Research Team.

## Market Allocation: An Imperfect Auction

Market allocation systems are favored in many economies because of their transparent, efficient process and the positive impact it has on the domestic telecom sector. However, market allocation systems also pose challenges. In Canada, the cost for obtaining spectrum is five times that in the United States.

The bidding process can also be onerous. One Chinese Taipei executive stated, "Last year, the government auction spectrum for 4G and the auction lasted for 40 days and took 393 rounds with 10 rounds per day." While spectrum can be leveraged as an anti-competitive tool under the administrative system, it can also be leveraged to protect national interests under the market system. Therefore, having a regulatory framework that establishes an efficient bidding process can provide the best telecom services to the population.

## Foreign Ownership Regulations

Many economies enforce foreign ownership restrictions against foreign-service providers in addition to limiting their access to spectrum. The restrictions on foreign providers are as follows across APEC:

*Foreign Ownership Restrictions Across APEC*

| No Ownership | Limited Ownersip | Full Ownership |
|---|---|---|
| Malaysia | China | New Zealan |
| Brunei Darussalam | Philippines | Singapore |
| | Indonesia | Papua New Guinea |
| | Canada | Australia |
| | United States | Chile |
| | Japan | Peru |
| | Mexico | Hong Kong SAR |
| | Korea, Rep. | |
| | Thailand | |
| | Chinese Taipei | |
| | Viet Nam | |
| | Russia | |

*Source: Original USC Chart[12]*

## Economies Allowing Full Foreign Ownership and Open Spectrum View FDI Favorably

Economies that allow full ownership provide regulatory frameworks that encourage FDI and, particularly in the case of New Zealand and Singapore, are signatories to FTAs. All of the economies that allow full foreign ownership also have market allocation spectrum systems. While that does not necessarily indicate a causal relationship, it suggests an overall policy environment that views FDI as a means for economic prosperity.

## Economies with No Foreign Ownership and No Access to Spectrum Do Not View FDI Favorably

The economies that ban ownership and have administrative allocation are treacherous yet incredibly blunt given the severity of FDI barriers.

## Economies with Limited Foreign Ownership and Access to Spectrum are Ambiguous Investments

The economies that allow limited ownership and have market allocation with or without external influence are investment mazes for the bold and daring. Viet Nam, for example, allows minority foreign ownership and gives foreign providers access to spectrum. Business leaders told us that all foreign providers except Hutchinson withdrew because of government protectionist policies and poor quality of JV partners.

[12] Original chart created by the USC Marshall ABAC Research Team.

## Assessing Market Attractiveness: The Case of New Zealand Versus China

In assessing an economy's attractiveness for FDI, businesses view restrictions on obtaining spectrum and foreign ownership as indicating higher risk than in economies that do not pose such barriers. China, for example, has the most attractive market size in the world and allows joint ventures, yet it enforces a regulatory regime that protects it from external competition. On the other hand, New Zealand telecom firms have been able to obtain significant investment from overseas firms despite its small population.

# *High Capital Costs Hinder Investment in infrastructure*

Investing in telecommunications infrastructure across APEC proves problematic for all APEC economies given the high investment costs. Even in the absence of a strong business case, policy makers have a powerful social case to justify investment even in areas in which a sufficient ROI cannot be recouped. Business leaders perceive many different strategies governments can adopt to enhance network development.

*"None of the telecom companies want to upgrade the infrastructure because it will hurt their shareholders. And they can't charge customers $300/month." - United States*

## Government Develops and Maintains Infrastructure

Governments can adopt the Singaporean approach by completely maintaining and operating the infrastructure while allowing service providers to operate the network.

## Public-Private Partnerships

Businesses and government have the unique opportunity to collaborate to reduce the digital divide within the economy while providing services that benefit all users. Bharti Airtel for example received access to spectrum, and rather than develop its own infrastructure, it leases the equipment from Alcatel-Lucent and Ericsson so their resources can be channeled towards enhancing services. Governments in developing economies like China can also allow specific companies to have complete responsibility for developing domestic infrastructure and then open the telecom sector to competition in services, as the United States did in the 1920s. Other economies have adopted cost-sharing agreements with the government in which the government subsidizes components of network development so businesses can continue providing services at a low cost. Regardless of the structure, governments will inevitably be involved in developing telecom infrastructure and can actually enhance the efficiency of that infrastructure with the right policies. In China, for example, the government has mandated telecom providers share service towers to reduce infrastructural costs.

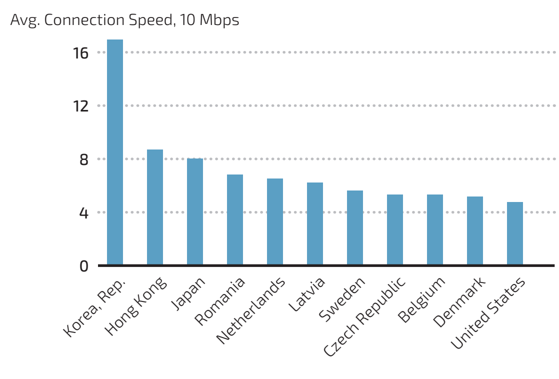
## Recovering Investment in Infrastructure

Ultimately, the challenge of businesses developing the infrastructure is that businesses need to recover infrastructure costs, on a timely basis. The development of infrastructure by the government defies privatization theory and can result in uncompetitive business environments that favor specific parties or SOEs over other providers. Governments may even attempt to recoup infrastructural costs, thereby hindering broadband development.  Viet Namese service providers revealed that the government has yet to invest in 4G because it is still trying to recoup its investment in 3G.

## Opening Competition in Final-Mile Services

Large service providers and governments argue that increasing competition increases national security threats and lowers incentives to invest in infrastructure. Economies like South Korea have found that opening investment in the last mile, the most expensive segment of the infrastructure and also the most significant, promotes infrastructural investment and network speed. In other economies, the business case for investing in the final mile cannot be made because the related costs are so high and the network is so expansive.

*Internet Speeds Across OECD (Top 10)*




*Source: Akamai 2010* [13]

*Final Mile Policies Across APEC*

| **Competitive Final Miles** | **Closed Final Miles** |
|---|---|
| Korea, Rep. | United States |
| New Zealand | Mexico |
| Japan | Indonesia |
| Australia | Philippines |
| Chile | Brunei Darussalam |
| | China |

*Source: Original USC Chart*[14]

[13] "Akamai State of the Internet Report Spotlights Latest Global Speed and Attack Trends from Fixed and Mobile Internet Connections."
[14] Original chart created by the USC Marshall ABAC Research Team

## Illustrative Case:
## United States' Infrastructural Investments in the "Final Mile"

In 2003, the United States Federal Communications Commission (FCC) adhered to the ISP's notion argument that guaranteeing them a higher income stream from a more concentrated market will result in infrastructural development. The FCC allowed them to maintain control of the final mile while other OECD economies opened that segment of the Internet to competition. The results have been disappointing:

### *US Rankings in Fixed Broadband Penetration*

2003:
Ranked **10th** in OECD
With **9.5** Fixed Broadband Subscriptions per 100 Inhabitants

2013:
Ranked **16th** in OECD
With **29** Fixed Broadband Subscriptions per 100 Inhabitants

*Source: Bloomberg Businessweek* [15]

Governments need to subsidize the last mile, governments need to invest in fiber to upgrade the final mile's infrastructure, or governments need to open it up on a wholesale basis to increase competition in that internet market segment. This will increase competition and incentivize infrastructural investments, like in South Korea. While the South Koreans, Singaporeans, and other developed Asian nations with exemplary broadband infrastructure began plans and are now moving on to its fifth version, the United States has yet to create a comprehensive broadband policy. On a philosophical level, the United States adheres to privatization to grow the economy. However, with public utilities, governments have historically played a critical role. In 1929, the United States gave AT&T a full monopoly to develop fixed-line infrastructure across the country and to the remote rural areas, resulting in the United States having the best fixed-line telecom system in the world. As such, governments need to evaluate their priorities and adopt a comprehensive policy that enhances broadband infrastructure for the long-term prosperity of their economies.

[15] Greeley, Brendan: "America's 10 Year Experiment in Broadband Has Failed," Bloomberg BusinessWeek, 2014

## Building Today's Infrastructure for Tomorrow's Prosperity

Telecom infrastructure and services will define future economic growth for decades to come. However, it is one of the most restrictive sectors across APEC due to regulations and business conditions. Problematically, the economies in APEC that need the stimulus of new investment in telecom and broadband are the most restrictive.

Business leaders across APEC explained that governments create an anti-competitive market through protecting incumbents or SOEs through their regulatory frameworks. Specific features of those frameworks that restrict FDI are foreign ownership requirements and access to spectrum. That collusion creates business conditions that are unattractive to potential foreign entrants.

Governments also enforce protectionist policies because they view telecom as a strategic industry that impacts national security. China, Indonesia, Brunei, the Philippines, and Viet Nam have the most onerous restrictions against foreign ownership and implement protectionist policies. As a result, FDI is unattractive despite their market size. In the Philippines for example, telecom infrastructure is viewed as a public utility and therefore is essential to national security. In China, foreign competition is also restricted for national security purposes. Brunei has a complete ban on foreign operators in its economy. In contrast, New Zealand, Singapore, Hong Kong, South Korea, and Australia all promote competition, allow foreign entry, have stable regulations, and have or currently are investing heavily in telecommunications infrastructure.

Businesses are also frustrated with the lack of coherence in telecom policy that they believe stems from ignorance of new technologies and of broadband infrastructure. As a result, they pass incoherent, archaic policies that are subject to change on a whim.

Misaligned policies within economies can create chokepoints that cause telecom companies to move on from that economy and assess the attractiveness of other economies. Because the context and business conditions in each economy are very different, especially between developed versus emerging economies, those chokepoints will differ significantly.

In order to incentive investment in telecommunications, businesses need stable regulations, equal access to the network, and a level playing field. The challenge and opportunity for government is to create strategically aligned policies that adopt a realistic perspective of the sector's current health and builds towards a specific long-term vision for the sector. The catalytic impact of doing so will be dramatic both socially and economically. Failure to develop this sector is nothing short of economic suicide. As such, APEC economies must prepare for this inevitable future by developing the technological foundations for future economic prosperity.

## Recommendations for APEC

Businesses recognize the complexity of the telecom industry but they recognize the catalytic impact the telecom industry has on all aspects of commerce. They are impatient for government leadership to set an agenda, create effective regulations, and provide a framework for new investment.

***Adopt a comprehensive national strategy that is coordinated across all government ministries***

Developing and maintaining telecom infrastructure requires physical infrastructure, human capital, and regulations dictating the maintenance and operation of telecom infrastructure and services. Chilean businesses invested heavily in roads to increase their ability to move telecom equipment to different parts of the country. New Zealand businesses are investing to increase their talent pool of technically trained human capital. Businesses need policies and long-term development strategies to be synchronized in order to invest and subsequently grow the telecom sector. A comprehensive national strategy that determines the growth strategy for telecom over the next five to ten years and it is essential for creating that synchronicity.

***Proactively invest to provide the foundation for future growth of the telecom sector***

Telecom is one of the most rapidly changing sectors in all of APEC and is catalyzing change in every other economic sector. In order to remain competitive in a global digital market, APEC economies need efficient telecom infrastructure. In certain economies, such as United States, businesses are the ones that make that investment in fixed, mobile, and broadband infrastructure. In Singapore, it is the government that invests in infrastructure. Businesses want improvements to telecom infrastructure, but the investment incentives do not exist in some APEC economies. In order to stimulate the development of infrastructure, businesses need incentives that encourage them to invest proactively.

***Enhance regulatory predictability, stability, coherence, and transparency***

In order to create an environment that encourages investment, governments must enhance regulatory predictability, stability, coherence, and transparency to reduce the risk of investing in telecommunications infrastructure. Many business leaders across APEC complain that because regulators do not understand technology, they often impose archaic, illogical policies that can change arbitrarily.

Businesses are also impatient for a regulatory framework that encourages competition. Lack of competitiveness is the most significant impediment in telecom across all APEC economies. As such, regulators can level the playing field by reducing entry barriers and creating a contestable telecom market.

*Invest in human capital and ease visa restrictions*

Businesses across APEC struggle with lack of access to high-quality human capital trained in science, math, and technology. APEC economies can adopt a two-pronged approach for addressing the issue. First, regulators can ease visa restrictions for highly trained foreign workers. Second, governments can invest in educational programs that promote science, math, and technology training as early as primary school. In doing so, governments can foster the quantity and quality of human capital that businesses need in the short and long-term.

*Create synchronized ecosystems between telecom and other economic sectors*

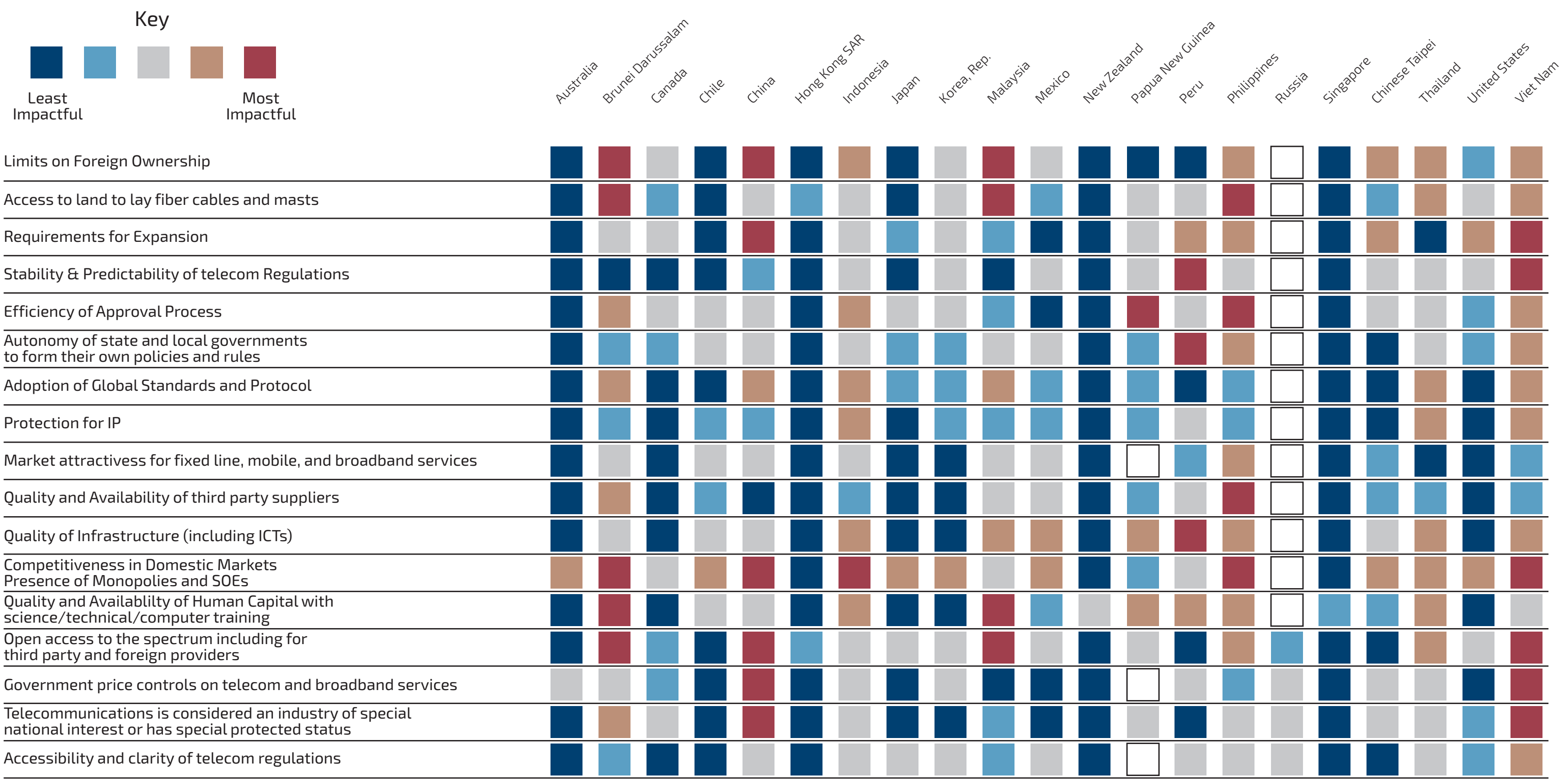
Telecommunications has the potential to create digital revolutions in every economy in APEC. In order to capture these long-term benefits, business leaders across sectors need to find innovative solutions for leveraging broadband and telecom infrastructure in different business segments. More importantly, governments must shift their regulatory policies from trying to control the use and spread of technology to creating long-term visions for leveraging the benefits of telecom across economic sectors.

*Implement revisions to telecom policy to spur long-term growth*

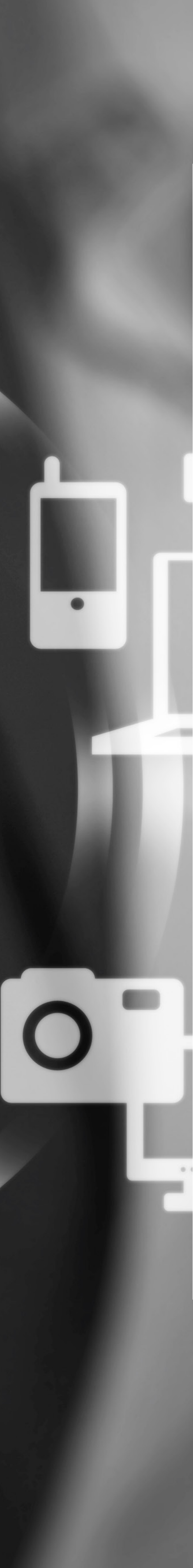
Business leaders believe regulators recognize the benefits of telecom and broadband infrastructure, but are extremely slow to change the regulations that could ultimately spur the growth of the telecom sector. Businesses and consumers across economies recognize the spillover benefits of this sector and the consequences of the many of the irrational policies that exist. Governments need to commit to a comprehensive strategy that implements the policy changes necessary for building a modern economy with a robust telecom infrastructure in order for this sector to achieve its full potential.

# Telecommunication & ICT Services-specific Barriers and Impediments (Impact Ratings) Economy Comparisons

The table below visually presents the **most important** barriers and impediments in telecom services across APEC economies. An analysis was made of the frequency to which different FDI challenges were raised by interviewees across economies. Seventeen telecom-specific challenges were identified as having important impacts on FDI decisions. The table shows how impactful each challenges is in each APEC economy.



# Software, Platform, & Cloud Services



## Introduction

This section focuses on software, platform, and cloud services. The earlier ICT section on infrastructure as a service focused on telecom and broadband – backbone services which are 1) critical to the development of other industries and 2) require in-economy investment in order for citizens to access the services. In contrast, this section focuses on software (SaaS), platform (PaaS), and cloud services, major activities in the entire ICT value chain that can and are being offered as traded services. While cloud services can function as infrastructure, they are included in this section because they can be delivered remotely. The section will reference certain restrictions on data storage that require investment. The thrust of the analysis, however, focuses on how economies can develop industries of innovative and tradable services, exemplified by software, platform, and cloud as a service.

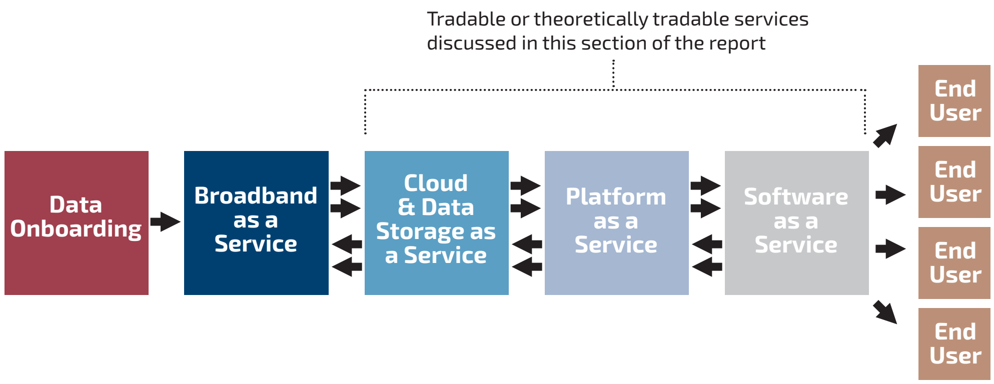
The ecosystem surrounding software and cloud services is rapidly evolving. As broadband and telecom infrastructures are becoming globally ubiquitous, newly burgeoning economies are now anxious to participate in the greater ICT industry: software as a service (SaaS), platform as a service (PaaS), and cloud as a service.

In both developed and emerging economies, technology is providing new opportunities for individuals previously constrained by geographic or economic obstacles. But unlike previous shifts engendered by the technological innovations of the first and second industrial revolutions, these current developments are unlikely to provide new job opportunities for both skilled and unskilled workers. The spoils of this technological revolution will likely fall to the highly skilled few in economies conducive to innovation. A recent report in the Economist called The Third Wave claims that, “The digital revolution is opening up a great divide between a wealthy few and the rest of society.”[1] It is more critical than ever that economies develop robust ICT service industries.

Unlike broadband and telecom, which require physical presence in an economy, SaaS, PaaS, and cloud services are potentially tradable. They will be provided nationally and internationally by the economies with the largest pools of skilled labor in computer science, the best ICT infrastructure, the highest IP protection, and the greatest ability to innovate. In the future, FDI in ICT services will be made by foreign companies looking for a hospitable hub from which to export; not by companies targeting attractive domestic markets as is the case with broadband and telecom services today.

[1] Avnet, Ryan. “The Third Great Wave.” Http://www.economist.com/news/special-report/21621156-first-two-industrial-revolutions-inflicted-plenty-pain-ultimately-benefited. October 04, 2014. Accessed October 10, 2014. http%3A%2F%2Fwww.economist.com%2Fnews%2Fspecial-report%2F21621156-first-two-industrial-revolutions-inflicted-plenty-pain-ultimately-benefited.

## Challenges To Regulating A Rapidly Developing Industry




Because this sector is developing and changing so rapidly, many APEC economies are struggling to regulate it. Policy makers face the challenge of regulating the industry based on both the poorly understood future challenges, while contending with the inertia of existing regulations that no longer align with current realities. These services can be encumbered by traditional barriers to FDI such as limitations on foreign ownership or inefficiency in the approval process—challenges that should not apply to this industry given the tradable nature of the service. Additionally, policy makers face the potential threat of cyber attack. In response, many of these leaders are imposing data storage and data privacy regulations that severely inhibit local economies from hosting robust ICT ecosystems required for FDI in this sector.

Policy makers may use restrictions on data storage to force FDI in cloud services. While using local content requirements has been effective in motivating FDI in potentially tradable services like accounting and life insurance, it will likely be less effective in ICT services. Major software companies rely on large volume data collection. Preventing these firms from collecting, aggregating and analyzing data in a central location will force big players to overlook smaller economies and leave these populations underserved. Executives from the largest global software companies in the world explained that when local economies prevent multinational software companies from accessing and storing local data remotely, the multinationals will not provide services to these economies. This is particularly pertinent to smaller economies that do not have the allure of market size to inspire multinationals to get creative in their service delivery.

The rapid growth and changing dynamics in this industry will require governments to provide strategic intervention, regulation and support. If policy makers get this right, they will promote and facilitate technological innovation in ways that broadly benefit society. If they get it wrong, they risk being irrevocably left behind in the next great technological revolution. This wave of innovation promises to continue to creatively disrupt every industry. Leaders in innovation driven industries services, SaaS, Paas, and cloud services, will certainly hold the economic and political power of the future This section examines the investment landscape for SaaS, PaaS and cloud services in APEC. By asking executives about their won experiences in investing in these services, it focuses on the factors that are preventing businesses from investing in software, platform and cloud services.

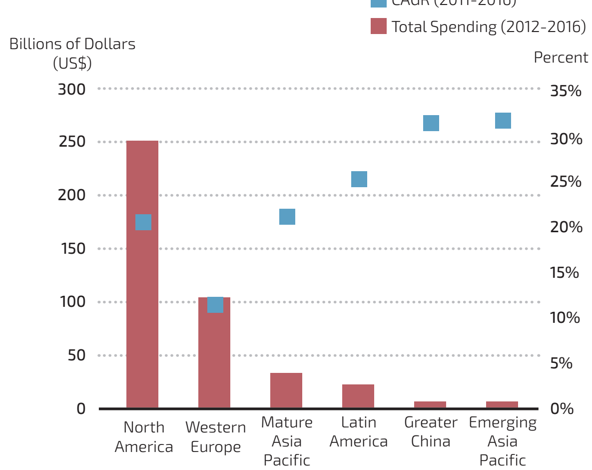
# *The Quantity and Quality of Business Investment In Software, Platform and Cloud Services*

## Growth Continues Unabated

In advanced economies, the internet accounted for 10% of GDP growth over the past 15 years and keeps on growing. [2,3] Cloud services, applications, security, and data analytics will account for an ever-expanding portion of total information technology spending by enterprises. This year alone, global business spending on cloud and cloud related services will reach $174.2 billion, up 20% from 2013. [4]

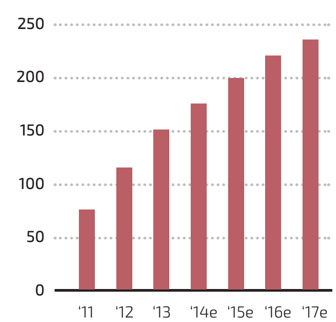
All the large tech firms, Amazon, Google, Alibaba, and Microsoft are battling for market share in cloud services. While these firms are looking to expand their global footprint in APEC economies, they plan to access new markets and grow penetration rates primarily through trade in services rather than physical presence investment. The physical presence investment that does take place will be in cloud servers.

*Total Spending (Excluding Cloud Advertising) and CAGR, by Region*




*Source: Gartner (2013)[7]*

*Cloud IT Spending on Cloud Architecture, Billions (US$)*




*Source: IHS[8]*

## Investment In Cloud Infrastructure Is Not The End Goal

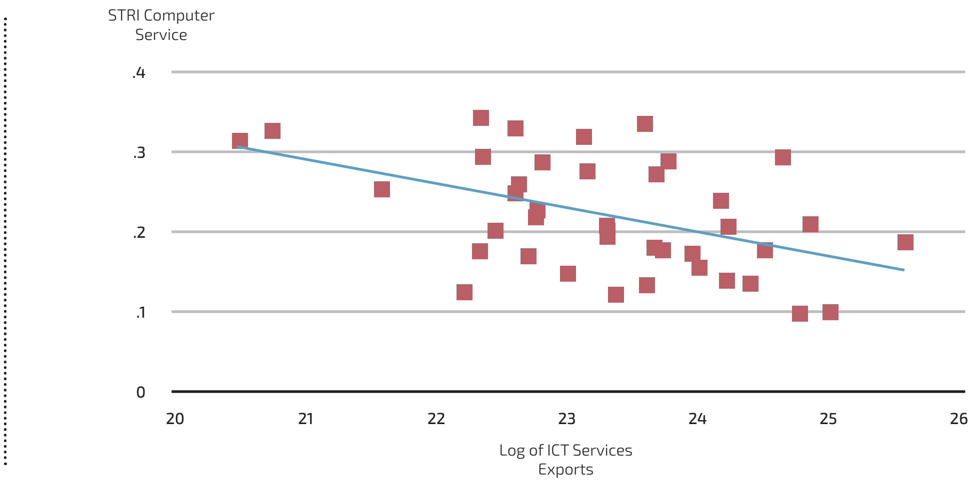
While investment in cloud infrastructure is growing rapidly across China and Asia Pacific regions, the amount of investment still pales in comparison to the investments made in North America and Western Europe. Many APEC economies are making serious investments in cloud infrastructure. Researchers estimate that the Chinese government alone will invest more than $1B in cloud services by 2016. [5]

While investment in broadband, telecom, and cloud infrastructure is essential for greater ICT development, investment in cloud service does not provide the level of FDI that a fully developed ecosystem could generate. According to Gartner, global software revenue totaled $407.3 billion last year, a 4.8 percent increase from 2012 revenue of $388.5 billion.[6] Gartner goes on to point out that the majority of these revenues come from a consolidated number of developed economies, accentuating the argument that tradable ICT services operate from hospitable hub economies. Servers alone do not require a great deal of manpower, real estate, or capital investment. While APEC economies now have the chance to further invest in cloud infrastructure, there is a still greater opportunity to develop an entire fertile ICT ecosystem capable of exporting SaaS, PaaS, and cloud services to the world economy.

[2] Manyika, James, and Charles Roxburgh. "The Great Transformer: The Impact of the Internet on Economic Growth and Prosperity."
[3] Abdullah, Nur Sulyna. "Broadband Development in the APEC Region." .
[4] "Cloud Computing Sales to Triple by 2017, New Forecast Says." Investor's Business Daily
[5] Carey, Eve. "Cloud Computing Soars in China with New Investments."
[6] Pettey, Christey. "Gartner Says Worldwide Software Market Grew 4.8 Percent in 2013."
[7] "Forecast Overview: Public Cloud Services, Worldwide, 2011-2016, 4Q12 Update." Gartner for Business Leaders Shared.
[8] "Cloud Computing Sales to Triple by 2017, New Forecast Says." Investor's Business Daily.

## Restrictiveness Stifles Vital Trade

Currently, we are seeing massive consolidation in the ICT industry. Because SaaS, PaaS, and cloud services are inherently tradable services, competitive clusters will find the most hospitable economies for innovation and trade in services, and create ICT hub economies. One reliable metric for the health of an economy's ICT industry is the measure of its exports in those services.




*Source: OECD STRI*[9]

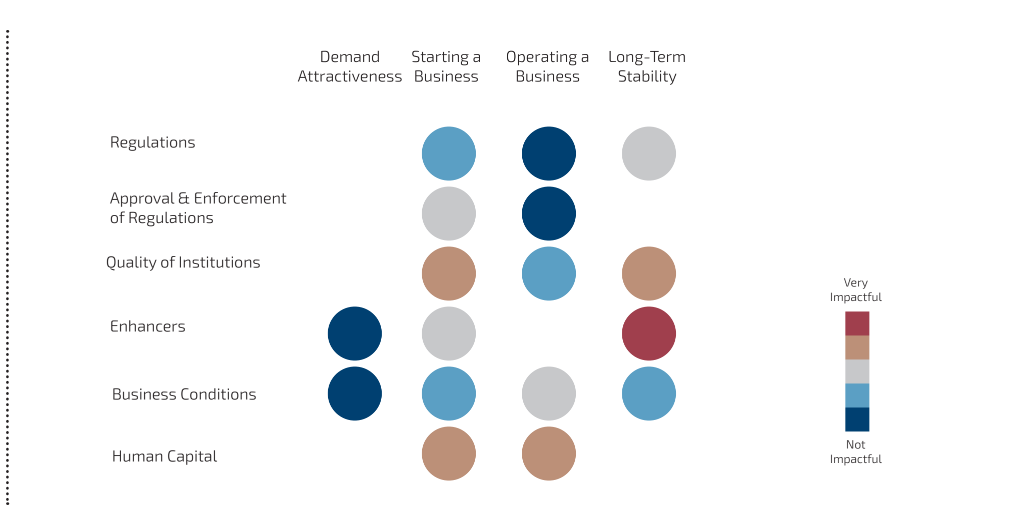
The table above shows the relationship between ICT service exports and the Services Trade Restrictiveness Index (STRI) in computer services. The graph clearly demonstrates that greater restrictiveness correlates with lower ICT exports. Services trade restrictiveness inhibits inward FDI, but it also has a significant negative effect on exports. In an industry that relies on exports, any limitation on outward trade will suffocate the industry before it has a chance to develop and will further impede FDI.

While investment in broadband, telecom, and cloud infrastructure is essential for greater ICT development, it does not alone attract competitive clusters in SaaS and PaaS. In addition to investing in ICT infrastructure, it is vital that economies develop a sufficient pool of highly trained human capital, protect intellectual property, and limit regulation on trade in services.

[9] "Services Trade Restrictiveness Index." Services Trade Restrictiveness Index. Accessed October 20, 2014. http://stats.oecd.org/index.aspx?dataSetCode=STRI..

# Where Factors Are Inhibiting SaaS, PaaS, & Cloud Investment In APEC

*Location and Relative Importance of Critical FDI Factors Within SaaS, PaaS, & Cloud*




The chart above examines where the major challenges in ICT services as well as the types of challenges that are most relevant to this sector. Examining the graph horizontally shows that factors relating to starting a business as well as factors relating to long-term business stability are most impactful.

The individual factors driving these higher scores are: the availability of capital, tax incentives, and efficiency in the approval process. These all relate to the challenging nature of funding a tech firm. Technology companies often find it more difficult to get funding, because they do not have proven products. The vast majority of internet companies fail in their infancy—a fact well known by investors. This is why it is so important that economies develop venture capital funding for small and medium sized start-ups.

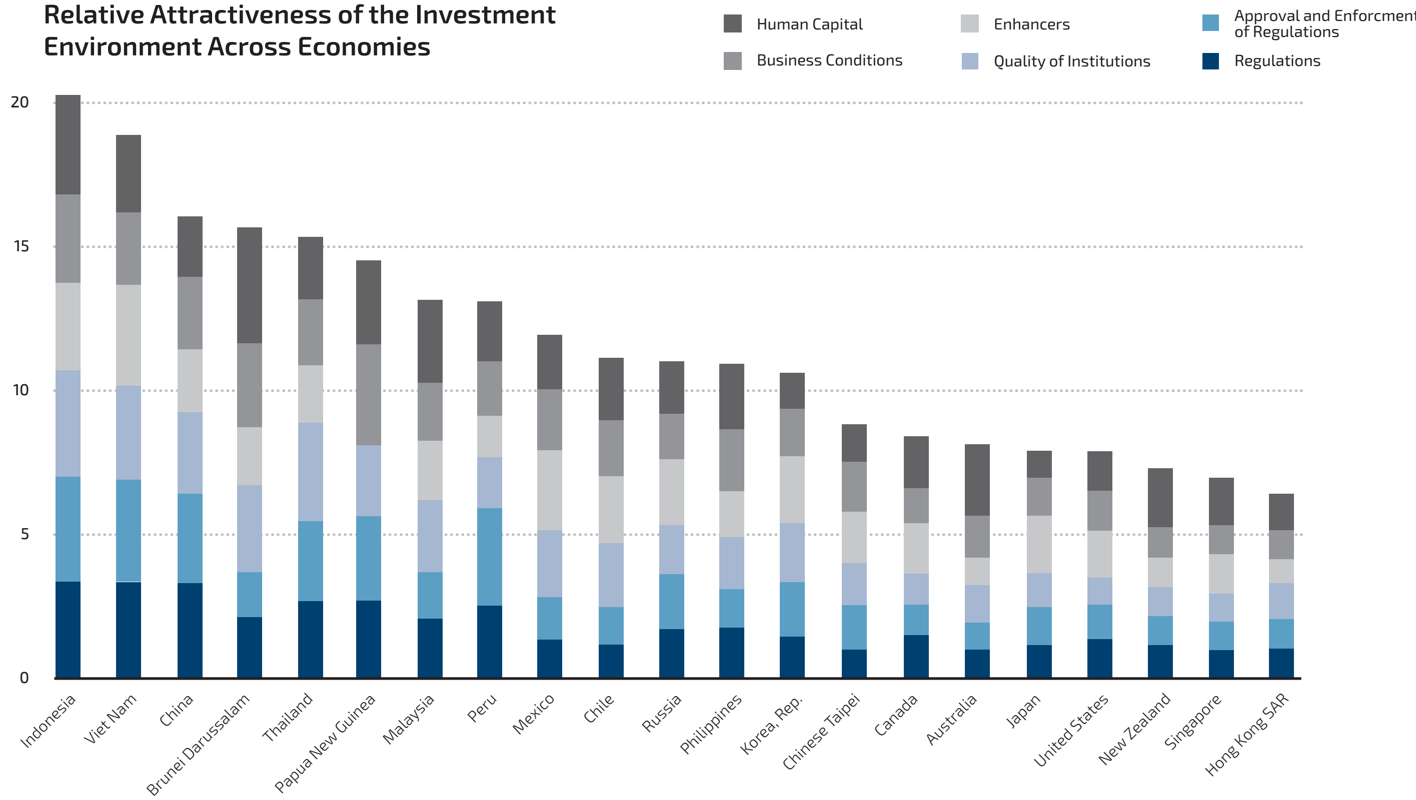
It also highlights the positive impact of providing tax incentives in this sector. SaaS and PaaS firms are challenged to stay afloat in early years; tax incentives can have an enormous effect on early profitability.

The challenge of securing funding magnifies the importance of an efficient approval processes in starting a business. Once start-ups have funding in place they need to invest quickly. Any delay in the process can rapidly unravel tenuous capital inflow.

Additionally, factors relating to long-term stability are critical to FDI in ICT. Particularly important is the need for a national digital strategy. Most APEC economies have a digital agenda, but many do not have the active support of the national government. A CEO of a small start-up software company in Malaysia emphasized the importance of a national agenda. He argued that, "it is not just important to have a digital agenda, but it is important to have all constituencies aligned behind it." Higher scores in long-term stability indicate that across APEC economies, business leaders seek robust support of clear, actionable digital strategies for their economies.

In terms of where the challenges are, human capital and the quality of institutions are particularly critical. Within human capital, the overall quality of that human capital, recognition of skills and qualifications, and visa and work permit restrictions are particularly impactful. This further reinforces OECD findings that highlight the development of human capital as the top issue facing this industry. Within quality of institutions, the need for IP protection is most concerning to foreign businesses looking to invest. These findings support the existing research which illustrates the importance of VC funding, IP protection, and a national digital strategy.

## Relative Attractiveness of the Investment Environment Across Economies




In the chart above, the ICT sector in each of the APEC economies is rated on the 51 factors found to be the most impactful issues in foreign investment decisions. Looking across the economy ratings we can see that there is a significant disparity between the economies with developed ICT ecosystems and those that are more restrictive. All of the economies that have a cumulative score below 10 (Australia, Canada, Hong Kong, New Zealand, Singapore, Chinese Taipei, and the United States) are seeing both domestic and foreign investment in high skill software and platform services. Economies with cumulative scores above 15, (Brunei, China, Indonesia, Thailand, and Vietnam) are struggling to develop a sustainable ecosystem fueled by both domestic and foreign investment. It is important to note that China is also included in this list; while China has seen significant growth in the sector, the economy is yet to capture significant FDI in innovative technology because of doubts surrounding IP protection.

# Most Problematic Investment Challenges in Software, Platform and Cloud Services

The discussion below focuses specifically on the most important challenges in Saas, Paas, and Cloud services. A careful analysis of all Saas, Paas, and Cloud interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the Saas, Paas, and Cloud sector. Twenty-four FDI factors were found to be important or very important across economies. The results are presented in the table positioned at the end of the Saas, Paas, and Cloud section. The relative impact of each barrier or impediment in each economy is reported. The horizontal bar chart below summarizes the impact of these factors for each APEC economy. The ten most critical challenges are discussed in more detail below noting the leading and lagging APEC economies on each investment factor.

***Quality and Availability of Human Capital Trained in Math and Computer Science***

***Intellectual Property Rights***

***Quality of Broadband and Telecom Infrastructure***

***Adoption & Acceptance of Current International ICT Standards***

***Quality of Financial Markets: the Availability of Venture Capital Funding***

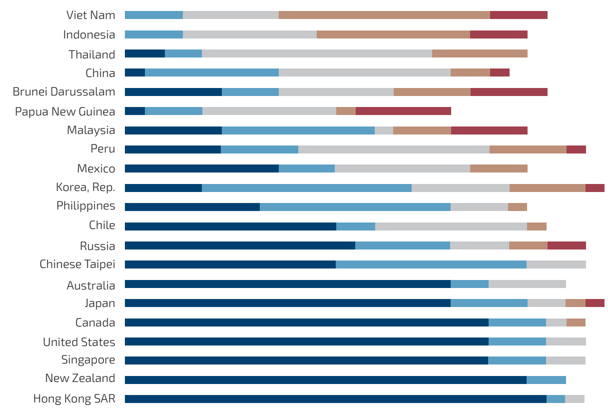
***Presence and Quality of Research and Technology Institutes and Universities***

***Tax Incentives for ICT Start Ups***

***Cooperation across Ministries to Form and Implement a Unified Digital Strategy***

***Efficiency in the Approval Process for Starting a Tech Business***

*Summary of Impact Ratings*




## Quality and Availability of Human Capital Trained in Math and Computer Science

Value in ICT comes from ideas. Ideas come from people. Educated people. For an ICT business to even consider significant investment in an economy, the market needs an educated work force trained in computer science.

*Best: US, Canada, Singapore[10]*

*Lagging: Viet Nam, Philippines, Brunei Darussalam[10]*

## Quality of Broadband and Telecom Infrastructure

The extended ICT ecosystem sits on top of traditional broadband and telecom infrastructures. Without competitively priced internet service, FDI in SaaS or PaaS is not possible.

*Best: US, Korea, Singapore, Japan, Australia[12]*

*Lagging: Indonesia, Mexico, Viet Nam, Thailand[12]*

## Intellectual Property Rights

The value in ICT depends upon innovation. Development requires significant upfront capital and derives its return from its ability to protect intellectual property. Businesses will not enter an economy unless they know they can protect their intangible assets: ideas. Because SaaS, PaaS, and IaaS are exportable services, the risk of IP theft is magnified by a firm's willingness to seek profits in other markets.

*Best: US, Japan, New Zealand, Canada, Singapore, Australia[11]*

*Lagging: Viet Nam, Indonesia, Thailand, Peru, Brunei Darussalam[11]*

## Adoption & Acceptance of Current International ICT Standards

Information and communication technology is an interconnected web of services. Lack of standardization prevents firms from reaching other markets and achieving scale efficiencies. Any economy wanting to compete in this sector must adhere to global ICT standards.

*Best: US, Canada, Malaysia, Australia[12]*

*Lagging: Russia, Viet Nam, China, Singapore[12]*

[10] "Global Competitiveness Report 2014-2015." World Economic Forum.
[11] "IPRI News." International Property Rights Index 2013
[12] "2013 BSA Global Cloud Computing Scorecard." 2013 BSA Global Cloud Computing Scorecard.

## Cooperation across Ministries to Form and Implement a Unified Digital Strategy

Because the ICT industry is so new and dynamic, foreign firms want to know that they are investing in an economy that will support their long-term success. Economies that have a unified digital strategy are significantly more attractive to foreign firms looking to invest.

*Best: Singapore, Hong Kong, US, Korea*[13]
*Lagging: Peru, Viet Nam, Mexico, Philippines*[13]

## Tax Incentives for ICT Start Ups

Tax incentives can help dilute the upfront cost of ICT investment. Technology companies spend significant portions of their budget on R&D. Tax incentives are most significant for industries with large upfront costs.

*Best: Canada, Hong Kong, Malaysia, New Zealand, Singapore*[13]
*Lagging: Russia, Korea, Mexico, Peru, Viet Nam*[13]

## Efficiency in the Approval Process for Starting a Tech Business

The presence of institutional obstacles in the approval process have the greatest long-term negative effect on tradable services like Saas, Paas, and Iaas. This sector in particular often requires swift movement once funding is in place. This makes the efficiency of the approval process a significant factor in a business's decision to invest.

*Best: Singapore, Hong Kong, New Zealand*[14]
*Lagging: Papau New Guinea, Indonesia, Philippines*[14]

## Presence and Quality of Research and Technology Institutes and Universities

The presence and quality of research and technology institutes and universities directly effect the development of local talent and the health of local industry. Because this sector is made up of exportable services, developing a thriving local economy is one of the best ways to attract foreign investment.

*Lagging: Viet Nam, China, Russia, Mexico, Peru, Thailand*[13]

## Quality of Financial Markets: the Availability of Venture Capital Funding

While it is possible for foreign firms to invest with foreign capital, we see that economies benefit from local SaaS, PaaS, and cloud ecosystems. Foreign firms prefer to invest in economies rich in local talent which emerges when domestic ecosystems are present. In order for the domestic environments to exist, local talent must be available for start up tech firms. The quality of financial markets plays a significant role in the health of ICT development.

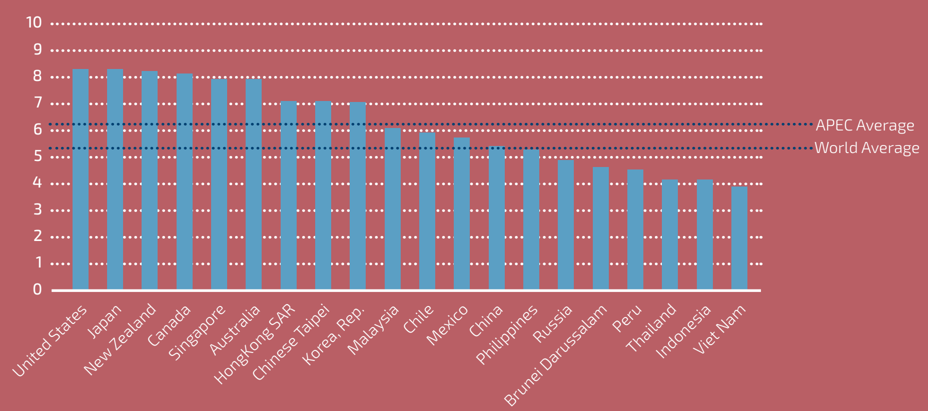
*Best: Hong Kong, Singapore, US*[13]
*Lagging: Korea, Viet Nam, Mexico, Peru, Russia, Thailand*[13]

[13] World Economic Forum, Global Competitiveness Report, 2014-2015.
[14] "Time Required to Start a Business (days)." World Bank Data.

# *Intellectual Property Rights and Innovation*

Intellectual property rights are a key determinant to attracting investment in cloud services. Software and cloud companies create competitive advantages and differentiate themselves based on their IP. Intellectual property is the most important asset to cloud services and software providers as it often defines the competitive advantage that firms have over one another. Without strong IP protection, a firm's ability to compete in markets is eroded. Additionally, IP can be difficult and costly to develop for firms and requires significant research and design investment. The profits from current IP are needed to fund further enhancements and improvements in cloud services. As a result, firms are able to provide better products that improve the efficiency of the entire economy. APEC must protect intellectual property rights to further develop this fast growing and changing industry.

### *Intellectual Property Rights Score*

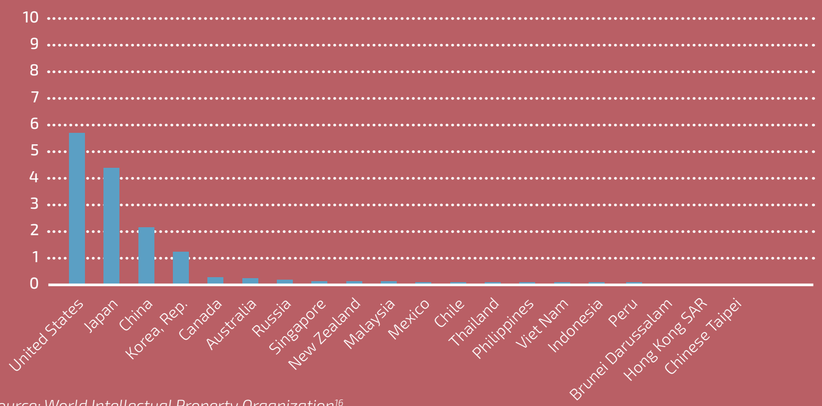



*Source: Internation Property Rights Index[15]*

The above graph shows the Intellectual Property Rights score for each APEC economy as well as a comparison to the world average. APEC is outperforming the world on protection of property rights. However, there is a large disparity across APEC. The United States and Japan lead the world in the quality of protection in IP. This impacts considerably their ability to attract investment and facilitate trade in software and cloud services. Firms will be more willing to enter markets knowing their competitive advantage will remain secure in that market and other markets they compete in.

[15] "IPRI News." International Property Rights Index 2013.

*Patent Cooperation Treaty International Applications 2013*




*Source: World Intellectual Property Organization*[16]

To further support the importance of IP protection, the graph directly above shows the number of patents applied for in each economy within APEC. Applications can be used as a proxy for investment, because they indicate the level of R&D in the economy. The United States and Japan have more than double the number of patents than the next economy, China. While South Korea has a higher IPR score and a lower number of PCT applications, the number of patent applications is not presented per capita. If the number of applications were adjusted per capita, the number of patent applications in South Korea, Canada, and Australia would far outnumber the applications in China. APEC economies that do not have rigorously enforced IP protection have created a significant obstacle to additional investment in IP. This is an area where further regulation can actually attract business investment.

This large difference also suggests that businesses look for a minimum threshold of IP protection before making investments. Once that minimum threshold is reached businesses will begin to invest. This is both good and bad news for economies. IP laws are something that governments can readily implement with requisite effort. However, determining the precise amount of protection necessary to meet the minimum threshold is more problematic. An open dialogue with businesses is essential to provide the proper amount of regulation to both attract and create an efficient IP legal system.

[16] "World Intellectual Property Organization." US and China Drive International Patent Filing Growth in Record-Setting Year.

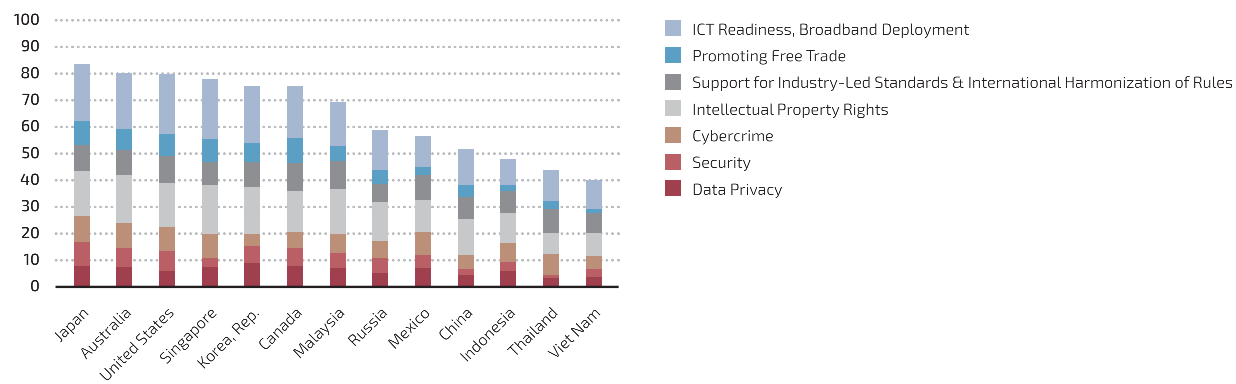
# Global Cloud Computing Scorecard and the Importance of Broadband and Telecom Infrastructure

According to the BSA Global Cloud Computing Scorecard the most important factor in the rapid growth of global cloud computing and broadband and telecom infrastructure is ICT readiness and broadband deployment. The extended ICT ecosystem sits on top of traditional broadband and telecom infrastructures. Without competitively priced internet service, FDI in SaaS or PaaS is not possible.

With the exception of China, the top players in patent approval are also the top economies in ICT readiness and broadband deployment. This further illustrates the correlation between infrastructure development and the creation of a robust ICT ecosystem.

While infrastructure is critical, it is important to note that it is not causal. Economies without ICT infrastructure will be able to host Paas and Saas investment, but investing in infrastructure alone is not enough. Intellectual property protection and broadband telecom infrastructure seem to be binary functions: foreign companies won't invest in economies without both. Other important factors, (such as skilled labor and venture financing) are secondary.

*2013 BSA Global CLoud Computing Scorecard*




*Source: BSA Global Cloud Computing Scorecard*[17]

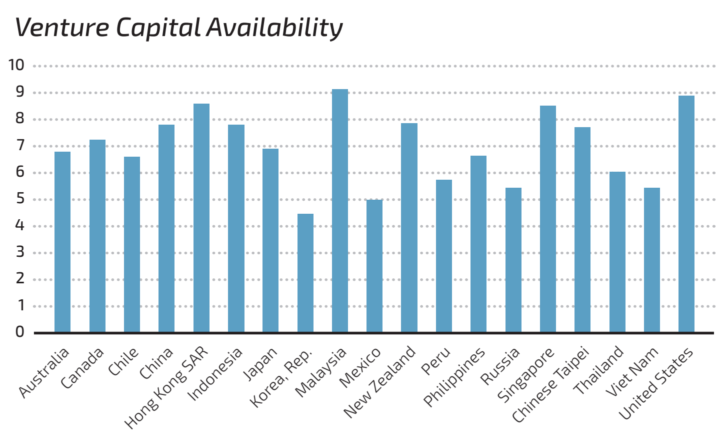
[17] "2013 BSA Global Cloud Computing Scorecard." 2013 BSA Global Cloud Computing Scorecard.

# VC Funding for a SME Game

Facebook, Amazon, Google, Alibaba, and Microsoft are all big names in SaaS, PaaS, and cloud services. When we think about the ICT sector we tend to think of the giants. But the sector is dominated by small and medium sized start-ups. These start-ups are the kindling that fuels growth in the greater industry. Young small companies are nimble and are driven to take larger risks because they have less to lose. And as a consequence, they drive the innovation the industry relies on.

In order for these start-ups to get off the ground they need venture capital. The head of a notable technology research institution claimed that greater levels of VC funding are critical for economies to attract R&D ecosystems. Innovative technology companies often find it difficult to get funding. It's hard to market a product that doesn't exist yet. Investors know that the vast majority of internet companies fail before they get off the ground—often making them prudish with their investments.

We also see that access to funding can exponentially increase investment. More start-ups breed more start-ups. Plus, the benefit of aggregating funding for a cluster of small firms is exponentially more attractive than funding one or two. Unlike the availability of ICT infrastructure, or IP protection, which operate as binary functions, venture capital is evaluated on a continuum. Incremental increases in capital availability lead to exponentially more investment until the market approaches saturation.




*Source: WEF GCR (2014)* [18]

[18] World Economic Forum, Global Competitiveness Report, 2014-2015.

# The Great Differentiator: The Quality of Human Capital

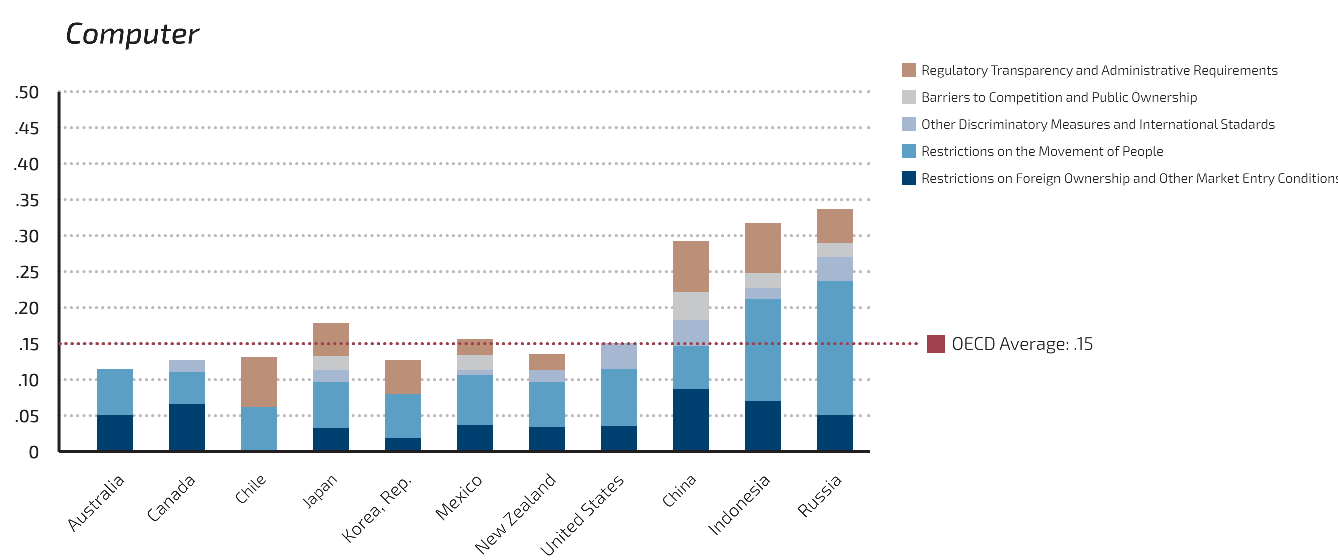
The OECD evaluates barriers to investment and trade in services. Because cloud and software will continue to operate as a traded service, this report is particularly relevant. By looking at the OECD's ratings on the restrictions in computer services we can extrapolate conclusions about the impediments facing both foreign and domestic investment in cloud and software services. While the study only evaluates 10 of the 21 APEC economies—many of the implications are still relevant.

*"Computer services can easily be traded across borders through electronic networks. The skilled labor intensity of the sector together with the complementarity between cross-border trade and movement of natural persons explains why restrictions on movement of people feature prominently in all countries."*

According to the OECD the most important impediment to computer services are restrictions on the movement of people. Because the OECD evaluates these impediments from the perspective of a foreign player, it makes sense that OECD focuses on the movement of people. When evaluating both foreign and domestic investment we can expand this category to include the importance of foreign worker visas, the availability of local human capital and the quality of the education system (particularly in math and science).[19] Principally, internet technology firms use the binary criteria of IP protection and availability of broadband to assess investment opportunities. Also, the presence and availability of venture capital funding makes economies significantly more appealing and can make or break individual investment decisions. But it is human capital that most vividly differentiates one economy from another.

While nearly every service industry relies on human capital, the SaaS, PaaS and cloud sector require human capital in a different way. Innovation driven sectors evolve rapidly, they call for not only the very best and the brightest workers, but the most flexible and adaptive as well. During an interview, the head of a Silicon Valley incubator explained that he advises startups to move to economies where there is the required human capital. Burdensome restrictions for foreign worker visas will leave companies at a significant disadvantage. Any economy that thrives in this sector relies heavily on both local and foreign talent.

Economies must invest in education. Economies that invest in fundamental education now will reap the benefits from this industry in the decades to come. It is not too late to participate, but the only way to do it is to build from the ground up. Universities and technological institutes are vital to develop a highly skilled local labor force and attract foreign talent. But economies without a broad base of educated workers will not be able to reap the benefits from these higher institutions.




*Source: OECD STRI [19]*

[19] "Services Trade Restrictiveness Index." Services Trade Restrictiveness Index.

# *The Threat of Bad Regulation*

Many economies have begun forcing international firms to invest in servers on the ground. These economies are implementing regulations requiring that certain types of data be stored within the borders of the economy. New regulations governing data storage are driven both by a fear of cyber attack as well as a desire to demand foreign investment in cloud services. An executive from the Chilean ICT association claimed, "the next 9-11 will not be physical…but it will be a cyber attack." Government leaders hear this and are concerned for their citizens. Economies need to make regulations on data privacy that protect citizens without crippling investment in SaaS and PaaS through onerous regulations on data storage. Doing so depends on policymakers establishing and implementing a vision for data flows. The chief privacy officer from a top United States technology firm argued that data should be allowed to cross-borders without barriers because data flows are uncontrollable. Rather, governments and businesses need to develop strategies to monetize that information rather than trying to limit the flows of information.

We also see economies seeking income by using data storage requirements to force investment (as they have in the accounting and life insurance industries). Both Vietnam and Indonesia have laws detailing the type of information that must be stored locally. Russia has just passed legislation that requires all information regarding Russian citizens remain on local servers. Despite these efforts, major software and internet service companies are resisting significant investment. An executive from a Fortune 50 internet company remarked, "when governments require information be stored in country, big companies aren't going to suddenly invest. Citizens are the ones who are going to have to go without."

We see this in South Korea. The government understandably requires that all geolocation software applications store data in South Korea. Major players in this field resist. As a result travelers are unable to access googlemaps or mapquest or a host of international mapping software applications. There are countless reports on the internet of tourists in Seoul completely lost without high quality accurate direction services on their smart phones.

Additionally, where we do see these major international players making on-the-ground investments in server farms the investments are small and have little impact on local economies. At most, these storage facilities cost a few million dollars and a handful of staff—not enough investment to invigorate an economy.

## Recommendations

Internet services spawned by the digital revolution will be the most significant driver of global GDP growth in the decades to come. Because of the tradable nature of these services, development in these industries will be consolidated in the economies that offer the most conducive environment to innovation and trade in services. Currently software, platform, and cloud services are largely unregulated, but the threat of bad regulation within APEC economies threatens to irrevocably deter essential foreign investment in these sectors. These threats include excessive regulations on starting a tech business, cumbersome regulations on exporting services, and regulations requiring local data storage that do not stringently address critical data security issues.

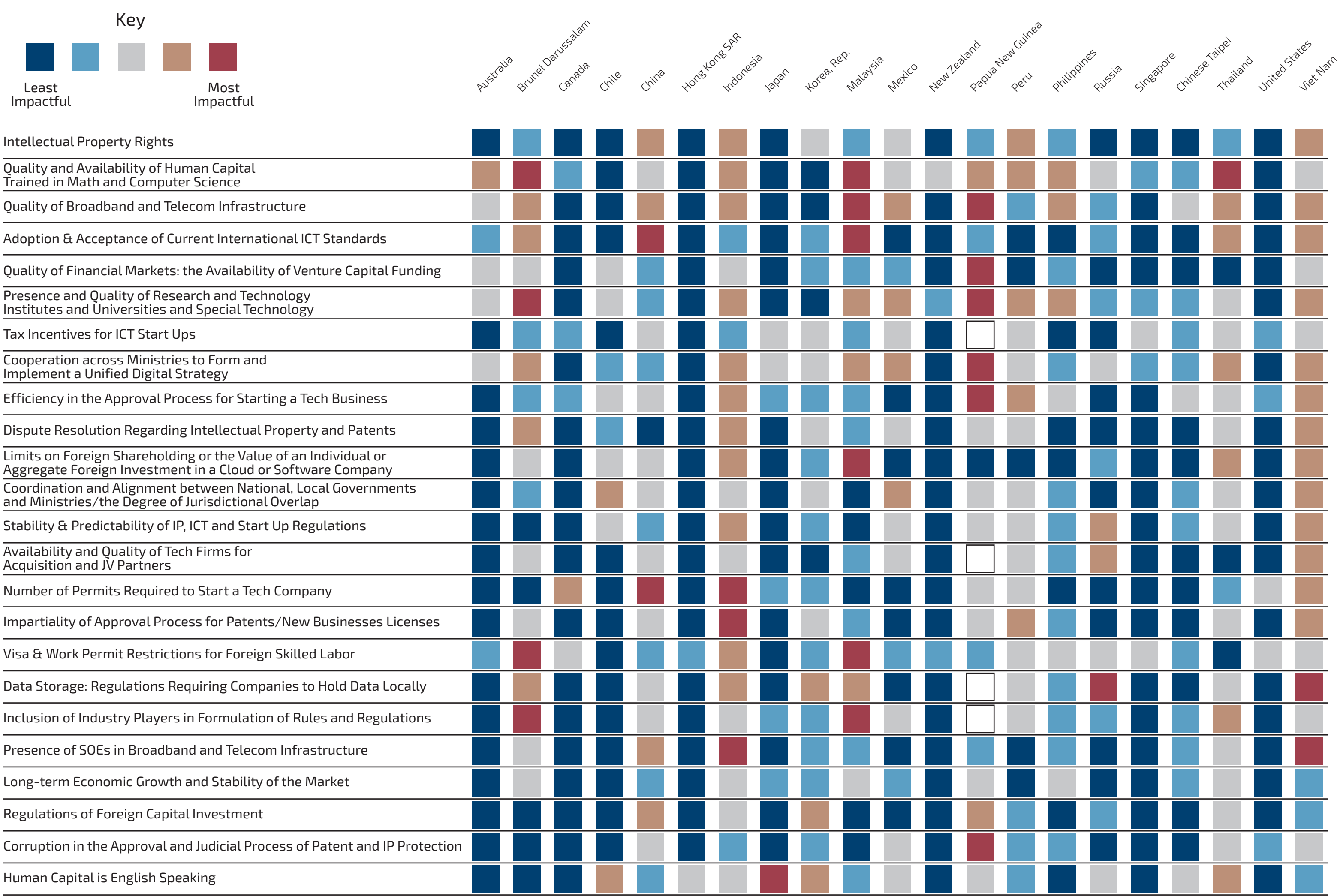
In order for APEC economies to attract significant investment in these services, they must create a unified digital strategy at the executive level. This strategy must include:

- Comprehensive and enforced IP protection
- Significant investment in broadband, telecom, and cloud infrastructure
- Investment in education and institutes of research and technology
- Very limited restrictions on highly skilled foreign worker visas.
- Development of venture capital availability
- Limited and effective regulation on data storage, starting a business, and ICT exports

FDI in this industry will come from foreign companies looking for a hospitable hub from which to export. Economies without sufficient IP protection and telecom infrastructure will never achieve prominence in this industry, regardless of domestic talent or market attractiveness. The combined tech industries (software, platform, and cloud services) will dominate the coming decades and will bring spectacular rewards to those who invest now and in the right ways.

## Software, Platform and Cloud Services-specific Barriers and Impediments (Impact Ratin Economy Comparisons

The table below visually presents the **most important** barriers and impediments in Saas, Paas and Cloud services across APEC economies. An analysis was made of the frequency to which different FDI challenges were raised by interviewees across economies. Twenty-four Saas, Paas and Cloud-specific challenges were identified as having important impacts on FDI decisions. The table shows how impactful each challenges is in each APEC economy.



# Accounting

## Introduction

"Global accounting… represents the semiotic system that connects global corporations with global capital markets and it is crucial for the price to be paid for capital. Accounting tries to measure and then disclose information about the intrinsic value of a firm as a basis for the exchange value. It is a macro legal environment of the highest importance and is thus the centerpiece of international, global financing."

– Bernhard Grossfeld "Global Accounting: Where Internet Meets Geography"[1]

As Grossfeld so poignantly states, accounting services are a vital sector to both businesses and governments. They are essential to the healthy operation of stock exchanges and contribute to the stability of both the global financial system and local economies.

Accounting services are deeply integrated within the global supply chain for multinational corporations. The industry comprises an estimated US$170 billion[2] in worldwide revenues, and is one of the most profitable professions based on the high profit margins accountants are able to achieve.
Accounting costs are replicated in every economy in which a multinational corporation conducts business. It is a major source of concern for multinational corporations that annually spend significant capital to restate financial reports to comply with local GAAP. Businesses understand the fiduciary responsibilities that necessitate accounting services, but many wonder why those services have to cost so much.

An examination of the accounting industry can provide insight into professional services as a whole. The main issues surrounding accounting services can be illustrative of the issues facing investment in a wide range of professional services, particularly those that are highly regulated, such as law or medicine.

The majority of professional services require licensing by a regulatory body of professionals and experts. These regulatory bodies establish regulations on licensing and provision of services with the argument that the certification process protects the economy, consumers, investors, and other certified practitioners from the potential harm that could be brought about by fraudulent or unqualified practitioners. Governing institutions have widely embraced these regulations and delegated the responsibility of regulating the industries to practitioners within the various professions.

However, the question remains: At what point do these regulations change from benefiting the good of society to becoming barriers that unreasonably increase costs, deter investment, and slow down prosperity? This section examines the overall investment climate in accounting services in APEC. For the purposes of this section, accounting services are defined as auditing and tax accounting. It will first present an overview of the current state of investment in accounting services, then dive into a discussion of the current issues inhibiting cross border investment. Following that is a discussion of the bigger picture issues preventing FDI in accounting services. Finally, the section concludes with a focus on recommendations for improvement and the role APEC can play in enhancing the quality of accounting services throughout the APEC region.

[1] Grossfeld, Bernhard. "Global Accounting: Where Internet Meets Geography." The American Journal of Comparative Law 48, no. 2
[2] "Accountants PwC, Deloitte, KPMG and EY Face Taming Moves - FT.com." Financial Times

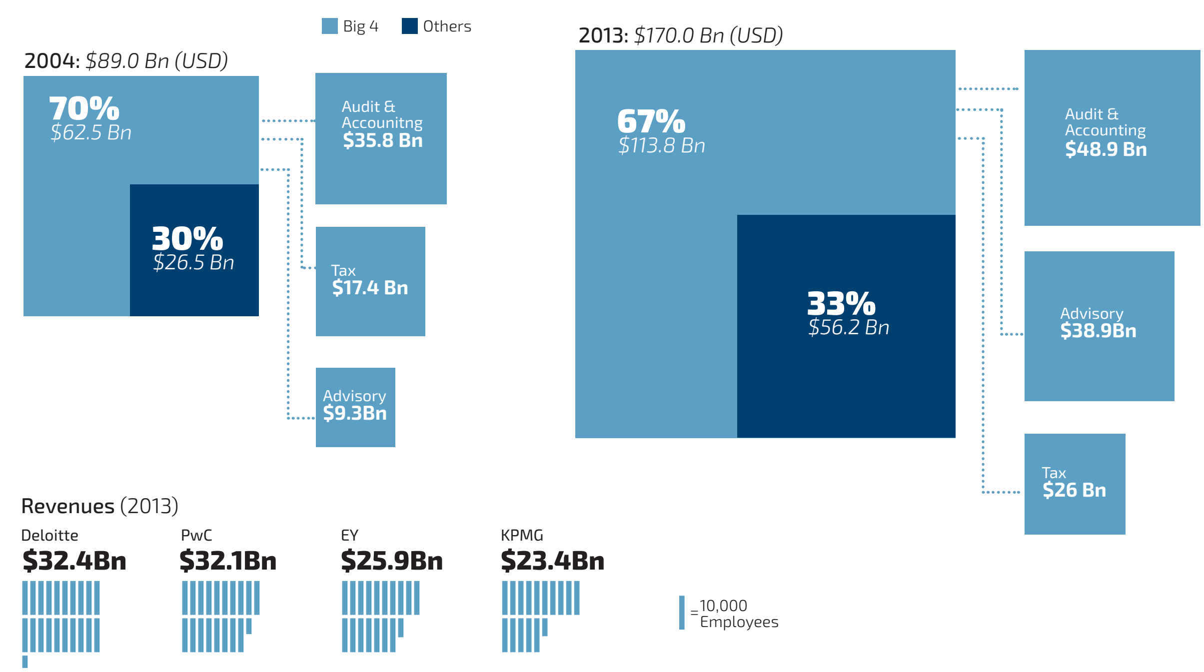
# Accounting Services: A Self-Regulated Industry With No FDI

## Little to No FDI in Accounting Services

Accounting services are unique in our study in that there is currently little to no FDI in the sector within APEC. While there were some instances of past FDI in this sector – mainly in the form of major accounting firms investing talent and funds into a local economy to help develop the local accounting profession – over the last several decades, the industry has developed in a way that has trapped investment domestically and blocks FDI. The so-called "multinational" Big 4 firms that are seen in every APEC economy (with the exception of PwC, that does not have a presence in Brunei) are not actually examples of FDI. Rather, they are a global network of locally-owned accounting firms whose activities and operating standards are coordinated by regional entities established under the Big 4 brand names. These regional entities do not provide client services, nor do they hold any ownership interests in any of the individual member firms. They exist to help clients connect with firms in other regions, and to support the brand equity of the network. These firms generate their own revenue, which is kept domestically and is not repatriated to either the regional coordinating entity or the head firm of the network (i.e. KPMG Amsterdam). Annual revenue reported by the Big 4 are actually aggregated revenues of a network of independent firms, and include revenues from audit, tax, and advisory practices. They are reported together to strengthen brand equity, and generally these firms are all referred to by their Big 4 brand affiliates, even if local laws require that they adopt a local name (i.e. Japan and Korea). Thus while, there is data about revenues from the Big 4 firms and some conflicting data about the overall size of the accounting industry, there is no data on the amount of foreign direct investment in this industry because it does not exist.

The following visual depicts the market share of the Big 4 firms in 2013 and also shows the growing emphasis on advisory services among the Big 4.

*Market Share and Revenues*




Source: Financial Times Graphics[3]

[3] "Accountants PwC, Deloitte, KPMG and EY Face Taming Moves - FT.com." Financial Times

## Accountants Have the Power to Protect their Self-Interests

In every economy, the rules of the accounting industry are determined by professional accountants. Accounting boards oversee the certification and qualification of accountants, and governments have largely delegated the responsibility of setting financial reporting standards to non-partisan accounting organizations. Accountants argue for such standards, stating that they are "important to the efficient functioning of the economy because decisions[4] about the allocation of resources rely heavily on credible, concise, and understandable financial information." While it is important to regulate the accounting industry and financial reporting to protect against fraud and to ensure the financial safety of consumers, investors, and the local economy as a whole, the freedom and authority of accountants to determine their own standards in their own economies also provides the opportunity to exert undue influence over costs and competition. The industry has been able to erect protectionist impediments in the form of local accreditation requirements and local financial reporting standards to deter foreign accountants from entering and competing. This had led to the rise of a localized, multi-domestic model of accounting services. However, after the Enron scandal of 2002 and the financial crisis of 2008, this free reign of power has started to slip as governments and businesses have started to scrutinize audit quality and competition within the accounting profession.[5] This is exemplified by the passage of Sarbanes-Oxley in the US in 2002 and the passage of the mandatory auditor rotation laws by the EU in 2013.

## Accountants Not Motivated to Invest Abroad

Under the current multi-domestic business model for accounting services, accountants do not seem driven to seek the ability to provide the full range of accounting services outside their own economy. An attempt to provide full accounting services in another economy would require learning new standards, undergoing the accreditation process, and fulfilling numerous other accreditation requirements. Most view the costs and risks associated with that process as too high. Consequently, there has been little motivation to invest across borders. Firms in developing economies are more concerned with growing their practice, expanding their customer base, attracting top-level multinational clients, and strengthening the quality of the local accounting profession. They also seem to be more concerned about the pains of learning and adjusting to rules and regulations passed by government bodies and maintaining their overall competitive advantage.

[4] "FASB, Financial Accounting Standards Board." Facts About FASB.
[5] "Accountants PwC, Deloitte, KPMG and EY Face Taming Moves - FT.com." Financial Times.

## Adoption of IFRS to Expand Market Size

This discrepancy between developed economies and developing economies indirectly affects the adoption of IFRS. In economies with less developed accounting services and a limited few multinational clients, the accounting industry is more amenable to the adoption of a single global standard. IFRS is perceived to have the potential to help develop accounting standards in less developed economies to a level that would attract more multinational corporations. Accounting firms understand that their share of capital markets is small, and so in order to reach a larger clientele, they must adopt a global standard.

The Malaysian Accounting Standards Board says of its decision to adopt IFRS, "As capital markets have become increasingly global, the changeover from Financial Reporting Standards (FRSs) to Malaysian Financial Reporting Standards (MFRSs), equivalent to IFRSs will help place Malaysian businesses on a level playing field with its international counterparts." [6]

Developed accounting industries with small markets also see the benefit of adopting IFRS. The Chartered Professional Accountants of Canada say, "Because Canada comprises less than four per cent of world capital markets, IFRSs now provide more opportunities for Canadian businesses and investors by reducing the cost of capital, increasing access to international capital markets and reducing costs by eliminating the need for reconciliations." [7]

[6] "Transition to IFRS." Transition to IFRS.
[7] "IFRS General Adoption - FAQs." Home

## Challenges to IFRS Adoption

Accounting firms also understand the risks that accompany IFRS adoption. The adoption and convergence of IFRS is not something that can be accomplished overnight, but has to be implemented gradually. The International Forum on Accountancy Development states the following in its vision:

"In early 1999, the seven largest accounting firms formed a vision to develop and implement a response to market place needs and regulatory concerns, elevating worldwide reporting and auditing practices to international benchmark levels….. The vision will not be achieved overnight and will require significant long-term efforts. National accounting standards of most countries should be raised with IAS as the benchmark or minimum standards. The exception would be where national GAAP is more developed than IAS. Blind adoption of IAS by unprepared countries, may be more detrimental than beneficial. Such countries must be given time to develop a sufficient infrastructure to effectively adopt IAS." [8]

On the other side of the spectrum, there has been a significant lag from those economies "where national GAAP is more developed than IAS", such as the United States. A dean of an US School of Accounting, says,

"The need for a single set of worldwide accounting standards useful in accessing all global capital markets can be seen as an irresistible force, however, the national interests of individual states sometimes can represent an unmovable object. At this time, it seems that the immovable object has, at least temporarily, prevailed."

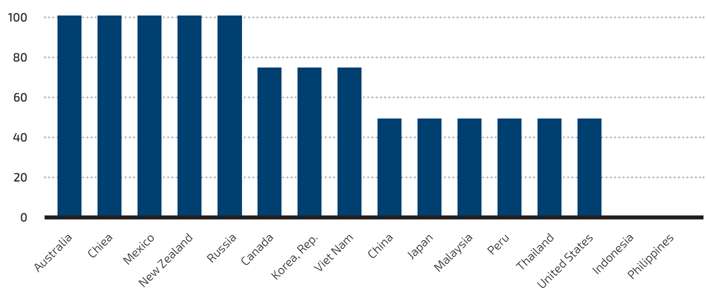
*"The need for a single set of worldwide accounting standards useful in accessing all global capital markets can be seen as an irresistible force, however, the national interests of individual states sometimes can represent an unmovable object. At this time, it seems that the immovable object has, at least temporarily, prevailed."*

Many members of the accounting community in the US perceive US GAAP as being more sophisticated than IFRS and thus have been more passive in championing IFRS adoption. There is also significant resistance from the client side, the business community, who believe that the benefits of transitioning to IFRS do not outweigh the costs of developing and implementing new data collection systems to comply with IFRS, especially if they are not engaged in business across borders. The US has also traditionally faced stubborn resistance against adopting a set of international standards that differs from its own current standards (i.e. resistance against the metric system) and does not have "US" incorporated in the name. This resistance to IFRS from the US will remain a major challenge for the global accounting community.

[8] "IAS Plus." International Forum For Accountancy Development (IFAD).

## Accounting Services Are Very Open to Investment

*World Bank Restrictiveness Index: Accounting*



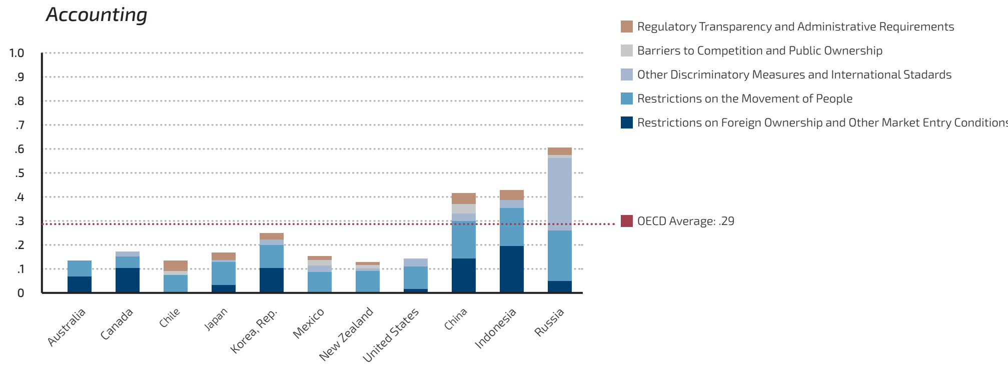

*Source: World Bank*[9]

The graph above shows the accounting industry scores of the APEC economies that were included in the World Bank's 2008 study on services trade restrictiveness. The World Bank measured restrictions that were mostly related to ownership, market entry, and licensing issues. According to the findings, the accounting industry is fairly open for investment across APEC. Overall, it is not as difficult to enter the accounting services industry in APEC as it is to enter a sector like life insurance. Five economies received a "Completely open" (100) rating, three received a "Virtually open but with minor restrictions" (75) rating, and six received a "Major restrictions" (50) rating. The only two in this study that received a "completely closed" (0) rating are Indonesia and the Philippines.

This data illustrates that in general there are not many restrictions set by the government to prevent accounting firms from crossing borders and setting up a business. Yet, as described previously, there is no FDI in accounting and no evidence of accounting firms engaging in Mode 3 investments across borders. We can conclude then, that the barriers to FDI lie elsewhere.

[9] World Bank STRI Database (2008)

# Low Restrictions on Foreign Ownership and Market Entry; Higher Restrictions on Movement of People




*Source: OECD STRI[10]*

The OECD's Services Trade Restrictiveness Index (STRI) is more recent than the World Bank's STRI study, and breaks down the different restrictions into categories. According to their findings, China, Indonesia, and Russia have the most restrictive policies to investing in accounting services within APEC. On the other hand, New Zealand, the United States, Australia, Chile, and Mexico have the least restrictive among APEC economies reviewed. Canada, Korea, and Japan, while not as open as other economies, still fall well beneath the OECD average.

A comparison of accounting services to other sectors within the OECD study reveals that accounting services and other professional services (i.e. architecture, engineering, and legal services) demonstrate a pattern of low levels of "Restrictions on foreign ownership and other market entry conditions" while having high levels of "Restrictions on the movement of people" across all economies. Every other sector revealed a much higher level of "Restrictions on foreign ownership and other market entry conditions."

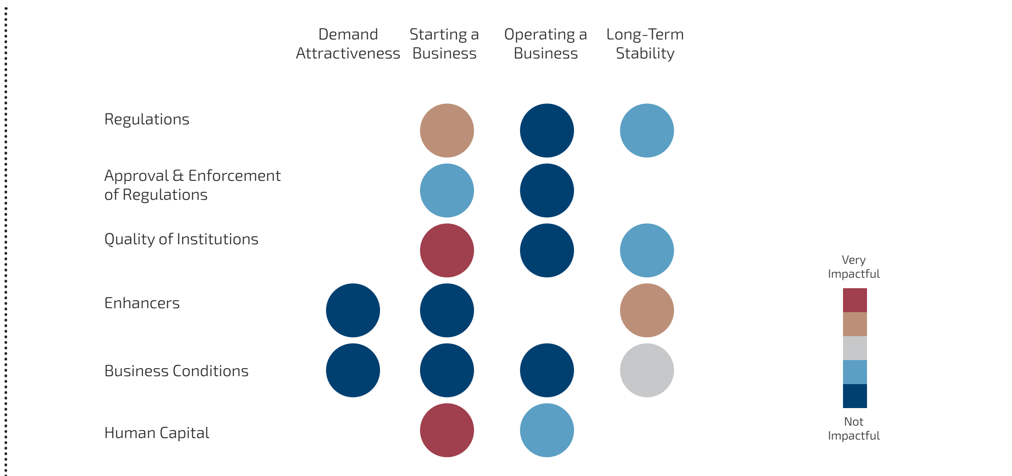
This low level of "Restrictions on the foreign ownership and other market entry conditions" supports the World Bank STRI findings on accounting services. As mentioned previously, the World Bank STRI focused more on market entry regulations than the OECD STRI. Most of these issues fall within the OECD's "Restrictions on foreign ownership and other market entry conditions" category. This explains why Russia, despite being rated as very open in the World Bank report, was overall rated very restrictive in the OECD report. The low restrictiveness rating from the World Bank essentially corresponds to the low "Restrictions on foreign ownership and other market entry conditions" rating for Russia in the OECD report.

The OECD expands beyond just market entry and identifies a number of other restrictive factors in the investment environment. For accounting services and other professional services, the most impactful category was "Restrictions on the movement of people." The questions asked in this category focus on recognition of certification, requirements for local accreditation, and the ability to remain in an economy for an extended period of time to practice. In USC Marshall's framework, these issues fall mostly into the Human Capital category.

[10] OECD STRI Database (2014)

# *Where Factors Are Inhibiting Accounting Investment In APEC*

*Location and Relative Importance of Critical FDI Factors Within Accounting*




The chart above shows where APEC rates as a region for different areas in accounting investment. The scores reveal that Human Capital and Quality of Institutions when starting a business are the most impactful factors.

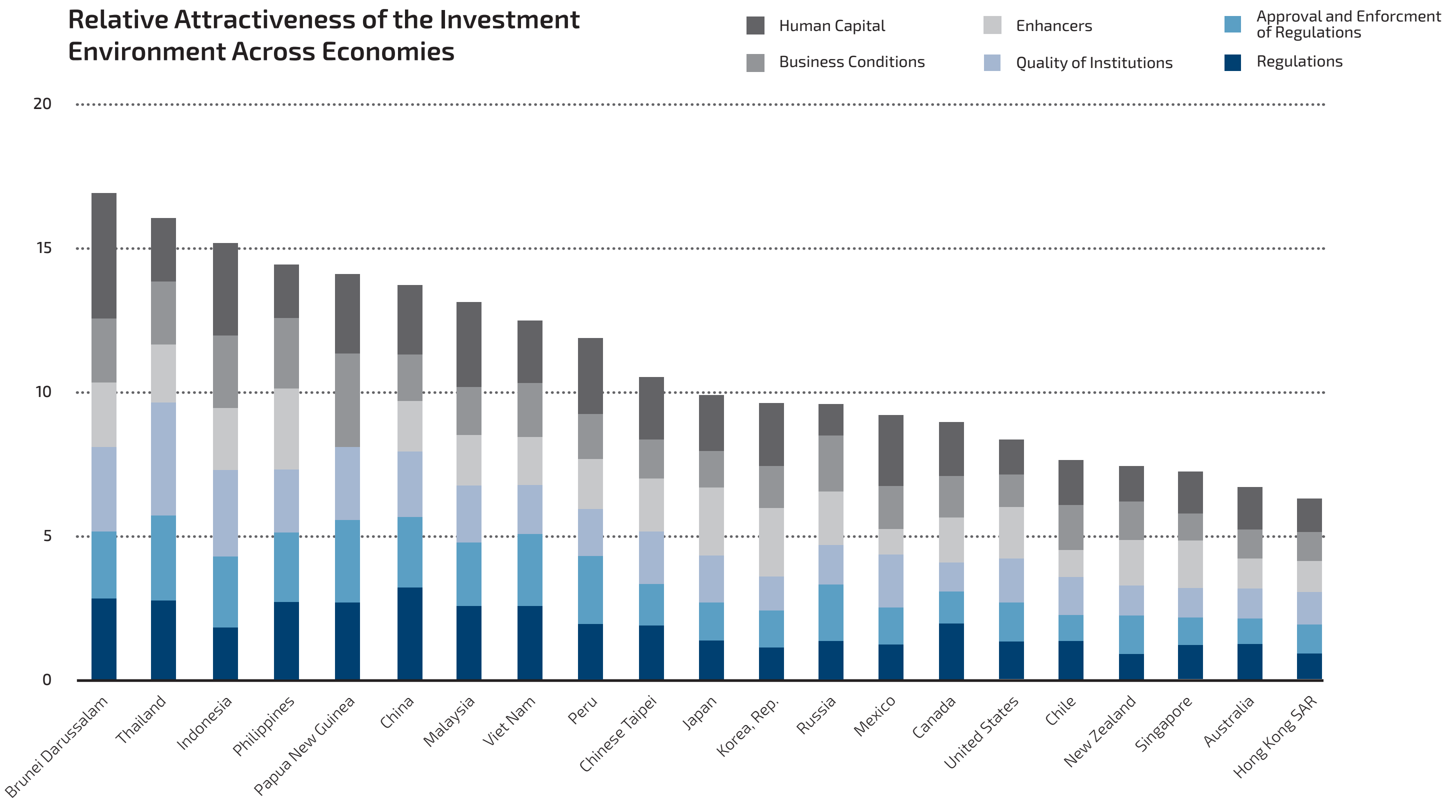
It is important to note that because there is no FDI in accounting services, the results above are garnered from interviews with locally-owned accounting firms that do not represent FDI. Interviewees were asked to predict the potential impact of various factors on hypothetical decisions to invest abroad. These ratings reflect their responses to those questions.

Cross-referenced with our framework (see appendix), the important factors can be identified as "Mutual recognition of skills, certification, and qualifications" (Human Capital, 2.48) and "Extent of IFRS Adoption and Compliance" (Quality of Institutions, 2.38). These will be discussed at length in the next section.

The next most important factor falls under the cross section of Enhancers and Long-Term Stability, and can be identified as "FDI is a Policy Priority" (2.15). This factor is rated as impactful due to the absence of policies that place FDI as a priority. The lack of action from policy makers to make the regulatory environment surrounding accounting less restrictive and to attract FDI does not encourage accounting firms to invest across borders.

Relevant limits of foreign ownership by non-locally licensed accountants is an issue in starting a business. While many economies do not have limits on foreign citizen ownership, almost all economies require that a certain percentage of the firm be owned by locally licensed accountants. This issue can be understood to be more about the difficulties of becoming locally accredited than the regulations on ownership.

The rest of the factors within accounting rate as low impact relative to other industries. That corresponds to the results of the OECD and World Bank studies. Overall, the data shows that the main issues in accounting are not about regulations on market entry or operating a business, but more about behind-the-border factors that affect the ability of human capital to deliver accounting services as well as the state of IFRS adoption.




## Relatively Low Impact from Regulations, Higher Impact from Human Capital and Quality of Institutions

The histogram above shows the summated results of the impact ratings of the 51 factors of USC Marshall's framework, broken down by the six policy perspective categories. This chart shows that Human Capital and Quality of Institutions are the most impactful factors.

## Leaders Of The Pack

Australia, Chile, Hong Kong, New Zealand, and Singapore rank lowest (below 8 points) in terms of impact of restrictiveness. These are economies (besides Singapore) that have fully adopted IFRS and that have signed mutual recognition agreements with other economies to allow non-locally licensed accountants to become accredited through an expedited process. Hong Kong and Singapore are also hubs for trade in Asia and are overall less restrictive across all sectors than other economies. Australia and New Zealand have actively promoted FDI as a policy priority to attract companies that would otherwise overlook them due to their inconvenient geographic location and relatively small markets. All four of these economies also use English as the main accounting language, which facilitates trade in accounting services with other English-speaking economies.

On the other side of the spectrum, Brunei, China, Indonesia, Malaysia, Philippines, Papua New Guinea, Thailand, and Viet Nam, which rank highest (above 12 points) on impact of restrictiveness. Many of these economies have not adopted IFRS fully or have adopted IFRS with significant modifications. Several also use the local language as the primary accounting language, limiting the ability of foreign accountants, many of whom know English but not the local language, to access the local market. These economies also have fewer mutual recognition agreements signed with other economies. Overall, they have more restrictive investment environments across all industries.

## Most Problematic Investment Challenges in Accounting Services

The discussion below focuses specifically on the most important challenges in accounting services. A careful analysis of all accounting interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the accounting sector. Eighteen FDI factors were found to be important or very important across economies. The results are presented in the table positioned at the end of the accounting section. The relative impact of each barrier or impediment in each economy is reported. The horizontal bar chart below summarizes the impact of these factors for each APEC economy. The five most critical challenges are discussed in more detail below noting the leading and lagging APEC economies on each investment factor.

***Mutual recognition of certification, skills, and/or qualifications of accountants***

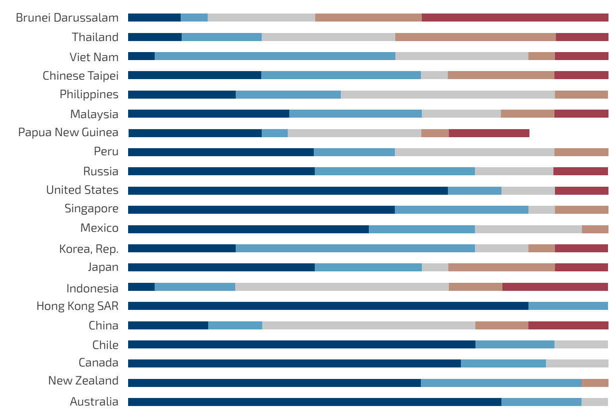
***Ease or difficulty of the process for obtaining local accreditation for non-locally licensed accountants.***

***Local language proficiency needed to become accredited in local economy***

***Extent of IFRS adoption and compliance***

***Use of local GAAP for part or all of reporting & tax requirements***

*Summary of Impact Ratings*




## Mutual recognition of certification, skills, and/or qualifications of accountants

The lack of mutual recognition of certification, skills, and/or qualifications of accountants prevents professionals from practicing in other economies. The accounting industry has maintained strict regulations on who is allowed to practice within their respective economies. They sustain that these restrictions are essential to the protection and efficient operations of the economy, and that a certification process inspires trust and confidence in the profession. However, due to a lack of globalized standards for the certification of accountants, those local certifications lose their validity across borders. MNCs looking to invest across borders must employ the services of locally certified accountants who may be more costly, may not understand their business or company, or may not be as well-qualified as the accountants used in their base economy. This decreases efficiency and represents an added cost in terms of both time and capital.

*Best: Australia, Chile, Hong Kong, New Zealand, Peru, Singapore*

*Lagging: Brunei, China, Japan, Korea, Chinese Taipei*

## Ease or difficulty of the process for obtaining local accreditation for non-locally licensed accountants

The lack of mutual recognition of qualifications forces non-locally licensed accountants looking to practice in a foreign economy to undergo the local certification process in order to provide full accounting services. Local certification processes vary from economy to economy, and can range from a paper application that only requires a transcript from an accounting university (i.e. Peru) to requirements to pass a series of tests and complete one or two years of professional experience to become fully accredited (i.e. US). Difficulties are compounded when there are linguistic barriers. Ultimately, the more difficult the process to become locally certified, the less attractive an economy is for non-locally licensed accountants to enter and provide services.

*Best: Chile, Peru*

*Lagging: China, Indonesia, Japan, Korea, Russia, Thailand, Chinese Taipei,*

## Local language proficiency needed to become accredited in local economy

Accountants argue that for the safety of local consumers and investors, it is imperative for locally-certified accountants to be proficient in the local language. Accountants must be able to take full responsibility and be held liable for the financial statements which they audit and sign, and that is not possible unless the accountant is proficient in the local language. Of particular note are language-isolate economies like Japan and Korea; while these economies do not expressly require local language proficiency, local accreditation exams (which are already considered difficult) are proctored only in the local language, essentially requiring that anyone who attempts the exam be near-native in proficiency. The ratings for this factor are based upon an Anglocentric perspective of accounting, where proficiency in English lowers barriers to accreditation.

*Best: Australia, Brunei, Canada, Hong Kong, Malaysia, New Zealand, Philippines, Papua New Guinea, Singapore, US*
*Lagging: China, Indonesia, Japan, Korea, Russia, Thailand, Chinese Taipei*

## Use of local GAAP for part or all of reporting & tax requirements

In conjunction with the adoption of IFRS is the retention of local GAAP in an economy. The transition to IFRS is understandably carried out in stages and takes time. However, some economies have taken longer to fully transition to IFRS than others. Some still require financial reporting in local GAAP for certain types of companies (i.e. public utilities companies, SMEs) while others maintain use of local GAAP for tax reporting. As long as the use of local GAAP is supported, accountants practicing in the local economy will be required to know both local GAAP and IFRS, diminishing efficiency.

*Best economies: Australia, Chile, Hong Kong, Korea, Malaysia, Peru, Papua New Guinea, Russia*
*Worst economies: Brunei, China, Indonesia, Japan, Singapore, Thailand, US, Viet Nam*

## Extent of IFRS adoption and compliance

IFRS has become widely accepted as the rising global standard for financial reporting. The adoption of IFRS by local economies affects not only the accreditation process for accountants, but also the opportunities where accountants can potentially provide services. Theoretically, if two economies share the exact same reporting standards (and a common language), accountants from those two economies would be able to easily provide services across borders. However, while the adoption and convergence of IFRS has progressed with great success in recent years, it is now apparent that modifications in the adoption or convergence process diminish the benefits of IFRS standardization and essentially create new local GAAP.

*Best: Australia, Chile, Hong Kong, Korea, Malaysia, Peru, Papua New Guinea, Russia*
*Worst: Brunei, Indonesia, Japan, Thailand, US, Viet Nam*

# Major Themes in Accounting Services

The major impediments to accounting services mentioned previously can be narrowed down to two main themes. First, with the industry as it is now, it is extremely difficult to cross borders and become accredited in another economy to offer the full range of accounting services. This is primarily due to the lack of mutual recognition agreements, the difficulty of the accreditation process, and the necessity for local language proficiency. The second theme revolves around the benefits and challenges surrounding the global shift towards IFRS.

## Lack of Mutual Recognition of Skills, Qualifications, and Certification Deters FDI

One of the main inhibitors to becoming accredited to practice accounting in another economy is the lack of mutual recognition of qualifications and certification of non-locally licensed accountants.

For instance, accountants from China are not allowed to practice in Chinese Taipei. Both economies share Mandarin as a common language (despite some variances in terminology and script), and both are closely intertwined in trade and cross- border investment. Yet, due to various reasons (many political), the accounting boards of China and Chinese Taipei have not signed mutual recognition agreements. As a result, companies that conduct business in these two economies are required to hire the services of local accountants when restating financial reports.

On the other hand, accountants who are certified in Australia are able to travel to Canada, Hong Kong, Malaysia, New Zealand, Singapore, and the United States to provide the full-breadth of accounting services to clients in those economies without having to undergo the full range of training and accreditation needed as a result of signed Mutual Recognition Agreements (MRA) between the respective accounting boards. This facilitates the movement of accountants across borders, increases trade in accounting services, enhances the ease of restating financial reports in another economy, and ultimately helps to drive down the costs of accounting.

MRAs reduce the barriers non-locally licensed accountants have to go through in order to become locally accredited. While the ability to practice is still subject to a review and approval by the local accounting body, an MRA greatly simplifies the accreditation process so that non-locally licensed accountants can more easily provide the full range of accounting services to global clients.

## Current Status of MRAs Within APEC

The chart on the right details the current status of MRAs across APEC. APEC recently pushed to increase MRAs (APEC Accounting Services Initiative). ASEAN has also developed its MRA Framework. Many of these economies have signed MRAs with economies outside of APEC as well.

*Mutual Recognition Agreements Within APEC*

| | Australia | Brunei Darussalam | Canada | Chile | China | Hong Kong SAR | Indonesia | Japan | Korea, Rep. | Malaysia | Mexico | New Zealand | Papua New Guinea | Peru | Philippines | Russia | Singapore | Chinese Taipei | Thailand | United States | Viet Nam | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | | | ■ | | | ■ | | | | ■ | | ■ | | | | | ■ | | | ■ | | 6 |
| Brunei Darussalam | | | | | | | | | | | | | | | | | | | | | ■ | 1 |
| Canada | ■ | | | | | ■ | | ■ | | | ■ | ■ | | | | | | | | ■ | | 6 |
| Chile | | | | | | | | | | | | | | | | | | | | | | 0 |
| China | | | | | | | | | | | | | | | | | | | | | | 0 |
| Hong Kong SAR | ■ | | ■ | | | | | | | | | ■ | | | | | | | | ■ | | 4 |
| Indonesia | | | | | | | | | | ■ | | | | | | | | | | | ■ | 2 |
| Japan | | | ■ | | | | | | | | | | | | | | | | | | | 1 |
| Korea, Rep. | | | | | | | | | | | | | | | | | | | | | | 0 |
| Malaysia | ■ | | | | | | ■ | | | | | | | | | | | | | | ■ | 3 |
| Mexico | | | ■ | | | | | | | | | | | | | | | | | ■ | | 2 |
| New Zealand | ■ | | ■ | | | ■ | | | | | | | | | | | | | | ■ | | 4 |
| Papua New Guinea | | | | | | | | | | | | | | | | | | | | | | 0 |
| Peru | | | | | | | | | | | | | | | | | | | | | | 0 |
| Philippines | | | | | | | | | | | | | | | | | | | | | ■ | 1 |
| Russia | | | | | | | | | | | | | | | | | | | | | | 0 |
| Singapore | ■ | | | | | | | | | | | | | | | | | | | | ■ | 2 |
| Chinese Taipei | | | | | | | | | | | | | | | | | | | | | | 0 |
| Thailand | | | | | | | | | | | | | | | | | | | | | ■ | 1 |
| United States | ■ | | ■ | | | ■ | | | | | ■ | ■ | | | | | | | | | | 5 |
| Viet Nam | | ■ | | | | | ■ | | | ■ | | | | | ■ | | ■ | | ■ | | | 6 |

*Source: APEC Accounting Services Initiative Inventory*[11]

[11] "APEC Accounting Services Initiative." Inventory.

## Local Laws on Corporate Structure and Liability of Accountants May Deter Trade in Services, Despite MRAs

However, even if MRAs are in place, local laws on liability of accountants may repel accountants from making use of those MRAs. An accountant in Mexico explained that despite there being an MRA among Canada, the United States, and Mexico, its North American counterparts stay away from providing accounting services in Mexico due to the liability laws and the way corporations are structured. In the United States, laws allow for Limited Liability Partnerships, which limits the liability of accountants in the event of a lawsuit. Mexican laws do not offer the same kind of protection to accountants, and partners can be held individually liable for mistakes. The same was heard in Chile.

This issue about corporate structure and the laws surrounding liability presents an interesting risk that was not directly investigated in depth by our team, but which potentially has far-reaching implications for companies looking to expand globally.

## Where There Is No MRA, The Difficulty Of The Local Certification Process Becomes Most Impactful

In the previously mentioned case of China and Chinese Taipei, the lack of an MRA means that non-locally licensed accountants must undergo the entire accreditation process local accountants go through to become certified. In most economies, this entails completing many hours of higher level education and passing a series of tests. In some economies, practical experience is further required before becoming fully accredited. Some economies also have accounting boards that differ from region to region, meaning that requirements for certification, accounting standards and curriculum, and application processes can vary vastly within the same economy.

On the other hand, the South American countries, Peru and Chile, present an interesting case in that they have significantly streamlined the process of becoming accredited, requiring only approval of an university transcript in accounting. Their model for accrediting accountants differs drastically from the rest of the APEC economies in that certification is given by universities and higher education institutes, and not by an accounting board. As a result, in order for non-locally licensed accountants to become locally accredited, all that is required is approval by an accounting university is a college transcript showing the completion of equivalent coursework comparable to that of the local curriculum.

## Local Language Proficiency Is Essential to Practicing Accounting

Despite the ease with which one could potentially receive accreditation in Chile, the fact remains that submitted transcripts are subject to approval by the local university, so only those with demonstrated proficiency in Spanish are able to receive approval to practice.

This issue of language proficiency came up repeatedly across APEC. In economies where English was not the main accounting language, oftentimes there would be little to no MRAs, meaning that non-locally licensed accountants were required to undergo the entire local accreditation process in order to provide the full breadth of accounting services. Local professionals view this process as an integral one to protecting the local economy, local investors, and local consumers. To them, this is not necessarily a test that evaluates competency in accounting, but rather a test to evaluate language proficiency. According to an accounting firm in Japan:

"An accountant must be able to take responsibility for the statements and reports that he/she signs, and must also be able to explain decisions to investors in the local language. If he/she is not fluent enough in Japanese to be able to do that, he/she should not be allowed to practice in Japan."

Similar stories can be heard in Chinese Taipei, China, Korea, and more. This may be why MRAs tend to be signed more among economies with similar languages (i.e. Peru and its MRA network in Central and South American Spanish-speaking economies). It is easier to lower barriers when the other party shares a common tongue and perhaps a similar culture. The exception to this is perhaps Chinese Taipei and China, where political and historical tensions and cultural differences come into play to prevent agreements such as an MRA.

# *IFRS Adoption Has Progressed in APEC, But Requires Consistency and Further Convergence*

## Current State of IFRS Adoption and Concerning Trends

The second most impactful issue surrounding investment into accounting is the adoption of IFRS. This "adoption" generally takes two forms: 1) adoption of IFRS by abandoning local GAAP or 2) maintaining local GAAP but gradually changing rules and standards to converge with IFRS.

The industry overall has made significant strides in IFRS adoption and convergence since the USC ABAC team last investigated Accounting services in APEC in 2008.In 2008, seven APEC economies had already adopted or made significant steps to converge with IFRS, seven had plans to do so by 2014, and seven had not yet announced plans to adopt or converge with IFRS.

The figure below shows the current state of IFRS adoption in APEC, as reported by the IASB. There is still significant room for improvement in IFRS adoption. Note that although some economies have made significant steps towards IFRS convergence, they are still considered as economies that have do not permit IFRS (such as China and Indonesia). Included in this list are economies that have significantly modified IFRS.

### IFRS Compliance for Listed Companies

**IFRS Not Permitted**

China
Indonesia
Philippines
Singapore
Thailand
United States
Viet Nam
Chinese Taipei

**IFRS Permitted**

Japan

**IFRS Required for Some**

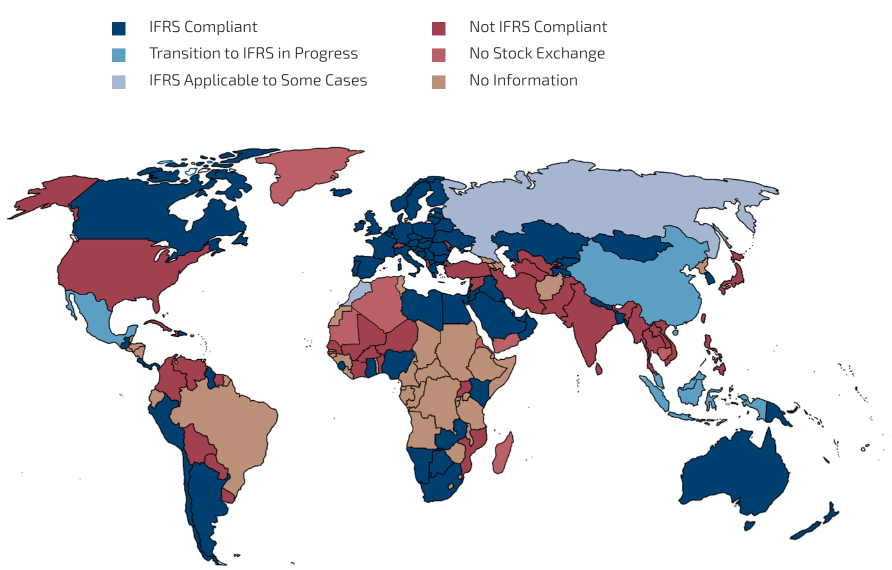
Canada
Mexico
Russian Federation

**IFRS Required for All**

Australia
Chile
China, Hong Kong SAR
Korea, Repblic of
Malaysia
New Zealand
Papua New Guinea
Peru

**No Stock Echange**

Brunei Darussalam




*Source: IFRS*[12]

[12] "Jurisdiction Profiles." IFRS

## Dangers of localizing IFRS and the Residual Impact of Maintaining Use of Local GAAP

IFRS harmonization has picked up pace, but the danger remains that the localization of IFRS in some of these economies (i.e. Singapore, Philippines, Chinese Taipei) has modified the standards to the extent that the potential benefits of IFRS have been negated. By selectively choosing which parts of IFRS to adopt or converge to, economies are in essence turning IFRS into local GAAP, thereby costing companies significant capital in auditing fees.

In order to reap all the benefits of having one global standard, ideally, economies should adopt IFRS as is, without making any modifications.

This is further complicated by economies that have adopted IFRS, but do not actually require IFRS for all companies (Canada, Japan, Mexico, and Russia). This allows for companies to maintain use of local GAAP either for financial reporting, tax purposes, or both, meaning that accountants who wish to practice locally will still need to have an understanding of local GAAP.

These findings are similar to the key findings from the 2008 USC Marshall ABAC Team's findings, mainly that larger economies are slower in adopting IFRS and domestic entities in the APEC region are required to follow local GAAP standards or modified GAAP standards compliant with IFRS.

# *The Future Of Accounting*

## MRAs Have the Potential to Spark Global Competition in Accounting

MRAs increase the ease of trading accounting services across borders, and have the potential to spark global competition in accounting services and place downward pressure on high accounting costs.

The following are some stories our team heard during interviews:

"An hour of competent accounting time in China is more expensive than the US or the UK. There are not enough good accountants in China. Good luck finding a competent one."

"In Indonesia, rates can go as high as $1,000 to $1,200 an hour for competent accounting by a senior partner. This is more than the UK, the US, or Germany. On the other hand, the Philippines are locked in at about $150 an hour. In Indonesia, it's 6 to 10 times what it is in the Philippines."

While these stories may speak to the lack of competent and high quality accountants in China and Indonesia, they also speak to the extravagant prices that are charged for accounting services and the opportunity for competitive global pricing to lower those prices.

Given the above anecdotes, hypothetically, if a firm from the Philippines were able to send accountants to Indonesia to offer the full breadth of accounting services for a lower cost than local Indonesian accountants could, that would drive competition in pricing, and put pressure on local Indonesian firms to lower their billable hours rates, lowering costs for both corporations and, ultimately, consumers. The same could be said if accountants from Chinese Taipei were able to be recognized in China at a lower rate.

However, whether or not this competitive pricing would actually happen is questionable. Already there are MRAs in place in a number of economies, yet pricing has not become more competitive globally. This may be due to a worldwide, unspoken, gentleman's agreement that is respected by accountants throughout the globe in an effort to protect the industry and its self-interests. It may also be due to the liability laws that deter accountants from wanting to practice in another economy for fear of being sued. Lastly, it may also simply be because accountants are content to remain locally competitive and do not want to go through the hassle of expanding the scope of their services to another economy.

## Growing Demand for English-Speaking Accountants

On the other side of the language proficiency issue is the rising demand by large multinational companies for competent English speakers in non-English speaking economies. While English education is mandated in many of the APEC economies, the level of fluency and proficiency that is achieved is often still lacking at the professional level. As multinational corporations invest more into local economies, the demand for talent that is fluent in English continues to rise. In accounting services, multinational clients in particular look for accountants who are bilingual and can provide services in English in addition to their own local language. One researcher heard from a Big 4 firm, "We found it easier to hire local English majors and teach them accounting than to hire local accountants and have them learn English." While in many economies, accounting firms claim there is no shortage of accountants, very soon firms may instead realize that it is not a shortage of accountants they should be concerned about, but rather a shortage of accountants who are English proficient.

## Emerging Trend Of Accounting Services Being Traded

Despite resistance from certain economies, IFRS adoption has progressed significantly within APEC. This increasing convergence of global financial reporting standards has led to an interesting rise in the trade of accounting services. Common financial reporting standards means that accountants in different economies are receiving more similar education. This facilitates coordinating accounting work with member firms across the globe, allowing firms in one economy to take advantage of arbitrage opportunities in other economies (as well as time differences) to expedite audits or tax filings.

Our team heard stories of accounting firms in the US outsourcing repetitive and more mundane tasks to firms in India, who would, for a lower price, complete the work overnight and send it back to the firm for processing.

This emerging de-integration of the accounting services value chain has led to an increase in trade where certain economies are specializing in certain parts of the accounting value chain. This is also linked to the rise of the internet and global ICT infrastructure, as newer and faster ICT systems have made it possible to outsource accounting work to other firms around the globe, transforming the service into a tradable service. This expedites the accounting process, lowers costs for accountants, and ultimately lowers costs for the consumer.

# *Conclusions*

## There is Little to No FDI In Accounting

Accounting is unique among the sectors examined in our study in that there is little to no FDI in accounting. The Big 4 firms are not actually "multinational firms" but professional global networks of locally-owned firms unified under a brand name that helps coordinate activities and conveys a well-known global standard.

## The Main Barriers to Accounting are Lack of Mutual Recognition, IFRS Adoption, and Self-Regulation of the Accounting Profession

Unlike other sectors, foreign ownership and market entry barriers are not the key issues. The main barriers in accounting services are the lack of mutual recognition of qualifications, IFRS adoption, and the inertia that comes from self-regulation of the accounting profession. The lack of mutual recognition traps investment domestically, while the varying degrees of IFRS adoption have essentially created local GAAP standards that represent an added cost to MNCs who are required to restate reports locally. The stability and safety of the accounting profession also adds little incentive for accountants to remove barriers which could force them to offer services at lower prices and act against their own self-interests. While businesses understand the necessary costs associated with accounting, many beleive those costs are unnecessarily high.

## Removing Barriers to Accounting Will Not Change FDI, But Will Incentivize Trade in Accounting Services

Removing the barriers to FDI in accounting will likely have unintended consequences. A world with mutual recognition of accounting qualifications and 100% adoption of IFRS in all economies would likely lead to a situation where accounting services become traded from highly efficient, low-cost hubs like the Philippines. The Big 4 firms are already outsourcing accounting work to other firms in their global network that specialize in specific types of accounting. An increase in this kind of trade in services has the potential to stimulate global competitiveness among accounting firms and place downward pressure on the cost of accounting in economies where current billable hourly rates are extremely high.

## Removing Barriers Will also Remove Potential Unnecessary Transaction Costs and Help Lower Overall Costs for Companies

Removal of barriers brings a second benefit to economies in the form of eliminating potentially unnecessary transaction costs. Increased IFRS standardization will free companies from the necessity of implementing new IT systems to collect data for both local GAAP and IFRS. Companies will also be able to use IFRS financial statements in other economies, and not expend capital on having financial reports restated in local GAAP.

## Economies that are Doing Well in Accounting

Based on our interviews, Australia, Chile, Hong Kong, New Zealand, and Singapore have high levels of openness. These economies (with the exception of Singapore), have adopted IFRS and have signed MRAs with multiple economies. Chile has streamlined its recognition process so that non-locally licensed accountants do not have to undergo the entire accreditation process to be certified.

## Factors which Best Situate Economies to be Accounting Services Hubs

Uninformed de-regulation of the accounting profession has the potential to lead to serious unintended consequences. Rather than stimulating renewed investment to improve competitive services for clients, de-regulation may instead provide stimulus for accounting services to be traded services that are provided from other locations. Economies that will be well positioned to compete for the future of accounting services will likely have a stable and high-quality IT infrastructure, numerous MRAs with multiple economies, full IFRS adoption, and high-quality, competent accountants proficient in English.

# Recommendations

*Adoption of IFRS without Modification:*

Adoption of IFRS is critical to lowering transaction costs for businesses. As MNCs increasingly partner with local firms, the need for common approaches to accounting is becoming more critical. Adoption of IFRS with any modification is effectively a new version of domestic GAAP. This increases costs to MNCs as they are again required to restate their financial reports. Economies that have standardized accounting practices with other economies will become more attractive for investment. While this may not necessarily lead to an increase in FDI in accounting services, it has the potential to attract FDI in other sectors. Economies are encouraged to adopt IFRS for all enterprise financial and tax reporting, and to resist pressures for local modifications.

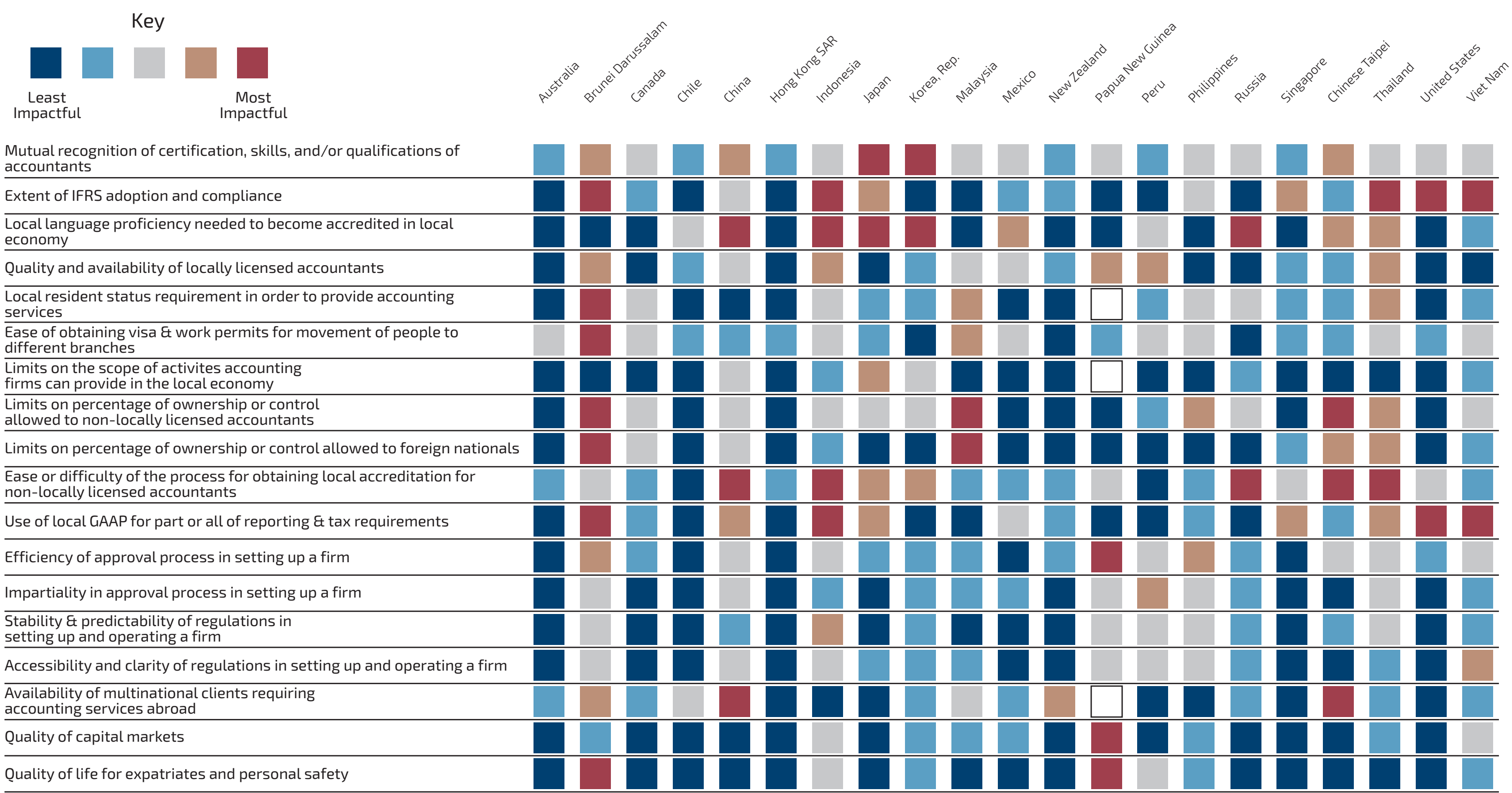
*Establish common standardized procedures for accreditation*

MNCs prefer accountants that have the same qualifications and the same level of integrity. Businesses need to have confidence and deep levels of trust in accounting professionals. Currently, the industry is fragmented, and businesses have to depend on the integrity of a brand name when hiring accountants to perform services in another economy.

The varying processes of accreditation throughout APEC also contribute to the varying levels of competency of accountants and accounting practices. The different processes in each economy increase the challenge of becoming accredited, and necessitate new training to a different standard when accountants want to become licensed to practice in a new economy. In order to ensure the integrity of the accounting profession, APEC should coordinate with IASB to investigate creating a single set of APEC-wide accounting training standards that will bring accountants in all APEC economies to a uniform accreditation standard.

# Accounting Services-specific Barriers and Impediments (Impact Ratings) Economy Comparisons

The table below visually presents the **most important** barriers and impediments in accounting services across APEC economies. An analysis was made of the frequency to which different FDI challenges were raised by interviewees across economies. Eighteen accounting-specific challenges were identified as having important impacts on FDI decisions. The table shows how impactful each challenges is in each APEC economy.



# Life Insurance

# Introduction

The life insurance industry plays a key role in protecting individuals from immediate and long-term costs arising from death and longevity, and channels savings toward long-term investment. Life insurance supplements pensions by providing products that protect individuals against the consequences of unfortunate events and providing retirees with financial support. Moreover, the life insurance industry is one of the largest investors in the bond market by virtue of the capital it accrues from premiums and long-term investment horizon.

The Asia-Pacific region plays a vital role in the life insurance sector not only because of the gross premiums written, but also because of its significant market potential. APEC economies account for 60.2% [1] of global life insurance premiums, however the United States and Japan combine for 41.7% of the global market share – nearly 70% of APEC premiums. APEC also contributes significantly to the growth of the global life insurance industry, supported by the vigorous growth in emerging Asian economies.

Life Insurance investors take a long-term perspective, and investment decisions are influenced by demographic factors, political stability, the availability of investment options, and regulatory restrictiveness. Although market entry decisions are largely driven by market attractiveness, regulatory factors affect the life insurance industry profoundly.

While executives might raise concerns that over-regulation constrains innovation, hinders economic growth, and prevents improvements in living standards, effective regulations are necessary to monitor activities across borders, improve risk measurement, and mitigate moral hazard risks. The development of the life insurance industry requires regulators to establish a competitive and well-regulated market ecosystem.

This section examines the investment climate in life insurance in APEC. First, it recaps the status of life insurance in APEC economies, including the size and growth of foreign investment. Second, it explores the current issues affecting cross-border investments. Third, it summarizes our conversations with industry executives and government officials, and compares our findings with previously published studies. Lastly, it concludes with a focus on areas for improvement and comments on the role APEC might play in enhancing the quality of life insurance throughout the region.

[1] Sigma 3/2013 - World Insurance in 2012: Progressing on the Long and Winding Road to Recovery.

# *Life Insurance: Good For Your Grandmother, Good For The Economy*

## Life Insurance Plays a Key Role in Society

Life insurance serves as an important vehicle for long-term saving and wealth building. In particular, life insurance serves as a supplement to support the social security system. As the population ages, social security and public pension funds are experiencing increasing stress, even deficits, in the past decade. This is particularly true for developing economies with under-developed or stressed social security and retirement planning mechanisms.Life Insurance passes wealth to future generations and also supports retirees through investment-linked products. A thriving life insurance industry can fill the gap between the social secuirty the state can provide and what is needed for retirement.

In addition, the life insurance industry is a key component of the economy due to the capital it aggregates through premiums and the scope of its investment. As of December 2012, the life insurance sector collected premiums of USD $2.6 trillion,[2] which represents 3.6% of the world GDP, and holds total assets exceeding USD $8 trillion[3] , which represents 10% of global private investable assets. Life insurance portfolios are longer in duration than general and health insurance portfolios leading them to purchase more bonds. Because of asset-liability matching, the life insurance industry builds a pool of long-term capital in an economy. At the end of 2010, total financial assets of US life insurance firms reached USD $5.2 billion, compared to just USD $1.4 billion for property and casualty insurance companies. Nearly 40% of the life insurers' financial assets are invested in

## The Development Stage Of Life Insurance In APEC Is Uneven

The Asia-Pacific region plays a vital role in the life insurance sector not only because of the gross premiums written, but also because of its significant market potential. APEC economies account for 60.2% of global life insurance premiums. However, the United States and Japan combine for 41.7% of the global market share, nearly 70% of APEC premiums.

Beyond the US and Japan, six other economies have well-developed life insurance industries by measures of density (premium/capita) and penetration rate (premium/GDP): Hong Kong, Chinese Taipei, Singapore, Australia, Canada, and Korea. The remaining economies have some of the fastest growing life insurance industries today.

[2] Sigma 3/2013 - World Insurance in 2012: Progressing on the Long and Winding Road to Recovery."
[3] Research, Office Of Financial. "Asset Management And Financial Stability." OFR.
[4] "Reaching for Yield in the Bond Market." NBER

*Premiums and Development of life insurance*

| | Premium Volume, USD Millions | Share of Total Insurance Business, Percentage | Share of Total World Market, Percentage | Penetration of Life Insurance, Percentage |
|---|---|---|---|---|
| Australia | 43,689 | 50.7 | 1.67 | 2.9 |
| Canada | 61,789 | 42.3 | 1.98 | 3.4 |
| Chile | 6,134 | 58.5 | .23 | 2.3 |
| China | 141,208 | 57.5 | 5.39 | 1.7 |
| Hong Kong SAR | 28,979 | 88.6 | 1.11 | 11.0 |
| Indonesia | 10,894 | 70.2 | .42 | 1.2 |
| Japan | 524,372 | 80.2 | 20.01 | 8.8 |
| Korea, Rep. | 78,920 | 56.7 | 3.01 | 6.5 |
| Malaysia | 9,513 | 64.2 | .36 | 3.1 |
| Mexico | 10,844 | 46.2 | .41 | .9 |
| New Zealand | 1,672 | 15.9 | .06 | 1 |
| Peru | 1,394 | 46.5 | .06 | .7 |
| Philippines | 2,265 | 64.8 | .09 | .9 |
| Russia | 1,732 | 6.7 | .07 | .1 |
| Singapore | 12,257 | 55.5 | .47 | 4.3 |
| Chinese Taipei | 72,522 | 82.6 | 2.77 | |
| Thailand | 10,789 | 58.8 | .41 | 2.9 |
| United States | 567,756 | 44.7 | 21.66 | 3.5 |
| Viet Nam | 882 | 44.7 | .03 | .6 |

Source: Sigma: World Insurance 2012[5]

## FDI in Life Insurance is Flowing from Economies with Mature Industries to Economies with Fast Growth Industries

One notable trend has been the movement of FDI within APEC from economies with mature life insurance industries, such as Japan, Chinese Taipei, and South Korea, to fast-growth economies, such as China, Viet Nam, and Indonesia.

There are significant differences between mature and high-growth life insurance industries. These differences underscore the importance of FDI for both the investor and investee. The mature stage is characterized by wholehearted market acceptance of industry products and a slowdown in industry-specific technological advancement and product innovation. As a result, firms in economies such as the United States and Japan are looking abroad to continue growth.

Meanwhile, developing economies with low insurance density and penetration rates have experienced strong growth in the life insurance industry. Life insurance is a capital intensive-industry. Insurers need massive amount of capital to meet solvency requirements and maintain a healthy business base. FDI will allow for capital contribution in markets where capital is constrained. Increased capital inflow enables insurers to provide innovative products that work in favor of customers while reducing policy premium prices. This is supported by empirical evidence that shows that life insurance industry development is supply-leading rather than demand-following.[6] In addistion to capital, knowledge, advanced distribution systems, and updated operational systems, FDI brings help to develop the life insurance market. Finally, an increase in FDI in life insurance would promote pension penetration, which would lead to long-term prosperity.

[5] Sigma 3/2013 - World Insurance in 2012: Progressing on the Long and Winding Road to Recovery."
[6] Carson, James M., Daniel P. Amos, Pei-Han Chen, and Francois Outreville, J. "Does Foreign Direct Investment Affect the Supply of Life Insurance in Developing Countries?"

# Market Entry Decisions Are Heavily Driven By Market Attractiveness

Life insurance market attractiveness varies by economy within APEC. Business executives cite population size and age, rate of insurance penetration and density, birth and mortality rates, income levels, growth of a middle class, and consumer education and awareness as the most meaningful demographic and socio-economic factors

The data in the table to the right highlight the relationship between premium volume and domestic market size, and the premium per capita and buyer sophistication (drawn from the WEF Global Competitiveness database, 2014-2015). The domestic market size and buyer sophistication data drawn from the WEF GCR data are standardized across all economies in the GCR data base. Regression analyses show a strong significant positive relationship between premium volume and domestic market size. Additionally, the penetration of life insurance (insurance density) also has a significant positive relationship with levels of buyer sophistication.

Discussions with life insurance executives also supports these findings. General levels of financial literacy and understanding of insurance products are important factors in determining the attractiveness of market opportunities.A Filipino executive stated that low financial literacy necessitated the allocation of resources to educate consumers. The lack of a perceived need for life insurance spurred some companies to exit the Philippines during the financial crisis. Similar challenges of low product knowledge were raised in Indonesia and Viet Nam.

Executives in Thailand, Viet Nam, and Russia pointed to the future for investment-linked products. This is not a significant issue currently, as firms are happy to enter and develop capability, but consumer understanding and demand for such products puts less strain on capital and provides firms with products that allow for higher margins and differentiation. In economies with high income inequality and low affordability, firms often target small segments that is able to purchase life insurance. These products tend to be unit-linked and do not meet the needs of the general population. The result is very low penetration rates.

Broad conclusions from these analyses suggest that the life insurance industries in Indonesia, Mexico, and Russia are underdeveloped relative to the market size. Similarly, the life insurance sector in New Zealand, Malaysia, and China underperform relative to buyer sophistication. However, in the case of New Zealand and Russia, strong government social programs reduce the need for life insurance products.

This finding supports the premise that restrictiveness impedes sector development, as China, Indonesia, the Philippines, Malaysia, and Thailand all have limits on foreign ownership.

*Premium Volume*

| Economy | Premium, USD Mil | Domestic Market Size Index (WEF) |
|---|---|---|
| United States | 567,756 | 2.87 |
| Japan | 524,372 | 2.15 |
| China | 141,208 | 2.72 |
| Korea, Rep. | 78,920 | 1.52 |
| Chinese Taipei | 72,522 | 1.16 |
| Canada | 61,789 | 1.51 |
| Australia | 43,689 | 1.25 |
| Hong Kong SAR | 28,979 | .73 |
| Singapore | 12,257 | .59 |
| Indonesia | 10,894 | 1.41 |
| Mexico | 10,844 | 1.61 |
| Thailand | 10,789 | 1.06 |
| Malaysia | 9,513 | .86 |
| Chile | 6,134 | .64 |
| Philippines | 2,265 | .82 |
| Russia | 1,732 | 1.75 |
| New Zealand | 1,672 | .13 |
| Peru | 1,394 | .66 |
| Viet Nam | 882 | .68 |

*Insurance Density*

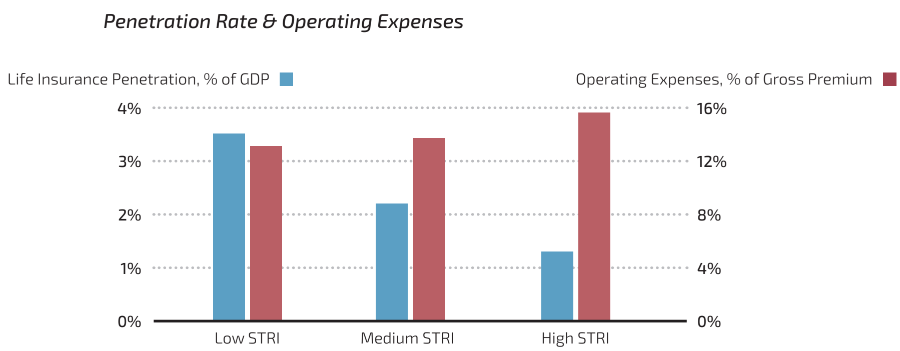
| Economy | Premium per Capita, USD | Buyer Sophistication |
|---|---|---|
| Japan | 4,119 | 2.74 |
| Hong Kong SAR | 4,025 | 1.75 |
| Chinese Taipei | 3,099 | 1.36 |
| Singapore | 2,270 | 1.57 |
| Australia | 1,883 | .39 |
| United States | 1,794 | 1.61 |
| Canada | 1,760 | 1.32 |
| Korea, Rep. | 1,572 | .95 |
| New Zealand | 372 | 1.52 |
| Chile | 349 | .89 |
| Malaysia | 321 | 2.21 |
| Thailand | 158 | 1.00 |
| China | 104 | 1.27 |
| Mexico | 92 | .06 |
| Peru | 45 | .56 |
| Indonesia | 44 | .63 |
| Philippines | 23 | .42 |
| Russia | 12 | .46 |
| Viet Nam | 10 | -.17 |

*Source: WEF Global Enabling Trade*[7]

[7] Sigma 3/2013 - World Insurance in 2012: Progressing on the Long and Winding Road to Recovery."
Hanouz, Margareta Drzeniek, Thierry Geiger, and Sean Doherty. The Global Enabling Trade Report 2014

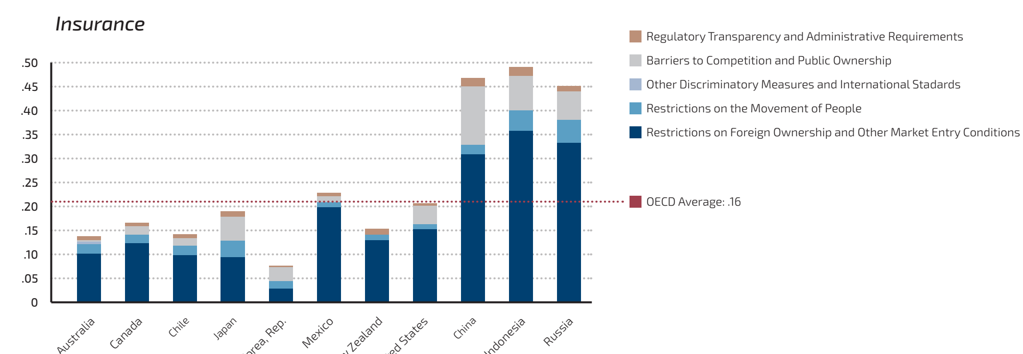
# Restrictiveness Mirrors Penetration

The OECD STRI database highlights the linkage between low restrictiveness and higher-performance (which is comprised of higher penetration rates and lower operating expenses.) The first chart below shows that the lower the restrictiveness, the higher the penetration of life insurance, accompanied by lower operation expenses. APEC economies have three of the top four most restrictive insurance industries across OECD economies, with only Indonesia, China, and Russia besting India.




*Source: OECD STRI*[8]

According to the OECD, the top categories contributing to restrictiveness are Foreign Ownership and Other Market Entry Conditions, followed by Barriers to Competition and Public Ownership.



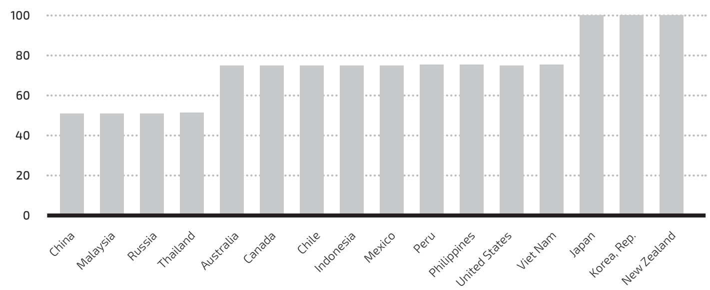

*Source: OECD STRI*[9]

Restrictions on Foreign Ownership are comprised of 71 questions with binary scores. Indonesia (35), China (35), and Russia (36) were the most restrictive while Korea (3), Australia (9) and Japan (10) were the least restrictive. The most prevalent restriction (10 of 11 economies) is the requirement of commercial presence in order to provide cross-border insurance service. Other common restrictions are screening approval related to national interest (7/11), requirements for a citizen on the board of directors (6/11), and screening notifications (6/11).

In the Barriers to Competition and Public Ownership category, China (23), Indonesia (14), and Russia (11) were again the most restrictive economies. On the other hand, Japan (9) and the United States' (7) high volume of factors suggest high operational restrictiveness. For life insurance investors, the biggest impediments in this category include the supervisors that have full authority over licensing and the enforcement of prudential measures (Mexico, Canada, China), approval by the regulatory authority for new insurance products or services (Japan, US, China), government control of at least one major firm in the sector (Japan, China), and restrictions on the nature of assets in which insurers can hold funds (Korea, China).

[8] OECD, May 2014. STRI Sector Brief: Insurance
[9] "Services Trade Restrictiveness Index Simulator." Services Trade Restrictiveness Index Simulator.

## *World Bank STRI: Life Insurance*




*Source: World Bank* [10]

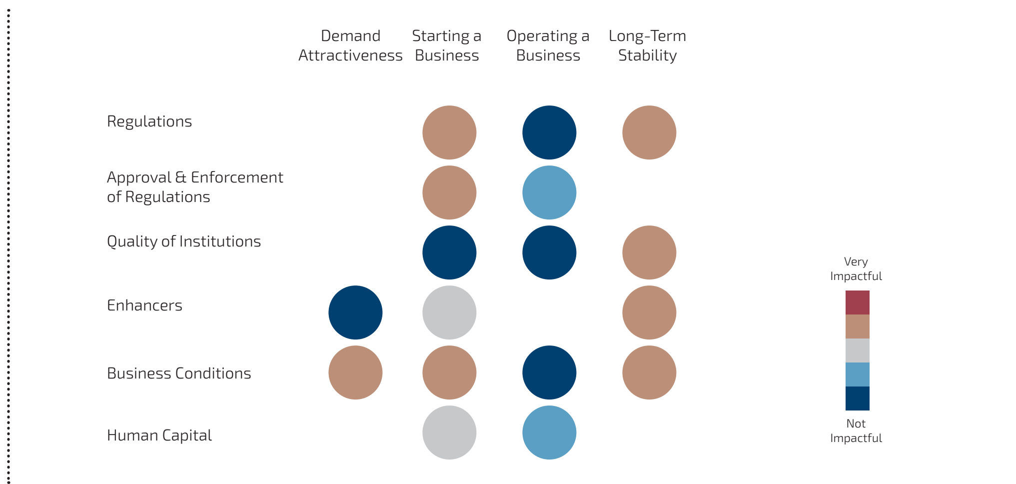
The World Bank Services Trade Restrictions Index database also scores the openness of the life insurance sector, with a score of 100 indicating completely open and a score of 0 indicating completely closed. China, Malaysia, Russia, and Thailand ranked as the most restrictive life insurance industries within APEC, with scores of 50 denoting "significant restrictions" for FDI, largely due to limitations on foreign ownership. Japan, Korea, and New Zealand received scores of 100, denoting "openness." The remaining economies received scores of 75 and were considered "virtually open."

While the method differed between the OECD and the World Bank's STRI rankings, there were many similarities between the two studies. China and Russia were ranked as the most restrictive while Korea was the least restrictive. Indonesia was ranked as significantly restrictive by the OECD but virtually open by the World Bank. The OECD also considered Japan and New Zealand to be much more restrictive, due to relatively high barriers to competition and public ownership for Japan and higher foreign ownership and market entry restrictions for New Zealand. OECD's rankings were more comprehensive and considered a broader range of factors.

[10] World Bank Services Trade Dataset Search." Services Trade Dataset Search

# *Where Factors Are Inhibiting Life Insurance Investment In APEC*

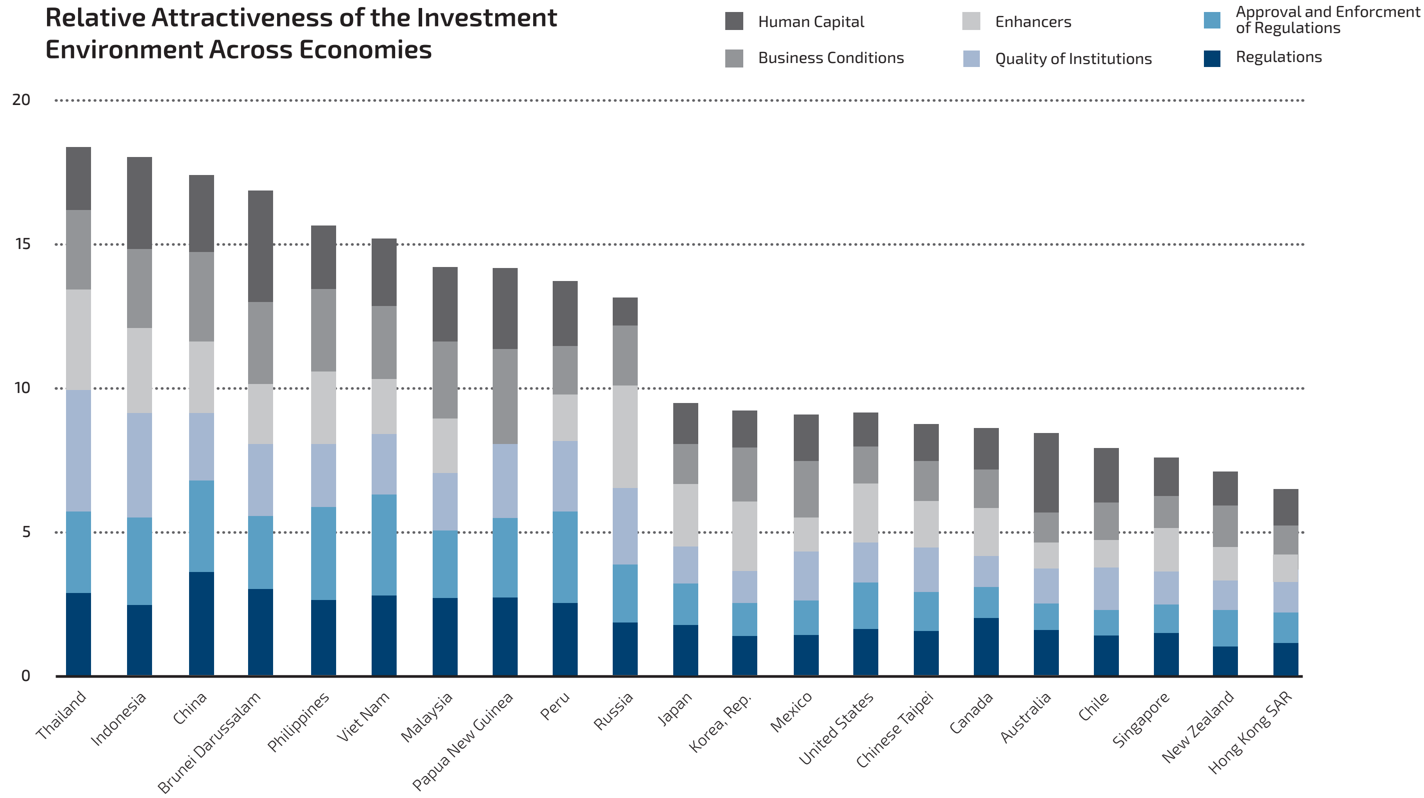
*Location and Relative Importance of Critical FDI Factors Within Life Insurance*




The chart above shows where APEC rates as a region for different areas in life insurance investment. The biggest issues pertaining to life insurance investments across APEC surround business conditions, starting a business, and long-term stability.

## Starting A Business And Long-Term Stability Matter Most

Evidence gathered suggests that it can take more than five years for a foreign investor to start a new business in the life insurance sector, depending on the regulations and efficiency of the approval processes. The lack of qualified joint venture partners and the delays in the approval processes also impair foreign investment in the life insurance sector. Since investors in the life insurance sector take a long-term perspective, the lack of investment options and the political and economic instability can deter FDI in the industry.




## Two Distinct Groups in Life Insurance Across APEC

Life insurance markets in APEC can be categorized into two groups: those that scored below 10, and those that scored above 12. Eight APEC economies have well-developed life insurance sectors. Mexico, Chile, and New Zealand also scored well based on our interview data, despite having relatively under-developed life insurance industries. Chile and New Zealand would rank at or near the top of the second group in terms of premium per capita. New Zealand is limited by market size. Mexico and Chile's life insurance markets are hampered by socio-economic factors. Mexico and Chile face challenges with income inequality. Based on the World Economic Forum's Global Competitive Ranking report, Mexico has the second lowest buyer sophistication score within APEC. Life insurance in Mexico and Chile may simply be out of reach for many consumers.

These findings support the findings of the OECD and World Bank reports, where China, Indonesia, and Thailand rated as some of the most restrictive economies in life insurance.

## Leaders in Life Insurance...

Hong Kong, New Zealand, Singapore, and Chile outperform other APEC economies in this sector. Australia, Chinese Taipei, US, Japan, Korea, and Mexico also perform well in the life insurance sector. These economies strive to create a competitive environment for both foreign firms and domestic firms.

## Most Problematic Investment Challenges in Life Insurance

The discussion below focuses specifically on the most important challenges in life insurance. A careful analysis of all life insurance interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the life insurance sector. Twenty-one FDI factors were found to be important or very important across economies. The results are presented in the table positioned at the end of the life insurance section. The relative impact of each barrier or impediment in each economy is reported. The horizontal bar chart below summarizes the impact of these factors for each APEC economy. The five most critical challenges are discussed in more detail below noting the leading and lagging APEC economies on each investment factor.

***Efficiency of approval process***

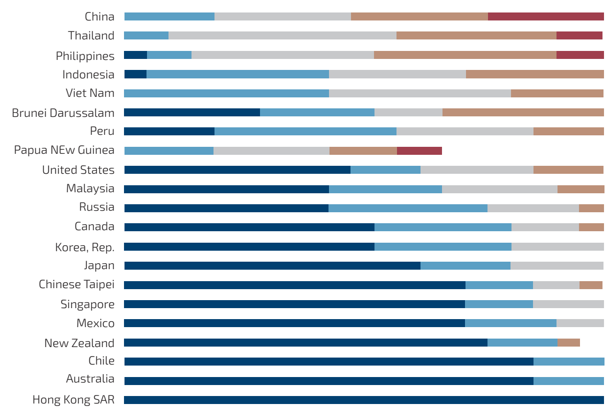
***Limits on foreign ownership and the number of permits/licenses required***

***Quality and availability of human capital, including actuaries, investment specialists and sales agents***

***Quality and sophistication of domestic capital market for investing of life insurance premiums***

***Jurisdictional overlap between approving agencies***

*Summary of Impact Ratings*




## Limits On Foreign Ownership And The Number Of Permits/Licenses Required

The most problematic factors in life insurance are limits on foreign ownership and the number of permits required. Limitations on foreign ownership not only raise the costs to start a new business but also increase operating costs. Additionally, some life insurance investors refrain from making investments due to the uncertainty and costs created by multiple permits/licenses required. Additionally, restrictions on mode of entry such as requirements for joint ventures increase the difficulty for foreign firms to establish new businesses.

*Best: Hong Kong, New Zealand, Singapore, Korea, Australia*

*Lagging: Indonesia, China, Russia, Viet Nam, Philippines*

## Efficiency Of The Approval Process

Efficiency, impartiality, and corruption in the approval process,as well as the number of permits/licenses required, and jurisdictional overlap between approval agencies are all impactful factors in the life insurance sector. Executives in the industry raise concerns over the efficiency of approval processes not only for starting a new business, but also for launching new life insurance products. Delays in obtaining approval can cause firms to miss the best opportunity to launch a new product.

*Best: Hong Kong, Singapore, Australia, Chile, Mexico*

*Lagging: Philippines, Brunei, Papua New Guinea, Peru, Viet Nam*

## Quality And Sophistication Of Domestic Capital Markets For Investing In Life Insurance Premiums

Life insurance firms require high-quality, well-developed capital markets because income from investment makes a sizable contribution to a life insurance firm's bottom line. The availability and sophistication of capital and investment instruments, such as derivatives and long-term papers that match policy lengths, affect the profitability of life insurance firms.

*Best economies: Hong Kong, Singapore, United States, Japan, Canada*
*Lagging economies: Papua New Guinea, Brunei, Malaysia, Viet Nam, Peru*

## Quality And Availability Of Human Capital, Including Actuaries, Investment Specialists, And Sales Agents

Firms prefer local agents who understand the domestic market and gain the trust of local customers. A lack of qualified actuaries, investment specialists, and sales agents prevents foreign firms from thriving and expanding. Additionally, distribution channels require a large number of sales agents, which is difficult to fill.

*Best economies: Hong Kong, Australia, United States, Korea, Chinese Taipei*
*Lagging economies: Peru, China, Indonesia, Thailand, Papua New Guinea*

## Jurisdictional Overlap Between The Approving Agencies

Jurisdictional overlap between approving agencies and between national and local governments adds significant time and costs. The imperative to operate across municipalities and regions in order to access a larger market exacerbates the issue within this industry.

*Best economies: Hong Kong, Singapore, Australia, Chile, Korea*
*Lagging economies: Peru, Viet Nam, Philippines, China, United States*

# *Critical Challenges in Life Insurance in APEC*

## Restrictions on foreign ownership is the first obstacle…

Five economies within APEC currently limit the foreign ownership of life insurance firms: Thailand (49%), Russia (49%), China (50%), Malaysia (70%) and Indonesia (80%).[11] Additionally, China and Russia only permit entry through joint ventures.

Not surprisingly, the most impactful factor within these economies is Limits on Foreign Ownership. Limits on Foreign Control, Availability and Reliability of information, Availability and Readiness of Firms for Acquisition and JV Partners, and Number of Permits/Licenses Required round out the top five most impactful factors.

The executives interviewed raised concerns about finding the right JV partner. In China, numerous potential partners are semi-state owned enterprises. One executive from Chinese Taipei summarized the tradeoff, saying, "A SOE partner may help to expedite the approval process, but bureaucracy and lack of control can seriously impact business operations." Another executive whose firm was in the process of changing partners added that it was absolutely critical to have a JV partner with the capacity to inject additional capital when needed to keep up capital reserves. An industry expert in the United States also raised the issue of passive JV partners who were not life insurance firms and who may not have the same growth objectives. Furthermore, even after the right JV partner is identified negotiations can take a long time.

## … But Gaining Approval Is A Close Second

Restrictions on foreign ownership is only part of the story. Even in countries with no ownership restrictions, such as Brunei, Viet Nam, Papua New Guinea, and the Philippines, headaches abound throughout the approval process. These factors include: Efficiency of the Approval Process, Impartiality in the Approval Process, Corruption in the Approval Process, the Number of Permits/Licenses Required, and Jurisdictional Overlap Between Approval Agencies.

Interviewees shared concerns regarding transparency and corruption during the approval process, discriminatory treatment, and inefficiency in obtaining licenses. Two of the firms interviewed had to spend five and eight years before gaining approval to operate in China. A third firm is two years into the process but still unclear about when it will receive approval. In the Philippines, the long approval time for foreign investors reduces the window of opportunity. On the other hand, an interesting case arose in Viet Nam, where the government selectively helps and expedites the process for some foreign investors, but not others.

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[11] World Bank Services Trade Dataset Search." Services Trade Dataset Search

## Lack Of Skilled Labor Disrupts Operations And Hurts Profitability

### Multiple Factors Limit Available And Qualified Actuaries…

Many of the executives interviewed cited inadequate human capital as a major challenge. In our data, human capital was rated as the second most impactful factor among the least efficient economies and the fifth highest across all APEC economies.

Economies that lack universities with formal insurance training often face a shortage of actuaries. This is compounded by visa and work permit restrictions on hiring foreign labor. Demand for local talent drives up personnel expenses. As a result, firms must hire people from other areas. Employee education then creates cost and turnover issues.

### …But The Lack Of Qualified Sales Agents Presents Bigger Challenges…

Regulations requiring local sales agents are not impactful to firms since firms generally prefer local agents who understand the domestic market and can better gain trust from local customers. However, there are key supply and demand issues surrounding sales agents.

In economies with developing life insurance industries, there is insufficient human capital available to maintain a sizeable salesforce. In some economies, the passing rate of certification tests is low because many who attempt the test do not have the proper background or education. Thailand, for example, has a passing rate of roughly 40% for general life assurance, but that passing rate drops to 20% for a securities license. This problem was also raised in the Philippines, where one executive stated that most finance graduates preferred to work in banking. In other economies, the test to become a part-time agent is not difficult, but the consequence is that positions are filled by unqualified part-time agents who lack a sophisticated understanding of more complicated products. The table below summarizes the human capital issue in Viet Nam, where retention after one year is only 20% .

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| New Insurance Agents in the Period | 36,690 | 43,446 | 61,935 | 88,198 | 108,902 | 202,956 |
| Number of Insurance Agents (end-of-year) | 63,209 | 72,091 | 72,097 | 127,905 | 162,423 | 134,106 |

*Source: AVI* [12]

Unit: thousands of people

[12] "Vietnam Insurance Industry." VPBS VPBank Securities.

## … And The Shortage Of Sales Agents Creates Reliance On Local Sales Agencies

Distribution requires a large number of sales agents, which is difficult to fulfill. The largest insurance company in China has over 100,000 sales agents. Foreign firms, limited by the maximum number of branches they may operate or by the availability of bank assurance partners, must rely on sales agencies. This can create additional challenges for foreign firms, such as commission expenses cutting into profit margins, conflicts of interest arising when agents do not honor exclusive agreements, and poaching of talent. A specific example was given in the case of Thailand, where one executive remarked that although poaching is illegal, regulators tend to look the other way when local firms engage in the practice. One executive stated that corruption increased the cost of doing business in  Viet Nam and made them less competitive than domestic firms. American firms, he said, were held to a higher standard and could not risk being caught paying illegal commissions.

# *Foreign Investors Value Mature Capital Markets, Ample Investment Opportunities, And Fair Capital Movement Policies*

## Capital Market Quality And Capital Movement Regulation Are Two Sides Of The Same Coin

Investment income can make a sizable contribution to a life insurance firm's bottom line. In the United States, investment income accounts for 30% of industry revenue.[13] This additional revenue stream enables firms to offer reduced pricing on policies as long as the revenue can be made up elsewhere. Restrictions on capital movement affect firms' capabilities to adjust investment strategies across global markets to maximize profits. This is also true Chinese Taipei. One executive applauded Chinese Taipei's allowance for 45% of premiums to be invested outside of the country.

However, most executives in developing economies considered this a minor issue. One executive called it a "long-term concern". Without capital movement freedom, a developed capital market, including available and sophisticated investment instruments, can exist in the short-term. For example, China and  Viet Nam do not allow firms to invest outside of the economy. While a long-term concern, immediate operations were not significantly compromised because there were abundant opportunities to invest in the local market, including strong fixed-income instruments in China. However, this is not always the case. One Canadian firm decided against entering Indonesia; despite a desire to stay "for the long run" and intentions to keep capital collected from premiums within Indonesia, the firm was ultimately discouraged by a lack of stability and investment opportunities in other sectors and restrictions on private investments.

[13] "Life Insurance & Annuities in the US."  iBid.  September 2014.

## Prudential Surveillance Regulates The Ground Rules In The Industry

As financial systems become more interconnected and complex, a more comprehensive prudential approach has been applied that can have a material impact on the life insurance industry as a whole. Prudential surveillance regulations can be enforced by either home economy or target economy of FDI. In the Philippines, life insurance firms must set aside all premiums. As a result, it can take up to five years to reach profitability. These regulations played a significant role in US firms' decisions to exit the Philippines.

Similarly, a Canada life insurance firm withdrew from the Chinese Taipei market because Canadian regulations required that all Canadian life insurance firms comply with Canadian prudential rules regardless of operating jurisdiction. This regulation made the Canadian firm less competitive compared to domestic Chinese Taipei's firms, which enjoyed lower solvency capital requirements. One Singaporean executive, dealing with a similar regulation, feels that Singapore is "justified" in its requirements, but preferred if a firm could set its own strategy abroad.

# *Conclusions*

The development of the life insurance industry differs greatly across APEC. Significant potential exists for foreign direct investment from mature markets in economies such as Japan and Hong Kong into developing markets such as Thailand and the Philippines. The importance of life insurance to individuals, including risk and wealth management, and to society, through development of the capital markets and investment into local firms, underscores the importance of regulations and policies that promote FDI.

While favorable demographic and socio-economic conditions are the primary drivers of investment decisions, our research agrees with previously published research that restrictions severely impact development. Thailand, Russia, China, Malaysia, and Indonesia all underperform relative to market potential compared to other APEC economies.

Beyond limitations on foreign ownership, key impediments to FDI are related to starting a business, long-term stability, and business conditions. Specifically, the most impactful factors are:

**Inefficient approval processes**, including the time and number of licenses required, jurisdictional overlap between levels of municipalities or governing agencies, and the lack of impartiality or presence of corruption during the process. These factors add complexities that not only add time, cost, and uncertainty, but also minimize the window of opportunity and place foreign firms at a competitive disadvantage.

**Shortage of qualified and available skilled life insurance professionals**, especially sales agents, bottlenecks distribution channels. Additionally, restrictions on hiring or transferring foreign labor impede a foreign firm's ability to adequately staff personnel.

**Underdeveloped capital markets or restrictive capital movement regulations** can work together to make market entry unattractive. Restrictions on profit repatriation and reinvestment have not deterred foreign companies when there are sufficient investments within the economy in which they operate. However, a lack of both of these items handicaps a company's profitability. An interesting challenge for firms in some developed economies is strict prudential regulations that prevent firms from competing on equal ground abroad, where regulations are more lax.

# *Recommendations for APEC*

The uneven development of life insurance industries across APEC presents ample opportunities. Improving the investment landscape will help encourage capital market development for emerging economies and provide high growth opportunities for firms in mature ones.

***Human capital development must be addressed through more effective mechanisms for retaining local talent and updated policies for transferring foreign talent.***

Lowering human capital costs improves the profitability for foreign firms, removes impediments to FDI, and helps to develop the sector.

Firms operating in economies with developing life insurance industries consider the lack of available and/or qualified industry talent – actuaries, investment specialists, sales agents – as a major concern. Developing local talent, such as through formal training university training, will take time. To incentivize firms to train local talent, policy makers should introduce regulations to prevent agent poaching. This will incentivize firms to train local talent. Additionally, regulators should facilitate the process for visas and work permits to bring knowledge and experience to the economy.

Extra attention must be paid to the ongoing enforcement of regulations, including anti-poaching and illegal commissions. Foreign firms are often held to a higher standard and thus operate at a competitive disadvantage.

***Increase the approval process efficiency by reducing the number of permits/licenses required and improve transparency by publishing standards for approval milestones and timelines.***

Approval to start a new business can take five to seven years, shortening the window of opportunity for interested investors. A lack of communication during the process impacts firms' ability to plan and strategize. Publishing and adhering to standardized approval milestones and timelines will improve transparency, and alleveate corruption and impartiality concerns cited by many executives.

Policy makers can also streamline the approval process by reducing the number of permits and licenses required across enforcement agencies, jurisdictions, and products. Centralizing power to one overarching approving authority can improve coordination between national and local governments and between municipalities. Additionally, licenses should be applied for and reviewed concurrently rather than sequentially. This will decrease the time required for foreign firms to offer local consumers the full scope of products.

***Foster a stable capital market, liberalize investment restrictions, and enact fair prudential rules to enable foreign investors to compete effectively.***

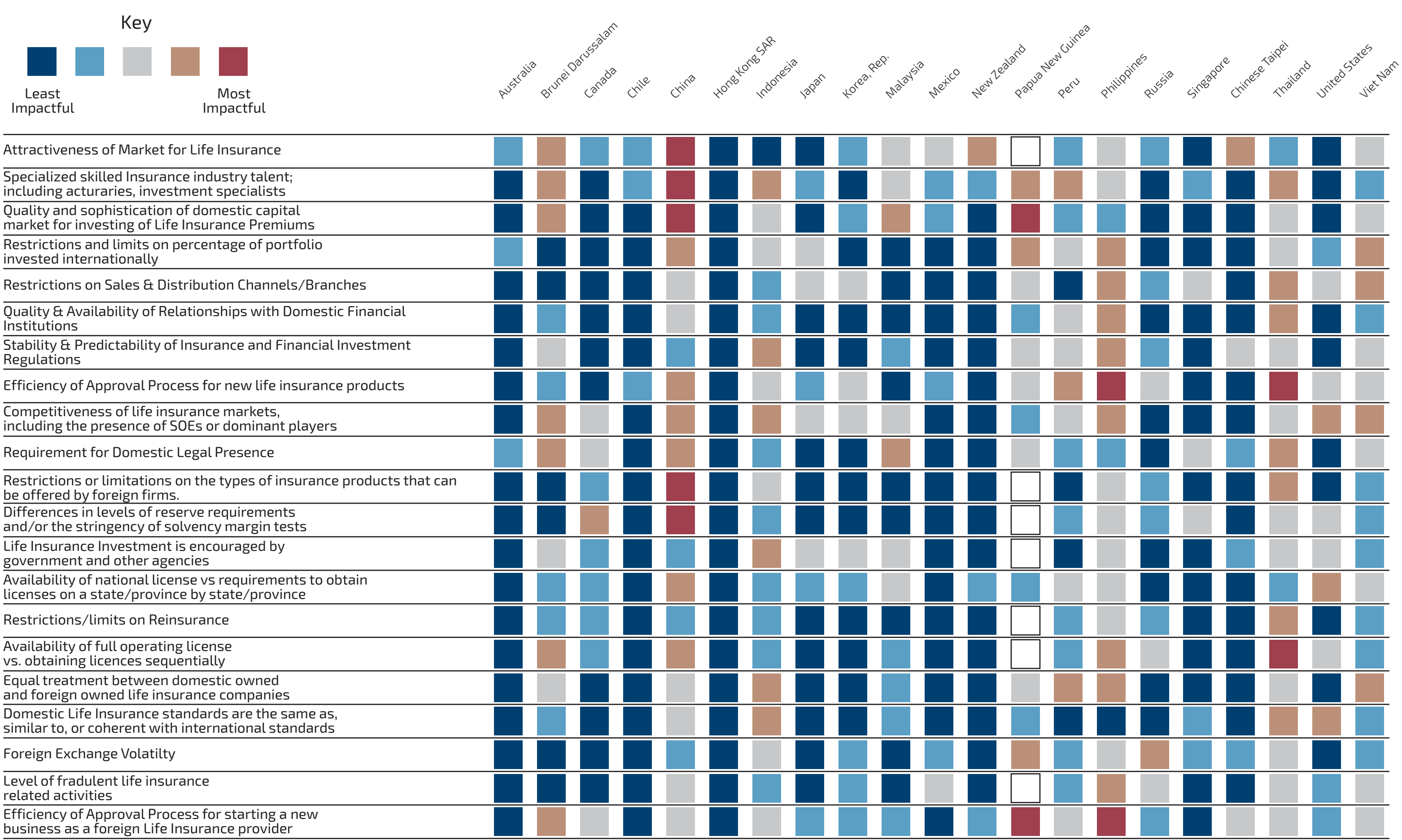
First, regulators should deepen and broaden capital markets by providing improved risk governance and diversifying financial systems. With a robust and sustainable capital market, life insurance firms are able to better match contracts to investment portfolios, which in turn would help reduce the price of life insurance products. Second, government should enact reforms to allow life insurance firms to invest in infrastructure and place private equity in all sectors. These reforms will not only boost the private sector with the massive amount of capital in the form of life insurance premiums, but also facilitate life insurance capital to stay in the local market, therefore avoid volatile capital outflows. Lastly, liberalizing restrictions on investment portfolios and incorporating fair prudential rules are crucial for foreign investors to compete effectively.

***Remove entry barriers such as foreign ownership restrictions and improve quality of investment promotion agencies to encourage FDI and facilitate search for JV partners.***

Economies that limit foreign ownership have less developed life insurance industries. Deregulation of foreign ownership limitations will encourage additional inflow of FDI to develop the life insurance sector and allow reinvestment of premiums back in to the capital market. In economies where entry through a joint venture is required, the availability and quality of JV partners impose additional costs and challenges. While due diligence is a naturally time consuming process, investment promotion agencies that work to connect interested partners may alleviate cost and time associated with searching for the ideal partner.

## Life Insurance-specific Barriers and Impediments (Impact Ratings) Economy Comparisons

The table below visually presents the most important barriers and impediments in life insurance across APEC economies. An analysis was made of the frequency to which different FDI challenges were raised by interviewees across economies. Twenty-one life insurance-specific challenges were identified as having important impacts on FDI decisions. The table shows how impactful each challenges is in each APEC economy.



# Conclusions & Recommendations

# *Conclusions*

If there were one single conclusion that could be drawn from the more than 360 interviews conducted with APEC business leaders, it is that they believe their economies, and APEC as a region, are underperforming in harnessing the power of services to drive economic growth. They are impatient and frustrated that policy makers have been slow in updating and creating future-oriented regulatory frameworks for services investment. They are looking for creative break-through thinking on ways to eliminate investment barriers, improve business regulations, build facilitation capabilities, and improve public-private dialogue and partnerships to create pro-growth investment climates.

Services are now the engines that drive modern economies. They impact overall levels of competitiveness across economic sectors, as embedded and embodied services in goods that are not always fully appreciated. The relative neglect of services in trade and investment discussions is understandable because of their complexity, but it has had a negative impact. Liberalizing and facilitating trade and investment in services is a more certain way of achieving economic growth, creating jobs, and improving levels of prosperity. While APEC has done much to encourage openness to investment in services, business executives believe it can and should do much more.

Unfortunately, our study is not longitudinal and was not designed to detect changes in restrictiveness or protectionism. However, anecdotal evidence suggests that aspirational statements and publicly stated intentions are just that: aspirational and publicly stated. We could not document any evidence of major commitments to change. Business executives did not highlight many positive changes either. In fact, our general conclusion is similar to that made by Roberto Azevedo, shortly after becoming WTO Director General at the beginning of September 2013: "Protectionism is going up, it's going up slowly, gradually, inching up; but it's also growing in different ways, it's become more sophisticated, it's become more complex, more difficult to detect." There is a need for APEC to be ever more vigilant in measuring progress and holding economies to their commitments.

## APEC Remains One Of The Most Restrictive And Challenging Regions In The World For FDI

All APEC economies need improvements to their services investment environments, some more than others. Some do not even have the basics right. Even APEC's high income economies have deeply embedded impediments that deter foreign and domestic investments. Some impediments are explicit, protecting so-called national interests. Others are disguised barriers that protect incumbents and special interests.

Problematically, APEC is home to economies that lag behind not only other APEC economies, but also lag behind the world in restrictiveness and other barriers to investment. Many of the ASEAN economies in APEC fall into this group. The impact of dramatically different degrees of openness to investment in services across is real and inhibits APEC from achieving its goal of greater integration across the region. All economies could improve growth with better, more transparent, high-quality services regulatory regimes.

Because FDI has flowed swiftly into APEC economies in the past, some do not feel the urgency for change. Some hold on to the belief that attractive market opportunities will always trump the need for openness, and businesses will continue to invest. This is a potentially flawed view. Competition for FDI from other APEC economies and other regions in the world is increasing. Because of their restrictiveness, these economies run the risk of losing critical investment in backbones services that are essential to long-term economic competitiveness.

## FDI in Services Differs by Sector; from very little to substantial

Our sectorial analysis uncovered very interesting findings. FDI flows in services differ substantially; from essentially none in accounting to strong flows in retail and restaurants. But one conclusion drawn from our interviews seems generalizable. Business executives believe FDI flows could and should be higher. All sectors were found to have barriers and impediments that inhibit businesses and raise costs to consumers. FDI in accounting services is essentially non-existent. Differences in GAAP and accreditation requirements have created deep-seated barriers to FDI. The trucking industry, despite its need for major improvements in quality and safety and more efficient operational models, has seen very little cross-border FDI. Powerful stakeholders and informal markets seem to have a real inhibiting impact on FDI. In telecom, market access restrictions and government control and active SOE participation in some economies have created conditions where there is little or no FDI. Retail and restaurant services is the one services sector in APEC in which FDI flows are increasing. But even here it is limited to a few global MNC retailers with the resources and the time to overcome restrictive investment barriers. There is limit evidence of FDI by SMEs. In container port services FDI is linked strongly to economic growth. In some economies the long payback horizons needed in ports give incumbents seemingly insurmountable advantages that discourage new investment. In others, where growth is higher, particularly in Asia, there has been substantial amounts of FDI. The investment challenge in port services is not so much an FDI challenge as it is an investment challenge. Domestic firms face the same long-term investment challenges. Global life insurance firms want more foreign opportunities to invest, especially in Asian economies, but combinations of limits on ownership, restrictions on expansion, and limits on capital movement restrict FDI. Investment in Saas, Paas, and cloud computing at present seems largely domestic. Even investments by global firms are limited to opening offices and small services center. Most seem to be investing in centralized competitive hubs in anticipation of trading services across borders.

## All Domestic Investment Impediments Are Also FDI Impediments

The most problematic FDI barriers are domestic investment barriers. Market access barriers restricting foreign ownership and access to land are only the tip of the iceberg. While these barriers can be go-no-go barriers, the real impediments that deter investment are rules, requirements, and approval processes that also affect domestic firms. The quality of an investment climate for FDI in services is directly correlated to the quality of the domestic investment environment. Four key areas seem to impact the quality of domestic investment environments the most. First is the quality of the services regulations. In restrictive environments, regulations tend to be piece-meal, old and inadequate, counterproductive and even hold the industry back. Second are problems of multijurisdictional overlap. Inter-ministry competition, differences in goals and agendas, and differences in skills and capacities in different ministries lead to poor services investment frameworks. Third is inefficient approval processes and biased enforcement. This is linked directly to the capacity and capabilities of government officials to competently and fairly administer services regulations. Fourth is the lack of coordination between levels of government. Particularly challenging to foreign firms is the instability and unpredictability of local municipal governments in creating and enforcing their own rules. Problems of community activism, or NIMBY, also contribute to instability for foreign firms.

## Services Need Access To People

Any discussion of access to and movement of people immediately becomes political. It will always be a highly sensitive topic. Services need access to people who range in skill. Foreign firms need confidence that they will always be able to find the key people they require, and get them in place quickly, whether that is domestically or internationally. Foreign firms also need to be able to make short and longer-term appointments of key executives based on business realities, not on length of visa terms. Particularly problematic is the lack of mutual recognition of qualifications and skills. As MNCs increasingly take global approaches to their operations, finding people who can work within their organizations, coordinate and communicate with business units in other economies, and even potentially move between economies, is becoming an increasingly important deciding factor in FDI location decisions.

## Coherence In Services Regulatory Frameworks And Standard Across APEC Economies Is Critical To Lower FDI Impediments

While every economy must make rules and regulations to guide business, how they do it matters. Regulations that are made differently for the same issues increase heterogeneity and complexity, and increase transaction costs for businesses. Economies which establish different tariffs and rule-of-origin requirements can destroy advantages created in the supply chain/sourcing arrangements of would-be foreign investors. Similarly, when economies create their own standards, they make it more difficult for businesses to replicate business processes across economies. In severe cases, this can be enough to dissuade a firm from investing. FTAs can also play an important role in reducing unnecessary differences in domestic regulations. Unfortunately most FTAs do not contain services provisions, let alone provisions for eCommerce and emerging forms of technology-enabled services. Encouraging further coherence in regulations across APEC economies is a responsibility APEC must take.

## Policy Fumbles

Arguably the biggest threats to progress are policy fumbles. If policy makers make the right choices, the potential for greater growth and prosperity can be achieved. The challenge is that the landscape for services trade and investment is changing rapidly and in unclear ways. New technologies, some not yet invented, and new uses of technology are fundamentally changing what services are and how and where they can be produced, delivered, and consumed. eCommerce and cross-border data flows are but two of many new services which are changing business as we know it today. Technology has turned some services sectors into potentially tradable services. Policies that do not recognize this could potentially trap investment domestically or force it to flee. Creating rules for these and other services is important but very challenging. Imagining the future is not easy; but businesses do it every day, and they need policy makers to think in a similar fashion. Preparing to fight the last war helps no one. This creates an imperative for APEC to take leadership in bringing business and policy makers from all economies together to build out frameworks to guide rule-making.

## Business Frustration and Urgency

This report concludes with a real sense of frustration. The economic evidence is now there that increasing trade and investment in services is a more certain way to create jobs, produce economic growth, and improve the prosperity that economies seek. As a research team, we sat with more than 360 business executives and concerned stakeholders. We listened to their concerns and their wishes. Business is impatient. They want action. They want improvement. They feel the impact of inefficient and ineffective services policies every day. Business wants policy makers to move faster in creating the future-oriented policies needed to guide the growth of services sectors. If done in an inclusive way across APEC, individual economies and the region will benefit from a better investment environment which will lead to faster, more sustainable growth.

# *Recommendations*

## Take a Whole-Of-Government Approach To Services

***Services regulatory frameworks must be aligned and coordinated across ministries and levels of government and be coherent with other economies to accelerate growth in services.***

The APEC business community opinion is that few, if any, APEC economies have in place services regulatory frameworks that are capable of effectively guiding future growth in services sectors. Executives complain most about piece-meal approaches, misaligned and competing policies across ministries, and problems with multi-jurisdictional overlap. Particularly problematic is the lack of coordination and execution of policies between national, state, and local municipal governments. Without alignment of policies at all levels of government and between all ministries, FDI services policies become at best aspirational and at worst a non-navigable thicket of confusing, unaligned or uncoordinated policies. Governments must focus on a broad range of key services policies that are future-oriented and that are supported by all ministries. They must ensure strong coordinated implementation and build facilitation capabilities at all levels of government.

While governments must take a whole-of-government approach to services policy-making overall, services sector differences must be recognized. Key barriers and impediments and future industry challenges differ substantially across services sectors. Using the same services policies across services sectors may have unintentional consequences. Some services sectors, because of the impact of new technologies and new global business strategies, will increasingly become traded services. However, despite industry-level differences, services policies must be coordinated.

Much is gained, and FDI inflows are increased, if services regulatory frameworks are coherent across economies. Transaction costs are increased when MNCs must deal with different regional rules and regulations that are designed to do essentially the same thing. APEC has an important leadership role in promoting coherence of services regulations across APEC economies. Many economies have had substantial success with different policy approaches, such as Singapore with its e-Government initiatives. These could be profitably shared across APEC economies.

***We urge APEC economies to take whole-of-government approaches to services regulations, and we urge APEC to increase its efforts to improve coherence in services regulatory frameworks across APEC economies.***

## Increased Commitment To Adopting Global Standards Without Modifications

***Adopting generally accepted global standards reduces transaction costs and lowers entry costs for foreign services investors.***

Businesses within APEC contend with a complex web of conflicting global standards which are in various states of adoption. The full adoption of global standards is critical to enhancing industries, attracting FDI, and stimulating global and local competition. Modifications, however slight, increase costs and reduce FDI. APEC must look to adopt and push forward global standards, and create task forces and committees with businesses to determine the best global standards and timelines for adoption across the entire region.

***We urge APEC to 1) recognize the need for global standards; 2) commit to adopting global standards without modifications; and 3) coordinate with the regulatory bodies of each services sector to determine actionable steps to realize those commitments.***

## Services FDI Must Be Made A Policy Priority And Championed

***For FDI in services to reach its potential, it must be championed. It is not sufficient for policy makers to remove restrictive market access barriers and guarantee national treatment. FDI in services must be actively championed.***

The impact of FDI in services tends to get “noticed” more, and it elicits more visceral negative reactions than other forms of FDI. Foreign firms are often blamed for the creative destruction impact of new services investment – job losses, bidding up of wages, and the bankruptcies of local businesses. But because the benefits of FDI in services are typically realized over the long-term, and tend to be more second and third order across the economy, they do not get the credit. It is unimportant to local politicians and community activists that the same creative destruction would happen if the investment were domestic.

There are no defenders for foreign firms when political debates start. Politicians, because they focus on reelection, tend to be short-term focused and lack the will power to really promote FDI and develop policies that attract it. To successfully attract high-quality FDI in services, policy makers must do more than give lip-service to its importance. It must become a policy priority and it must be championed at the highest levels of government. Efforts need to be made to educate citizens about the full benefits of FDI in services and to aid foreign firms when anti-FDI sentiments are given voice.

***We urge individual APEC economies to make FDI in services a policy priority, and to actively champion its benefits.***

## Keep Access To Talent And Talent Mobility On The APEC Agenda

***APEC must address gaps in the human capital talent pool and update arcane talent mobility rules.***

In 2009, USC Marshall undertook a study on worker mobility for ABAC. That report began with the opening paragraph:

> "Few subjects make politicians, policy makers, and citizens more uncomfortable than the issue of migration, in general, and temporary workers in particular… Fears of job losses, the lowering of local wages, and unwelcomed burdens on social services, quickly push reasoned discussions of the economic benefits of temporary workers from the public agenda."

Over those intervening five years little has changed, and the potential economic benefits have been surrendered. Ghemawat, in the recently released Index of Globalization, makes a bold claim that removing barriers to the mobility of workers would double the size of the world's economy. Access to talent and restrictions on movement of people remain one of the most significant impediments in the FDI investment environment, especially with services within APEC.

Services require specialized talent, often more educated and higher quality than non-services industries. Two critical issues need to be addressed. First, the short-term challenge is to find creative ways to remove rules and restrictions limiting talent mobility between economies. Global business requires people who are able to work globally. Second, and a more serious long-term challenge for APEC economies, are the issues of education and training for these high-skilled jobs. While the fruits of education investment will not be realized for the short-term, changes must be made today so economies do not fall farther behind.

***We urge APEC to keep the topic of removing restrictions on the movement of people at the center of the trade and investment agenda. Additionally, we urge APEC economies to increase investment in the education and training of jobs for the 21st century.***

## More Public-Private Dialogues And Partnerships For Better Services Regulatory Frameworks

***Active open public-private dialogues continue to be a critical condition for fostering a favorable investment environment.***

Virtually every report on investment climates at some point stresses the importance of public-private dialogue and partnerships. This report is no different. Inclusion in the regulatory process, especially for foreign firms, is a critical element of high-quality investment environments. APEC businesses wants to be included more. They want to be part of the heavy-lifting needed to improve regulatory investment frameworks. Executives express frustration with policy makers for the lack of genuine partnership they believe is needed to keep regulatory frameworks current and future-oriented. Executives complain about not being consulted at all, or about not being brought into discussions until very late in the regulatory process.

Businesses recognize the reality that the business world moves very quickly, while regulations change slowly. Executives expressed concerns that with the services landscape changing rapidly and in fundamental ways, existing regulations are poorly matched. Increases in cross-border provision of services, the needs of MNCs to integrate global service value chains across multiple economies, and the emergence of new technologies and new services business models have business executives expressing a need for new regulatory frameworks which are capable of guiding and accelerating investment in services. Executives express fears that rules may destroy their ability to compete globally. The development of trade rules for domestic and international eCommerce and for cloud-computing and similar services is an area that executives point to as needing a creative future focus.

***We urge APEC to take the lead in convening cross-economy public-private forums for sharing concerns about counterproductive services regulations and for proposing an APEC-wide services investment regulatory framework that addresses the changing services landscape.***

## Accelerate the Inclusion of Services Provisions In FTAs

***FTAs play an important additive influential role in investment decisions, and services provisions must be included.***

While we did not hear that the presence of an FTA was the critical determining factor in an FDI decision, executives were quick to emphasize that they were influential for a number of reasons. First, FTAs increase the potential size of markets. Providing access to adjacent markets through FTAs lowers costs of entry. Second, FTAs between economies encourage greater coherence in regulatory frameworks making it easier for firms to invest and operate. Third, where economies were committed to FTA provisions, businesses reported improved confidence in the long-term stability and predictability of regulatory frameworks. FTA commitments make it much less likely that newly elected governments will change regulations. Fourth, FTAs give law makers "political cover" to support economically beneficial policies which would under normal circumstances be politically unsupportable.

Unfortunately, because most FTAs do not have strong services provisions, the additive benefits of FTAs for promoting FDI in services is muted. A serious commitment needs to be made by APEC and by individual APEC economies to retroactively include services provisions in their FTAs.

***We urge APEC to take the lead in creating an APEC-wide framework for including services provisions in all new FTAs, and to develop protocols for retroactively adding services provisions to existing FTAs.***

## Track Progress on Key Factors In APEC Investment Climates

***Much is gained by measuring and reporting out progress on key factors that impact investment climates.***

Attention is focused and progress is made only when things are measured. While no APEC economy likes to be singled out, all APEC economies have areas in need of improvement, and all could benefit from objective assessments of the quality of their investment environments. Recognition of progress and improvement on key factors that impact investment climates, like transparency, efficiency of approval and enforcement process, IP protection, and business corruption, among others, would be an important catalyst for change.

Publicly available data now exists from institutions like the World Bank and the World Economic Forum which can be inexpensively used to construct detailed quality of investment environment "scorecards" for APEC. USC Marshall has now used these external data sources to prepare two APEC FDI scorecards, the first in 2013 and the second in this report. While there are substantial limitations inherent in these scorecards, they offer an objective assessment of investment environment challenges within APEC economies. We believe there is merit to assembling a group of experts to select an agreed upon set of factors, for which external data is available, that can then be used annually to track progress made in each APEC economy.

***We urge ABAC to develop a set of metrics for measuring the quality of investment environments, and to commit to preparing APEC-wide assessment annually.***

# Appendix

# Research Objectives, Design and Methods

USC Marshall was asked to prepare this research study on foreign direct investment (FDI) in services by the APEC Business Advisory Council (ABAC) based on a growing concern that APEC can and must do much better in liberalizing and facilitating trade and investment in services. ABAC believes that APEC, and its member economies, need to accelerate efforts to develop better investment environments, and to coordinate and integrate high quality investments policies across APEC. Further, ABAC believes that APEC is well positioned to take a leading role in mobilizing collective effort to remove investment barriers, promote greater coherence in investment regulations and business standards across economies, and to encourage and facilitate greater business investment.

Specifically undertaken for ABAC, USC Marshall-ABAC field studies focus on obtaining extensive interviews with business executives in the APEC region. These field studies have as their goal gathering and reporting the APEC business perspective, in contrast to government perspectives, on trade and investment topics in APEC. They are specifically designed to complement existing policy and academic research. By highlighting the points of pain and frustration encountered by business, the hope is to better inform policy makers of the real issues that can then be more effectively addressed to strengthen and improve an economy's investment environment.

## Goal and Objectives

The goal of this new USC Marshall-ABAC study is to identify, from a business perspective, what factors create and inhibit a high quality investment environment for FDI in services. ABAC requested USC Marshall to bring together the findings and conclusions of its two most recent APEC research studies – 2012 Trade in Services in the APEC Region and 2013 Foreign Direct Investment across APEC – and to use them to design a new field study on barriers and impediments in FDI in services. It is intended to contribute to the emerging stream of research from the APEC Policy Support Unit, the World Bank, and the OECD, on the impact of restrictiveness in investment regulatory frameworks in services on economic growth in APEC. In line with ABAC's role within APEC, the goal is to offer policy makers a richer more fine-grained business perspective on specific problems and challenges that can better inform policy discussions focused on improving investment environments for services.

More specifically, the study had three main objectives:

- Take a sectorial approach to identifying and assessing challenges in FDI in Services
- Catalog what business executives identified, at a services sector-level, as the most important barriers and impediments to FDI within each Services sector, and then
- Rating how business executives, at an economy-level, assessed the relative impact of those barriers and impediments to FDI on investment decisions within each APEC economy

In addition, the study sought to capture from APEC business leaders their recommendations about specific barriers or challenges that if addressed, might have a multiplied impact on improving investment climates.

# How do you define a Service?

It is important to make a brief attempt to define Services, and to note that the focus of this research study is on Mode 3 foreign direct investment in services. That is, where in order to operate and offer the service a firm must create a physical presence in a foreign economy.

The services industry is defined in this report as any industry that produces an intangible good, as opposed to end products. These goods can be provided to either other businesses or end consumers.

This way of describing services unintentionally deflects from the importance of services which become intertwined with goods. Services can be divided into consumer services and producer services. Consumer services are those that are delivered directly to end consumers such as retail and restaurants, entertainment, or dry cleaning. Producer services become embodied within goods (i.e. energy, transport, labor which picks agricultural products, accounting services) and embedded services which are provided along with the good (i.e. financing, insurance, aftersales services).

Services supply chains are also complicated. Unlike goods where there must always be a physical movement of the good along the supply chain, services can be “supplied” in multiple ways. The GATS approach is to define services delivery in four modes.

| | | |
|---|---|---|
| Mode 1<br>Cross-Border Supply | Servive flows which are transmitted by a resident of one country to a resident of another country via telecommunications and internet linkages | ***25-30%*** |
| Mode 2<br>Consumption Abroad | Situations where a non-resident services client travels temporarily into another country’s territory to obtain a service abroad | ***10-15%*** |
| Mode 3<br>Comercial Presence | Services supplier of one country establishes a local presence in another countrys territory to provide a service in that market | ***55-60%*** |
| Mode 4<br>Presence of Natural Persons | Services providers of one country (the exporter) travelling temporarily to the territory of another country to supply a service | ***<5%*** |

*Source: Share of Global Services Trade by Mode; Magdeleine and Maurer (2008)*

The type of service, how it is produced, and where it is consumed have real implications for investment. Historically, most services were produced and consumed domestically, requiring domestic investment (Mode 3) by foreign firms. Trade in services has historically been a relatively small percentage at approximately 7 percent of world trade, but this is quickly changing

## Services Sectors

This study takes a sectorial approach to identify barriers and impediments in FDI in Services. A major conclusion of the 2013 USC Marshall-ABAC on barriers to FDI in general, is that the nature of barriers and impediments differ by economic sector. For example, access to land is a major concern for retailers and port operators, but much less of an issue for accounting and life insurance firms. Constraints on time and resources limited the scope to seven services sectors: accounting services, life insurance, trucking, port services, telecommunications and broadband, software, platform, and cloud as a service, and retail and restaurants.

The selection of the specific services sectors was intentional. Each was intended to be illustrative of other similar services sectors which would likely have similar FDI challenges.

- **Accounting Services** were selected to be a proxy for other professional services such as legal services, health services, architecture and engineering services. While professional services have been shown to directly impact the competitiveness of an economy exports, problems with mutual recognition of qualifications and restrictions on movement of people are intractable problems.

- **Retail and Restaurants** are illustrative more generally of consumer services. That is, those services that delivered to end consumers within an economy such as entertainment, hospitality, and dry cleaning services. In a very real way investments in these services industry “force” foreign firms to become “domestic” corporate citizens. Consumer services providers tend to have multiple physical locations which increase problems with dealing with local government authorities.

- **Life Insurance** is an important sector of financial services. It highlights the challenges foreign firms face when entering any financial services sector. Restrictive and limiting domestic regulations which are often very different economy across economies. Requirements for physical presence and limits on cross-border movement of funds are all important challenges.

- **Trucking and Port Services** were selected as an example of producer services which become embedded and embodied in goods during production and sale. The focus is limited on trucking services which is illustrative of services that impact and are impacted on by complex ecosystems. Port services are illustrative of services which require long time horizons and which are dependent on quality and quantity of other partners in supply chains.

- **Telecommunications and Broadband and Software, Platform, and Cloud as a Service** are also producers of embodied services. Telecommunications is a proxy industry for industries which are considered to have strategic importance to economies, and are typically heavily regulated. ICTs represent services that are currently domestic industries but which will likely become traded services within the near future.

# Research Design

As field studies designed specifically to capture the personal experiences and opinions of APEC business leaders, these studies have real advantages and disadvantages. The obvious advantage is that the primary data collected is interview data which captures the real problems and challenges encountered by firms. The major disadvantage is that the data is qualitative, making it extremely difficult to compare across firms which leads to challenges in drawing out rigorous generalizations.

The research design had four major phases to it. First, conducting a full analysis of existing research on FDI in services; second, constructing interview protocols and questionnaires to identify relative importance of barriers and impediments to FDI in services, third, constructing analytical conceptual frameworks for analyzing, comparing, and reporting the data, and fourth, validating the data with available secondary information.

***1) Using Existing Research.*** The initial phase of the research project was to consult/examine all the recent existing research on the topic of investment in services to identify those barriers and impediments that had been found to have a significant impact of FDI flows into services. In particular, we should to identify generally accepted lists of sector-specific impediments. Beyond leveraging the insights and conclusions from the two most recent USC Marshall-ABAC studies on trade in services in APEC and barriers to FDI in APEC, extensive use was made of the World Bank Services Trade Restrictiveness Index, and the recently released OECD Services Trade Restrictiveness Index.

*Interview Protocols:* From this "desk" research comprehensive lists of potential barriers and impediments were created for the interview protocols and the questionnaires. These factors were used, first, to help identify what business executives considered to be the most important factors in FDI in services decision, and, secondly, how much of an impact each factor had in different economies.

- **Cataloging Importance.** In developing the interview protocols questions were created to elicit unprompted by the interview what the most important barriers and impediments encountered were. Capturing what factors business executives listed first was important for our analytical ranking of critical factors by services sectors. At the end of each interview business executives were again asked to repeat what they thought were the most important factors to FDI in services regardless of whether they were problems in the economies they invested in or not.

- **Rating Impact.** The more exhaustive lists of potential barriers were used by the interviewer to ask for the actual impact of each factor on investment decisions. Initially, during our pre-test of our interview protocol, we had hoped to be able to get actual costs and time-delays created by each factor. However, effectively none of those we interviewed were able to, or were willing to give, even give rough estimates of costs and time-delays. As a result we changed our approach to asking the interviewees to rate each factor on relative impact; from having little or no impact (rated as a 1) to extremely important/severe impact (rated as a 5). During the interview analysis phase we created standard rating sheets to guide and ensure different interviewers used essentially the same scale in assigning 1 through 5 impact ratings to different economies.

*Questionnaire:* After analysis of the interview data was completed, we created sector-specific questionnaires based on the factors reported as being important by business executives. The goal of the questionnaires was to confirm that our cataloging of the most important barriers and impediments was correct, and that our rating of relative impact of each factor was also correct. These questionnaires were sent out to all those who participated in the interviews and other business executives within the same services sectors. Disappointingly, we did not receive enough responses from each services sector within each economy to be able to use the questionnaire results in any meaningful way.

***2) Interview Research.*** In depth interviews in-person and phone interviews were conducted with 364 business executives, FDI consultants, industry experts, and government officials. Researchers traveled to 17 APEC economies to do in-person interviews. In other nations, including Australia, Canada, New Zealand, and Papua New Guinea conducted phone interviews. Figure X shows the number of interviews by services sector by economy. Please note that many interviewees were able to offer information on multiple economies.

Because of the sectorial focus of this study, and our limited time, a real effort was to ensure that most of interviews were conducted with industry experts such as presidents of industry associations, or with "multipliers." With the help of the ABAC Secretariats we sought interviews with multipliers - executives or industry consultants who were able to offer both a high level assessment of their services sector and detailed analysis of real investment challenges. While in some cases the number of interviews completed in some services sectors in some economies may appear low, every effort was made to ensure that we interviewed key thought-leaders/multipliers. Efforts were made to interview foreign firms who were engaged in investing or re-investing in an economy. Interesting, however, since many domestic barriers and impediments to investment area also barriers to FDI, some of our best insights came from domestic firms regarding their own decisions to re-invest domestically or to seek new investment opportunities internationally. Domestic firms tended to be more willing to be frank; whereas foreign firms, despite guarantees of confidentiality were reluctant to criticize host governments.

***3) Business Perspective FDI in Services Analytical Conceptual Framework.*** In order to compare and contrast the relative importance and relative impact of different barriers and impediments across economies and across sectors, a conceptual framework was created to guide the analysis. Because of the importance of the conceptual framework to all the analysis in the study, it is described in more detail below.

A second analytical approach is used in the analysis of most problematic barriers and impediments within each services sector. Because services sectors differ considerably, the most problematic barriers and impediments were expected to differ substantially. Within each services sector a more sector-specific tailored set of barriers and impediments was generated from the interviews. These factors were also catalogued in terms of their relative importance, and then each factor was then rated in terms of relative impact within each APEC economy. These services sector-specific factors are discussed in the following sections of this report.

***4) Validating Findings with Secondary Sources.*** Given the inherent subjectivity problems of interview-based research, an effort was made to compare and validate the findings for the analyses of the interview data with available secondary information. Comparable factors and close proxies for factors found to be important in this study were drawn from the World Bank Investing Across Borders (2010 and 2014) databases, the World Economic Forum 2014-15 Global Competitiveness Report, and the 2014 Enabling Trade Report. Findings were also compared with the recently released OECD services restrictiveness data for the ten APEC economies included in their study. The next section of this report presents assessments of the investment environments in APEC economies drawn from these secondary data sources.

## Limited Research Scope

The explicit objective was to capture the APEC business voice on problematic barriers and impediments to FDI in services. This means adopting what is referred to throughout this report as the "business perspective." Business perspective means all factors that enter the risk-return decision of firms. No effort was made to limit discussion with business executives to factors that can be influenced by policy initiatives in short or medium term. The report explicitly acknowledges that many of the factors included in the analyses reported throughout this report, are beyond the influence of governments. However, we include them because business executives reported that they do deter and/or discourage them from investing in certain economies. Deficiencies in infrastructure, geographic location, institutional voids, and lack of critical resources were often reported as reasons for not investing in a particular economy. We believe it is important that policy makers have this information.

As noted above, this study limits its focus to the seven service sectors identified above. While we believe that the overall findings and conclusions generalize to other services sectors, care should be taken in drawing out implications.

This study is intentional a field research study based on interviews with APEC businesses, and it is limited to conditions in investments environments in 2014. It is not longitudinal. If it proves valuable it will be because it complements and brings richness to more secondary data based studies. It is not intended to substitute for the rigor of econometric studies.

## Substantive Limitations

The validity and generalizability of any and all findings and conclusions of this report is constrained by the quality and knowledge of set of business executives and thought leaders available for interviews. The ABAC Secretariats made honest attempts to have researchers interview a representative sample of business executives and "multipliers." However, the findings of the report are directly limited to the quality and comprehensiveness of the information received from the interviews.

Limited numbers of interviews were obtained in Korea, Papua New Guinea, and Russia. For these economies substantial use of secondary information was used to complement the data received during the few interviews completed in each of these economies.

A detailed analysis of the service provisions with existing FTAs/RTAs was not undertaken, nor was a comparative analysis of the quality of International Investment Agreements.

Ideally, the best source of information about the most impactful barriers to FDI would come from firms that did due diligence on an economy but then decided against investing because of substantial barriers or cost-increasing or risk/uncertainty-increasing factors. Unfortunately these firms are almost impossible to identify. Investment Promotional Agencies who have access to this information are, for whatever reason, reluctant to share this information. In many case, because the firms did not invest, contact information is discarded.

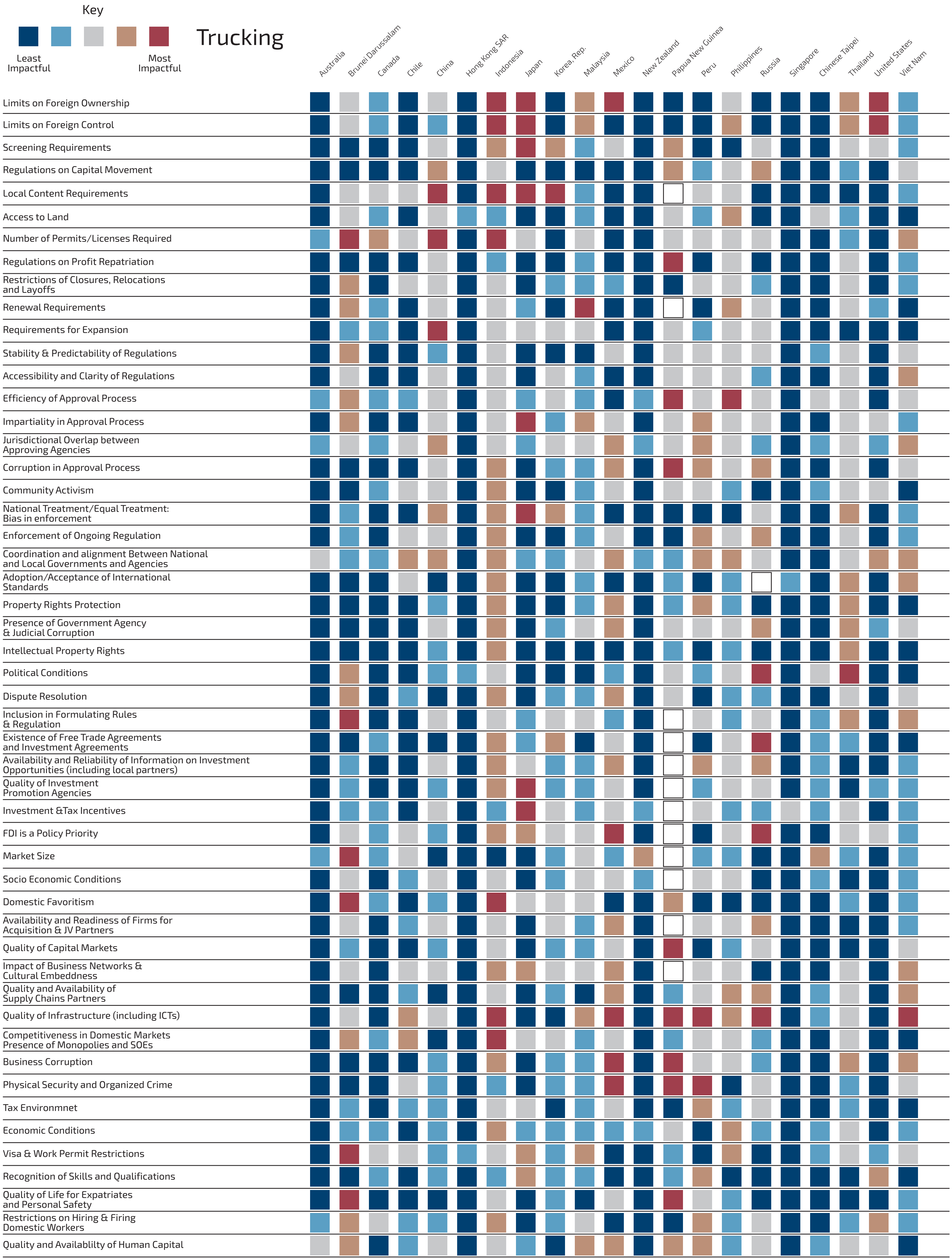
## Research Design and Method Limitations

Thirteen different interviewers were used during this research. In most cases one interviewer conducted all the interviews within an economy. This created a problem of cross-interview rater reliability. Efforts were made during the interview analyses phase to use standardized protocols and rating schemes to ensure comparability across interviewer.

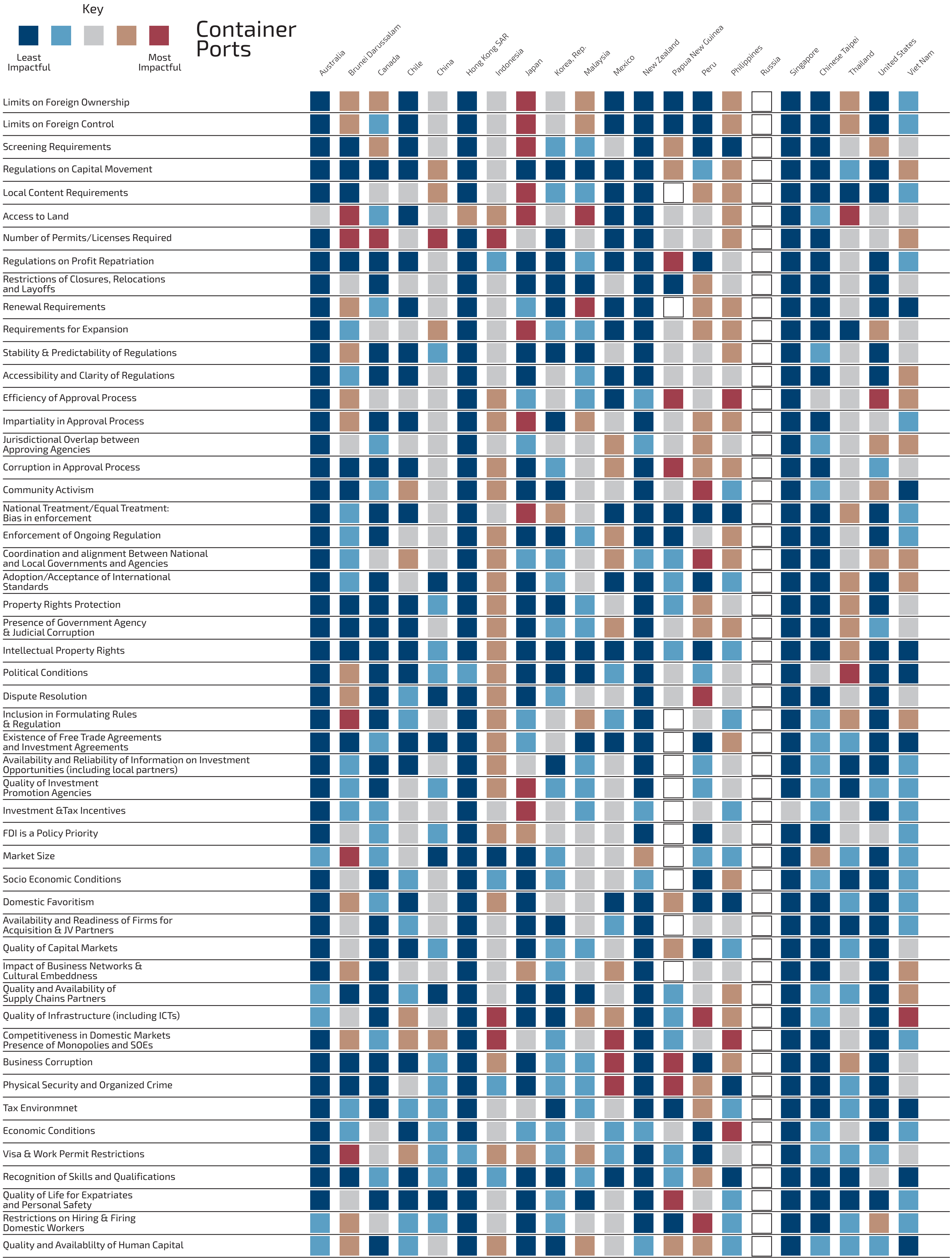
There is no way of knowing whether we have captured a fair sample of executive opinions in an economy. We gained confidence when executives repeated the same set of barriers and impediments. But this is a major limitation of this study.

In reducing the number of specific problem factors to 51 for the purpose of comparative analyses, substantial meaningful fine-grained information is lost.

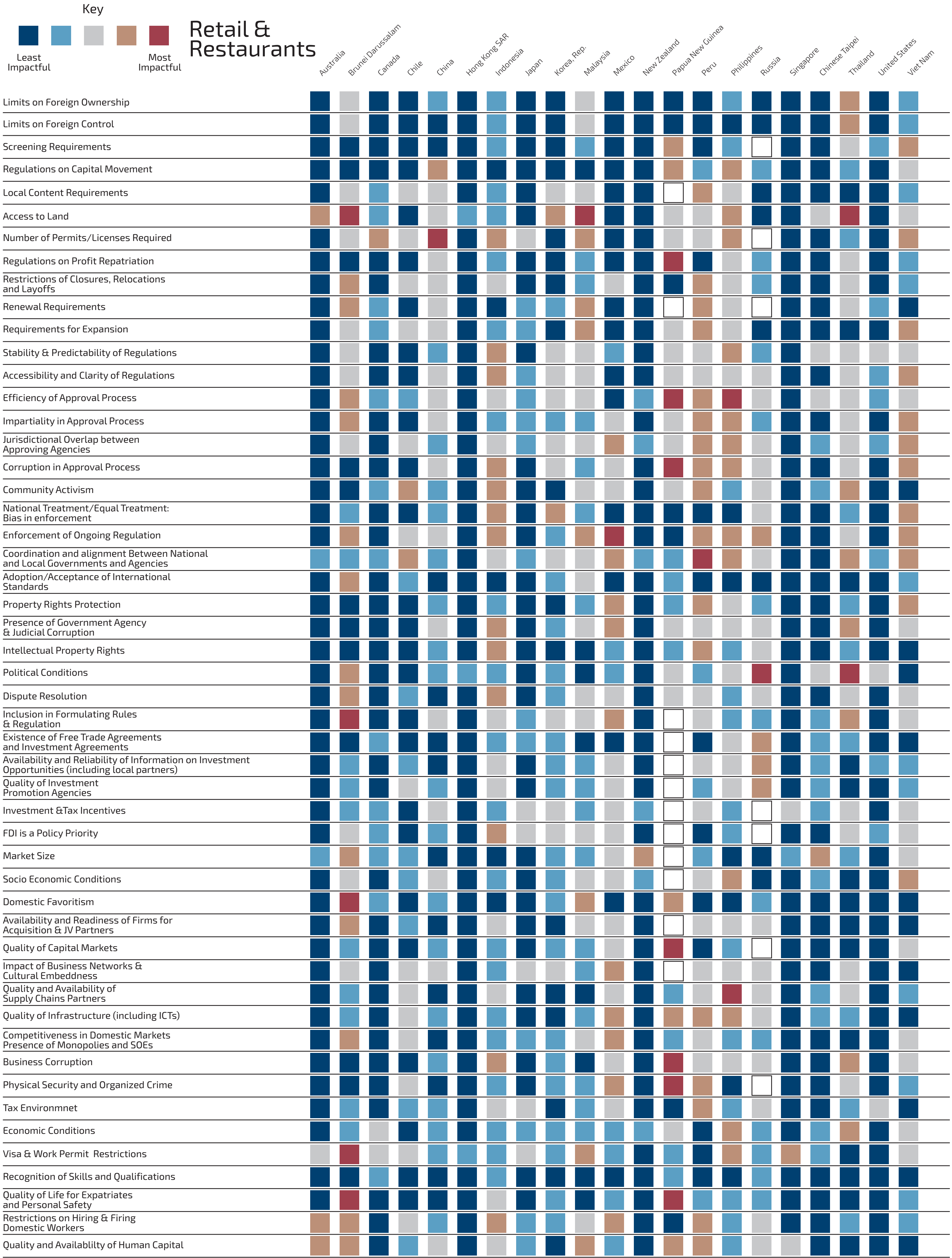
# Trucking


Key
Least Impactful
Most Impactful
Australia
Brunei Darussalam
Canada
Chile
China
Hong Kong SAR
Indonesia
Japan
Korea, Rep.
Malaysia
Mexico
New Zealand
Papua New Guinea
Peru
Philippines
Russia
Singapore
Chinese Taipei
Thailand
United States
Viet Nam
Limits on Foreign Ownership
Limits on Foreign Control
Screening Requirements
Regulations on Capital Movement
Local Content Requirements
Access to Land
Number of Permits/Licenses Required
Regulations on Profit Repatriation
Restrictions of Closures, Relocations and Layoffs
Renewal Requirements
Requirements for Expansion
Stability & Predictability of Regulations
Accessibility and Clarity of Regulations
Efficiency of Approval Process
Impartiality in Approval Process
Jurisdictional Overlap between Approving Agencies
Corruption in Approval Process
Community Activism
National Treatment/Equal Treatment: Bias in enforcement
Enforcement of Ongoing Regulation
Coordination and alignment Between National and Local Governments and Agencies
Adoption/Acceptance of International Standards
Property Rights Protection
Presence of Government Agency & Judicial Corruption
Intellectual Property Rights
Political Conditions
Dispute Resolution
Inclusion in Formulating Rules & Regulation
Existence of Free Trade Agreements and Investment Agreements
Availability and Reliability of Information on Investment Opportunities (including local partners)
Quality of Investment Promotion Agencies
Investment &Tax Incentives
FDI is a Policy Priority
Market Size
Socio Economic Conditions
Domestic Favoritism
Availability and Readiness of Firms for Acquisition & JV Partners
Quality of Capital Markets
Impact of Business Networks & Cultural Embeddedness
Quality and Availability of Supply Chains Partners
Quality of Infrastructure (including ICTs)
Competitiveness in Domestic Markets Presence of Monopolies and SOEs
Business Corruption
Physical Security and Organized Crime
Tax Environmnet
Economic Conditions
Visa & Work Permit Restrictions
Recognition of Skills and Qualifications
Quality of Life for Expatriates and Personal Safety
Restrictions on Hiring & Firing Domestic Workers
Quality and Availablilty of Human Capital

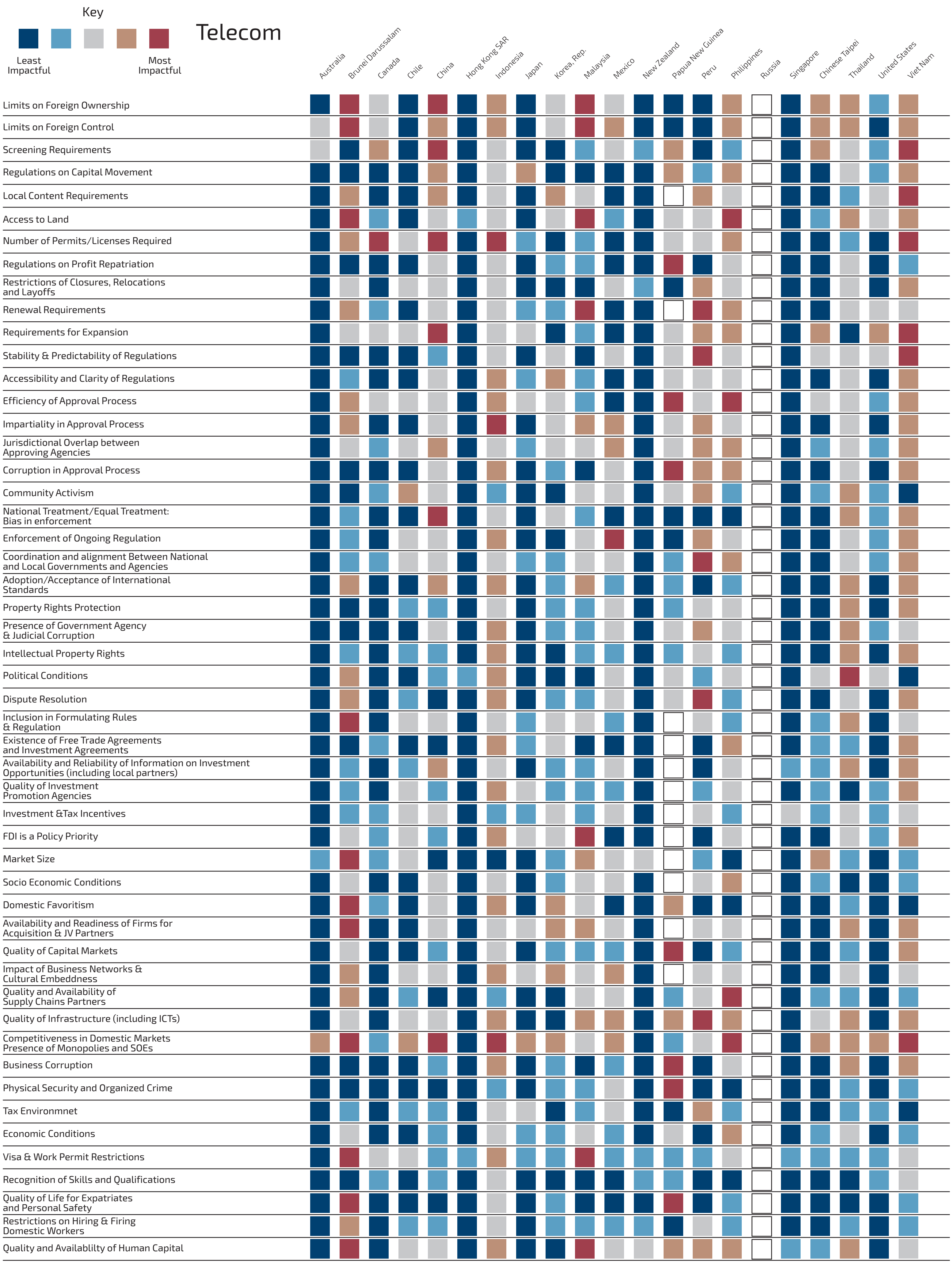
# Container Ports



# Retail & Restaurants



# Telecom


Key
Least Impactful
Most Impactful
Australia
Brunei Darussalam
Canada
Chile
China
Hong Kong SAR
Indonesia
Japan
Korea, Rep.
Malaysia
Mexico
New Zealand
Papua New Guinea
Peru
Philippines
Russia
Singapore
Chinese Taipei
Thailand
United States
Viet Nam
Limits on Foreign Ownership
Limits on Foreign Control
Screening Requirements
Regulations on Capital Movement
Local Content Requirements
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Regulations on Profit Repatriation
Restrictions of Closures, Relocations and Layoffs
Renewal Requirements
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Accessibility and Clarity of Regulations
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Impartiality in Approval Process
Jurisdictional Overlap between Approving Agencies
Corruption in Approval Process
Community Activism
National Treatment/Equal Treatment: Bias in enforcement
Enforcement of Ongoing Regulation
Coordination and alignment Between National and Local Governments and Agencies
Adoption/Acceptance of International Standards
Property Rights Protection
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Intellectual Property Rights
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Quality and Availability of Supply Chains Partners
Quality of Infrastructure (including ICTs)
Competitiveness in Domestic Markets Presence of Monopolies and SOEs
Business Corruption
Physical Security and Organized Crime
Tax Environmnet
Economic Conditions
Visa & Work Permit Restrictions
Recognition of Skills and Qualifications
Quality of Life for Expatriates and Personal Safety
Restrictions on Hiring & Firing Domestic Workers
Quality and Availablilty of Human Capital

# Saas, Paas, & Cloud

# Accounting


Key
Least Impactful
Most Impactful
Australia
Brunei Darussalam
Canada
Chile
China
Hong Kong SAR
Indonesia
Japan
Korea, Rep.
Malaysia
Mexico
New Zealand
Papua New Guinea
Peru
Philippines
Russia
Singapore
Chinese Taipei
Thailand
United States
Viet Nam
Limits on Foreign Ownership
Limits on Foreign Control
Screening Requirements
Regulations on Capital Movement
Local Content Requirements
Access to Land
Number of Permits/Licenses Required
Regulations on Profit Repatriation
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National Treatment/Equal Treatment: Bias in enforcement
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Coordination and alignment Between National and Local Governments and Agencies
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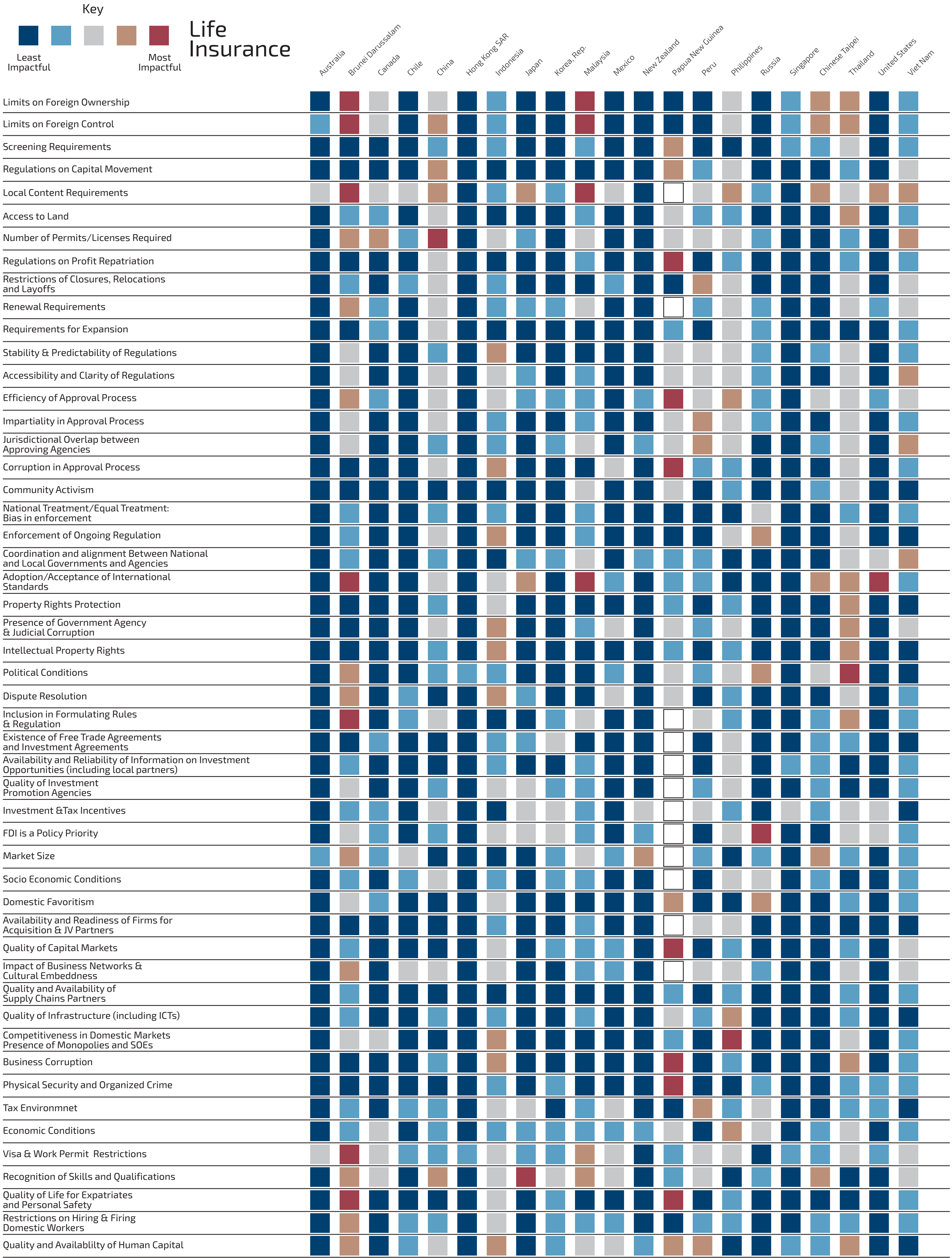
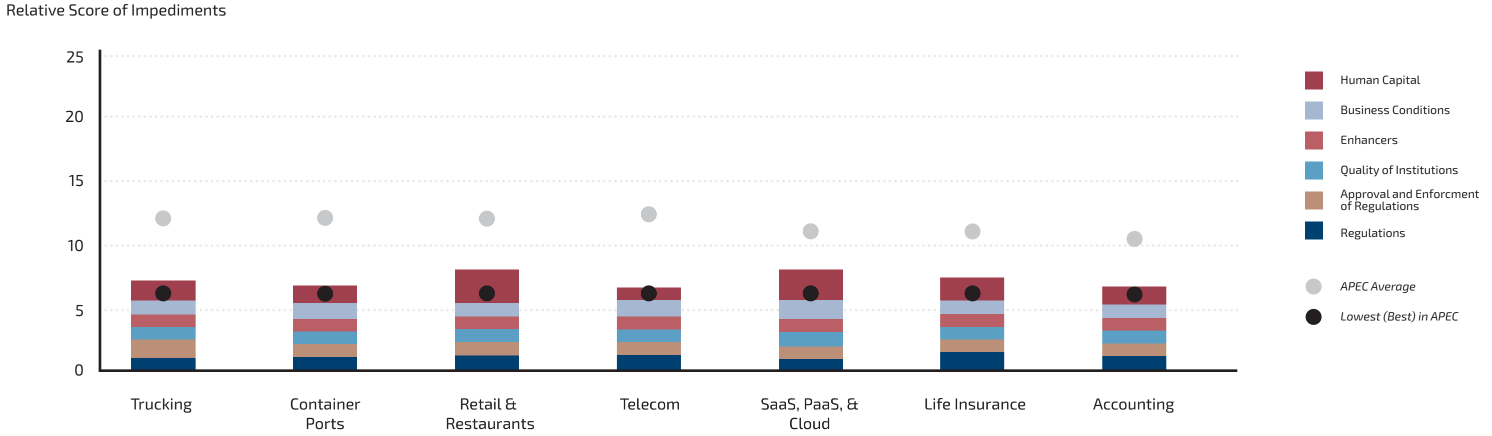
Tax Environmnet
Economic Conditions
Visa & Work Permit Restrictions
Recognition of Skills and Qualifications
Quality of Life for Expatriates and Personal Safety
Restrictions on Hiring & Firing Domestic Workers
Quality and Availablilty of Human Capital

# Life Insurance



# Australia

*Australia Aggregate Sector Ratings*




## Least Problematic

*FDI is a Policy Priority*

*Socio-Economic Conditions*

*Domestic Favoritism*

*Availability and Readiness of Firms for Acquisition & JV Partners*

*Impact of Business Networks & Cultural Embeddedness*

*Business Corruption*

*Physical Security and Organized Crime*

*Tax Environment*

*Economic Conditions*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Quality and Availability of Human Capital*

*Market Size*

*Visa & Work Permit Restrictions*

*Restrictions on Hiring & Firing Domestic Workers*

*Limits on Foreign Control*

*Access to Land*

*Local Content Requirements*

*Screening Requirements*

*Coordination and Alignment Between National and Local Governments and Agencies*

*Quality and Availability of Supply Chain Partners*

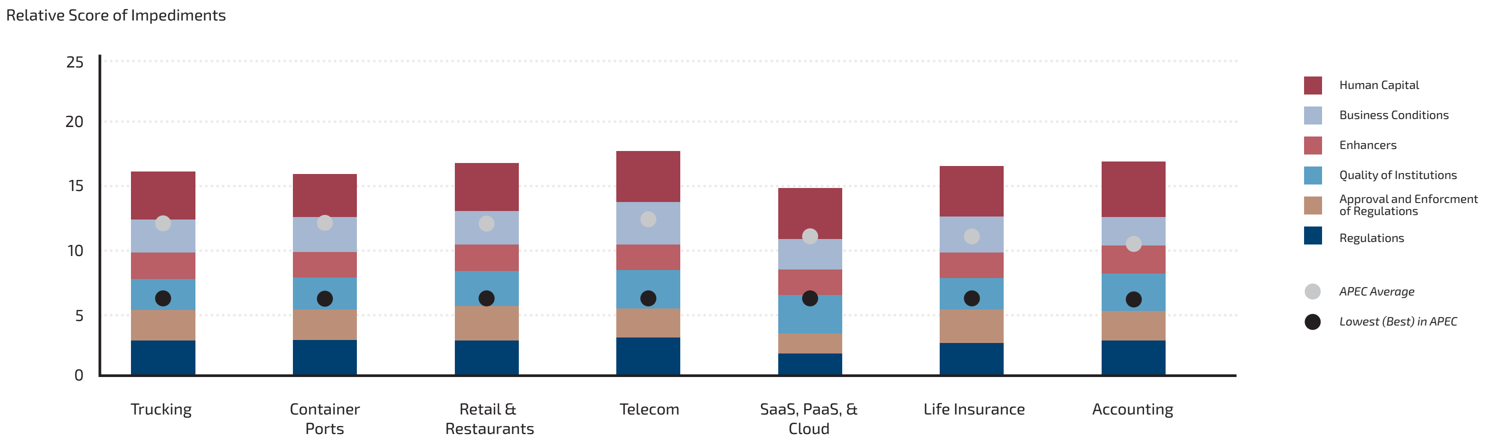
Key

Dark blue (Least Impactful) · Light blue · Grey · Tan · Red (Most Impactful)

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Light blue | Dark blue |
| Limits on Foreign Control | Dark blue | Dark blue | Dark blue | Grey | Dark blue | Grey | Light blue |
| Screening Requirements | Dark blue | Dark blue | Dark blue | Grey | Dark blue | Light blue | Dark blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Light blue | Dark blue |
| Local Content Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Grey | Grey |
| Access to Land | Dark blue | Grey | Tan | Dark blue | Dark blue | Dark blue | Dark blue |
| Number of Permits/Licenses Required | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Renewal Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Requirements for Expansion | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Stability & Predictability of Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Accessibility and Clarity of Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Efficiency of Approval Process | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Impartiality in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Jurisdictional Overlap Between Approving Agencies | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Corruption in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Community Activism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Grey | Dark blue | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Adoption/Acceptance of International Standards | Dark blue | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Dark blue |
| Property Rights Protection | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Intellectual Property Rights | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Political Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Dispute Resolution | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Inclusion in Formulating Rules & Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Existence of Free Trade Agreements and Investment Agreements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Investment Promotion Agencies | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Investment & Tax Incentives | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| FDI is a Policy Priority | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Market Size | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Socio-Economic Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Domestic Favoritism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Capital Markets | Dark blue | Dark blue | Dark blue | Dark blue | Grey | Dark blue | Dark blue |
| Impact of Business Networks & Cultural Embeddedness | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality and Availability of Supply Chain Partners | Dark blue | Light blue | Dark blue | Dark blue | Grey | Dark blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Dark blue | Light blue | Dark blue | Dark blue | Grey | Dark blue | Dark blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Dark blue | Dark blue | Dark blue | Tan | Dark blue | Dark blue | Dark blue |
| Business Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Physical Security and Organized Crime | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Tax Environment | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Economic Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Visa & Work Permit Restrictions | Dark blue | Dark blue | Grey | Dark blue | Light blue | Grey | Grey |
| Recognition of Skills and Qualifications | Dark blue | Dark blue | Dark blue | Dark blue | Grey | Light blue | Dark blue |
| Quality of Life for Expatriates and Personal Safety | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Light blue | Light blue | Tan | Dark blue | Light blue | Light blue | Dark blue |
| Quality and Availability of Human Capital | Grey | Light blue | Tan | Dark blue | Tan | Dark blue | Dark blue |

# Brunei Darussalam

*Brunei Darussalam Aggregate Sector Ratings*




## Least Problematic

*Competitiveness in Domestic Markets Presence of Monopolies and SOEs*

*Business Corruption*

*Physical Security and Organized Crime*

*Tax Environment*

*Economic Conditions*

*Visa & Work Permit Restrictions*

*Recognition of Skills and Qualifications*

*Quality of Life for Expatriates and Personal Safety*

*Restrictions on Hiring & Firing Domestic Workers*

*Quality and Availability of Human Capital*

## Most Problematic

*Limits on Foreign Ownership*

*Limits on Foreign Control*

*Screening Requirements*

*Regulations on Capital Movement*

*Local Content Requirements*

*Access to Land*

*Number of Permits/Licenses Required*

*Regulations on Profit Repatriation*

*Restrictions of Closures, Relocations, and Layoffs*

*Renewal Requirements*

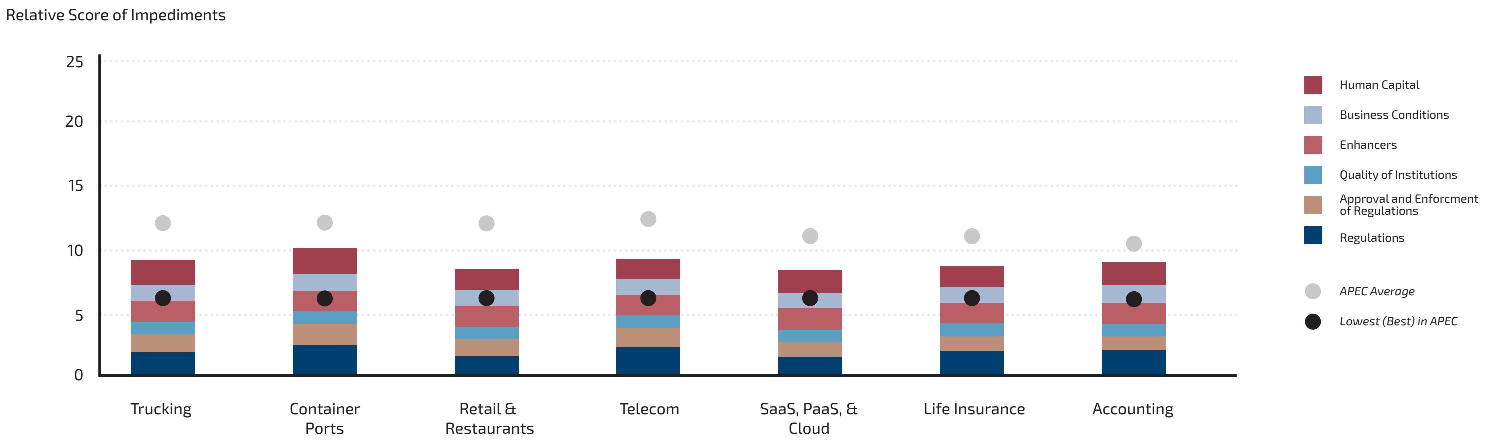
Key

| Least Impactful | | | | Most Impactful |
|---|---|---|---|---|
| Dark blue | Light blue | Gray | Tan | Red |

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Gray | Tan | Gray | Red | Gray | Gray | Red |
| Limits on Foreign Control | Gray | Tan | Gray | Red | Gray | Gray | Red |
| Screening Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Local Content Requirements | Gray | Dark blue | Gray | Tan | Tan | Red | Red |
| Access to Land | Gray | Red | Red | Red | Dark blue | Light blue | Light blue |
| Number of Permits/Licenses Required | Red | Red | Gray | Tan | Dark blue | Red | Tan |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Tan | Gray | Tan | Gray | Light blue | Light blue | Light blue |
| Renewal Requirements | Tan | Tan | Tan | Tan | Light blue | Tan | Tan |
| Requirements for Expansion | Light blue | Light blue | Gray | Gray | Light blue | Light blue | Dark blue |
| Stability & Predictability of Regulations | Tan | Tan | Gray | Dark blue | Dark blue | Gray | Gray |
| Accessibility and Clarity of Regulations | Gray | Light blue | Gray | Light blue | Dark blue | Gray | Gray |
| Efficiency of Approval Process | Tan | Tan | Tan | Tan | Light blue | Tan | Tan |
| Impartiality in Approval Process | Tan | Tan | Tan | Tan | Gray | Gray | Gray |
| Jurisdictional Overlap Between Approving Agencies | Gray | Gray | Gray | Gray | Light blue | Gray | Gray |
| Corruption in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Community Activism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Light blue | Light blue | Light blue | Light blue | Dark blue | Light blue | Light blue |
| Enforcement of Ongoing Regulation | Light blue | Light blue | Tan | Light blue | Dark blue | Tan | Light blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Adoption/Acceptance of International Standards | Dark blue | Light blue | Tan | Tan | Tan | Light blue | Red |
| Property Rights Protection | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Intellectual Property Rights | Dark blue | Dark blue | Dark blue | Light blue | Light blue | Dark blue | Dark blue |
| Political Conditions | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Dispute Resolution | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Inclusion in Formulating Rules & Regulations | Red | Red | Red | Red | Red | Red | Red |
| Existence of Free Trade Agreements and Investment Agreements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Quality of Investment Promotion Agencies | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Gray |
| Investment & Tax Incentives | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| FDI is a Policy Priority | Gray | Gray | Gray | Gray | Gray | Gray | Gray |
| Market Size | Red | Red | Tan | Red | Dark blue | Tan | Tan |
| Socio-Economic Conditions | Gray | Gray | Gray | Gray | Dark blue | Gray | Light blue |
| Domestic Favoritism | Red | Tan | Red | Red | Red | Gray | Gray |
| Availability and Readiness of Firms for Acquisition & JV Partners | Gray | Gray | Tan | Red | Gray | Gray | Dark blue |
| Quality of Capital Markets | Light blue | Gray | Light blue | Gray | Gray | Tan | Light blue |
| Impact of Business Networks & Cultural Embeddedness | Gray | Tan | Gray | Tan | Dark blue | Tan | Tan |
| Quality and Availability of Supply Chain Partners | Dark blue | Dark blue | Light blue | Tan | Gray | Light blue | Light blue |
| Quality of Infrastructure (including ICTs) | Gray | Gray | Light blue | Gray | Tan | Gray | Light blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Tan | Tan | Tan | Red | Gray | Tan | Gray |
| Business Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Physical Security and Organized Crime | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Tax Environment | Light blue | Light blue | Light blue | Light blue | Gray | Light blue | Light blue |
| Economic Conditions | Light blue | Light blue | Light blue | Gray | Gray | Gray | Light blue |
| Visa & Work Permit Restrictions | Red | Red | Red | Red | Red | Red | Red |
| Recognition of Skills and Qualifications | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Light blue | Tan |
| Quality of Life for Expatriates and Personal Safety | Red | Gray | Red | Red | Red | Red | Red |
| Restrictions on Hiring & Firing Domestic Workers | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Quality and Availability of Human Capital | Tan | Tan | Tan | Red | Red | Tan | Tan |

# Canada

*Canada Aggregate Sector Ratings*




## Least Problematic

*Socio-Economic Conditions*

*Availability and Readiness of Firms for Acquisition & JV Partners*

*Quality of Capital Markets*

*Impact of Business Networks & Cultural Embeddedness*

*Quality and Availability of Supply Chain Partners*

*Quality of Infrastructure (including ICTs)*

*Business Corruption*

*Physical Security and Organized Crime*

*Tax Environment*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Number of Permits/Licenses Required*

*Visa & Work Permit Restrictions*

*Limits on Foreign Ownership*

*Efficiency of Approval Process*

*Requirements for Expansion*

*Limits on Foreign Control*

*Local Content Requirements*

*Existence of Free Trade Agreements and Investment Agreements*

*Economic Conditions*

*Recognition of Skills and Qualifications*

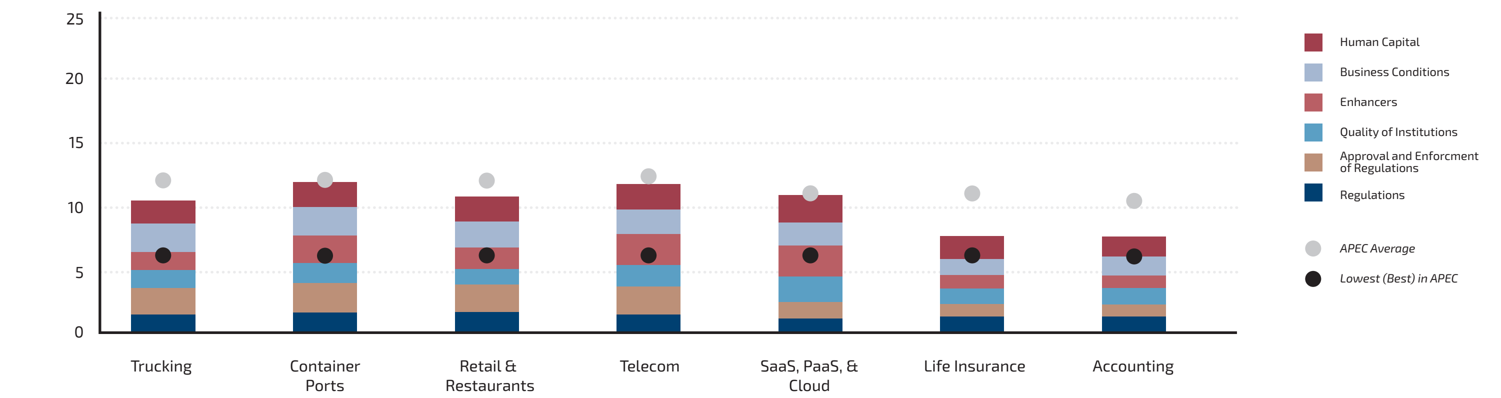
Key

| Dark blue | Light blue | Grey | Tan | Red |
|---|---|---|---|---|
| Least Impactful | | | | Most Impactful |

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Light blue | Tan | Dark blue | Grey | Dark blue | Grey | Grey |
| Limits on Foreign Control | Light blue | Light blue | Dark blue | Grey | Dark blue | Grey | Grey |
| Screening Requirements | Dark blue | Tan | Dark blue | Tan | Dark blue | Dark blue | Dark blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Local Content Requirements | Grey | Grey | Light blue | Dark blue | Dark blue | Light blue | Grey |
| Access to Land | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Number of Permits/Licenses Required | Tan | Red | Tan | Red | Tan | Tan | Tan |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Renewal Requirements | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Requirements for Expansion | Light blue | Grey | Light blue | Grey | Light blue | Light blue | Light blue |
| Stability & Predictability of Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Accessibility and Clarity of Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Efficiency of Approval Process | Light blue | Grey | Light blue | Grey | Light blue | Grey | Light blue |
| Impartiality in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Jurisdictional Overlap Between Approving Agencies | Light blue | Light blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue |
| Corruption in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Community Activism | Light blue | Light blue | Light blue | Light blue | Dark blue | Dark blue | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Light blue | Grey | Light blue | Light blue | Dark blue | Dark blue | Dark blue |
| Adoption/Acceptance of International Standards | Dark blue | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Dark blue |
| Property Rights Protection | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Intellectual Property Rights | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Political Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Dispute Resolution | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Inclusion in Formulating Rules & Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Existence of Free Trade Agreements and Investment Agreements | Light blue | Light blue | Light blue | Light blue | Grey | Light blue | Light blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Investment Promotion Agencies | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Investment & Tax Incentives | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| FDI is a Policy Priority | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Market Size | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Socio-Economic Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Domestic Favoritism | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Capital Markets | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Impact of Business Networks & Cultural Embeddedness | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality and Availability of Supply Chain Partners | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Light blue | Light blue | Dark blue | Light blue | Dark blue | Light blue | Grey |
| Business Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Physical Security and Organized Crime | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Tax Environment | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Economic Conditions | Light blue | Grey | Grey | Dark blue | Dark blue | Light blue | Grey |
| Visa & Work Permit Restrictions | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Recognition of Skills and Qualifications | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Grey |
| Quality of Life for Expatriates and Personal Safety | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Grey | Grey | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality and Availability of Human Capital | Dark blue | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Dark blue |

# Chile

## Chile Aggregate Sector Ratings




## Least Problematic

*National Treatment/Equal Treatment: Bias in Enforcement*
*Presence of Government Agency and Judicial Corruption*

*Political Conditions*

*Existence of Free Trade Agreements and Investment Agreements*

*Domestic Favoritism*

*Quality of Capital Markets*

*Business Corruption*

*Economic Conditions*

*Recognition of Skills and Qualifications*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Visa & Work Permit Restrictions*

*Number of Permits/Licenses Required*

*Market Size*

*Quality of Infrastructure (including ICTs)*

*Community Activism*

*Coordination and Alignment Between National and Local Governments and Agencies*

*Impact of Business Networks & Cultural Embeddedness*

*Competitiveness in Domestic Markets*
*Presence of Monopolies and SOEs*

*Local Content Requirements*

*Restrictions of Closures, Relocations, and Layoffs*

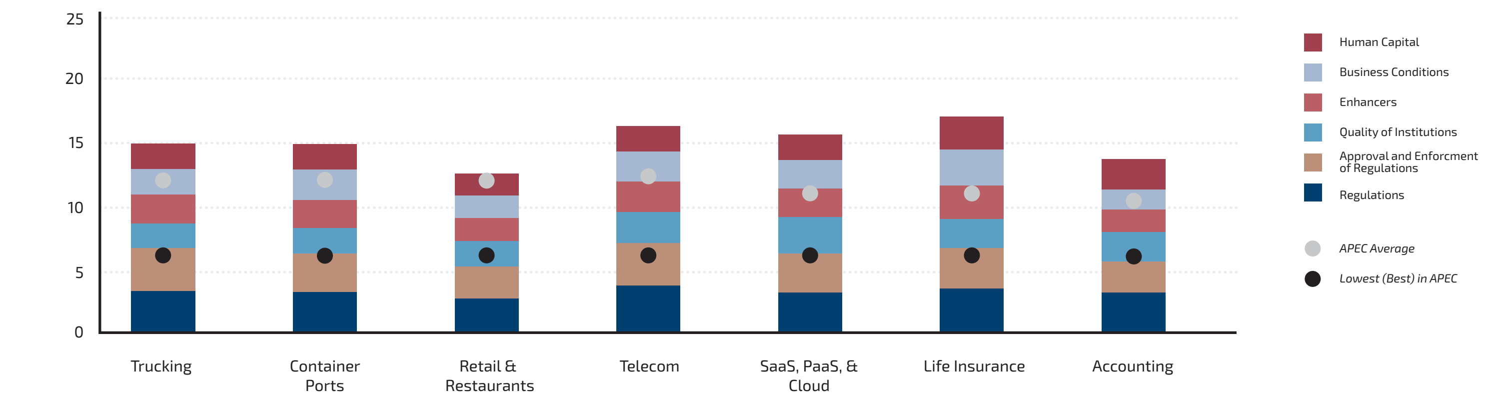
Key

| Dark blue | Light blue | Grey | Tan | Red |
|---|---|---|---|---|
| Least Impactful | | | | Most Impactful |

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Limits on Foreign Control | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Screening Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Local Content Requirements | Grey | Grey | Grey | Dark blue | Dark blue | Grey | Grey |
| Access to Land | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Number of Permits/Licenses Required | Grey | Grey | Grey | Grey | Grey | Light blue | Light blue |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Grey | Grey | Grey | Grey | Dark blue | Light blue | Light blue |
| Renewal Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Requirements for Expansion | Dark blue | Grey | Grey | Grey | Dark blue | Dark blue | Dark blue |
| Stability & Predictability of Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Accessibility and Clarity of Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Efficiency of Approval Process | Light blue | Grey | Light blue | Grey | Light blue | Dark blue | Dark blue |
| Impartiality in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Jurisdictional Overlap Between Approving Agencies | Grey | Grey | Grey | Grey | Grey | Dark blue | Dark blue |
| Corruption in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Community Activism | Grey | Tan | Tan | Tan | Dark blue | Dark blue | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Grey | Grey | Grey | Grey | Dark blue | Dark blue | Dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Tan | Tan | Tan | Grey | Dark blue | Dark blue | Dark blue |
| Adoption/Acceptance of International Standards | Grey | Grey | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Property Rights Protection | Dark blue | Dark blue | Dark blue | Light blue | Grey | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Intellectual Property Rights | Dark blue | Dark blue | Dark blue | Light blue | Grey | Dark blue | Dark blue |
| Political Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Dispute Resolution | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Inclusion in Formulating Rules & Regulations | Dark blue | Light blue | Dark blue | Grey | Grey | Light blue | Light blue |
| Existence of Free Trade Agreements and Investment Agreements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Dark blue | Dark blue | Light blue | Light blue | Dark blue | Dark blue | Dark blue |
| Quality of Investment Promotion Agencies | Dark blue | Grey | Grey | Grey | Grey | Dark blue | Dark blue |
| Investment & Tax Incentives | Dark blue | Grey | Dark blue | Grey | Grey | Dark blue | Dark blue |
| FDI is a Policy Priority | Grey | Grey | Dark blue | Grey | Tan | Dark blue | Dark blue |
| Market Size | Grey | Grey | Light blue | Grey | Grey | Light blue | Grey |
| Socio-Economic Conditions | Light blue | Light blue | Light blue | Dark blue | Grey | Grey | Light blue |
| Domestic Favoritism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Light blue | Light blue | Light blue | Dark blue | Grey | Dark blue | Dark blue |
| Quality of Capital Markets | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Impact of Business Networks & Cultural Embeddedness | Grey | Grey | Grey | Grey | Light blue | Dark blue | Grey |
| Quality and Availability of Supply Chain Partners | Light blue | Light blue | Grey | Light blue | Light blue | Dark blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Tan | Tan | Grey | Grey | Grey | Dark blue | Dark blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Tan | Tan | Grey | Tan | Dark blue | Dark blue | Dark blue |
| Business Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Physical Security and Organized Crime | Grey | Grey | Grey | Dark blue | Dark blue | Dark blue | Dark blue |
| Tax Environment | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Economic Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Visa & Work Permit Restrictions | Grey | Tan | Grey | Grey | Grey | Grey | Light blue |
| Recognition of Skills and Qualifications | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Life for Expatriates and Personal Safety | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Light blue | Light blue | Grey | Light blue | Light blue | Light blue | Light blue |
| Quality and Availability of Human Capital | Light blue | Light blue | Light blue | Grey | Tan | Light blue | Light blue |

# China

## China Aggregate Sector Ratings




## Least Problematic

*Tax Environment*

*Economic Conditions*

*Visa & Work Permit Restrictions*

*Restrictions on Hiring & Firing Domestic Workers*

*Quality and Availability of Supply Chains Partners*

*Physical Security and Organized Crime*

*Dispute Resolution*

*Existence of Free Trade Agreements and Investment Agreements*

*Market Size*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Number of Permits/Licenses Required*

*Regulations on Capital Movement*

*Requirements for Expansion*

*Local Content Requirements*

*Limits on Foreign Ownership*

*National Treatment/Equal Treatment: Bias in Enforcement*

*Screening Requirements*

*Quality and Availability of Human Capital*

*Jurisdictional Overlap Between Approving Agencies*

*Impact of Business Networks and Cultural Embeddedness*

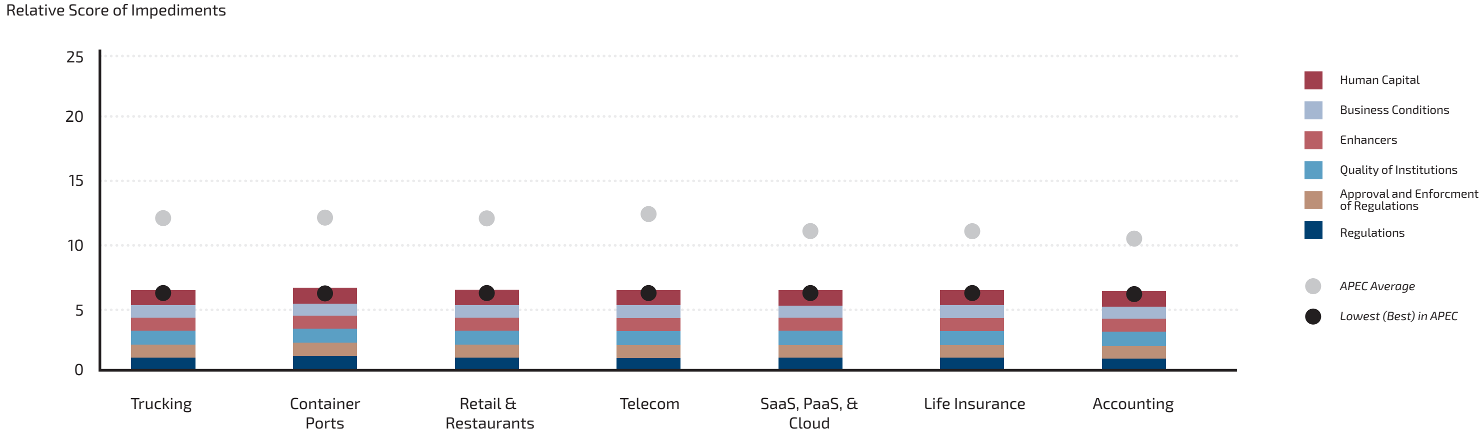
Key

| Dark blue | Light blue | Grey | Tan | Red |
|---|---|---|---|---|
| Least Impactful | | | | Most Impactful |

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Grey | Grey | Light blue | Red | Grey | Red | Grey |
| Limits on Foreign Control | Light blue | Grey | Dark blue | Tan | Light blue | Grey | Tan |
| Screening Requirements | Grey | Grey | Dark blue | Red | Red | Tan | Light blue |
| Regulations on Capital Movement | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Local Content Requirements | Red | Tan | Grey | Tan | Grey | Grey | Tan |
| Access to Land | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Number of Permits/Licenses Required | Red | Red | Red | Red | Red | Red | Red |
| Regulations on Profit Repatriation | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Restrictions of Closures, Relocations, and Layoffs | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Renewal Requirements | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Requirements for Expansion | Red | Tan | Grey | Red | Grey | Red | Grey |
| Stability & Predictability of Regulations | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Accessibility and Clarity of Regulations | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Efficiency of Approval Process | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Impartiality in Approval Process | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Jurisdictional Overlap Between Approving Agencies | Tan | Grey | Light blue | Tan | Grey | Tan | Light blue |
| Corruption in Approval Process | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Community Activism | Grey | Grey | Light blue | Grey | Grey | Grey | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Tan | Grey | Light blue | Red | Tan | Tan | Light blue |
| Enforcement of Ongoing Regulation | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Coordination and Alignment Between National and Local Governments and Agencies | Tan | Grey | Light blue | Grey | Grey | Grey | Light blue |
| Adoption/Acceptance of International Standards | Dark blue | Dark blue | Dark blue | Tan | Red | Grey | Grey |
| Property Rights Protection | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Presence of Government Agency & Judicial Corruption | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Intellectual Property Rights | Light blue | Light blue | Light blue | Light blue | Tan | Light blue | Light blue |
| Political Conditions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Dispute Resolution | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Inclusion in Formulating Rules & Regulations | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Existence of Free Trade Agreements and Investment Agreements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Grey | Grey | Dark blue | Tan | Grey | Red | Dark blue |
| Quality of Investment Promotion Agencies | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Investment & Tax Incentives | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| FDI is a Policy Priority | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Market Size | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Socio-Economic Conditions | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Domestic Favoritism | Light blue | Grey | Light blue | Grey | Light blue | Tan | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Grey | Grey | Dark blue | Grey | Grey | Red | Dark blue |
| Quality of Capital Markets | Light blue | Light blue | Light blue | Light blue | Light blue | Red | Dark blue |
| Impact of Business Networks & Cultural Embeddedness | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Quality and Availability of Supply Chain Partners | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Grey | Dark blue |
| Quality of Infrastructure (including ICTs) | Grey | Grey | Light blue | Grey | Tan | Light blue | Light blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Dark blue | Tan | Dark blue | Red | Tan | Tan | Dark blue |
| Business Corruption | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Physical Security and Organized Crime | Light blue | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Tax Environment | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Economic Conditions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Visa & Work Permit Restrictions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Recognition of Skills and Qualifications | Light blue | Light blue | Dark blue | Light blue | Light blue | Grey | Tan |
| Quality of Life for Expatriates and Personal Safety | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Quality and Availability of Human Capital | Grey | Grey | Grey | Grey | Grey | Red | Grey |

# Hong Kong

## Hong Kong Aggregate Sector Ratings




## Least Problematic

*Quality of Infrastructure (including ICTs)*

*Competitiveness in Domestic Markets*
*Presence of Monopolies and SOEs*

*Business Corruption*

*Physical Security and Organized Crime*

*Tax Environment*

*Economic Conditions*

*Recognition of Skills and Qualifications*

*Quality of Life for Expatriates and Personal Safety*

*Restrictions on Hiring & Firing Domestic Workers*

*Quality and Availability of Human Capital*

## Most Problematic

*Access to Land*

*Political Conditions*

*Visa & Work Permit Restrictions*

*Screening Requirements*

*Limits on Foreign Ownership*

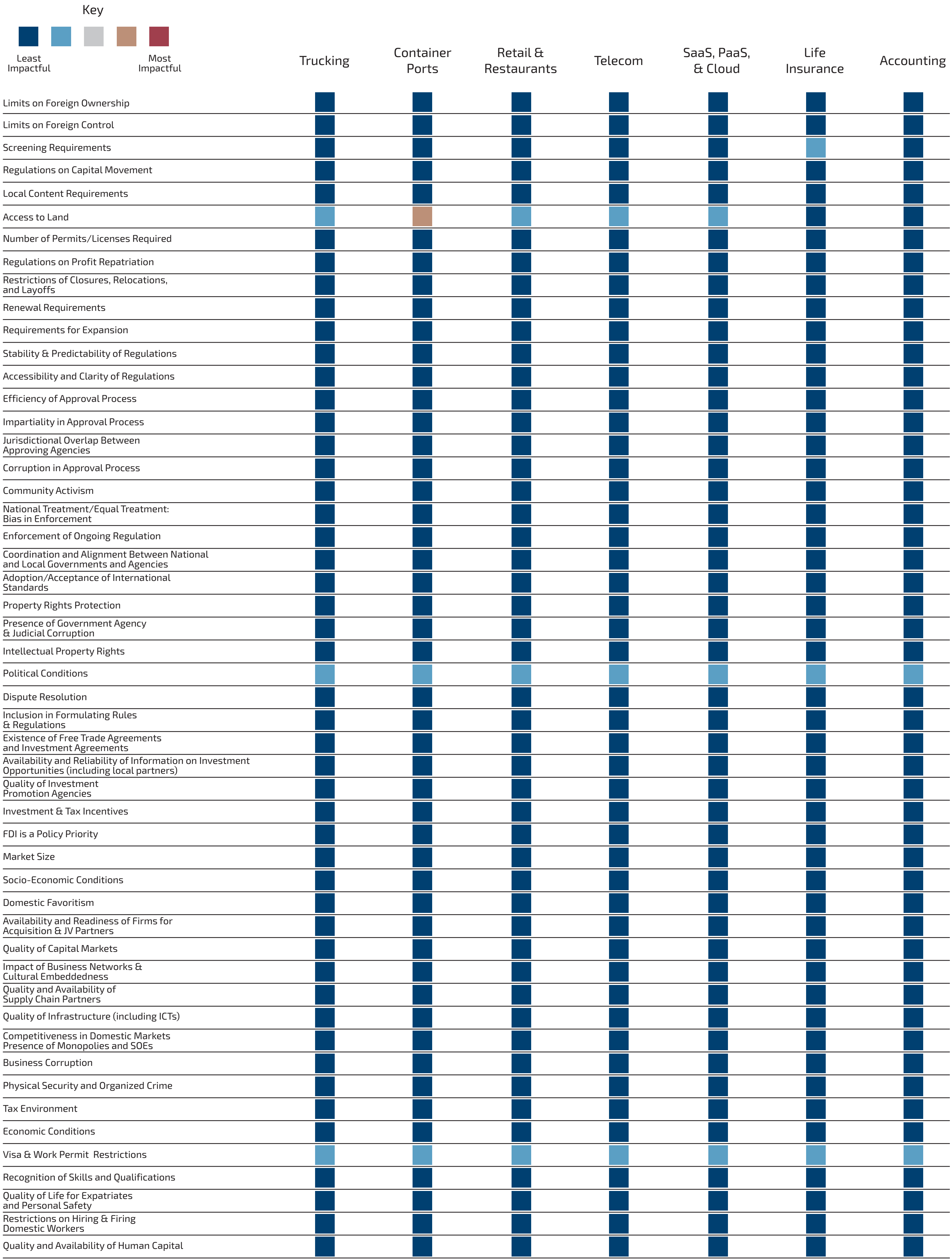
*Limits on Foreign Control*

*Regulations on Capital Movement*

*Local Content Requirements*

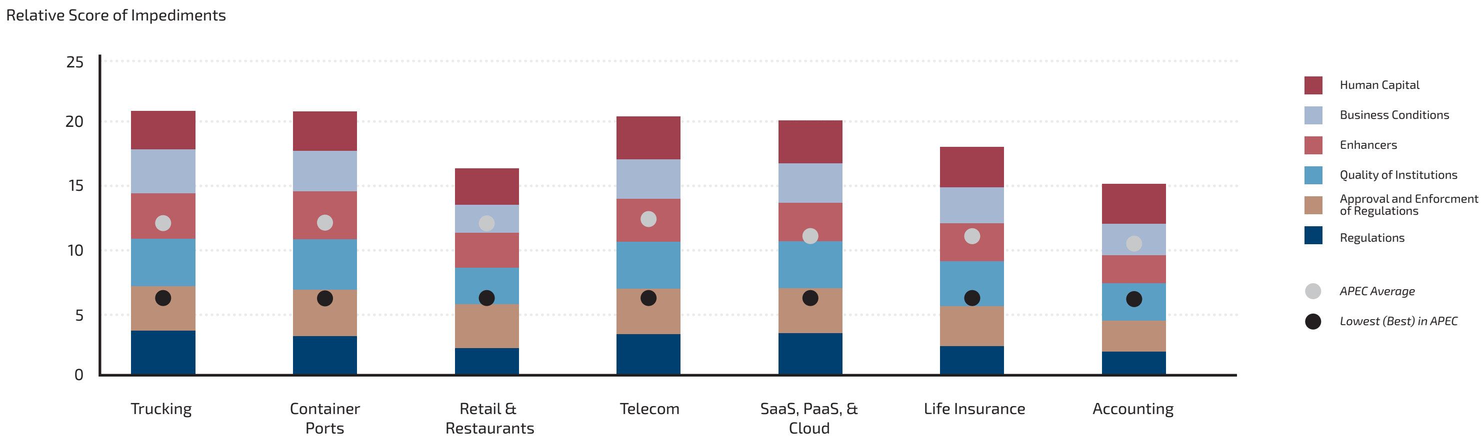
*Number of Permits/Licenses Required*

*Regulations on Profit Repatriation*


Key
Least Impactful
Most Impactful
Trucking
Container Ports
Retail & Restaurants
Telecom
SaaS, PaaS, & Cloud
Life Insurance
Accounting
Limits on Foreign Ownership
Limits on Foreign Control
Screening Requirements
Regulations on Capital Movement
Local Content Requirements
Access to Land
Number of Permits/Licenses Required
Regulations on Profit Repatriation
Restrictions of Closures, Relocations, and Layoffs
Renewal Requirements
Requirements for Expansion
Stability & Predictability of Regulations
Accessibility and Clarity of Regulations
Efficiency of Approval Process
Impartiality in Approval Process
Jurisdictional Overlap Between Approving Agencies
Corruption in Approval Process
Community Activism
National Treatment/Equal Treatment: Bias in Enforcement
Enforcement of Ongoing Regulation
Coordination and Alignment Between National and Local Governments and Agencies
Adoption/Acceptance of International Standards
Property Rights Protection
Presence of Government Agency & Judicial Corruption
Intellectual Property Rights
Political Conditions
Dispute Resolution
Inclusion in Formulating Rules & Regulations
Existence of Free Trade Agreements and Investment Agreements
Availability and Reliability of Information on Investment Opportunities (including local partners)
Quality of Investment Promotion Agencies
Investment & Tax Incentives
FDI is a Policy Priority
Market Size
Socio-Economic Conditions
Domestic Favoritism
Availability and Readiness of Firms for Acquisition & JV Partners
Quality of Capital Markets
Impact of Business Networks & Cultural Embeddedness
Quality and Availability of Supply Chain Partners
Quality of Infrastructure (including ICTs)
Competitiveness in Domestic Markets Presence of Monopolies and SOEs
Business Corruption
Physical Security and Organized Crime
Tax Environment
Economic Conditions
Visa & Work Permit Restrictions
Recognition of Skills and Qualifications
Quality of Life for Expatriates and Personal Safety
Restrictions on Hiring & Firing Domestic Workers
Quality and Availability of Human Capital

# Indonesia

*Indonesia Aggregate Sector Ratings*




## Least Problematic

*Recognition of Skills and Qualifications*

*Regulations on Capital Movement*

*Renewal Requirements*

*Requirements for Expansion*

*Access to Land*

*Quality and Availability of Supply Chain Partners*

*Regulations on Profit Repatriation*

*Investment & Tax Incentives*

*Physical Security and Organized Crime*

*Market Size*

## Most Problematic

*Number of Permits/Licenses Required*

*Competitiveness in Domestic Markets*
*Presence of Monopolies and SOEs*

*Corruption in Approval Process*

*Enforcement of Ongoing Regulation*

*Presence of Government Agency & Judicial Corruption*

*Intellectual Property Rights*

*Dispute Resolution*

*Business Corruption*

*Quality of Investment Promotion Agencies*

*FDI is a Policy Priority*

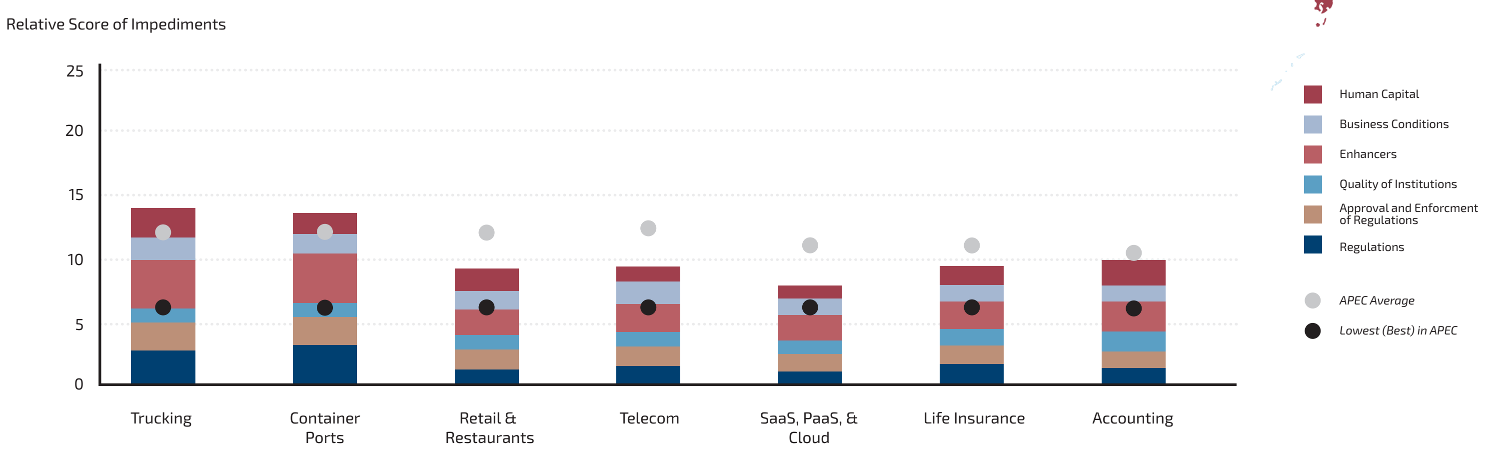
Key

Least Impactful — Most Impactful

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Red | Grey | Light blue | Tan | Tan | Light blue | Light blue |
| Limits on Foreign Control | Red | Grey | Light blue | Tan | Tan | Light blue | Light blue |
| Screening Requirements | Tan | Grey | Light blue | Grey | Grey | Light blue | Light blue |
| Regulations on Capital Movement | Grey | Grey | Dark blue | Grey | Grey | Grey | Dark blue |
| Local Content Requirements | Red | Grey | Light blue | Grey | Grey | Light blue | Light blue |
| Access to Land | Light blue | Tan | Light blue | Grey | Grey | Dark blue | Dark blue |
| Number of Permits/Licenses Required | Red | Red | Tan | Red | Red | Red | Grey |
| Regulations on Profit Repatriation | Light blue | Light blue | Light blue | Grey | Grey | Light blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Grey | Grey | Grey | Grey | Grey | Light blue | Light blue |
| Renewal Requirements | Grey | Grey | Dark blue | Grey | Grey | Light blue | Light blue |
| Requirements for Expansion | Grey | Grey | Light blue | Grey | Grey | Light blue | Dark blue |
| Stability & Predictability of Regulations | Grey | Grey | Tan | Grey | Tan | Tan | Tan |
| Accessibility and Clarity of Regulations | Grey | Grey | Tan | Tan | Tan | Tan | Grey |
| Efficiency of Approval Process | Grey | Tan | Grey | Tan | Tan | Grey | Grey |
| Impartiality in Approval Process | Grey | Tan | Light blue | Red | Red | Tan | Light blue |
| Jurisdictional Overlap Between Approving Agencies | Grey | Grey | Grey | Grey | Grey | Grey | Light blue |
| Corruption in Approval Process | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Community Activism | Tan | Tan | Tan | Light blue | Light blue | Light blue | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Tan | Grey | Tan | Grey | Grey | Light blue | Light blue |
| Enforcement of Ongoing Regulation | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Coordination and Alignment Between National and Local Governments and Agencies | Tan | Tan | Grey | Grey | Grey | Light blue | Dark blue |
| Adoption/Acceptance of International Standards | Tan | Tan | Dark blue | Tan | Tan | Tan | Grey |
| Property Rights Protection | Tan | Tan | Light blue | Grey | Grey | Grey | Grey |
| Presence of Government Agency & Judicial Corruption | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Intellectual Property Rights | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Political Conditions | Grey | Tan | Light blue | Tan | Tan | Grey | Light blue |
| Dispute Resolution | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Inclusion in Formulating Rules & Regulations | Grey | Tan | Grey | Grey | Grey | Grey | Dark blue |
| Existence of Free Trade Agreements and Investment Agreements | Tan | Tan | Light blue | Tan | Light blue | Grey | Light blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Tan | Tan | Grey | Grey | Grey | Grey | Light blue |
| Quality of Investment Promotion Agencies | Tan | Tan | Grey | Tan | Tan | Tan | Grey |
| Investment & Tax Incentives | Light blue | Grey | Light blue | Light blue | Light blue | Light blue | Dark blue |
| FDI is a Policy Priority | Tan | Tan | Tan | Tan | Tan | Grey | Grey |
| Market Size | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Socio-Economic Conditions | Grey | Light blue | Light blue | Grey | Grey | Grey | Light blue |
| Domestic Favoritism | Red | Tan | Dark blue | Tan | Tan | Grey | Grey |
| Availability and Readiness of Firms for Acquisition & JV Partners | Grey | Grey | Grey | Grey | Grey | Grey | Light blue |
| Quality of Capital Markets | Grey | Grey | Light blue | Grey | Grey | Grey | Grey |
| Impact of Business Networks & Cultural Embeddedness | Tan | Grey | Light blue | Tan | Tan | Grey | Grey |
| Quality and Availability of Supply Chain Partners | Grey | Grey | Grey | Light blue | Light blue | Light blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Red | Red | Light blue | Tan | Tan | Grey | Light blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Red | Red | Light blue | Red | Red | Tan | Tan |
| Business Corruption | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Physical Security and Organized Crime | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Tax Environment | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Economic Conditions | Tan | Grey | Light blue | Grey | Grey | Grey | Light blue |
| Visa & Work Permit Restrictions | Grey | Tan | Light blue | Tan | Tan | Grey | Grey |
| Recognition of Skills and Qualifications | Light blue | Light blue | Light blue | Grey | Grey | Grey | Grey |
| Quality of Life for Expatriates and Personal Safety | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Restrictions on Hiring & Firing Domestic Workers | Tan | Grey | Tan | Grey | Grey | Grey | Grey |
| Quality and Availability of Human Capital | Grey | Tan | Grey | Tan | Tan | Tan | Tan |


# Japan

Japan Aggregate Sector Ratings




## Least Problematic

*Intellectual Property Rights*

*Political Conditions*

*Market Size*

*Socio-Economic Conditions*

*Quality of Capital Markets*

*Quality and Availability of Supply Chain Partners*

*Quality of Infrastructure (including ICTs)*

*Business Corruption*

*Physical Security and Organized Crime*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Investment & Tax Incentives*

*FDI is a Policy Priority*

*Quality of Investment Promotion Agencies*

*Tax Environment*

*Local Content Requirements*

*Visa & Work Permit Restrictions*

*Number of Permits/Licenses Required*

*Requirements for Expansion*

*Impact of Business Networks & Cultural Embeddedness*

*Competitiveness in Domestic Markets Presence of Monopolies and SOEs*

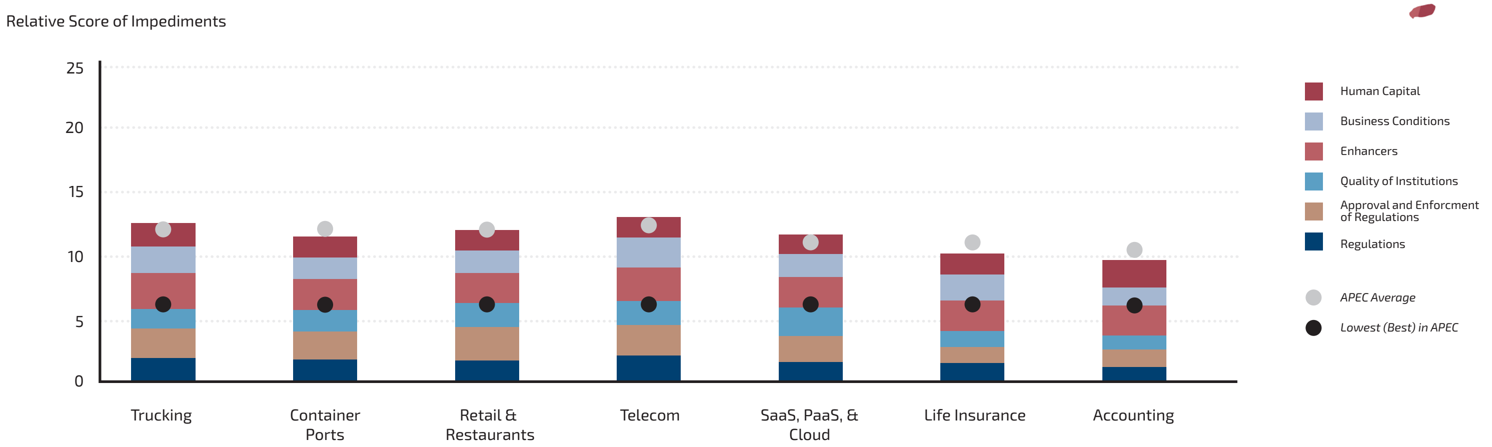
Key

| Dark blue | Light blue | Grey | Tan | Red |
|---|---|---|---|---|
| Least Impactful | | | | Most Impactful |

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Red | Red | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Limits on Foreign Control | Red | Red | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Screening Requirements | Red | Red | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Tan | Dark blue | Grey | Dark blue |
| Local Content Requirements | Red | Red | Dark blue | Dark blue | Dark blue | Grey | Tan |
| Access to Land | Dark blue | Red | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Number of Permits/Licenses Required | Grey | Grey | Grey | Light blue | Light blue | Light blue | Light blue |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Grey | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Renewal Requirements | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Requirements for Expansion | Grey | Red | Light blue | Grey | Dark blue | Light blue | Dark blue |
| Stability & Predictability of Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Accessibility and Clarity of Regulations | Dark blue | Dark blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Efficiency of Approval Process | Light blue | Light blue | Light blue | Grey | Light blue | Light blue | Light blue |
| Impartiality in Approval Process | Red | Red | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Jurisdictional Overlap Between Approving Agencies | Light blue | Light blue | Light blue | Light blue | Dark blue | Light blue | Dark blue |
| Corruption in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Community Activism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Red | Red | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Adoption/Acceptance of International Standards | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Tan |
| Property Rights Protection | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Intellectual Property Rights | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Political Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Dispute Resolution | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Light blue |
| Inclusion in Formulating Rules & Regulations | Light blue | Light blue | Light blue | Light blue | Light blue | Grey | Dark blue |
| Existence of Free Trade Agreements and Investment Agreements | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Grey | Grey | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Investment Promotion Agencies | Red | Red | Dark blue | Grey | Dark blue | Grey | Grey |
| Investment & Tax Incentives | Red | Red | Grey | Light blue | Grey | Light blue | Grey |
| FDI is a Policy Priority | Tan | Tan | Grey | Grey | Grey | Grey | Grey |
| Market Size | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Socio-Economic Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Domestic Favoritism | Grey | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Dark blue | Dark blue | Dark blue | Grey | Dark blue | Dark blue | Dark blue |
| Quality of Capital Markets | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Impact of Business Networks & Cultural Embeddedness | Tan | Tan | Grey | Grey | Dark blue | Dark blue | Dark blue |
| Quality and Availability of Supply Chain Partners | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Grey | Grey | Light blue | Tan | Dark blue | Grey | Dark blue |
| Business Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Physical Security and Organized Crime | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Tax Environment | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Economic Conditions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Visa & Work Permit Restrictions | Tan | Tan | Grey | Light blue | Dark blue | Light blue | Light blue |
| Recognition of Skills and Qualifications | Tan | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Red |
| Quality of Life for Expatriates and Personal Safety | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality and Availability of Human Capital | Light blue | Dark blue | Light blue | Dark blue | Dark blue | Light blue | Dark blue |

# Korea, Rep.

*South Korea Aggregate Sector Ratings*




## Least Problematic

*Intellectual Property Rights*

*Restrictions of Closures, Relocations, and Layoffs*

*Enforcement of Ongoing Regulation*

*Political Conditions*

*Quality and Availability of Supply Chain Partners*

*Quality and Availabililty of Human Capital*

*Number of Permits/Licenses Required*

*Community Activism*

*Quality of Infrastructure (including ICTs)*

*Tax Environment*

## Most Problematic

*Investment & Tax Incentives*

*FDI is a Policy Priority*

*Local Content Requirements*

*Inclusion in Formulating Rules & Regulation*

*Existence of Free Trade Agreements and Investment Agreements*

*Accessibility and Clarity of Regulations*

*Efficiency of Approval Process*

*Jurisdictional Overlap Between Approving Agencies*

*National Treatment/Equal Treatment: Bias in Enforcement*

*Domestic Favoritism*

Key

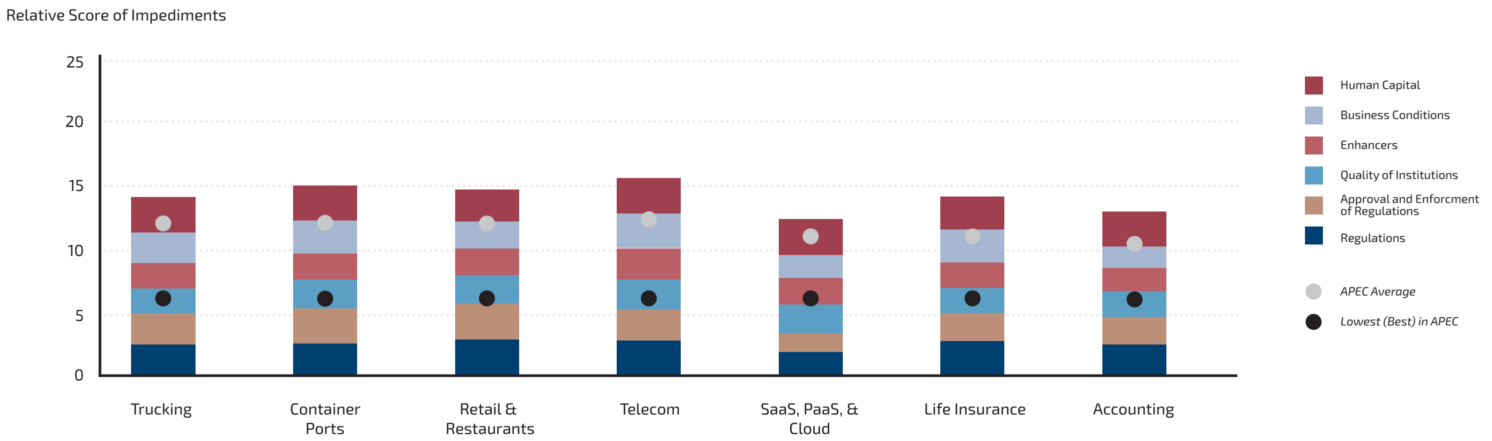
Dark blue | Light blue | Gray | Tan | Red

Least Impactful → Most Impactful

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Dark blue | Gray | Dark blue | Gray | Gray | Light blue | Dark blue |
| Limits on Foreign Control | Dark blue | Gray | Dark blue | Gray | Dark blue | Dark blue | Dark blue |
| Screening Requirements | Tan | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Dark blue | Tan | Dark blue | Dark blue |
| Local Content Requirements | Red | Light blue | Gray | Tan | Dark blue | Gray | Light blue |
| Access to Land | Dark blue | Gray | Tan | Gray | Light blue | Dark blue | Dark blue |
| Number of Permits/Licenses Required | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Light blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Renewal Requirements | Dark blue | Dark blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Requirements for Expansion | Gray | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Stability & Predictability of Regulations | Dark blue | Dark blue | Gray | Gray | Dark blue | Light blue | Dark blue |
| Accessibility and Clarity of Regulations | Gray | Gray | Gray | Tan | Gray | Dark blue | Dark blue |
| Efficiency of Approval Process | Gray | Gray | Gray | Gray | Light blue | Light blue | Light blue |
| Impartiality in Approval Process | Light blue | Dark blue | Light blue | Gray | Gray | Dark blue | Dark blue |
| Jurisdictional Overlap Between Approving Agencies | Gray | Gray | Gray | Gray | Gray | Dark blue | Light blue |
| Corruption in Approval Process | Light blue | Light blue | Gray | Light blue | Light blue | Dark blue | Dark blue |
| Community Activism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Tan | Tan | Tan | Gray | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Light blue | Light blue | Gray | Light blue | Light blue | Light blue | Light blue |
| Adoption/Acceptance of International Standards | Dark blue | Light blue | Light blue | Light blue | Light blue | Dark blue | Dark blue |
| Property Rights Protection | Dark blue | Dark blue | Dark blue | Light blue | Gray | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Light blue | Light blue | Light blue | Light blue | Light blue | Dark blue | Dark blue |
| Intellectual Property Rights | Dark blue | Dark blue | Dark blue | Dark blue | Gray | Dark blue | Dark blue |
| Political Conditions | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Dispute Resolution | Light blue | Light blue | Light blue | Light blue | Light blue | Dark blue | Dark blue |
| Inclusion in Formulating Rules & Regulations | Gray | Gray | Gray | Gray | Gray | Gray | Light blue |
| Existence of Free Trade Agreements and Investment Agreements | Tan | Gray | Light blue | Gray | Light blue | Gray | Gray |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Light blue | Dark blue | Light blue | Light blue | Light blue | Dark blue | Dark blue |
| Quality of Investment Promotion Agencies | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Investment & Tax Incentives | Gray | Gray | Gray | Gray | Gray | Gray | Gray |
| FDI is a Policy Priority | Gray | Gray | Gray | Gray | Gray | Gray | Gray |
| Market Size | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Socio-Economic Conditions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Domestic Favoritism | Gray | Gray | Light blue | Tan | Light blue | Gray | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Gray | Dark blue | Dark blue | Tan | Dark blue | Gray | Dark blue |
| Quality of Capital Markets | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Impact of Business Networks & Cultural Embeddedness | Gray | Light blue | Gray | Tan | Gray | Light blue | Dark blue |
| Quality and Availability of Supply Chain Partners | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Gray | Light blue | Light blue | Tan | Light blue | Tan | Dark blue |
| Business Corruption | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Dark blue |
| Physical Security and Organized Crime | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Tax Environment | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Economic Conditions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Visa & Work Permit Restrictions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Recognition of Skills and Qualifications | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Gray |
| Quality of Life for Expatriates and Personal Safety | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Restrictions on Hiring & Firing Domestic Workers | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Quality and Availability of Human Capital | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Light blue |

# Malaysia

Malaysia Aggregate Sector Ratings




## Least Problematic

*Corruption in Approval Process*

*Quality and Availability of Supply Chain Partners*

*Stability & Predictability of Regulations*

*Restrictions of Closures, Relocations, and Layoffs*

*Intellectual Property Rights*

*Business Corruption*

*Regulations on Capital Movement*

*Political Conditions*

*Existence of Free Trade Agreements and Investment Agreements*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Limits on Foreign Ownership*

*Limits on Foreign Control*

*Visa & Work Permit Restrictions*

*Quality and Availability of Human Capital*

*Renewal Requirements*

*Adoption/Acceptance of International Standards*

*Quality of Infrastructure (including ICTs)*

*Local Content Requirements*

*Access to Land*

*Inclusion in Formulating Rules & Regulations*

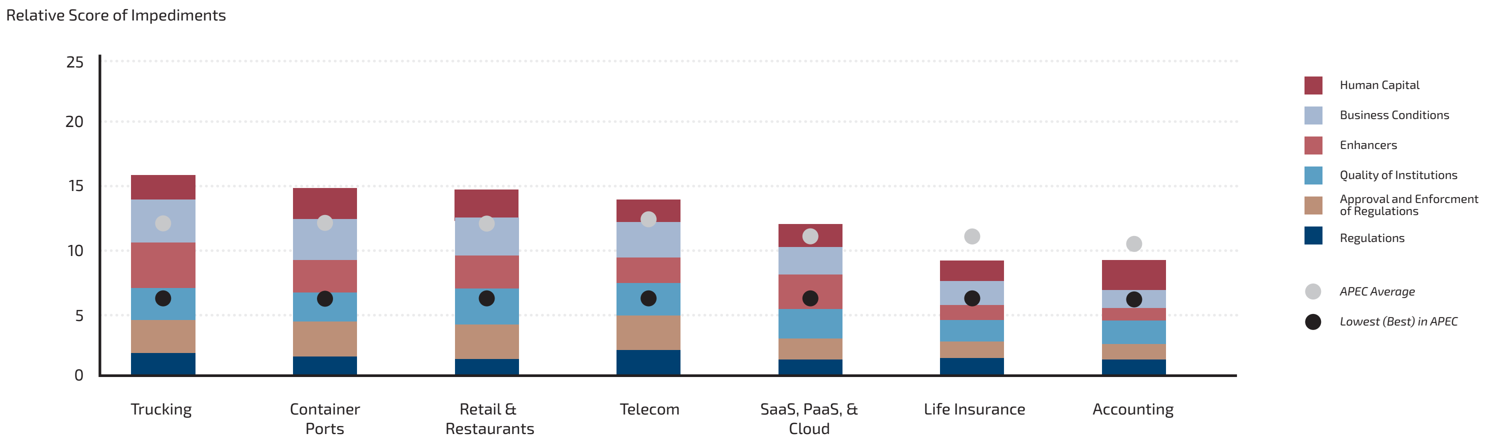
Key

Least Impactful — Dark blue, Light blue, Gray, Tan, Red — Most Impactful

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Tan | Tan | Gray | Red | Tan | Red | Red |
| Limits on Foreign Control | Tan | Tan | Gray | Red | Tan | Red | Red |
| Screening Requirements | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Local Content Requirements | Light blue | Light blue | Gray | Gray | Light blue | Red | Red |
| Access to Land | Light blue | Red | Red | Red | Dark blue | Light blue | Light blue |
| Number of Permits/Licenses Required | Gray | Gray | Tan | Light blue | Dark blue | Gray | Gray |
| Regulations on Profit Repatriation | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Restrictions of Closures, Relocations, and Layoffs | Light blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Renewal Requirements | Red | Red | Tan | Red | Light blue | Gray | Gray |
| Requirements for Expansion | Gray | Light blue | Tan | Light blue | Light blue | Gray | Dark blue |
| Stability & Predictability of Regulations | Dark blue | Dark blue | Gray | Dark blue | Dark blue | Light blue | Dark blue |
| Accessibility and Clarity of Regulations | Light blue | Light blue | Gray | Light blue | Light blue | Light blue | Light blue |
| Efficiency of Approval Process | Light blue | Light blue | Gray | Light blue | Light blue | Light blue | Light blue |
| Impartiality in Approval Process | Tan | Tan | Light blue | Tan | Light blue | Light blue | Light blue |
| Jurisdictional Overlap Between Approving Agencies | Gray | Gray | Gray | Gray | Dark blue | Gray | Gray |
| Corruption in Approval Process | Light blue | Gray | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Community Activism | Light blue | Gray | Gray | Gray | Dark blue | Gray | Gray |
| National Treatment/Equal Treatment: Bias in Enforcement | Light blue | Gray | Light blue | Light blue | Dark blue | Light blue | Light blue |
| Enforcement of Ongoing Regulation | Light blue | Light blue | Tan | Gray | Dark blue | Light blue | Light blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Gray | Gray | Gray | Gray | Gray | Gray | Gray |
| Adoption/Acceptance of International Standards | Light blue | Gray | Gray | Tan | Red | Light blue | Red |
| Property Rights Protection | Light blue | Light blue | Light blue | Light blue | Dark blue | Light blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Gray | Light blue | Gray | Light blue | Light blue | Light blue | Light blue |
| Intellectual Property Rights | Dark blue | Dark blue | Dark blue | Light blue | Light blue | Dark blue | Dark blue |
| Political Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Dispute Resolution | Light blue | Gray | Gray | Light blue | Light blue | Gray | Dark blue |
| Inclusion in Formulating Rules & Regulations | Gray | Tan | Gray | Gray | Gray | Gray | Gray |
| Existence of Free Trade Agreements and Investment Agreements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Quality of Investment Promotion Agencies | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Investment & Tax Incentives | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| FDI is a Policy Priority | Gray | Gray | Gray | Red | Gray | Gray | Light blue |
| Market Size | Gray | Gray | Light blue | Tan | Dark blue | Gray | Gray |
| Socio-Economic Conditions | Gray | Gray | Gray | Gray | Dark blue | Red | Light blue |
| Domestic Favoritism | Gray | Gray | Tan | Gray | Dark blue | Light blue | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Light blue | Gray | Gray | Tan | Light blue | Light blue | Light blue |
| Quality of Capital Markets | Light blue | Light blue | Light blue | Light blue | Light blue | Tan | Light blue |
| Impact of Business Networks & Cultural Embeddedness | Gray | Gray | Light blue | Gray | Dark blue | Light blue | Light blue |
| Quality and Availability of Supply Chain Partners | Dark blue | Dark blue | Dark blue | Gray | Gray | Dark blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Tan | Tan | Light blue | Tan | Tan | Gray | Light blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Light blue | Gray | Gray | Gray | Light blue | Gray | Dark blue |
| Business Corruption | Light blue | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Physical Security and Organized Crime | Light blue | Light blue | Light blue | Light blue | Dark blue | Gray | Dark blue |
| Tax Environment | Light blue | Light blue | Light blue | Light blue | Gray | Light blue | Light blue |
| Economic Conditions | Light blue | Gray | Light blue | Gray | Gray | Gray | Light blue |
| Visa & Work Permit Restrictions | Tan | Tan | Tan | Red | Red | Tan | Tan |
| Recognition of Skills and Qualifications | Light blue | Light blue | Dark blue | Dark blue | Dark blue | Gray | Tan |
| Quality of Life for Expatriates and Personal Safety | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Gray | Gray | Gray | Light blue | Light blue | Light blue | Light blue |
| Quality and Availability of Human Capital | Tan | Tan | Tan | Red | Red | Gray | Gray |

# Mexico

Mexico Aggregate Sector Ratings




## Least Problematic

*Access to Land*

*Regulations on Capital Movement*

*Number of Permits/Licenses Required*

*Regulations on Profit Repatriation*

*Renewal Requirements*

*Requirements for Expansion*

*Accessibility and Clarity of Regulations*

*Efficiency of Approval Process*

*National Treatment/Equal Treatment: Bias in Enforcement*

*Domestic Favoritism*

## Most Problematic

*Presence of Government Agency & Judicial Corruption*

*Jurisdictional Overlap Between Approving Agencies*

*Quality of Infrastructure (including ICTs)*

*Corruption in Approval Process*

*Enforcement of Ongoing Regulation*

*Dispute Resolution*

*Physical Security and Organized Crime*

*Business Corruption*

*Tax Environment*

*Impact of Business Networks & Cultural Embeddedness*

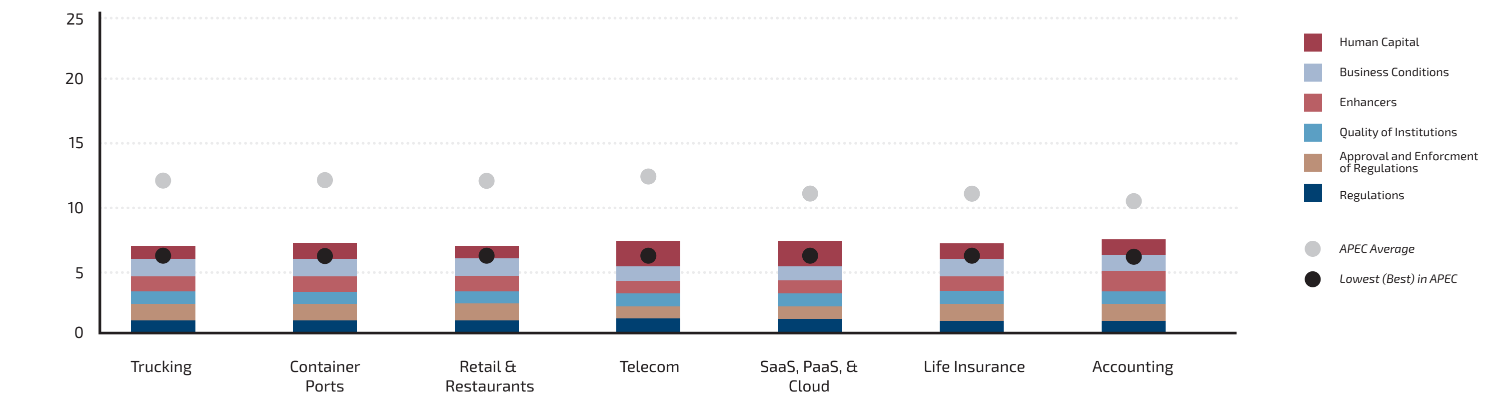
Key

Dark blue (Least Impactful) · Light blue · Grey · Tan · Red (Most Impactful)

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Red | Dark blue | Dark blue | Grey | Dark blue | Dark blue | Dark blue |
| Limits on Foreign Control | Dark blue | Dark blue | Dark blue | Tan | Dark blue | Dark blue | Dark blue |
| Screening Requirements | Grey | Grey | Dark blue | Grey | Dark blue | Light blue | Dark blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Local Content Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Grey | Grey |
| Access to Land | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue |
| Number of Permits/Licenses Required | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Light blue | Grey | Grey | Grey | Light blue | Light blue | Light blue |
| Renewal Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Requirements for Expansion | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Stability & Predictability of Regulations | Grey | Grey | Light blue | Grey | Grey | Dark blue | Dark blue |
| Accessibility and Clarity of Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Efficiency of Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Impartiality in Approval Process | Grey | Grey | Grey | Tan | Dark blue | Dark blue | Dark blue |
| Jurisdictional Overlap Between Approving Agencies | Tan | Tan | Tan | Tan | Tan | Light blue | Dark blue |
| Corruption in Approval Process | Tan | Tan | Grey | Grey | Grey | Light blue | Grey |
| Community Activism | Grey | Grey | Grey | Grey | Dark blue | Dark blue | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Grey | Tan | Red | Red | Light blue | Light blue | Dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Tan | Tan | Tan | Grey | Dark blue | Dark blue | Dark blue |
| Adoption/Acceptance of International Standards | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Light blue |
| Property Rights Protection | Tan | Grey | Tan | Grey | Dark blue | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Tan | Tan | Tan | Grey | Grey | Grey | Grey |
| Intellectual Property Rights | Dark blue | Dark blue | Light blue | Light blue | Grey | Dark blue | Dark blue |
| Political Conditions | Light blue | Light blue | Light blue | Grey | Light blue | Light blue | Light blue |
| Dispute Resolution | Tan | Grey | Grey | Grey | Grey | Grey | Grey |
| Inclusion in Formulating Rules & Regulations | Light blue | Light blue | Tan | Light blue | Grey | Dark blue | Dark blue |
| Existence of Free Trade Agreements and Investment Agreements | Grey | Dark blue | Dark blue | Dark blue | Grey | Dark blue | Dark blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Tan | Grey | Grey | Grey | Light blue | Light blue | Dark blue |
| Quality of Investment Promotion Agencies | Grey | Grey | Grey | Light blue | Grey | Dark blue | Dark blue |
| Investment & Tax Incentives | Grey | Grey | Grey | Grey | Grey | Dark blue | Dark blue |
| FDI is a Policy Priority | Red | Grey | Grey | Dark blue | Grey | Dark blue | Dark blue |
| Market Size | Light blue | Grey | Grey | Grey | Grey | Grey | Light blue |
| Socio-Economic Conditions | Grey | Grey | Grey | Grey | Grey | Grey | Dark blue |
| Domestic Favoritism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Tan | Light blue | Grey | Grey | Grey | Dark blue | Dark blue |
| Quality of Capital Markets | Grey | Grey | Grey | Light blue | Light blue | Light blue | Light blue |
| Impact of Business Networks & Cultural Embeddedness | Tan | Tan | Tan | Tan | Dark blue | Dark blue | Light blue |
| Quality and Availability of Supply Chain Partners | Tan | Grey | Grey | Grey | Grey | Dark blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Red | Tan | Tan | Tan | Tan | Dark blue | Dark blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Grey | Red | Tan | Tan | Dark blue | Dark blue | Dark blue |
| Business Corruption | Red | Red | Grey | Light blue | Light blue | Grey | Dark blue |
| Physical Security and Organized Crime | Red | Red | Tan | Grey | Dark blue | Grey | Dark blue |
| Tax Environment | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Economic Conditions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Visa & Work Permit Restrictions | Dark blue | Light blue | Light blue | Light blue | Light blue | Light blue | Grey |
| Recognition of Skills and Qualifications | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Grey |
| Quality of Life for Expatriates and Personal Safety | Grey | Grey | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Dark blue | Grey | Tan | Light blue | Light blue | Light blue | Light blue |
| Quality and Availability of Human Capital | Tan | Grey | Light blue | Grey | Grey | Light blue | Grey |

# New Zealand

### New Zealand Aggregate Sector Ratings




## Least Problematic

*Availability and Readiness of Firms for Acquisition and JV Partners*

*Quality of Capital Markets*

*Impact of Business Networks & Cultural Embeddedness*

*Quality and Availability of Supply Chain Partners*

*Quality of Infrastructure (including ICTs)*

*Competitiveness in Domestic Markets Presence of Monopolies and SOEs*

*Business Corruption*

*Physical Security and Organized Crime*

*Tax Environment*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Market Size*

*Quality and Availability of Human Capital*

*Investment & Tax Incentives*

*Efficiency of Approval Process*

*Jurisdictional Overlap Between Approving Agencies*

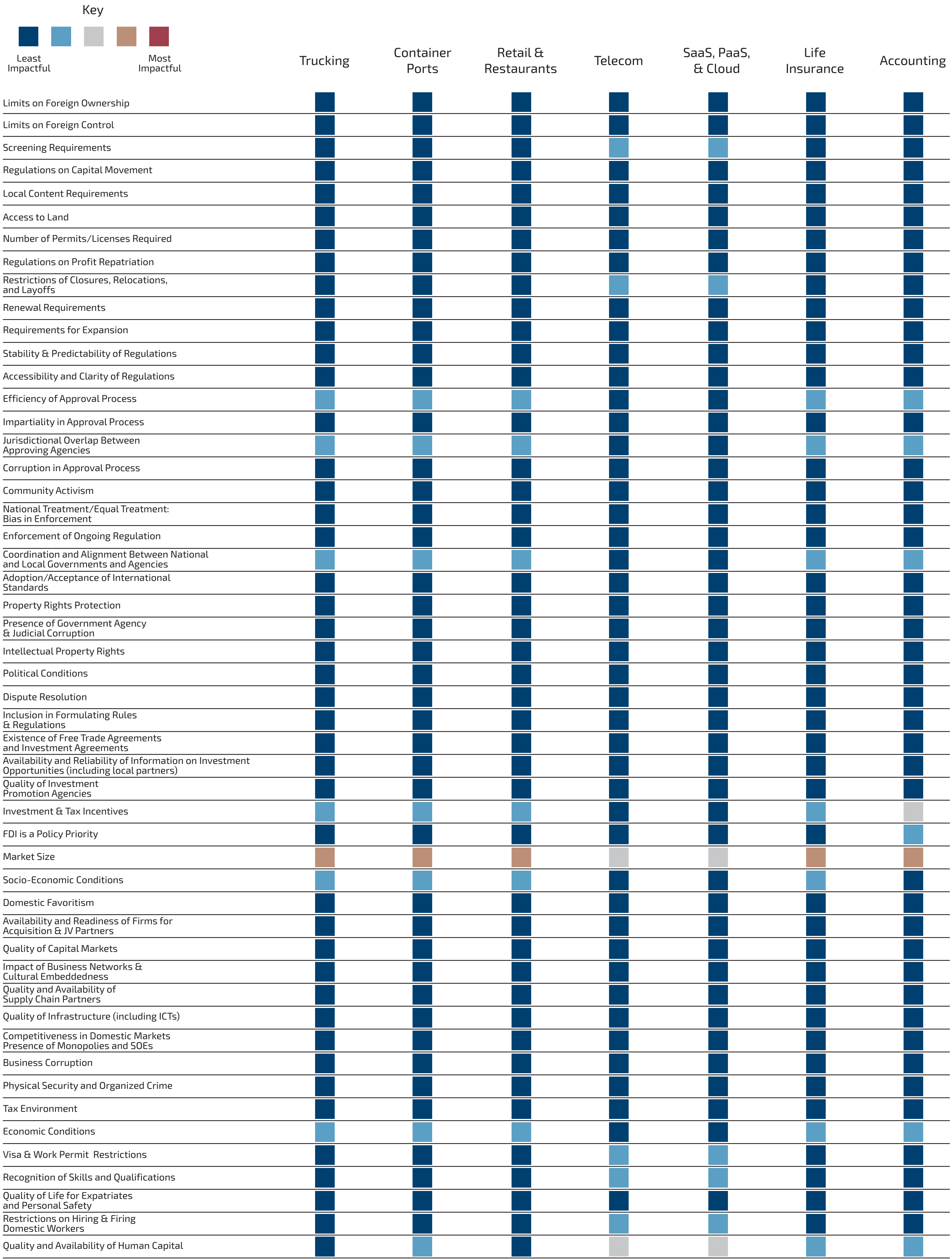
*Coordination and Alignment Between National and Local Governments and Agencies*

*Economic Conditions*

*Socio-Economic Conditions*

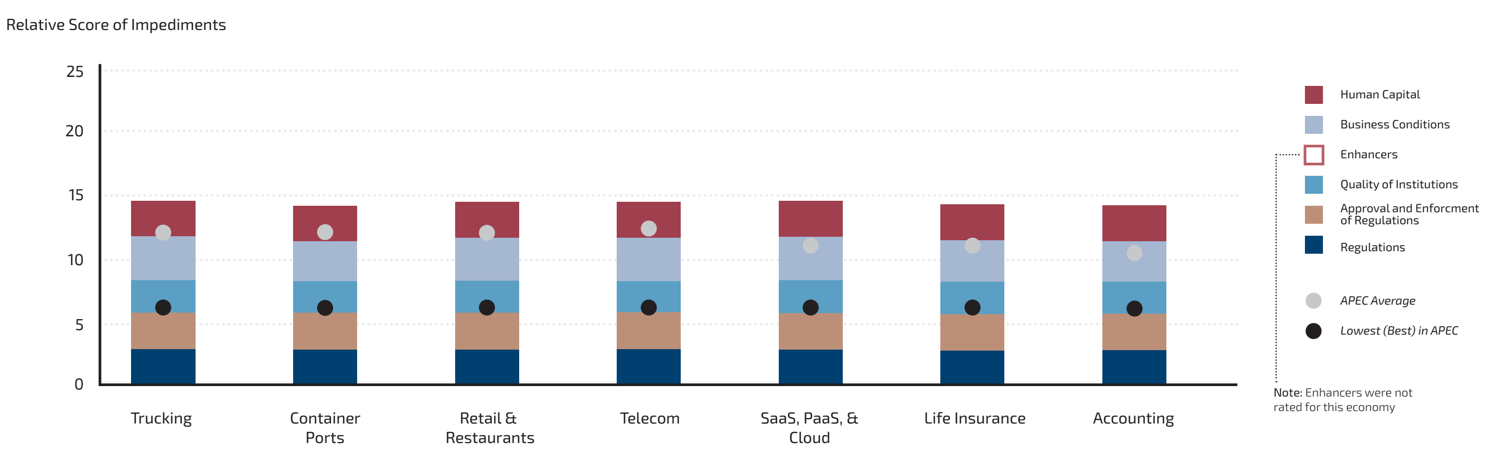
*Screening Requirements*

*Restrictions of Closures, Relocations, and Layoffs*


Key
Least Impactful
Most Impactful
Trucking
Container Ports
Retail & Restaurants
Telecom
SaaS, PaaS, & Cloud
Life Insurance
Accounting
Limits on Foreign Ownership
Limits on Foreign Control
Screening Requirements
Regulations on Capital Movement
Local Content Requirements
Access to Land
Number of Permits/Licenses Required
Regulations on Profit Repatriation
Restrictions of Closures, Relocations, and Layoffs
Renewal Requirements
Requirements for Expansion
Stability & Predictability of Regulations
Accessibility and Clarity of Regulations
Efficiency of Approval Process
Impartiality in Approval Process
Jurisdictional Overlap Between Approving Agencies
Corruption in Approval Process
Community Activism
National Treatment/Equal Treatment: Bias in Enforcement
Enforcement of Ongoing Regulation
Coordination and Alignment Between National and Local Governments and Agencies
Adoption/Acceptance of International Standards
Property Rights Protection
Presence of Government Agency & Judicial Corruption
Intellectual Property Rights
Political Conditions
Dispute Resolution
Inclusion in Formulating Rules & Regulations
Existence of Free Trade Agreements and Investment Agreements
Availability and Reliability of Information on Investment Opportunities (including local partners)
Quality of Investment Promotion Agencies
Investment & Tax Incentives
FDI is a Policy Priority
Market Size
Socio-Economic Conditions
Domestic Favoritism
Availability and Readiness of Firms for Acquisition & JV Partners
Quality of Capital Markets
Impact of Business Networks & Cultural Embeddedness
Quality and Availability of Supply Chain Partners
Quality of Infrastructure (including ICTs)
Competitiveness in Domestic Markets Presence of Monopolies and SOEs
Business Corruption
Physical Security and Organized Crime
Tax Environment
Economic Conditions
Visa & Work Permit Restrictions
Recognition of Skills and Qualifications
Quality of Life for Expatriates and Personal Safety
Restrictions on Hiring & Firing Domestic Workers
Quality and Availability of Human Capital

# Papua New Guinea

*Papua New Guinea Aggregate Sector Ratings*




## Least Problematic

*Competitiveness in Domestic Markets*
*Presence of Monopolies and SOEs*

*Visa & Work Permit Restrictions*

*Recognition of Skills and Qualifications*

*Limits on Foreign Ownership*

*Limits on Foreign Control*

*Restrictions of Closures, Relocations, and Layoffs*

*National Treatment/Equal Treatment:*
*Bias in Enforcement*

*Enforcement of Ongoing Regulation*

*Tax Environment*

*Restrictions on Hiring & Firing Domestic Workers*

## Most Problematic

*Regulations on Profit Repatriation*

*Efficiency of Approval Process*

*Corruption in Approval Process*

*Business Corruption*

*Physical Security and Organized Crime*

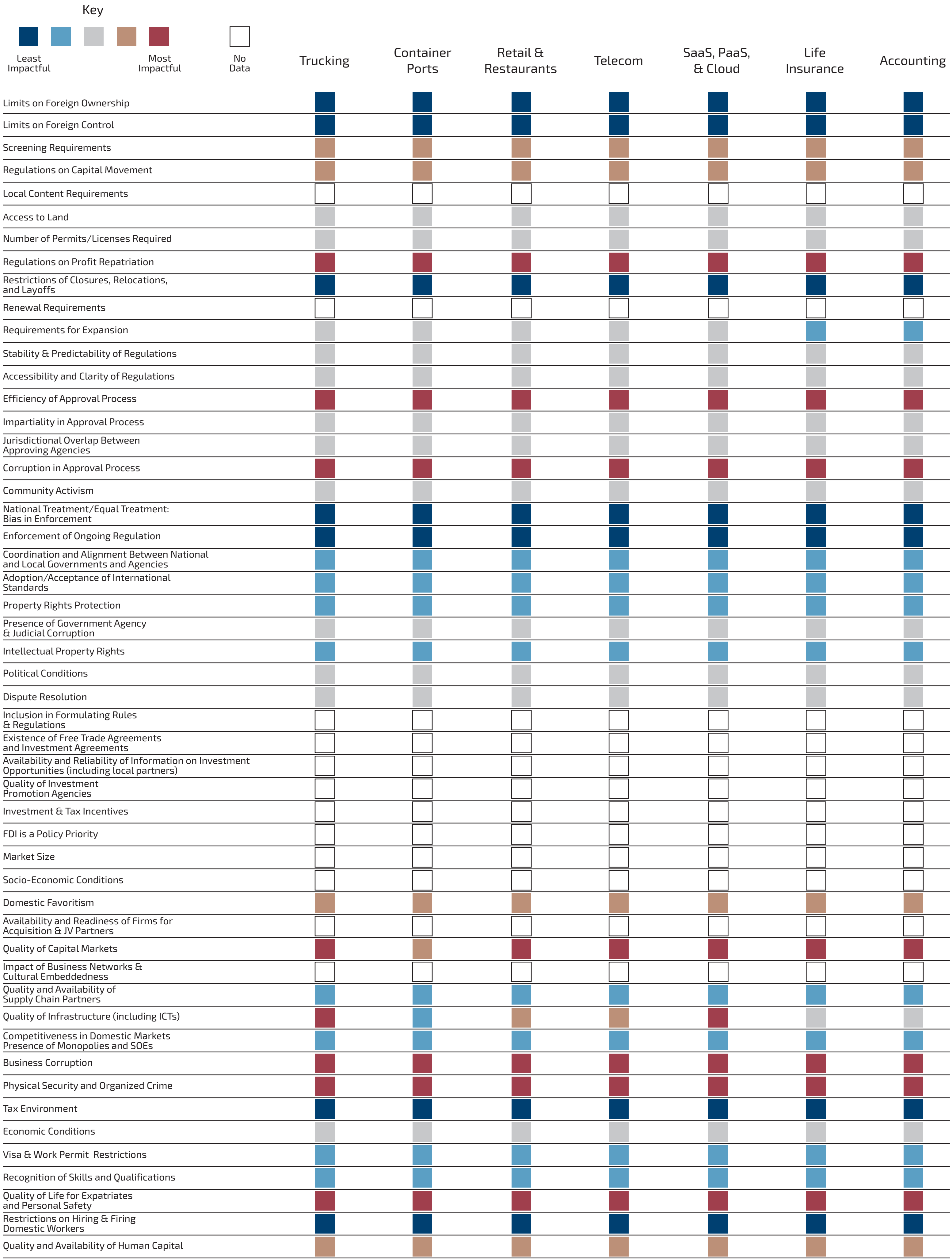
*Quality of Life for Expatriates and Personal Safety*

*Quality of Capital Markets*

*Screening Requirements*

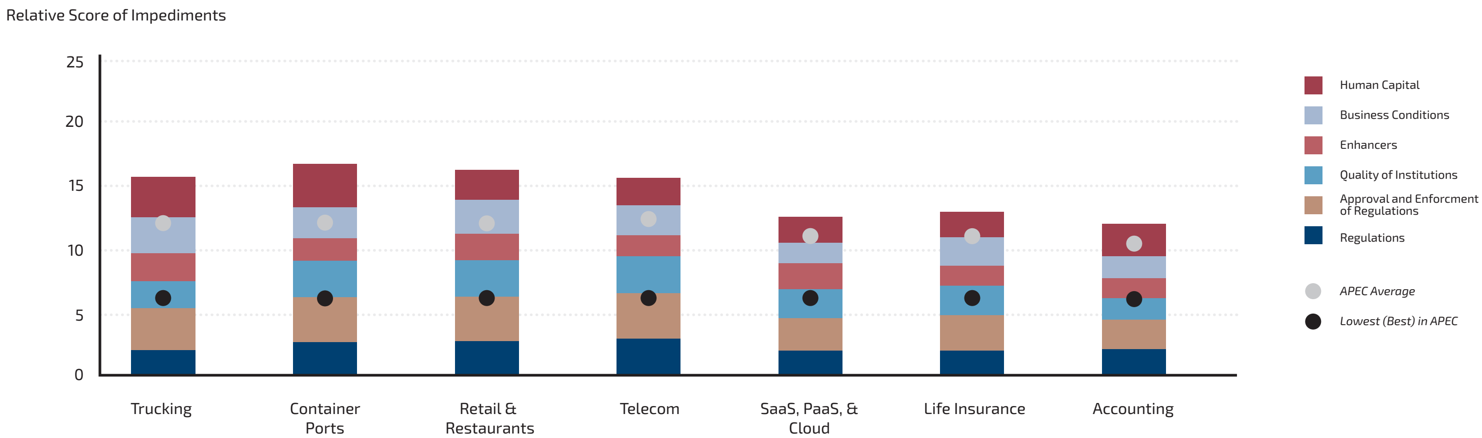
*Regulations on Capital Movement*

*Domestic Favoritism*


Key
Least Impactful
Most Impactful
No Data
Trucking
Container Ports
Retail & Restaurants
Telecom
SaaS, PaaS, & Cloud
Life Insurance
Accounting
Limits on Foreign Ownership
Limits on Foreign Control
Screening Requirements
Regulations on Capital Movement
Local Content Requirements
Access to Land
Number of Permits/Licenses Required
Regulations on Profit Repatriation
Restrictions of Closures, Relocations, and Layoffs
Renewal Requirements
Requirements for Expansion
Stability & Predictability of Regulations
Accessibility and Clarity of Regulations
Efficiency of Approval Process
Impartiality in Approval Process
Jurisdictional Overlap Between Approving Agencies
Corruption in Approval Process
Community Activism
National Treatment/Equal Treatment: Bias in Enforcement
Enforcement of Ongoing Regulation
Coordination and Alignment Between National and Local Governments and Agencies
Adoption/Acceptance of International Standards
Property Rights Protection
Presence of Government Agency & Judicial Corruption
Intellectual Property Rights
Political Conditions
Dispute Resolution
Inclusion in Formulating Rules & Regulations
Existence of Free Trade Agreements and Investment Agreements
Availability and Reliability of Information on Investment Opportunities (including local partners)
Quality of Investment Promotion Agencies
Investment & Tax Incentives
FDI is a Policy Priority
Market Size
Socio-Economic Conditions
Domestic Favoritism
Availability and Readiness of Firms for Acquisition & JV Partners
Quality of Capital Markets
Impact of Business Networks & Cultural Embeddedness
Quality and Availability of Supply Chain Partners
Quality of Infrastructure (including ICTs)
Competitiveness in Domestic Markets Presence of Monopolies and SOEs
Business Corruption
Physical Security and Organized Crime
Tax Environment
Economic Conditions
Visa & Work Permit Restrictions
Recognition of Skills and Qualifications
Quality of Life for Expatriates and Personal Safety
Restrictions on Hiring & Firing Domestic Workers
Quality and Availability of Human Capital

# Peru

*Peru Aggregate Sector Ratings*




## Least Problematic

*Adoption/Acceptance of International Standards*

*Limits on Foreign Ownership*

*Limits on Foreign Control*

*Screening Requirements*

*Regulations on Profit Repatriation*

*National Treatment/Equal Treatment: Bias in Enforcement*

*Existence of Free Trade Agreements and Investment Agreements*

*FDI is a Policy Priority*

*Domestic Favoritism*

*Economic Conditions*

## Most Problematic

*Impartiality in Approval Process*

*Jurisdictional Overlap Between Approving Agencies*

*Tax Environment*

*Quality and Availability of Human Capital*

*Restrictions of Closures, Relocations, and Layoffs*

*Coordination and Alignment Between National and Local Governments and Agencies*

*Local Content Requirements*

*Quality of Infrastructure (including ICTs)*

*Stability & Predictability of Regulations*

*Efficiency of Approval Process*

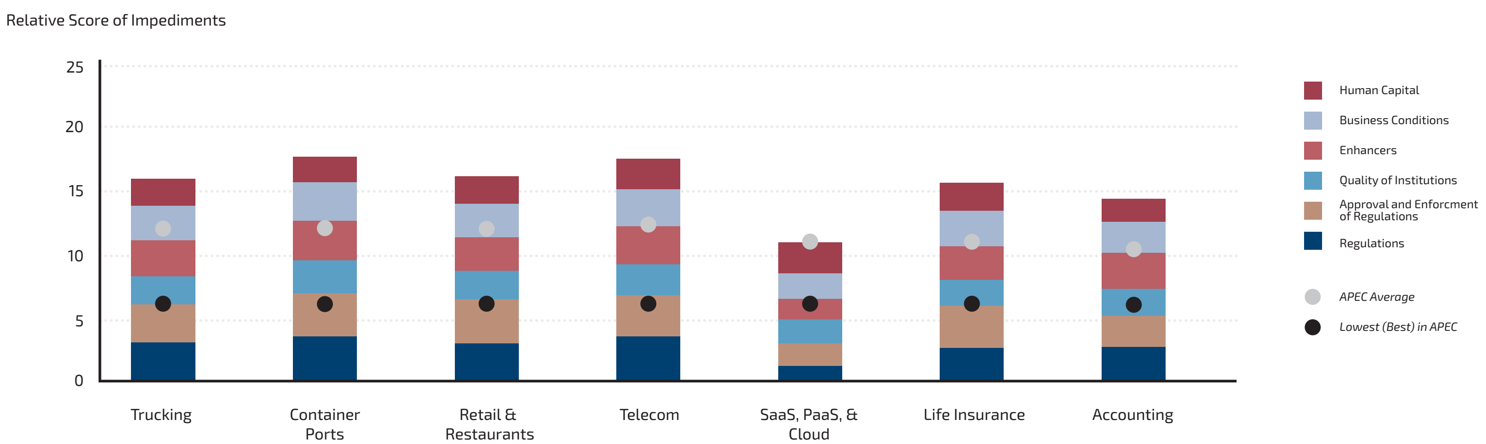
Key

| Dark blue | Light blue | Grey | Tan | Red |
|---|---|---|---|---|
| Least Impactful | | | | Most Impactful |

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Limits on Foreign Control | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Screening Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Regulations on Capital Movement | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Local Content Requirements | Grey | Tan | Tan | Tan | Tan | Grey | Grey |
| Access to Land | Light blue | Grey | Grey | Grey | Dark blue | Light blue | Light blue |
| Number of Permits/Licenses Required | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Grey | Tan | Tan | Tan | Tan | Tan | Tan |
| Renewal Requirements | Dark blue | Tan | Tan | Red | Dark blue | Dark blue | Light blue |
| Requirements for Expansion | Light blue | Tan | Tan | Tan | Dark blue | Dark blue | Dark blue |
| Stability & Predictability of Regulations | Grey | Grey | Grey | Red | Grey | Grey | Grey |
| Accessibility and Clarity of Regulations | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Efficiency of Approval Process | Grey | Grey | Tan | Grey | Tan | Grey | Grey |
| Impartiality in Approval Process | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Jurisdictional Overlap Between Approving Agencies | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Corruption in Approval Process | Tan | Tan | Tan | Tan | Light blue | Light blue | Light blue |
| Community Activism | Grey | Red | Tan | Tan | Dark blue | Grey | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Tan | Grey | Tan | Tan | Dark blue | Grey | Dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Tan | Red | Red | Red | Grey | Light blue | Light blue |
| Adoption/Acceptance of International Standards | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Light blue |
| Property Rights Protection | Tan | Tan | Tan | Grey | Dark blue | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Grey | Tan | Grey | Tan | Light blue | Tan | Light blue |
| Intellectual Property Rights | Dark blue | Dark blue | Tan | Grey | Tan | Dark blue | Dark blue |
| Political Conditions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Dispute Resolution | Dark blue | Red | Grey | Red | Grey | Tan | Dark blue |
| Inclusion in Formulating Rules & Regulations | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Existence of Free Trade Agreements and Investment Agreements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Tan | Light blue | Grey | Dark blue | Grey | Dark blue | Dark blue |
| Quality of Investment Promotion Agencies | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Investment & Tax Incentives | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| FDI is a Policy Priority | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Market Size | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Socio-Economic Conditions | Grey | Dark blue | Grey | Grey | Light blue | Grey | Dark blue |
| Domestic Favoritism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Quality of Capital Markets | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Grey | Dark blue |
| Impact of Business Networks & Cultural Embeddedness | Grey | Grey | Grey | Grey | Dark blue | Grey | Grey |
| Quality and Availability of Supply Chain Partners | Grey | Grey | Grey | Grey | Light blue | Grey | Dark blue |
| Quality of Infrastructure (including ICTs) | Red | Red | Tan | Red | Light blue | Light blue | Light blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Grey | Grey | Grey | Grey | Dark blue | Grey | Dark blue |
| Business Corruption | Grey | Dark blue | Grey | Dark blue | Dark blue | Dark blue | Dark blue |
| Physical Security and Organized Crime | Red | Tan | Tan | Dark blue | Dark blue | Dark blue | Dark blue |
| Tax Environment | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Economic Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Visa & Work Permit Restrictions | Dark blue | Dark blue | Dark blue | Light blue | Grey | Dark blue | Grey |
| Recognition of Skills and Qualifications | Tan | Tan | Dark blue | Dark blue | Dark blue | Dark blue | Grey |
| Quality of Life for Expatriates and Personal Safety | Grey | Grey | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Tan | Red | Tan | Grey | Dark blue | Grey | Light blue |
| Quality and Availability of Human Capital | Tan | Tan | Tan | Tan | Tan | Tan | Tan |

# Philippines

*Philippines Aggregate Sector Ratings*




## Least Problematic

*Community Activism*

*Investment & Tax Incentives*

*Tax Environment*

*Market Size*

*Adoption/Acceptance of International Standards*

*Screening Requirements*

*National Treatment/Equal Treatment: Bias in Enforcement*

*Domestic Favoritism*

*Physical Security and Organized Crime*

*Recognition of Skills and Qualifications*

## Most Problematic

*Efficiency of Approval Process*

*Quality and Availability of Supply Chain Partners*

*Quality of Infrastructure (including ICTs)*

*Economic Conditions*

*Competitiveness in Domestic Markets*
*Presence of Monopolies and SOEs*

*Renewal Requirements*

*Socio-Economic Conditions*

*Regulations on Capital Movement*

*Number of Permits/Licenses Required*

*Stability & Predictability of Regulations*

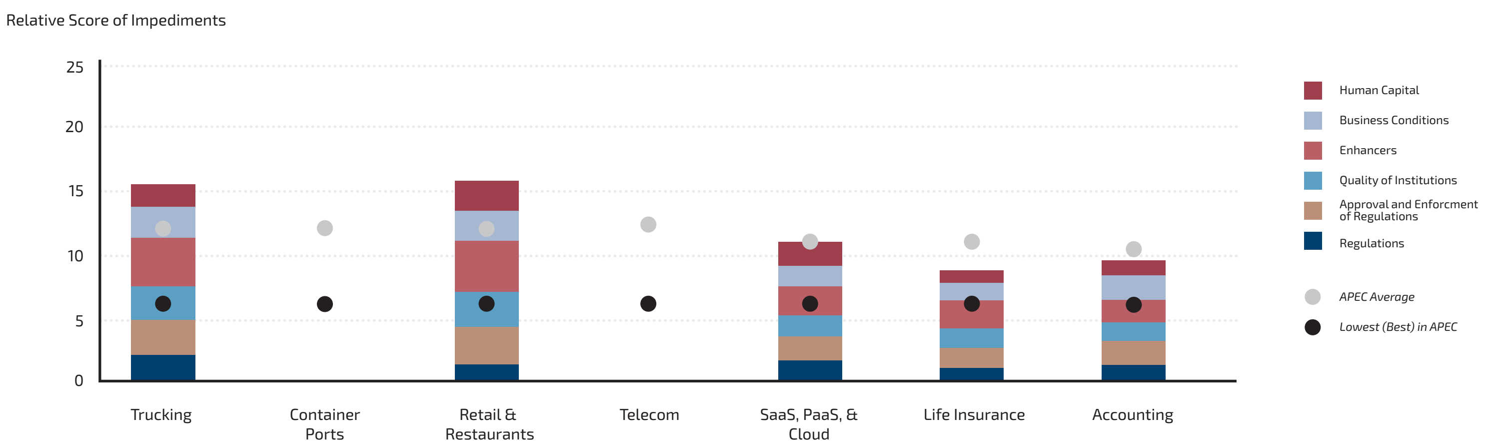
Key

| Dark blue | Light blue | Grey | Tan | Red |
|---|---|---|---|---|
| Least Impactful | | | | Most Impactful |

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Grey | Tan | Light blue | Tan | Dark blue | Dark blue | Grey |
| Limits on Foreign Control | Tan | Tan | Dark blue | Tan | Dark blue | Dark blue | Grey |
| Screening Requirements | Dark blue | Dark blue | Light blue | Light blue | Dark blue | Dark blue | Dark blue |
| Regulations on Capital Movement | Grey | Tan | Tan | Tan | Dark blue | Tan | Grey |
| Local Content Requirements | Grey | Tan | Grey | Grey | Dark blue | Light blue | Tan |
| Access to Land | Tan | Tan | Tan | Red | Dark blue | Light blue | Light blue |
| Number of Permits/Licenses Required | Grey | Tan | Tan | Tan | Dark blue | Tan | Grey |
| Regulations on Profit Repatriation | Grey | Grey | Grey | Grey | Dark blue | Light blue | Light blue |
| Restrictions of Closures, Relocations, and Layoffs | Grey | Grey | Grey | Grey | Light blue | Grey | Grey |
| Renewal Requirements | Tan | Tan | Grey | Tan | Light blue | Tan | Grey |
| Requirements for Expansion | Grey | Tan | Grey | Tan | Dark blue | Tan | Grey |
| Stability & Predictability of Regulations | Grey | Tan | Tan | Grey | Light blue | Tan | Grey |
| Accessibility and Clarity of Regulations | Grey | Grey | Grey | Grey | Light blue | Grey | Grey |
| Efficiency of Approval Process | Red | Red | Red | Red | Grey | Red | Tan |
| Impartiality in Approval Process | Grey | Tan | Tan | Grey | Light blue | Tan | Grey |
| Jurisdictional Overlap Between Approving Agencies | Grey | Grey | Tan | Tan | Light blue | Tan | Grey |
| Corruption in Approval Process | Grey | Tan | Tan | Tan | Light blue | Tan | Light blue |
| Community Activism | Light blue | Light blue | Light blue | Light blue | Dark blue | Light blue | Light blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Grey | Tan | Tan | Grey | Light blue | Tan | Grey |
| Coordination and Alignment Between National and Local Governments and Agencies | Tan | Tan | Tan | Tan | Dark blue | Light blue | Dark blue |
| Adoption/Acceptance of International Standards | Light blue | Light blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue |
| Property Rights Protection | Light blue | Grey | Grey | Grey | Light blue | Light blue | Light blue |
| Presence of Government Agency & Judicial Corruption | Grey | Tan | Grey | Grey | Light blue | Grey | Grey |
| Intellectual Property Rights | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Political Conditions | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Dispute Resolution | Light blue | Grey | Light blue | Light blue | Dark blue | Light blue | Light blue |
| Inclusion in Formulating Rules & Regulations | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Existence of Free Trade Agreements and Investment Agreements | Grey | Tan | Grey | Tan | Dark blue | Grey | Grey |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Grey | Grey | Grey | Grey | Grey | Grey | Grey |
| Quality of Investment Promotion Agencies | Grey | Grey | Grey | Grey | Light blue | Grey | Grey |
| Investment & Tax Incentives | Light blue | Light blue | Light blue | Light blue | Dark blue | Light blue | Light blue |
| FDI is a Policy Priority | Grey | Grey | Light blue | Grey | Dark blue | Light blue | Grey |
| Market Size | Light blue | Light blue | Dark blue | Dark blue | Dark blue | Grey | Dark blue |
| Socio-Economic Conditions | Grey | Tan | Tan | Tan | Light blue | Tan | Grey |
| Domestic Favoritism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Grey | Grey | Grey | Grey | Light blue | Grey | Grey |
| Quality of Capital Markets | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Impact of Business Networks & Cultural Embeddedness | Grey | Grey | Grey | Grey | Light blue | Grey | Grey |
| Quality and Availability of Supply Chain Partners | Tan | Tan | Red | Red | Tan | Tan | Light blue |
| Quality of Infrastructure (including ICTs) | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Grey | Red | Light blue | Red | Light blue | Tan | Red |
| Business Corruption | Grey | Tan | Grey | Grey | Light blue | Light blue | Light blue |
| Physical Security and Organized Crime | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Tax Environment | Light blue | Light blue | Light blue | Light blue | Dark blue | Light blue | Light blue |
| Economic Conditions | Tan | Red | Tan | Tan | Grey | Tan | Tan |
| Visa & Work Permit Restrictions | Tan | Grey | Tan | Grey | Grey | Grey | Grey |
| Recognition of Skills and Qualifications | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Life for Expatriates and Personal Safety | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Restrictions on Hiring & Firing Domestic Workers | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Quality and Availability of Human Capital | Light blue | Light blue | Light blue | Tan | Tan | Grey | Dark blue |

# Russia

*Russia Aggregate Sector Ratings*




## Least Problematic

*Market Size*

*Competitiveness in Domestic Markets*
*Presence of Monopolies and SOEs*

*Recognition of Skills and Qualifications*

*Limits on Foreign Ownership*

*Limits on Foreign Control*

*Local Content Requirements*

*Access to Land*

*Property Rights Protection*

*Quality of Life for Expatriates and Personal Safety*

*Adoption/Acceptance of International Standards*

## Most Problematic

*FDI is a Policy Priority*

*Political Conditions*

*Enforcement of Ongoing Regulation*

*Tax Environment*

*National Treatment/Equal Treatment:*
*Bias in Enforcement*

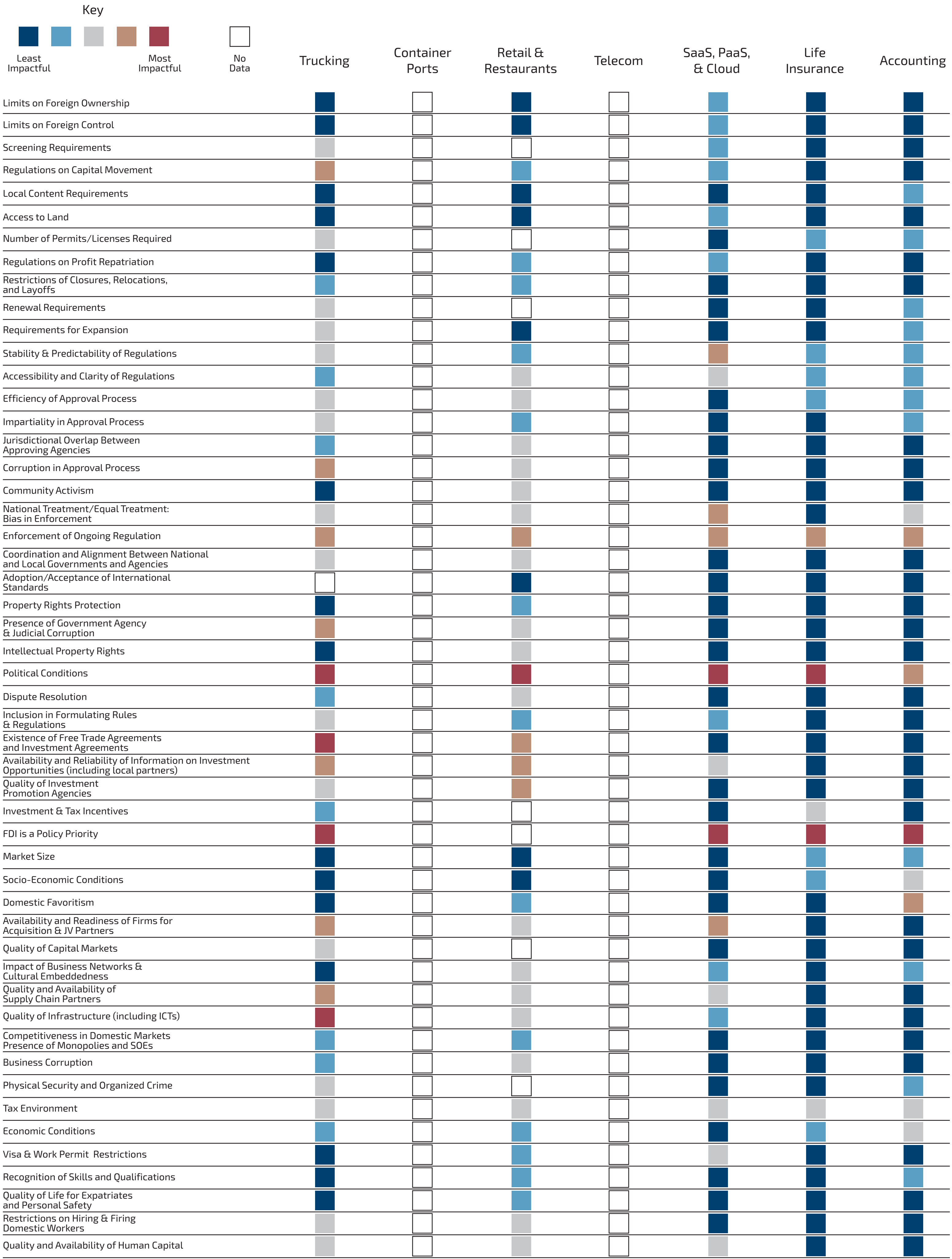
*Stability & Predictability of Regulations*

*Availability and Reliability of Information on Investment Opportunities (including local partners)*

*Availability and Readiness of Firms for Acquisition & JV Partners*

*Accessibility and Clarity of Regulations*

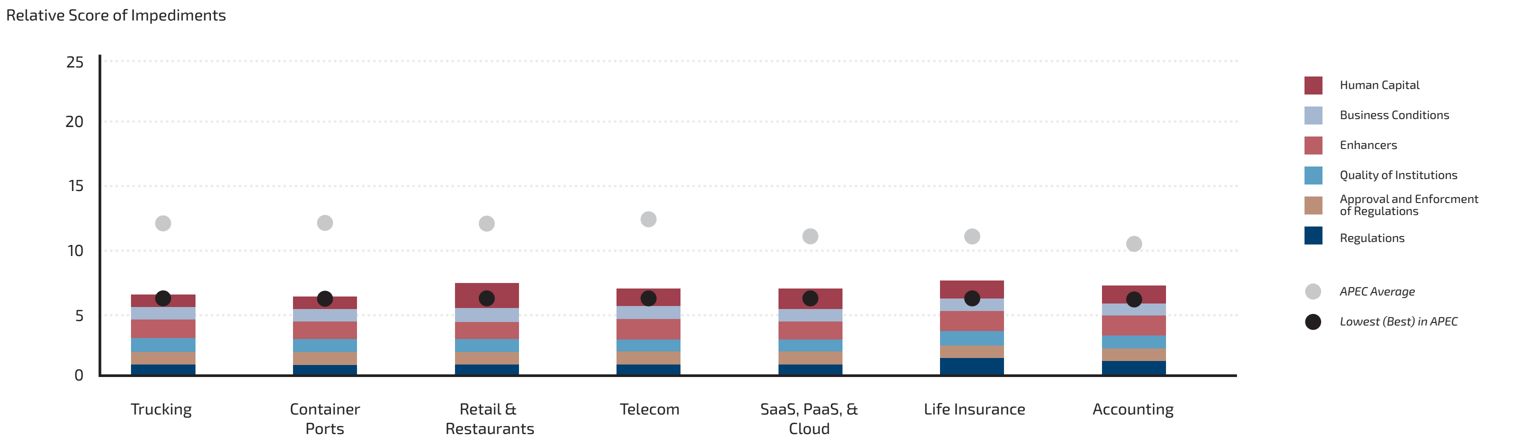
*Existence of Free Trade Agreements and Investment Agreements*



Key
Least Impactful
Most Impactful
No Data
Trucking
Container Ports
Retail & Restaurants
Telecom
SaaS, PaaS, & Cloud
Life Insurance
Accounting
Limits on Foreign Ownership
Limits on Foreign Control
Screening Requirements
Regulations on Capital Movement
Local Content Requirements
Access to Land
Number of Permits/Licenses Required
Regulations on Profit Repatriation
Restrictions of Closures, Relocations, and Layoffs
Renewal Requirements
Requirements for Expansion
Stability & Predictability of Regulations
Accessibility and Clarity of Regulations
Efficiency of Approval Process
Impartiality in Approval Process
Jurisdictional Overlap Between Approving Agencies
Corruption in Approval Process
Community Activism
National Treatment/Equal Treatment: Bias in Enforcement
Enforcement of Ongoing Regulation
Coordination and Alignment Between National and Local Governments and Agencies
Adoption/Acceptance of International Standards
Property Rights Protection
Presence of Government Agency & Judicial Corruption
Intellectual Property Rights
Political Conditions
Dispute Resolution
Inclusion in Formulating Rules & Regulations
Existence of Free Trade Agreements and Investment Agreements
Availability and Reliability of Information on Investment Opportunities (including local partners)
Quality of Investment Promotion Agencies
Investment & Tax Incentives
FDI is a Policy Priority
Market Size
Socio-Economic Conditions
Domestic Favoritism
Availability and Readiness of Firms for Acquisition & JV Partners
Quality of Capital Markets
Impact of Business Networks & Cultural Embeddedness
Quality and Availability of Supply Chain Partners
Quality of Infrastructure (including ICTs)
Competitiveness in Domestic Markets Presence of Monopolies and SOEs
Business Corruption
Physical Security and Organized Crime
Tax Environment
Economic Conditions
Visa & Work Permit Restrictions
Recognition of Skills and Qualifications
Quality of Life for Expatriates and Personal Safety
Restrictions on Hiring & Firing Domestic Workers
Quality and Availability of Human Capital

# Singapore

*Singapore Aggregate Sector Ratings*




## Least Problematic

*Quality and Availability of Supply Chain Partners*

*Quality of Infrastructure (including ICTs)*

*Competitiveness in Domestic Markets Presence of Monopolies and SOEs*

*Business Corruption*

*Physical Security and Organized Crime*

*Tax Environment*

*Economic Conditions*

*Recognition of Skills and Qualifications*

*Quality of Life for Expatriates and Personal Safety*

*Restrictions on Hiring & Firing Domestic Workers*

## Most Problematic

*Investment & Tax Incentives*

*Visa & Work Permit Restrictions*

*Quality and Availability of Human Capital*

*Limits on Foreign Ownership*

*Limits on Foreign Control*

*Screening Requirements*

*Availability and Reliability of Information on Investment Opportunities (including local partners)*

*Adoption/Acceptance of International Standards*

*Market Size*

*Regulations on Capital Movement*

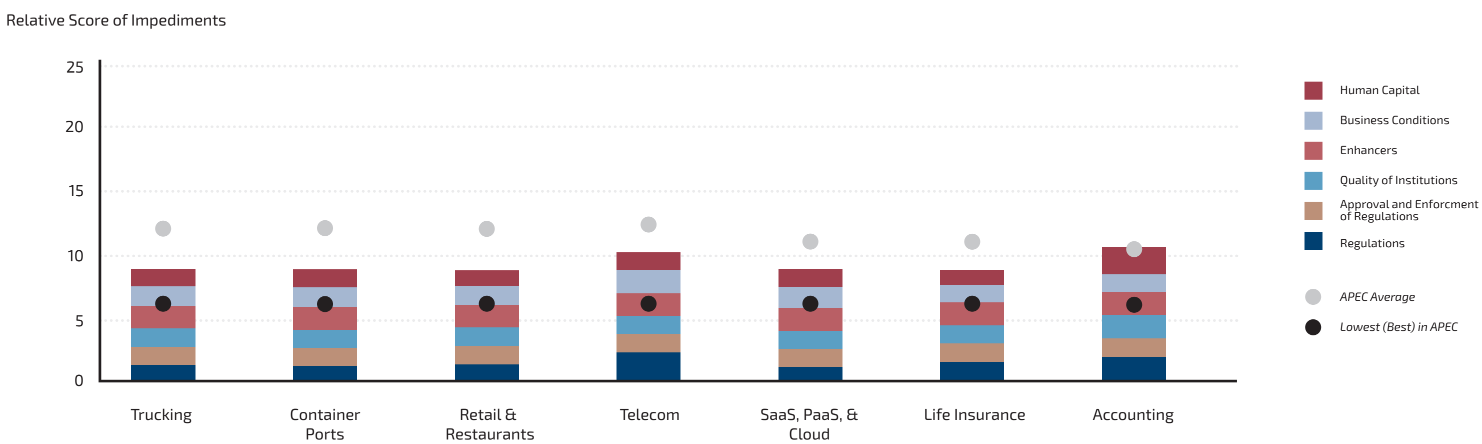
Key

| Least Impactful | | | | Most Impactful |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | 1 | 1 | 1 | 1 | 1 | 3 | 2 |
| Limits on Foreign Control | 1 | 1 | 1 | 1 | 1 | 3 | 2 |
| Screening Requirements | 1 | 1 | 1 | 1 | 1 | 3 | 2 |
| Regulations on Capital Movement | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Local Content Requirements | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Access to Land | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Number of Permits/Licenses Required | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Regulations on Profit Repatriation | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Restrictions of Closures, Relocations, and Layoffs | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Renewal Requirements | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Requirements for Expansion | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Stability & Predictability of Regulations | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Accessibility and Clarity of Regulations | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Efficiency of Approval Process | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Impartiality in Approval Process | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Jurisdictional Overlap Between Approving Agencies | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Corruption in Approval Process | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Community Activism | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| National Treatment/Equal Treatment: Bias in Enforcement | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Enforcement of Ongoing Regulation | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Coordination and Alignment Between National and Local Governments and Agencies | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Adoption/Acceptance of International Standards | 2 | 1 | 1 | 1 | 1 | 2 | 1 |
| Property Rights Protection | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Presence of Government Agency & Judicial Corruption | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Intellectual Property Rights | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Political Conditions | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Dispute Resolution | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Inclusion in Formulating Rules & Regulations | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Existence of Free Trade Agreements and Investment Agreements | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | 1 | 1 | 1 | 2 | 1 | 2 | 2 |
| Quality of Investment Promotion Agencies | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Investment & Tax Incentives | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| FDI is a Policy Priority | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Market Size | 1 | 1 | 2 | 1 | 1 | 1 | 1 |
| Socio-Economic Conditions | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Domestic Favoritism | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Availability and Readiness of Firms for Acquisition & JV Partners | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Quality of Capital Markets | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Impact of Business Networks & Cultural Embeddedness | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Quality and Availability of Supply Chain Partners | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Quality of Infrastructure (including ICTs) | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Business Corruption | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Physical Security and Organized Crime | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Tax Environment | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Economic Conditions | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Visa & Work Permit Restrictions | 1 | 1 | 4 | 2 | 3 | 2 | 2 |
| Recognition of Skills and Qualifications | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Quality of Life for Expatriates and Personal Safety | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Restrictions on Hiring & Firing Domestic Workers | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Quality and Availability of Human Capital | 1 | 1 | 3 | 2 | 2 | 2 | 2 |

# Chinese Taipei

*Chinese Taipei Aggregate Sector Ratings*




## Least Problematic

*Dispute Resolution*

*FDI is a Policy Priority*

*Domestic Favoritism*

*Availability and Readiness of Firms for Acquisition & JV Partners*

*Quality of Capital Markets*

*Impact of Business Networks & Cultural Embeddedness*

*Business Corruption*

*Physical Security and Organized Crime*

*Tax Environment*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Market Size*

*Efficiency of Approval Process*

*Political Conditions*

*Stability & Predictability of Regulations*

*Jurisdictional Overlap Between Approving Agencies*

*Community Activism*

*Inclusion in Formulating Rules & Regulation*

*Existence of Free Trade Agreements and Investment Agreements*

*Availability and Reliability of Information on Investment Opportunities (including local partners)*

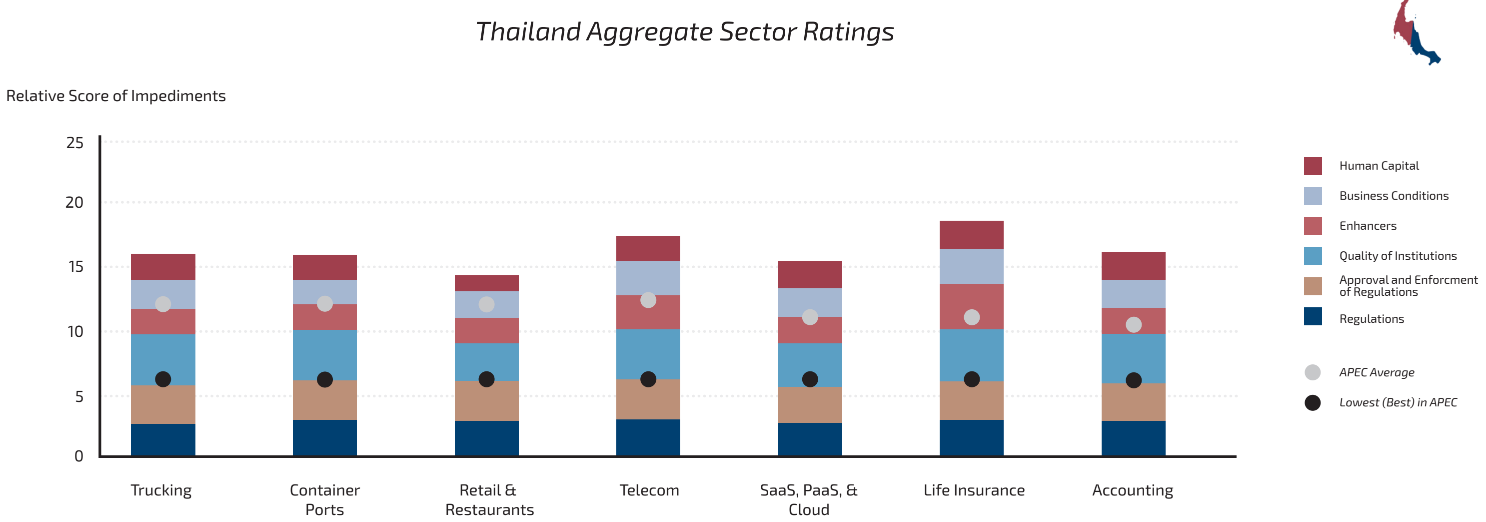
*Quality of Investment Promotion Agencies*

Key

Least Impactful — Most Impactful

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Dark blue | Dark blue | Dark blue | Tan | Dark blue | Dark blue | Tan |
| Limits on Foreign Control | Dark blue | Dark blue | Dark blue | Tan | Dark blue | Dark blue | Tan |
| Screening Requirements | Dark blue | Dark blue | Dark blue | Tan | Dark blue | Light blue | Light blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Local Content Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Tan | Tan |
| Access to Land | Gray | Light blue | Gray | Light blue | Dark blue | Dark blue | Dark blue |
| Number of Permits/Licenses Required | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Renewal Requirements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Requirements for Expansion | Dark blue | Dark blue | Dark blue | Tan | Dark blue | Dark blue | Dark blue |
| Stability & Predictability of Regulations | Light blue | Light blue | Gray | Gray | Light blue | Gray | Light blue |
| Accessibility and Clarity of Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Efficiency of Approval Process | Gray | Gray | Gray | Gray | Gray | Gray | Gray |
| Impartiality in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Jurisdictional Overlap Between Approving Agencies | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Corruption in Approval Process | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Community Activism | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Adoption/Acceptance of International Standards | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Tan |
| Property Rights Protection | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Intellectual Property Rights | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Political Conditions | Gray | Gray | Gray | Gray | Gray | Gray | Gray |
| Dispute Resolution | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Inclusion in Formulating Rules & Regulations | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Existence of Free Trade Agreements and Investment Agreements | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Quality of Investment Promotion Agencies | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Investment & Tax Incentives | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| FDI is a Policy Priority | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Market Size | Tan | Tan | Tan | Tan | Tan | Tan | Tan |
| Socio-Economic Conditions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Domestic Favoritism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Capital Markets | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Impact of Business Networks & Cultural Embeddedness | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality and Availability of Supply Chain Partners | Light blue | Light blue | Light blue | Light blue | Light blue | Dark blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Light blue | Light blue | Light blue | Gray | Gray | Dark blue | Dark blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Dark blue | Dark blue | Dark blue | Tan | Light blue | Dark blue | Dark blue |
| Business Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Physical Security and Organized Crime | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Tax Environment | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Economic Conditions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Visa & Work Permit Restrictions | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue | Light blue |
| Recognition of Skills and Qualifications | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Tan |
| Quality of Life for Expatriates and Personal Safety | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Light blue |
| Quality and Availability of Human Capital | Light blue | Light blue | Dark blue | Light blue | Light blue | Dark blue | Light blue |

# Thailand




## Least Problematic

*Tax Environment*

*Restrictions on Hiring & Firing Domestic Workers*

*Domestic Favoritism*

*Quality of Capital Markets*

*Local Content Requirements*

*Quality of Investment Promotion Agencies*

*Requirements for Expansion*

*Socio-Economic Conditions*

*Recognition of Skills and Qualifications*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Political Conditions*

*Limits on Foreign Ownership*

*Limits on Foreign Control*

*Presence of Government Agency & Judicial Corruption*

*Inclusion in Formulating Rules & Regulations*

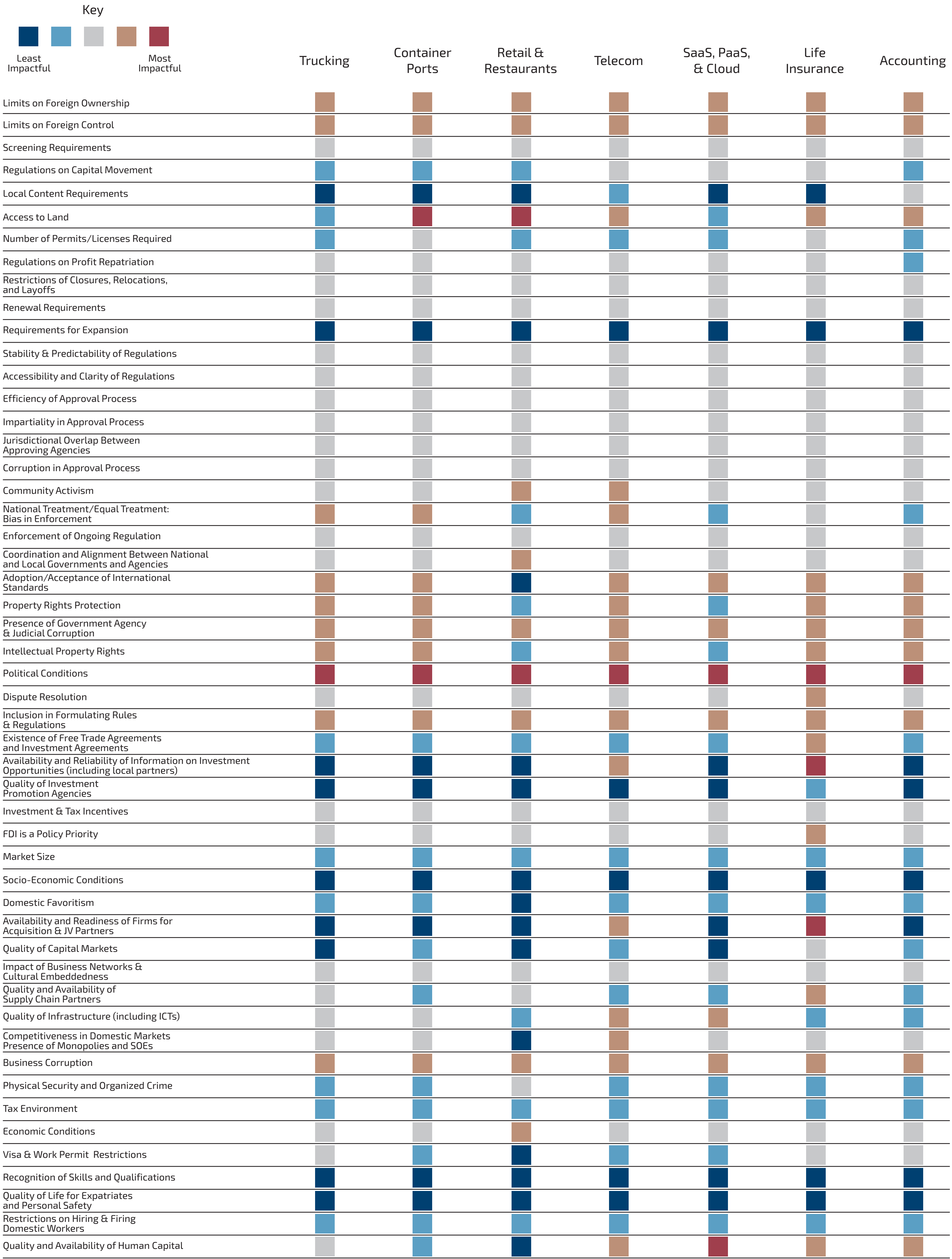
*Business Corruption*

*Access to Land*

*Adoption/Acceptance of International Standards*

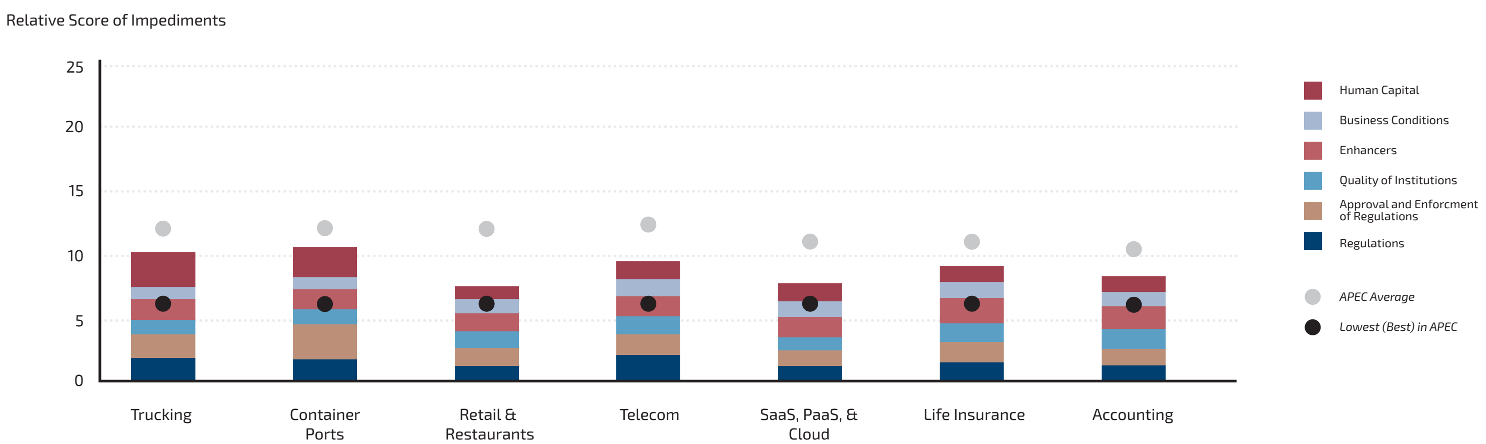
*Property Rights Protection*

*Intellectual Property Rights*


Key
Least Impactful
Most Impactful
Trucking
Container Ports
Retail & Restaurants
Telecom
SaaS, PaaS, & Cloud
Life Insurance
Accounting
Limits on Foreign Ownership
Limits on Foreign Control
Screening Requirements
Regulations on Capital Movement
Local Content Requirements
Access to Land
Number of Permits/Licenses Required
Regulations on Profit Repatriation
Restrictions of Closures, Relocations, and Layoffs
Renewal Requirements
Requirements for Expansion
Stability & Predictability of Regulations
Accessibility and Clarity of Regulations
Efficiency of Approval Process
Impartiality in Approval Process
Jurisdictional Overlap Between Approving Agencies
Corruption in Approval Process
Community Activism
National Treatment/Equal Treatment: Bias in Enforcement
Enforcement of Ongoing Regulation
Coordination and Alignment Between National and Local Governments and Agencies
Adoption/Acceptance of International Standards
Property Rights Protection
Presence of Government Agency & Judicial Corruption
Intellectual Property Rights
Political Conditions
Dispute Resolution
Inclusion in Formulating Rules & Regulations
Existence of Free Trade Agreements and Investment Agreements
Availability and Reliability of Information on Investment Opportunities (including local partners)
Quality of Investment Promotion Agencies
Investment & Tax Incentives
FDI is a Policy Priority
Market Size
Socio-Economic Conditions
Domestic Favoritism
Availability and Readiness of Firms for Acquisition & JV Partners
Quality of Capital Markets
Impact of Business Networks & Cultural Embeddedness
Quality and Availability of Supply Chain Partners
Quality of Infrastructure (including ICTs)
Competitiveness in Domestic Markets Presence of Monopolies and SOEs
Business Corruption
Physical Security and Organized Crime
Tax Environment
Economic Conditions
Visa & Work Permit Restrictions
Recognition of Skills and Qualifications
Quality of Life for Expatriates and Personal Safety
Restrictions on Hiring & Firing Domestic Workers
Quality and Availability of Human Capital

# United States

## *United States Aggregate Sector Ratings*




## Least Problematic

*Socio-Economic Conditions*

*Domestic Favoritism*

*Availability and Readiness of Firms for Acquisition & JV Partners*

*Quality of Capital Markets*

*Impact of Business Networks & Cultural Embeddedness*

*Quality and Availability of Supply Chain Partners*

*Quality of Infrastructure (including ICTs)*

*Business Corruption*

*Economic Conditions*

*Quality of Life for Expatriates and Personal Safety*

## Most Problematic

*Coordination and Alignment Between National and Local Governments and Agencies*

*FDI is a Policy Priority*

*Requirements for Expansion*

*Efficiency of Approval Process*

*Screening Requirements*

*Jurisdictional Overlap Between Approving Agencies*

*Tax Environment*

*Local Content Requirements*

*Renewal Requirements*

*Adoption/Acceptance of International Standards*

Key

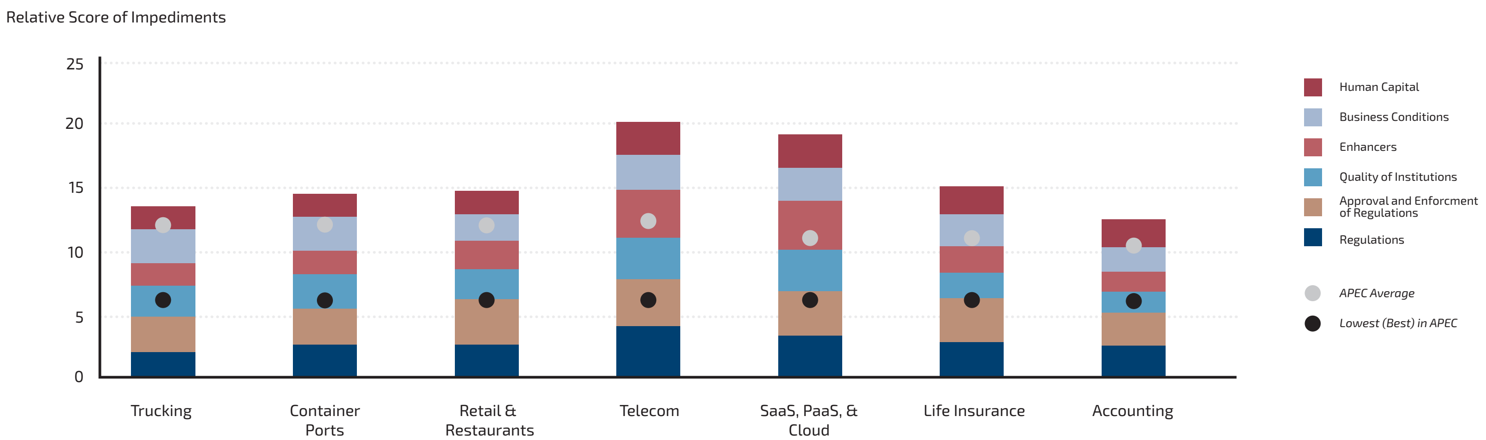
Dark blue · Light blue · Gray · Tan · Red

Most Impactful

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | Red | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue |
| Limits on Foreign Control | Red | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Screening Requirements | Gray | Tan | Light blue | Light blue | Light blue | Dark blue | Dark blue |
| Regulations on Capital Movement | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Light blue | Dark blue |
| Local Content Requirements | Dark blue | Dark blue | Dark blue | Gray | Dark blue | Gray | Tan |
| Access to Land | Dark blue | Gray | Dark blue | Gray | Dark blue | Dark blue | Dark blue |
| Number of Permits/Licenses Required | Dark blue | Gray | Dark blue | Dark blue | Gray | Dark blue | Dark blue |
| Regulations on Profit Repatriation | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions of Closures, Relocations, and Layoffs | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Renewal Requirements | Light blue | Dark blue | Light blue | Gray | Light blue | Light blue | Light blue |
| Requirements for Expansion | Dark blue | Tan | Dark blue | Tan | Dark blue | Tan | Dark blue |
| Stability & Predictability of Regulations | Dark blue | Dark blue | Gray | Gray | Dark blue | Dark blue | Dark blue |
| Accessibility and Clarity of Regulations | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Efficiency of Approval Process | Dark blue | Red | Light blue | Light blue | Light blue | Light blue | Light blue |
| Impartiality in Approval Process | Gray | Gray | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Jurisdictional Overlap Between Approving Agencies | Light blue | Tan | Light blue | Light blue | Dark blue | Gray | Dark blue |
| Corruption in Approval Process | Dark blue | Light blue | Dark blue | Dark blue | Light blue | Dark blue | Dark blue |
| Community Activism | Gray | Tan | Dark blue | Light blue | Dark blue | Dark blue | Dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue |
| Enforcement of Ongoing Regulation | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | Tan | Tan | Light blue | Light blue | Dark blue | Tan | Gray |
| Adoption/Acceptance of International Standards | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Tan | Red |
| Property Rights Protection | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Presence of Government Agency & Judicial Corruption | Light blue | Light blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue |
| Intellectual Property Rights | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Political Conditions | Dark blue | Dark blue | Gray | Gray | Dark blue | Dark blue | Dark blue |
| Dispute Resolution | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Inclusion in Formulating Rules & Regulations | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Existence of Free Trade Agreements and Investment Agreements | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | Dark blue | Dark blue | Light blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Investment Promotion Agencies | Light blue | Light blue | Dark blue | Light blue | Light blue | Light blue | Dark blue |
| Investment & Tax Incentives | Dark blue | Dark blue | Dark blue | Light blue | Light blue | Gray | Gray |
| FDI is a Policy Priority | Gray | Gray | Light blue | Light blue | Light blue | Gray | Gray |
| Market Size | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Socio-Economic Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Domestic Favoritism | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Capital Markets | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Impact of Business Networks & Cultural Embeddedness | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality and Availability of Supply Chain Partners | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality of Infrastructure (including ICTs) | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | Dark blue | Dark blue | Dark blue | Tan | Dark blue | Tan | Dark blue |
| Business Corruption | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Physical Security and Organized Crime | Dark blue | Dark blue | Dark blue | Dark blue | Light blue | Dark blue | Light blue |
| Tax Environment | Dark blue | Dark blue | Gray | Light blue | Tan | Light blue | Light blue |
| Economic Conditions | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Visa & Work Permit Restrictions | Light blue | Light blue | Dark blue | Light blue | Gray | Light blue | Light blue |
| Recognition of Skills and Qualifications | Tan | Gray | Dark blue | Light blue | Dark blue | Dark blue | Dark blue |
| Quality of Life for Expatriates and Personal Safety | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Restrictions on Hiring & Firing Domestic Workers | Tan | Tan | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |
| Quality and Availability of Human Capital | Gray | Light blue | Dark blue | Dark blue | Dark blue | Dark blue | Dark blue |

# Viet Nam

Viet Nam Aggregate Sector Ratings




## Least Problematic

*Quality of Life for Expatriates and Personal Safety*

*Restrictions on Hiring & Firing Domestic Workers*

*Renewal Requirements*

*Intellectual Property Rights*

*Existence of Free Trade Agreements and Investment Agreements*

*Quality and Availability of Human Capital*

*Domestic Favoritism*

*Community Activism*

*Political Conditions*

*Tax Environment*

## Most Problematic

*Number of Permits/Licenses Required*

*Accessibility and Clarity of Regulations*

*Jurisdictional Overlap Between Approving Agencies*

*Coordination and Alignment Between National and Local Governments and Agencies*

*Screening Requirements*

*Local Content Requirements*

*Efficiency of Approval Process*

*Business Corruption*

*Regulations on Capital Movement*

*Stability & Predictability of Regulations*

Key

Least Impactful (dark blue) · light blue · gray · tan · Most Impactful (red)

| | Trucking | Container Ports | Retail & Restaurants | Telecom | SaaS, PaaS, & Cloud | Life Insurance | Accounting |
|---|---|---|---|---|---|---|---|
| Limits on Foreign Ownership | light blue | light blue | light blue | tan | tan | light blue | light blue |
| Limits on Foreign Control | light blue | light blue | light blue | tan | tan | light blue | light blue |
| Screening Requirements | light blue | gray | tan | red | red | tan | light blue |
| Regulations on Capital Movement | gray | tan | gray | tan | light blue | tan | gray |
| Local Content Requirements | light blue | light blue | light blue | red | red | tan | tan |
| Access to Land | dark blue | gray | gray | tan | dark blue | light blue | light blue |
| Number of Permits/Licenses Required | tan | tan | tan | red | tan | tan | tan |
| Regulations on Profit Repatriation | light blue | light blue | light blue | light blue | light blue | tan | light blue |
| Restrictions of Closures, Relocations, and Layoffs | light blue | gray | light blue | tan | light blue | gray | gray |
| Renewal Requirements | dark blue | dark blue | dark blue | gray | gray | dark blue | gray |
| Requirements for Expansion | dark blue | gray | tan | red | tan | dark blue | light blue |
| Stability & Predictability of Regulations | gray | gray | gray | red | tan | gray | light blue |
| Accessibility and Clarity of Regulations | tan | tan | tan | tan | tan | tan | tan |
| Efficiency of Approval Process | gray | tan | gray | tan | tan | gray | gray |
| Impartiality in Approval Process | light blue | light blue | tan | tan | tan | tan | light blue |
| Jurisdictional Overlap Between Approving Agencies | tan | tan | tan | tan | tan | tan | tan |
| Corruption in Approval Process | gray | gray | tan | tan | gray | tan | light blue |
| Community Activism | dark blue | dark blue | dark blue | dark blue | dark blue | dark blue | dark blue |
| National Treatment/Equal Treatment: Bias in Enforcement | light blue | light blue | tan | tan | tan | tan | light blue |
| Enforcement of Ongoing Regulation | light blue | light blue | tan | tan | tan | tan | dark blue |
| Coordination and Alignment Between National and Local Governments and Agencies | tan | tan | tan | tan | tan | tan | tan |
| Adoption/Acceptance of International Standards | tan | tan | light blue | tan | tan | light blue | light blue |
| Property Rights Protection | dark blue | gray | tan | tan | tan | dark blue | dark blue |
| Presence of Government Agency & Judicial Corruption | gray | gray | gray | gray | gray | gray | gray |
| Intellectual Property Rights | dark blue | dark blue | dark blue | tan | tan | dark blue | dark blue |
| Political Conditions | dark blue | dark blue | dark blue | dark blue | dark blue | dark blue | dark blue |
| Dispute Resolution | gray | gray | gray | tan | tan | tan | light blue |
| Inclusion in Formulating Rules & Regulations | tan | tan | gray | gray | gray | light blue | light blue |
| Existence of Free Trade Agreements and Investment Agreements | dark blue | dark blue | dark blue | tan | tan | dark blue | dark blue |
| Availability and Reliability of Information on Investment Opportunities (including local partners) | light blue | light blue | light blue | tan | tan | light blue | light blue |
| Quality of Investment Promotion Agencies | light blue | light blue | light blue | tan | tan | light blue | light blue |
| Investment & Tax Incentives | light blue | light blue | gray | gray | gray | gray | dark blue |
| FDI is a Policy Priority | light blue | light blue | gray | tan | tan | light blue | light blue |
| Market Size | light blue | light blue | gray | light blue | light blue | gray | light blue |
| Socio-Economic Conditions | light blue | light blue | tan | light blue | light blue | gray | light blue |
| Domestic Favoritism | light blue | light blue | dark blue | dark blue | dark blue | light blue | light blue |
| Availability and Readiness of Firms for Acquisition & JV Partners | light blue | light blue | dark blue | tan | tan | gray | dark blue |
| Quality of Capital Markets | gray | gray | gray | tan | gray | gray | gray |
| Impact of Business Networks & Cultural Embeddedness | tan | tan | dark blue | gray | gray | gray | gray |
| Quality and Availability of Supply Chain Partners | tan | tan | light blue | light blue | light blue | light blue | light blue |
| Quality of Infrastructure (including ICTs) | red | red | dark blue | tan | tan | dark blue | dark blue |
| Competitiveness in Domestic Markets Presence of Monopolies and SOEs | dark blue | light blue | gray | red | dark blue | tan | light blue |
| Business Corruption | tan | gray | gray | tan | tan | tan | light blue |
| Physical Security and Organized Crime | gray | gray | light blue | light blue | light blue | light blue | light blue |
| Tax Environment | dark blue | dark blue | dark blue | dark blue | dark blue | dark blue | dark blue |
| Economic Conditions | light blue | light blue | gray | light blue | light blue | gray | light blue |
| Visa & Work Permit Restrictions | gray | gray | gray | gray | gray | gray | gray |
| Recognition of Skills and Qualifications | dark blue | dark blue | dark blue | gray | gray | light blue | gray |
| Quality of Life for Expatriates and Personal Safety | light blue | light blue | light blue | light blue | light blue | light blue | light blue |
| Restrictions on Hiring & Firing Domestic Workers | light blue | light blue | light blue | light blue | light blue | light blue | light blue |
| Quality and Availability of Human Capital | dark blue | dark blue | dark blue | gray | gray | light blue | dark blue |

# Sources for Secondary Data

**Regulations**
Business Impact of FDI Rules (WEF GCR 6.12)
Foreign Ownership & Control Limitations (WB IAB 2012)
Movement of Capital Inflow (WB IAB)
Access to Land by Foreign Firms (WB -IAB 2010 Composite Score)
Movement of Capital Repatriation (WB IAB)
Business Insolvency ( WB DB 2014)

**Approval & Enforcement of Regulations**
Government Online Services Index (WEF ET 6.07)
Number of procedures to obtain approval (WB IAB)
No. procedures to start a business(WEF GCR 6.06)
Cost of Starting a Business (WB DB2014)
Time to start a foreign subsidiary (WB IAB number of days)
No. of days to start a business (WEF GCR 6.07)
Favoritism (Impartiality) in decisions of government officials, 1-7 (WEF GCR 1.07)
Ease of Establishment Index (WB IAB)
Irregular payments and bribes: Awarding of public contracts and licenses, 1-7 (WEF GCR 1.05d)
Voice and Accountability(WB WGI 2012)

**Quality of Institutions**
Ease of compliance with government regulation (WEF GCR 1.09)
***Presence of Government Agency & Judicial Corruption***
Irregular payments and bribes: Obtaining favorable judicial decisions, 1-7 (WEF GCR 1.05e)
Corruption Perception Index (Transparency International)
Intellectual property protection (WEF GCR 1.02)
Property rights protection (WEF GCR 1.01)
***Stability & Predictability of Regulations***
WB WGI Regulatory Quality(2012)
WB WGI Government Effectiveness (2012)
***Dispute Resolution***
Enforcing contracts( WB DB 2014)
Efficiency of legal framework in setting disputes (WEF GCR 1.10)
***Community Inclusion in Formulating Rules & Regulation***
Efficiency of legal framework in challenging regulations (WEF GCR 1.11)
Transparency of government policymaking (WEF GCR 1.12)
***Political Conditions***
Political Risk Index
WB WGI Political Stability No Violence (2012)
WB WGI Rule of Law (2012)
Public Trust in Politicans (WEF GCR 1.04)

**Business Conditions**
***Quality of Capital Markets***
Financial Market Development (WEF GCR B.08)
Investor Protection (WEF GCR 1.21)
Efficacy of Corporate Boards (WEF GCR 1.19)
Protection of minority interests (WEF GCR 1.20)
***Quality and Availability of Supply Chains Partners***
Quantity of local suppliers (WEF GCR 11.01)
Quality of local suppliers (WEF GCR 11.02)
State of industry clusters (WEF GCR 11.03)
Quality of Infrastructure (including ICTs)
Infrastructure (WEF GCR Pillar 2)
ICT Use (WEF GCR 9 sub-pillar)
Competitiveness of Domestic Markets (including the presence of SOEs)
Effectiveness of Anti-monoply policies (WEF GCR 6.03)
Intensity of local competition (WEF GCR 6.01)
Extent of Market Dominance (WEF GCR 6.02)
Technological readiness (WEF GCR Pillar 9)
***Business Corruption***
Ethical behavior of firms, 1-7 (WEF GCR 1.17)
Irregular Payments & Bribes (WEF GCR 1.05)
Corruption Index (Heritage Database)
***Physical Security and Organized Crime***
Reliability of Police (WEF GCR 1.16)
Business Cost of Crime & Violence (WEF GCR 1.14)
Organized Crime (WEF GCR 1.15)
Business Cost of Terrorism (WEF GCR 1.13)
***Macro Economic Conditions***
Domestic market size index, 1-7 (WEF GCR 10.01)
3rd pillar: Macroeconomic environment, 1-7 (best) (WEF GCR 3.00)
Effect of taxtion on incentives to invest (WEF GCR 6.04)

**Human Capital**
Hiring & firing Practices (WEF GCR)
Ease of Hiring Foreign Workers(WEF ET)
Country capacity to attract talent (WEF GCR)
***Quality and Availability of Human Capital***
Country Capacity to retain talent (WEF GCR)
Human Development Index (UNDP)
Quality of Education System (WEF GCR)
Extent of staff training (WEF GCR)
Employing Skilled Expats(WB-IAB)

**Enhancers**
Investment Promotion Agencies (Global Investing Promotion Benchmarking Report)
Total # FTAs (Asia Regional Integration Center, OAS )
Total # FTAs in force/signed (Asia Regional Integration Center, OAS )
Total # of IIAs in force/signed (UNCTAD)

# Definitions of USC Framework Metrics

**1. Regulations**
Limits on Foreign Ownership - Restrictions of the levels of equity ownership by foreigners
Limits on Foreign Control - Requirements that some to a majority of board members and/or amangers must be citizens or permenant residents
Screening Requirements - Existence of special requirements foreign firms must meet before entry including (min/max investment thresholds), net economic benefits tests, etc.
Regulations on Capital Movement - Restricions on movement of funds into and out of an economy
Local Content Requirements - Specific requirements to use local producers/suppliers in different parts of the supply chain, requirements for local accreditation/certification, physical presence requirements, requirements that some operations must be done domestically
Access to Land - Restrictions on foreigners to own/lease land
Permits/Licenses Required - Number of permits and licences required to establish a business; including special permits for foreign firms and the general complexity of the permitting process
Regulations on Profit Repatriation - Restrictions on profit repatriation
Restrictions of Closures, Relocations and Layoffs - Restrictions which limit the closure of operations and disposition of assets; including special payment required for employee layoffs
Renewal Requirements - Restrictions/complexity of the renewal of permits process; also including special renewal requirement for foreign firms
Requirements for Expansion - Restrictions on expansion of operations including requirements to make separate applications for expansion beyond an initial location
Stability & Predictability of Regulations - Level of stability and predictability of regulations over the long-term vs. the level of uncertainty that critical industry regulations will change unexpectedly without advanced notice
**2. Approval & Enforcement of Regulations**
Accessibility and Clarity of Regulations - Availability (in print or online) and clarity (in english and local language) of regulations
Efficiency of Approval Process - The length of time required to obtain approvals to start a new business including rapid decisions/feedback on problems
Impartiality in Approval Process - Impartiality or presence of domestic favoritism by officials; foreign firms are explicitly or tacitly discriminated against; and/or treated differently
Jurisdictional Overlap/Conflict between Approving Agencies- Complexity in the approval process where firms must deal simultaneously seek mutliple approvals from different regulatory agencies with overlapping authority
Corruption in Approval Process - Presence/expectation of corruption (extra administrative fees) in the approval process
Community Activism - Explicit requirements that approval fromlocal community groups must be sought; and the likelihoods that commuity groups will/may opposed the investment - especially foreign investments
Efficiency of Renewal Approval Process - The length of time and frequency required to obtain approvals to continue operating an exisiting business. The extent which renewal is automatic versus the entire process must be reinitiated
Impartiality/Bias of Enforcement of Regulations - Extent to which foreign firms are guaranteed equal treatment by law and in practice. Are foreign firm discriminated inentionally or unintentionally by officials? Are foreign firm subject to “by the letter of the law” enforcement of regulations whereas more discretion is given to domestic firms
Coordination and alignment Between National and Local Governments and Agencies - Degree to which state and local government can set their own rules and regulations and exercise discretion independently of national level regulations
**3. Quality of Institutions**
Adoption/Acceptance of International Standards - Extent of adoption/acceptance of global standards versus the existence of different domestic standards - from differences to completely different standards
Presence of Government Agency & Judicial Corruption - Presence of undue influence or corruption in the legislative, in the judicial process, and in government regulators
Intellectual Property Rights - Level of enforcement of IP rights in practice. The size and impact of piracy on commerce
Property Rights Protection - Security and enforceability of property rights (land owernership rights, leaseholder rights, real property rights)
Political Conditions - General level of political stability; ability of the government to effectively guide society and the economy over the long-term; general levels of political risk; general recognition and acceptance of the rule of law throughout society
Dispute Resolution - Effectivenss of dispute resolution mechanisms including the level of judicial independence, the availability of independent arbitration, and timeliness for dispute resolution
Inclusion in Formulating Rules & Regulations - The inclusion of business, and foreign firms in the process of formulating industry regualtions
**4. Enhancers**
Existence of Free Trade Agreements and Investment Agreements - Degree to which provisions in FTAs and international investment agreements (IIAs) promote FDI; essentially the number of agreements available to both expand domestic market size and to offer special benefits to foreign firms making investments
Availability and Reliability of Information on Investment Opportunities (including local partners) - Accessibility to accurate information to assess market opportunities; especially in identifying potential domestic partners
Quality of Investment Promotion Agencies - Existence and effectiveness of spectial agencies tasked with actively promothing investment opportunites
Investment & Tax Incentives - Existence of incentives, subsidies, and special tax breaks or other monetary incentives for firms willing to invest in the economy
FDI is a Policy Priority - FDI is a national policy priority / economy is open and welcoming of FDI
**5. Business Conditions**
Market Size - Population, market size, and existence of and access to adjacent markets
Socio Economic Demographics - Relative income distribution among the population especially the presence of strong growing middle class; GDP per capita, gini coefficient, level of education and economic development that enable individuals to demand services
Domestic Favoritism/Nationalism - General level of nationalism and preference for domestic services; and/or the existence of societal preferences against businesses from certain economies
Availability and Readiness of Firms for Acquisition & JV Partners - Existence of competent well managed JV partners, and the ease of identifying and forming business relationships with partners
Quality of Capital Markets - Quality of capital markets: the availability of capital investment instruments, and the regulation of markets and institutions. The ability for foreign firms to raise funds easily
Impact of Business Networks & Cultural Embeddness - Existence of long standing business networks, business groups, or business families that make it difficult for foreign firms to operate within the economy. The presence of deep cultural norms of preferences for domestic over foreign firms
Quality and Availability of Supply Chains Partners - Existence of competent supply chain partners, and the ease of identifying and forming business relationships with partners
Quality of Infrastructure (including ICTs) - Quality of necessary infrastructure for your industry such as power, water, transport, or ICT (information and communication technologies)
Competitiveness in Domestic Markets (Presences of Monopolies & SOEs) - General level of market competitiveness including the presence of state owned enterprises (SOEs), the presence of global firms, market dominance by large incumbents, the impact of informal businesses who operate outside the rules, etc.
Business Corruption - Presence and level of general corruption in business transactions between business firms and customers
Tax Environment - The level of business taxes and their impact of the incentive to invest
Physical Security and Organized Crime - General levels of physical safety for employees, levels of theft, physical property, and the presence and impact of organized criminal networks on business operations
Economic Conditions - Levels of economic growth, stability of exchange rates, interest rates, inflation, wealth distribution
**6. Human Capital**
Visa & Work Permit Restrictions - Restrictions on visas for foreign employees, limits on lenghts of stays for intrafirm tranferees, limits on the length of work permits, and the general ease of moving employees across economies
Recognition of Skills and Qualifications - Mutual recognition for academic and professional qualifications, credentitals, and cerfifications
Quality and Availablilty of Human Capital - Quality and availability of workers at all levels of business operation including technical specialists, managerial talent, semi and lower skilled employees. General levels of labor costs, and overall work ethic and worker productivity
Restrictions on Hiring & Firing Domestic Workers - Restrictions on hiring or firing employees, restrictions on hiring part time workers, etc.
Quality of Life for Expatriates and Personal Safety - Existence of expatriate communities, schools, air quality, cost of living, and other amenities

# Participating Companies

1957 & Co.
A. Magsaysay, Inc
ACE Insurance
Afin
AIA
AIG
Airfreight Forwarders Association of Malaysia
American Chamber of Commerce, Hong Kong
American Chamber of Commerce, Peru
American Chamber of Commerce/AIG Indonesia
American Council of Life Insurance
American Rag
American Tower
AmLife Insurance Berhad
ANZMEX
APM Terminals
Approlog
ASAFF Telecommunication Services
Asociación de Aseguradores de Chile A.G.
Asociación Mexicana de Instituciones de Seguros
AT&T
Australia Indonesia Partnership for Econimic Governance (AIPEG)
Australian Information Industry Association
Australian Logistics Council
Australian Retailers Association
AVL Abogados
AXA Mandiri
B&L Group
BAG
Baker & McKenzie
Banco de Chile
BCBG Max Azaria
Becamex
Blumenthal Richter & Sumet Co.
Board of Trade of Thailand
Bower Group Asia
Burger King
BusinessNZ
C.K. TANG
C.R. England
Cabinet Office Economic and Fiscal Management (Japan)
Canadian Wireless Telecommunications Association (CWTA)
Cathay Life Insurance
CBRE Group
Cedar Management
Center for Strategic and International Studies (Indonesia)
Center Group
Charoen Pokphand Group
Chartered Institute of Logistics and Transportation (Malaysia)
Chiba University
China International Capital Corporation
Cinépolis Luxury Cinemas
Cisco Systems
CITIC-Prudential Life Insurance
Claro
COASIN Chile S.A.
COFCO
Comercia Consulting
COMEXPeru
Consejo Mexicano del Transporte
Coraza Corporacion Azteca
Corps Mexicana Restaurantes
Costco
Crown and Co
CTM
Darren Wood & Thorsten Engel (Deloitte Consulting)
Dell
Deloitte Touche Tohmatsu
Department of Legal Affairs Ministry of Industry and Trade (Viet Nam)
Digital Connect
East West Transport (Steamships Trading Company)
Elcom
Entel
Ernst & Young
Ernst & Young ShinNihon
European Chamber of Commerce (Indonesia)
Falabella
Falabella Peru
Family Mart
FedEx
FEPASA
Financial Services and Treasury Bureau (HK)
Financial Services Council (AU)
Fingi
Fiocco Nutley Lawyers
Foo Kan Tan Grant Thorton
Foreign Investment Committee, CIE Chile
Fubon
Fundacion Chilena del Pacifico
Globe Telecom
Golden Gate Ventures
Grant Thorton
Grasty Quintana Majlis & Cía
Great Eastern Insurance
Group Counsel
Guotai Junan Securities
Hanwha Life Insurance
Hazchem Logistics
Hospitality Association of New Zealan
HTC
HTC / VIA
Huawei
Hutchison
IBM
Institute of Development Studies (Philippines)
International Enterprise Singapore
International Trade Cluster Ministry of Trade, Singapore
"Investment Promotion Division
Foreign Investment Agency (FIA)
Ministry of Planning and Investment, Viet Nam (MPI)"
Isla Lipana & Co - PwC
ISM
IT & Business Process Association of the Philippines
Japan Information Technology Services Industry Association
Jardines Maatheson Ltd.
Jay Gee Enterprises
JB Hunt
Jollibee Foods Inc
JRG
KDDI
Kemmana Services
KING MANG Group
Konoike Transport Co., Ltd.
KPMG
Lane Crawford
Lawsons
Leventhal School of Accounting
LG CNS
Life Insurance Association of Japan
LiveIt Investments
Loxley
Maersk Line
Mainfreight
ManuLife Financial
Mapfre Insurance
McAfee
Mediatrac
MetLife Alico
Metro Singapore
Mexflex
Mexout
Ministry of Economy (Mexico)
Ministry of Foreign Affairs (Japan)
Ministry of Trade and Industry (Singapore)
MobiVi
Mochtar Karuwin Komar
Modern Terminals
Morrisson Express
MSPC (Malaysia Service Providers Confederation)
National ICT Association of Malaysia
National Insurance Co Berhad
New World Development
New Zealand Trade and Enterprize
New Zealand Trade Commission of Mexico
Nextel
Nippon Express
Nordstrom
Office of Comissioner of Insurance (Hong Kong)
Office of the Government Chief Information Officer (Hong Kong)
Peking University
PHILAM Life
Pitcher Partners
Pointwest Technologies Corporation
Port of Halifax
Private equity firm who owns supermarket chains
ProChile
ProInversion
ProMexico
PromPeru
Prudential Hong Kong
PT Sintesa Group/APINDO
PT Sutra Pandawa
PT.Icon International Communication Indonesia
Punongbayan & Araullo CPAs- Grant Thorton Intl Ltd.
PwC
PwC Arata
Quiksilver
R.G. Manabat & Co., KPMG
Rembrandt Hotel & Towers
Retail Council of Canada
Royal Cargo Combined Logistics Inc (Ports)
Senior Executive Officer in Int'l Business Division
Seven&I Holdings
SGV & Co - EY
Sigma Sembeda
Sison Corillo Parone & Co
SOFOFA Federation of Chilean Industry
Solidiance Consulting
SONDA
SOVICO Group
SSEK
Sun Life
Supermercados de Chile
Sura
Syarikat Veena's
Taiwan Mobile
Technology NZ Trade and Enterprise
Telecom NZ
Telefonica
Telekom Malaysia Berhad
Telenor
Thai Chamber of Commerce
Thai Retailers Association
The Dairy Farm Group
TIFFA
Tokio Marine Insurance Singapore Ltd.
Tong Fang Tsinghua
Tractus Consulting
Trade Association (Chile)
Transport and Housing Bureau (Hong Kong)
Transportation Association
Trun Thuy Group Office
Trustlink Investment Law Firm
U.S. Commercial Service
UBS
ULOG Logistics Solutions
Ultramar Holdings
UNIGroup
Unimar
UNIQLO
University KL
University of Chile
USC
USC Communications & Technology Management
Viet Nam International Law Firm
Viet Nam Logistics Business Association
Viet Nam's Association of Foreign Invested Enterprises
Vinawelath
Voice for Services Coalition
Walmart
Wellington Consulting Practice
Wellington Provoke
Wharf T&T
Wing Tai Retail
Yang Ming
Yi HAO DIAN

**Note**: A number of companies requested not to be named in this report due to the sensitive nature of the content discussed in interviews. They have been redacted accordingly

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## USC Marshall School of Business 2014 ABAC Team

***Anjuli Bedi, US***
Anjuli is a native of San Francisco, California, and earned her Bachelor of Arts in International Studies from the University of California, San Diego. She joins the ABAC team after spending several years in film production and marketing in the US, Egypt, and India where she led a number of media projects. She also founded her own documentary film production company to capture Egypt in transition in the aftermath of the Arab Spring. In addition to her MBA, she is pursuing a certificate in cinema studies from USC's School of Cinematic Arts. Over the summer, she interned at DirecTV as an intern in their Media and Entertainment Department, working on content strategy. Currently, she is a student researcher at USC's Annenberg Innovation Lab, analyzing new business models for an all-mobile environment. She is pursuing a career in marketing strategy and digital platforms within the entertainment industry.

***Jason Belsky, US***
Jason is a native of San Diego, California, and received his Bachelor of Arts in Economics from the University of California, Berkeley. He joins the ABAC team after working in nonprofit consulting specializing in data analytics. He also spent many years with an asset management company where he led the firm's cross-channel marketing strategy, and coordinated international research initiatives for private high net-worth and institutional clients. Over the summer, Jason interned with Amgen as a Finance and Strategy Intern. He is pursuing a career in Strategy and General Management.

***Doug Chang, Chinese Taipei & US***
Doug was born in Kaohsiung, Chinese Taipei and raised in San Diego, California. He earned his Bachelor of Arts in Economics with a minor in English from the University of California, San Diego. Doug joins the ABAC team after leading an internet start-up company that he co-founded. Before that, he underwrote credit facilities at United Commercial Bank & East West Bank for four years. Over the summer, Doug worked at Toyota as an intern in their Marketing Department. He is pursuing a career in marketing, corporate entrepreneurship, and corporate strategy.

***Liang Guan, China***
Liang is a native of Chongqing, China, and received her Bachelor of Arts in Finance from Zhejiang University and a Master of Arts in Economics from Peking University. She joins the ABAC team after working for the investment bank department of China International Capital Corporate (CICC) for 3 years. CICC is the largest investment bank in China by deal value, and is also well-known for having a close relationship with China's top 30 state-owned enterprises. Over the summer, she worked as a consulting intern with Cornerstone OnDemand, a technology firm. Liang is pursuing a career in finance.

***Virginia Ho, Hong Kong, China***
Virginia is a native of Hong Kong, and is currently a 4th year undergraduate student at the University of Southern California, pursing a Bachelor of Science degree in Business Administration at the Marshall School of Business. She spent spring term of 2014 studying management at HEC Paris. She joined the ABAC team after working as a finance and controlling intern over the summer at Plastic Omnium, a plastic manufacturing company in Paris, France. Upon graduating in May 2015, Virginia plans on pursuing a career in global business strategy and development and international marketing.

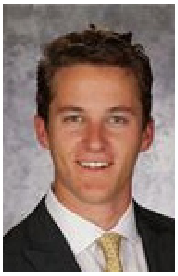
*David McManic, US (Team Co-Lead)*
David is a native of Atlanta, Georgia, and received his Bachelor of Arts in Economics from Williams College. He joins the ABAC team after spending six years working for BNSF Railway, the largest railroad in the United States. David worked in sales, marketing, and finance where his responsibilities included evaluating investment opportunities. Over the summer, he worked in the marketing department at GE Transportation as an intern in their Experienced Commercial Leadership Program. He is pursuing a career in international marketing, strategy, and business development for global retail organizations.

*Bryant Mogin, US*
Bryant is a native of San Diego, California, and received his Bachelor of Arts in Economics from the University of California, Santa Barbara. He also speaks fluent Spanish and French having spent time living in Europe while growing up and during college. He joins the ABAC team after working as a consultant in antitrust litigation and business planning. Prior to that, Bryant worked at a real estate forecasting firm where he provided analysis and advice to leading Southern California development firms during the great recession of 2008-09. Over the summer, he worked at Wells Fargo as a Finance and Strategy intern in the technology and venture capital industry. Bryant would like to help innovative companies create change and will be returning to Wells Fargo upon graduation from USC Marshall in May 2015.

*Jenny Dare Paulin, US (Team Lead)*
Jenny Dare is a native of Los Angeles, and received her Bachelor of Arts in International Relations from Connecticut College. She joins the ABAC team after successfully opening her own restaurant in San Juan del Sur, Nicaragua. Prior to that she performed in film and on Broadway, and also produced independent films and Off Broadway productions. Over the summer, Jenny Dare interned at Ernst & Young in their Performance Improvement Customer Strategy Advisory practice, and will be returning there upon graduation from USC Marshall in May 2015.

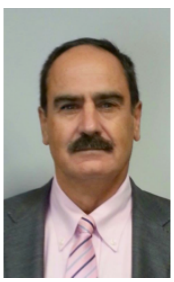
*Jeff Shieh, US (Project Manager)*
Jeff is a native of Los Angeles and received his Bachelor of Arts in Chinese and Japanese with a minor in Korean from the University of California, Berkeley. He joins the ABAC team after working for 4 years as a Coordinator for International Relations with the JET Programme in Ishikawa Prefecture, Japan, where he translated for government officials, planned international exchange events, and facilitated the development of a multicultural community. Over the summer, Jeff interned at Princess Cruises in their marketing department. He is currently pursuing a career in international business development and strategy.

*Chris Wary, US*
Chris is a native of Harrisburg, Pennsylvania, and received his Bachelor of Arts in Finance and Political Science, with a concentration in International Business from the University of Tennessee. He joins the ABAC team after launching an internet marketing firm specializing in building and maintaining websites, offering search engine optimization, and providing social media consulting services to local businesses. Prior to that, he taught English for two years at a public middle school in Seoul, South Korea. Over the summer, Chris interned at Princess Cruises in their Strategic Deployment Department. He is currently pursuing a career in consulting.



*Hayden Wolf, US*
Hayden is a native of Dallas, Texas, and is currently a 4th year undergraduate student at the University of Southern California, pursing a Bachelor of Science degree in Business Administration at the Marshall School of Business. He joined the ABAC team after working as a business development intern at Ritta Construction and Thai Global Energy in Bangkok this summer, focusing on expanding the firm's solar panel installation capabilites throughout the ASEAN region. Upon graduating in May 2015, Hayden plans to pursue a career in agriculture development and global supply chain management.

*Jing Zhu, China*
Jing is a native of Beijing, China and received her Bachelor of Arts in English Language and Literature from Renmin University of China. She joins the ABAC team after serving as a general manager for Sino Matters, leading multiple functional teams in operations, finance, product development, business development, and human resources. She has broad experiences coaching high-level executives at Fortune 500 companies. Over the summer, Jing worked as a business development intern at Ryan Herco Flow Solutions, a start-up company. She was involved heavily in their industrial supply distribution. Jing is currently pursuing a career in general management at a technology firm.



*Carl W. Voigt, Ph.D, New Zealand*
Carl Voigt serves as faculty director for the USC Marshall-ABAC research program. He is a Professor of Clinical Management & Organization. He has worked jointly with ABAC since 2005 to direct teams of MBA researcher on 10 research projects for ABAC. He specializes in teaching business, corporate, and global strategy, and management courses in USC Marshall's undergraduate and MBA programs. His academic interests are business, corporate and global strategy, and in particular in entrepreneurship.

*Julia Porter Liebeskind, Ph.D., UK*
Julia Liebeskind has worked during her career for government, for business, and as an academic. She holds an undergraduate degree from Oxford University, a Master's degree from London University, and an MBA and Ph.D. from the University of California at Los
Angeles. Julia worked as an economic analyst for the English Tourist Board and then worked for a number of years as an independent consultant based in Rome, before joining Tate & Lyle, PLC, a large UK-based global agribusiness firm. During this period Julia consulted on numerous economic development projects in West Africa and the Caribbean, as well as being involved in corporate planning and public policy-related work in the sugar sector. After completing her Ph.D, Julia worked at the Marshall School of Business at USC, teaching competitive strategy and focusing her research on corporate diversification and restructuring, and later, on transactions of intellectual property. She left USC in 2010 to pursue other interests, particularly philosophy and history. She lives in Santa Monica, California, and Oxford, England.

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