REGIONAL ECONOMIC INTEGRATION WORKING GROUP MATRIX

Agenda Item	ABAC USA Action
3.a) Study on Foreign Direct Investment – Final Report from Marshall School of Business	Monitor

Issue

Each year the Marshall Business School from the University of Southern California undertakes a research project for ABAC. Their 2013 report offers a detailed analysis of impediments to Foreign Direct Investment (FDI) across the APEC region. Specifically, it identifies and quantifies the most significant impediments to FDI inflows by incorporating a business executive view of the impacts of impediments. The report highlights areas where focused attention would have the greatest impact on increasing FDI inflows.

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

Deliverable/Objective

- The final report will be delivered at ABAC IV in Bali.

Status

- The Marshall Business School provided a status update of the FDI at ABAC II.

Economy Positions

- ABAC USA has recommended the research team should look at an upcoming study by the Peterson Institute on the potentially harmful effects of local content requirements, including global contract requirements for investment in some economies.

- ABAC Hong Kong has recommended the research team investigate the extent to which there is a correlation between openness to FDI and levels of economic growth

- ABAC Indonesia endorsed the importance of the research focusing on services where significant barriers to FDI still exist.

ABAC USA Position/Talking Points/Recommendations
ABAC USA is strongly supportive of the Marshall School of Business' annual projects. ABAC USA recommends APEC play a strong role in liberalizing FDI to foster economic development, particularly in developing economies. ABAC USA recommends that the Enablers of Infrastructure Investment Checklist be leveraged along with the Marshall School study within ABAC's FDI related advocacy

Agenda Item	**ABAC USA Action**
3.b) FDI Work Plan Update	Monitor
Issue	
At ABAC I in Manila, ABAC Japan proposed the 2013 work plan to address remaining obstacles to FDI and actions needed to accelerate the growth of FDI. Those actions to be taken are improving predictability, transparency, and efficiency of the legal and regulatory environment for investment and providing effective mechanisms for the expedited approval process and the resolution of disputes. ABAC Japan introduced an example of best practices from the Vietnam –Japan Joint Initiative, which plays an important role in improving the investment environment in Vietnam. To further elaborate on bilateral efforts, ABAC Japan would like to continue to pursue this issue by introducing how a bilateral investment agreement would drive a sustainable investment environment. ABAC Japan hopes to take additional steps to seek solutions by taking a larger view by cross cutting various aspects in response to the region's needs for resilient value chain as stated in the MRT Statement.	
Deliverable/Objective	
- Continue to share best practice related to the development and implementation of bilateral investment agreements - Liaise with APEC to develop collective solutions for a better investment environment	
Status	
- Over the past 2 years, ABAC Japan has raised a number of issues that obstruct Foreign Direct Investment (FDI) in the region, such as transfer pricing, social security and PE taxation. They have all been broadly supported by ABAC Members.	
Economy Positions	
- ABAC's work on improving the FDI environment is generally supported by all economies. - US APEC Officials have been working to highlight the negative impacts of local content requirements and how this impacts FDI.	
ABAC USA Position/Talking Points/Recommendations	
- ABAC USA is strongly supportive of efforts to improve predictability, transparency, and efficiency of the legal and regulatory environment. - ABAC USA led an initiative to develop an Enablers of Infrastructure Investment Checklist that aims to improve the investment environment in APEC. Where possible the Checklist should be leveraged in support of this initiative.	

- This is an opportunity to raise the issue of local content requirements that governments put on foreign investors

Agenda Item	**ABAC USA Action**
3.c) Pathways to FTAAP	Monitor

Issue

There are two regional agreements that could serve as the basis for a Free Trade Area of the Asia-Pacific (FTAAP), the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Partnership (RCEP). The Pacific Alliance, led by Mexico, Peru, Chile and Colombia was also discussed in this context at ABAC II.

Deliverable/Objective

Maintain an ongoing dialogue to maintain awareness among ABAC about the similarities and differences in the agreements. ABAC's ultimate objective is for these agreements to be compatible from a business perspective and contribute to the achievement of a Free Trade Area of the Asia Pacific (FTAAP).

Status

ABAC has long been supportive of initiatives that can serve as pathways or building blocks toward a Free Trade Area of the Asia Pacific, but Members had been reluctant to indicate more support for one initiative over another (i.e. TPP over an ASEAN-led initiative).

Economy Positions

- TPP includes: Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Mexico, Canada, Japan, USA and Vietnam. There is a strong push to have concrete progress made on the TPP by the end of the year, but the U.S. private sector

- RCEP includes: Australia, China, India, Japan, New Zealand, South Korea, Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Singapore, the Philippines, Thailand and Viet Nam.

- USG supports the TPP but is careful to call it a pathway to FTAAP. USTR's objective is to conclude the TPP negotiations by the end of 2013. Trade Ministers from TPP economies have committed to concluding negotiations by the end of 2013, but it is unclear if this will be the case.

ABAC USA Position/Talking Points/Recommendations

- ABAC USA is supportive of the TPP as a pathway to an FTAAP and feels that it is a more realistic, comprehensive, high standard, and practical approach than the alternatives.
- ABAC USA is supportive of concluding the TPP as quickly as possible but stresses that it must be a comprehensive, high standard agreement.

Agenda Item	**ABAC USA Action**
3.d) Towards the WTO Ministerial Conference, Dec. 2013	Monitor

Issue

While many of the major WTO players such as the EU, India and Brazil are not members of APEC, there is some expectation that APEC economies, who are all now members of the WTO, can work together to bolster momentum

toward the achievement of deliverables at the WTO Ministerial, which will be held in Bali this December.
Economy Positions
The U.S. hopes the imminent completion of the TPP will put renewed pressure both on strengthening the World Trade Organization (WTO) and putting the multilateral trading system back on track by the time trade ministers meet in Bali in December for the 9th WTO Ministerial Conference (MC9) ABAC focused heavily on the WTO in its 2013 letter to APEC Trade Ministers. ABAC continues to believe that the WTO must be the cornerstone for underpinning global trade and the regional economic integration of APEC. To maintain business confidence in the WTO, it is vital that the 9th WTO Ministerial Conference in December 2013 agree to a tangible "package" of Doha-related decisions. ABAC has urged APEC Ministers Responsible for Trade to take the lead in developing this Doha package and pushing it to a successful outcome so as to pave the way for the multilateral conclusion of the Doha Round in accordance with its mandate. In the lead up to the WTO Ministerial Conference, ABAC has continued to support APEC Ministers with global and regional advocacy on the primacy of the WTO's rules-based mechanism.

Agenda Item	ABAC USA Action
4.a) Services Update	Monitor
Issue	
ABAC has maintained strong interest in Services trade and investment liberalization. ABAC Hong Kong is tabling a paper that reviews all of the key services related activities that ABAC has undertaken as well as the role of services in global trade agreements. The document also summarizes progress through 2013, and outlines for discussion a menu of activities that would constitute a Services Action Plan for 2014. Key Principles: - While encouraging the progress being made in bilateral agreements, the ideal must be a global multilateral agreement under the auspices of the WTO. The efforts led by the new head of the WTO to salvage a multilateral trade agreement at the WTO Ministerial to be held in Bali in December 2013 requires strong ABAC support. - In the absence of progress at a multilateral level, plurilateral and regional agreements have immense value to the business community in encouraging services trade and investment liberalization. - Plurilateral and regional agreements should be designed in such a way that they can be readily "multilateralized" i.e. mechanisms should be included that allow the membership potentially to be extended to other countries including latecomers to development. - The business community welcomes exploration of innovative approaches to scheduling of services trade and investment commitments, including hybrid approaches which attempt to adapt the GATS positive list approach, consistent with practical lessons learned from the various bilateral and regional trade agreements now in place.	
Deliverable/Objective	
- Draw up a Services Action Plan for 2014. - Undertake a survey of services-focused business organizations in the APEC region - The creation of an **ad hoc ABAC Services Group**, which could begin work immediately after ABAC4 in Bali	
Status	
Recent ABAC activities:	

- **"Understanding Services" report**: published in 2011, this report attempted to describe in layman terms why services are so critically important in all of our economies; to explain why government officials and national political figures failed to recognize this importance; and to make recommendations on how to remedy this oversight.

- **Marshall School studies**: the Marshall School at the University of Southern California undertakes studies every year on behalf of ABAC, and has dedicated a study to better understanding of the importance of services in global and regional value chains, and the critical link between competitive and efficient services and an efficient and competitive

- **APEC Services Workshops**: over the past two years, ABAC has facilitated, often in conjunction with the Pacific Economic Cooperation Council (PECC), a number of workshops aimed at raising officials' awareness of the pivotal importance of services to all of our economies.

Economy Positions

- China, as chair of APEC in 2014, has already encouraged ABAC input into addressing services, and has endorsed the proposal for a Services public-private dialogue, prospectively in May next year, alongside the year's second Senior Official cluster of meetings in Qingdao.

ABAC USA Position/Talking Points/Recommendations

- ABAC USA is supportive of including services as a stand-alone issue and recommends that the REIWG look at developing a regional integrated supply chain for services in the same vein that it does for goods.

Agenda Item	ABAC USA Action
4.b) Skills mapping and labour mobility update	Monitor

Issue

Identifying a regional perspective on critical skill shortages.

Deliverable/Objective

Project report that draws together data that is available on employment projections, skills supply and shortages in each APEC member economy and for the region as a whole.

Economy Positions

Labour mobility is strongly supported by ABAC Philippines and ABAC HK.

ABAC USA Position/Talking Points/Recommendations

- ABAC is supportive of skills mapping project and should monitor accordingly. ABAC USA is not comfortable with this becoming a discussion about immigration.

Agenda Item	ABAC USA Action
5.a) Update on ABAC proposal for Global Data Standards development within APEC	Monitor

Issue

Global data standards and interoperability of information systems can play an important role in eliminating supply chain choke points.
Deliverable/Objective
- Initiate a demonstration project that would highlight the economic impact of implementing global data standards across supply chains. - The project would run concurrently to the APEC Supply Chain Connectivity Framework. - The data standards project could be utilized as a capacity building project as part of the third stage of the SCCF.
Status
- Global Data Standards has been on the forefront of the ABAC REIWG since late 2012. GSI has been invited to several ABAC meetings to provide updates on the Global Data Standards Initiative - The proposal was presented to the APEC Committee on Trade and Investment at SOM II. It was not endorsed (see USG below).
Economy Positions
- ABAC New Zealand is the primary supporter of this issue. - USG feels that the data standards proposal hasn't gathered APEC support because of APEC's hesitation to jump ahead of the SCCF systematic approach and the perception that the data standards initiative was adding more complexity to the existing work plan.
ABAC USA Position/Talking Points/Recommendations
- ABAC USA is supportive of the implementation of the global data standards project. - ABAC USA supports strong engagement from ABAC into the APEC Supply Chain Connectivity Initiative (SCCI) which consists of eight chokepoints that impede regional supply chains. - The project should be in the framed as a voluntary demonstration project in which ABAC and GS1 will work with the economies noted in the proposal. It should be undertaken under the umbrella of the APEC Supply Chain Connectivity Framework (SCCF).

Agenda Item	ABAC USA Action
5.b) Role of PPPs and capacity building to address Supply Chain Chokepoints	**Ed Rapp to Introduce Guest Speaker:** ***Jean-Pierre Felenbok, Bain & Company***
Issue	
APEC is increasingly looking to partner with supply chain experts from the private sector as well as multilateral institutions, particularly in identifying the best tools and methodologies that will help economies improve their supply chain performance as part of the APEC Supply Chain Connectivity Framework (SCCF). - Reducing supply chain barriers to trade could increase GDP up to 6x more than removing tariffs. - Trade increases from reducing supply chain barriers can be achieved only if specific "tipping points" are reached. - Contrary to tariff negotiations, removing supply chain barriers to trade require detailed diagnosis and process improvement activities (Lean techniques, Consistency, E-enabled solutions, Development and tracking of key metrics, adjusted incentives, etc.). - Solving these problems will require public/private partnerships as most governments are going to naturally find it hard to fund the detailed process improvement work and recommendations required. - Win/Win partnerships need to be developed where companies or consortiums of companies in the private sector who will benefit from increased trade provide some of the funding, governments provide some of the funding, and	

objective third parties help support the communication between the two and facilitate process re-engineering.

Deliverable/Objective

- ABAC should continue to strengthen public-private partnerships with APEC to provide the private sector perspective on the SCCF.
- ABAC should emphasize tangible, concrete actions that APEC can take to improve supply chain connectivity, and identify priority capacity building initiatives.

Status

There are a couple of supply chain related initiatives that our business sector is pushing in APEC in coordination with the US government. They are both part of the APEC Supply Chain Connectivity Framework (SCCF) which the US has presented on in ABAC. ABAC USA is working with USG to push for endorsement of two important initiatives in Bali:

1. First is a proposal for the development of an APEC Trade and Investment Liberalization and Facilitation (TILF) sub-fund for Supply Chain Connectivity. The Fund would be utilized to implement pilot projects related to SCCF. We are hoping economies will join the US in providing financial backing to the fund or, at a minimum, endorse the establishment of the fund.

2. As a companion to the Supply Chain sub-fund, APEC is pursuing the development of an APEC Alliance for Supply Chain Connectivity, a public-private partnership that will bring together supply

Economy Positions

- APEC Supply Chain Connectivity has broad support amongst ABAC economies.
- APEC US Officials are championing the SCCF in the CTI and SOM Meetings and have advocated for the comprehensive and systematic approach to connectivity.

ABAC USA Position/Talking Points/Recommendations

- **See supply chain introduction talking points**

Document: REIWG 33-041
Draft: **FIRST**
Source: REIWG Chair
Date: 17 September 2013
Meeting: Bali, Indonesia

ABAC Regional Economic Integration Working Group
Wednesday 2nd October 2013, 1300-1500
Venue: Lobby Level – Salon 2 & 3, Ayana Resort, Bali

Draft Agenda

Agenda Item	Issue	Lead Economy/ Speaker	Document
1	Welcome, approval of agenda	Chair/T. Nowell	REIWG 33-041
2	Minutes and matters arising from the third meeting 2013 (not elsewhere specified)	Chair/T. Nowell	REIWG 33-040
3	*Trade and Investment liberalisation*		
a)	Foreign Direct Investment: Final report of the Marshall Business School research project on FDI	Chair/T. Nowell	
b)	FDI workplan update	ABAC Japan/H. Kamezaki	REIWG 33-042
c)	Pathways to FTAAP – updated matrix	ABAC NZ/S. Jacobi and ABAC Peru/E Gubbins	REIWG 33-045
d)	Towards the WTO Ministerial Conference, December 2013	ABAC Hong Kong/ A. Nightingale.	
4	*Initiating a new services agenda*		
a)	Services update	ABAC Hong Kong/A. Nightingale	REIWG 33-044 REIWG 33-043
b)	Skills mapping and labour mobility update,	ABAC Philippines/ D. Ho and ABAC Hong Kong/ D. Dodwell	
5	*Enhancing supply chain connectivity*		
a)	Update on ABAC proposal for global data standards development within APEC.	Chair/T. Nowell	
b)	The role of PPPs and capacity building efforts to address supply chain chokepoints. *Guest speaker:* Mark Gottfredson, Baine & Company	ABAC USA/TBC	
6	Other Business	Chair/T. Nowell.	

Document: REIWG 33-046
Draft: **FIRST**
Source: USC Marshall School of Business
Date: 26 September 2013
Meeting: Bali, Indonesia

REIWG Meeting Document Summary Sheet

Document Title:

Foreign Direct Investment Across APEC: Impediments and Opportunities for Improvement

Purpose:

For information.

Issue:

Each year the Marshall Business School from the University of Southern California undertakes a research project for ABAC. Their 2013 report offers a detailed analysis of impediments to Foreign Direct Investment (FDI) across the APEC region. Specifically, it identifies and quantifies the most significant impediments to FDI inflows by incorporating a business-executive view of the impacts of impediments. The report highlights areas where focused attention would have the greatest impact on increasing FDI inflows.

Background:

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

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

The report's key findings include the following:

- Intentional FDI restrictiveness remains high in APEC.

- Business impact of FDI rules is lower in APEC
- FDI liberalization challenge is much more than removing intentional restrictions.
- Absence of detailed data required for rigorous analysis
- Unpredictability takes many forms and impacts the investment decision making process.
- Providing national treatment is not enough to spur investment
- No perceived increase in anti-FDI sentiment
- Non-investment flows of cash distorts gross FDI inflows data
- FTAs have dual benefits for FDI
- Corruption exists at all stages of the investment process
- The most problematic FDI business concerns related to human capital, consistency across levels of government and jurisdictional overlap, judicial independence, efficiency of government processes, dispute resolution, and community consultative processes.

Proposal /Recommendations:

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

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

Decision Points:

- For discussion.

Foreign Direct Investment across APEC

Impediments and Opportunities for Improvement

The University of Southern California Marshall School of Business | October 2013

Executive Summary

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

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

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

Our research included the following

- **Capturing the Business Voice in APEC.** In depth interviews with 271 business executives, government officials, and experts and specialists about FDI challenges within their economies, across APEC, and globally.
- **Meta-analysis.** Extensive examination of existing research on FDI to understand, identify, and quantify FDI inflows impediments.
- **APEC FDI Impediments Framework.** Developed a comprehensive, targeted FDI inflows impediments framework based on interviews with business.
- **Global benchmarking of APEC economies.** Using available indexes and measures drawn from the World Economic Forum and World Bank, each APEC economy's relative performance was ranked and compared to all global economies.
- **Assessing the impact of FDI impediments on APEC business.** The relative impact of each impediment was assessed, for each APEC economy, using qualitative data obtained from business executives in the interviews.
- **Conclusions and recommendations.** Generalizable conclusions are drawn from the interviews and data analysis. A set of actionable recommendations are proposed.

Executive Summary (continued)

KEY FINDINGS

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

Executive Summary (continued)

ACTION AGENDA

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

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Foreign Direct Investment in APEC

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Introduction

Introduction

Foreign Direct Investment (FDI) plays an integral role in economic growth and development. Extensive research has been conducted, and literature published, to identify potential significant contributions FDI makes towards increasing productivity and trade capacity, along with attracting new technologies and employment opportunities. The presumed link between FDI growth and economic growth has driven policy makers to pursue policies that enable and encourage foreign investments. A key to these policies has been the ability to identify the impediments to FDI, and the opportunities to reduce or remove them to aid in the pursuit of increasing foreign investments.

With the exception of temporary worker mobility, there may be no more contentious issue in the debate over global economic policies than that of foreign direct investment. At its core, the issue of foreign direct investment calls into question the sovereignty of recipient nations. Paradoxically, it is the very same investment that governments fear will strip them of their sovereignty that is required for those economies to transition from developing to developed economies. If policymakers believe that domestic capital and knowhow is not sufficient to build the infrastructure required for growth then such capital and knowhow must be imported. But they attempt to balance the need for FDI with the need to maintain the sovereign identity of their economy. The result is foreign direct investment policies and regulations that attempt to encourage certain kinds of FDI while limiting others. Our investigation into the problem of impediments to FDI has revealed that such policy actions rarely have only the intended effect.

Indeed, it seems that governments may have an impossible task ahead of them. There are three primary reasons for this:

- The business world moves quickly, and regulations change slowly. The most desirable investments from an economy's perspective—the ones that create high-skilled, high-paying jobs, for example—are the ones most likely to be deterred by such regulation. The result is that those economies that are most in need of foreign capital and knowhow lose out on the opportunities for development that FDI can provide.
- Implementing policies that deter undesirable FDI while encouraging desirable FDI cannot be done with surgical precision. There is a high degree of overlap between industries in the business community, and actions taken against one industry are likely to have repercussions in other industries as well. Economies must decide whether to turn away a significant amount of good investment in order to keep out the bad, or to accept the investments that they consider bad in order to attract investments they consider good.
- Perhaps most importantly, regulatory systems that attempt to keep some investment out while inviting other investment in tend to lack coherence. That is, the more complex an investment regulatory system becomes, the more likely it is that some parts of the system become bottlenecks to completing investments, even when such investments are desirable.

Introduction

Given these issues, what changes can policymakers make in their approaches to foreign direct investment impediments? How can they increase the speed, precision, and coherence of regulatory systems? Is such a goal even attainable?

This is the context within which we have undertaken our research. Following on the University of Southern California Marshall School of Business's 2012 report on barriers to trade in services, the Regional Economic Integration Working Group has asked us to examine impediments to foreign direct investment within APEC through the lens of the business executives making those investment decisions. While FDI is a heavily researched topic because of its perceived benefit as a vehicle to economic growth and development, the existing research approached the topic primarily from the perspective of a policymaker or an economist. These perspectives, however, do not fully represent the views of the business community. Although our research, which heavily stems from the voice of the business community, concurs with most of the findings in other studies, we find that there are several notable and fundamental differences between how businesses and policymakers/economists view foreign direct investment.

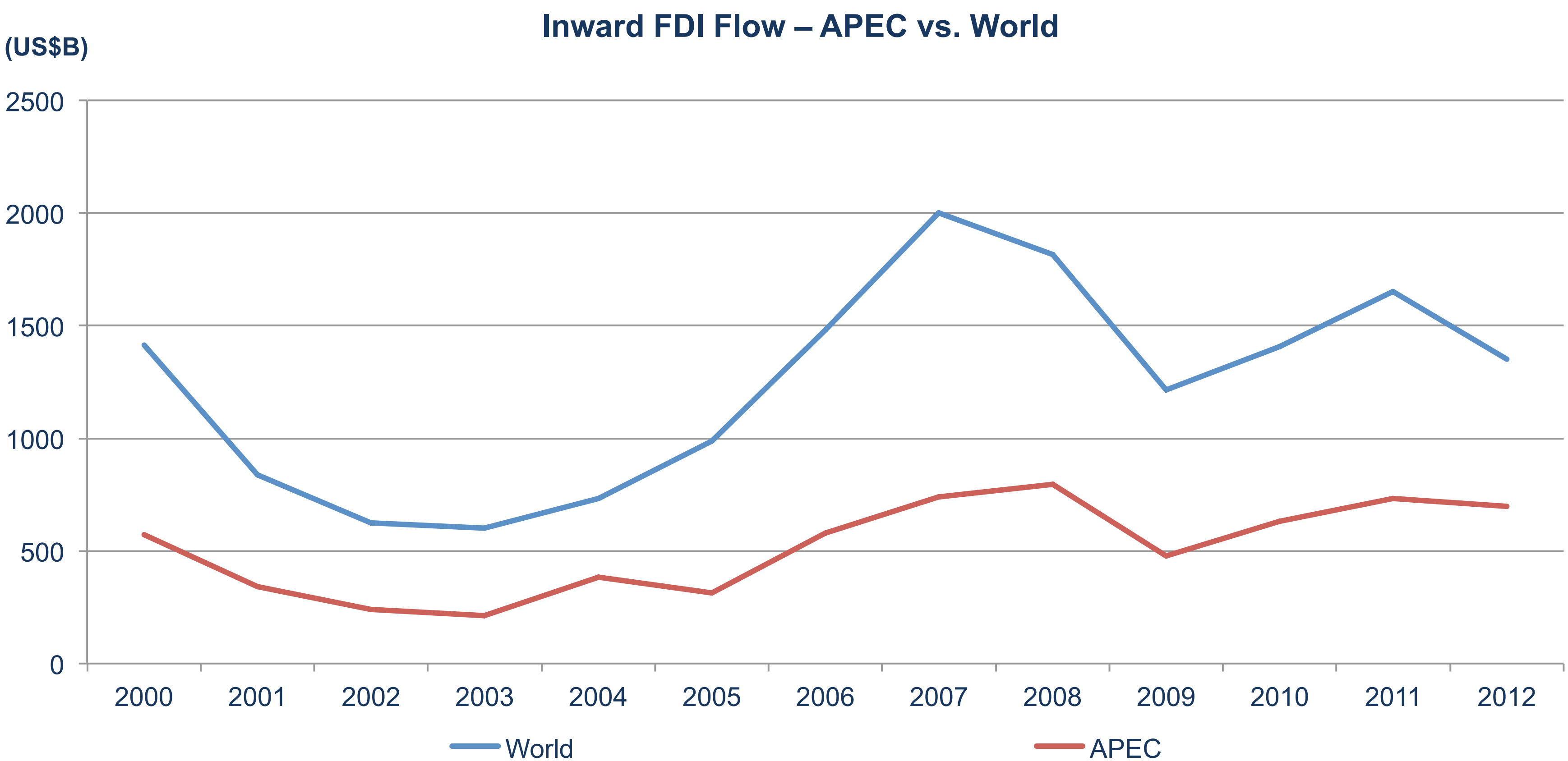
Although many of the impediments to FDI have been identified, there are existing opportunities to further promote liberalization. This report develops a comprehensive conceptual framework to identify impediments to FDI, along with their respective impacts to investors. A persistent challenge in evaluating these impediments is their prevalence "behind the border," and the marked difference with which governments and businesses approach these obstacles. Policy responses toward mitigating FDI impediments have focused on "at the border" impediments such as removing market access barriers to improve the flow of goods across borders. Our research findings, however, strongly suggest that the most important impediments to FDI take place "behind the border." Impediments such as infrastructure development, clarity to investment rules and regulations and quality of human capital pose the greatest risks and costs to operations. In addition, business executives do not view investment decisions with a border in mind; they solve problems as they occur in the investment process.

Our study focuses on identifying impediments to FDI and their impact within the APEC region. This research does not seek to emulate the studies done by the World Bank, OECD and APEC; rather, it focuses on adding the business perspective to complement these existing and extensive studies on FDI. The findings of this report are based on an extensive analysis of existing research and data on FDI in the APEC region, and in depth interviews with 271 executives, academics, government officials and thought leaders in the 21 APEC economies.

This report begins with a brief introduction outlining the opportunities and challenges that FDI presents within the APEC region. The next sections include:

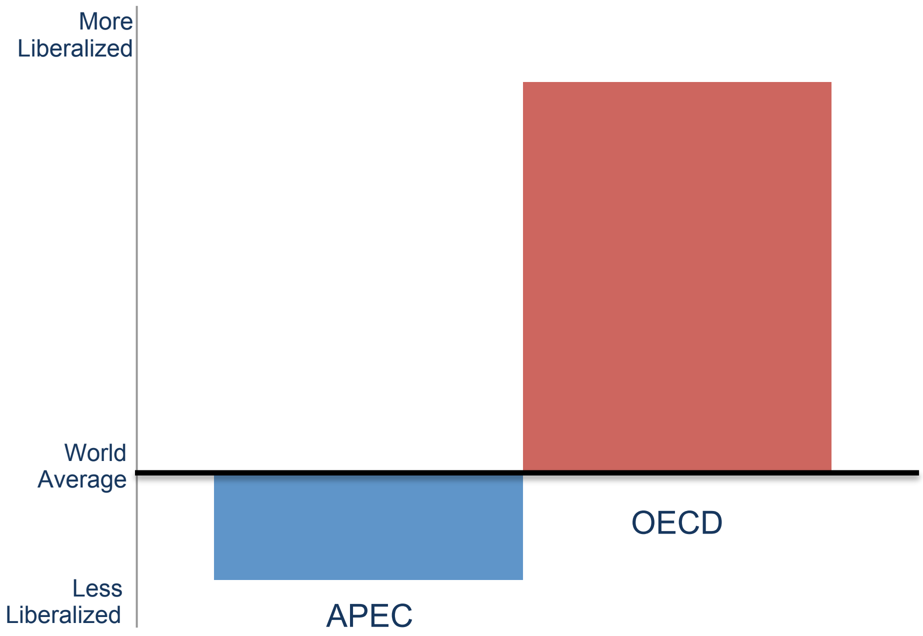
- Research objectives
- Research method and approach
- APEC Business Impact Framework
- Key findings and analysis
- Themes and most significant impediments
- Highlight of dissenting views towards FDI
- Recommendations

APEC now accounts for a majority of the world's inward FDI flow

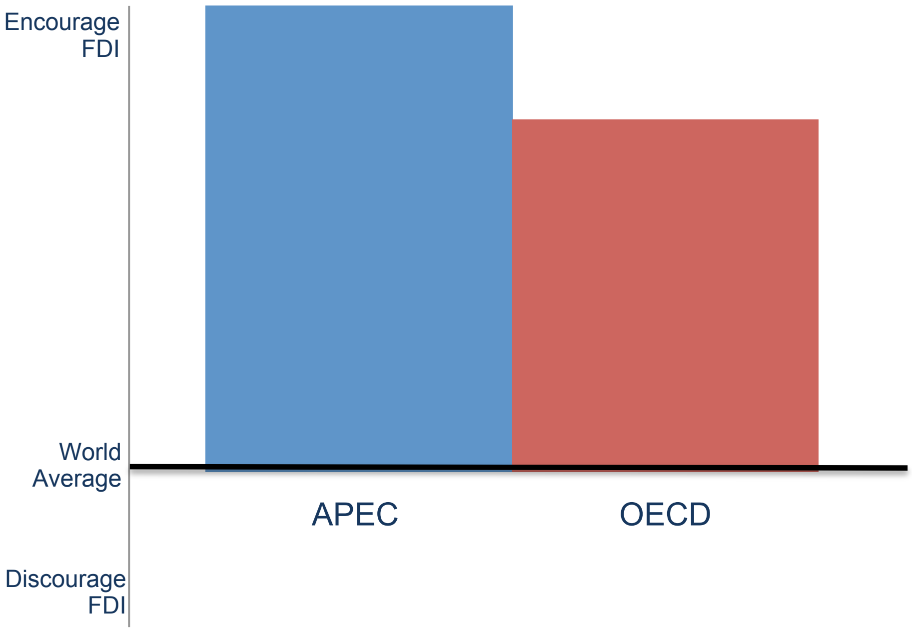


Intentional market restriction has little direct impact on business decisions

World Ranking of Intentional Restrictions (World Bank)



Business Impact of FDI Rules (World Economic Forum)

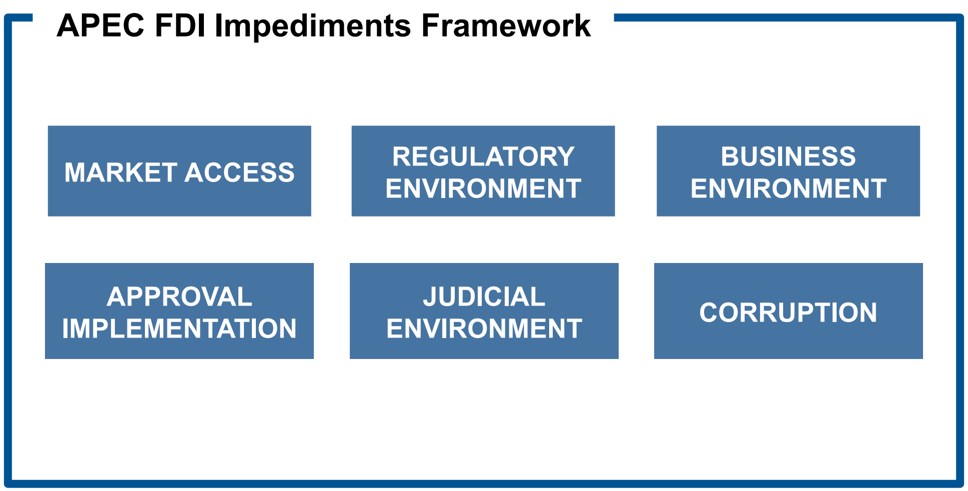


APEC's Intentional FDI barriers are more restrictive than world average.

APEC's Intentional FDI barriers have less impact than world average.

Impediments must be viewed as a system to understand the business impact

- Impediments interact and must be viewed as a system to understand their business impact.
- We derived a framework that takes into account the systemic nature of FDI impediments.



Key Findings

Key Findings

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

Research Approach

Introduction

This research project was initiated to identify barriers and impediments to FDI in the APEC region, both at or behind the border.

A key differentiating factor of our research from the wealth of existing FDI research is that it brings a practical perspective from the APEC business community in a post-global financial crisis world. While a large portion of our research project involved a thorough examination of existing research and trends on FDI, its key contribution is to bring to ABAC a business perspective on challenges and opportunities in FDI in the APEC region.

More specifically, our team aimed to:

- Identify and measure impediments to FDI from the business perspectives
- Inquire business leaders to identify the tipping point in the FDI process in which policy changes can make the most impact
- Assess and quantify barriers to FDI to understand the chokepoints
- Investigate the nature of and extent of competing and opposing views to further liberalize FDI
- Propose to policy makers the recommendations to improve FDI environment in the APEC region

Additionally, our team did not conduct:

- An econometric study
- Rigorous regression analysis
- A longitudinal study

Adding the business perspective to existing research

The primary intended contribution of this report is to bring the business perspective to the complex challenges inherent in FDI. Business executives might think about FDI decisions, and what incentivizes or discourages them, differently from policy makers. By providing a clearer understanding of how business evaluates FDI opportunities, and what they consider to be the most problematic impediments, the APEC business community hopes policy makers will be able to refine and improve investment regulations and requirements.

This research is intended to complement and refocus existing research on FDI specifically to the APEC region. It also seeks to complement and extend the work undertaken by the World Bank's Investing Across Borders (2010) report by providing an even more fine-grained analysis of impediment to FDI from the business perspective.

Substantial new research on FDI exists…

… Adding the APEC business perspective; post global financial crisis

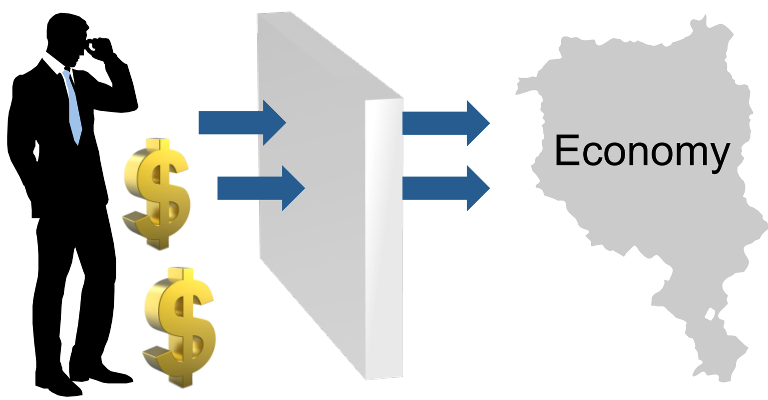
271 in-depth business interviews conducted

Business views FDI as an investment decision

Much of the existing work on FDI, in particular, research commissioned to support bilateral and multilateral trade agreements had focused on market access restrictiveness to FDI. This research has noted the importance of implementation and quality of institution within economies as impacting FDI but not specifically focused on it. The recent work by the World Bank-Investing Across Border (2011) has attempted to fill this void. It examined “at the border” and “behind the border” impediments. The World Bank’s research approach creates four proxy measures or indicators [investing across sectors, starting a foreign business, accessing industrial lands, arbitrating commercial disputes] to assess the relative importance of FDI impediments across 87 economies.

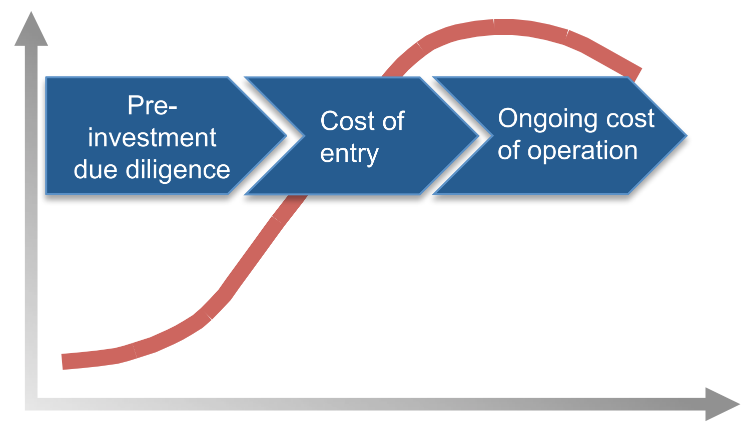
The approach adopted here was to view FDI from the perspective of business executives; that is as a business investment decision. Business executives across economies reported that they approach FDI in the same way with the same criteria and concerns as domestic investments, except they recognized its added complexity.

FDI viewed in terms of trade thinking…



At the border

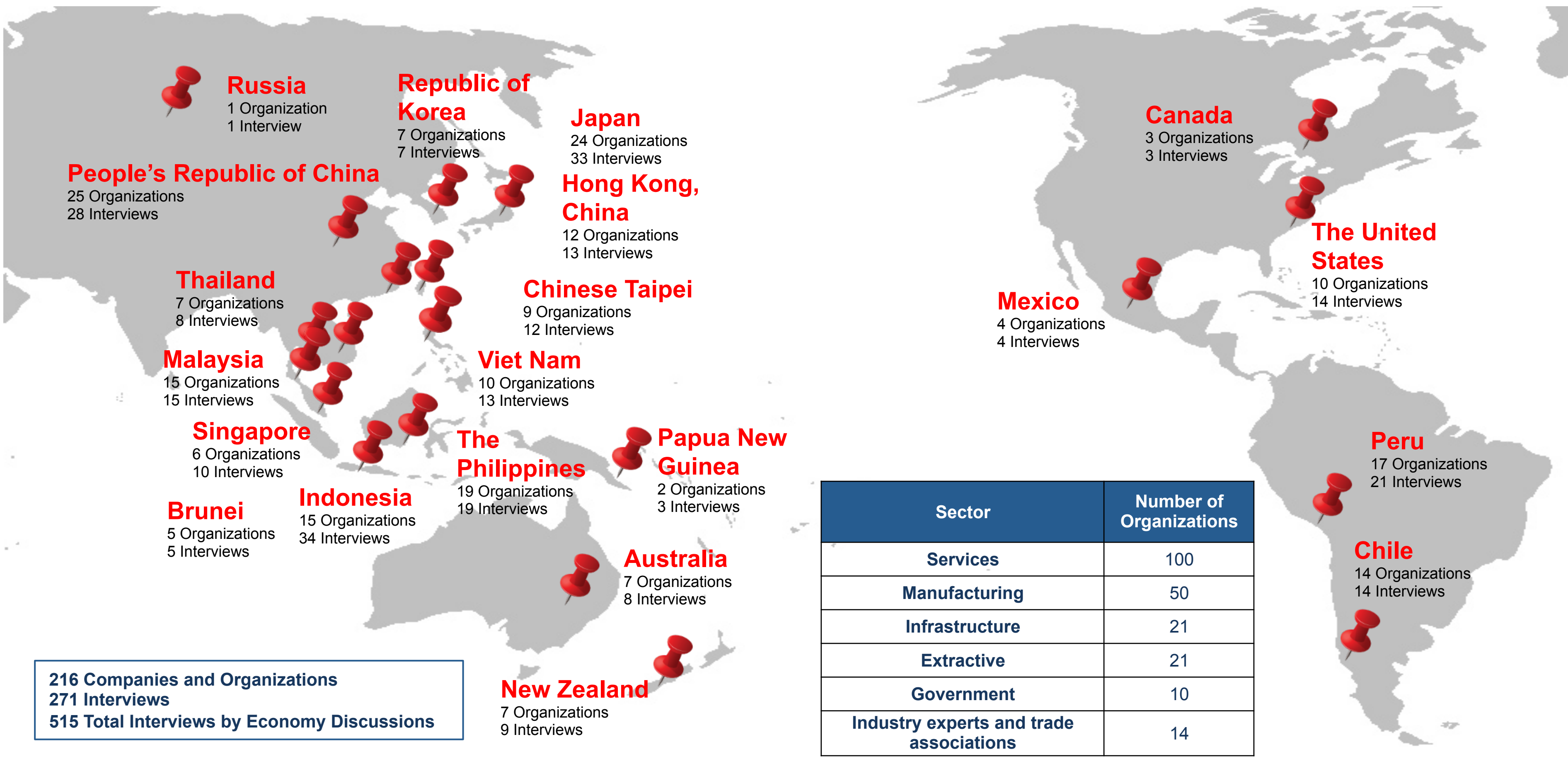
… But business views FDI as investment decisions



Behind the border

Capturing the business voice in all 21 APEC economies

In depth in person and phone interviews were conducted with 271 executives, FDI specialists, government officials and thought leaders in 216 organizations.
During these interviews, executives were asked to discuss FDI impediments in the economies with which they were most familiar. In most cases, this meant discussing FDI within the economy in which they are currently investing. However, a number of executives were able to provide detailed information on FDI impediments in multiple economies. Because many executives were able to offer insights on multiple economies, the total number of discreet interviews / economies equaled 515.



216 Companies and Organizations
271 Interviews
515 Total Interviews by Economy Discussions

Sector	Number of Organizations
Services	100
Manufacturing	50
Infrastructure	21
Extractive	21
Government	10
Industry experts and trade associations	14

Evolution of the FDI Impediment Framework

Examining existing literature for main FDI Impediments	In the initial phase of this research project, the research team examined existing reports undertaken by academics and by done by international organizations such as UN, the World Economic Forum and the World Bank. (Please refer to our appendix for a full list of the reports). A "laundry list" of previously identified impediments was created to inform the interviews with executives but not direct them.
Conducting interview with executives in APEC economies on FDI Impediments	Because the primary objective of this research was to capture the business perspective on FDI impediments an open-ended questioning approach was adopted by researchers. Researchers asked executives to report the most important FDI impediments they faced and how and why they were impactful on their businesses. By using a "blank sheet of paper" approach we were able to identify those impediments that were most significant to business. Subsequent questions asked about the relative importance of restrictive regulations, screening and approval processes, dispute resolution issues and challenges in the business environment.
Constructing the FDI Impediments Framework	By analyzing interviews across economies, common FDI impediments were identified. Combining these business reported impediments with existing research, a FDI impediments framework was constructed. This framework categorizes impediments into 6 categories, with 24 pillars and 77 specific impediments.
Evaluating APEC economies against the FDI Impediments Framework	APEC economy specific evaluations against the FDI framework were undertaken in two ways; *Benchmarked data*: An extensive search of existing published reports was completed to identify data which could act as close proxies for the FDI impediments identified. Proxy data was collected from the World Bank, World Economic Forum, UN and Heritage Freedom Foundation Index. *Analysis of interview responses*: A careful analysis of all interviews was undertaken to obtain assessments of all FDI impediments by economy.

Business Perspective FDI Impediments Framework

FDI IMPEDIMENTS FRAMEWORK

MARKET ACCESS
- Intentional Restrictions
- International Investment Agreements
- FDI Opportunity Promotion

REGULATORY ENVIRONMENT
- Predictability of Investment Regulations
- National Treatment
- Clarity of Investment Regulations
- Community Consultative Process

BUSINESS ENVIRONMENT
- Capital Markets
- Human Capital
- Infrastructure
- Related and Supporting Industries
- Physical Security
- Openness of Markets
- Tax Environment
- Nationalism
- Political and Economic Stability
- Cultural Embeddedness

APPROVAL IMPLEMENTATION
- Transparency of Process
- Efficiency of Processes and Procedures
- Jurisdictional Overlap
- Consistency Across Levels of Government

JUDICIAL ENVIRONMENT
- Dispute Resolution
- Judicial Independence
- Intellectual Property Protection

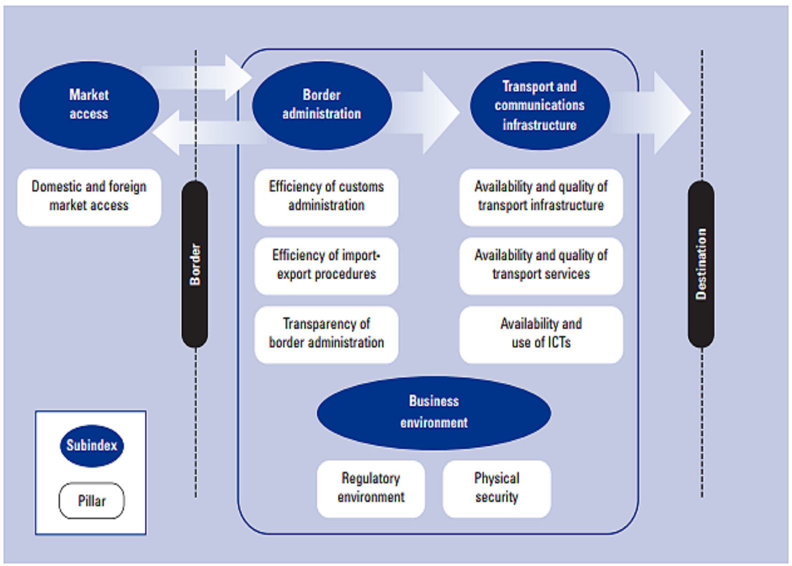
CORRUPTION

Key: Category | Pillar | Impediment

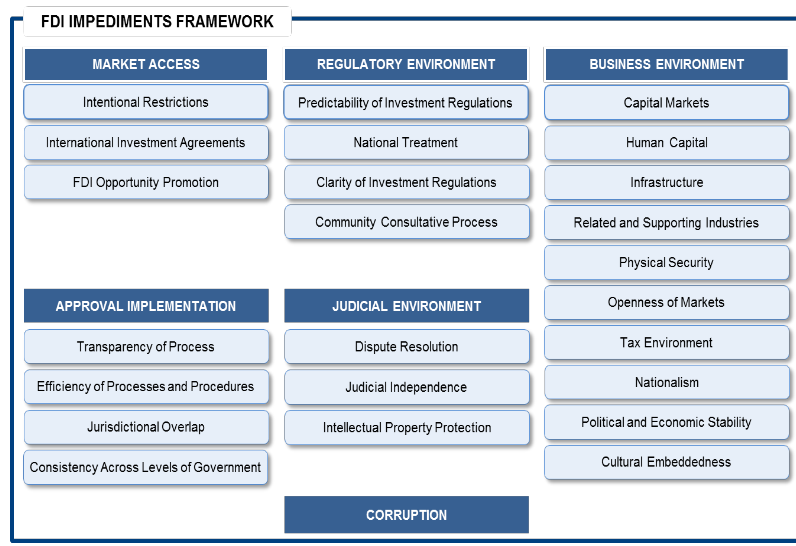
Comparing FDI Frameworks

The World Bank has recently published the FDI regulation database presenting quantitative indicators on economies' laws, regulations and practices. Our analysis considers the quality of laws and policies, as well as their implementation and enforcement in practice.

WEF Enabling Trade Index



APEC FDI Impediments Framework



Key Differences

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

Research Scope

- The scope of the research was limited to APEC economies and specifically to FDI flows within the APEC region.
- The research was primarily focused on capturing the voice of the business decision makers and leaders in APEC.
- The analysis was concentrated on barriers and impediments to FDI within the APEC region.
- The research was intended to bring attention to the impediments faced by the APEC leaders and the business community.
- The study was focused on the business community's perception of the current and future FDI environment and their thoughts on critical and addressable courses of direction.

Research Limitations

Substantive limitations:

- The comprehensiveness and depth of this research is constrained by the set of executives available for interviews. ABAC secretariats attempted to provide an adequate number of interviews for each economy, and a diverse representation of appropriate sectors within each economy. Findings in this report are limited to the content and information received from the interviews.
- The study is limited by the published material on FDI found by the research team. The best attempt was made to identify, collect, and sort all available material on the subject.
- The public disclosure of sectorial FDI data is limited. An intended contribution of this research was to be a close examination between the inflows and outflows of FDI in APEC economies by sector. A clear understanding of FDI flows and impediments requires a detailed empirical analysis of this data. However, this data is not publicly available and/ or does not exist.
- The study provides a limited analysis of Russia and Papua New Guinea because of data insufficiencies and lack of existing research.
- The number of interviews obtained differs widely between economies. In some cases, only one to three interviews could be secured. Even in economies where significant number of interviews were performed, the study is severely limited by its small number of responses. As a result, generalization from this research should be made with care.

Methodological limitations:

- Barriers and regulations for FDI are not necessarily representative of all sectors or APEC economies.
- FDI flows depend on market demand and general economic climate; economic feasibility for different sectors is not similar across all APEC economies.
- Interview data is not based on a statistically significant sample of respondents in each sector of the APEC economies.

Limitations to interpretation and use:

- Majority of the findings are impediments arising from necessity of economic development and may not be directly addressable.
- Scorecards for impediments on Market Access, Regulatory Environment, Efficiency of Implementation and Business Environment were created using data from World Bank Investing Across Border Index, World Economic Forum Global Competitiveness Report and USC Marshall research team interviews.

Data Analysis

Introduction

This section analyzes the foreign direct investment data that is available for APEC. While there is high-quality data available for general FDI flows and stocks by economy, there is also a lack of high-quality sectorial and intra-economy FDI data. Any sectorial or intra-economy analysis has been done only on the data that is available.

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

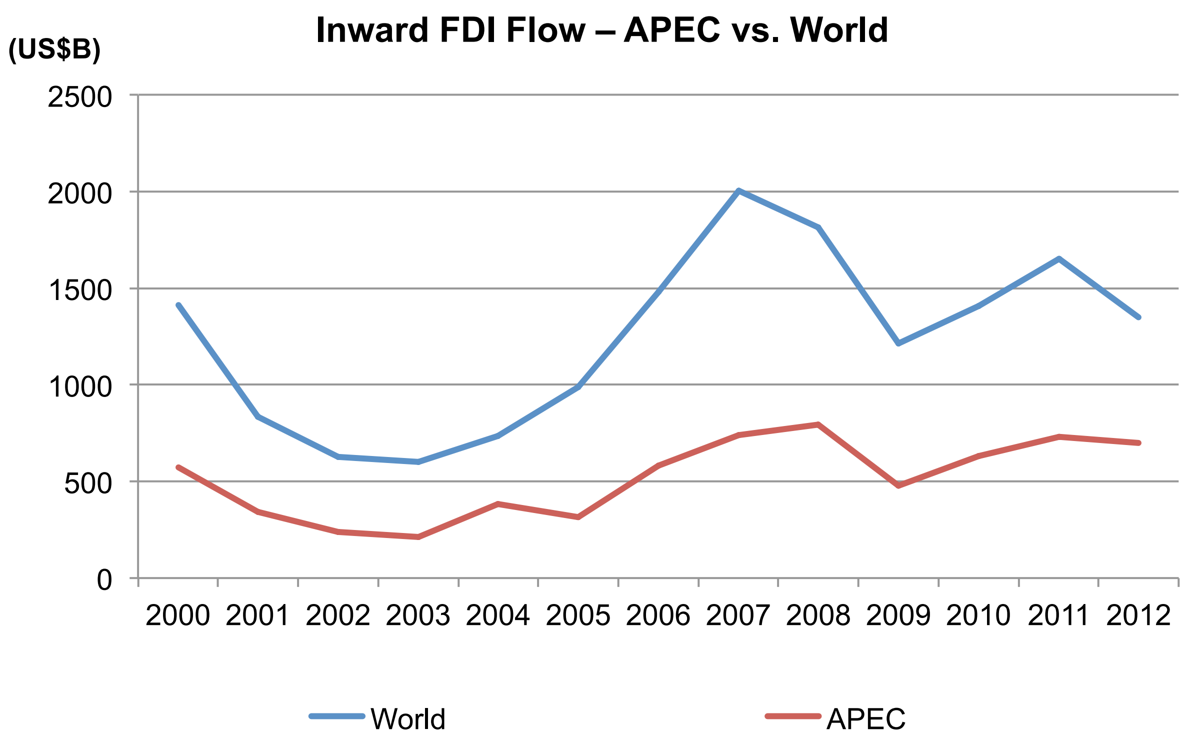
Given these limitations and concerns, the following are key takeaways from our analysis:

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

APEC makes up the majority of inflows in the world

In the years between 2000 and 2012, APEC's inward FDI flows generally followed the same trend as that of the world as a whole. However, the degree of the rise and fall of FDI to the destinations differ. APEC and the world as a whole experienced decreases in inward FDI flow in 2009 and 2012, but the decrease in APEC FDI flow in 2012 was less drastic than the world as a whole. This can be generalized further; APEC's inward FDI flows are less volatile than the world as a whole. Between 2005 and 2008, other global regions attracted more FDI than APEC economies. Since the Global Financial Crisis, APEC has been increasingly a more favorable FDI destination compared to the rest of the world.

Year	World (US$B)	APEC (US$B)
2000	1413.17	257.56
2001	836.01	183.48
2002	626.08	164.37
2003	601.25	159.53
2004	734.15	246.22
2005	989.62	210.14
2006	1480.59	343.08
2007	2002.69	522.54
2008	1816.40	487.73
2009	1216.47	334.73
2010	1408.54	434.18
2011	1651.51	505.70
2012	1350.93	529.62



US drives both decline and volatility of APEC FDI flows

The FDI inflows of the United States have been the largest percentage of APEC's inward FDI flows and can skew inward FDI flow statistics of APEC. When the FDI inflows of the United States are excluded, the FDI inflows of APEC are much less volatile. In 2012, when the inward FDI flow of the world as a whole decreased, APEC without the US actually increased.

Year	World (US$B)	APEC w/o US (US$B)
2000	1413.17	257.56
2001	836.01	183.48
2002	626.08	164.37
2003	601.25	159.53
2004	734.15	246.22
2005	989.62	210.14
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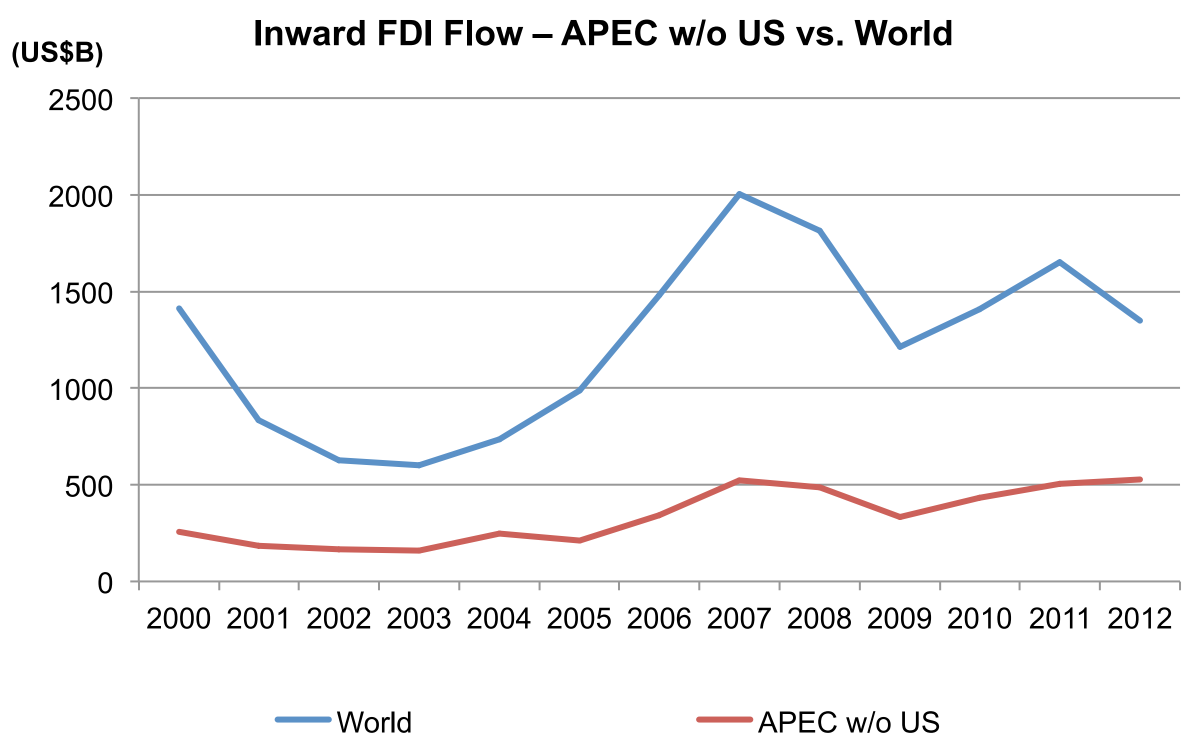
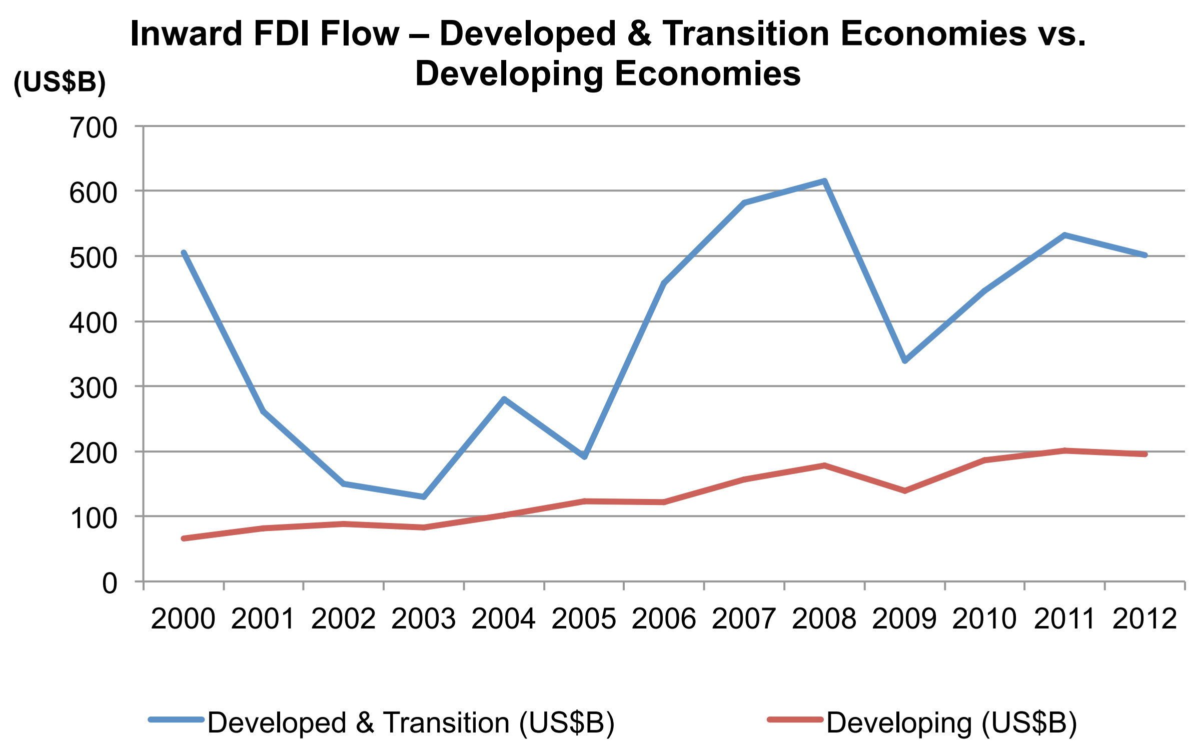


Slow, steady FDI growth in developing APEC economies

Comparing FDI inflow between developed and transitioning* economies with developing economies also reveals important insights. The inward FDI flows to developing economies within APEC are much less volatile than the inward FDI flows to developed and transitioning economies within APEC. Unlike the FDI inflows of developed and transitioning economies that peak and trough from year to year, the increase of FDI inflows to developing APEC economies is slow and steady.

Year	Developed & Transition (US$B)	Developing (US$B)
2000	505.58	65.97
2001	260.75	82.21
2002	150.33	88.53
2003	129.94	82.72
2004	280.32	101.76
2005	191.25	123.70
2006	458.13	122.09
2007	581.39	157.10
2008	615.68	178.41
2009	339.62	138.72
2010	446.25	185.83
2011	532.04	200.60
2012	501.53	195.71

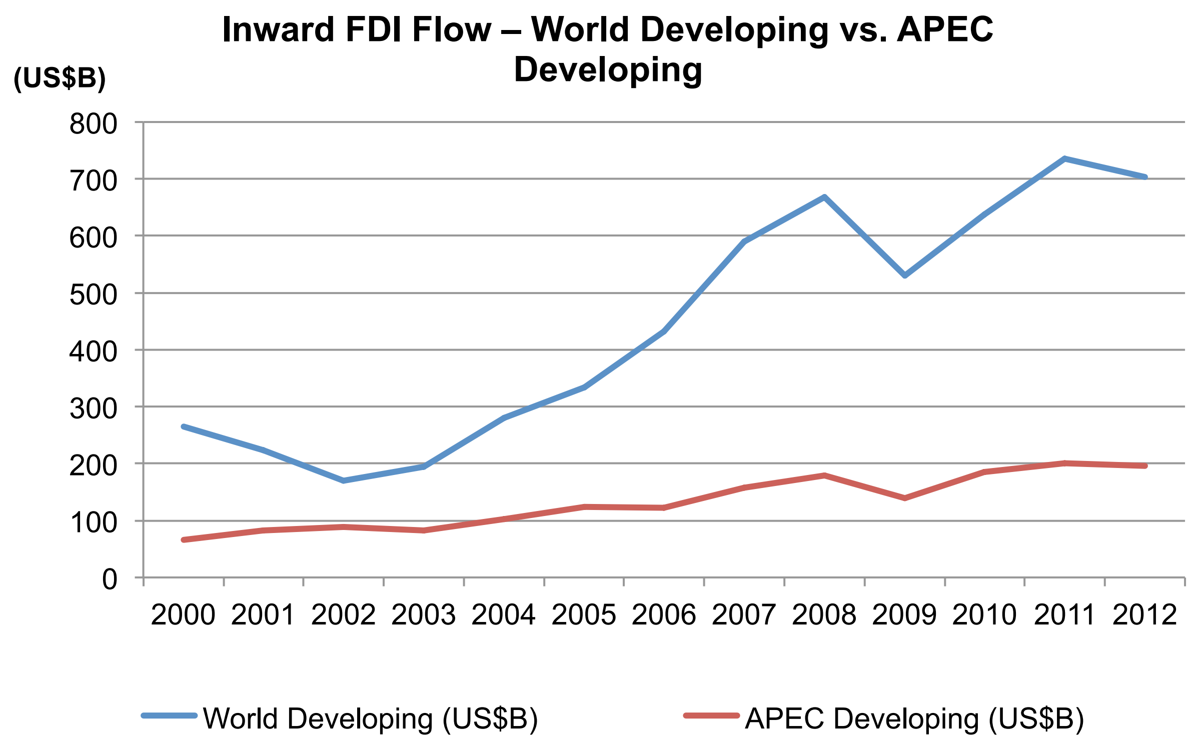


*According to World Bank definitions

FDI growth of developing APEC economies lags world

The graph below shows the comparison between inward FDI flows into developing APEC economies and developing economies worldwide for the years of 2000 – 2012. When considering that the APEC inward FDI flows have been growing at a faster rate than the world, it would be expected that developing economies in APEC would follow that same trend. However, the data shows otherwise.

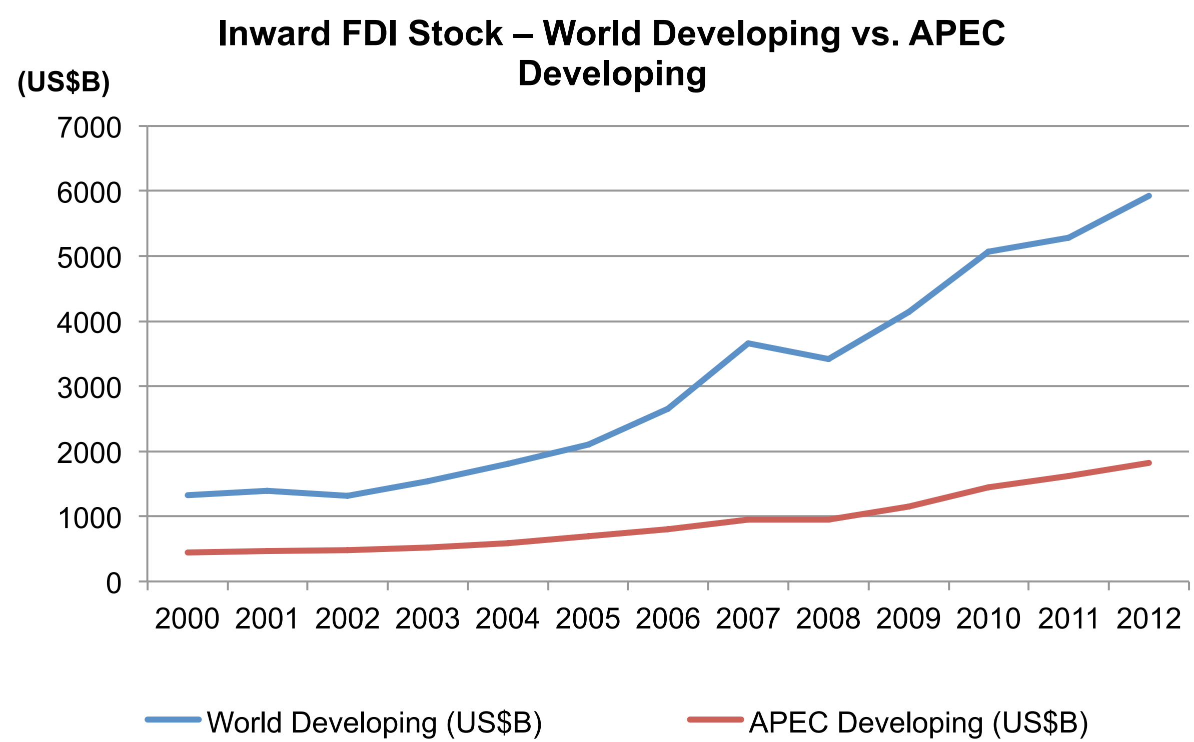
Year	World Developing (US$B)	APEC Developing (US$B)
2000	264.54	65.97
2001	224.07	82.21
2002	169.21	88.53
2003	193.75	82.72
2004	280.26	101.76
2005	334.52	123.70
2006	432.11	122.09
2007	589.43	157.10
2008	668.44	178.41
2009	530.29	138.72
2010	637.06	185.83
2011	735.21	200.60
2012	702.83	195.71



Gap in FDI stock between developing APEC economies and world has widened

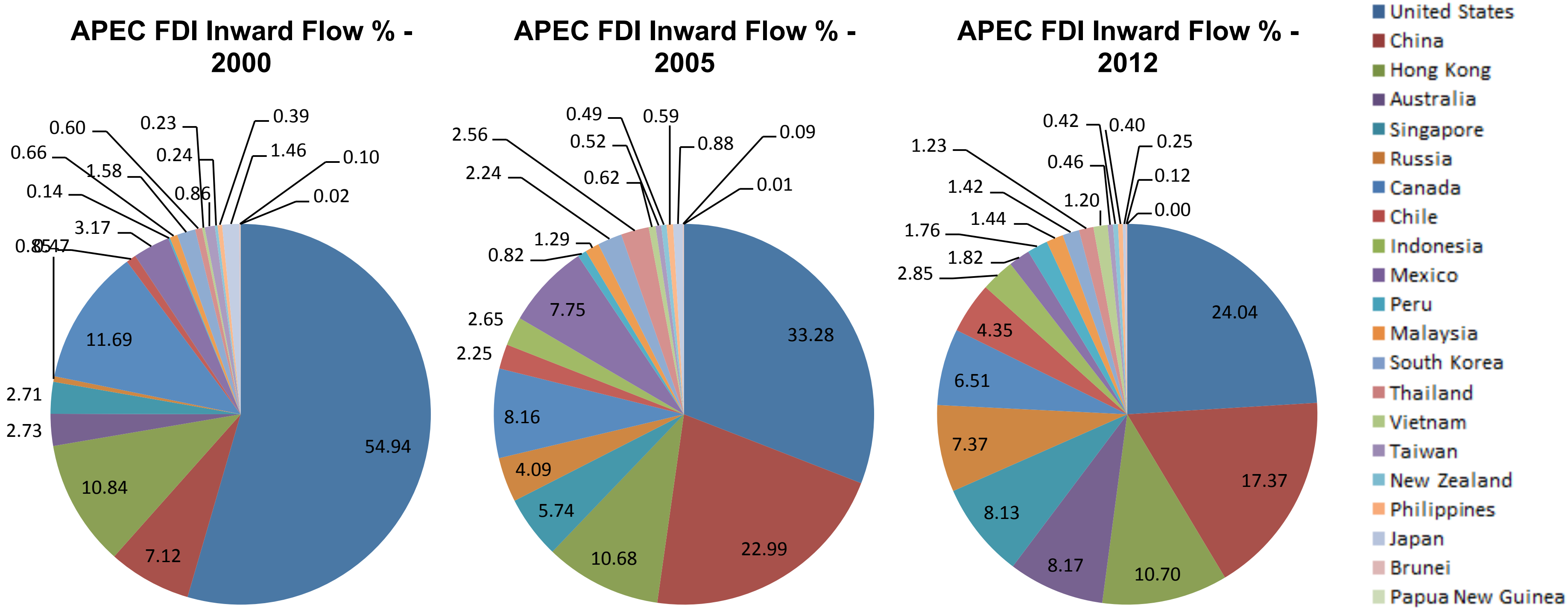
The graph below shows the comparison between inward FDI stock of developing APEC economies and developing economies worldwide for the years 2000 – 2012. The inward FDI stock of developing economies within APEC has been growing from 2000 to 2012, but it has been growing at a lower rate than would be expected when compared to developing economies worldwide. It has also been more stable. In 2008, developing economies worldwide had a notable decline as compared to the developing economies in APEC.

Year	World Developing (US$B)	APEC Developing (US$B)
2000	1326.71	444.77
2001	1385.88	467.97
2002	1315.42	483.04
2003	1533.44	523.36
2004	1806.71	588.65
2005	2096.73	701.56
2006	2654.48	801.58
2007	3661.73	949.79
2008	3418.52	948.93
2009	4138.40	1157.24
2010	5063.52	1452.18
2011	5283.30	1613.66
2012	5927.89	1816.63



APEC FDI inflows have become more balanced

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

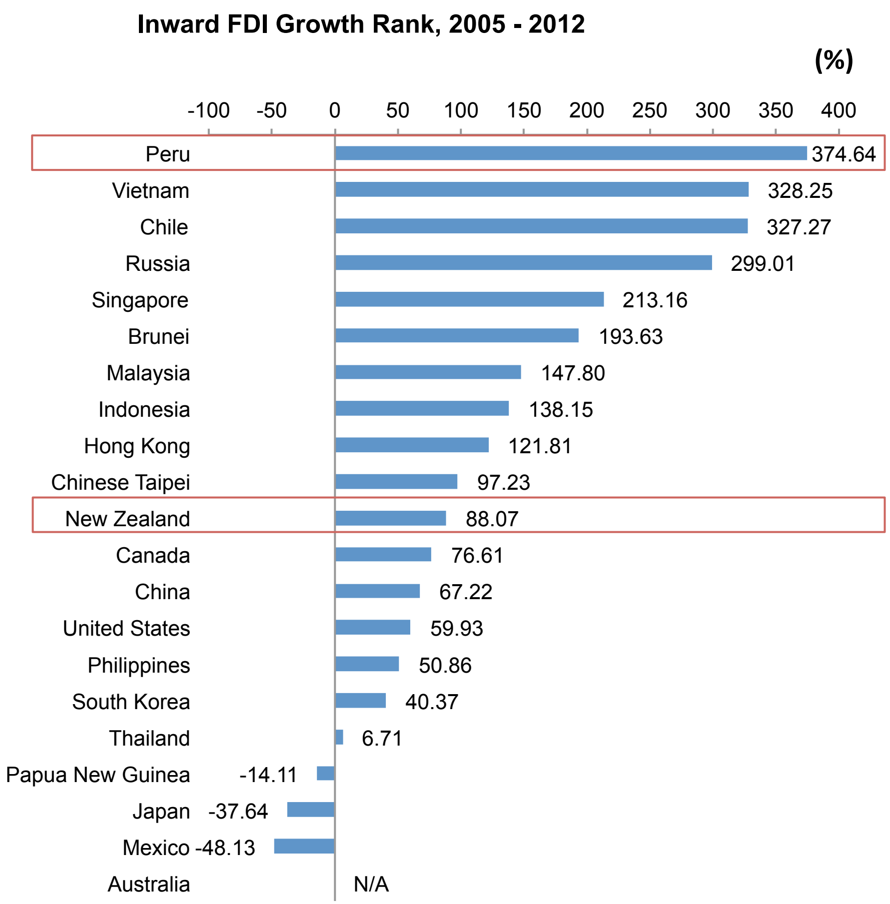


Japan's inward FDI flows have declined post-GFC

The graph below shows the ranking of the accumulative inward FDI flows of all APEC economies for 2005 – 2012 and 2010 – 2012. The high and low ranked countries approximately maintained their positions. One notable exception is Japan, whose rank for 2005 – 2012 is in the middle of the pack but at the bottom for 2010 – 2012.

Peru leads FDI growth 2005 to 2012; New Zealand leads growth post-GFC

The graph below shows the ranking of the inward FDI flow growth of all APEC economies for 2005 – 2012 vs. 2010 – 2012. Developing economies had the greatest growth from 2005 – 2012 with Peru having the greatest growth.



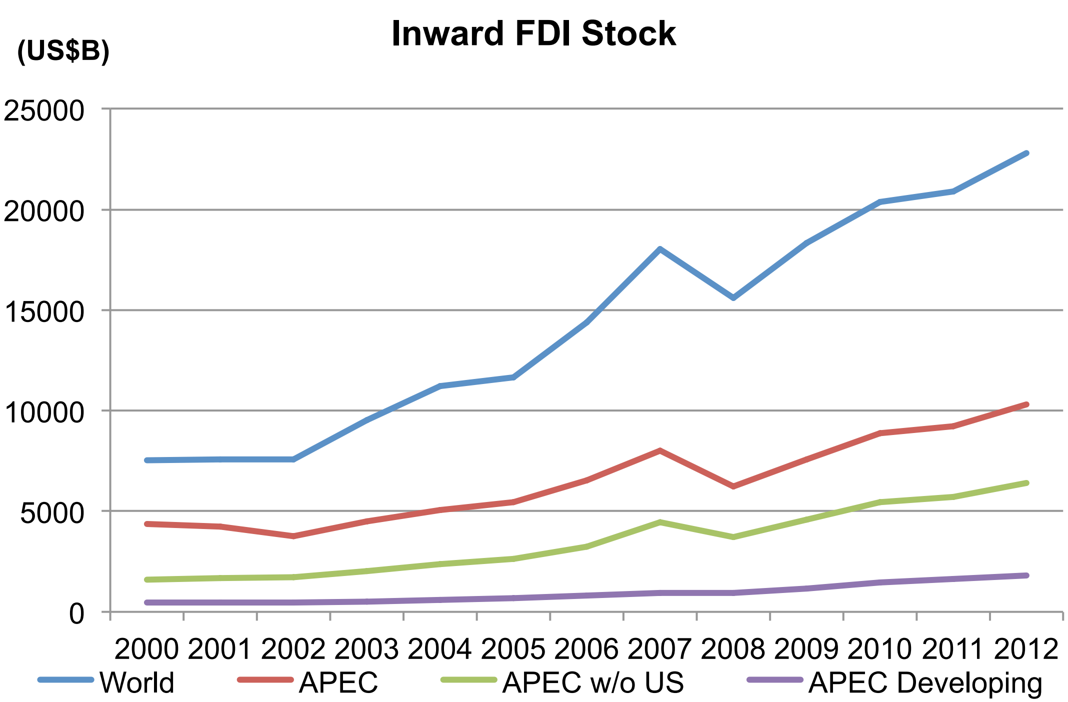
USC University of Southern California

ABAC APEC Business Advisory Council

APEC inward FDI stock mirrors world

The graph below shows the inward FDI stock for APEC, APEC without the US, APEC Developing and the world for the years of 2000 – 2012. The world's inward FDI stock has grown steadily with the exception of 2008, when it had a significant drop due to the global financial crisis. APEC inward FDI stock and APEC w/o US inward FDI stock follow a similar pattern as global inward FDI stock. Developing APEC economies follow a similar pattern as well but with less volatility.

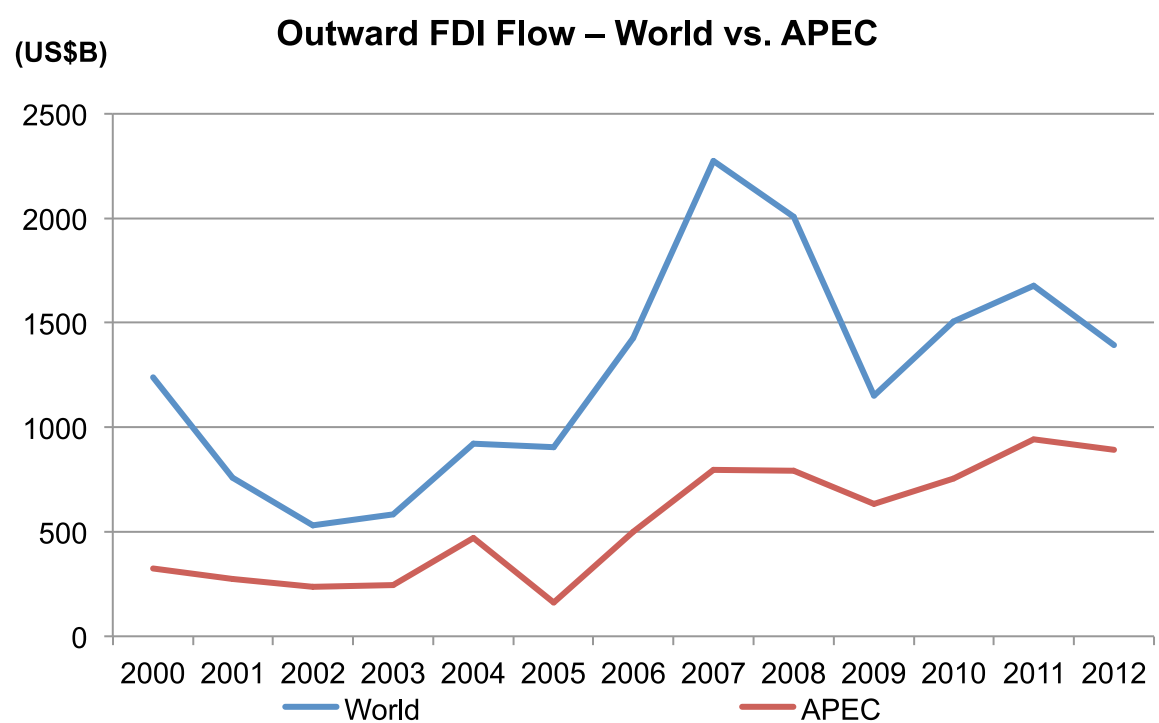
Year	World (US$B)	APEC (US$B)	APEC w/o US (US$B)	APEC Developing (US$B)
2000	7511.31	4382.44	1599.20	444.77
2001	7555.74	4222.77	1662.48	467.97
2002	7597.67	3741.74	1719.92	483.04
2003	9510.76	4490.23	2035.35	523.36
2004	11232.85	5081.34	2363.96	588.65
2005	11673.85	5470.04	2652.07	701.56
2006	14405.34	6540.58	3247.53	801.58
2007	18038.04	8012.93	4461.62	949.79
2008	15586.25	6217.47	3731.03	948.93
2009	18311.54	7562.49	4567.03	1157.24
2010	20380.27	8856.50	5459.09	1452.18
2011	20873.50	9203.76	5694.41	1613.66
2012	22812.68	10323.03	6391.06	1816.63



APEC outward FDI flows more stable than world

The graph below shows the outward FDI flows for all APEC economies vs. the world for the years 2000 – 2012. Outward FDI flows from APEC economies have been growing steadily from 2000 to 2012 with the exception of 2005, when the US greatly reduced their outward FDI, and 2009, at the peak of the global financial crisis. Excluding 2005, APEC flows have not been as volatile as the world. This can be attributed to the fact that most APEC economies do not have significant outward FDI; so the changes in flow that each individual economy experiences do not have a large impact on the total APEC outward FDI flow.

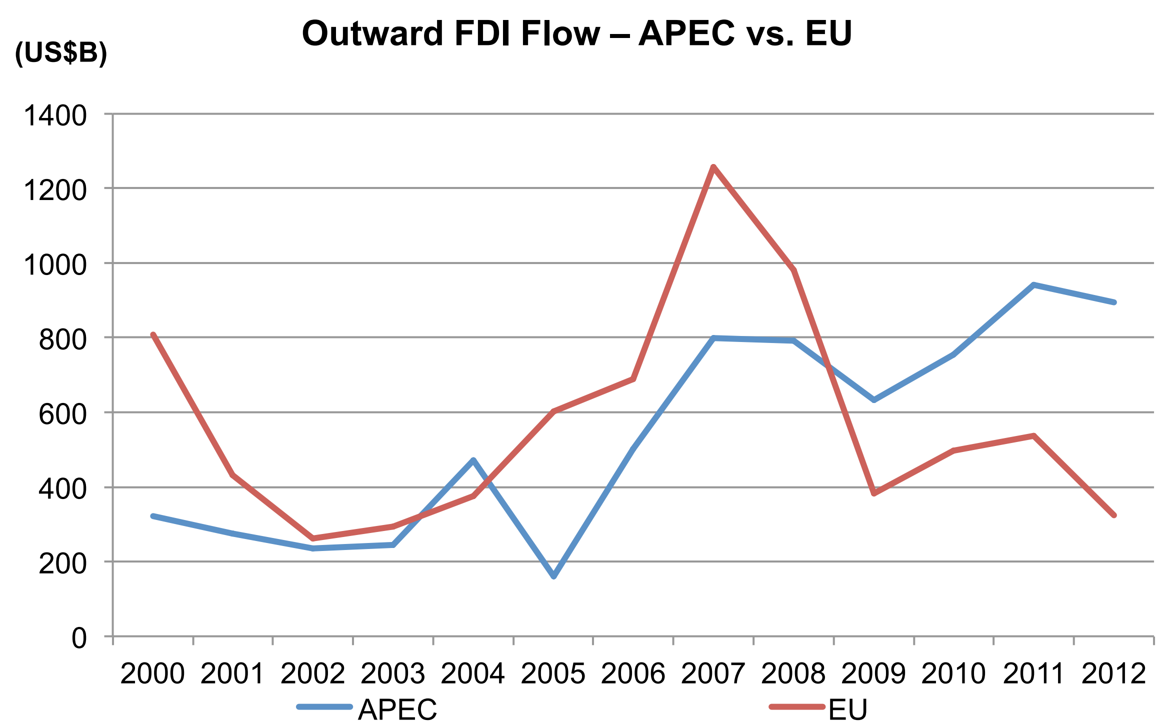
Year	World (US$B)	APEC (US$B)
2000	1240.32	322.28
2001	759.93	276.04
2002	530.75	235.42
2003	584.01	244.17
2004	921.14	472.30
2005	903.76	159.85
2006	1427.47	501.45
2007	2272.05	798.01
2008	2005.33	792.21
2009	1149.78	632.91
2010	1504.93	755.12
2011	1678.04	941.62
2012	1390.96	893.49



APEC outward FDI flows overtook EU in 2009

The graph below shows the outward FDI flows for all APEC economies vs. the European Union for the years 2000 – 2012. While outward FDI flows from APEC grew more slowly than outward FDI flows from the European Union in the middle of the last decade, APEC's outward FDI flows exceeded the EU's in 2009 and have remained higher since. This can likely be attributed to the economic crisis in the Eurozone causing the EU to reduce their outward FDI.

Year	APEC (US$B)	EU (US$B)
2000	322.28	809.24
2001	276.04	432.60
2002	235.42	262.06
2003	244.17	294.56
2004	472.30	374.49
2005	159.85	603.30
2006	501.45	687.92
2007	798.01	1257.89
2008	792.21	982.04
2009	632.91	381.96
2010	755.12	497.80
2011	941.62	536.50
2012	893.49	323.13



Conclusion

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

Our ABAC Research Team therefore recommends that APEC develop comprehensive FDI reporting standards for their member economies. The standardized statistics would allow for more thorough and accurate studies of FDI within APEC that would offer better insight to support policymakers.

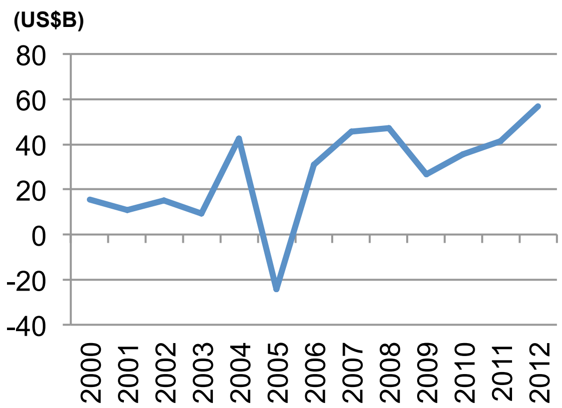
Data Analysis | Economy Specific

Australia

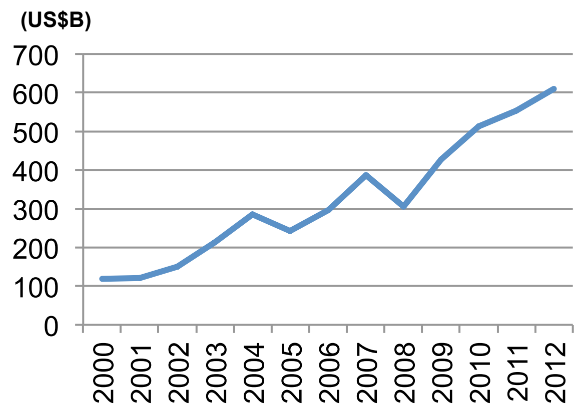
Australia's robust FDI stock growth is attributable to continued investment from the US, the UK and Japan. FDI from Japan remains minimal. FDI from Singapore, China and the Republic of Korea account for an even smaller portion at 7.8% of Australia's total FDI stock.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	15.61	118.86	4.22	95.98
2001	11.03	121.92	13.68	122.26
2002	15.05	150.34	7.50	128.91
2003	9.41	213.91	18.36	183.95
2004	42.46	284.95	10.70	229.20
2005	-24.25	242.17	-31.14	208.90
2006	31.05	296.57	25.41	266.96
2007	45.53	386.25	16.86	339.62
2008	47.22	305.87	33.62	240.62
2009	26.55	427.35	16.23	343.65
2010	35.56	513.45	27.27	413.64
2011	41.32	552.57	14.29	378.56
2012	56.96	610.52	16.14	424.45

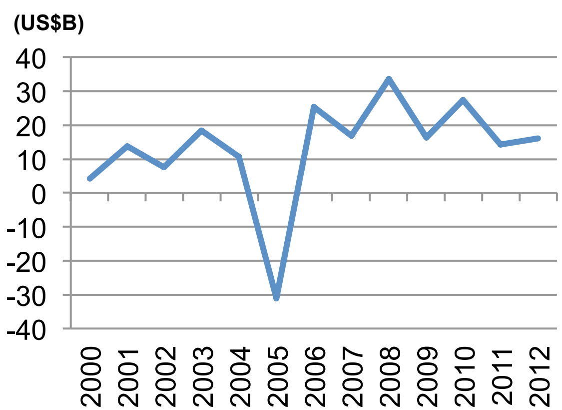
IFDI Flow – Australia



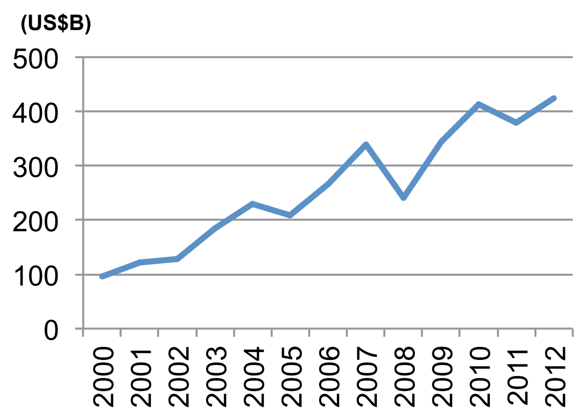
IFDI Stock – Australia



OFDI Flow – Australia



OFDI Stock – Australia

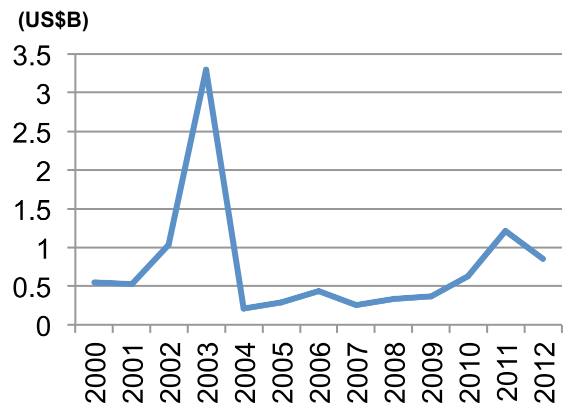


Brunei Darussalam

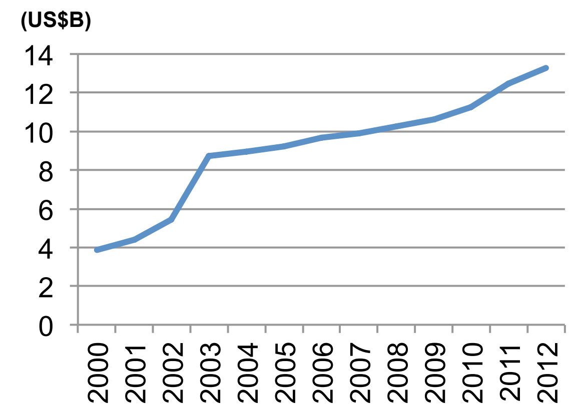
Brunei tries to attract more inward FDI flows with key focuses in pharmaceuticals, petrochemicals, food and IT industries, but the total inward FDI flows remain relative to the APEC total.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	0.55	3.87	0.03	0.51
2001	0.53	4.39	0.04	0.55
2002	1.04	5.43	0.04	0.59
2003	3.30	8.73	-0.01	0.58
2004	0.21	8.93	0.04	0.63
2005	0.29	9.22	0.02	0.64
2006	0.43	9.66	0.02	0.66
2007	0.26	9.92	-0.01	0.65
2008	0.33	10.25	0.02	0.67
2009	0.37	10.62	0.01	0.68
2010	0.63	11.24	0.01	0.68
2011	1.21	12.45	0.01	0.69
2012	0.85	13.30	0.01	0.70

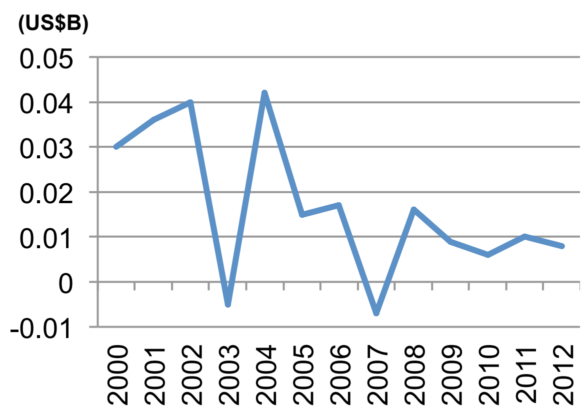
IFDI Flow – Brunei



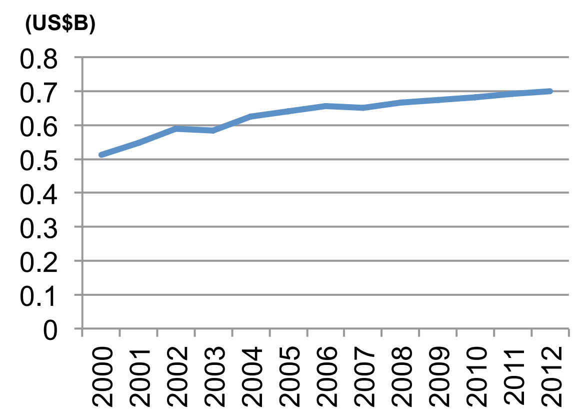
IFDI Stock – Brunei



OFDI Flow – Brunei



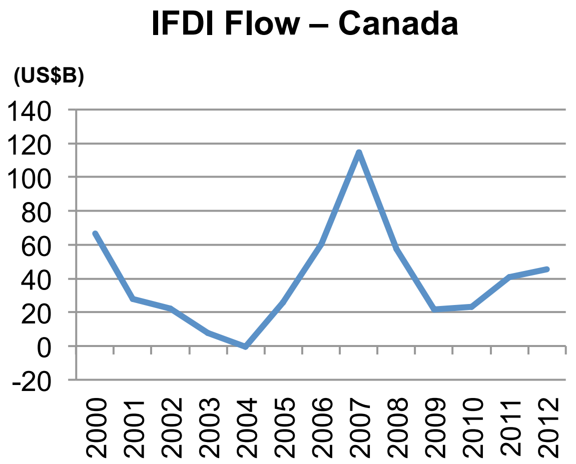
OFDI Stock – Brunei

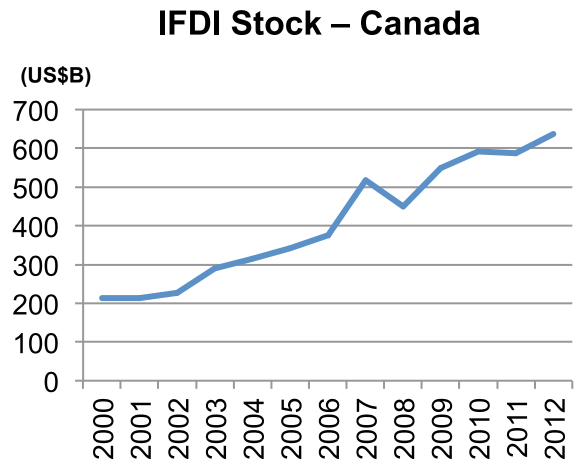


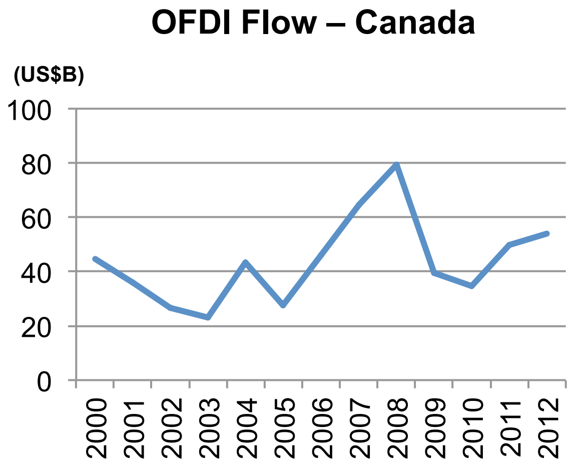
Canada

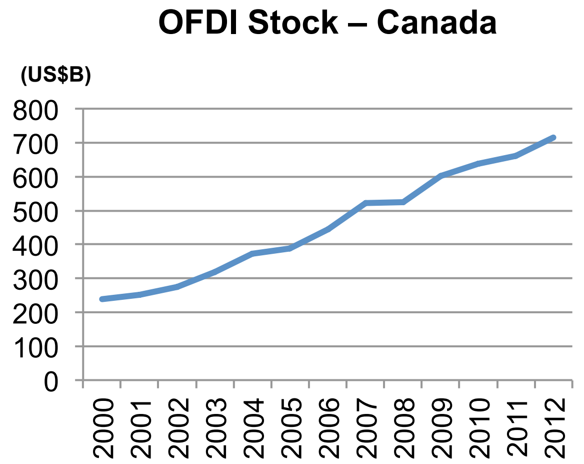
Growth of Canada's inward FDI stock in recent years is attributable to FDI into computer and electronics manufacturing industries and retail trade.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	66.80	212.72	44.68	237.64
2001	27.66	213.76	36.03	250.69
2002	22.16	225.89	26.77	275.70
2003	7.48	289.14	22.92	318.95
2004	-0.45	315.26	43.35	372.67
2005	25.69	341.63	27.54	388.32
2006	60.29	375.16	46.21	445.24
2007	114.65	518.44	64.63	521.50
2008	57.18	449.57	79.28	524.19
2009	21.41	548.35	39.60	602.73
2010	23.41	591.87	34.72	636.71
2011	40.93	587.00	49.85	660.75
2012	45.37	636.97	53.94	715.05





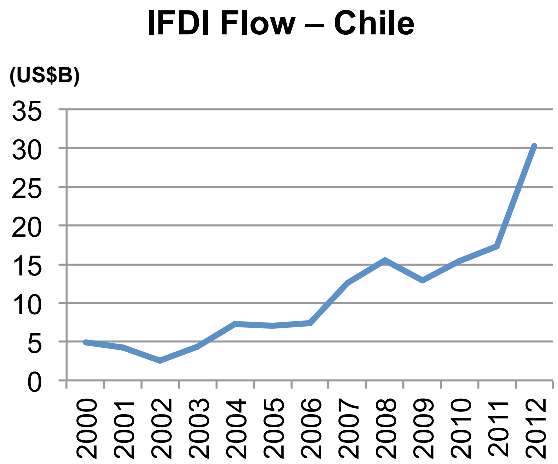


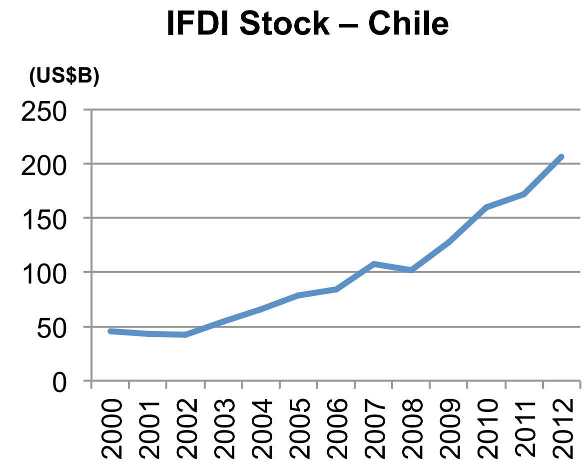


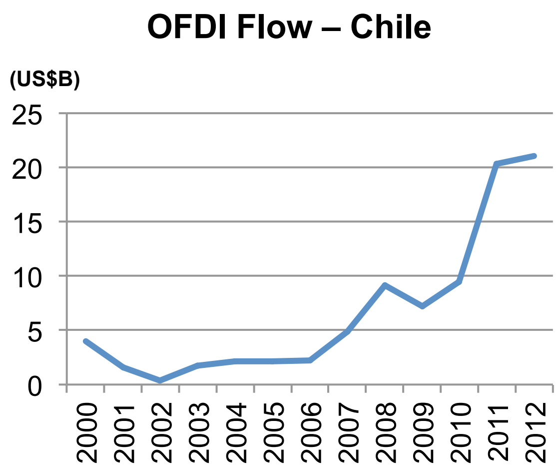
Chile

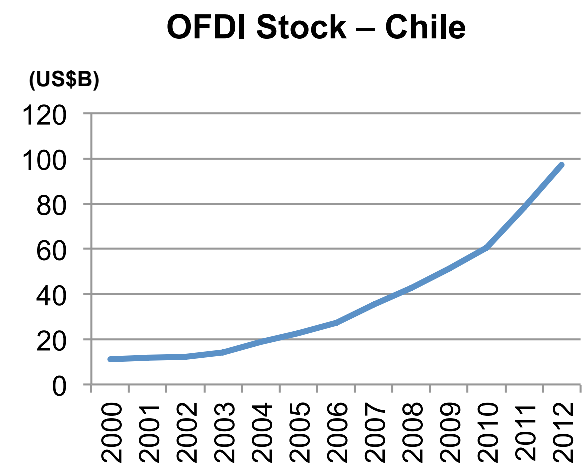
Chile continued to host a significant inward FDI with total value of over $30 billion in 2012, making the country the second largest FDI destination after Brazil in South America. Chile has continued to build its reputation as a desirable country for FDI inflows, especially in the copper mining industry.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	4.86	45.75	3.99	11.15
2001	4.20	43.48	1.61	11.72
2002	2.55	42.31	0.34	12.24
2003	4.33	54.57	1.71	14.26
2004	7.24	65.63	2.14	18.64
2005	7.10	78.60	2.14	22.59
2006	7.43	84.53	2.21	27.38
2007	12.57	107.58	4.85	35.41
2008	15.52	101.74	9.15	42.63
2009	12.89	127.94	7.23	51.43
2010	15.37	160.26	9.46	60.39
2011	17.30	171.75	20.37	78.30
2012	30.32	206.59	21.09	97.14





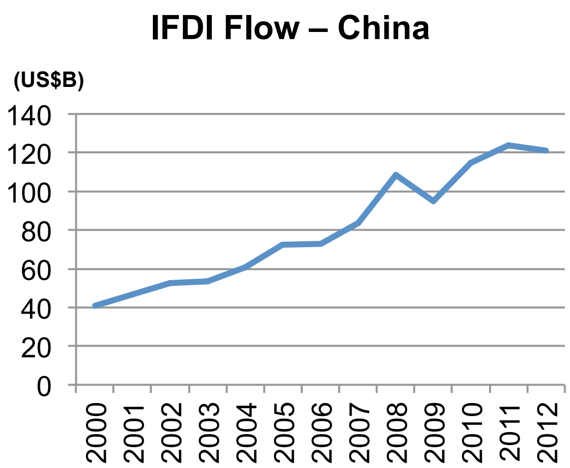


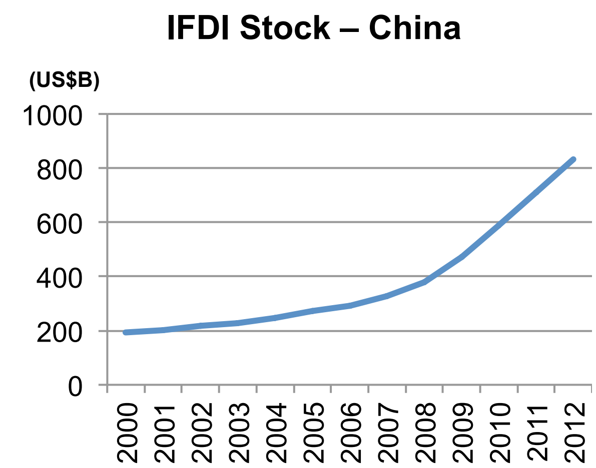


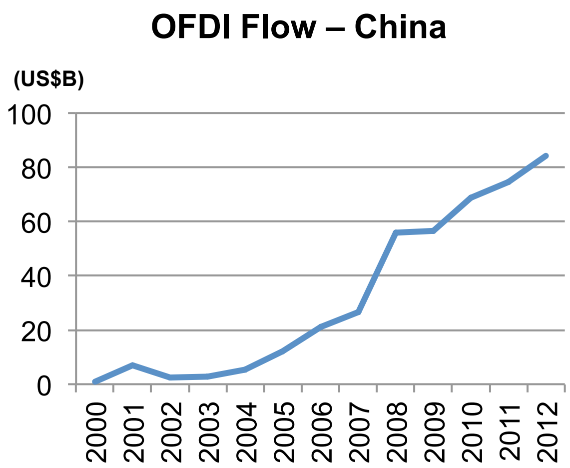
People's Republic of China

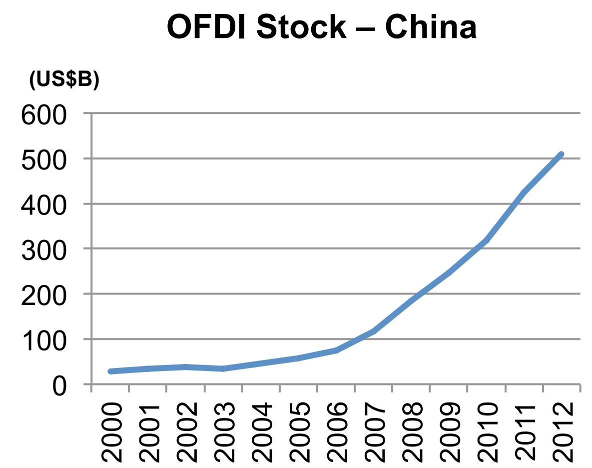
On top of strong economic growth, China has historically enjoyed consistent FDI inflows. Hong Kong is the largest investor in China, with investment that accounts for 53% of total FDI as of 2012. Many MNCs and foreign companies use Hong Kong as a launch pad into China. However, we were unable to identify which industries are the major beneficiaries in the recent years.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	40.71	193.35	0.92	27.77
2001	46.88	203.14	6.89	34.65
2002	52.74	216.50	2.52	37.17
2003	53.50	228.37	2.85	33.22
2004	60.63	245.47	5.50	44.78
2005	72.41	272.09	12.26	57.21
2006	72.72	292.56	21.16	75.03
2007	83.52	327.09	26.51	117.91
2008	108.31	378.08	55.91	183.97
2009	95.00	473.08	56.53	245.76
2010	114.73	587.82	68.81	317.21
2011	123.99	711.80	74.65	424.78
2012	121.08	832.88	84.22	509.00





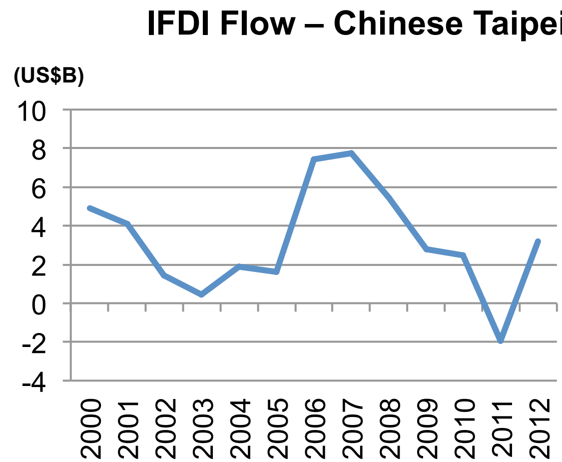


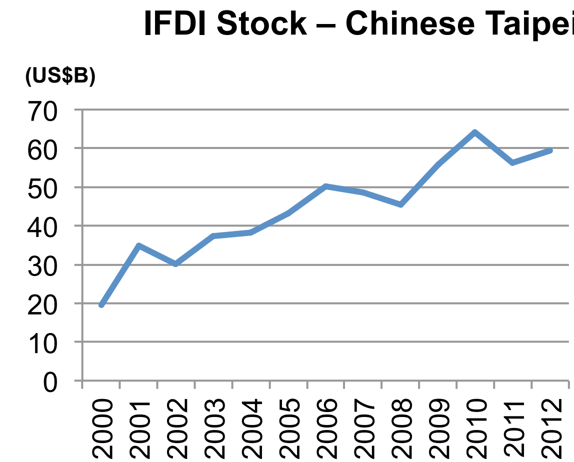


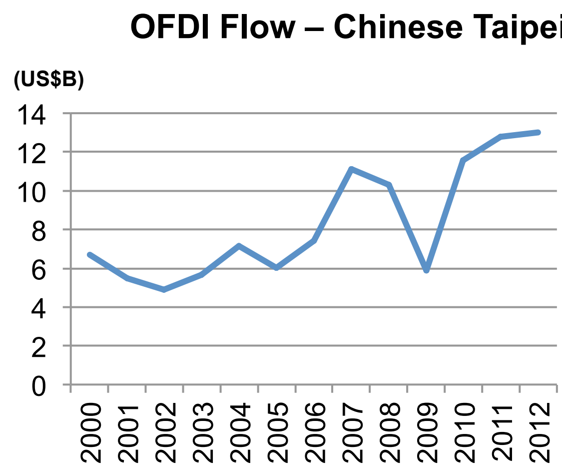
Chinese Taipei

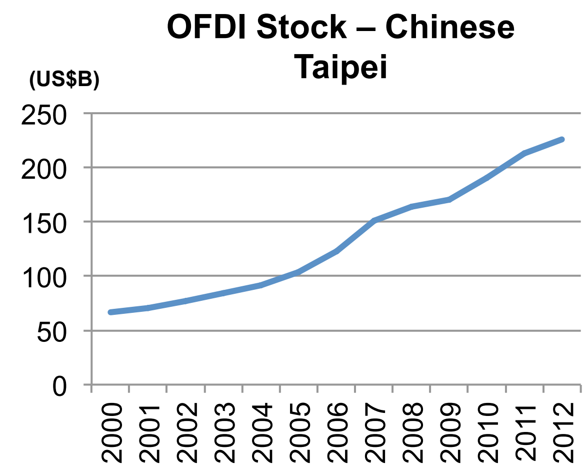
FDI inflow decreased starting in 2007 as the manufacturing industry experienced pressure from rising costs. The significant dip in 2011 was caused by a lack of investor confidence brought on by the European sovereign debt crisis, tightening of fiscal policy, and rhetoric stemming from the highly contested presidential election. The gradual recovery was seen in the following year as the Economic Cooperation Framework Agreement (ECFA) helped attract additional FDI from China.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	4.93	19.52	6.70	66.66
2001	4.11	34.75	5.48	70.76
2002	1.45	30.07	4.89	76.85
2003	0.45	37.26	5.68	84.10
2004	1.90	38.28	7.15	91.27
2005	1.63	43.18	6.03	103.33
2006	7.42	50.21	7.40	122.73
2007	7.77	48.64	11.11	151.16
2008	5.43	45.46	10.29	163.53
2009	2.81	55.76	5.88	170.02
2010	2.49	64.20	11.57	190.80
2011	-1.96	56.15	12.77	213.06
2012	3.21	59.36	13.03	226.09







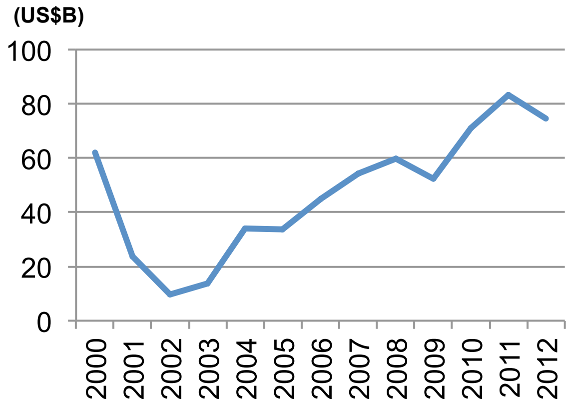


Hong Kong, China

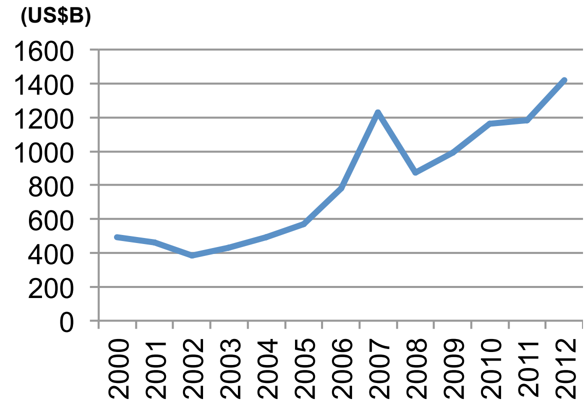
Amidst the global financial and European sovereign debt crises, Hong Kong continued to attract FDI thanks to its advantageous business environment and friendly regulations on capital flows. The ability to withstand these crises is also due to Hong Kong's close links to the Chinese economy, as it is a gateway for FDI between China and the West (50% of HK's FDI comes from China only to go back into China).

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	61.94	491.92	70.00	435.79
2001	23.78	461.58	20.29	408.17
2002	9.68	382.23	16.25	373.80
2003	13.65	431.56	12.83	414.56
2004	34.04	491.67	36.70	472.82
2005	33.62	568.71	33.91	551.01
2006	45.06	783.06	47.58	759.80
2007	54.34	1226.81	67.87	1107.96
2008	59.62	873.28	57.10	858.42
2009	52.39	994.02	57.94	928.95
2010	71.07	1162.63	98.41	1039.04
2011	83.16	1184.51	95.89	1129.06
2012	74.58	1422.38	83.99	1309.85

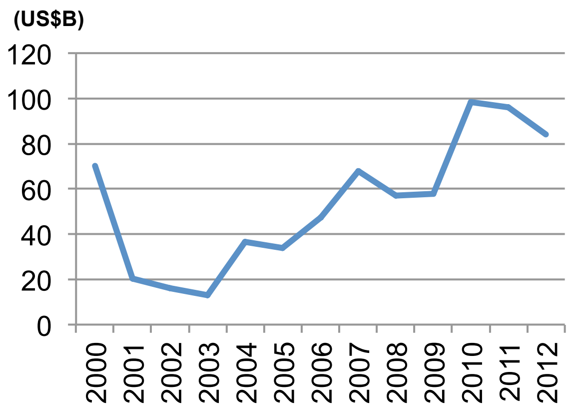
IFDI Flow – Hong Kong



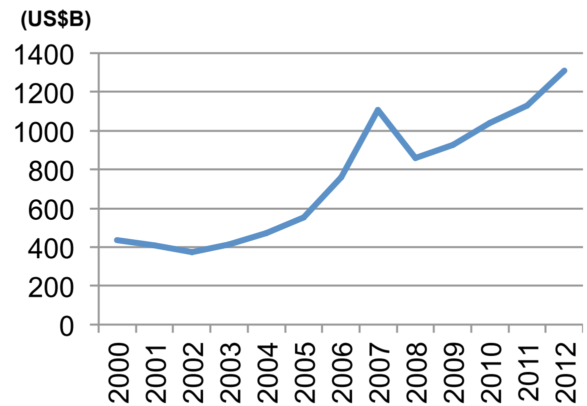
IFDI Stock – Hong Kong



OFDI Flow – Hong Kong



OFDI Stock – Hong Kong

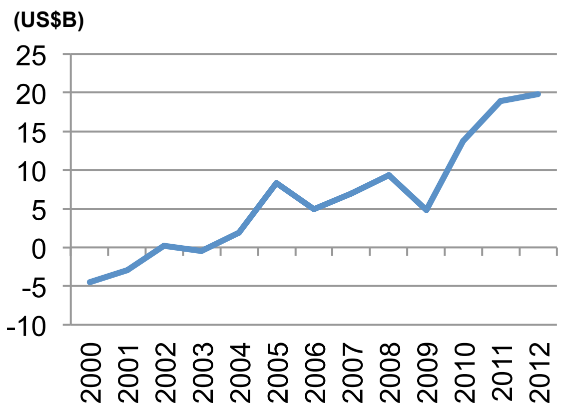


Indonesia

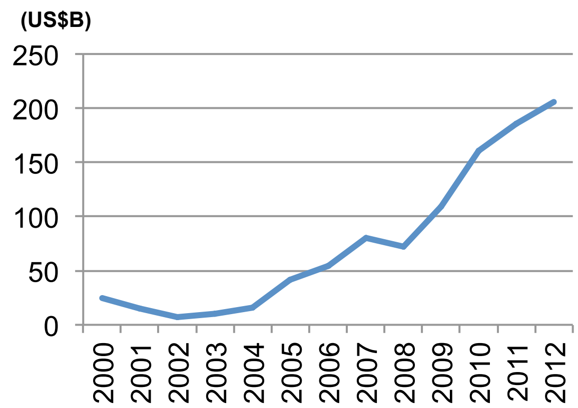
With governmental support, the natural resource-rich country has successfully attracted FDI in recent years, especially in mining and automotive manufacturing sectors. Singapore is the largest investor in Indonesia followed by the Republic of Korea, Japan and the US in 2012. Indonesia's Investment Coordinating Board aims to increase the FDI by 38% in 2013.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	-4.50	25.06	0.15	6.94
2001	-2.93	15.20	0.13	0.00
2002	0.23	7.12	0.18	0.00
2003	-0.51	10.33	0.21	0.00
2004	1.90	15.86	3.41	0.00
2005	8.34	41.19	3.07	0.00
2006	4.91	54.53	2.73	1.04
2007	6.93	79.93	4.68	3.19
2008	9.32	72.23	5.90	2.80
2009	4.88	108.80	2.25	3.91
2010	13.77	160.74	2.66	6.67
2011	18.91	185.80	7.71	6.20
2012	19.85	205.66	5.42	11.63

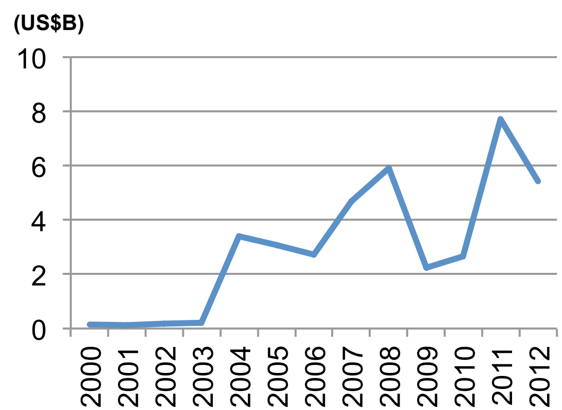
IFDI Flow – Indonesia



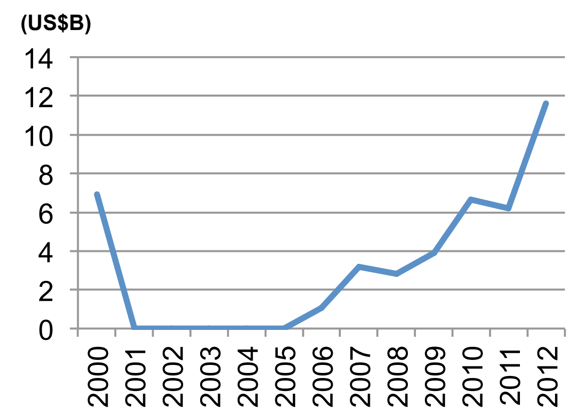
IFDI Stock – Indonesia



OFDI Flow – Indonesia



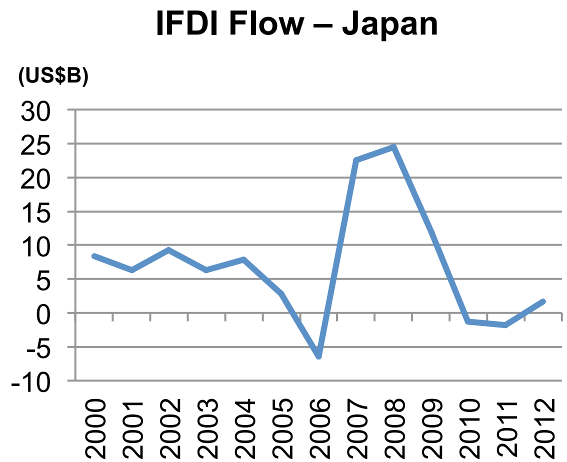
OFDI Stock – Indonesia

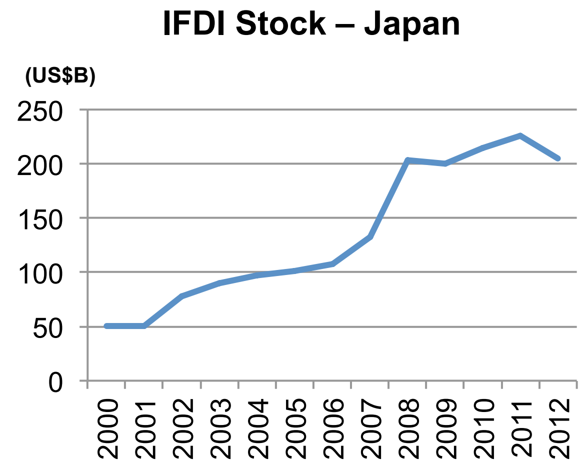


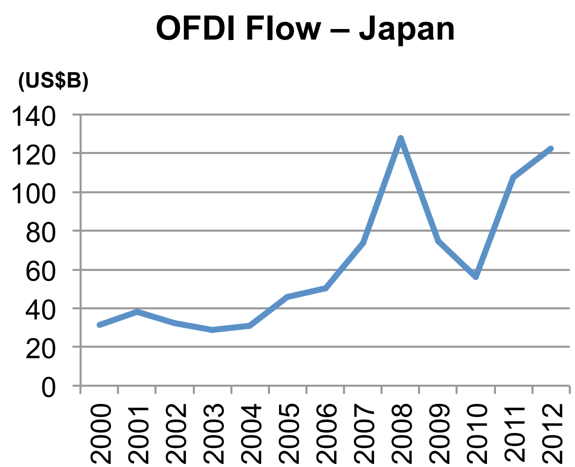
Japan

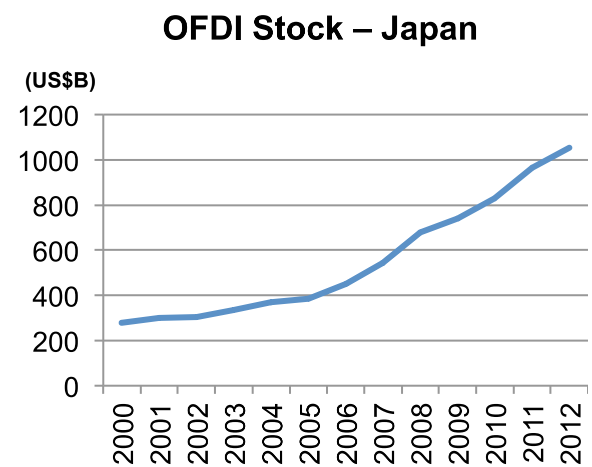
Japan's FDI inflows have decreased substantially since 2008, primarily due to slow economic growth and strong JPY/USD exchange rates. The earthquake, tsunami and aftermath of those events further eroded Japan's attractiveness as an FDI destination.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	8.32	50.32	31.56	278.44
2001	6.24	50.32	38.33	300.11
2002	9.24	78.14	32.28	304.24
2003	6.32	89.73	28.80	335.50
2004	7.82	96.98	30.95	370.54
2005	2.78	100.90	45.78	386.58
2006	-6.51	107.63	50.26	449.57
2007	22.55	132.85	73.55	542.61
2008	24.43	203.37	128.02	680.33
2009	11.94	200.14	74.70	740.93
2010	-1.25	214.88	56.26	831.08
2011	-1.76	225.79	107.60	962.79
2012	1.73	205.36	122.55	1054.93





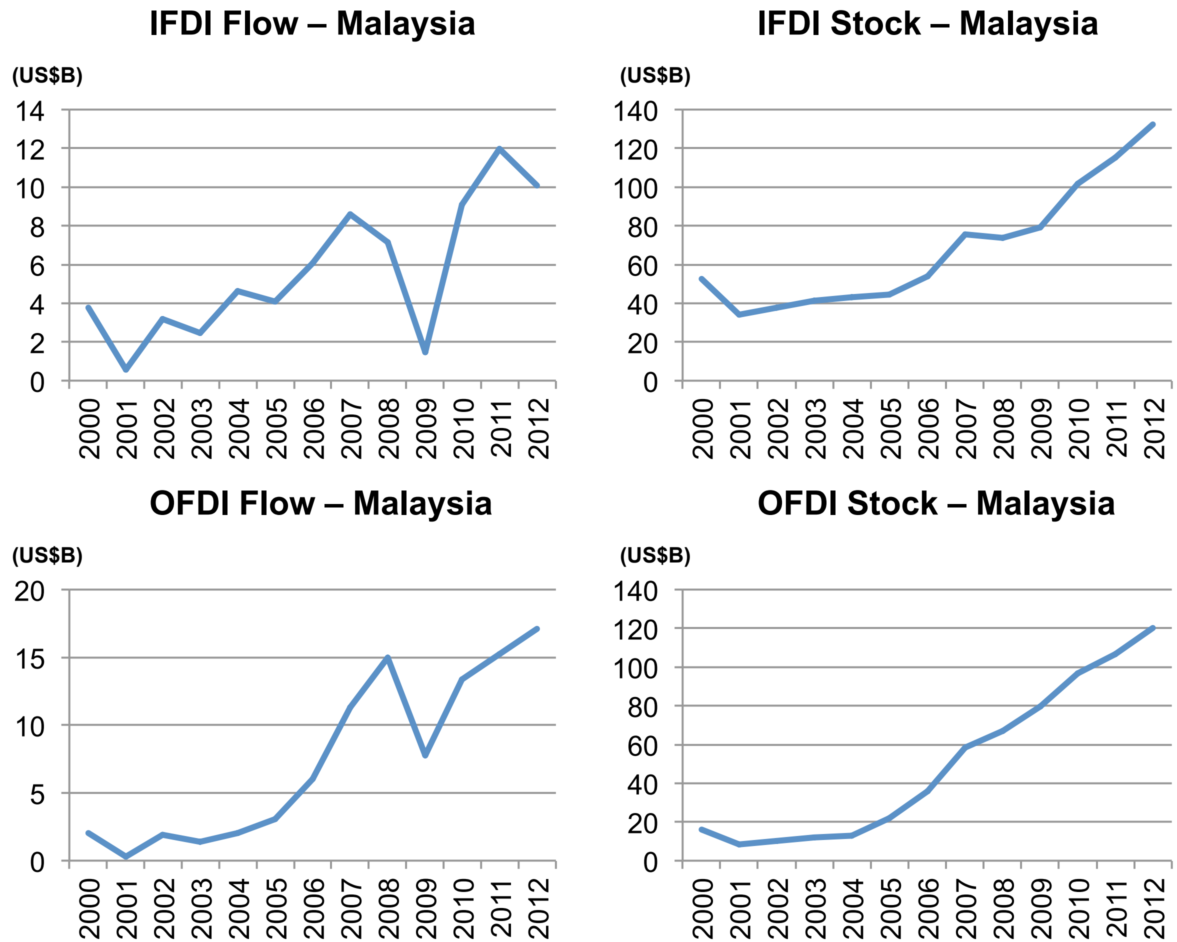




Malaysia

Malaysia's healthy growth in FDI is attributable to steady foreign investment inflow from other Asian countries, primarily from Japan, the Republic of Korea and Singapore, as well as other economies such as the US and Saudi Arabia. In the first half of 2012, the oil and gas sector accounted for the largest share of net FDI inflow, followed by services and manufacturing sectors.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	3.79	52.75	2.03	15.88
2001	0.55	33.97	0.27	8.35
2002	3.20	37.54	1.90	10.23
2003	2.47	41.19	1.37	12.02
2004	4.62	43.05	2.06	12.79
2005	4.07	44.46	3.08	22.03
2006	6.06	53.71	6.02	36.13
2007	8.59	75.76	11.31	58.44
2008	7.17	73.60	14.96	66.93
2009	1.45	78.99	7.78	79.66
2010	9.10	101.62	13.40	96.96
2011	11.97	115.06	15.25	106.45
2012	10.07	132.40	17.11	120.40

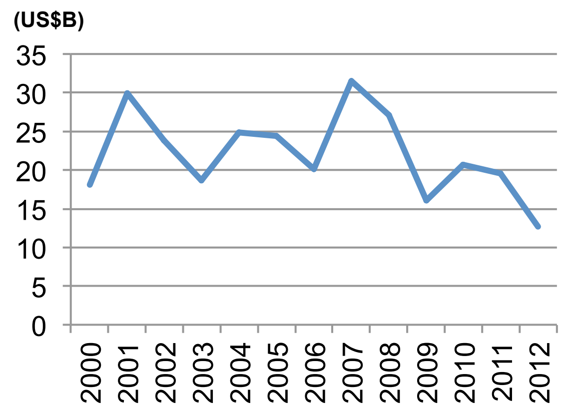


Mexico

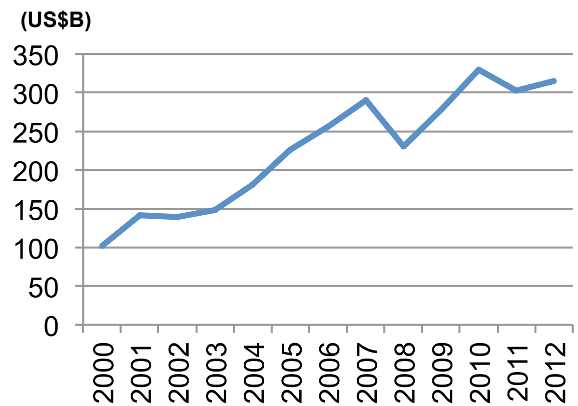
Mexico's inward FDI slowdown since 2007 is primarily due to a decrease in FDI into the manufacturing, financial and mining sectors. Major investor countries, including the US, Canada, Spain and the Netherlands, reduced the FDI into Mexico on the back of the global financial crisis and European sovereign debt crisis.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	18.11	102.00	0.36	8.27
2001	29.93	141.87	4.40	55.63
2002	23.88	139.66	0.89	48.16
2003	18.65	148.23	1.25	44.62
2004	24.83	181.58	4.43	51.40
2005	24.41	226.60	6.47	64.20
2006	20.12	256.64	5.76	72.00
2007	31.49	290.15	8.26	85.38
2008	27.14	230.99	1.16	66.79
2009	16.12	277.90	8.46	81.22
2010	20.71	330.16	15.05	104.30
2011	19.55	302.31	12.14	112.09
2012	12.66	314.97	25.60	137.68

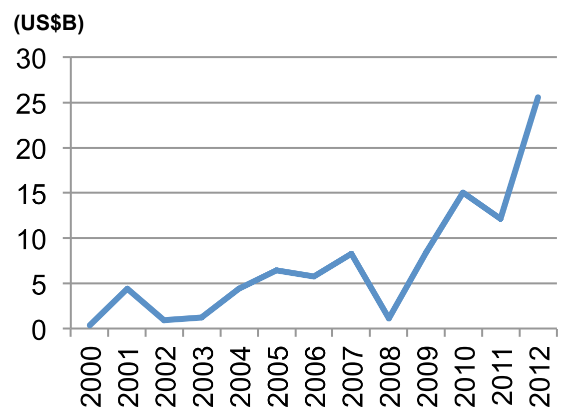
IFDI Flow – Mexico



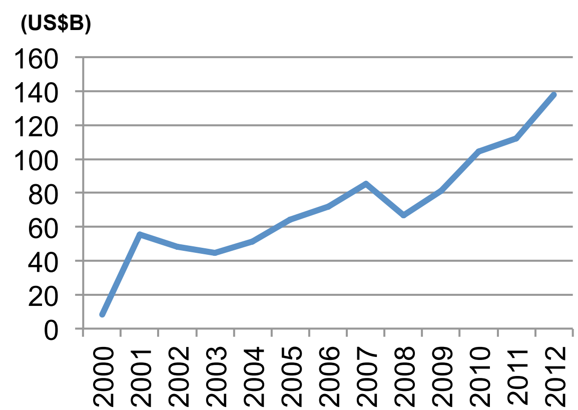
IFDI Stock – Mexico



OFDI Flow – Mexico



OFDI Stock – Mexico

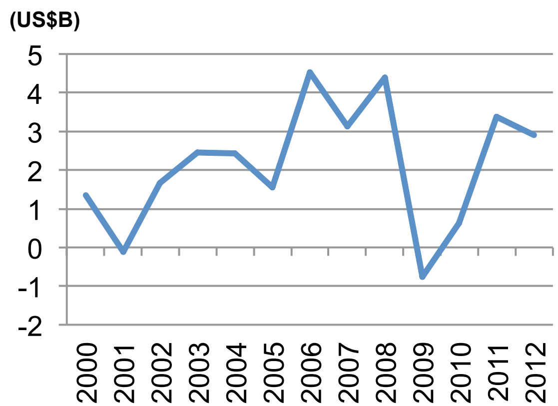


New Zealand

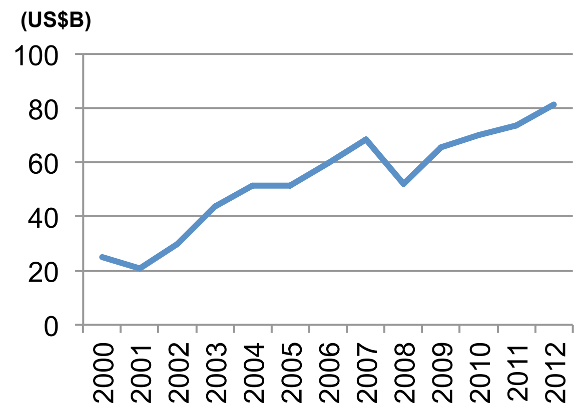
Historically, New Zealand's business-friendly environment has helped the country build stable Inward FDI stock. The economy has also gained increasing recognition as a good FDI destination by Asian economies such as China and Japan. Although New Zealand's inward FDI value is small relative to other APEC economies, its inward FDI stock to GDP ratio averages 51% in 2000-2010, showing the importance of inward FDI to the economy.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	1.35	24.96	0.61	8.49
2001	-0.11	20.78	-1.08	7.18
2002	1.66	29.80	0.37	9.43
2003	2.45	43.66	0.88	11.88
2004	2.43	51.42	-0.07	13.96
2005	1.55	51.53	-1.29	11.81
2006	4.53	59.84	0.17	13.21
2007	3.13	68.33	3.71	15.87
2008	4.39	52.06	0.40	13.95
2009	-0.76	65.47	-1.03	13.86
2010	0.64	69.98	0.53	16.56
2011	3.37	73.64	2.52	18.84
2012	2.91	81.43	-0.49	19.05

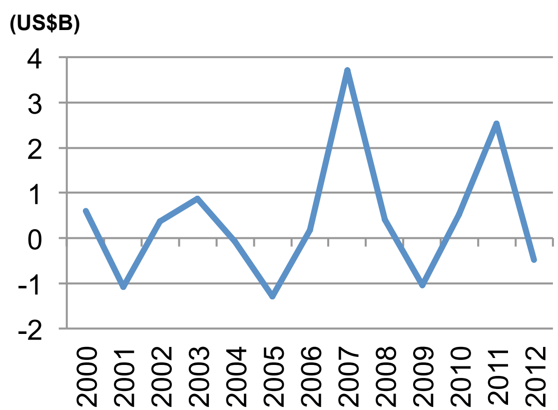
IFDI Flow – New Zealand



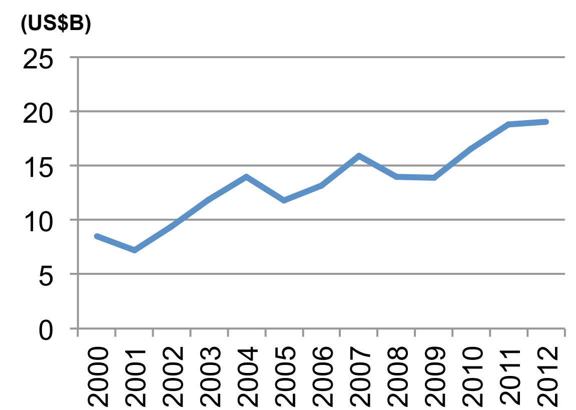
IFDI Stock – New Zealand



OFDI Flow – New Zealand



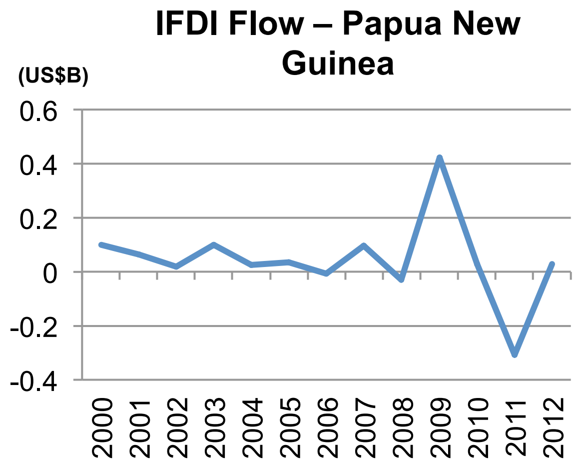
OFDI Stock – New Zealand

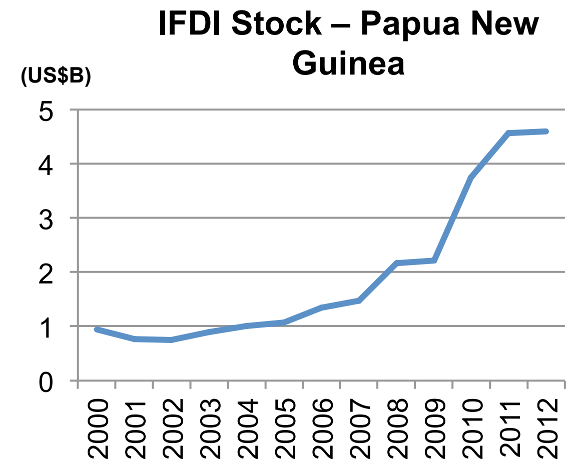


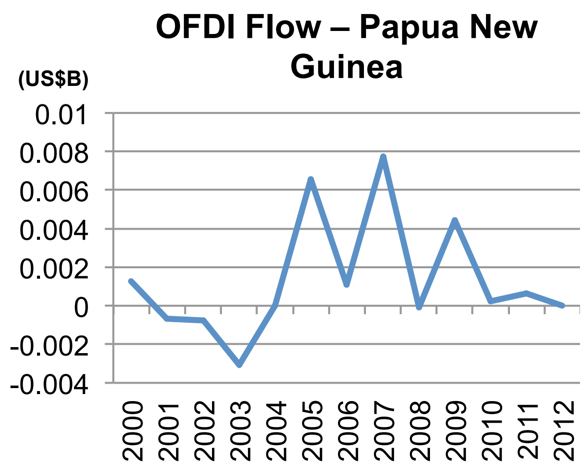
Papua New Guinea

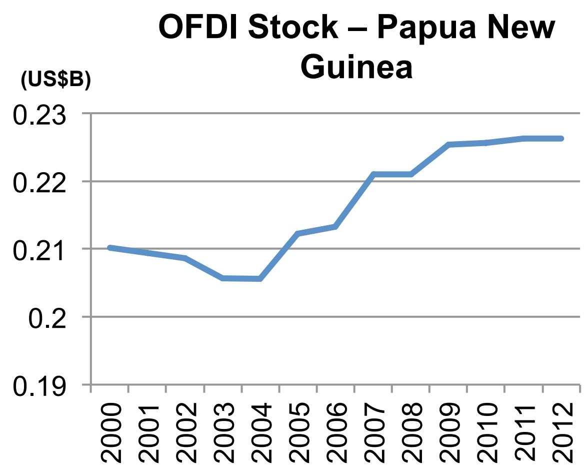
Due to overall economic underdevelopment, Papua New Guinea attracts low inward FDI flows and stock relative to other APEC economies. The lack of data on inward FDI flows to Papua New Guinea prevents us from looking into details for further analysis.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	0.10	0.94	0.00	0.21
2001	0.06	0.77	0.00	0.21
2002	0.02	0.75	0.00	0.21
2003	0.10	0.89	0.00	0.21
2004	0.03	1.01	0.00	0.21
2005	0.03	1.07	0.01	0.21
2006	-0.01	1.35	0.00	0.21
2007	0.10	1.47	0.01	0.22
2008	-0.03	2.17	0.00	0.22
2009	0.42	2.22	0.00	0.23
2010	0.03	3.75	0.00	0.23
2011	-0.31	4.57	0.00	0.23
2012	0.03	4.60	0.00	0.23







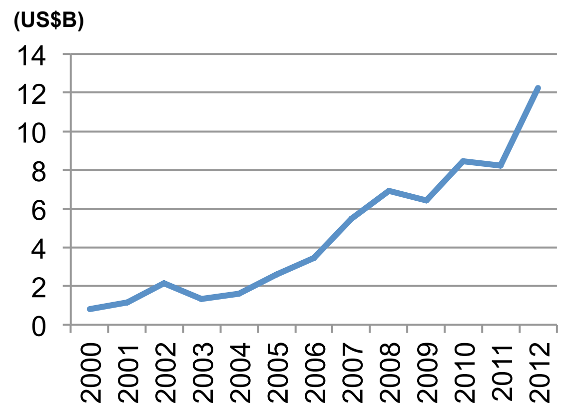


Peru

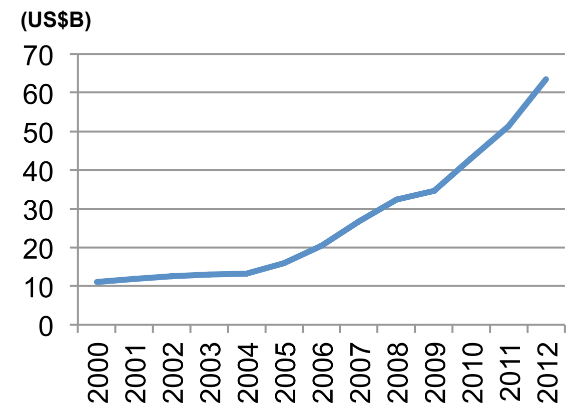
The significant inward FDI increase in 2012 in Peru is mainly due to reinvestment and capital contributions by foreign companies. The capital contributions component was the most significant factor, reaching US $4.67 billion in 2012. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the mining sector is the main destination for inward FDI into Peru: Peru is the third largest silver producer in the world, according to the Silver Institute.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	0.81	11.06	0.00	0.51
2001	1.14	11.83	0.07	0.65
2002	2.16	12.55	0.00	0.67
2003	1.34	12.88	0.06	0.81
2004	1.60	13.31	0.00	0.87
2005	2.58	15.89	0.00	1.05
2006	3.47	20.48	0.00	1.48
2007	5.49	26.81	0.07	2.28
2008	6.92	32.34	0.74	1.69
2009	6.43	34.52	0.41	2.28
2010	8.45	42.98	0.27	3.32
2011	8.23	51.21	0.11	3.10
2012	12.24	63.45	-0.06	3.99

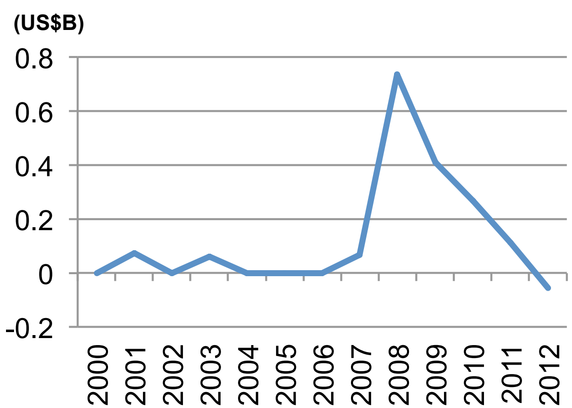
IFDI Flow – Peru



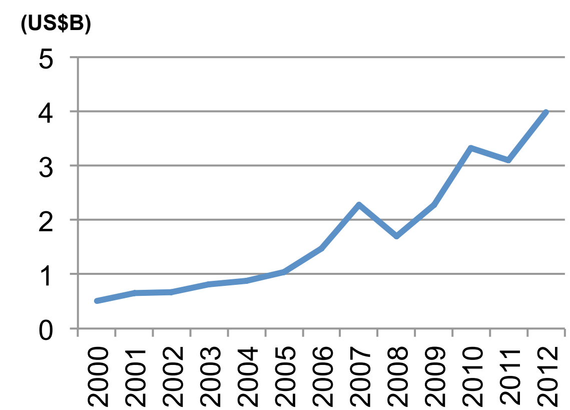
IFDI Stock – Peru



OFDI Flow – Peru



OFDI Stock – Peru

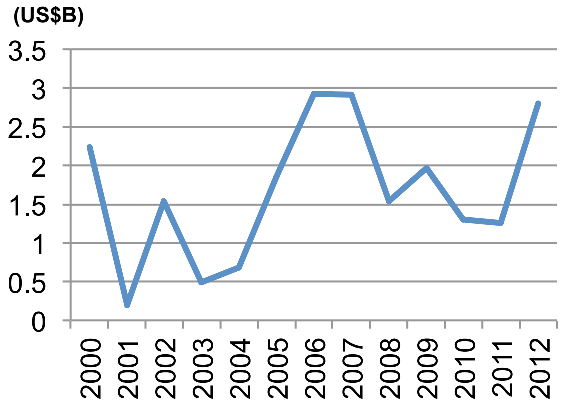


The Philippines

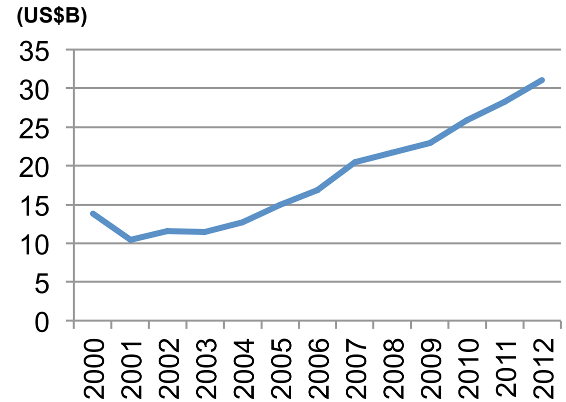
The sharp increase of the Philippines' inward FDI is driven mainly by the foreign infusion of funds to their Filipino operations, according to the Bangko Sentral ng Pilipinas (BSP). The BSP's data shows that top beneficiary sectors include manufacturing, real estate, wholesale and retail trade, financial services and insurance. Although the country's inward FDI grew faster than those of the neighboring countries, the overall inward FDI flows remain small relative to total APEC FDI inflows.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	2.24	13.76	0.13	1.03
2001	0.20	10.39	-0.14	0.89
2002	1.54	11.57	0.07	0.96
2003	0.49	11.41	0.30	1.26
2004	0.69	12.74	0.58	1.84
2005	1.85	14.98	0.19	2.03
2006	2.92	16.91	0.10	2.13
2007	2.92	20.46	3.54	5.67
2008	1.54	21.75	0.26	5.74
2009	1.96	22.93	0.36	6.10
2010	1.30	25.90	0.62	6.71
2011	1.26	28.23	0.54	7.11
2012	2.80	31.03	1.85	8.95

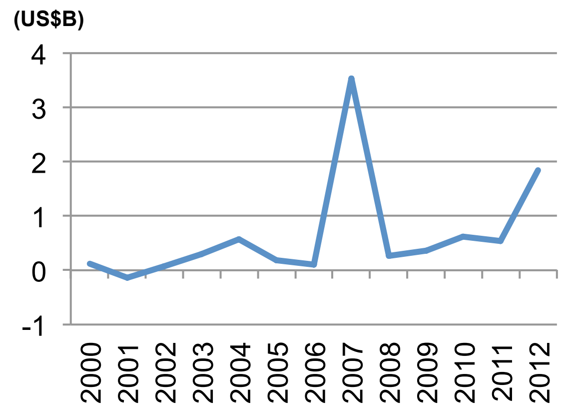
IFDI Flow – Philippines



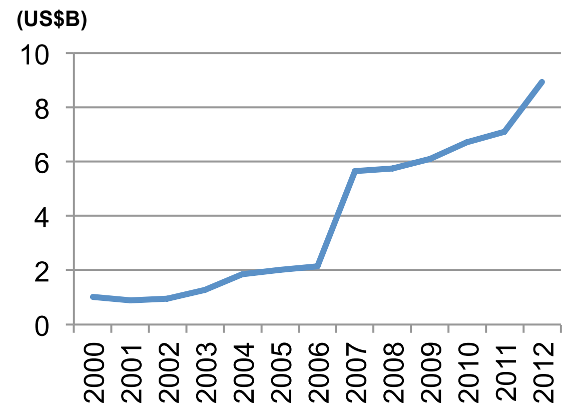
IFDI Stock – Philippines



OFDI Flow – Philippines



OFDI Stock – Philippines

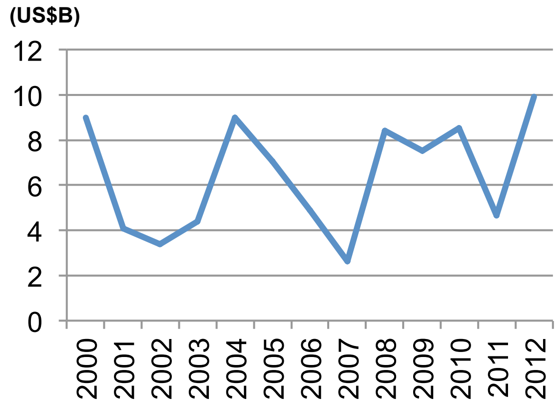


Republic of Korea

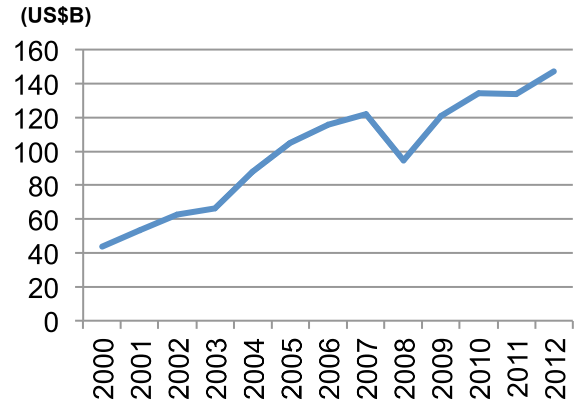
FDI inflows into the Republic of Korea remained resilient in recent years, despite global macro headwinds, with the exception of 2011 due to the European sovereign debt crisis. Korea's aggressive strategy on free trade agreements with major markets, including the US and the European Union, is considered a major driver of increased FDI flows.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	9.00	43.74	4.48	21.50
2001	4.09	53.21	2.20	19.97
2002	3.40	62.66	3.02	20.73
2003	4.38	66.07	4.14	24.99
2004	9.00	87.77	5.65	32.17
2005	7.06	104.88	6.37	38.68
2006	4.88	115.77	12.51	49.19
2007	2.63	121.96	21.61	74.78
2008	8.41	94.68	20.29	97.91
2009	7.50	121.10	17.39	120.44
2010	8.51	134.23	28.36	143.16
2011	4.66	133.66	29.00	171.53
2012	9.90	147.23	32.98	196.41

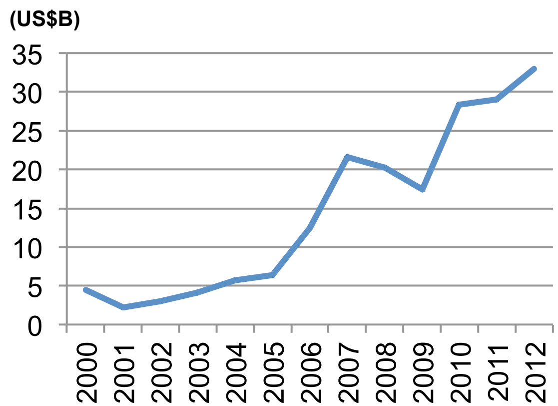
IFDI Flow – Korea



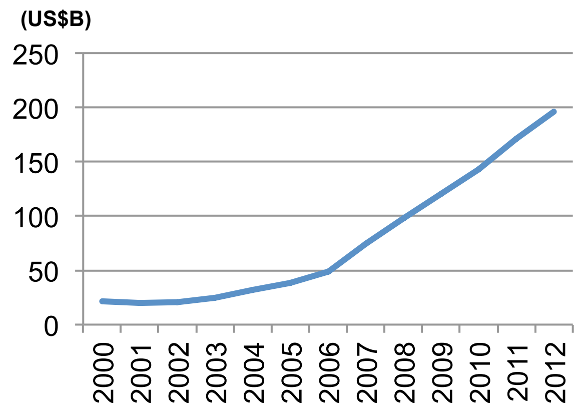
IFDI Stock – Korea



OFDI Flow – Korea



OFDI Stock – Korea

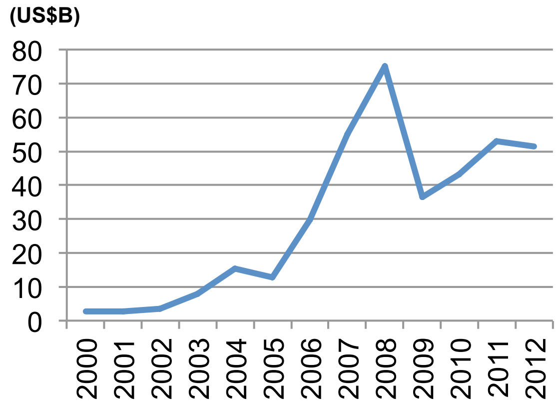


Russia

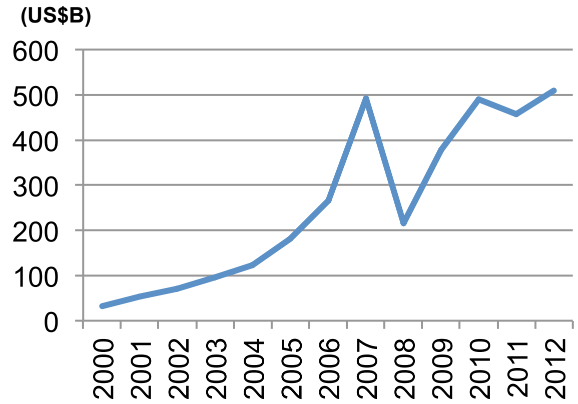
Between 2010 and 2012, increases in FDI into the wholesale/retail and financial/insurance sectors led to a growth in Russia's overall inward FDI. Despite the country's rich natural resources, FDI into Russian manufacturing and services grew faster in 2005-2010 than in extractive industries. Bermuda, British Virgin Islands and Cyprus are the three largest sources of inward FDI into Russia, which reflects the importance of round-tipping Russian investments via tax-haven destinations according to a report in July 2012 by Vale Columbia Center on Sustainable International Investment.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	2.71	32.20	3.18	20.14
2001	2.75	52.92	2.53	44.22
2002	3.46	70.88	3.53	62.35
2003	7.96	96.73	9.72	90.87
2004	15.44	122.30	13.78	107.29
2005	12.89	180.23	17.88	146.68
2006	29.70	265.87	29.99	216.47
2007	55.07	491.05	45.88	370.13
2008	75.00	215.76	55.66	205.55
2009	36.50	378.84	43.28	306.54
2010	43.29	490.56	52.62	366.30
2011	52.88	457.47	66.85	362.10
2012	51.42	508.89	51.06	413.16

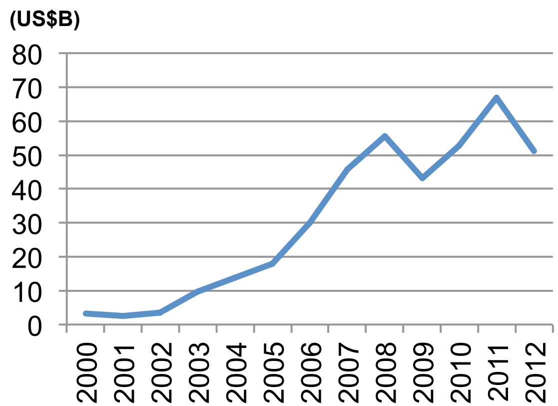
IFDI Flow – Russia



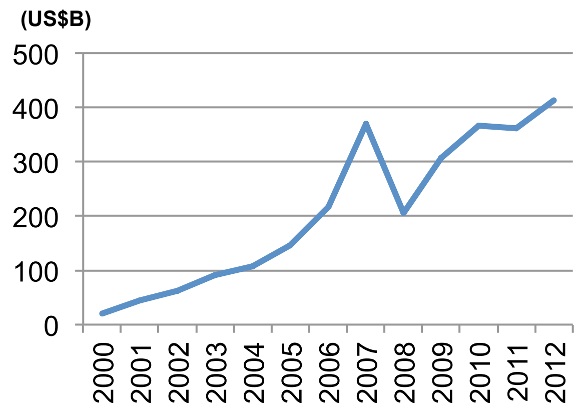
IFDI Stock – Russia



OFDI Flow – Russia



OFDI Stock – Russia

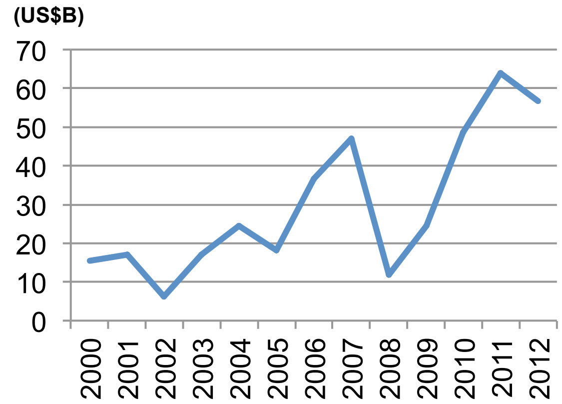


Singapore

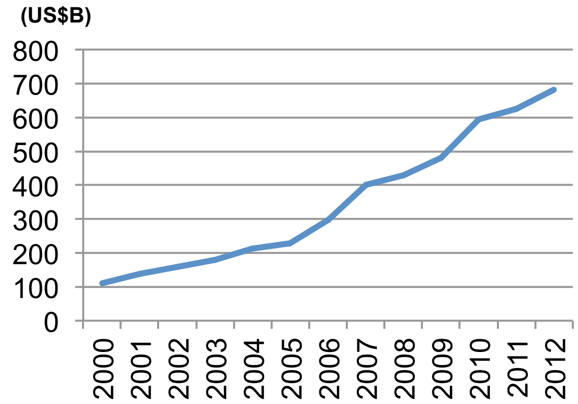
Singapore enjoys relatively strong FDI inflow because of its pro-investment policies. FDI inflow has trended upward except in 2008 when a significant dip in inflow was caused by a reduction in investment in the pharmaceutical manufacturing sector. Despite the global financial crisis, investment flow momentum into the financial services sector in 2007-2008 remained steady.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	15.52	110.57	6.65	56.76
2001	17.01	137.40	20.03	87.49
2002	6.16	159.13	-0.25	100.74
2003	17.05	180.63	3.11	121.33
2004	24.39	212.11	10.96	144.53
2005	18.09	229.46	11.59	159.87
2006	36.70	297.64	18.64	211.18
2007	46.93	400.00	36.90	273.21
2008	11.80	430.07	6.81	250.59
2009	24.42	480.20	24.05	295.73
2010	48.64	593.59	25.34	353.69
2011	64.00	625.74	26.25	378.35
2012	56.65	682.40	23.08	401.43

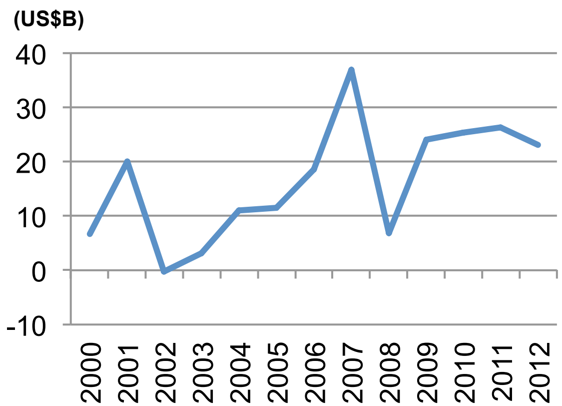
IFDI Flow – Singapore



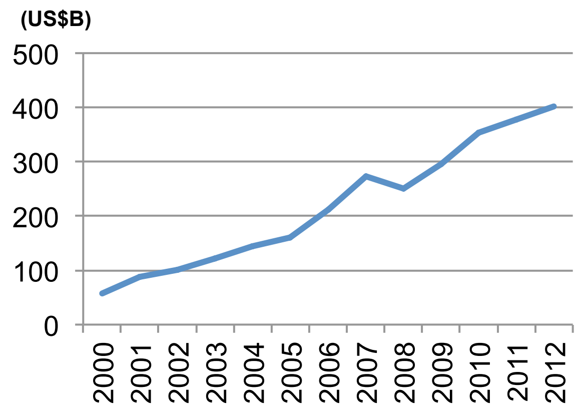
IFDI Stock – Singapore



OFDI Flow – Singapore



OFDI Stock – Singapore

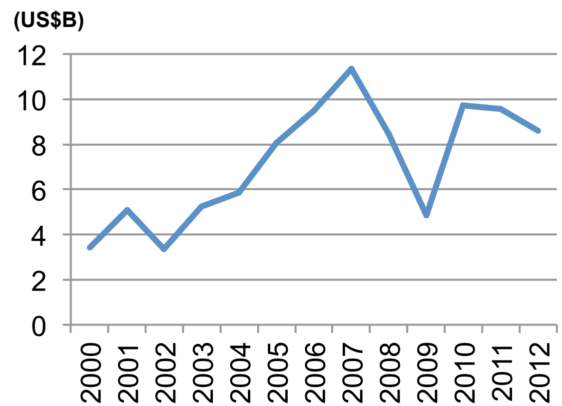


Thailand

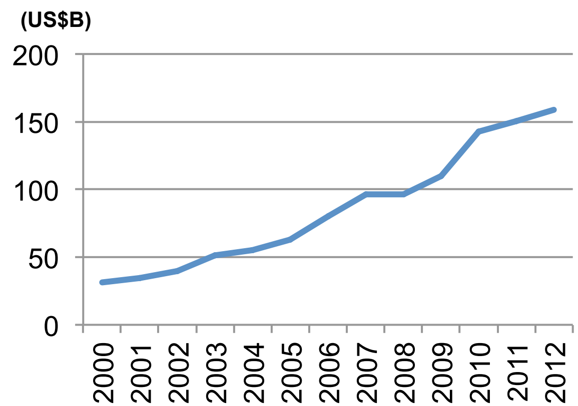
Recent slowdown in FDI inflows to Thailand is mainly due to decreased inward FDI into financial services and electrical equipment and automotive manufacturing industries.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	3.41	31.12	-0.02	3.41
2001	5.07	34.75	0.43	4.11
2002	3.36	39.92	0.17	4.33
2003	5.22	51.18	0.61	5.63
2004	5.86	55.15	0.07	5.69
2005	8.07	62.83	0.53	6.49
2006	9.50	80.54	0.97	8.58
2007	11.36	96.56	3.00	9.45
2008	8.45	96.64	4.06	12.08
2009	4.85	110.07	4.17	17.17
2010	9.73	142.50	4.47	23.57
2011	9.57	150.52	8.22	40.65
2012	8.61	159.12	11.91	52.56

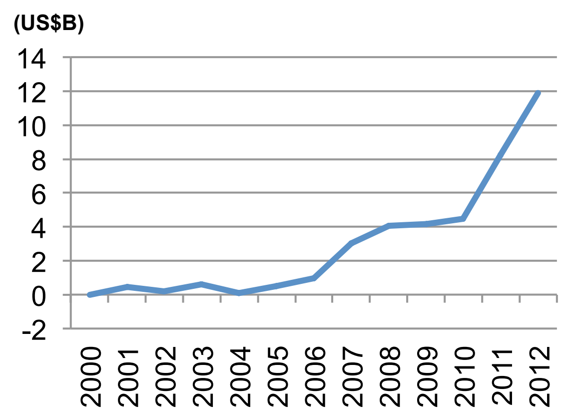
IFDI Flow – Thailand



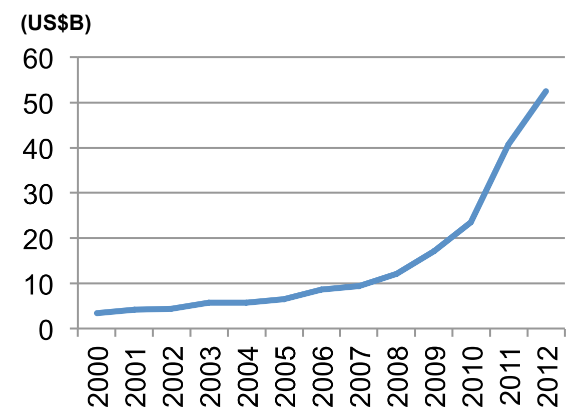
IFDI Stock – Thailand



OFDI Flow – Thailand



OFDI Stock – Thailand

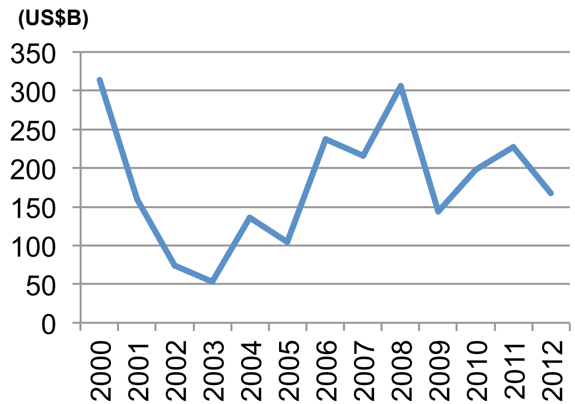


United States

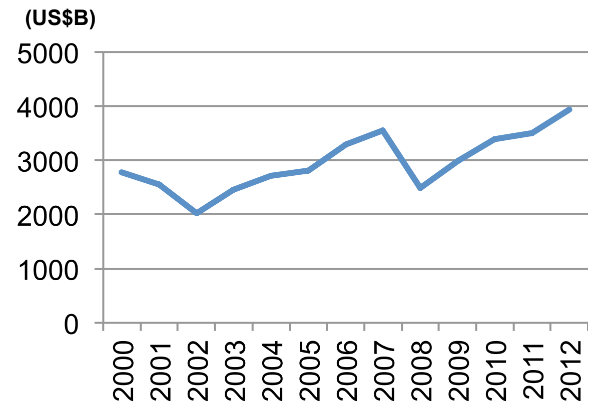
The global financial crisis caused FDI to the United States to decrease significantly in 2009. In 2011, FDI to the United States once again decreased due to the lack of investor confidence during the European sovereign debt crisis. Banking, finance and insurance sectors were among the most impacted and experienced substantial decreases in FDI.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	314.00	2783.24	142.63	2694.01
2001	159.48	2560.29	124.87	2314.93
2002	74.50	2021.82	134.95	2022.59
2003	53.14	2454.88	129.35	2729.13
2004	135.85	2717.38	294.91	3362.80
2005	104.81	2817.97	15.37	3638.00
2006	237.14	3293.05	224.22	4470.34
2007	215.95	3551.31	393.52	5274.99
2008	306.37	2486.45	308.30	3102.42
2009	143.60	2995.46	266.96	4287.20
2010	197.91	3397.41	304.40	4766.73
2011	226.94	3509.36	396.66	4499.96
2012	167.62	3931.98	328.87	5191.12

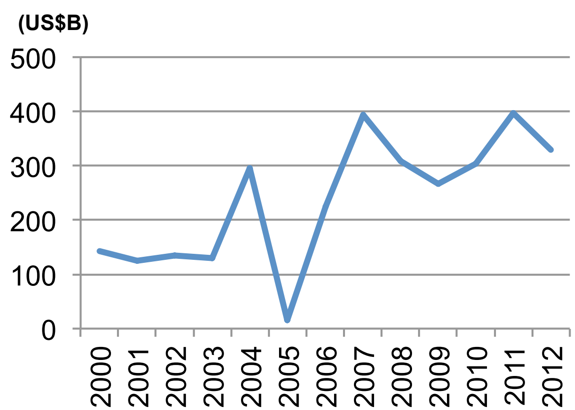
IFDI Flow – United States



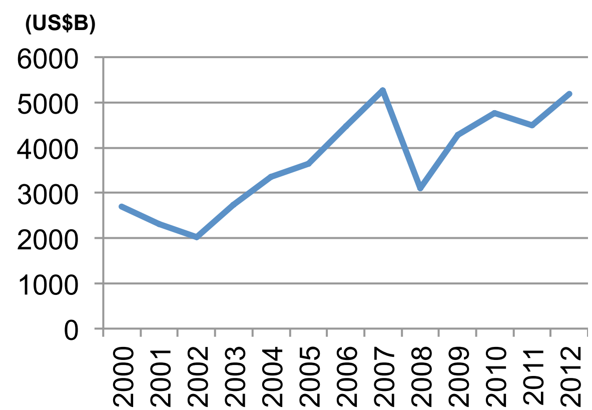
IFDI Stock – United States



OFDI Flow – United States



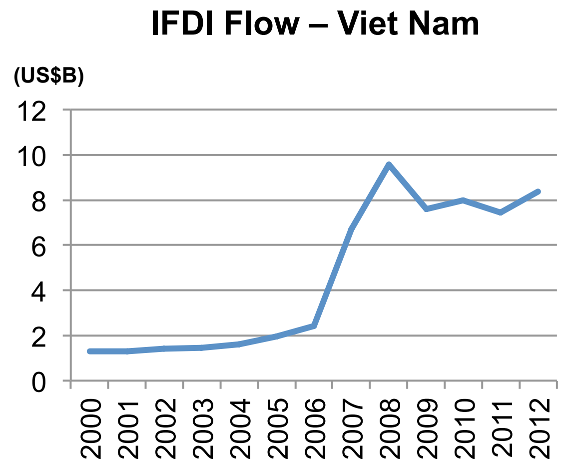
OFDI Stock – United States

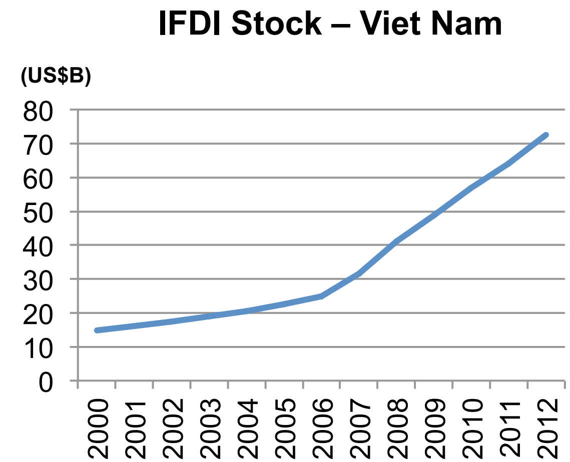


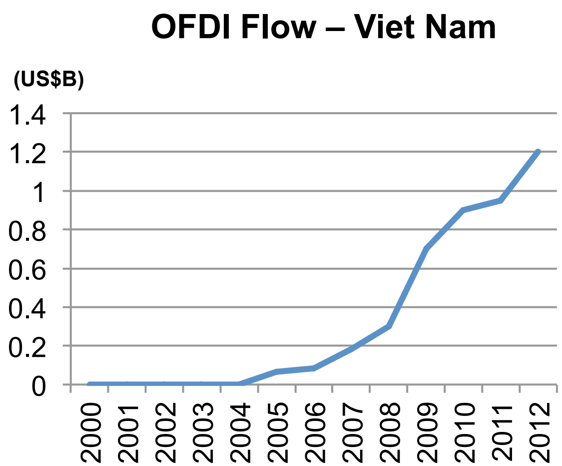
Viet Nam

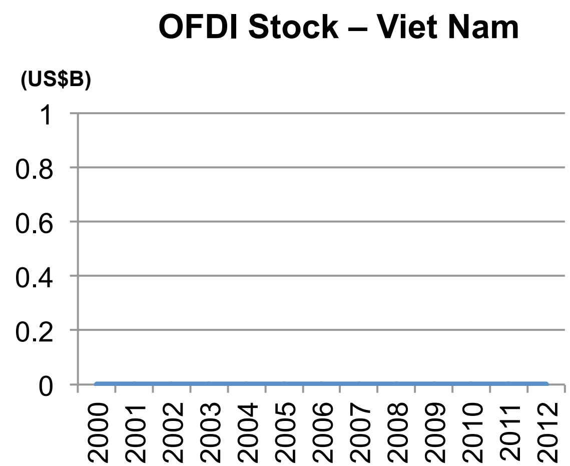
Viet Nam's FDI inflow exhibits a general upward trend since 2000 as the economy opened up and investments seeking manufacturing labor flooded in. In the late 2000s, FDI inflow was stimulated by regional recovery, accession to WTO and bilateral trade agreement signed with the US.

Year	IFDI Flow (US$B)	IFDI Stock (US$B)	OFDI Flow (US$B)	OFDI Stock (US$B)
2000	1.30	14.74	0.00	0.00
2001	1.30	16.04	0.00	0.00
2002	1.40	17.44	0.00	0.00
2003	1.45	18.89	0.00	0.00
2004	1.61	20.50	0.00	0.00
2005	1.95	22.45	0.07	0.00
2006	2.40	24.85	0.09	0.00
2007	6.70	31.55	0.18	0.00
2008	9.58	41.13	0.30	0.00
2009	7.60	48.73	0.70	0.00
2010	8.00	56.73	0.90	0.00
2011	7.43	64.16	0.95	0.00
2012	8.37	72.53	1.20	0.00









Data Analysis > Sectorial Specific

The US, Singapore, Canada, Chile, and Japan had surprising inward FDI flows recently

Some of the most surprising trends in overall FDI flow data can be explained by examining more fine grained sectorial data. For example, the decline in the US overall FDI flow can be largely explained by the Global Financial Crisis. The lack of detailed FDI statistics presented a major barrier to performing an in-depth analysis of these FDI flows, such as those in the US, Singapore, Canada, Chile, and Japan since 2006.

Inward FDI Flow into APEC for 2006-2012

(US$B)	2006	2007	2008	2009	2010	2011	2012
APEC	580.22	738.49	794.10	478.34	632.09	732.64	697.24
US	237.14	215.95	306.37	143.60	197.91	226.94	167.62
China	72.72	83.52	108.31	95.00	114.73	123.99	121.08
Hong Kong	45.06	54.34	59.62	52.39	71.07	83.16	74.58
Australia	31.05	45.54	47.22	26.55	35.56	41.32	56.96
Singapore	36.70	46.93	11.80	24.42	48.64	64.00	56.65
Russia	29.70	55.07	75.00	36.50	43.29	52.88	51.42
Canada	60.29	114.65	57.18	21.41	23.41	40.93	45.38
Chile	7.43	12.57	15.52	12.89	15.37	17.30	30.32
Indonesia	4.91	6.93	9.32	4.88	13.77	18.91	19.85
Mexico	20.12	31.49	27.14	16.12	20.71	19.55	12.66
Peru	3.47	5.49	6.92	6.43	8.46	8.23	12.24
Malaysia	6.06	8.60	7.17	1.45	9.10	11.97	10.07
Korea	4.88	2.63	8.41	7.50	8.51	4.66	9.90
Thailand	9.50	11.36	8.46	4.85	9.73	9.57	8.61
Viet Nam	2.40	6.70	9.58	7.60	8.00	7.43	8.37
Chinese Taipei	7.42	7.77	5.43	2.81	2.49	-1.96	3.21
New Zealand	4.53	3.13	4.39	-0.76	0.64	3.37	2.91
Philippines	2.92	2.92	1.54	1.96	1.30	1.26	2.80
Japan	-6.51	22.55	24.43	11.94	-1.25	-1.76	1.73
Brunei	0.43	0.26	0.33	0.37	0.63	1.21	0.85
Papua New Guinea	-0.01	0.10	-0.03	0.42	0.03	-0.31	0.03

FDI into US finance sector declined dramatically since financial crisis.

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

Strong JPY/USD rate deteriorated FDI attractiveness in Japan.

Decreased inward FDI in banking and financial sectors is the major driver of FDI slowdown into the US

The decrease in inward FDI flows in the US is attributable to the sharp decline in FDI to the finance and banking sectors following the global financial crisis even though other industries, such as manufacturing and others, recovered. A decrease in investor confidence, amidst the European sovereign debt crisis, also explains the 25% inward FDI decline in 2012. Major European investors, including the United Kingdom, Switzerland and Luxembourg, reduced outward FDI to the US in 2012 due to growing concerns of global economic uncertainty.

Sectorial Inward FDI Flows for the United States

(US$B)	2007	2008	2009	2010	2011	2012
Total	215.95	306.37	143.60	198.05	223.76	160.57
Manufacturing	102.76	77.10	53.42	91.90	93.21	79.50
Chemicals	42.11	-2.78	12.30	15.27	43.71	39.86
Machinery	16.69	9.22	5.40	1.23	9.53	4.46
Computers and electronic products	0.76	10.03	-3.97	5.40	3.08	1.80
Electrical equipment, appliances, and components	8.81	1.00	2.19	-0.12	2.10	23.34
Transportation equipment	12.24	-6.25	16.04	11.15	6.01	6.56
Other Manufacturing	22.16	65.87	21.47	58.97	28.78	3.48
Services	63.51	168.87	54.38	75.16	59.28	39.25
Wholesale trade	31.81	32.89	11.63	23.81	21.96	19.15
Retail trade	-2.20	7.20	4.17	-1.45	2.23	4.46
Information	8.96	8.55	-7.88	-10.20	-4.28	3.40
Depository institutions (banking)	-0.80	24.75	16.59	12.37	27.16	-2.42
Finance (ex. depository institutions) and insurance	9.47	95.35	28.48	35.51	7.09	2.57
Real estate and rental and leasing	7.78	-4.75	-1.02	-0.58	2.54	1.04
Professional, scientific, and technical services	8.51	4.88	2.41	15.70	2.58	11.06
Others	49.68	60.39	35.81	30.99	71.28	41.82
Mining	20.59	16.83	7.59	21.77	26.69	13.64
Holding companies (nonbank)	4.60	11.65	7.00	5.35	36.21	20.34
Utilities	13.36	17.48	8.77	1.07	3.01	4.04
Others	11.13	14.44	12.45	2.81	5.36	3.80

Inflow declines into US financial institutions started in 2009 and decreased significantly thereafter.

Outflow declines from Europe combined with investor uncertainty are major causes of reduced FDI.

Singapore's financial sector was unaffected by the GFC

Singapore only reports inward FDI stock so the values should almost always be growing. The only sector that had a significant reduction in inward FDI stock since 2007 is the pharmaceutical sector in 2008. Singapore's financial services sector has grown steadily without significant impact from the financial crises in the United States and Europe.

Sectorial Inward FDI Flow Data for Singapore

(US$B)	2007	2008	2009	2010	2011
Total	466.57	510.32	574.76	629.77	672.02
Manufacturing	116.48	104.49	123.27	133.72	137.29
Pharmaceutical Products	47.88	30.87	36.97	42.39	44.45
Computer, Electronic and Optical Products	31.60	32.65	40.48	40.77	41.39
Refined Petroleum Products	14.15	14.57	19.75	20.63	21.21
Chemicals & Chemical Products	6.89	7.09	7.78	9.19	9.29
Machinery & Equipment	5.19	6.06	5.95	7.00	7.12
Others	10.78	13.25	12.35	13.74	13.83
Services	346.36	398.76	440.97	484.18	520.86
Wholesale Trade	75.06	90.98	96.61	106.44	114.65
Retail Trade	2.01	1.97	2.54	2.42	3.81
Accommodation & Food Service Activities	3.01	3.36	3.49	3.83	4.14
Transport & Storage	30.53	36.33	36.84	36.93	35.28
Information & Communications	4.89	5.13	5.90	5.87	5.89
Financial Services	187.92	202.33	231.36	264.01	280.32
Insurance Services	7.44	7.60	7.96	8.56	9.42
Real Estate Activities	12.90	14.70	17.31	20.28	27.54
Professional, Scientific & Technical, Administrative & Support Services	22.61	36.36	38.97	35.83	39.80
Others	3.73	7.08	10.52	11.87	13.88
Construction	1.52	1.92	2.75	2.09	2.99
Others	2.21	5.16	7.76	9.77	10.89

Steady growth in Singapore's FDI numbers holds across nearly all sectors.

Investment into Singapore's financial services sector was surprisingly unaffected by the financial crisis.

Mining is the largest individual FDI-attracting sector in Chile, responsible for more than 1/3 of FDI since 2007

In 2009, Wal-Mart acquired a majority stake in Chilean supermarket chain D&S for almost $2.7B, which was responsible for more than half of total FDI inflow in 2009. Chile only reports materialized inward FDI flows as opposed to approved inward FDI flows, as most other economies do. Chile's inward FDI flows are heavily made up of mining sector investments.

Sectorial Inward FDI Flow Data for Chile

(US$B)	2007	2008	2009	2010	2011	2012
Total	1.37	5.17	5.36	2.68	4.27	8.19
Manufacturing	0.07	0.22	0.46	0.13	0.22	1.18
Food, beverages and tobacco	0.02	0.05	0.05	0.04	0.05	0.45
Wood and paper products, printing and publishing	0.02	0.05	0.00	0.01	0.00	0.08
Chemical, rubber and plastics	0.01	0.00	0.05	0.00	0.01	0.61
Other manufacturing industries	0.02	0.11	0.37	0.08	0.16	0.04
Services	0.70	1.03	3.49	1.53	1.16	3.19
Wholesale and retail trade	0.26	0.00	2.68	0.56	0.06	0.05
Transport and storage	0.02	0.43	0.23	0.28	0.13	0.48
Communications	0.07	0.28	0.20	0.12	0.09	0.26
Financial services	0.25	0.17	0.30	0.47	0.06	0.78
Insurance	0.01	0.03	0.00	0.02	0.72	1.53
Engineering and business services	0.07	0.11	0.06	0.06	0.10	0.10
Other Services	0.03	0.02	0.02	0.01	0.00	0.00
Others	0.60	3.92	1.41	1.02	2.89	3.81
Electricity, gas & water supply	0.17	1.45	0.36	0.11	0.22	0.90
Construction	0.00	0.00	0.00	0.01	0.00	0.01
Agriculture and Livestock	0.00	0.00	0.01	0.01	0.05	0.05
Forestry	0.11	0.08	0.03	0.01	0.01	0.02
Fishing and aquaculture	0.01	0.01	0.00	0.00	0.00	0.00
Mining and quarrying	0.31	2.37	1.02	0.89	2.62	2.84

Some variations can represent major deals or one time investments, like the Wal-Mart acquisition of D&S.

Extractive industries represent a major portion of Chilean inward FDI flows.

The finance and insurance sector accounts for much of Japan's FDI drop since 2008

Japan has experienced greatly reduced inward FDI flows since 2008. Much of that reduction can be attributed to the drop in the finance and insurance sector, formerly Japan's largest FDI attractor. The story here is similar to that of the United States.

Sectorial Inward FDI Flow Data for Japan

(US$B)	2007	2008	2009	2010	2011	2012
Total	22.18	24.55	11.84	-1.36	-1.70	1.76
Manufacturing	1.38	2.26	3.49	1.77	2.41	5.35
Transportation Equipment	0.33	-0.06	0.47	3.36	0.25	-0.14
Machinery, Equipment	-0.39	1.48	1.92	1.10	0.95	2.72
Textile, Clothing	0.11	0.00	-0.01	-0.10	0.12	0.02
Other Manufacturing	1.33	0.84	1.11	-2.60	1.08	2.74
Services	21.06	22.31	8.43	-3.39	-3.78	-3.55
Communications	-0.63	-1.03	0.62	-3.24	-2.75	-0.06
Wholesale and retail	1.66	1.16	1.06	-0.23	1.59	-2.42
Finance and insurance	17.66	19.82	5.21	-1.50	-3.70	-1.38
Real estate	1.41	0.58	-0.07	0.22	-0.24	0.29
Business Services	0.30	0.47	1.34	0.88	0.79	-0.24
Others	0.67	1.30	0.28	0.49	0.53	0.27
Others	-0.26	-0.02	-0.08	0.27	-0.33	-0.04
Farming and forestry	0.04	0.00	-0.01	0.01	-0.01	-0.01
Fishery and marine products	-0.03	0.00	0.00	0.00	0.00	0.00
Mining	0.00	0.00	0.00	0.06	0.00	0.01
Construction	0.02	-0.06	0.02	0.00	-0.07	-0.03
Transportation	-0.29	0.04	-0.09	0.20	-0.26	-0.01

Nearly all of Japan's Inward FDI used to come from finance and insurance sector. After 2009, these flows evaporated.

A decrease in FDI into the mining sector has driven overall FDI slowdown in Australia since 2008

Australia experienced growth in inward FDI flow in 2008 driven largely by an increase in the mining sector. A sharp decrease in FDI to the mining sector since has driven Australia's reduction in inward FDI flows. Executives in Australia explained that a decrease of investment in this area is largely a reflection that enough new mines have been built and there is less need for additional investment.

Sectorial Inward FDI Flow Data for Australia

(US$B)	2007	2008	2009	2010
Total	42.31	46.86	30.67	31.19
Manufacturing	7.12	5.14	8.71	7.64
Services	17.86	9.68	9.96	13.86
Wholesale & Retail trade	2.96	4.54	3.37	4.21
Accommodation, cafes and restaurants	0.43	0.37	0.12	0.54
Transport & Communication	11.71	-0.65	0.75	-2.16
Finance and insurance	1.73	4.63	4.64	7.21
Property and business services	1.03	0.80	1.09	4.06
Others	17.33	32.04	12.01	9.70
Agriculture, forestry and fishing	0.00	0.01	-0.01	0.02
Mining	5.72	32.05	12.76	7.93
Electricity, gas and water	1.48	0.68	1.05	0.20
Construction	9.71	0.89	0.80	1.31
Other Services	-0.58	0.54	0.50	0.55
Unallocated	1.01	-2.13	-3.09	-0.31

Mining FDI exploded in 2008, then returned to normal levels by 2010, the last year data was available.

Hong Kong's inward FDI flow has been resilient despite GFC due to investment holding and banking sectors

Despite decreases in many other sectors, Hong Kong's inward FDI flows have increased. This can be attributed almost entirely to increases in the investment holding and banking sectors.

Sectorial Inward FDI Flow Data for Hong Kong

(US$B)	2007	2008	2009	2010
Total	54.34	59.62	52.39	71.07
Manufacturing	0.86	2.44	-2.85	-0.30
Services	51.11	55.79	54.77	69.82
Investment holding, real estate and various business services	26.24	30.33	30.23	56.56
Banks and deposit-taking companies	9.27	10.41	10.20	16.45
Wholesale, retail and import/export trades	9.08	9.00	7.84	8.80
Financial institutions ex. banks and deposit-taking companies	3.69	1.21	2.49	0.75
Insurance	0.22	3.24	2.70	-18.25
Transport and related services	2.24	1.98	1.56	4.47
Communications	0.06	-0.95	-0.53	0.70
Restaurants and hotels	0.31	0.58	0.28	0.35
Others	2.37	1.37	0.46	1.54
Construction	1.30	0.63	0.08	2.11
Others	1.08	0.75	0.39	-0.57

Unlike many economies, Hong Kong, has seen significant investment in banking.

These increases outweigh the losses in the insurance sector.

Malaysia's inward FDI flows grow and shrink with the manufacturing and service sectors

Malaysia saw a major decrease in inward FDI flows in 2009 and a smaller decrease in 2012. Both decreases were entirely driven by the manufacturing and service sectors. It is difficult to determine more specific causes of volatility without more granular data.

Sectorial Inward FDI Flow Data for Malaysia

(US$B)	2008	2009	2010	2011	2012
Total	7.18	1.45	9.06	12.20	10.08
Manufacturing	3.71	-0.49	5.14	5.46	4.24
Services	4.04	1.07	3.04	4.14	2.55
Wholesale and Retail Trade	0.01	0.76	0.81	1.09	0.68
Information and Communication	0.19	-0.58	0.11	-0.13	0.20
Financial and Insurance/Takaful Activities	3.51	1.21	1.94	1.74	1.28
Other services	0.33	-0.31	0.19	1.44	0.39
Others	-0.58	0.87	0.88	2.60	3.29
Agriculture, Forestry and Fishing	0.08	-0.03	-0.02	0.03	0.10
Mining and Quarrying (including oil and gas)	-0.69	0.93	0.97	2.54	3.12
Construction	0.03	-0.03	-0.07	0.03	0.07

Volatility in Malaysia is primarily due to the larger manufacturing and service sectors. Malaysian data is not particularly fine grained.

With the exception of 2010, Mexico's inward FDI flows have slowed across multiple sectors

Across multiple sectors, Mexico's inward FDI flow has decreased every year since 2007 with the exception of 2010. There were notable decreases in the financial and manufacturing sectors.

Sectorial Inward FDI Flow Data for Mexico

(US$B)	2007	2008	2009	2010	2011
Total	31.49	27.14	16.12	20.71	19.55
Manufacturing	13.61	7.85	5.67	11.59	9.08
Services	13.04	12.96	8.75	7.67	8.41
Trade	1.55	1.90	1.54	2.79	1.97
Transportation	0.30	0.38	0.10	0.16	0.28
Information and Mass Media	0.30	1.49	0.17	0.19	1.12
Financial	6.52	6.24	2.51	1.87	2.49
Real Estate and Rental	1.42	1.80	1.07	1.32	0.88
Professional	0.41	0.50	0.27	0.25	0.66
Business Support	0.92	0.58	2.87	0.64	0.05
Educational	0.04	0.17	0.00	0.01	0.00
Health	0.03	0.03	0.02	0.01	0.00
Recreational	0.27	-0.02	0.01	0.03	0.08
Accommodation and Lodging	1.25	-0.16	0.11	0.32	0.64
Other Services	0.04	0.06	0.07	0.08	0.23
Others	4.85	6.33	1.70	1.45	2.07
Agriculture	0.14	0.05	0.04	0.06	0.02
Mining	1.69	4.75	0.84	1.22	0.82
Electricity and Water	0.58	0.48	0.06	0.01	-0.22
Construction	2.44	1.04	0.76	0.16	1.44

Mexican inward FDI flows into manufacturing have been volatile.

Financial sectors declined after the financial crises.

Inward FDI flows to Korea have increased steadily since 2007, driven by manufacturing sectors

Korea's FTAs with the US, European Union and other major markets attracted growing inward FDI flows, especially into the manufacturing sector.

Sectorial Inward FDI Flow Data for Korea

(US$B)	2007	2008	2009	2010	2011	2012
Total	10.52	11.71	11.48	13.07	13.67	16.29
Manufacturing	2.69	3.01	3.73	6.66	5.66	6.10
Chemical	0.51	0.57	0.20	0.93	1.83	1.29
Electrical, Electronic	0.94	1.06	1.80	1.56	1.75	1.31
Transportation Equipment	0.57	0.35	0.63	2.48	0.32	1.26
Machinery, Equipment	0.30	0.24	0.18	0.41	0.50	0.34
Metal	0.24	0.19	0.40	0.15	0.68	0.58
Other Manufacturing	0.14	0.60	0.52	1.13	0.57	1.32
Services	7.61	8.39	7.60	6.30	7.27	9.60
Finance, Insurance	2.29	4.61	1.25	0.96	1.74	2.19
Real Estate, Lease	0.98	0.69	1.42	2.69	1.47	1.75
Business Services	1.11	1.14	1.95	0.95	1.29	3.11
Wholesale, Retail	1.83	0.94	2.20	0.97	1.74	1.24
Other Services	1.41	1.01	0.77	0.74	1.02	1.32
Others	0.21	0.32	0.17	0.11	0.75	0.59
Agriculture, Livestock, Fishery, Mining	0.00	0.00	0.02	0.00	0.06	0.00
Electricity, Gas, Water, Construction	0.21	0.32	0.15	0.11	0.69	0.58

Korean inward FDI flows have steadily increased.

After a decrease in 2008, the Korean financial sector has rebounded.

Thailand's FDI dropped in 2009, largely due to the GFC and political unrest

Thailand's inward FDI flows have decreased since 2007. Flows in 2009 decreased at the same time as violent protest broke out in the streets of Bangkok, but the financial crisis also occurred in the same year. Flows into the banking sector have been volatile since 2007.

Sectorial Inward FDI Flow Data for Thailand

(US$B)	2007	2008	2009	2010	2011	2012
Total	11.33	8.55	4.85	9.11	7.78	7.24
Manufacturing	4.50	4.89	2.41	4.62	4.30	5.29
Food Products	0.19	0.14	0.14	0.11	0.80	0.25
Coke and Refined Petroleum Products	1.24	-0.44	0.18	-0.02	0.09	0.26
Chemicals and Chemical Products	-0.12	0.62	0.51	0.87	0.51	0.77
Rubber and Plastic Products	0.31	0.39	0.31	0.33	0.52	0.66
Computer, Electronic and Optical products	0.49	0.34	0.04	0.99	0.74	0.97
Electrical Equipment	0.38	1.30	0.29	-0.08	0.20	0.36
Machinery and Equipment	0.15	0.12	0.19	0.07	0.33	0.29
Motor Vehicles, Trailers and Semi-trailer	1.08	0.91	0.38	1.40	0.61	0.63
Others	0.79	1.51	0.38	0.96	0.49	1.10
Services	3.78	3.50	1.55	3.19	2.92	2.46
Wholesale and retail trade; repair of motor vehicles	-0.26	0.13	0.35	-0.06	0.29	0.37
Transportation and storage	-0.04	0.45	0.12	-0.13	0.16	0.24
Accommodation and food service activities	0.17	-0.05	0.05	0.11	0.03	0.16
Financial and insurance activities	2.82	1.77	0.27	2.28	1.34	0.68
Real estate activities	1.10	1.20	0.77	0.98	1.11	1.01
Others	3.06	0.16	0.89	1.30	0.56	-0.51
Agriculture, forestry and fishing	0.00	0.01	0.01	0.01	0.01	0.01
Mining and quarrying	1.31	0.00	0.64	0.42	0.30	-0.42
Electricity, gas, steam and air conditioning supply	0.03	0.20	0.22	-0.06	0.07	0.03
Construction	0.03	-0.03	0.00	0.03	-0.08	-0.19
Others	1.68	-0.02	0.02	0.91	0.26	0.07

Manufacturing inflows dipped in 2009, attributable to the GFC and political instability.

Services dipped over the same time period.

Identifying and Measuring FDI Impediments within APEC

Introduction

The results of our APEC interviews identify and quantify major FDI impediments and are accompanied by our secondary research. This section is organized as follows:

"Business Perspective" APEC FDI Impediments Framework: The FDI impediments framework created from our in-depth interviews with APEC business executives identify and classify the main barriers and impediments to FDI. While the framework was informed by existing research it was derived by sorting and categorizing multiple barriers, chokepoints and impediments highlighted by businesses within APEC.

Quantifying the Impact of FDI Impediments: The approach quantifies the qualitative responses obtained in our research. While the first objective identified the main FDI impediments, the second had executives estimate the impact on their investment decisions and operations.

Benchmarking APEC Economies: The approach benchmarked and compared each APEC economy with global standards. This report answers the call to benchmark APEC economies against comparable and relatively objective performance measures. Global rankings from the World Bank's Investing Across Borders, World Economic Forum's Global Competitiveness and Enabling Trade Indices were converted into a visual coding scheme.

Assessing APEC Economies on FDI Impediments: Detailed economy-level performance was measured for each FDI impediment. Each results section begins with a description of the FDI impediment highlighted by APEC executives. The descriptions are followed by result tables which visually present the benchmark ranking and relative impact score of each APEC economy for those FDI impediments.

This is not an econometric study. This is a qualitative study based on in-depth interviews and questionnaires. Whether in our APEC interviews, or in the questionnaires used by the World Bank and the World Economic Forum, business executives were asked for their opinions of the impact of different factors on their businesses. This introduces noise into the data. For example, the responses of two executives from different firms could differ though they operate in the same economy. This report highlights impediments and barriers that are important to business, and hence should be important to policy makers.

A critical challenge encountered with an interview research design is that often important issues emerge and become clear only after the interviews have been completed.

Identifying major impediments to FDI within APEC

The primary objective of this report was to capture the voice of the APEC business community with respect to the barriers, chokepoints, friction and frustrations with FDI. While our interview protocol was informed by prior research, we intentionally adopted an open-ended interview approach to identify problem areas from the business perspective.

The FDI Impediments Framework presented below was created by drawing out common themes across the interviews conducted in different APEC economies and in different sectors. By its generalized nature the framework sacrifices detail on specific industry issues. For example, executives from energy firms experience very different FDI impediments in Mexico than do manufacturing firms.

In depth interviews with…

- Different executives
- Different economies
- Different economic sectors
- Economies in different growth stages

…Created a generalized FDI Framework from the Business Perspective

FDI IMPEDIMENTS FRAMEWORK

MARKET ACCESS

- Intentional Restrictions
- International Investment Agreements
- FDI Opportunity Promotion

REGULATORY ENVIRONMENT

- Predictability of Investment Regulations
- National Treatment
- Clarity of Investment Regulations
- Community Consultative Process

BUSINESS ENVIRONMENT

- Capital Markets
- Human Capital
- Infrastructure
- Related and Supporting Industries
- Physical Security
- Openness of Markets
- Tax Environment
- Nationalism
- Political and Economic Stability
- Cultural Embeddedness

APPROVAL IMPLEMENTATION

- Transparency of Process
- Efficiency of Processes and Procedures
- Jurisdictional Overlap
- Consistency Across Levels of Government

JUDICIAL ENVIRONMENT

- Dispute Resolution
- Judicial Independence
- Intellectual Property Protection

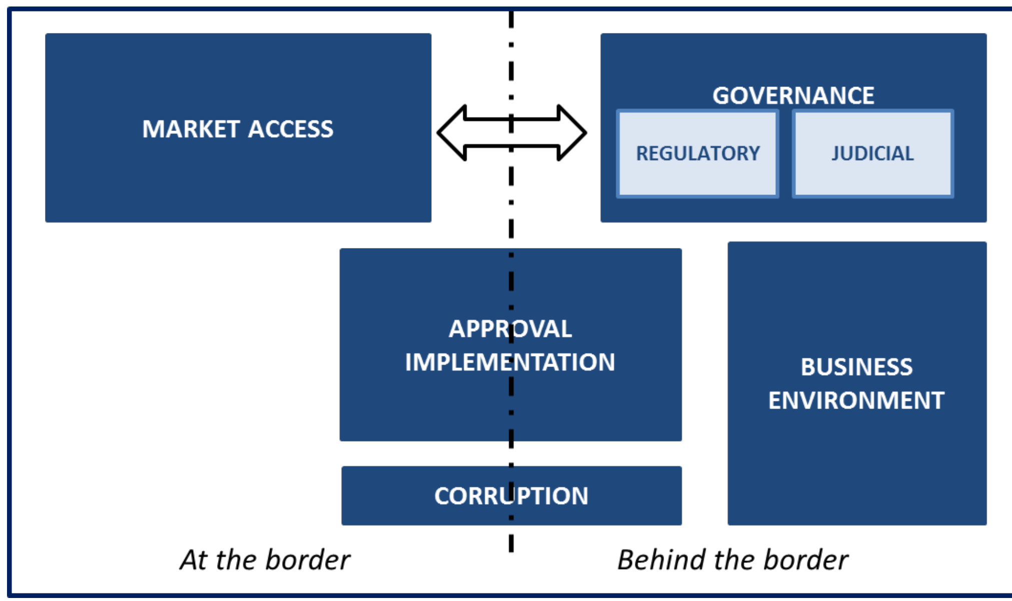
CORRUPTION

FDI approached as a decision of where to invest

Interviewees reported approaching international investment decisions in the same way as domestic investment decisions. They used the same decision logic as normal decisions of where to invest; albeit extremely complex ones. First, executives focused on the market opportunity and growth potential of markets. Then executives considered the quality of the business environment to support the investment, stability and predictability of the governance environment. Corruption and lack of transparency at all phases of the FDI process was also a major concern.

It is potentially helpful to compare the FDI Impediments Framework developed after in depth interview with APEC executives with the impediments identified in two Investment Experts Group Reports (November 2006 & August 2007).

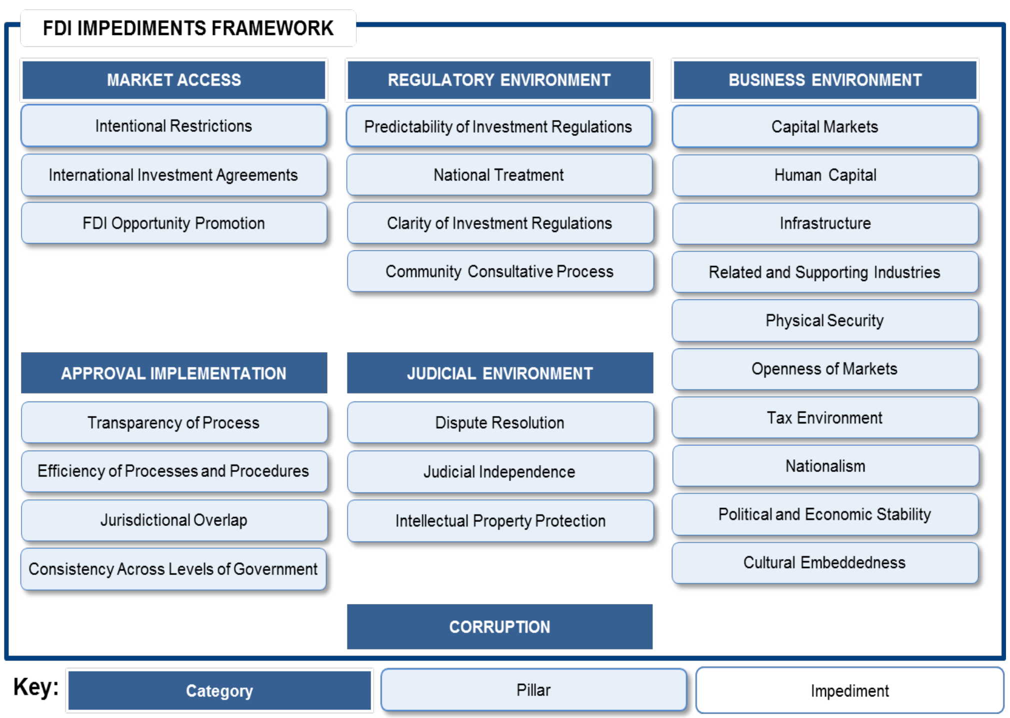
Existing reports identify FDI impediments as "At the Border" & "Behind the border"…



Business perspective FDI Impediments Framework

No Specific Separation of "At the Border" and "Behind the Border"
Business executives rarely discussed impediments in terms of "At the Border" or "Behind the Border." While restricted sectors and investment screening were clearly at the border concerns, businesses saw other barriers as investment decision concerns.

Our Framework Based on the Business Perspective
The FDI Impediments Framework below sorts and organizes the impediments into 6 major categories and 24 impediment pillars with 77 specific impediments.



APEC FDI Impediments Framework

FDI IMPEDIMENTS FRAMEWORK

MARKET ACCESS
- Intentional Restrictions
- International Investment Agreements
- FDI Opportunity Promotion

REGULATORY ENVIRONMENT
- Predictability of Investment Regulations
- National Treatment
- Clarity of Investment Regulations
- Community Consultative Process

BUSINESS ENVIRONMENT
- Capital Markets
- Human Capital
- Infrastructure
- Related and Supporting Industries
- Physical Security
- Openness of Markets
- Tax Environment
- Nationalism
- Political and Economic Stability
- Cultural Embeddedness

APPROVAL IMPLEMENTATION
- Transparency of Process
- Efficiency of Processes and Procedures
- Jurisdictional Overlap
- Consistency Across Levels of Government

JUDICIAL ENVIRONMENT
- Dispute Resolution
- Judicial Independence
- Intellectual Property Protection

CORRUPTION

Key: Category | Pillar | Impediment

Measuring the impact of FDI impediments

Attempts to quantify the impact of FDI Impediments proved to be very difficult. Another objective of this research project was to quantify the actual impact of FDI impediments highlighted by executives as being problematic. For example, executives were asked for specific estimates of added/wasted time, additional costs/expenses, the time and cost of top management involvement. However, few executives were able to give quantifiable estimates. Most offered general assessment of the relative impact of the FDI impediments.

Relative Impact Scale: Because of the lack of specific quantifiable data, but presented with a wealth of qualitative assessments by executives, a relative impact scale was created to *quantify* the qualitative assessments. A scale of minor impact (Green) to prohibitive impact (Red) was adopted for readability.

Confirming Questionnaire: The researchers for each economy made estimates of the relative impact of the FDI impediments identified by firms and thought leaders and sent them back to the interviewees for confirmation and/or modification.

Caveats: A major limitation of the interview data is the limited number of interviews within each economy. Unfortunately this study was forced to sacrifice breadth for depth. Additionally, generalizing economy- level estimates of the impact of an FDI impediment is difficult because of important sectorial differences.

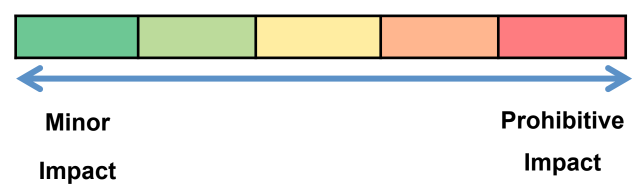
Researchers asked for specific estimates for…

- Added costs
- Added time
- Added complexity
- Required top management involvement
- Added risk and uncertainty

…but were typically given…

- Rough estimates of time
- Limited and very general cost estimates
- And explanations that barriers increased risks, but were not quantifiable

…thus we adopted a quantifiable impact scale.



Benchmarking APEC economies against economies in the world

An important intended contribution of this research report is a benchmarking of APEC economies against other economies. Similar to the approach recommended in the recent report, "Investment Facilitation Action Plan 2011 – 2020[1]", the report compares APEC economies against publicly available international standards or benchmarks. These comparisons provide a relatively objective evaluation of the individual and collective performance of APEC economies against other economies in the world.

Where available, economy-level performance measures were drawn from publicly available reports to measure the FDI impediments highlighted by APEC businesses. Extensive use of performance measures from the World Economic Forum's Global Competitiveness Index 2013-2014, the Enabling Trade Index 2012; World Bank – Investing Across Borders 2010; and World Bank IFC Indexes 2013 were used. Similar to the recommendations in the IFAP 2011-2022 report, direct or closely similar proxies are used to measure FDI impediments (see Appendix for a list of benchmark proxies used).

Drawing rankings and benchmarks from published sources…

…to obtain objective measures of FDI impediments within APEC economies.

For Example:	
Impediment	**Benchmarking Performance**
Corruption	Irregular Payments & Bribes (World Economic Forum Index, 2013-14) Corruption Perception Index (World Economic Forum Enabling Trade Index 2013) Corruption Index (Heritage Database)

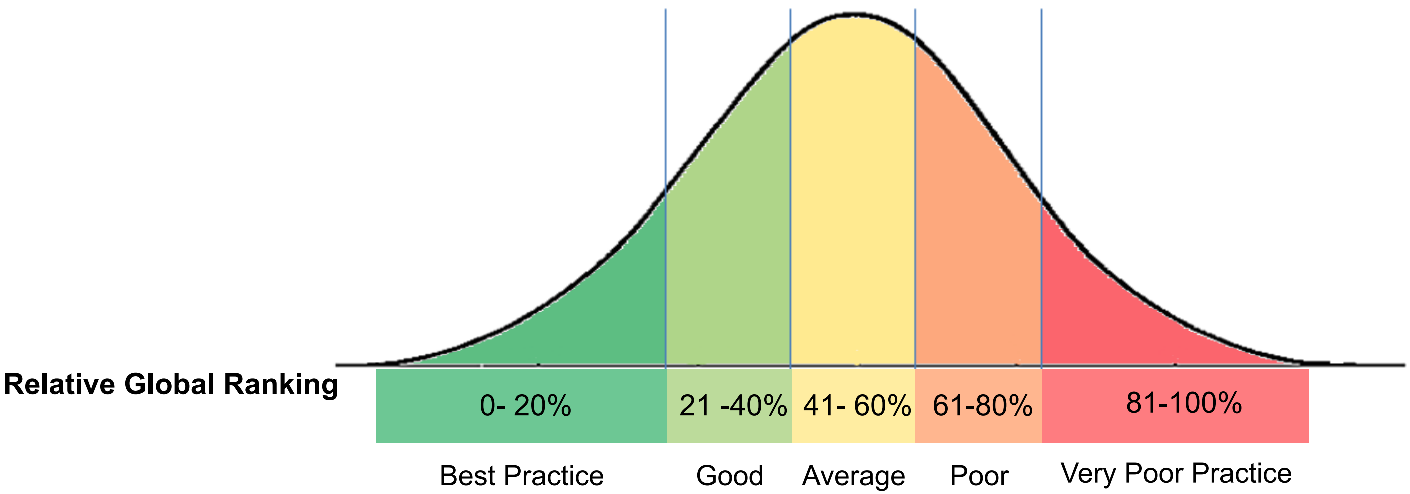
[1] Source: Investment Facilitation Action Plan 2011 – 2020, Second Investment Experts Group Meeting, Surabaya, Indonesia, April 2013.

Benchmarking APEC with relative rankings

Color-coded relative ranking: With the objective of producing an easily readable and interpretable report, a simple color coding scheme is used to present the relative performance of an economy with respect to each FDI impediment (where data is available). The approach used was to standardize the performance measures and to assign color coding to the results divided into quintiles.

Interpreting the benchmarked result: To illustrate any performance measure it is possible that APEC economies may have only green, light green or yellow scores. This would suggest APEC economies were in the average to best practice levels on this FDI performance measure. Conversely, it is possible that on another performance measure APEC economies could show predominantly amber and red scores. This would suggest APEC economies lag other global economies on this FDI performance measure.

Caveats: There are a number of important limitations to this method. First, it reduces variances in economies to five broad categories. Second, the relative importance of each FDI impediment is potentially lost. For example, all global economies may score highly on a measure compared to another more problematic FDI impediment, but all economies are “forced” into the five ranking categories.



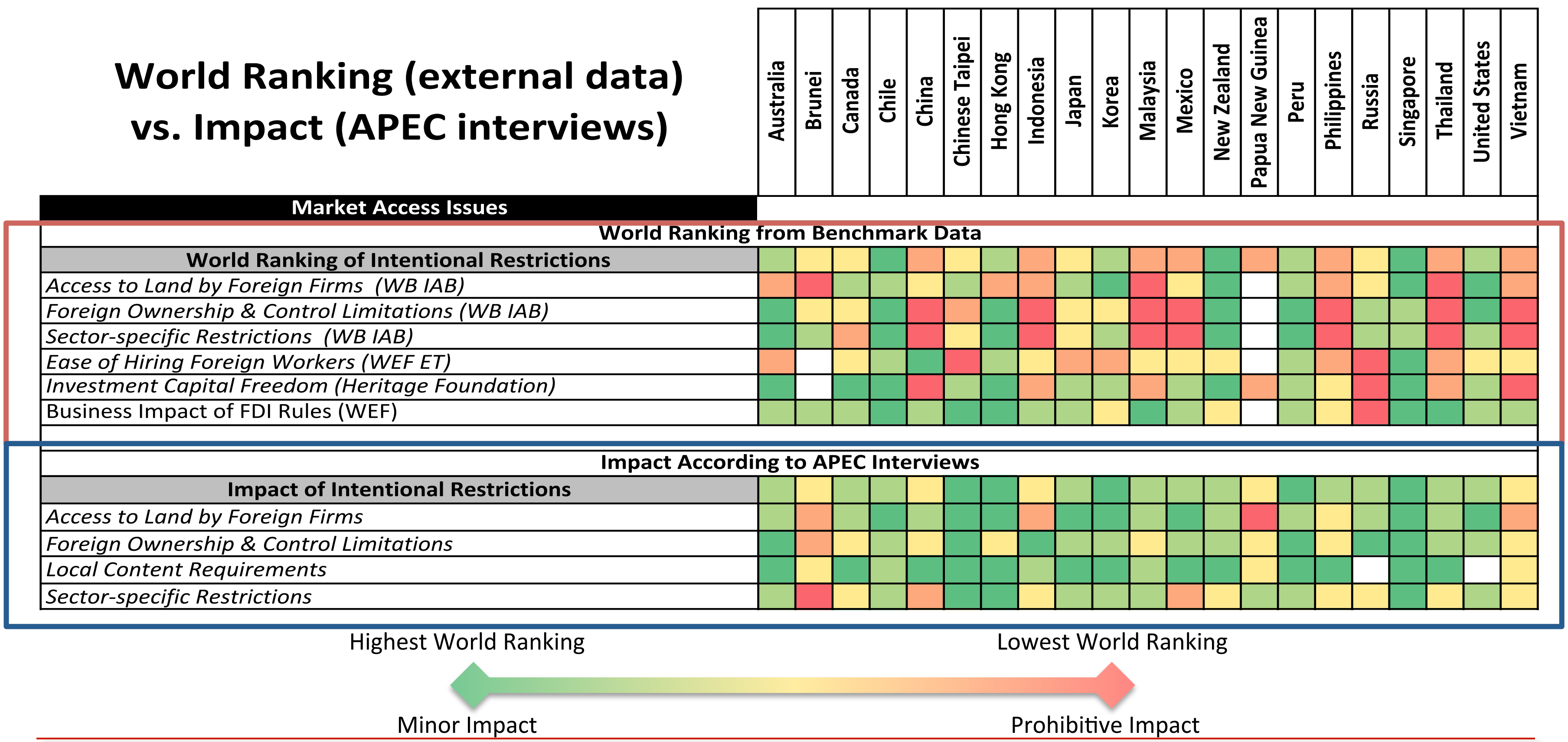
USC University of Southern California

ABAC
APEC Business Advisory Council

Reading the comparative ranking

The upper section presents the relative ranking of each APEC economy among all global economies rated by the World Bank or the World Economic Forum transformed into quintiles. The first line presents a composite average of the relative openness of each economy to FDI. The subsequent rows report performance on the specific restrictiveness factor.

The lower section presents assessments drawn from the APEC interviews on the relative impact of restrictive regulations. These assessments suggest that intentional restrictions have a differing impact on business than the world rankings would suggest.



Market Access Category

Impediments within the Market Access category represent the intentional choices of government to shape the types of foreign businesses that invest in their country. With few exceptions, requirement impediments and restrictions are intended to be impermeable barriers. In reality, businesses are often able to find workarounds that turn the “impermeable barriers” into inconveniences.

Business executives we interviewed argue that governments are bad at this kind of shaping; they would prefer that governments focus more on ensuring that regulations on business in general are fair and effective. Let the market decide winners and losers.

FDI IMPEDIMENTS FRAMEWORK

MARKET ACCESS

Intentional Restrictions
- Access to Land by Foreign Firms
- Foreign Ownership and Control Limitations
- Local Content Requirements
- Sector-Specific Restrictions
- Expat Visa Restrictions

International Investment Agreements
- Number and Quality of IIAs (including RTAs & FTAs)

FDI Opportunity Promotion
- Accessibility and Clarity of Investment Information
- Exposure to Unknowns
- Political Support for FDI
- FDI Incentives and Tax Benefits
- Existence of Special Economic Zones
- Investment Promotion Agencies

*International Investment Agreements and FDI Opportunity Promotion are enhancers of FDI and lack thereof act as impediments.

Market Access Category

• Intentional Restrictions

"You can't buy 10,000 contiguous hectares of land, and need to work with community to overcome fractured land ownership. Someone's job must be consolidating land; this takes time and money to be able to do this."

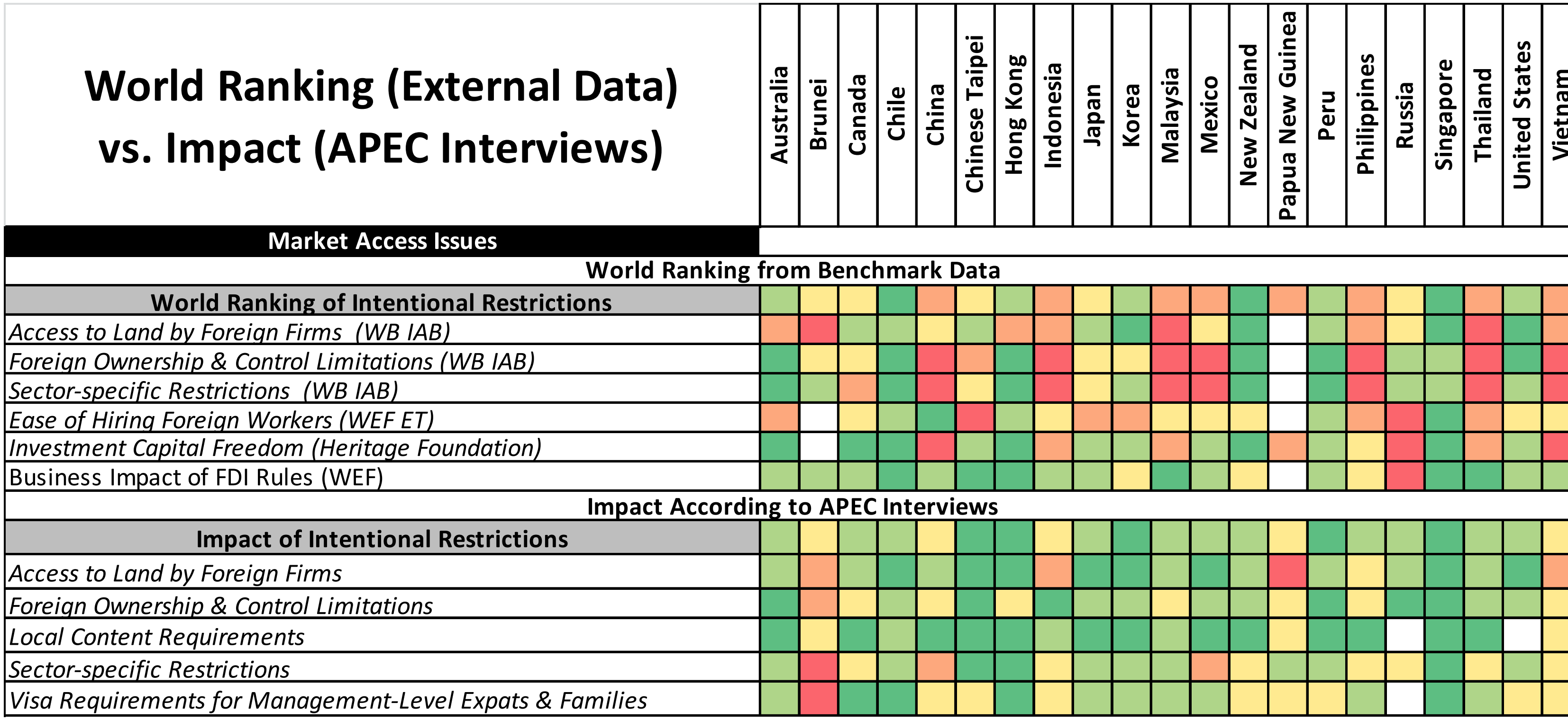
- Executive's comment on the Philippines

Restrictions intentionally imposed on only foreign firms entering an economy have serious effects on a firm's decision to invest or not. Rights of investors to access land, own companies, determine the content of products, and operate without sectorial limitations are important factors in firms' decisions to invest. However, certain sectors remain difficult to invest in, both across APEC and the rest of the world. Economies keep foreign firms out of national strategic industries such as media, defense, transportation, utilities, and telecommunications. Businesses see these restrictions as obstacles and still push to enter. Restrictions that limit worker mobility and employment cause firms to hire lower quality labor at a fixed rate.

Access to Land by Foreign Firms	Foreign firms need access to industrial land via leasing or purchase to conduct business operations.
Foreign Ownership & Control Limitations	Foreign ownership limitations such as requiring Local Directors or Domestic Partners (minority or majority) dictate to investing firms how they must operate to invest.
Local Content Requirements	Regulations may require a certain amount of a product to be produced locally and/or require that a certain percentage of inputs be sourced locally.
Sector-Specific Restrictions	Closing a sector to investment can bar entire firms from entering and may also deter other firms that may ordinarily horizontally integrate into related industries.
Expat Visa Restrictions	The ease or difficultly for workers to obtain required work visas for work assignments may limit who can work and where it can occur.

Market Access Category

- Intentional Restrictions



Market Access Category

- International Investment Agreements - Free Trade Agreements

"We prefer investing in the US because they have a large number of FTAs with different economies across the globe, and some of those economies are what we have been trying to get into. Utilizing these existing FTAs can help us expand our exporting markets and drive revenue."

- Executive's comment on the US

Free Trade Agreements (FTA) help foreign direct investment in two major ways. First, FTAs increase the effective size of markets. Many firms will invest in an economy specifically because that economy will grant access to other economies through FTAs. For example, a firm might invest in Mexico because Mexico can trade with the United States and Canada without tariffs. MNCs are increasingly positioning their supply chains and production facilities in economies that have integrated their markets with international trade and investment agreements. The second major way FTAs help is by codifying regulations for the long term. Politicians cannot easily change the regulations in an FTA, so businesses have reduced risks in investments based on those stable regulations.

Businesses are quick to add that economies often raise non-tariff barriers (NTBs) in the wake of FTAs to protect domestic industry. These NTBs can be more costly to businesses than the predictable tariffs before them.

Number and Quality of IIAs (including RTAs & FTAs)	Less IIAs or lower quality IIAs make economies less attractive to foreign investors, because they may be able to receive favorable investment treatment elsewhere.

Market Access

- International Investment Agreements - Free Trade Agreements

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Market Access Issues																					
World Ranking from Benchmark Data																					
No Data Available																					
Impact According to APEC Interviews																					
Impact of International Investment Agreements																					
Number of International Investment Agreements																					
Quality of International Investment Agreements																					

Market Access Category

• FDI Opportunity Promotion

"The [Bureau of Investment] made investing in Thailand easy, particularly when we considered the tax advantages."

- Executive's comment on Thailand

A large number of foreign direct investment opportunity promotions such as clear investment information, foreign direct investment incentives, tax benefits, and special economic zones drive the inward investments for foreign businesses and create advantage for economies to receive foreign direct investment. Companies expect more foreign direct investment opportunity promotions to help mitigate and reduce risks and uncertainties in the market.

Accessibility and Clarity of Investment Information	Information about risks and costs in given economies may not be obvious. Economies that provide access to clear investment information make investment decisions easier and safer.
Exposure to Unknowns	Many of the challenges businesses face after entering an economy are unpredictable before investment. If a firm is able to predict challenges, they are more likely to make future investments.
Political Support for FDI	Governments that do not support FDI often create roadblocks and can create a hostile environment to business.
FDI Incentives and Tax Benefits	Some economies provide short term tax benefits or other incentives to offset the costs of starting a new business. Economies without tax advantages are at a disadvantage.
Existence of Special Economic Zones	Special Duty Free Zones or other Special Economic Zones can help ease unnecessary paperwork and regulation. Economies without Special Economic Zones are at a disadvantage.
Investment Promotion Agencies	Investment promotion agencies can soothe fears, provide valuable time and money saving information, build a local network, and promote an economy. Economies without Investment Promotion Agencies are at a disadvantage.

Market Access

- FDI Opportunity Promotion

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Market Access Issues																					
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Impact of FDI Opportunity Promotion																					
Accessibility and Clarity of Investment Information																					
Exposure to Unknowns																					
Investment Promotion Agencies																					
Political Support for FDI																					
FDI Incentives and Tax Benefits																					
Existence of Special Economic Zones																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

Approval Implementation Category

Many economies have written laws with the intent of increasing the ability to do business, but the implementation and administration of those laws can be flawed. Vague regulations create unpredictability and provide opportunities for corruption. Businesses crave predictability so as to make effective investments based on the future. When regulations do not change, but the effects of the regulations do, Approval Implementation impediments are to blame. While executives acknowledged that it is sometimes too easy of an excuse to blame the government, four areas of concern were reported repeatedly; the clarity and fairness of the approval process; the bureaucratic burden for obtaining permits and government approvals; the complexity, time delays, and the added costs involved with investments that require approval from multiple government agencies, and, the lack of consistency of implementation between central government agencies and the same agencies the state/provincial and local/municipal levels.

FDI IMPEDIMENTS FRAMEWORK

APPROVAL IMPLEMENTATION

Transparency of Process	Efficiency of Procedures for Making Investment	Jurisdictional Overlap between Government Agencies	Consistency Across Levels of Government
Straightforward and Predictable Procedures	Days to Receive Approval, Permits, etc.	Coordination among Responsible Agencies	Consistency between Central, Provincial, and Local
Timely Clear Decisions in Writing	Number of Procedures to Obtain a Permit	Alignment of FDI Policies across Ministries	
Impartiality of Government Officials	Availability of Information Online		

Approval Implementation Category

• Transparency of Process

"It is frustrating when you have to go to different government agencies that make different decisions on different days, because businesses are unable to predict costs and are unable to receive decisions in writing."

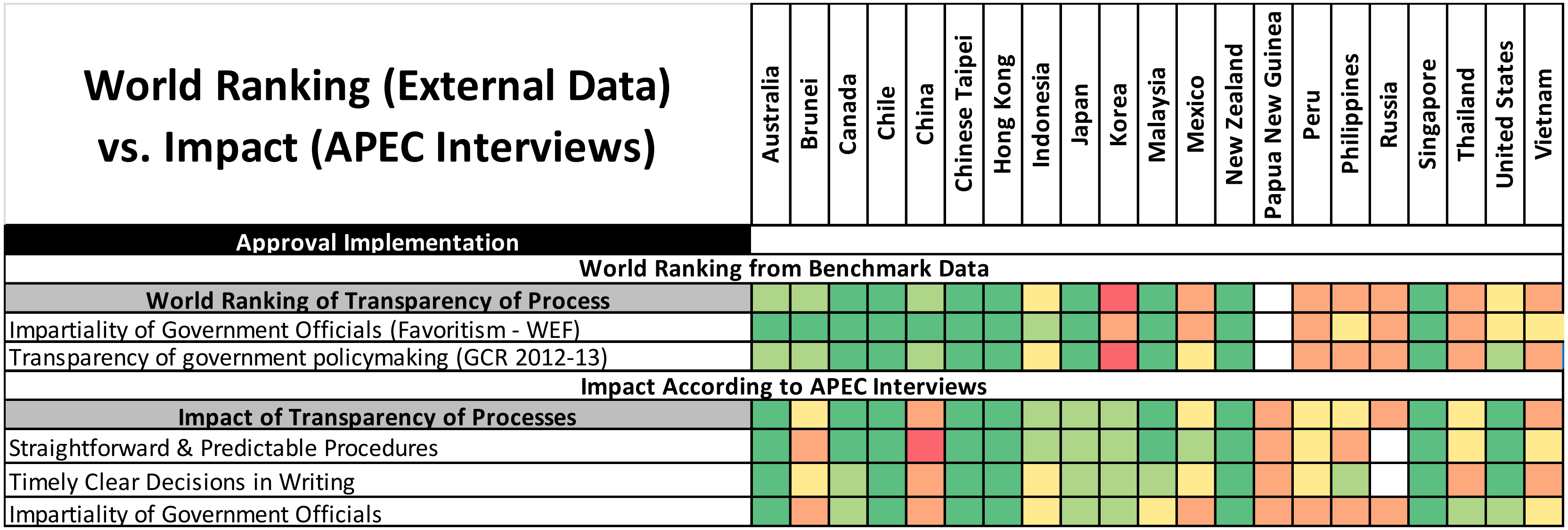
- Executive's comment on Malaysia

Without transparent regulations, businesses are unable to make predictions about future costs, and are thus unable to make effective decisions. Complicated processes often mean that government officials have significant leeway in enforcing regulations, creating the opportunity for corruption or impartial decision making. Some economies make it easy to obtain decisions about complicated situations in writing in order to make future decisions predictable and not corrupt.

Straightforward and Predictable Procedures	Procedures, forms, and other required actions can be written in complicated or vague ways with few translated options available. Complicated or vague forms can be unpredictable when submitted to government officials.
Timely Clear Decisions in Writing	When a complicated situation exists, companies want to be sure rendered decisions will remain in effect into the future. An inability to get timely clear decisions in writing means uncertainty and unwillingness to make further investment.
Impartiality of Government Officials	Government officials with ulterior motives may affect businesses and not make optimal decisions.

Approval Implementation

- Transparency of Process



Approval Implementation Category

- Efficiency of Procedures for Obtaining Investment Approval

"If I have to do this again, I will not invest here. I turned in an application in December and only received approval in February. Even though they emphasize there is one contact, it is not true. There are multiple windows to go through to get a permit, 6 steps in total and each step takes at least a month."

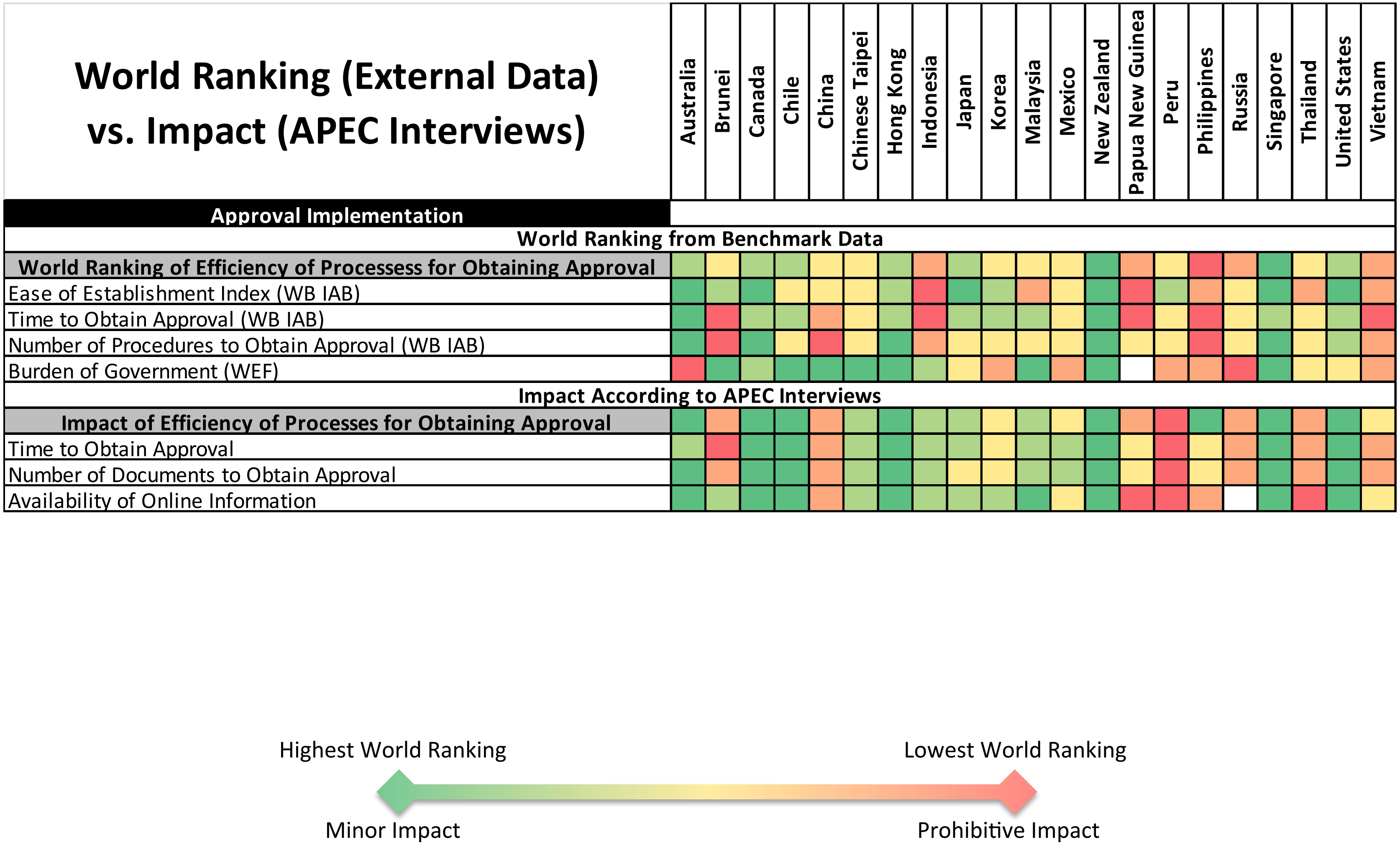
-Executive's comment on Chinese Taipei

This refers to the speed and complexity required for administrative tasks to set up a business. Complicated and inefficient investment approval processes are a stumbling block that intimidate and frustrate new investors. It delays strategically timed investments and causes investors to lose out on opportunities. This also deters investors from engaging in additional investments in said economy.

Days to Receive Approval, Permits, etc.	The longer it takes to receive approval and permits represents higher opportunity costs as well as resources lost. As an investing firm spends time and money settling administrative tasks, it receives no return on investment during this period of time.
Number of Procedures to Obtain a Permit	A large number of procedures required to obtain a permit increases the level of complexity of the application for the investor. It also increases the likelihood of coordination neglect and increases room for error. In addition, time and human resources utilized are seen as opportunity costs.
Availability of Online Information	As the world grows in connectivity, availability of online information enables investors to screen criteria and do research. Not having online information on investment approval may cause an economy to be eliminated from consideration in the decision making process

Approval Implementation Category

- Efficiency of Procedures for Obtaining Investment Approval



Approval Implementation Category

• Jurisdictional Overlap between Government Agencies

"Our law firm conducted a study of the approval time for six major infrastructure projects. On average, because of all the different approvals by different ministries, sometimes requiring minister-level sign off, it took around 63 months to obtain final approval."

- Executive's comment on Peru

Different governmental ministries often have competing goals and missions leading to different interpretations of law and even conflicting laws. Territorial overlap and competition between different governmental institutions for approval and popularity often results in overlapping layers that make jurisdictional decision authority difficult. Investing firms face uncertainty with overlapping layers of laws and regulations that leave the business confused and unsure of what actions are legally compliant with regulations.

Coordination among Responsible Agencies	Government agencies must coordinate amongst themselves to ensure that rules and regulations are mutually enforcing. Where disagreements occur, confusion arises.
Alignment of FDI Policies across Ministries	Different goals and agendas across separate ministries lead to inconsistent decision making and promotion or deterrence of investment.

Approval Implementation Category

- Jurisdictional Overlap and Conflict between Government Agencies

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Approval Implementation																					
World Ranking from Benchmark Data																					
No Data Available																					
Impact According to APEC Interviews																					
Impact of Jurisdictional Overlap																					
Coordination among Responsible Agencies																					
Alignment of FDI Policies across Ministries																					

Highest World Ranking

Lowest World Ranking

Minor Impact

Prohibitive Impact

Approval Implementation Category

- Consistency Across Levels of Government

"Administrators at different levels of government have different interpretations of regulations and polices. There is not a single and common voice between them."

- Executive's comment on Viet Nam

The existence of municipal, provincial and national governments leads to a layering of jurisdictions. Competition between different governmental levels for jobs, taxes and other benefits may result in overlapping layers of government that drive inconsistent decision making. The lack of consistency and coordination in implementation of FDI-related regulations between levels of government is a particularly problematic concern for business. The problem arises when regional and local government agencies have discretion to either make their own regulations and/or implement national regulations. Businesses complain that this redundant decision-making can create an opportunity for corruption. An added dimension to consistency across levels of government is consistency over time. When an investment is large it may take several years from initiation to completion. During that time period there may be multiple changes in governments and government officials.

Consistency between Central, Provincial and Local	If implementation of regulations across governmental levels is inconsistent, confusion arises.

Approval Implementation Category

- Consistency Across Levels of Government

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Approval Implementation																					
World Ranking from Benchmark Data																					
No Data Available																					
Impact According to APEC Interviews																					
Impact of Consistency across Levels of Government																					
Consistency between Central, Provisional and Local Agencies																					

Highest World Ranking

Lowest World Ranking

Minor Impact

Prohibitive Impact

Regulatory Environment Category

The stability, fairness, accessibility and effectiveness of the regulatory environment are the foundation on which a country earns its reputation. Regulations within an economy are often the easiest and most direct way for a government to make changes to the FDI environment. Laws can be difficult to change, but reputations are even more difficult to fix and can be more important for businesses making decisions about which economy to make an investment.

FDI IMPEDIMENTS FRAMEWORK

REGULATORY ENVIRONMENT

Predictability and Stability of Investment Regulations	National Treatment	Accessibility and Clarity of Investment Regulations	Community Consultative Process
Frequency that Government Makes Regulatory Changes	Degree which Domestic Law is Applied Fairly to Foreign Firms	Extent to Which Regulations are Easily Available	Clearly Defined Process for Community Approval
Ability to Make and Commit to High Quality Regulations		Extent to Which Regulations are Clear	Ability of Lone Stakeholders to Hold Up Approval Process
Consistency of Regulations over Time		Changes to Regulations are Published in Advance	
Independence of the Regulatory Process from Political Pressure		Regulations Available Online	
		Single-Window or Contact Point for All Inquiries	

Regulatory Environment Category

• Predictability and Stability of Investment Regulations

"Certainty is important. It is highly preferable to have a predictable regime and robust judiciary. A sloppy investment system that may look advantageous to outsiders on the surface and does not seem to have any barriers is worse than one that presents all the barriers up front."

-Executive's comment on Singapore

Predictable regulations are critical for business enterprises as they allow the entities to build stable and reliable long-term strategies in the host economy. A regulation is predictable to business firms when it is developed based on a sufficient amount of discussion and communication between government agencies and concerned parties. When changes are appropriately announced before implementation, the parties can adjust to the changes at low cost. Regulatory unpredictability undermines a firm's decisions aimed at securing stability of their long-term business plans abroad.

Frequency that Government Makes Regulatory Changes	Efficiency of legislative and ministerial process is essential to implementing new investment regulations in a timely and effective manner.
Ability to Make and Commit to High Quality Regulations	Government must openly discuss and cooperate with business entities and investors to implement or amend regulations that minimize surprises and negative consequences to a market.
Consistency of Regulations over Time	Regulatory consistency reduces foreign investment risk over the long-term and increases an economy's investment attractiveness.
Independence of the Regulatory Process from Political Pressure	Maintaining a regulatory environment free from political interference and pressure is critical to minimize regulatory volatility. Investors are concerned that regulatory surprises from political whims can seriously impact their business plans.

Regulatory Environment Category

- Predictability and Stability of Investment Regulations

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Regulatory Environment																					
World Ranking from Benchmark Data																					
World Ranking of Predictability of the Regulatory Environment																					
Public Trust in Politicans (WEF)																					
Regulatory Environment (2012-13 WEF ET)																					
Transparency of Government Policymaking (GCR 2012-13)																					
Impact According to APEC Interviews																					
Impact of Predictability of the Regulatory Environment																					
Tendency of New Governments to Make Regulatory Changes																					
Ability to Make and Commit to High Quality Regulations																					
Consistency of Regulations over Time																					
Independence of the Regulatory Process from Politics																					

Regulatory Environment Category

- National Treatment

"There is a level of discrimination against foreign enterprises. The government protects local enterprises through more favorable taxation and custom policies."

- Executive's comment on China

When businesses enter economies, they expect to be treated equally and fairly by the local government and authorities. Without an level playing field, a market may lose its attractiveness to foreign investors, and therefore investment. Under national treatment, foreigners and locals should be treated equally and have the same rights, benefits or privileges. National treatment also prohibits any type of discrimination between foreign business investments and domestic ones on the use of internal taxation or other government regulations. Any form of unfairness or discrimination may result in foreign investors forgoing an opportunity and making investments elsewhere.

Degree which Domestic Law is Applied Fairly to Foreign Firms	Without equal regulatory treatment, foreign companies will have difficulties competing with local players or large state owned enterprises on a level playing field.

Regulatory Environment Category

- National Treatment

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Regulatory Environment																					
World Ranking from Benchmark Data																					
No Data Available																					
Impact According to APEC Interviews																					
Impact of National Treatment																					
Fair Application of Regulations to Foreign Firms																					

Highest World Ranking

Lowest World Ranking

Minor Impact

Prohibitive Impact

Regulatory Environment Category

• Accessibility and Clarity of Investment Regulations

"It is difficult to be legally compliant because legacy regulations are not well followed by the government officials. There is a lack of harmonization of regulations."

- Executive's comment on Korea

Clearly interpretable and easily accessible regulations are important for FDI decisions and operational efficiency. Regulations that are subject to multiple interpretations by different government agencies complicate business processes and delay decisions. Lack of accessibility to regulations brings confusions to companies' operation and may increase unexpected costs, and results in deteriorating investment attractiveness.

Extent to Which Regulations are Easily Available	Regulations must be made easily available to new companies and be understandable and consistent with globally accepted principles.
Extent to Which Regulations are Clear	Government agencies need to cooperate closely when legislating or amending regulations to ensure uniform interpretation.
Changes to Regulations are Published in Advance	Government must provide sufficient time between regulation change announcements and implementation so that foreign companies have time to report changes to regional/global headquarters and adjust business strategies.
Regulations Available Online	Accessibility to regulations online improves foreign investor compliance with laws.
Single-Window or Contact Point for All Inquiries	Uniform interpretation of regulations through a single government window substantially reduces regulatory confusion and helps firms improve operating efficiency.

Regulatory Environment Category

- Accessibility and Clarity of Investment Regulations

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Regulatory Environment																					
World Ranking from Benchmark Data																					
World Ranking of Accessibility & Clarity of Investment Regulations																					
Availability of Online Information (WEF)																					
Impact According to APEC Interviews																					
Impact of Accessibility & Clarity of Investment Regulations																					
Extent to which Regulations are Easily Available																					
Extent to which Regulations are Clear																					
Changes to Regulations are Published in Advance																					
Regulations are Available Online																					
Single-window or Contact Point for All Inquiries																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

Regulatory Environment Category

• Community Consultative Process

"The energy sector, one of Chile's most important industries, is currently having issues due to the environmental approval process and the voice raised by local communities resulting in lawsuits and stalling of previously approved projects."

- Executive's comment on Chile

Many countries have transparency and community consultative laws designed to allow citizens to voice their opposition to business activities in their community. In some economies, a small number of people can create a disproportionately large impediment to investment due to poorly written community consultative process laws. Lack of eminent domain laws allow individuals to hold land that governments and businesses need for development projects, which at times may negatively impact local communities that would benefit from jobs and income created by business investment.

Clearly Defined Process for Community Approval	When a community opposes an investment project, some economies do not have clear processes designed to create constructive feedback that improves results for everyone involved.
Ability of Lone Stakeholders to Hold-up Approval Process	Some economies lack control to ensure that community objections are measured, proportional and effectively evaluated.

Regulatory Environment Category

- Community Consultative Process

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Regulatory Environment																					
World Ranking from Benchmark Data																					
No Data Available																					
Impact According to APEC Interviews																					
Impact of Community Consultative Process																					
Clearly Defined Process for Community Approval																					
Ability of Few People to Hold-up Approval Process																					

Highest World Ranking

Lowest World Ranking

Minor Impact

Prohibitive Impact

Judicial Environment Category

When disputes inevitably arise, the quality of the systems for resolving those disputes can be important in determining the future viability of investments. When foreign companies need to initiate a lawsuit, the outcome of that suit should be based on the legal merits whether the defendant is the government, other foreign companies, or locally owned companies. Most countries have strong IP protection laws, but many are lacking in judicial enforcement.

FDI IMPEDIMENTS FRAMEWORK

LEGAL ENVIRONMENT

Dispute Resolution	Judicial Independence	IP Protection
Formal Mechanisms for FDI Dispute Resolution	Judiciary Independent of Political Influence	Acceptance of International Laws Protecting IP
Ability to Sue the Government		
Coherence with International Arbitration Standards		

Judicial Environment Category

• Dispute Resolution

"[The contractors] did not do the job right and would not fix it. My lawyers told me that even though they had clearly violated their contract, attempting to sue them or enter arbitration would cost us a lot of money and we would probably lose. We had to pay them to go away."

- Executive's comment on Thailand

Dispute resolution refers to the process of resolving conflicts, disagreements or legal claims among business parties. Companies expect to fight for their positions in a clear and effective legal battle. Without a quality legal environment to resolve disputes in a fair and timely manner, an economy may foster unfairness and instability in the market, and some companies will lose interest in investing in that market. On the other side, a well-established dispute resolution system can mitigate the overall risks and uncertainties of doing business in an economy. Impartiality of government entities is critical when investments are large and require government participation in obtaining a fair dispute hearing.

Existence of Formal Mechanisms for FDI Dispute Resolution	Formal procedures that lack clarity or available alternatives of dispute resolution are a cause of concern for foreign business investors when considering investing in an economy.
Ability to Sue the Government	An established and impartial legal process to sue the government offers business investors the right to make a complaint without fear of punishment or reprisal.
Coherence with International Arbitration Standards and Practices	Firms expect the right to use international arbitration for protection from wrongful conduct, unequal legal rights, or unfair local market competitions.

Judicial Environment Category

- Dispute Resolution

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Judicial Environment																					
World Ranking from Benchmark Data																					
World Ranking of Dispute Resolution																					
Arbitrating Commerical Dispute (Composite WB IAB Score)																					
Strength of Law Index (WB IAB)																					
Ease of Process Index (WB IAB)																					
Extent of Judicial Assistance																					
Ability to Challenge Regulations (Sue Government) (WEF)																					
Dispute Resolution (Doing Business -APEC)																					
Efficiency of Legal Framework in Settling Disputes (WEF)																					
Impact According to APEC Interviews																					
Impact of Dispute Resolution																					
Existence of Formal Mechanisms for Dispute Resolution																					
Ability to Effectively Sue the Government																					
Adoption of International Dispute Resolution Standards																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

Judicial Environment Category

• Judicial Independence

"Don't go to court! Always settle outside if you can. Courts are an area of unfair treatment where even fictitious or wrongful suits can cause large problems for corporations."

- Executive's comment on Indonesia

Judicial officials should make decisions without influence from other branches of government or from private or partisan interests. Different measures may be used to promote judicial independence, such as granting life tenure or long tenure for judges. This ideally frees them to decide cases, even when decisions may be unpopular. Judicial independence is a necessity for investing firms, because they must be confident the judicial system will be fair without wrongful outside influences.

Judiciary Independent of Political Influence	Undue influence and corruption of judicial officials by politicians, corporations and other stakeholders can lead to inconsistent decision making and treatment.

Judicial Environment Category

- Judicial Independence

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Judicial Environment																					
World Ranking from Benchmark Data																					
World Ranking of Judicial Independence																					
Judicial Independence (WEF GCR)																					
Impact According to APEC Interviews																					
Impact of Judicial Independence																					
Extent to which the Judicial is Independent of Political Influence																					
Extent of Bureaucratic Discretion and Interpretation Permitted																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

Judicial Environment Category

• Intellectual Property Protection

"We do our own policing, finding repeat offenders time and time again. We have found a whole town centered around reproducing our products. When you estimate that $500M of black market goods are sold violating IP laws, but only $100K of fines are levied annually, you know there is a problem."

- Executive's comment on Viet Nam

Uncertainty of intellectual property rights protection deteriorates the quality of an economy's investment attractiveness because it discourages individuals and companies to research and invest in new businesses and products. Strong intellectual property protection is therefore one of the key factors that a government must ensure in order to induce more sophisticated and high-profile foreign direct investment. Economies must not focus solely on the legality of intellectual property, but also the implementation to effectively enforce intellectual property protection in both formal and informal market environments. While many economies have adopted WTO standards for IP protection, implementation and enforcement are the better measures for foreign firms.

Acceptance and Enforcement of International Laws Protecting IP	Strong enforcement of internationally credible IP protection laws reduces foreign investors' concerns for IP theft and improves investment confidence.

Judicial Environment Category

- Intellectual Property Protection

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Judicial Environment																					
World Ranking from Benchmark Data																					
World Ranking of IP Protection																					
Intellectual Property Protection (WEF)																					
Impact According to APEC Interviews																					
Impact of IP Protection																					
Acceptance of International Laws Protecting IP																					
IP Protection Enforcement																					

Highest World Ranking

Lowest World Ranking

Minor Impact

Prohibitive Impact

Business Environment Category

The quality of the business environment and supporting institutions are critical to business success. If businesses can operate effectively, they can and will overcome most other impediments. From that perspective, the business environment becomes the most important category.

FDI IMPEDIMENTS FRAMEWORK

BUSINESS ENVIRONMENT

Capital Markets	Human Capital	Infrastructure	Related and Supporting Industries	Physical Security
Quality of Domestic Capital Markets	Availability and Quality of Human Capital	Availability & Quality of Ports, Roads, Airports, etc.	Availability and Quality of Services	Reliability of Police
Availability of Alternative Forms of Domestic Capital	Ease of Hiring/Firing workers	Availability & Quality of Energy, Water, etc.	Existence of Industry Competitive Clusters	General Levels of Crime
Readiness of Local Firms to Accept Investment	Expat Willingness to Live in Region	Availability & Quality of ICTs	Supplier Quality	Personal and Employee Safety
	Quality of Employee Communities		Distributor Quality	Property Rights Protection
	Visa and Worker Mobility Restrictions			

Openness of Markets	Tax Environment	Nationalism	Political and Economic Stability	Cultural Embeddedness
Presence of SOE and Government-Supported Entities	Double Taxation	Xenophobia	Foreign Exchange Stability	Extent of Affinity for “Like” Cultures
Extent of Piracy and Informal Markets	Level & Burden of Tax	Economic Domestic Favoritism	Fiscal and Monetary Policy Conducive to Business	Importance of Personal Relationships to do Business
Government Price Controls		Potential for Individuals/Groups to “Politicize” FDI Projects	Predictability of Laws and Regulations	

Business Environment Category

• Capital Markets

"Repatriation of profit/sales proceeds took more than a year with all the layers of approval. Finally to exit the country, we had to pay another 10% in tax and all these fees reduced our total profit by one-third."

- Executive's comment on China

Capital market development is a critical factor in the foreign direct investment decision-making process. Strong capital markets in host economies provide foreign investors a wider range of investment opportunities such as merger and acquisition, profit re-investment, etc. Mature capital markets also allow foreign firms more financing options for investments and projects and can thus offer more operational stability for long-term investment plans.

Quality of Domestic Capital Markets	Developed capital markets help foreign investors efficiently utilize invested capital, profits, and re-investments.
Availability of Alternative Forms of Domestic Capital	Diverse forms of domestic capital allow foreign investors more options to fund investment, re-investment, business expansions, and other opportunities.
Readiness of Local Firms to Accept Investment	Local firms with less readiness for investment may narrow market potential for business mergers, acquisitions and joint ventures, impacting inward FDI flows.

Business Environment Category

- Capital Markets

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
World Ranking of Capital Markets																					
Investor Protection (WEF)																					
Efficacy of Corporate Boards (WEF)																					
Protection of Minority Interests (WEF)																					
Financial Market Development (WEF)																					
Impact According to APEC Interviews																					
Impact of Capital Markets																					
Quality of Domestic Capital Markets																					
Availability of Alternative Forms of Domestic Capital																					
Readiness of Local Firms to Accept Investment																					

Highest World Ranking

Lowest World Ranking

Minor Impact

Prohibitive Impact

Business Environment Category

• Human Capital

"We had talented executives decide not to come here because it is so hard to find places in international schools for expat children."

- Executive's comment on Hong Kong

People are ultimately the mechanisms that carry out the productive activities of business. Access to appropriately educated, talented, trained, and motivated personnel, and the ability to carry out talent management in an efficient manner largely free from obstruction or interference, is an important consideration in the foreign investment decision making process. Difficulty in either firing or hiring workers increases costs for firms and weighs firms down with either over-tasking or burdens of carrying unwanted employees. Additionally, the ease with which talent can be brought into an economy to support an investment is critical. In this regard, the attractiveness of economies to expatriate talent is important.

Availability and Quality of Human Capital	Firms need a labor pool with high levels of education, language and vocational skills and motivation. Qualified employees help to ensure safe and efficient business operations.
Ease of Hiring/Firing Workers	Bureaucratically cumbersome hiring and firing processes hamper business. The strength and obstructive behavior of organized labor plays a large role in the extent of at-will employment or documentation trail required to terminate employment.
Expat Willingness to Live in Region	Expatriate willingness to live in an economy for extended periods of time helps to bring high level talent associated with foreign investment projects.
Quality of Employee Communities	Employees need safe and clean living options, transportation modes between place of employment and domicile, and adequate educational and social opportunities for families.
Visa and Worker Mobility Restrictions	Firms require flexibility to move their workforce in support of business operations. Any restrictions may result in a firm with a competitive disadvantage.

Business Environment Category

- Human Capital

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
World Ranking of Human Capital																					
Hiring and Firing Practices (GCR 2012-13)																					
Country Capacity to Retain Talent																					
Country Capacity to Attract Talent																					
Human Development Index (UNDP)																					
Quality of Education System																					
Impact According to APEC Interviews																					
Impact of Human Capital																					
Availability & Quality of Human Capital																					
Ease of Hiring/Firing Workers																					
Expat Willingness to Live in Region																					
Quality of Employee Communities																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

Business Environment Category

• Infrastructure

"It is easier for me import perishable goods from China than it is to ship goods from one island to another within Indonesia because the port and road infrastructure lacks capacity."

- Executive's comment on Indonesia

The quality of infrastructure is an important factor to measure an economy's attractiveness to foreign business entities. Well-developed infrastructure helps connect local economies with international markets. Extensive and efficient infrastructure provides an effective and supporting foundation for establishing new businesses or joint partnerships. Especially in regard to goods, infrastructure can easily become a chokepoint that results in increased transportation and inventory costs. The development of information and communication technology is increasingly important.

Availability and Quality of Ports, Roads, Airports, etc.	Firms require modern developed infrastructure with proper capacity to conduct business activities on a regional or global scale.
Availability and Quality of Energy, Water, etc.	Firms need access to quality utility services to establish business activities.
Availability and Quality of ICTs	Communication networks provide quick and reliable information flows that are needed to ensure overall business efficiency and coordination.

Business Environment Category

- Infrastructure

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
World Ranking of Infrastructure																					
ICT Use (WEF)																					
Infrastructure (WEF)																					
Impact According to APEC Interviews																					
Impact of Infrastructure																					
Availability and Quality of Roads, Ports, Airports, Rail																					
Availability and Quality of Utilities (Water & Energy)																					
Availability and Quality of ICT Infrastructure																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

Business Environment Category

- Related and Supporting Industries

"Regarding logistics, we struggle with significant legal hurdles. Regulations that do not allow foreign ownership or investment into logistics have made this supporting industry less competitive than other markets. The regulation should be changed to allow foreign firms to invest in logistics and other related industries."

- Executive's comment on Viet Nam

Strong related and supporting industries can make an economy more attractive for investment. In the absence of strong related and supporting industries, firms are faced with more expensive options of developing local firms or importing from outside markets. Upstream and downstream industries can also play a very large role in a company's ability to create their goods and services, and distribute to market. Additionally, the presence of industry clusters has beneficial impacts on investment potential.

Availability and Quality of Services	The existence of financial, insurance, legal, accounting, consulting, and other professional services are important to allowing investing firms to operate competitively in markets.
Existence of Industry Clusters	The presence or lack of globally competitive industry clusters can either ease or deter operations.
Supplier Quality	Local suppliers of input materials and services must be of a high enough quality for firms to compete.
Distributor Quality	Local distributors of products must be of a high enough quality for firms to get products to market at a competitive rate.

Business Environment Category

- Related and Supporting Industries

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
World Ranking of Related & Supporting Industries																					
Quantity of Local Suppliers (WEF)																					
Existence of Industry Clusters (WEF)																					
Supplier Quality (WEF)																					
Impact According to APEC Interviews																					
Impact of Related & Supporting Industries																					
Availability and Quality of Services																					
Existence of Industry Clusters																					
Supplier Quality																					
Distributor Quality																					

Business Enviroment Category

• Physical Security

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

- Executive's comment on The Philippines

Physical safety or perceived level of safety enjoyed by the investor, his family, colleagues, employees, customers, home, property, workplace, etc., in an economy to which investment participants are not native. The physical security of the aforementioned entities is an important consideration in the foreign direct investment decision-making process, as many business leaders are loath to place either themselves or those for whom they are responsible into an unacceptably hazardous environment. Any concerns about personal safety, property protection or threat of any of those, impose both costs and risks that constitute an impediment to foreign direct investment. The extent to which organized crime is present in an economy and their level of impact on commerce is an important impediment.

Reliability of Police	Police services must be replied upon to enforce law and order for the protection of population and property.
General Levels of Crime	High levels of crime can deter business activities of the producer and consumer.
Personal and Employee Safety	Foreign investors, their families, employees, and colleagues must feel reasonably free from harm in their day-to-day activities and living arrangements inside the economy in order to perform.
Property Rights Protection	A foreign investor's personal and business property must be reasonably and reliably protected from theft, vandalism, invasion, burglary, etc.

Business Environment Category

- Physical Security

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
World Ranking of Physical Security																					
Reliability of Police (WEF ET)																					
Business Cost of Crime & Violence (WEF ET)																					
Organized Crime (WEF)																					
Business Cost of Terrorism (WEF)																					
Property Rights Protection (WEF)																					
Physical Security (WEF ET)																					
Impact According to APEC Interviews																					
Impact of Physical Security																					
Reliability of Police																					
General Levels of Crime																					
Personal & Employee Safety																					
Property Rights Protection																					

Highest World Ranking

Lowest World Ranking

Minor Impact

Prohibitive Impact

Business Environment Category

• Openness of Markets

"SOEs in China are now becoming increasingly competitive. In many cases, more so than MNCs. The SOEs have power to influence policy and dominate and monopolize strategic and pillar industries."

- Executive's comment on China

A market is open when participants in the economy can fairly compete without interruptions from governments or informal markets. It is crucial that a government minimizes its involvement in the market and lets market principles play out to induce fair competition. Failing to keep the market competitive will significantly undermine market attractiveness and will discourage inward foreign direct investment.

Presence of SOE and Government-Supported Entities	Presence of SOEs may limit FDI as their monopoly and/or price fixing mechanisms may deter foreign investors from entering a market.
Extent of Piracy and Informal Markets	Existence of piracy and/or informal markets negatively impacts FDI as foreign investors are leery of unfair competition in the market and may seek alternative economies for investment.
Government Price Controls	Heavy government-led price controls may demotivate business activities and discourage foreign investors from investing into a market.

Business Environment Category

- Openness of Markets

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
World Ranking of Openness of Markets																					
Effectiveness of Anti-monoply Policies (WEF)																					
Intensity of Local Competition (WEF)																					
Extent of Market Dominance (WEF)																					
Technological Readiness (WEF)																					
Domestic Competition (WEF ET)																					
Impact According to APEC Interviews																					
Impact of Openness of Markets																					
Presence of SOE and Government-supported Entities																					
Extent of Piracy and Informal Markets																					
Government Price Controls																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

Business Environment Category

- Tax Environment

"Complicated and rapidly changing tax laws make it difficult for the firm to engage in long term planning. This is especially so in an industry such as real estate where investment and return horizons are long-term and the rapidly changing tax laws make investment risky."

- Executive's comment on China

Tax environment refers to the complexity and stringency of the tax laws and policies in an economy. It is also the percentage rate at which businesses and individuals are taxed in relative terms compared to other economies. Tax environment is an important decision factor that many cross-border corporations consider, because high tax rates or rigid tax laws significantly reduce profitability. It also affects the willingness of executives to relocate to said economy as it probably requires higher income tax and subjection to double taxation.

Double Taxation	The levying of tax by two or more jurisdictions on the same declared earnings may significantly reduce profitability. Double taxation exists when an economies lack tax treaties with one another.
Level and Burden of Tax	High tax rates and complicated tax codes reduce profitability and hamper investor ability to re-invest earnings, thus reducing the willingness of a business to relocate to an economy.

Business Environment Category

- Tax Environment

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
World Ranking of Tax Environment																					
Extent and Effect of Taxation (GCR 2012-13)																					
Impact According to APEC Interviews																					
Impact of Tax Environment																					
Double Taxation																					
Level & Burden of Taxation																					

Business Environment Category

• Nationalism

"New Zealand gets more investment from Luxembourg each year than China. But almost every investment from China is front page news."

- Executive's comment on New Zealand

Nationalism refers to an individual's strength of belief and identification with their own nation. Nationalist sentiments are usually found in economies where national identity and local culture are strong. These sentiments are exhibited in the local enterprises' courses of action and interactions with foreign enterprises as well as in government policies designed to protect local entities. This is a deterrent that makes it difficult for investors who do not belong to a particular group to break into the market.

Xenophobia	Firms may be unwilling to relocate to an economy where they feel unwelcome, because the business environment may be hostile to foreign enterprises.
Economic Domestic Favoritism	Policies that explicitly or implicitly favor domestic enterprises by providing more favorable rules and regulations, or impose more stringent rules on foreign companies raise costs for foreign firms.
Potential for Individuals/Groups to "Politicize" & Stop FDI Projects	The ability of people or organizations to lobby and stall or stop an investment in the economy may disrupt business, making operations unpredictable and untenable for an investor.

Business Environment Category

- Nationalism

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
No Data Available																					
Impact According to APEC Interviews																					
Impact of Extent of Nationalism																					
Xenophobia																					
Economic Domestic Favoritism																					
Potential for Population to Politicize & Stop FDI Projects																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

Business Environment Category

- Political and Economic Stability

"Lack of certainty from changes in regime and ruling party priorities lead to drastic changes in rules and disrupts business norms."

- Executive's comment on China

Stability goes hand in hand with predictability. It is important because it allows for forecast and planning. Surprises disrupt business operations and incur unexpected costs. Political stability refers to the ability of the regime in question to handle power transfer and transitions in a peaceful and non-disruptive manner without affecting the continuity of business operations with drastic policies changes. It also refers to stable relations with neighboring countries. Economic stability is the ability of an economy to set policies that effectively monitor its fiscal and monetary health. It also indicates the ability of an economy to keep stable exchange and inflation rates.

Foreign Exchange Stability	An economy with foreign exchange stability maintains a stable convertibility currency.
Fiscal and Monetary Policy Conducive to Business	Economies that set and monitor policy according to an economic climate to keep inflation, interest rates and unemployment in check provide a healthy environment for business operations.
Predictability of Laws and Regulations	Predictability in laws and regulations allows business to engage in long term strategic planning with clear direction and minimal surprise.

Business Environment Category

- Political and Economic Stability

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
No Data Available																					
Impact According to APEC Interviews																					
Impact of Political & Economic Stability																					
Foreign Exchange Stability																					
Fiscal & Monetary Policy Conducive to Business																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

Business Environment Category

• Cultural Embeddedness

"It is easiest for Australians to come start businesses because they are like brothers to us. It is easier to accept UK and Canadian businesses. They share the same language and similar business philosophies. French and German businesses have a harder time because they are a bit different."

- Executive's comment on New Zealand

Cultural embeddedness refers to the extent of how much one culture has an affinity or kinship with another, either through similarity in cultural values, moral values, race, history or origin. Cultural embeddedness is important because it affects the ability of investors to enter and assimilate into a foreign market. The stronger the cultural embeddedness, the higher the level of understanding of a local culture and certain degree of assimilation is required for an investor to operate within an economy.

Extent of Affinity for "Like" Cultures	Affinity for "like" cultures reduces fair competition by un-leveling the playing field between the "like" culture and other foreign culture. The stronger degree of favoritism, the harder it is for an outside investor to enter the market.
Importance of Personal Relationships to Do Business	A need for personal relationships to do business reduces opportunities and closes doors to investors without connections.

Business Environment Category

- Cultural Embeddedness

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Business Environment																					
World Ranking from Benchmark Data																					
No Data Available																					
Impact According to APEC Interviews																					
Impact of Cultural Embeddedness																					
Extent of Affinity for "Like" Cultures																					
Importance of Personal Relationships to Do Business																					

Highest World Ranking — Lowest World Ranking

Minor Impact — Prohibitive Impact

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Corruption Category

FDI IMPEDIMENTS FRAMEWORK

CORRUPTION

Corruption can be found everywhere, in every category, every pillar, and most impediments. We created a special category made up of five impediments to ensure they are not lost. Each impediment within the corruption category represents one of the other five categories.

Corruption universally introduces inefficiencies and counteracts the efforts of officials to create fair and effective regulations. A business may pay more for a favorable decision or may be able to receive a decision faster with tactful payments. Corruption also forces firms to compete on inconsistent grounds based on their corporate governance or the laws of their home nation. If anticorruption laws threaten the personal prosecution of executives, they may not allow the payment of bribes and "administrative fees" that help their competitors keep costs low.

Corruption in Gaining Market Access	When firms are able to utilize corruption to make investments illicitly or without proper approval, competitors that attempt to play by the rules are harmed. Future investments also may be hampered since initial investments were not made to code.
Corruption in Implementation of Regulations	Laws can be implemented and applied differently when firms are able to use corrupt payments to sway local officials to make a one time exception.
Corruption in the Regulatory Environment	Lobbying and corrupt payments to legislators can affect the writing of laws to create a more favorable legislative environment for firms, or to create obstacles for others.
Corruption in the Legal System	The judicial system, consisting of police and the courts, may require payments to avoid punishment or to supplement their own incomes.
Corruption in the Market Environment	Winning contracts may be decided on the basis of who pays the largest kickback, regardless of price or best product, resulting in an inefficient market.

Corruption Category

World Ranking (External Data) vs. Impact (APEC Interviews)	Australia	Brunei	Canada	Chile	China	Chinese Taipei	Hong Kong	Indonesia	Japan	Korea	Malaysia	Mexico	New Zealand	Papua New Guinea	Peru	Philippines	Russia	Singapore	Thailand	United States	Vietnam
Corruption																					
World Ranking from Benchmark Data																					
World Ranking of Corruption																					
Irregular Payments & Bribes (WEF)																					
Corruption Perception Index (WEF ET)																					
Corruption Index (Heritage Database)																					
Impact According to APEC Interviews																					
Impact of Corruption																					
Corruption in Gaining Access to an Economy																					
Corruption in the Implementation of Regulations																					
Corruption in the Regulatory Environment																					
Corruption in the Legal System																					
Corruption in the Market Environment																					

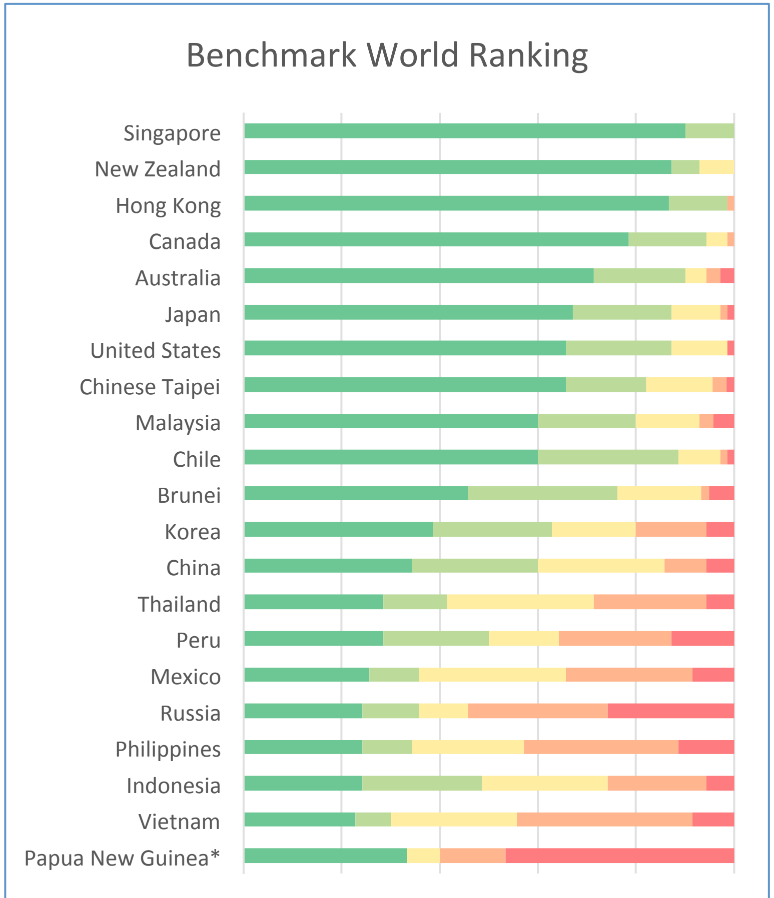
Highest World Ranking — Lowest World Ranking

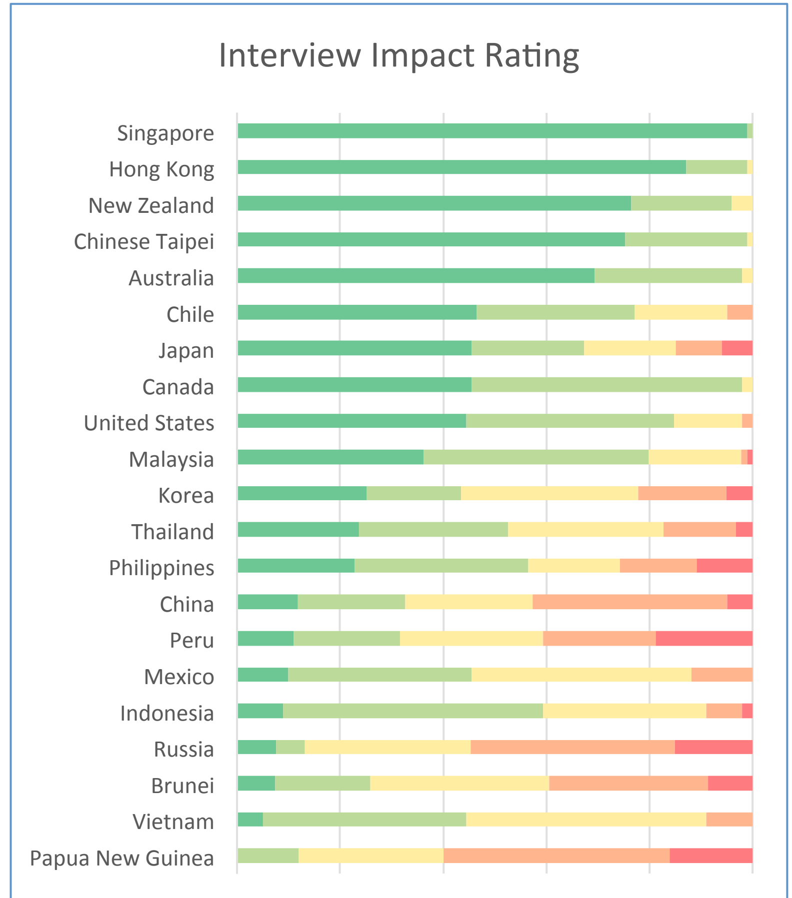
Minor Impact — Prohibitive Impact

Comparative APEC Rankings

Comparison of benchmark rankings to impact ratings

The assessments drawn from APEC interviews corroborate existing research on most dimensions. As the charts below indicate, our independent research found nearly the same inter-economy relationships as seen in World Bank and World Economic Forum reports. Our research only differs on what impediments should be measured and the relative importance of impediments. The following four slides delve into those differences.





*Papua New Guinea is only ranked on 15 of 70 measures

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Relative Importance of World Ranking by Pillar

Benchmark World Ranking

MARKET ACCESS

- Intentional Restrictions
- International Investment Agreements
- FDI Opportunity Promotion

REGULATORY ENVIRONMENT

- Predictability of Investment Regulations
- National Treatment
- Clarity of Investment Regulations
- Community Consultative Process

BUSINESS ENVIRONMENT

- Capital Markets
- Human Capital
- Infrastructure
- Related and Supporting Industries
- Physical Security
- Openness of Markets
- Tax Environment
- Nationalism
- Political and Economic Stability
- Cultural Embeddedness

APPROVAL IMPLEMENTATION

- Transparency of Process
- Efficiency of Processes and Procedures
- Jurisdictional Overlap
- Consistency Across Levels of Government

JUDICIAL ENVIRONMENT

- Dispute Resolution
- Judicial Independence
- Intellectual Property Protection

CORRUPTION

- Corruption

Key: World Ranking

No color means
Data unavailable

Least Important — Most Important

Relative Importance of Impact by Pillar

Interview Impact Rating

MARKET ACCESS
- Intentional Restrictions
- International Investment Agreements
- FDI Opportunity Promotion

REGULATORY ENVIRONMENT
- Predictability of Investment Regulations
- National Treatment
- Clarity of Investment Regulations
- Community Consultative Process

BUSINESS ENVIRONMENT
- Capital Markets
- Human Capital
- Infrastructure
- Related and Supporting Industries
- Physical Security
- Openness of Markets
- Tax Environment
- Nationalism
- Political and Economic Stability
- Cultural Embeddedness

APPROVAL IMPLEMENTATION
- Transparency of Process
- Efficiency of Processes and Procedures
- Jurisdictional Overlap
- Consistency Across Levels of Government

JUDICIAL ENVIRONMENT
- Dispute Resolution
- Judicial Independence
- Intellectual Property Protection

CORRUPTION
- Corruption

Key: Impact

Least Important — Most Important

Relative Combined Importance by Pillars

Combined

MARKET ACCESS
- Intentional Restrictions
- International Investment Agreements
- FDI Opportunity Promotion

REGULATORY ENVIRONMENT
- Predictability of Investment Regulations
- National Treatment
- Clarity of Investment Regulations
- Community Consultative Process

BUSINESS ENVIRONMENT
- Capital Markets
- Human Capital
- Infrastructure
- Related and Supporting Industries
- Physical Security
- Openness of Markets
- Tax Environment
- Nationalism
- Political and Economic Stability
- Cultural Embeddedness

APPROVAL IMPLEMENTATION
- Transparency of Process
- Efficiency of Processes and Procedures
- Jurisdictional Overlap
- Consistency Across Levels of Government

JUDICIAL ENVIRONMENT
- Dispute Resolution
- Judicial Independence
- Intellectual Property Protection

CORRUPTION
- Corruption

Key: Impact | Benchmark

No color means Data unavailable

Least Important — Most Important

Relative Combined Importance by Pillars

Combined

MARKET ACCESS
- Intentional Restrictions
- International Investment Agreements
- FDI Opportunity Promotion

REGULATORY ENVIRONMENT
- Predictability of Investment Regulations
- National Treatment
- Clarity of Investment Regulations
- Community Consultative Process

BUSINESS ENVIRONMENT
- Capital Markets
- Human Capital
- Infrastructure
- Related and Supporting Industries
- Physical Security
- Openness of Markets
- Tax Environment
- Nationalism
- Political and Economic Stability
- Cultural Embeddedness

APPROVAL IMPLEMENTATION
- Transparency of Process
- Efficiency of Processes and Procedures
- Jurisdictional Overlap
- Consistency Across Levels of Government

JUDICIAL ENVIRONMENT
- Dispute Resolution
- Judicial Independence
- Intellectual Property Protection

CORRUPTION
- Corruption

Key: Impact | Benchmark

No color means
Data unavailable

Least Important — Most Important

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Combined Relative Importance of Pillars

Our greatest disagreements with established reports from the World Bank and World Economic Forum are on the 13 pillars below. Nine of the pillars did not have effective proxies that we could use to establish a benchmark for comparison. The lack of measurement of these pillars is a potentially serious issue. For example, our research found a statistically significant relationship between increases in FDI inflows and our measure of the Impact of Consistency Across Levels of Government. Unless this issue is often measured, economies will struggle to improve it, and thus to improve their FDI inflows.

In four cases, our research found different levels of relative importance for several restrictions. In these cases, APEC might have some of the worst practices in the world by objective measure, but the impact of those practices are comparatively minimal. For example, APEC has some of the harshest land and ownership restrictions in the world, but companies are able to avoid those restrictions often enough that they have little impact on investment.

In some cases our research differed significantly from benchmarks…

- Intentional Restrictions
- Capital Markets
- Physical Security
- Clarity of Investment Regulations

…in other cases, we were unable to make a comparison, because effective proxies were not found to establish a benchmark.

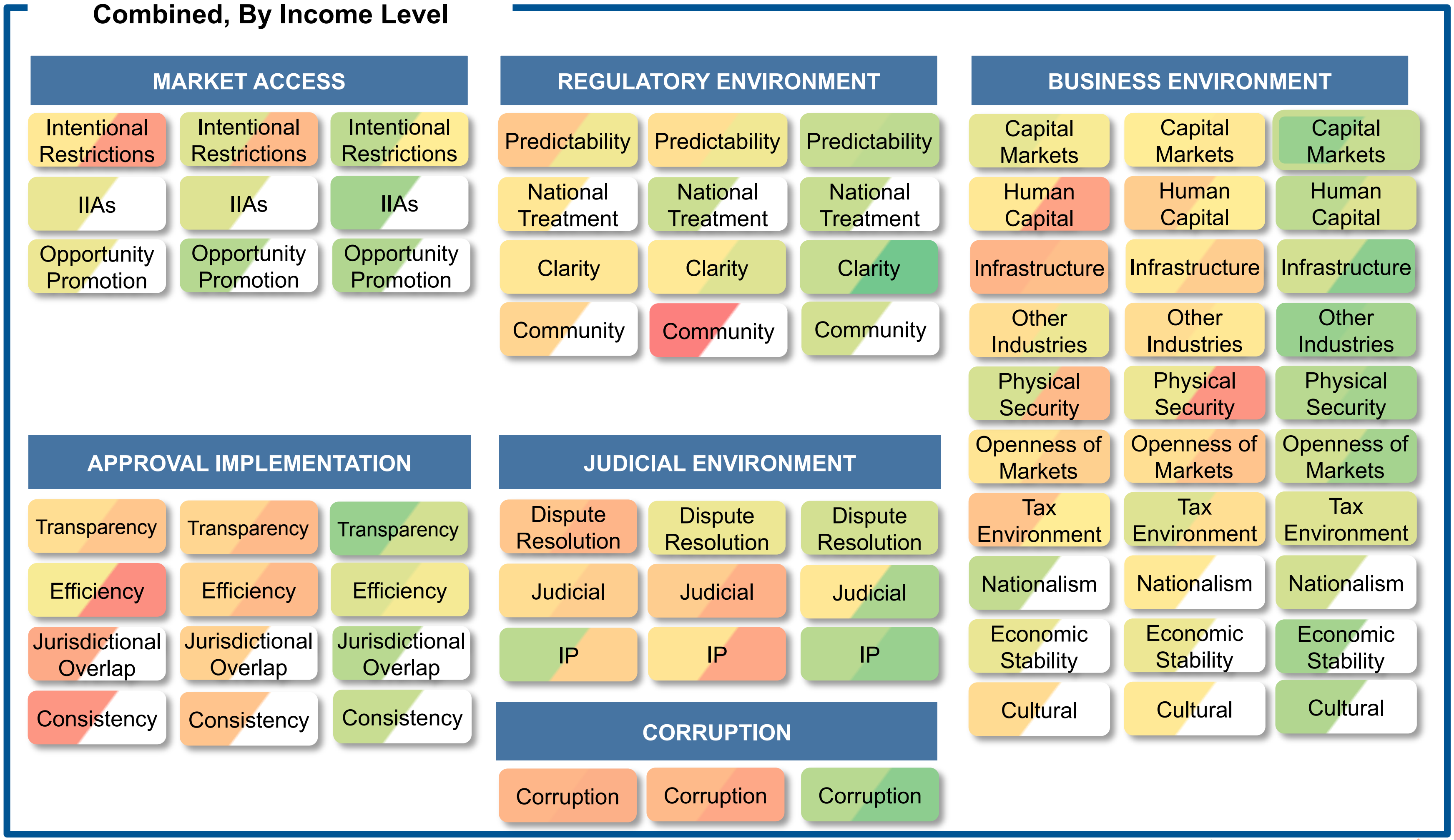
- FDI Opportunity Promotion
- International Investment Agreements
- National Treatment
- Community Consultative Process
- Jurisdictional Overlap
- Consistency Across Levels of Government
- Nationalism
- Political and Economic Stability
- Cultural Embeddedness

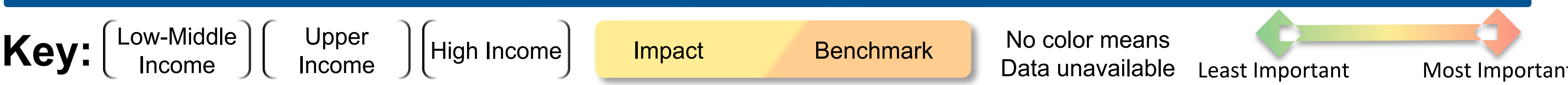
Impact | World Rankings

No color means
Data unavailable

Least Important — Most Important

Relative Importance by Income Level of Economy





Introduction to Comparative APEC Rankings

This section presents comparative rankings of all APEC economies on all of the pillar-level impediments. The Benchmark Rankings are drawn from available published reports (from the World Bank, World Economic Forum, and Heritage Foundation). The pillar-level impediments are essentially simple averages of the specific impediments within each pillar.

Importantly, the global benchmarking averages for each economy are compared with the average impact assessments obtained in the in-depth APEC interviews. For many impediments, the rankings for APEC economies are closely similar; a finding which is to be expected. However, in some cases important differences are noted.

Where public indices are not available, only the estimates from business executives are reported.

Intentional Restrictions Comparison

The table below presents two distinct dimensions of intentional market access restrictions. Published proxies are more encompassing than USC research, and utilize the World Bank's, World Economic Forum's, and Heritage Foundation's rankings on Access to Land by Foreign Firms, Foreign Ownership & Control Limitations, Sector-specific Restrictions, the Ease of Hiring Foreign Workers, Investment Capital Freedom, and Business Impact of FDI Rules. However, our interviewees consistently made two points regarding intentional restrictions. First, that their existence is not always the same as the impact they have on FDI and the day-to-day operation of foreign-owned businesses in a given economy (sometimes the impact is lesser, sometimes greater). Second, they told us that there were other significant and, they felt, intentional restrictions which challenged them just as much if not more than the items considered and ranked by published sources. These included local content requirements, which where viewed as anywhere from a manageable nuisance to semi-extortionary, and visa requirements for management-level expatriates and, importantly, their families. When considering Intentional Restrictions to Market Access from a point of view of ***impact***, and including the additional concerns executives told us about, we note a small shuffle in the rankings of APEC economies. For instance, functionally speaking, the impact of restrictions in Chinese Taipei and Malaysia is less, while it is greater in Russia and China. Low FDI restrictions may, in some cases, be "false advertising." Behind the border impediments may be much more problematic. For example, while Peru has very few if any market access restrictions, business executives are disappointed that Peru has not been able to make needed improvements in approval efficiency, regulatory enforcement, infrastructure, and the community consultative process.

Intentional Restrictions (aggregate)					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		Chile	2		Hong Kong
3		New Zealand	3		Chinese Taipei
4		Hong Kong	4		Peru
5		United States	5		Korea
6		Peru	6		New Zealand
7		Australia	7		Australia
8		Korea	8		Chile
9		Chinese Taipei	9		United States
10		Canada	10		Canada
11		Japan	11		Japan
12		Brunei	12		Malaysia
13		Russia	13		Mexico
14		Mexico	14		Thailand
15		Malaysia	15		Philippines
16		Thailand	16		Russia
17		Philippines	17		Brunei
18		China	18		Indonesia
19		Indonesia	19		Papua New Guinea
20		Papua New Guinea	20		China
21		Vietnam	21		Vietnam

Intentional Restrictions Comparison

The below table presents a more comprehensive comparison of how APEC's economies stack up against the world according to data published by the World Bank, World Economic Forum, and Heritage Foundation.

Intentional Restrictions														
Ranking	Land Access Restrictions	Economy	Ranking	Ownership Restrictions	Economy	Ranking	Sector-specific Restrictions	Economy	Ranking	Hiring & Firing Restrictions	Economy	Ranking	Capital Restrictions	Economy
1		Singapore	1		Hong Kong	1		Hong Kong	1		Hong Kong	1		Singapore
2		United States	2		United States	2		Peru	2		Singapore	2		Hong Kong
3		New Zealand	3		Chile	3		Chile	3		Canada	3		Chile
4		Korea	4		Peru	4		New Zealand	4		Chile	4		Australia
5		Peru	5		New Zealand	5		Australia	5		Japan	5		New Zealand
6		Chinese Taipei	6		Australia	6		Singapore	6		Korea	6		Canada
7		Canada	7		Singapore	7		United States	7		Australia	7		United States
8		Chile	8		Russia	8		Brunei	8		Philippines	8		Chinese Taipei
9		Japan	9		Canada	9		Korea	9		Thailand	9		Peru
10		Mexico	10		Korea	10		Russia	10		Mexico	10		Japan
11		Russia	11		Japan	11		Chinese Taipei	11		Malaysia	11		Korea
12		China	12		Brunei	12		Japan	12		Chinese Taipei	12		Mexico
13		Hong Kong	13		Chinese Taipei	13		Canada	13		New Zealand	13		Philippines
14		Australia	14		Malaysia	14		Mexico	14		Peru	14		Thailand
15		Philippines	15		Thailand	15		Thailand	15		United States	15		Malaysia
16		Indonesia	16		Mexico	16		Philippines	16		Indonesia	16		Indonesia
17		Vietnam	17		Philippines	17		Vietnam	17		Papua New Guinea	17		Papua New Guinea
18		Thailand	18		Indonesia	18		China	18		China	18		Russia
19		Malaysia	19		Vietnam	19		Malaysia	19		Vietnam	19		Vietnam
20		Brunei	20		China	20		Indonesia	20		Brunei	20		China
21	NDA	Papua New Guinea	21	NDA	Papua New Guinea	21	NDA	Papua New Guinea	21	NDA	Russia	21	NDA	Brunei

Note: On this slide and those that follow, "NDA" indicates No Data Available.

Impact of International Investment Agreements

The table below represents the impact of international investment agreements in each APEC economy, according to our interviewees.

Impact of Int'l Investment Agreements

Ranking	Interview Impact Rating	Economy
1		Singapore
2		Hong Kong
3		United States
4		Australia
5		Canada
6		New Zealand
7		Japan
8		Chile
9		Korea
10		Mexico
11		Philippines
12		Malaysia
13		Vietnam
14		Peru
15		Chinese Taipei
16		China
17		Indonesia
18		Thailand
19		Russia
20		Brunei
21		Papua New Guinea

Our interviewees told us that the number and quality of international investment agreements was sometimes an important consideration in committing capital to certain economies because of the larger Free Trade Agreement or Regional Trade Agreement market that this then allows them to access. Essentially, some economies that have FTAs or RTAs with some of the world's most "desirable" economies by market size are sometimes used as a means of "back-door" access to that larger economy, and to expand market size.

However, beyond that, although International Investment Agreements are much sought after and prized by academics and politicians alike, our interviewees revealed that, generally speaking, the presence or quality of IIAs does not have a significant ***impact*** on their decision-making process, nor on their day to day operations within APEC economies.

In essence, when seeking to attract inward FDI, policymakers should bear in mind that robust participation in a regime of International Investment Agreements certainly cannot hurt them, but it will also not automatically help them. Other important attractors or detractors must be squared away.

Perhaps a more important and indirect benefit of economies ratifying high-quality FTAs, tax agreements or investment agreements is that they bind otherwise reluctant politicians to more liberalized trade and investment policies.

Impact of FDI Opportunity Promotion

The table below represents the impact of FDI opportunity promotion on the both the decision making process of organizations considering FDI in a certain economy, as well as on their day-to-day operations within that economy.

Impact of FDI Promotion

Ranking	Interview Impact Rating	Economy
1		Hong Kong
2		Singapore
3		Australia
4		Canada
5		Thailand
6		Malaysia
7		Philippines
8		United States
9		New Zealand
10		Chile
11		Peru
12		Chinese Taipei
13		China
14		Indonesia
15		Korea
16		Brunei
17		Vietnam
18		Japan
19		Mexico
20		Papua New Guinea
21	NDA	Russia

It does appear as though the existence and robustness of an Investment Promotion Agency has a positive impact on the decision of foreign entities to invest in a particular APEC economy. Investors are more apt to favor locales where they are aware of positive potential and features, which IPA's make it their business to market. In this case, it appears that the squeaky wheel does, indeed, get the grease. Less can be reasonably discerned about any potential deleterious effect of not having an aggressive Investment Promotion Agency.

Hong Kong's InvestHK was singled out several times by foreign interviewees in Hong Kong, as well as interviewees outside Hong Kong, as a "best practice" organization. Austrade's efforts and assistance to firms considering or investing in Australia were similarly lauded.

It bears mention that investment promotion agencies or efforts at sub-national levels, which are abundant in economies such as China and the United States, run the risk of diluting the overall investment promotion efforts of the economy as a whole. Greater coordination of messaging with the national level agency will retain focus on investing the United States as a whole, for instance, as opposed to highlighting an internecine competition for foreign investment between, say, Los Angeles and Dallas.

Transparency of Processes Comparison

The table below presents two distinct dimensions of considering the transparency of investment-oriented processes by economy. Published sources include favoritism in decisions by government officials while our research focuses on the business ***impact***, and includes straightforward and predictable procedures and timely clear decisions in writing instead.

Transparency of Processes					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		Hong Kong	2		Hong Kong
3		Canada	3		New Zealand
4		New Zealand	4		Australia
5		Japan	5		United States
6		Chile	6		Canada
7		Chinese Taipei	7		Chile
8		Malaysia	8		Chinese Taipei
9		Australia	9		Malaysia
10		Brunei	10		Japan
11		China	11		Indonesia
12		United States	12		Korea
13		Indonesia	13		Thailand
14		Thailand	14		Mexico
15		Philippines	15		Brunei
16		Mexico	16		Philippines
17		Peru	17		Peru
18		Vietnam	18		Vietnam
19		Korea	19		Papua New Guinea
20		Russia	20		China
21	NDA	Papua New Guinea	21		Russia

Interestingly, there are some differences between what we found and the published proxies.

Australia/United States: Although executives generally commented on the extent of Australian and American bureaucracy in negative ways, they also rated it higher in terms of transparency than did data published by the World Economic Forum. Although executives conceded/complained that things often take far too long in these two economies, they also felt that the processes were fair, transparent, and predictable. They generally knew what to expect, and it did not change in unpredictable ways or based upon which functionary they were dealing with, all of which are things prized by businessmen.

China: By contrast, when considering the impact of investment process transparency, China fell significantly, for essentially exactly the opposite reasons.

Efficiency of Processes and Procedures Comparison

The table below presents two distinct dimensions of considering the efficiency of processes and procedures by economy. While published sources focus largely on time and number of procedures to obtain approval, USC research focused on the impact of these, as well as on other dimensions that executives told us were important, such as availability of online information.

Efficiency of Processes for Obtaining Approval					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		New Zealand	2		Hong Kong
3		Hong Kong	3		New Zealand
4		United States	4		United States
5		Canada	5		Canada
6		Australia	6		Australia
7		Chile	7		Chile
8		Japan	8		Chinese Taipei
9		Chinese Taipei	9		Japan
10		Korea	10		Malaysia
11		Malaysia	11		Indonesia
12		China	12		Mexico
13		Mexico	13		Philippines
14		Thailand	14		Korea
15		Peru	15		Vietnam
16		Brunei	16		Russia
17		Indonesia	17		Brunei
18		Papua New Guinea	18		Thailand
19		Vietnam	19		China
20		Russia	20		Papua New Guinea
21		Philippines	21		Peru

Interestingly, there are some differences between what executives reported in our APEC interviews and the published proxies.

China: Although by published indices, approval processes in China are moderately efficient, executives told us that in reality, the efficiency associated with obtaining investment approval from different layers of Chinese government officials is far slower, more cumbersome, and less predictable.

Peru: Based on the interviews conducted in Peru, the inefficiencies of the government approval process place Peru at the bottom of APEC's economies according to business executives operating in the country. It is possible that a larger number of interviews might have moderated this ranking; but it was mentioned by all in Peru as a major problem. Contributing to this is that government officials in Peru lose legal protection for decisions made while in office upon their departure from government. Because of this, government officials are reluctant to make non-routine decisions, especially those associated with new technologies and new business strategies most commonly associated with MNCs.

Impact of Jurisdictional Overlap

One of the problematic impediments executives reported they struggled with, which was not reflected in any published data, was the inefficiency and redundancy engendered by jurisdictional overlap between ministries. This is reflective of too many governmental fingers in the pie.

Impact of Jurisdictional Overlap

Ranking	Interview Impact Rating	Economy
1		Singapore
2		Hong Kong
3		New Zealand
4		Chinese Taipei
5		Canada
6		Brunei
7		Chile
8		Thailand
9		Australia
10		Malaysia
11		Japan
12		Indonesia
13		United States
14		Vietnam
15		Mexico
16		Papua New Guinea
17		Peru
18		China
19		Korea
20		Philippines
21	NDA	Russia

The adjacent table presents the impact of bureaucratic overlap and encumbrance by economy, as measured by coordination amongst responsible agencies and alignment of FDI policies across ministries.

Unsurprisingly, Singapore and Hong Kong earned the top spots. Economies that are notorious for "doing bureaucracy well," i.e., Australia and the United States, find themselves more toward the middle or lower half, whereas according to many other measures they are much closer to the top when it comes to ease of foreign investment. This is perhaps not surprising and somewhat unavoidable given the strength of the federal model and extent of bureaucracy. More surprising was the obstructive impact of jurisdictional overlap in Korea and the Philippines, where executives told us it was exceptionally problematic and difficult.

Impact of Consistency Across Levels of Government

Another significant area that executives across economies consistently raised as being especially problematic was the lack of consistency across levels of government (national, provincial/state, and local). Policies and procedures on FDI, as well as implementation and enforcement thereof, in many of APEC's economies do not appear to be harmonized at all levels of government.

Impact of Consistency Across Gov't

Ranking	Interview Impact Rating	Economy
1		Singapore
2		Hong Kong
3		Chinese Taipei
4		Brunei
5		Malaysia
6		Thailand
7		New Zealand
8		Canada
9		Australia
10		Mexico
11		Chile
12		Japan
13		United States
14		Vietnam
15		Indonesia
16		Korea
17		Papua New Guinea
18		Peru
19		Philippines
20		China
21	NDA	Russia

Executives complained loudly about being told different things or given different requirements or policies at provincial levels than they had fulfilled or been told at national levels, and differences yet again at municipal levels of government. Furthermore, it was not always clear to them the extent to which this was due to actual differing policies versus the discretion of individual government functionaries that they encountered. Many executives complained that the discretion at local levels was tantamount to government hold-up and in some cases outright corruption. It may also be reflective of former French Prime Minister Georges Clemenceau's observation that "there is no passion like that of a functionary for his function."

Whether a matter of actual inconsistent policy or excessive and problematic bureaucratic discretion, this inconsistency was one of the largest sources of executive heartburn, and caused some of the biggest problems when it came to executing on their foreign investment. In particular, we heard loud and repeated complaints about Peru, the Philippines and especially China from executives both inside and outside those economies.

Consistency is closely tied in with predictability and stability. Our research showed that together, these form a triad of "most valuable attributes" for attracting FDI.

Predictability and Stability Comparison

The table below presents two different dimensions of considering predictability and stability of the regulatory environment. Data published by the World Economic Forum considers only a couple of factors, whereas our research data incorporates some of the factors that business leaders told us were the most important or problematic. These include consistency of regulations over time, tendency of new governments to make regulatory changes, and ability to make and commit to high-quality regulations.

Predictability & Stability of Regulatory Environment					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		Hong Kong	2		Hong Kong
3		New Zealand	3		New Zealand
4		Canada	4		Canada
5		Japan	5		Malaysia
6		Chile	6		Chinese Taipei
7		Malaysia	7		Australia
8		Chinese Taipei	8		United States
9		United States	9		Chile
10		Australia	10		Thailand
11		Brunei	11		Japan
12		China	12		Brunei
13		Vietnam	13		Peru
14		Indonesia	14		Mexico
15		Korea	15		Papua New Guinea
16		Philippines	16		Vietnam
17		Peru	17		Indonesia
18		Mexico	18		China
19		Thailand	19		Korea
20		Russia	20		Philippines
21	NDA	Papua New Guinea	21		Russia

Taken as a whole, the importance of predictability and stability was one of the most important issues our interviewees stressed. Because our research encompasses some of the factors that executives ranked as the most significant, and because these factors were ranked by their impact on a foreign entity's ability to invest and operate in a given economy, we conclude that they may represent a more accurate reflection of potential to attract and keep foreign direct investment. Our APEC interviews revealed some minor and one very significant ranking differences from the published data:

Thailand: The Bureau of Investment is a powerful entity, and has successfully impressed upon successive governments the importance of predictability and stability to attracting and keeping foreign investment. As such, the regulatory regime is generally quite stable in many of the areas that executives care about.

Impact of National Treatment

The table below represents the impact of the extent of national treatment (that is to say, the extent to which foreign firms operating in a given economy are officially treated the same way as domestic firms) in the regulatory environment.

Impact of National Treatment

Ranking	Interview Impact Rating	Economy
1		Hong Kong
2		Singapore
3		Japan
4		Australia
5		New Zealand
6		Chinese Taipei
7		Thailand
8		Peru
9		Chile
10		Canada
11		United States
12		Philippines
13		Mexico
14		Malaysia
15		Vietnam
16		Indonesia
17		Korea
18		Brunei
19		Papua New Guinea
20		China
21	NDA	Russia

The extent of national treatment of FDI differs in two important ways. First is the strict definition in law as to the legal status of foreign entities within economies as compared to domestic firms. Where and how APEC economies differ in their national treatment policies is sometimes prescribed in national constitutions and can require things such as that all foreign entities must register and be monitored by separate government agencies. Second, and perhaps more importantly, is the actual treatment of foreign firms by approval and enforcement agencies. While some APEC economies do not offer legal national treatment to foreign firms, they are provided equal treatment by all permitting, approval and enforcement agencies.

Accessibility and Clarity of Investment Regulations

Though an important metric for FDI effectiveness, available published proxies for the accessibility and clarity of investment regulations were difficult to find. The benchmark index presented below is an index for the availability of online government information drawn from the World Economic Forum. Generalizing from this single measure is cautioned. Our research ratings, guided by what executives told us was important to them in practice, included the extent to which regulations are accessible, clear, available online, upcoming changes are published in advance, and there exists a single window for inquiries.

Accessibility and Clarity of Investment Regulations					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		Australia	2		Hong Kong
3		Canada	3		Canada
4		New Zealand	4		New Zealand
5		United States	5		United States
6		Chile	6		Chile
7		Japan	7		Malaysia
8		Malaysia	8		Australia
9		Mexico	9		Chinese Taipei
10		Korea	10		Japan
11		Russia	11		Indonesia
12		Peru	12		Peru
13		Philippines	13		Mexico
14		Thailand	14		Philippines
15		Indonesia	15		Brunei
16		China	16		Thailand
17		Vietnam	17		Papua New Guinea
18	NDA	Brunei	18		Vietnam
19	NDA	Chinese Taipei	19		Korea
20	NDA	Hong Kong	20		China
21	NDA	Papua New Guinea	21	NDA	Russia

Interestingly, there are some differences between what we found and the published proxies.

Hong Kong: For unknown reasons, Hong Kong is not ranked by the WEF. However, executives unsurprisingly pointed to Hong Kong (and Singapore) as among the best in the world with respect to this matter.

Indonesia: Executives told us this was less of an issue in Indonesia than the WEF ranking would indicate.

Australia: While not terribly problematic, perhaps because of the compliance required with state and local regulations, executives indicated it would be nice if they were able to find/deal with all foreign investment issues in one place – perhaps the ability to access state and local officials and regulations in the same place as national ones would be helpful.

Impact of Community Consultative Process

The table below presents a by-economy ranking of the impact of community consultative processes on the ease of undertaking Foreign Direct Investments in APEC economies. This impediment considers two elements: the existence or lack of a clearly defined process for community approval and the ability of small numbers of people to hold up the approval process. This is an important pillar that is not addressed elsewhere in existing research.

Impact of Community Consultative Process

Ranking	Interview Impact Rating	Economy
1		Singapore
2		Hong Kong
3		Japan
4		Chinese Taipei
5		Canada
6		New Zealand
7		Philippines
8		Australia
9		Vietnam
10		Korea
11		China
12		United States
13		Mexico
14		Indonesia
15		Chile
16		Papua New Guinea
17		Peru
18	NDA	Brunei
19	NDA	Malaysia
20	NDA	Russia
21	NDA	Thailand

While a strong community consultative process can be a good thing and is demonstrative of both government and enterprise respect for individual citizens and private landowners, it can also represent a highly obstructive part of any foreign direct investment process and as such can constitute a significant factor in the decision-making process with respect to investing or not in any particular economy.

Indonesia: Functionally speaking, Indonesian law does not include any provisions for eminent domain, so one homeowner has the ability to stop a project via simple refusal to sell.

Peru: In an effort to respect and protect the rights of indigenous persons, Peru instituted the *Consulta Previa* which, while well-intentioned, has the effect of stalling or barring potential projects.

Papua New Guinea: Power flows from the landholder and the tribe, and any single landowner has the ability to stop, stall, delay, withhold, hector or harry a potential FDI project.

Dispute Resolution Comparison

The tables below present by-economy world rankings on the quality of dispute resolution, as well as according to impact of dispute resolution matters on the ease of undertaking FDI in APEC economies. In both instances the rankings are based upon such considerations as strength of law, ability to sue government, acceptance of international standards of dispute resolution, existence, strength and legitimacy of dispute resolution mechanisms, etc.

Dispute Resolution					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		New Zealand	1		Singapore
2		Singapore	2		United States
3		Hong Kong	3		Australia
4		Canada	4		New Zealand
5		United States	5		Hong Kong
6		Australia	6		Canada
7		Japan	7		Japan
8		Chile	8		Chinese Taipei
9		Malaysia	9		Malaysia
10		Brunei	10		Chile
11		Indonesia	11		Peru
12		China	12		Korea
13		Chinese Taipei	13		Mexico
14		Korea	14		Indonesia
15		Mexico	15		China
16		Peru	16		Vietnam
17		Philippines	17		Philippines
18		Thailand	18		Thailand
19		Vietnam	19		Brunei
20		Russia	20		Russia
21		Papua New Guinea	21		Papua New Guinea

Most of the impact ratings ought not be surprising based upon the overall strength of, respect for, and general incorruptibility of the rule of law in many APEC economies. However, executives went out of their way to tell us there are also many APEC economies where they specifically avoid entering into dispute resolution unless it is arbitrated outside or independently, because the system is so biased or corrupt that they believe it impossible to get a fair shake, even if they are 100% in the right according to the laws of the land.

However, our interviews revealed that there are no significant shake-ups to the rankings when considered according to impact. As one executive with over two decades of experience operating across APEC put it, “things are lousy exactly where you would expect them to be lousy, and they are good exactly where you would expect them to be good.”

Judicial Independence Rankings

The tables below present by-economy world rankings on the independence of the judiciary from political interference, or lack thereof. For comparison are impact rankings on how much judicial independence in each APEC economy matters to the ease of undertaking Foreign Direct Investments in APEC economies, as well as day-to-day operations of foreign investors.

Judicial Independence					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		Hong Kong	2		Australia
3		New Zealand	3		New Zealand
4		Australia	4		Canada
5		Canada	5		Japan
6		Japan	6		Chinese Taipei
7		Chile	7		Korea
8		United States	8		Hong Kong
9		Brunei	9		Malaysia
10		Malaysia	10		United States
11		Chinese Taipei	11		Chile
12		Korea	12		Philippines
13		Thailand	13		Indonesia
14		Indonesia	14		Mexico
15		China	15		Vietnam
16		Mexico	16		Peru
17		Philippines	17		Brunei
18		Vietnam	18		Papua New Guinea
19		Peru	19		Thailand
20		Russia	20		China
21	NDA	Papua New Guinea	21		Russia

Although much in the adjacent charts is probably intuitive, there were a few notable exceptions or differences when incorporating consideration of the ***impact*** of judicial independence on foreign investors' decision-making process with respect to undertaking an investment and operating in a particular economy.

Hong Kong: In several executives' minds, the Hong Kong Court of Appeals 2010 ruling on sovereign immunity in the matter of *FG Hemisphere v. Democratic Republic of the Congo* cast significant doubt on just how independent the judiciary in Hong Kong is from the influence and desires of the central government of the People's Republic.

United States: Many executives do not believe that the judiciary is free from politicization, for all practical purposes.

With respect to impact on foreign businesses and FDI, the judiciaries in **China** and **Russia** are not believed to be reliable or independent.

IP Protection Comparison

The table below presents two distinct dimensions of the impact of intellectual property protection on FDI. Published sources focus largely on the laws on paper regarding IP protection in a given economy. However, our interviewees told us that in practice, the enforcement of IP protection laws varies widely and is a significant issue for them.

Intellectual Property Protection					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		United States	1		United States
2		Canada	2		Australia
3		Australia	3		Singapore
4		Singapore	4		Hong Kong
5		Hong Kong	5		New Zealand
6		New Zealand	6		Japan
7		Japan	7		Philippines
8		Chinese Taipei	8		Chinese Taipei
9		Malaysia	9		Canada
10		Brunei	10		Chile
11		Chile	11		Mexico
12		Mexico	12		Malaysia
13		Korea	13		Brunei
14		Indonesia	14		Indonesia
15		China	15		Thailand
16		Philippines	16		Papua New Guinea
17		Thailand	17		Vietnam
18		Russia	18		Peru
19		Vietnam	19		Korea
20		Peru	20		China
21	NDA	Papua New Guinea	21	NDA	Russia

There were a few differences between what we found and the World Economic Forum's published scores.

China: Although there are robust IP protection laws on the books, our field research indicated that they are rarely enforced, considered highly unreliable, and that protection of one's IP is one of the most troubling aspects of investing in China or undertaking a joint venture with a Chinese firm.

Hong Kong: While still scoring in the top 20% of APEC, Hong Kong's usual place at the top of both world and APEC rankings on most matters appeared to slip somewhat based upon proximity to and government ties with China, which is believed to be a hotbed of IP theft.

Korea: Regulations regarding IP protection in certain industries are available, but not implemented.

Capital Markets Comparison

The table below presents two dimensions of considering the sophistication and smooth functioning of capital markets in an economy. The WEF's published data focuses largely on investor protection, efficacy of corporate boards, etc. However, our interviewees told us of several other impediments which were equally if not more challenging for them (for instance, overall sophistication of financial architecture or readiness of domestic firms to accept capital).

Capital Markets					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		United States	2		United States
3		Hong Kong	3		Hong Kong
4		Canada	4		Australia
5		New Zealand	5		New Zealand
6		Malaysia	6		Chinese Taipei
7		Japan	7		Korea
8		Australia	8		Malaysia
9		Chinese Taipei	9		Philippines
10		Chile	10		Canada
11		Thailand	11		Peru
12		Peru	12		Mexico
13		Indonesia	13		Indonesia
14		Mexico	14		China
15		China	15		Vietnam
16		Brunei	16		Chile
17		Philippines	17		Thailand
18		Korea	18		Brunei
19		Russia	19		Russia
20		Vietnam	20		Japan
21	NDA	Papua New Guinea	21		Papua New Guinea

Interestingly, there are some differences between what we found and the published proxies. Below appear bullet points describing the reason for some of these differences:

Australia: The impact of the domestic capital market situation in Australia was deemed far less problematic by executives than the WEF's data would indicate, largely because of the overall sophistication and smooth functioning of those markets.

Viet Nam: Although the financial system in Vietnam was not generally spoken of in a complimentary fashion ("it is a bunch of government officials trying to run a banking system and they just do not know what they are doing"), it was also not deemed as problematic as published data indicates, partially because companies do things for themselves or find workarounds.

Japan: Japan slipped due to a widespread inability or unwillingness of domestic firms to accept foreign capital.

Human Capital Comparison

The table below presents two dimensions of human capital consideration. Published sources focus largely on human capital potential. However, our interviewees told us that there were other significant considerations regarding human capital which challenged them just as much if not more than the items considered and ranked by published sources. Our interviewees emphasized the importance of issues surrounding the ease of finding human capital appropriately qualified to fulfill the roles for which they were being considered, willingness of expatriates to re-locate to the economy in question, and whether or not the communities in which the expatriates would live were of a high quality, safe, affordable, contained enough international school places for expatriate children, etc. Consideration according to the impact of human capital yielded some interesting insights:

Human Capital					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		Hong Kong	2		Chinese Taipei
3		Canada	3		New Zealand
4		United States	4		United States
5		Chile	5		Philippines
6		Chinese Taipei	6		Korea
7		New Zealand	7		Hong Kong
8		Australia	8		Australia
9		Korea	9		Canada
10		Japan	10		Chile
11		Thailand	11		Peru
12		China	12		Mexico
13		Brunei	13		Thailand
14		Malaysia	14		Indonesia
15		Indonesia	15		Brunei
16		Peru	16		China
17		Philippines	17		Vietnam
18		Mexico	18		Malaysia
19		Russia	19		Russia
20		Vietnam	20		Japan
21		Papua New Guinea	21		Papua New Guinea

Hong Kong: It is a very difficult to find places in international schools for expatriate children.

Philippines: Although scoring relatively poorly according to published sources, our research found that executives value the highly-educated, English-speaking population and that the culture is comfortable for expatriates.

Malaysia: Some years ago, the government determined that all primary education cease in English and continue only in Malay. As a result, it is extremely difficult to find qualified English-speakers to fill many of the roles that companies are looking for.

Japan: A "job-for-life" mentality, along with laws that have the effect of enshrining that mentality, make it difficult to rid one's company of unproductive workers.

Infrastructure Rankings

The table below presents a by-economy ranking of the impact of adequate or advanced infrastructure, or lack thereof, on the ease of undertaking Foreign Direct Investments in APEC economies. These rankings are based on existing research, and consider ICT use and aggregated infrastructure data on quality of roads, ports, rail, air, utilities, etc. On the whole, decayed, degraded or inadequate infrastructure was high on the list of executive complaints.

Infrastructure					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Hong Kong	1		Hong Kong
2		Singapore	2		Singapore
3		Japan	3		Japan
4		United States	4		United States
5		Korea	5		Korea
6		New Zealand	6		New Zealand
7		Australia	7		Chinese Taipei
8		Canada	8		Australia
9		Chinese Taipei	9		China
10		Chile	10		Malaysia
11		Malaysia	11		Canada
12		Russia	12		Brunei
13		China	13		Chile
14		Brunei	14		Mexico
15		Thailand	15		Thailand
16		Mexico	16		Russia
17		Philippines	17		Vietnam
18		Peru	18		Peru
19		Indonesia	19		Philippines
20		Vietnam	20		Indonesia
21	NDA	Papua New Guinea	21		Papua New Guinea

Some of APEC's economies ranked differently on impact of infrastructure than they did according to WEF data.

China: China has made significant infrastructure improvements in recent years. Those operating inside the country even complimented many aspects of the infrastructure, and felt that poor world rankings on this matter are based on antiquated perceptions.

Russia: Although an extensive infrastructure was constructed at the height of the Soviet Union's power, executives felt that many aspects of it were crumbling and that money devoted to improvement disappeared into people's pockets.

Papua New Guinea: All interviewees emphasized that infrastructure is sorely lacking. Though separated by the forbidding Owen Stanley Range, the country's two largest cities, Port Moresby and Lae, are not even connected by road.

Related and Supporting Industries Comparison

The table below presents by-economy rankings of the availability and sophistication of related and supporting industries in an economy, and their impact on FDI decisions and operation. Published sources focus largely on local supplier quality and industry clusters. However, our interviewees emphasized that the availability and quality of professional services was something that troubled them far more, so we included that in our impact ratings.

Related and Supporting Industries					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		United States	1		United States
2		Hong Kong	2		Hong Kong
3		Singapore	3		Singapore
4		Canada	4		Japan
5		Japan	5		Australia
6		Chinese Taipei	6		Korea
7		Korea	7		Chile
8		Malaysia	8		New Zealand
9		Australia	9		Chinese Taipei
10		New Zealand	10		Canada
11		Mexico	11		Mexico
12		Chile	12		Malaysia
13		China	13		Philippines
14		Philippines	14		Indonesia
15		Thailand	15		Vietnam
16		Indonesia	16		Peru
17		Brunei	17		Thailand
18		Peru	18		Brunei
19		Vietnam	19		China
20		Russia	20		Papua New Guinea
21	NDA	Papua New Guinea	21	NDA	Russia

Because of this, there are some differences between what we found and the published proxies.

Australia and New Zealand: Both economies are rated higher because of the ease of accessing and affordability of highly competent professional services (lawyers, accountants, etc.).

China: Significant restrictions still exist on professional services. For instance, if a Chinese attorney takes a job with a non-Chinese firm, his Chinese law license is, in effect, invalidated within China.

Papua New Guinea: PNG received the lowest possible rating largely due to overall underdevelopment of the economy and lack of domestic professional services firms, exacerbated by a poor educational system and resultant aggregate lack of a highly-educated populace.

Physical Security Rankings

The table below presents comparative ratings of physical security, or lack thereof, and its impact on business confidence with respect to undertaking Foreign Direct Investments in APEC economies. These rankings are based on such impediments as crime and violence and reliability of police. In particular, this is an area where perception or lingering beliefs based on highly publicized violence can damage an economy's chances to attract FDI.

Physical Security					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Hong Kong	1		Hong Kong
2		Singapore	2		Singapore
3		New Zealand	3		New Zealand
4		Australia	4		Australia
5		Chinese Taipei	5		Canada
6		Canada	6		United States
7		Japan	7		Japan
8		Chile	8		Chinese Taipei
9		Malaysia	9		Chile
10		Brunei	10		China
11		United States	11		Vietnam
12		Korea	12		Korea
13		China	13		Malaysia
14		Vietnam	14		Philippines
15		Indonesia	15		Indonesia
16		Philippines	16		Thailand
17		Thailand	17		Papua New Guinea
18		Russia	18		Mexico
19		Mexico	19		Peru
20		Peru	20		Russia
21	NDA	Papua New Guinea	21	NDA	Brunei

Perhaps because we, and the executives we interviewed, were more interested in the ***impact*** of physical security on inward FDI, our research revealed some contrasts with the WEF's scores.

United States: Although the US suffers from higher levels of crime and in particular gun violence than many APEC economies, our research indicated this has essentially no bearing on the decisions of foreign entities to invest in the United States.

Indonesia: Although the ranking within APEC did not change, the accompanying rating did. Indonesia's image still suffers from the Bali nightclub bombings ten years ago, but those operating inside the country indicate far fewer concerns about their safety than people outside it.

Russia and Mexico: Both economies suffer significantly from the pervasiveness and influence of organized criminals and their reputation for extreme and gruesome violence.

Openness of Markets Comparison

The table below presents two dimensions of considering the openness of markets in an economy. Published sources focus largely domestic competition, anti-monopoly laws, and so on. However, our interviewees told us that other issues such as as the presence and strength of SOEs or informal markets were equally if not more challenging for them.

Openness of Markets					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Hong Kong
2		United States	2		Singapore
3		Chinese Taipei	3		Chinese Taipei
4		Japan	4		Australia
5		Australia	5		New Zealand
6		Hong Kong	6		Thailand
7		Canada	7		Japan
8		New Zealand	8		United States
9		Malaysia	9		Canada
10		Korea	10		Chile
11		Brunei	11		Philippines
12		China	12		Malaysia
13		Chile	13		Indonesia
14		Peru	14		Mexico
15		Thailand	15		Vietnam
16		Indonesia	16		Brunei
17		Vietnam	17		Peru
18		Philippines	18		Russia
19		Mexico	19		Papua New Guinea
20		Russia	20		China
21	NDA	Papua New Guinea	21		Korea

Considering these slightly different standards, APEC's economies stacked up differently.

Hong Kong: Executives were uniformly astounded to learn that Hong Kong was not among the most, if not the most, open market in the world according to some published data, and vehement in their insistence that, at least according to impact on their decisions and operations, it is.

China: Many interviewees indicated that while they view the Chinese market as potentially lucrative, they do not view it as open because, as one said, "you have no chance against the SOEs or a company owned by anyone related to the Party princelings."

Korea: While the government has made significant efforts in recent years to reduce the market influence of the *chaebols*, they are still obstructively powerful. Combined with a perceived non-preference for outsiders, the market is not viewed as truly open.

USC University of Southern California

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Tax Environment Comparison

The table below presents comparisons of how extensive, expensive, cumbersome, and difficult to navigate the tax environment is in an economy. The benchmark rankings are drawn from an aggregated WEF score. However, our interviewees told us that in addition to level and burden of taxation, double taxation is also a significant issue for them.

Tax Environment					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		Hong Kong	2		Hong Kong
3		Brunei	3		New Zealand
4		New Zealand	4		Thailand
5		Chile	5		Chinese Taipei
6		Malaysia	6		Chile
7		Chinese Taipei	7		Australia
8		Canada	8		Malaysia
9		United States	9		Mexico
10		Indonesia	10		Canada
11		China	11		Indonesia
12		Japan	12		Vietnam
13		Peru	13		Philippines
14		Mexico	14		Korea
15		Australia	15		Papua New Guinea
16		Philippines	16		China
17		Thailand	17		Peru
18		Korea	18		Japan
19		Vietnam	19		United States
20		Russia	20	NDA	Brunei
21	NDA	Papua New Guinea	21	NDA	Russia

Almost to a man, our interviewees made clear they are not opposed to paying taxes as such; one even referenced a famed Oliver Wendell Holmes quote: "I like to pay taxes. With them I buy civilization." However, in some economies, the tax environment, its reach, complication, extent, etc., has become a serious deterrent to FDI.

United States: The high level of taxes and complicated, extensive and incomprehensible nature of the tax code in the US was universally reviled by executives. Many explicitly stated they will not invest or operate in the US because of it.

Thailand: Because of FDI promotion initiatives, up until eight years in country, most foreign firms do not pay domestic taxes. Upon reaching eight years, taxes become onerous but there are also ways of resetting one's clock. As such, the tax environment in Thailand is not viewed as burdensome.

Japan: High corporate taxes are a major deterrent for foreign investment.

Impact of Nationalism

The table below presents the impact of nationalism inside APEC economies on the decision-making, ease, and day-to-day operations of foreign entities seeking to invest and operate in said economy.

Impact of Nationalism		
Ranking	Interview Impact Rating	Economy
1		Hong Kong
2		Singapore
3		Philippines
4		Chinese Taipei
5		Canada
6		Thailand
7		New Zealand
8		Mexico
9		United States
10		Australia
11		Vietnam
12		Peru
13		Indonesia
14		Malaysia
15		Papua New Guinea
16		Chile
17		China
18		Korea
19		Japan
20	NDA	Brunei
21	NDA	Russia

Concerns regarding the potential impact of nationalism, generally defined by extent of xenophobia, economic domestic favoritism, and potential for the population to politicize and stop FDI projects, led us to probe executives for a deeper understanding of whether and to what extent this is a problem for them. We heard some interesting things.

United States and Australia: Following May's proposed acquisition of Smithfield Foods by Shuanghui Holdings, newspaper articles in the United States wrote of China being "hungry," "scooping up supplies of . . . anything that can be culled from the soil," and "turning its eyes to meat." Elements in Australia have demonstrated similar reticence about Chinese agricultural acquisitions there. Several executives feel as though such negative and plundering imagery would not have been used if the acquiring entity had been, say, Swedish instead of Chinese and are indicative of a latent and antiquated bias against "Red China" and the "Yellow Menace."

Korea and Japan: Interviewees, including several Korean and Japanese interviewees, indicated that historic feelings of supremacy and suspicion or outright dislike of outsiders still combine to make these, in essence, closed societies.

Source: Los Angeles Times, 29 May 2013.

Political and Economic Stability Comparison

The table below presents a by-economy ranking of the impact, positive or negative, of the relative political and economic stability than an individual APEC economy enjoys (or does not). This includes both stability in the domestic political/economic realms, as well as "good relations with the neighbors" (or not).

Impact of Political & Economic Stability

Ranking	Interview Impact Rating	Economy
1		Singapore
2		Hong Kong
3		Australia
4		Canada
5		New Zealand
6		United States
7		Japan
8		Chinese Taipei
9		Malaysia
10		Chile
11		Philippines
12		Peru
13		Mexico
14		Vietnam
15		China
16		Indonesia
17		Korea
18		Brunei
19		Papua New Guinea
20		Thailand
21		Russia

Not surprisingly, investors prize stability. They were apt to give higher marks to those economies where civil unrest is minimal, coups are unheard of, and the threat of regionally destabilizing martial conflict with the neighbors is low. Politicians in those nations "fighting over uninhabited rocks" were the object of particular scorn.

Stability and predictability go hand in hand. These are among executives' highest priorities when considering where to deploy and risk capital. Also not surprisingly, economies where executives made such remarks as "you know exactly what you're going to get" or "what you see is what you get" were ranked the highest. Other executives indicated that all stability in the region flows from the relationship between the US and China, and that the biggest contributor to stability in APEC would be for "China and the US to finally figure out their relationship."

Thailand: Many executives outside Thailand viewed it as inherently unstable (this impression was probably exacerbated by news images of rioting and airport closures in Bangkok during the latest significant Red Shirt/Yellow Shirt conflicts), with the potential of becoming more so as the King's health deteriorates, an unpopular Crown Prince consolidates his royal influence, and factions fight for control. However, many executives inside Thailand stated that because most of their operations are on industrial estates outside the cities, this actually had little effect on them.

Impact of Cultural Embeddedness

The table below presents the impact of cultural embeddedness, or the affinity for "like" cultures, inside APEC economies on the decision-making, ease, and day-to-day operations of foreign entities seeking to invest and operate in said economy.

Impact of Cultural Embeddedness

Ranking	Interview Impact Rating	Economy
1		Canada
2		Hong Kong
3		New Zealand
4		Singapore
5		Chinese Taipei
6		Thailand
7		Australia
8		United States
9		China
10		Philippines
11		Chile
12		Peru
13		Mexico
14		Vietnam
15		Malaysia
16		Indonesia
17		Brunei
18		Papua New Guinea
19		Korea
20		Japan
21	NDA	Russia

Our research found that historically more isolated and more homogenous economies exhibited higher levels of preference for MNCs from culturally similar economies. Economies which have higher levels of immigration, histories of more open trading with a wider range of foreign economies were more accepting of culturally different MNC investments.

Cultural embeddedness is essentially an unintentional barrier to FDI, and one that resists easy mitigation, but it is nonetheless an important impediment. It becomes an increasingly problematic impediment in industries where direct people-to-people interactions are integral to operations.

Economies in which the quality of regulatory and judicial environments have been weak have tended to substitute close relationships for commercial contracts.

Japan: Japanese and foreign executives in Japan commented that outsiders can find it difficult to penetrate the deep professional, commercial and social networks that exist in Japan.

Corruption Comparison

The tables below represent two dimensions of considering the extent and impact of corruption an economy. The World Economic Forum's published scores on corruption measure corruption perceptions and irregular payments and bribes.

Corruption					
Ranking	Benchmark Ranking	Economy	Ranking	Interview Impact Rating	Economy
1		Singapore	1		Singapore
2		Hong Kong	2		Hong Kong
3		New Zealand	3		New Zealand
4		Canada	4		Canada
5		Australia	5		Australia
6		United States	6		Chile
7		Japan	7		Japan
8		Chile	8		United States
9		Brunei	9		Chinese Taipei
10		Chinese Taipei	10		Thailand
11		Korea	11		Korea
12		Malaysia	12		Malaysia
13		China	13		Brunei
14		Peru	14		Peru
15		Thailand	15		Indonesia
16		Mexico	16		Vietnam
17		Philippines	17		Mexico
18		Indonesia	18		China
19		Papua New Guinea	19		Philippines
20		Vietnam	20		Papua New Guinea
21		Russia	21		Russia

Our interviewees were emphatic that corruption is pervasive and problematic at all levels of many economies, so we also present our findings on the impact of corruption on accessing a market, the implementation of regulations, as well as the regulatory, judicial, and business environments of an economy. Corruption has been discussed at length elsewhere in this report. The adjacent chart largely speaks for itself, but additional conclusions include an emphasis on the fact that it is still a problem even though many economies have undertaken aggressive anti-corruption campaigns. Executives expressed skepticism about the efficacy of these campaigns in some economies, saying that in some instances they are "just a way of getting rid of political opponents while trying to get credit for being tough on corruption." Although some interviewees seemed resigned to the presence of corruption, they universally loathe it, both for ethical reasons and because they don't know exactly how to deal with it. Many investments have not happened because an economy is too corrupt or even has that leftover reputation from years ago.

Discussion Themes

Thematic Overview

The previous three sections systematically presented data, including an aggregation of the stocks and flows of FDI within APEC, and then ratings of APEC economies with respect to FDI impediments. Unfortunately, what is lost in the data is the richness of the discussions that took place concerning the FDI challenges faced by businesses in different economies. The data cannot capture the level of frustration expressed by business executives or the sense of urgency behind their calls for change. Executives expressed real frustration with obsolete regulations, excessive and unnecessary policies, confusing requirements, and well-intentioned but ineffective FDI regimes.

This section attempts to capture some of the intensity of the discussion regarding FDI that cannot be conveyed through data alone. It consists of qualitative conclusions drawn from our interviews, and presents topics for discussion which we believe merit further investigation and action. They can be categorized into two groups: differences in perspective regarding the discussion of FDI, and conclusions regarding the impediments and drivers of FDI themselves.

- Differences in perspective regarding the discussion of FDI
  - Policymakers regard FDI as distinct from domestic investment, while businesses do not
  - Policymakers consider impediments to FDI based on whether they occur at or behind the border, while businesses view them in the context of the investment process
  - Policymakers see impediments to FDI, while businesses see costs and risks
  - Policymakers view some investment as desirable and some as undesirable, while businesses do not
- Conclusions regarding impediments and drivers of FDI
  - Unpredictability is a key concern for business leaders
  - Corruption adds business risk as well as cost
  - Removing barriers is not enough to spur investment
  - Perception of investment barriers lags reality
  - Opportunity trumps access restrictions
  - FTAs can increase market opportunity

Differences in perspective between policymakers and businesses

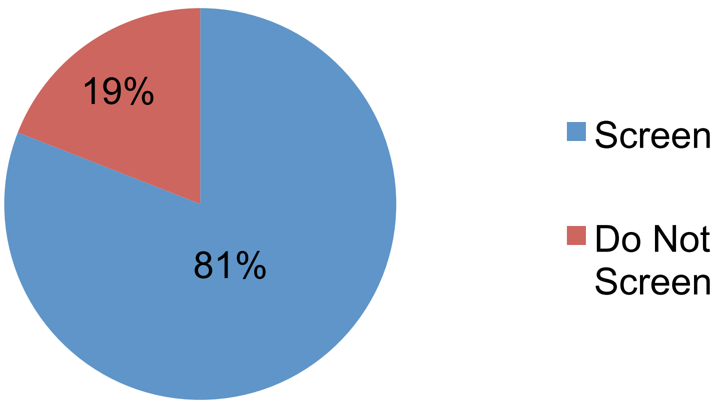
We went out into the APEC economies expecting to hear stories about the key impediments we had read about, including ownership restrictions, etc. Upon returning from conducting 271 interviews across 21 economies, we realized that there are key differences in the way the policymakers and economists discuss barriers to impediments and the way that business leaders do. Before diving into the key findings from our interviews, we will take a few moments to discuss key differences between the perspectives we expected from reading previous reports on FDI and the perspectives we encountered in the field. There are four major distinctions we will cover:

- Policymakers treat FDI as distinct from domestic investment, while businesses consider the same factors for both domestic and foreign investment.
- Policymakers view impediments to FDI using a goods-derived framework, while business leaders view investment decisions as a continuous process.
- Policymakers have focused on the costs imposed by impediments, but the risks imposed by impediments have a bigger impact on investment decisions.
- Policymakers view some FDI as desirable and other investment as undesirable, but businesses do not see this distinction so clearly.

Policymakers draw a clear distinction between foreign and domestic investment; MNCs do not

We asked respondents what factors they consider when making an overseas investment. Overwhelmingly, respondents' answers began not with FDI specific-impediments, as we expected, but with key business fundamentals of the same nature that would have been weighed for a domestic investment. This suggested strongly that business leaders see the distinction between foreign investment and domestic investment less clearly than do policymakers.

Policymakers treat FDI as distinct from domestic investment…



Some governments in APEC use screening agencies to decide what foreign investments will be allowed into the country; such screening generally does not apply to domestic investments. 81% of APEC economies employ these types of agencies.

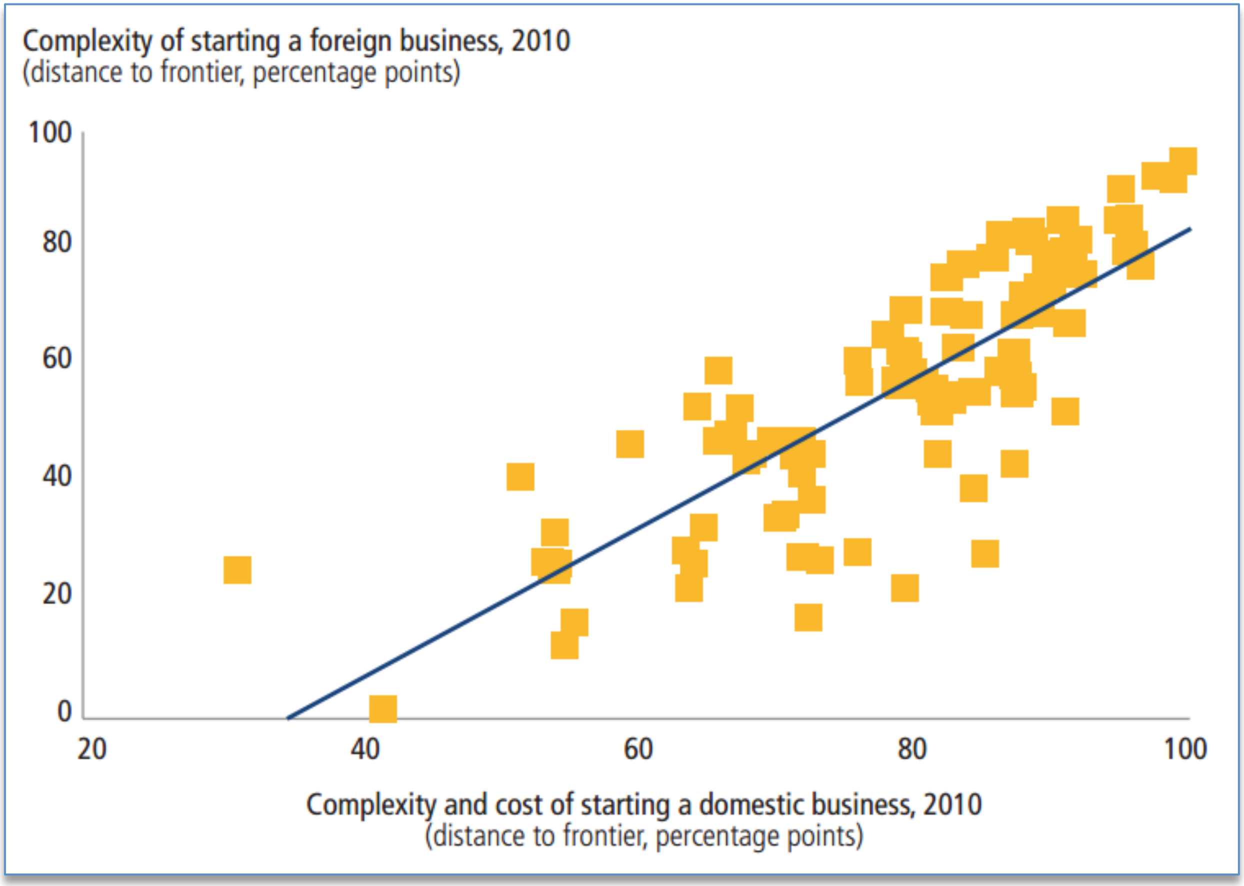
…while business considers the same factors for FDI and domestic investment.

	Key Impediments
1	Human Capital
2	Consistency across Levels of Government
3	Jurisdictional Overlap between Agencies
4	Corruption
5	Predictability and Stability of Regulations

This list shows the five most problematic impediments to foreign direct investment as ranked by our interview respondents. Note that not one of the top five impediments applies exclusively to FDI; each will affect domestic investors as well as foreign investors.

A strong correlation exists between foreign investment efficiency and domestic investment efficiency

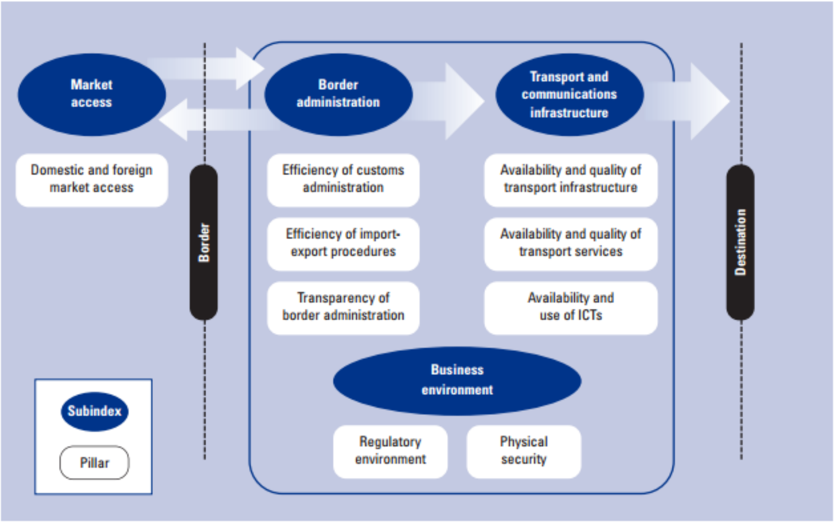
This chart, from WB - IAB report (2010), demonstrates the strong correlation between the complexity and cost of starting a domestic business and the complexity of starting a foreign business. This suggests that policies which are good for foreign investors may also be good for domestic investors, and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



Policymakers view FDI using a goods-derived framework

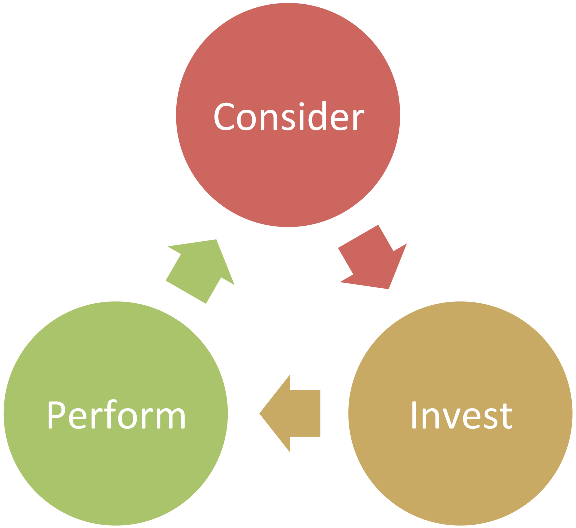
Because FDI policy is often negotiated as a component of broader trade negotiations, frameworks for understanding impediments to FDI are often based on the flow of goods. Impediments are grouped by whether they occur at the border or behind the border. Based on interviews, business leaders are more likely to consider impediments based on where in the investment process they occur: whether in the consideration stage, the investment stage, or the performance stage.

Policymakers view impediments to FDI based on a goods-derived framework…



Goods-based frameworks start outside the country and move in a linear fashion into the country. Frameworks of this type generally do not explicitly consider the effect that the success of one investment could have on future investment decisions.

…which does not match the business investment process.



Unlike the static picture of investment provided by a goods-derived framework, business leaders tend to view investment as a self-propagating cycle. One successful investment, for example, often leads to further investments. An inability to get good information on FDI regulation and investment opportunities can mean that the process never gets started.

Goods-derived frameworks focus policymaking attention on the wrong issues

Differences between the investment process and the goods-derived frameworks used to assess barriers to investment give rise to two issues uncovered in our interviews. First, goods-derived frameworks may focus policy attention on issues not considered critical by the business community. Second, goods-derived frameworks may de-emphasize the operating performance of investments once the investment has been made.

Businesses consider factors in an order different than policymakers

Goods-derived frameworks may focus policymaking attention on issues not considered critical by the business community. For example, equity ownership restrictions are considered "at-the-border" impediment by prior research. Our interviews suggested that equity ownership restrictions were not considered key impediments to investment by the business community. But because equity restrictions are prominently featured in existing frameworks – at the border – the issue may have received priority attention over issues which were more critical to business.

"In evaluating a FDI opportunity, we usually conduct 4 tests: 1st test: looking at business opportunity, if there is market potential and how attractive is the market, 2nd test: What's the cost of doing business, including people, land and operation costs. The 3rd test is logistics, for example, the level of infrastructure development. The last test is where we look at government regulations, complexity, bureaucracy, certainty, political risk and transparency…etc. The 1st test will take precedence over the rest of the tests."

- Executive's comment on APEC

Businesses consider investment as a chain-linked process

Businesses consider the entire investing environment, including opportunities to enter, costs of entry, costs of compliance, the speed and efficiency of government agencies and the quality of existing institutions. That is, they from investment to operation to reinvestment. A barrier or choke point at any point in the chain may discourage investment; Low at-the-border restrictions may simply be false advertising if behind the border impediments are not equally investment friendly.

"One of the most problematic issues in Peru is with the capacity of government employees in municipal government agencies to efficiently and effectively administer the regulations and the permit process. Even if the central governments is behind you, you will have to deal with local government agencies with the right to charge their own taxes."

- Executive's comment on Peru

Impediments that add risk are more important to executives' investment decisions…

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

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

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

- Executive's comment on Australia

"Chile's labor regulations are very pro-workers, which makes it incredibly difficult to fire workers in a timely manner."

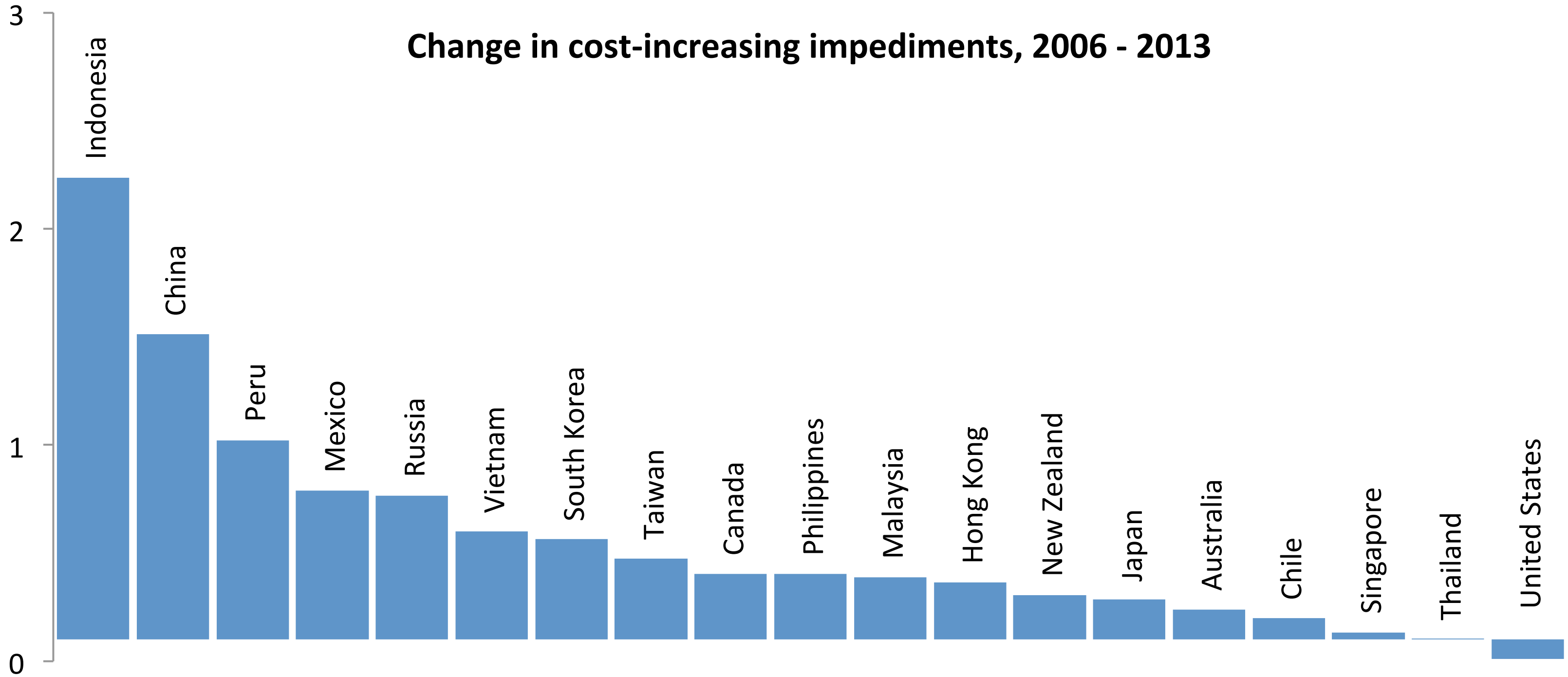
- Executive's comment on Chile

"For large scale projects, political infighting causes deferral of responsibility, resulting in delays that sometimes last years and may even derail payback periods to the point of loan default."

- Executive's comment on Viet Nam

…but policymakers focus on the costs of impediments to FDI

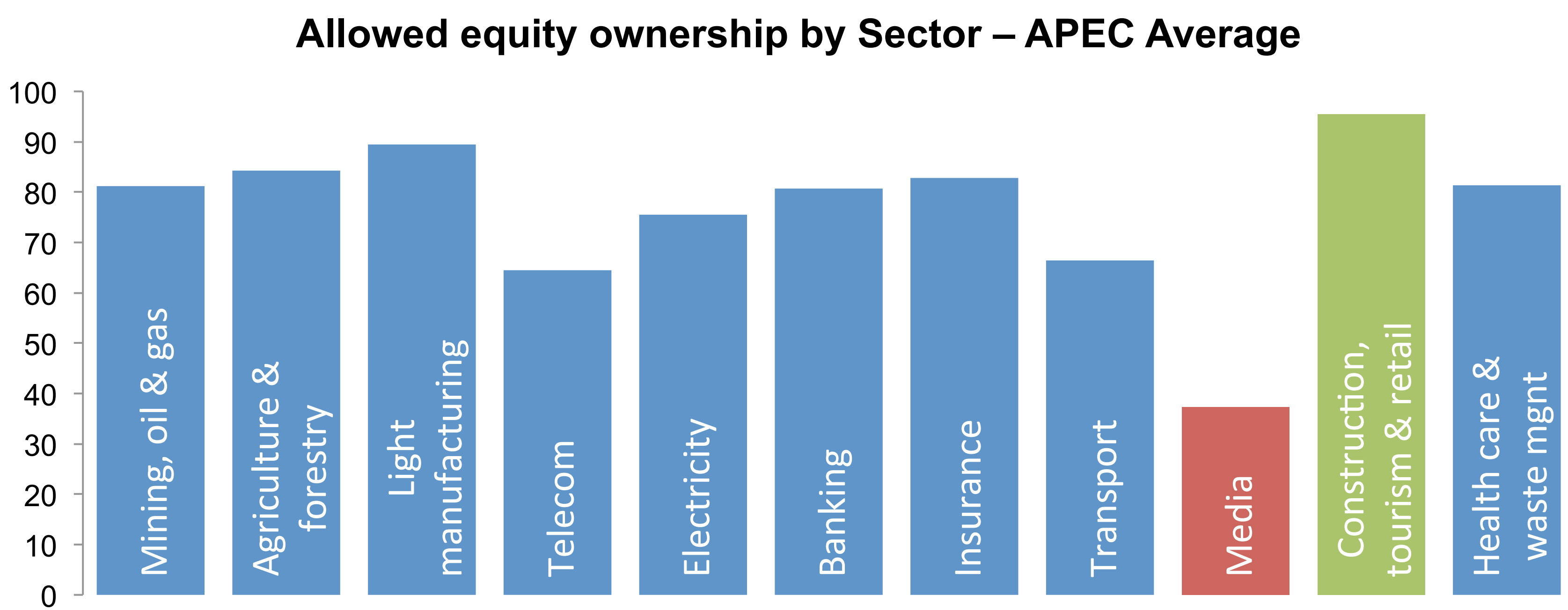
Most studies of impediments to FDI—including those done by the WEF and WB—use cost-related terminology. Even studies which do comment on whether an impediment increases risk or increases cost, such as the APEC 2007 report, have tended to put both risk and cost on equal footing. During the course of our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



This chart shows the liberalization of cost-increasing impediments that occurred during the period of 2006 – 2013; higher bars indicate a greater degree of liberalization during that period. The message is clear: policymakers have made it a priority to reduce cost-increasing impediments within their economies, and have made great progress in doing so.

Policymakers attempt to limit "bad" FDI while encouraging "good" FDI

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



The fact that governments view some investment as undesirable can manifest itself in outright equity restrictions. The chart above shows average foreign equity ownership restrictions by sector for the APEC economies. In general, governments view media FDI (shown in red) as undesirable, and restrict ownership. Tourism FDI, shown in green, is relatively un-restricted, suggesting that governments view tourism-related FDI as desirable.

Actions taken against “bad” investment affect “good” investment as well

Because foreign direct investment is a complicated, interconnected process, actions taken to limit undesirable FDI may have ripple effects in desirable FDI. One reason is that actions taken in a “bad” industry may make companies in a “good” industry nervous, as in the case below from Peru. Another potential reason is that companies in “good” FDI industries may rely on companies in “bad” FDI industries to perform effectively, as in the case below from Thailand.

Case study : Fast food in Peru

In an effort to limit childhood obesity, Peru passed a bill limiting the advertising and distribution of food that does not meet certain nutritional requirements. Many interview respondents cited this action as providing a disincentive to invest, *even if their companies were not involved in the food industry.*

“When politicians believe they can manage markets better than market forces, business executives become very concerned. Concerned to the point of losing confidence in long-term market opportunities. We don’t need government managing markets.”

- Executive’s comment on Peru

Case study: Consulting in Thailand

In Thailand, equity ownership is restricted for the services sector. As a result, global consulting firms generally need to dilute their ownership in the country with local partners, who may be of lower quality. Given the importance of quality consulting services to the investment process, this dilution may adversely affect investment across industries.

“My firm has a global relationship with [consulting firm]. Due to the equity restrictions in Thailand, the performance of [consulting firm] in Thailand is of lower quality, and that made it more difficult for us to complete our investment.”

- Executive’s comment on Thailand

Qualitative conclusions regarding impediments to and drivers of FDI

In addition to the differences in perspective we uncovered regarding FDI, a number of conclusions emerged from our interviews concerning the impediments and drivers of FDI themselves. Many of these conclusions are connected; business leaders are very concerned about unpredictability in all its forms when making an investment and corruption can add considerably to that unpredictability. Removing barriers alone is not enough to spur investment, in part because it may take longer to change the perceptions of the investing community than it does to remove the barriers. A large enough market opportunity may compensate for many impediments, and free trade agreements can effectively increase market opportunity in an economy.

Each of the topics presented here is complex enough and important enough to merit significant further research. They are presented here not with the goal of ending discussion on the matter, but rather with the goal of fomenting and adding richness to those discussions.

- Unpredictability is a key concern for business leaders
- Corruption adds business risk as well as cost
- Removing barriers is not enough to spur investment
- Perception of investment barriers lags reality
- Opportunity trumps access restrictions
- FTAs can increase market opportunity

Unpredictability takes on many forms

Unpredictability was the most prominent theme running through our interviews. Whether policies changing over time, or uncertainty concerning the availability of power, the topic most likely to make investors nervous was unpredictability. The issue was broader than initially anticipated, however, and respondents mentioned many issues involving unpredictability which did not necessarily vary on the time dimension.

Unpredictability Across Time

- Unpredictability is generally considered to be a time-bound phenomenon. Previous studies have shown that constantly changing regulations, for example, can deter investment. Unpredictability of regulations over time is a significant issue, but it is only one side of the coin.

Unpredictability Across Layers of Government

- Regions within an economy are typically covered by more than one layer of government. A business in the United States, for example, is required to comply with city, county, state, and national laws, all administered by different agencies. In certain cases, this layering can inject great unpredictability into the process of making an investment, especially in economies where local authorities cannot be overridden by national authorities. For businesses without significant experience within the country, this can add significant risk to projects in a given economy.

Unpredictability Across Geographies

- In some economies, laws or interpretations of laws can vary widely depending on what physical region of the economy a business is investing in. Even if those differences in laws or interpretations thereof have existed from the beginning of time, they are still a source of unpredictability for business leaders, especially foreign business leaders who may have a less-robust understanding of the law.

Corruption adds considerable business risk

Corruption emerged as a major theme in our interviews, being mentioned in all economies surveyed. Corruption is an especially complex issue, affecting processes and decisions throughout an investment's lifecycle. It can appear at the border or behind the border, and while it always adds costs, it can also add a great deal of risk.

Increased enforcement of anti-corruption law has increased risk.

When discussing the issue of corruption and its impact on foreign direct investment, previous studies have considered it as a cost-adding impediment. Our interviews suggest that corruption also adds considerable business risk, in part due to the increased enforcement of international anti-corruption law, such as the US Foreign Corrupt Practices Act (FCPA). A company subject to the FCPA could expose itself and its officers to the risk of prosecution if it chose to invest in an economy where corruption was prevalent and conducted itself in the same manner as local businesses.

Case Study: New Year's gifts in China

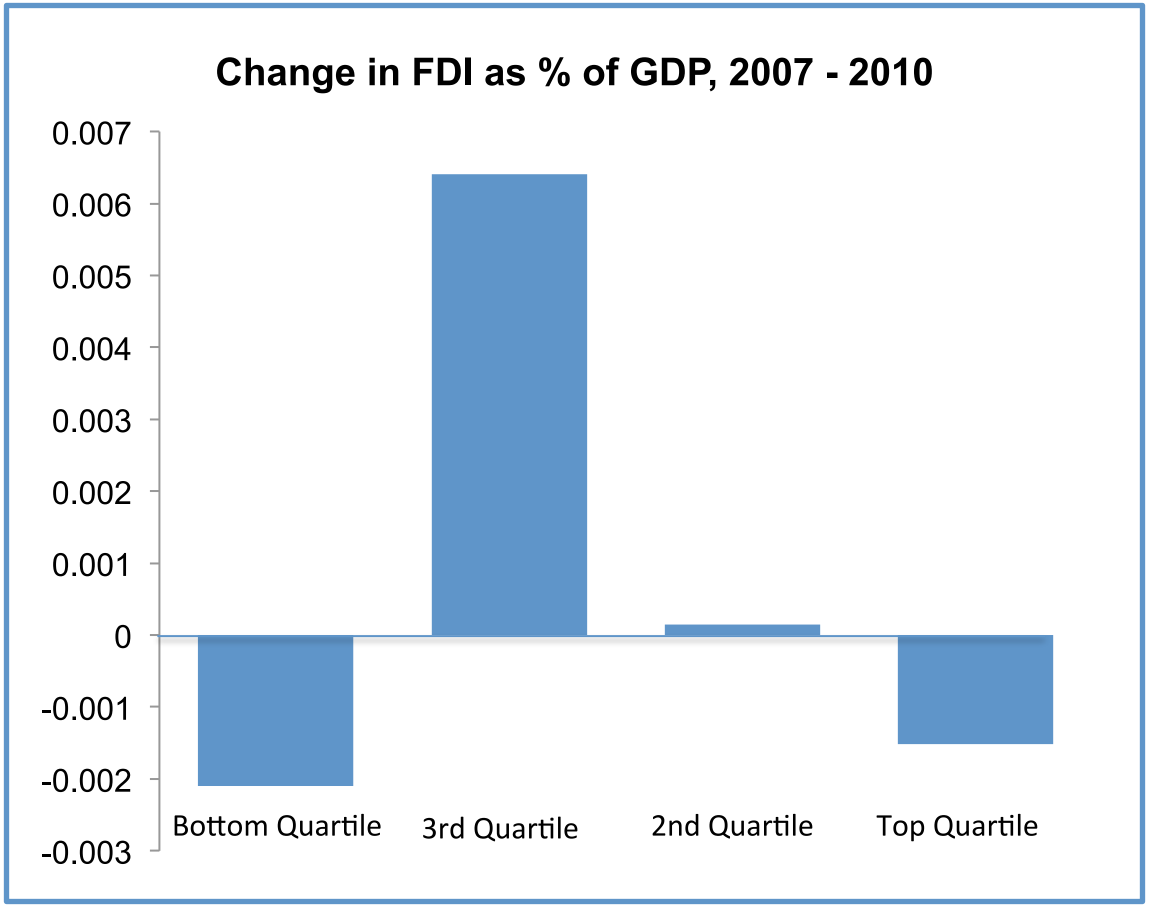
In some places, corruption levels are predictable and corruption may be socially accepted, but foreign executives may still be prosecuted for participating. In China, for instance, the culture of gift-giving can often bleed into, exacerbate, or be mistaken for corruption. It has long been customary to give friends and relatives a red envelope with a small amount of cash in it as a gift for Chinese New Year. One attorney told us that ten or twenty years ago, this would be on the order of 20RMB. As time passed, more and more people would give these envelopes to current or desired business "friends," and now, it is not uncommon for the New Year's gift to be a bottle of Lafite Rothschild worth $1,000. Is that a true gift or a bribe? To what extent is the giving businessman putting the interests of his company at risk if his gift is not seen as generous enough by the recipient? These are difficult waters to navigate.

Removing investment barriers is not enough

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

Data Analysis: Improvement in barriers does not lead to improvement in FDI

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



Perception lags reality; negative reputations are hard to change

One potential explanation for why removing investment barriers is not enough to spur investment: it may take considerable time for investors outside the economy to believe that the barriers have been removed. This disconnect between improvements in the investment environment and improvement in investor sentiment was a recurring theme in our interview, as illustrated by the interview quotes below. Often, potential investors outside an economy and executives within the economy had completely opposite opinions on issues regarding investment.

	Outside Perception	Inside Perception
Physical Security in the Philippines	***"I'm a big guy, alright? I can throw my weight around if I need to take care of myself. Even so, and even though there's money to be made there, I won't go in. It's not safe, and I don't have time to waste worrying about watching my back. And I certainly wouldn't take my wife and kids there."*** ***-Executive's comment on The Philippines***	***"Manila is closer to Hong Kong than it is to Davao [largest city in Mindanao and site of 2003 airport bombing]."*** ***- Executive's comment on The Philippines***
FDI Restrictions in Malaysia	***"Indonesia and Malaysia are two of the most difficult APEC economies for firms to enter."*** ***- Executive's comment on Indonesia and Malaysia***	***"Branding is our most pressing issue. People associate us with our neighbors, but we have great infrastructure, we are very developed. We must work to let people know how much progress we have made and differentiate our image."*** ***- Executive's comment on Malaysia***
Political Instability in Thailand	***"Absolutely we are concerned whether or not we will see rioting again, especially as conditions may be susceptible to deterioration based on power plays at high levels."*** ***- Executive's comment on Thailand***	***"Political instability is seen as a big issue outside the country, but inside the country, coups are seen as not a big deal. A supply chain logistics firm was pushing for more investment inside the country, but the outside components of the company put the kibosh on it."*** ***- Executive's comment on Thailand***

Opportunity trumps access

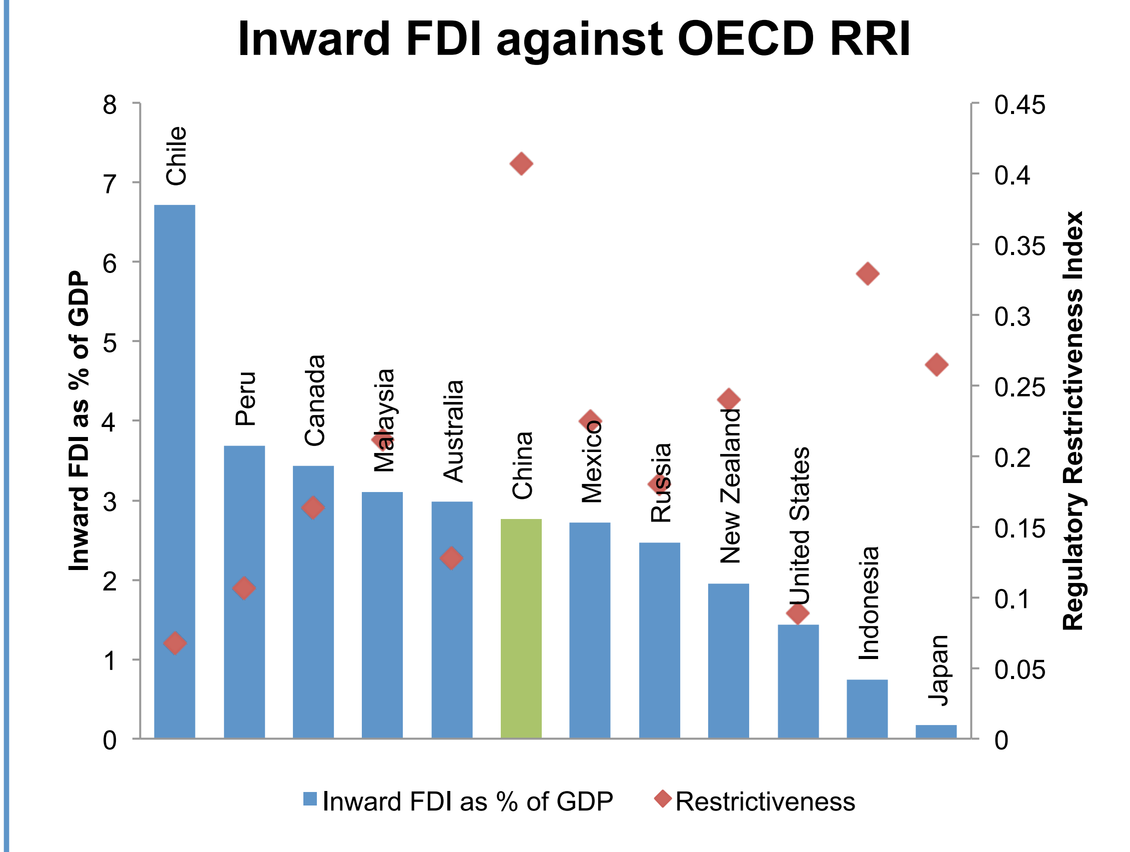
Looking back to the goods-derived paradigm for FDI impediments used by policymakers, one would expect that outright restrictions on access, including land ownership restrictions and equity ownership restrictions, would have been high on companies' lists of impediments. What we found, however, was that even in countries which were very restrictive on paper, companies had found ways to invest and gain access to the market opportunity.

Case study: FDI in China

Despite having the highest FDI Regulatory Restrictiveness among the APEC economies measured by the OECD, China has received the 6th highest amount of inward FDI a percentage of GDP since 2000. One key reason: the market opportunity in China has been great enough to offset the difficulty of investing there. Contrast this result with Japan, which has significantly lower restrictions according to the OECD but has received significantly less inward FDI.

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

- Executive's comment on APEC

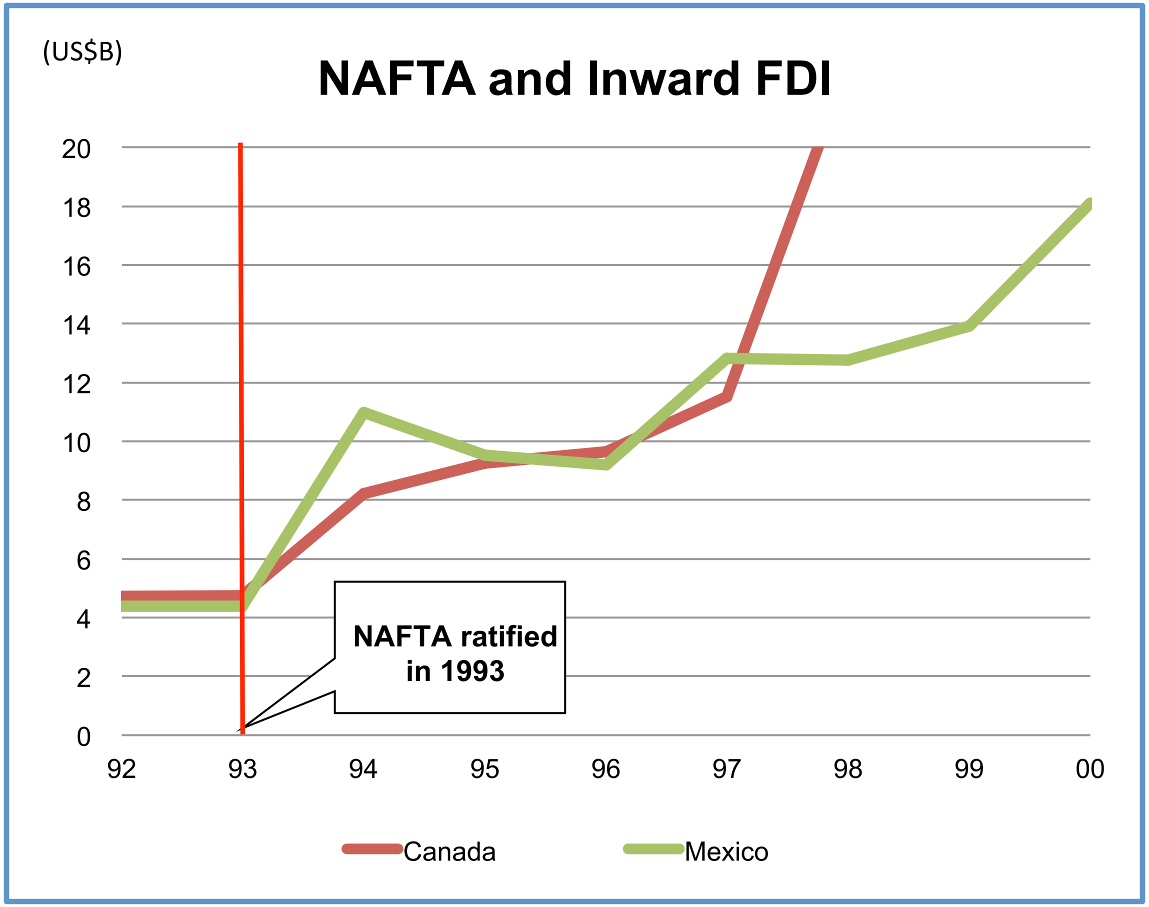


FTAs can increase market opportunity

The existence or nonexistence of market opportunity may be a more important factor in determining FDI inflows than the presence or absence of explicit impediments to FDI. Economies should consider how they might increase the market opportunity FTAs present. Signing high quality free trade agreements has been shown to increase market opportunity—and the FDI that comes with it—by a considerable margin. MNCs increasingly consider the presence of FTAs when making locational decisions.

Case study: NAFTA and FDI for Mexico and Canada

Free trade agreements can provide a boon to economies looking to increase their inward foreign direct investment. The signing of the North American Free Trade Agreement provides a compelling example. By joining NAFTA, Mexican and Canadian businesses gained access to the US market, effectively increasing Mexico's market size fifteen-fold, and Canada's twelve-fold on a GDP basis. This greatly increased the incentive for businesses to invest in Mexico and Canada: as shown in the graph to the right, foreign direct investment for both Mexico and Canada spiked immediately when the agreement was signed.



Opposition Views on FDI

Introduction

Not all stakeholders agree that their government should be encouraging increased FDI within their economies. The ferocity and passion with which competing views are argued demand that the views be given a voice in the FDI conversation. With these sentiments not far below the surface, politicians are often reluctant to initiate liberalizing changes. Obsolete laws remain and change is slowed.

A secondary but still important objective of this research project was to examine anti-FDI sentiments in APEC. In particular, the purpose was to identify:

- If business executives reported any significant increase and changes in anti-FDI sentiments; and
- The major arguments made against further FDI liberalization.

This section briefly reviews the main categories of anti-FDI arguments that are given voice throughout APEC.

Unfortunately, despite the best efforts of our research team to gather data on the prevalence and nature of anti-FDI sentiments across APEC economies, we were unable to get any consistent information that would allow us to offer rigorous generalizations. Most executives could give general references but very little specific information. It is possible that our set of APEC interviews is a biased sample; although we do not believe this to be the case. It is possible that because the bulk of our interviews were with executives in MNCs who had invested successfully in foreign economies, these executives intentionally downplayed anti-FDI sentiments. Again, we do not believe this to be the case.

The generalizations we are willing to make are:

- People across APEC economies are much more willing to question the **benefit of globalization and increased liberalization of trade and investment.** Business leaders and policy-makers need to continuously recognize that citizens are now much more informed about the pros and cons of increased market integration; and the cons often have an emotional appeal.
- There is still a **legacy effect of the global financial crisis.** Closely related to the bullet above, citizens are increasingly concerned that they may be negatively impacted by another global crisis. Many ask whether their economies should be so tightly integrated.
- Anti-FDI sentiment is a political “hot button” touched frequently, and somewhat predictably, during elections. Business executives reported with frequency that in their economies, politicians had a propensity to play the “anti-foreigner card” to generate political support. However, they also mentioned that rarely did campaign rhetoric linger much past the actual elections.

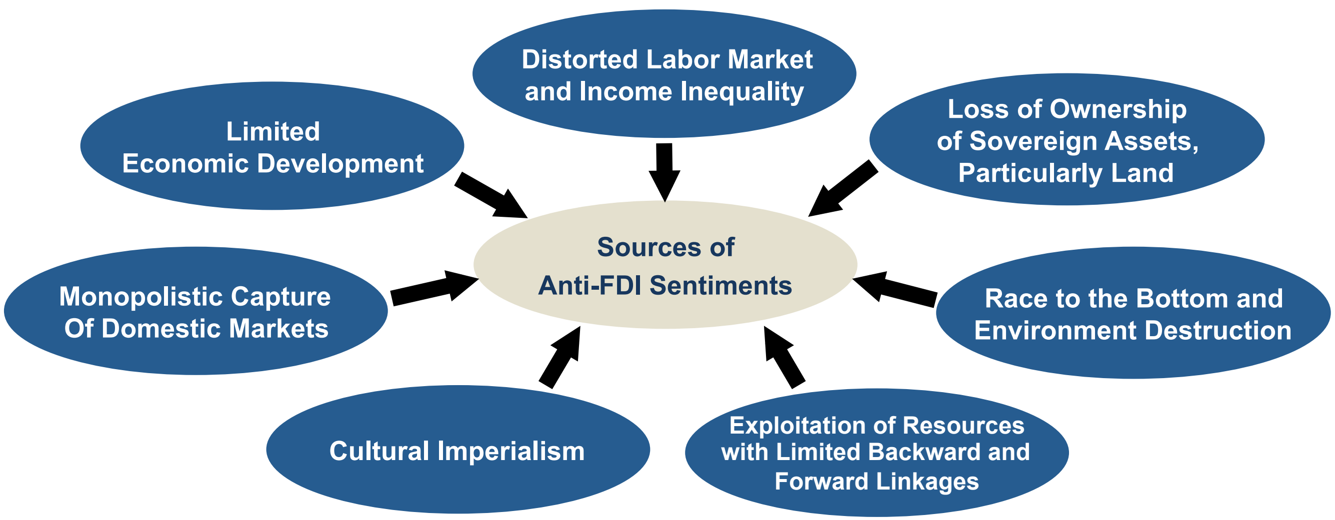
Introduction (continued)

- In economies with higher levels of poverty, there are higher level of impatience for the promised benefits of trade and investment liberalization. The more visible signs of FDI - transfers of ownership, especially land, increased exporting of natural resources, the presence of expat workers - can become “touch points” among those in lower socio-economic sectors. In some economies, motivated NGOs have increasingly politicized these issues.

- Anti-FDI sentiments exist in all APEC economies and should not be ignored. The benefits of FDI tend to be gained over the longer term, and through secondary improvements that are not always seen by citizens; but the costs and impacts tend to be visible and short term. This asymmetry can make it very difficult to achieve changes and improvements in FDI regimes within economies.

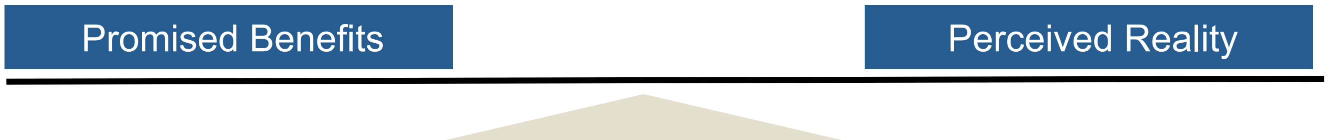
Anti-FDI Sentiments: Multiple Different Arguments

Through overlapping, anti-FDI arguments can be usefully segmented into several broad categories:



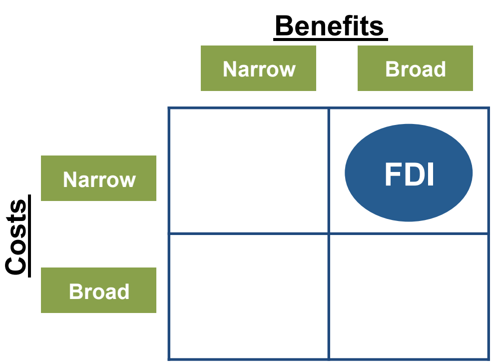
The real challenge is that benefits are often indirect and long-term, but negatives are often immediate and impact specific groups

Across our interviews, executives generally minimalized the importance of the anti-FDI sentiments in their economies. They stressed that anti-FDI arguments came from smaller groups who were ideologically opposed to globalization, or groups whose self-interest provided their reasons for opposing the intended investments.



Anti-FDI sentiment also stems from an uneven distribution of the cost and benefit of the investment project as well as a time lag between the cause and effect of the FDI.

FDI benefits the majority but costs are borne by small groups who become vocal…



FDI brings benefits to a majority of the population in an economy though it may disproportionally disadvantage smaller segments. Since cost is concentrated on the minority, these groups tend to be more vocal in their opposition to FDI. The majority of the population who benefits from FDI is relatively silent as the benefits are diluted among the broader population.

… because negative impacts are often immediate while the benefits are long-term.

Often benefits from foreign direct investment projects are achieved over the long term, while the costs and fears of FDI are realized almost immediately. Politicians often leverage these short-term impacts for political gains

MNCs monopolistic capture of markets

One anti-FDI argument raised is that large MNCs can dominate markets, especially in smaller economies. MNCs promise better product offerings at more affordable prices but some argue that the reality is the opposite.

MNCs enter an economy with modern management philosophies, global supply chains, and usually on a large scale. Their presence exerts competitive pressures on domestic companies in the host economy. Industry consolidation led by MNCs crowds out SMEs or "mom and pop" competitors and suppliers. Over time, as MNCs build brand equity and market share, they will be able to raise prices with a negative impact on the end consumer.

FDI promises increased choices for consumers, lower prices, better quality and more variety…

- Greater variety of product offerings
- Lower prices
- Higher quality
- Better service

… the anti-FDI arguments suggest MNCs become monopolists that exploit domestic markets.

- Crowds out small mom and pop shops
- Less consumer power over time
- Less locally adapted commercial touch points

FDI distorts domestic labor markets and increases inequalities.

Opponents to more liberalized FDI contend that MNCs, while creating some new jobs, disproportionately destroy jobs in "mom and pop" enterprises that are crowded out of the market. Additionally, they contend that MNCs have an even more devastating impact when those MNCs relocated to exploit more profitable opportunities in other economies. MNCs are also blamed for wage inflation. MNCs "cherry-pick" local talent, creating competition for talent that drives up overall compensation. Those with talent and needed skills benefit; those without find their wages drop. Opponents are particularly critical of expatriate talent that substitutes for local talent.

Increased FDI promises mobility, higher wages, and better jobs…

- More job openings
- Enhanced skills acquisitions of local labor
- Wider diversity, more dynamic and sophisticated workforce

… but it can lead to wage inflation and job losses.

- Destroy SMEs
- Potential for mass layoffs
- Drives up labor costs
- Contribute to income inequality
- Expatriates substituting for skill development

Market exploitation with limited domestic forward and backward linkages

An often repeated anti-FDI argument is the fear of market exploitation and resource depletion with limited long-term benefits to host economies. Even if an economy has technology transfer requirements as part of the FDI approval process, companies take steps to protect their interests. As a result, the technology and innovation spillover effects are limited, and anticipated positive externalities along the value chain are limited.

Foreign companies entering extractive industries export unimproved raw materials according to the global or home economies' demand. These resources are then immediately refined for sale, resulting in unbalanced growth since there is little or no development in the connected industries. Furthermore, FDI into strategic industries of an economy can be dangerous if the industry is still in the emerging stages and faces dangers of being outcompeted by the MNC.

Opponents argue MNCs enter economies to aggressively protect their competitive advantages, technologies, and trade secrets.

Increased FDI promises technology and economic development…

- More efficient production methods
- Technology transfer
- Innovation
- Resource development
- Development of related and supporting industries

… but perceived gains are limited.

- Technology transfer is limited as MNCs take steps to protect trade secrets and IP.
- Resources extracted are immediately exported to fulfill the demand of other economies with little local benefits.
- A Race to the Bottom limits host economies' involvement in production processes and with minimal value added.
- This threatens the survival of domestic infant industries in key sectors.

Despite technology transfer incentives and guidelines, the Chinese medical technology industry is still unable to replicate and surpass the quality of products made by their previous partners after the termination of the joint ventures. The original developer took steps to separate research and development and manufacturing to protect its trade secrets and IP.

Promised economic development benefits are limited

Opponents of increased FDI liberalization argue for more deliberate and managed approaches. They argue that the promised economic benefits are overstated, and there is little real economic empirical evidence to support claims of enhanced economic growth.

Increased FDI promises financial benefits from foreign corporations…

- Allows specialization to exploit comparative advantages for efficient growth
- Brings additional financial resources necessary for growth
- Increases tax base, tax revenue, and domestic consumption to stimulate GDP
- Increases exports
- Increases competitiveness

… but there is a skepticism on actual gains.

- Comparative advantage creates overdependence on others
- Tax revenue gains are minimal
- Profits generated can be siphoned off abroad and not benefit host economy
- Profits may not be reinvested or consumed locally to contribute to GDP growth

Unmanaged FDI can lead to ownership and cultural imperialism.

Opponents of unmanaged FDI point to the loss of ownership of assets, especially land and land-linked assets, as major problems. The fear is that host country nationals become tenants in their own countries. Additionally, arguments are often made that MNCs can destroy local culture and closely held values.

Increased FDI promises progress and opportunities…

- Global mindset and behavior
- Reciprocity from abroad
- Cultural awareness

… but there is a perceived cultural erosion and negative influence.

- Loss of local ownership, especially land
- MNC imperialism
- Culture clashes
- Incentives for MNCs at the expense of locals
- Hostile takeover threatens interest of locals

In New Zealand, a vocal minority opposes to foreign ownership of land particularly in agriculture and forestry because they are concerned about profit seeking foreign investors that would not take care of the land as New Zealanders would. Additionally, foreign land ownership has driven property prices up, making many New Zealanders feel like tenants in their own country.

FDI increases the risk of overdependence on others

Increased global integration subject individual economies to boycotts and other supply chain disruptions (i.e. war, natural disasters, etc.). This has been an escalating concern since the GFC, especially on the topic of food security and energy.

Increased FDI promises access and connectivity to the rest of the world…

- FDI allows specialization to exploit comparative advantages for efficient growth
- Hedge against local cyclical downturn
- Resource development

… but there is a fear of over-reliance on others.

- Comparative advantage creates overdependence on others
- More likely to be impacted by volatility in global events
- Dependence on foreign sources

Race to the bottom and environmental exploitation are concerns.

Opponents of more open FDI are extremely vocal about the role that MNCs play in contributing to the global "race to the bottom" that is occurring in many economies. They point to the self-interested strategies of some MNCs who ship resources to economies with lower environmental requirements as being important examples of bad corporate behavior that governments must control. Domestic firms complain that they cannot compete with global MNCs who can exploit these loopholes.

The Race to the Bottom issue in extractive and heavy manufacturing industries usually triggers powerful emotions. Opponents perceive that MNCs in extractive industries pillage the natural resources of an economy and leave once these resources are depleted. Heavy manufacturing industries are perceived to be a major contributor of environmental degradation in economies as a result of Race to the Bottom policies.

Increased FDI promises …

- More business opportunity
- Infrastructure and resource development
- Job creation
- Skills and knowledge transfer
- Improved competition to stimulate innovation

… but opponents contend that FDI produces negative externalities.

- MNCs will move supply chains to exploit arbitrage opportunities regardless of the negative impact on domestic markets.
- MNCs use global chains to move production to where environmental standards and costs are lower.
- MNCs will stay only as long as resources are cheaply available. If prices rise, they leave.
- MNCs are short-term focused.

Conclusions

Conclusions

Based on our analysis, APEC economies stand to gain a considerable amount by the improvement of their FDI environment, and stand to lose much more if their environment is not improved. This statement applies as much to advanced economies as to developing economies; businesses in every economy provided us with a litany of impediments to investment, which, if improved upon, would facilitate greater FDI inflows, higher quality FDI inflows, or both.

Improving the FDI environment is not as simple as implementing national treatment of countries before the law, however. Removing restrictive barriers may be necessary for improving the FDI environment, but it is not sufficient. Any serious attempt to improve an economy's FDI environment must consider how the business environment itself must be improved, whether in terms of infrastructure quality, human capital availability, or regulatory policies which affect domestic and international firms alike. Taking this more comprehensive approach to attracting FDI, while more challenging, has the significant added benefit of improving the competitiveness of domestic businesses as well.

That added benefit—the improvement of the domestic business environment—is a key point for economies to focus on as they push for greater FDI attractiveness. Because the benefits of FDI are often realized in the long run while the costs are incurred in the short run, efforts to make an economy more attractive to FDI are often opposed by a vocal, motivated minority which stands to lose out in the short run. By focusing government attention on those factors which can improve the investment climate for both domestic and international investors—such as by hosting regulatory approvals processes online, for example—policymakers will be able to make progress on increasing their economies' FDI attractiveness while winning the support of the majority of domestic businesses. However the topic is approached, it is clear that strong leadership is necessary to overcome the objections of the vocal minority which oppose any FDI liberalization.

A key lever economy leaders can pull is the promotion of international agreements regarding FDI. Multinational considerations often select investment locations from a pool of economies which have international agreements with their own economy, and being a party to such an agreement will increase the chances of a given economy entering into the consideration set for investment.

Conclusions (continued)

The importance of FDI promotion agencies should also not be underestimated. As we have discovered from our interviews, changing the perceptions of the business community with regard to an impediment can take longer than fixing the impediment itself. FDI promotion agencies can help bridge that gap, keeping the investing community informed of positive changes in an economy as they occur. It is crucial, however, that FDI promotion agencies act primarily to promote investment, not to screen investment.

One of the most fundamental findings from our research: businesses seem to think and speak differently than policymakers regarding the topic of FDI. For example, policymakers treat FDI as distinct from domestic investment, while businesses consider the same factors for both domestic and foreign investment. Policymakers view some FDI as desirable and other investment as undesirable, but businesses do not see this distinction so clearly.

Based on our interviews with the business community, APEC has been working on the right things: building a single window for foreign investors; improving clarity and predictability of investment regulations; and encouraging economies to host their regulatory processes online. Much work remains to be done, however, and APEC can contribute most meaningfully to the liberalization process by creating standardized templates and best practices for its member economies to emulate. It is not enough, for example, for each economy to have a single window for investment if each APEC economy has organized its single window in a different fashion. To achieve the maximum benefit of their efforts, APEC economies should build their single windows based on a common template, which APEC is well positioned to provide. The same comment can apply to each recommendation we have presented. For an economy to have a policy that is coherent within its borders is good; for that economy to have a policy that is coherent across APEC is best.

Recommendations

Recommendations for APEC, Economies, and Businesses

Accelerate	Accelerate APEC initiative of Single Window Governmental Interface for FDI and ensure coherent protocol across all economies
Measure	Collect and publish APEC FDI data annually, including rankings and relative performance information
Standardize	Standardize the FDI flow and stock data by sector and by economy
Recognize	Establish and Recognize International Commercial Arbitration Standards
Facilitate	Facilitate international human capital mobility and support efforts to improve the business environment
Centralize	Centralize FDI Information Online & Adopt Online Processing, including creating a central APEC portal to economy online information pages

Accelerate single window adoption across APEC

During the FDI approval process in most APEC economies, businesses need to obtain the endorsement of multiple governmental agencies and ministries. However, different agencies and ministries can have conflicting interests, which causes the process to be more time consuming and cumbersome for the potential investors.

We recommend APEC economies adhere to the APEC Investment Facilitation Action Plan of establishing a single window (IFAP 2008) as a means of improving transparency and efficiency of administrative processes . Having a single government window for interfacing with businesses can significantly reduce the burden for the investors and promote greater investment inflows.

Therefore…

- We urge ***Economies*** to take immediate steps toward reducing the number of agencies businesses are required to interact with during the FDI approval process.
- We urge ***Economies*** to develop communications infrastructure and procedures between agencies to aggregate and align the interests of governmental stakeholders into a single window prior to interacting with businesses.
- We urge ***Businesses*** to lobby politicians in each economy to call for a single window FDI governmental interface.
- We urge ***APEC*** to continue to evaluate the progress made by the member economies.

Collect and publish APEC FDI data annually

Measurement matters. Having the ability to gauge where an economy ranks compared to its peers, and the ability to track past performance, will help aid the measurement of progress towards increasing FDI flows in the future.

We recommend APEC economies publish APEC FDI data annually, including rankings and relative performance information.

Therefore…

- We urge **APEC** to establish a standardized system measure and publish FDI rankings and performance measures than can be reviewed and utilized by the APEC economies

- We urge ***Economies*** to cooperate and provide the required information to complete the APEC FDI rankings and performance measures

Standardize foreign direct investment statistics

APEC, as a single economic entity, lacks standardized and detailed FDI statistics that are required for analysis and strategy development. This is because there is no standardized method of reporting FDI statistics and some economies define some statistics in different ways. In addition, APEC fails to provide a clear definition of FDI which can distort FDI flows, because FDI that comes through tax haven countries is not clearly reported.

Collection of detailed and standardized FDI flows and stock data by economy is critical to understanding precise FDI trends. If this data is available, APEC can identify existing issues related to FDI, devise strategic initiatives to attract more foreign capital into APEC economies, and improve efficiency of FDI within the APEC economies.

Therefore…

- We urge **APEC** to establish a standardized system to track detailed FDI flows and stock statistics and to encourage the sharing of the standardized statistics among member economies.

- We urge **Economies** to cooperate and participate in the development of the standardized FDI statistics systems.

Establish and recognize commercial arbitration standards

We support the recommendations of the World Bank in the 2010 Investing Across Borders Report with regard to supporting commercial arbitration standards as “adherence to and implementation of international and regional conventions on arbitration signal a government’s commitment to the rule of law and its investment treaty obligations, which reassures investors.”

FDI is negatively impacted by the inefficiency and lack of effectiveness of commercial arbitration in APEC economies. Within APEC, the effectiveness of commercial arbitration varies wildly, and there is an opportunity for improvement. Businesses are less willing to make investments in to economies when there are concerns that contracts cannot be effectively enforced by arbitration. Whether the concerns are related to speed, legitimacy, or impartiality, the fact that concerns exist can sway a company’s decision to invest.

Businesses and governments have a mutual interest to ensure that commercial arbitration is quick and effective. Our interviews throughout APEC show that business leaders have expressed the need and desire for fast and impartial arbitration.

Therefore…

- We urge ***APEC*** to establish a standard practice that can be defaulted to if a business has concerns with the existing commercial arbitration capabilities within an economy. Establishing impartial third-party adjudicators that can be utilized by all economies would provide businesses with speed and effectiveness, eliminating the uncertainty that prevents investment into an economy.

- We urge ***Economies*** to recognize the authority of adjudicators from other economies with effective knowledge of local laws.

- We urge ***Businesses*** to utilize commercial arbitration and honor the decision of the arbitrators.

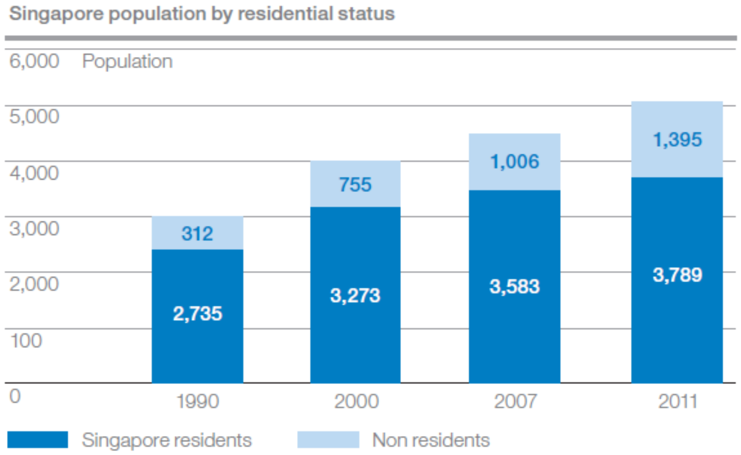
Facilitate international labor mobility

Despite the efforts made, availability and quality of human capital was found to have one of the largest negative impacts on FDI in our research. A shortage of talent and restrictive labor policies can make it impossible for businesses to capture attractive business opportunities.

The Talent Mobility Good Practice report conducted by the World Economic Forum in collaboration with Mercer showed that Singapore has been successful in attracting foreign talent through the following policies:

1. Issuing work visas based on skill segment.
2. Establishing an overseas talent recruitment scheme.
3. Offering Entrepass.
4. Contact Singapore (A function of government that provides information about Singapore to foreigners interested in moving to Singapore.)

- Exhibit 15: Singapore's open immigration policy drives growth



Therefore…

- We urge ***Economies*** to continue to make progress on their immigration policies regarding talent by benchmarking against APEC leaders in this area, such as Singapore.
- We urge ***Businesses*** to report the types of skills lacking in each economy to ABAC.
- We urge ***APEC*** to further encourage member countries to make known their areas of foreign talent requirement and evaluate the progress made.

Centralize FDI information online and adopt online processing

We strongly support the recommendations of the World Bank in the 2010 Investing Across Borders Report with regard to taking FDI and other regulation information online. As the report states, "electronic services can make administrative processes more efficient and transparent and do not necessarily require costly or complex technological solutions. Any public agency with a website can start by posting key information online and, over time, provide some services electronically."

The FDI decision making routine of increasingly sophisticated investors includes evaluating the available online information on regulatory and application processes. Therefore it is essential to have processes and information online to facilitate the investors' decision making. Conversely, if an economy does not have information readily available online, it might find itself excluded from the consideration set.

Having a set of online records that is accessible to both investors and the government adds to the transparency of the application processes and sets appropriate expectations as to the progress of the application. The higher level of transparency also discourages corruption. In fact, there is a positive correlation between transparency of processes and reduced corruption (Source: WEF, 2011).

Therefore…

- We urge ***APEC*** to create a centralized APEC portal that links to each economy's official national investment promotion website.
- We urge ***APEC*** to create a template so that all APEC economies have websites with a similar format and functionality for easier comparison between economies for businesses looking to invest in APEC economies.
- We urge ***APEC*** to make efforts to measure the beneficial effects that online data submissions have on levels of corruption.
- We urge ***Economies*** to centralize all related information and approvals across agencies and regions into a single national investment website.
- We urge ***Businesses*** to provide feedback on the difficulty of obtaining information in the economies.

Report Appendix

Appendix A: Interview Protocol
Appendix B: Economy Snapshots
Appendix C: Participating Companies
Appendix D: APEC v. OECD Data Comparison
Appendix E: Works Cited and Benchmark Sources
Appendix F: Research Team Biographies

USC University of Southern California

ABAC
APEC Business Advisory Council

Appendix A | Interview Protocol

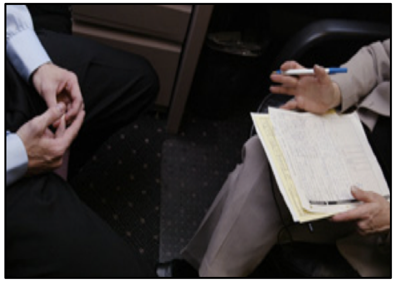
Business executives and government leaders across APEC economies were interviewed through a rigorous procedure

Pre-Interview Preparation

- Team members researched global and APEC Foreign Direct Investment, focusing on:
  - Trends
  - Impediments
  - Global Good Practices
- Team members contacted in-economy business executives to set up interviews.

Interview of Key Leaders

- Team members met with business executives and government officials from APEC economies.
- Leaders were interviewed utilizing set questions and criteria.



Information Synthesis

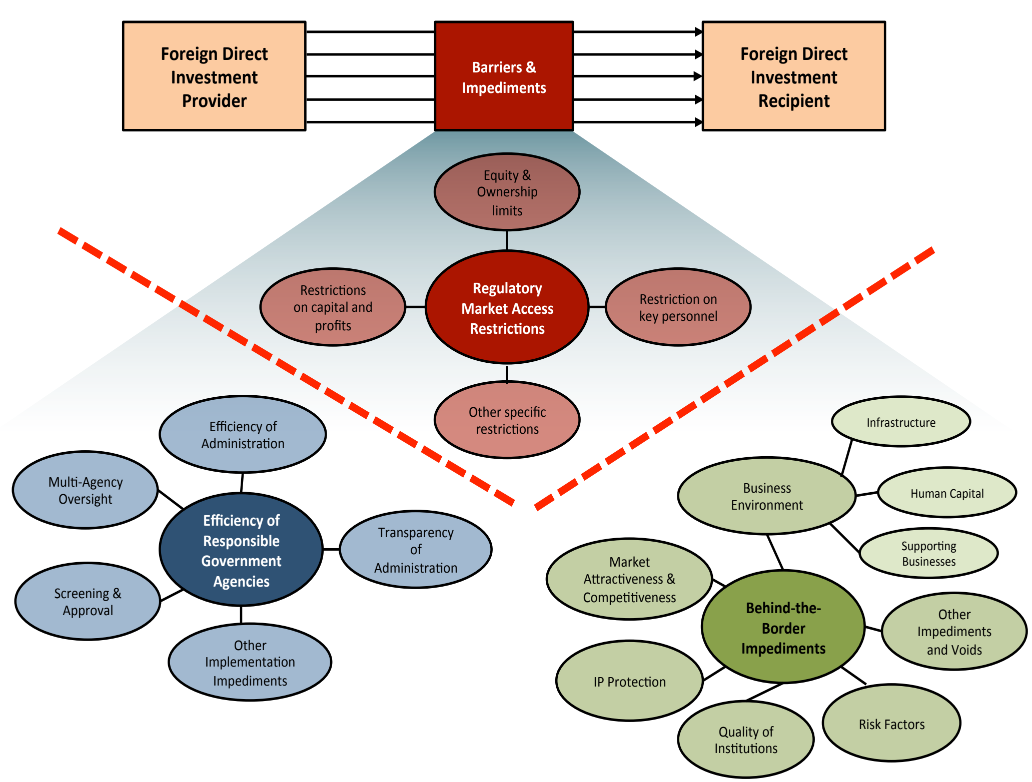
- Interview responses were aggregated to obtain an overall view of each economy.
- Interview findings were utilized to develop a questionnaire and verify hypotheses.

Post-Interview Follow Up

- Interviewees were sent a questionaire to verify responses and further test hypotheses.
- Individual thank you notes were sent to each interviewee.

Initial hypotheses developed the interview protocol, targeting seven areas of focus

Initial Framework



Interview Guide Sections

- 1: Company Specific
- 2: FDI Opportunities and Challenges
- 3: Rationale for FDI Regulations
- 4: Regulatory Impediments
- 5: Non-Regulatory Impediments
- 6: Recommendations
- 7: Additional Questions

The first three sections of the interview aimed to understand company specific operations around FDI decisions

1 Company Specific

- Ask for business card. Clarify decision-making role in FDI decisions.
- What economic sectors does your firm participate in?
- How large is your firm? (Describe by revenue and employees)
- Have you made investments in foreign economies? What is nature of those investments?

2 FDI Opportunities and Challenges

- Why did you invest in this economy?
- What are/were the biggest challenges/impediments to FDI for you?
- Which of these impediments discriminate against foreign enterprises?
- How would you rank and quantify those impediments/challenges?

3 Rationale for FDI Regulations – Liberalization/Reversal

- What is the logic behind the FDI restrictions that remain?
- What is the direction of FDI regulation? Increased liberalization? Reversal of liberation? Why?
- Have any new arguments for or against FDI been given strong voice in your economy?

The fourth and fifth sections of the interview focused on regulatory and non-regulatory barriers to investment

4 Regulatory Impediments

- Are there any specific regulatory (market access) requirements/restrictions on foreign enterprises in your sector?
- Which of these regulatory (market access) requirements are most problematic? Why?
- How would you rank and quantify these regulatory (market access) impediments/challenges?
- Have any of these regulatory requirements been liberalized recently? If so which ones/which areas?
- Have any new regulations/requirements been imposed on foreign enterprises? If so in what/which areas?

5 Non-Regulatory Impediments

- Are there any implementation/efficiency of responsible government agency issues?
- Which of these implementation/efficiency issues are most problematic? Why?
- How would you rank and quantify these implementation/efficiency impediments/challenges?
- Have any areas showed noticeable improvements? If so, why?
- Are there any behind-the-border issues?
- Which of these behind-the-border issues are most problematic? Why?
- How would you rank and quantify these behind-the-border impediments/challenges?
- Have any areas shown noticeable improvements? If so, why?

Sections six and seven targeted gaining insight on recommendations and specific current APEC concerns

6 Recommendations

- What recommendations ("if you were leader for a day") would you offer to improve FDI within your economy and across APEC?
- Are you aware of any "good practice FDI regimes"? In which economies? In which sectors? Why?
- Is there a tipping point/chokepoint that if improved would have a catalytic impact on FDI flows?

7 Additional Questions

- Public/Private Partnership
    - Does your economy use public/private partnerships in any economic sectors?
    - How successful have these public/private partnerships been? Specifically what makes them successful?
- Service Sectors
    - Describe the impediments to FDI in services sectors.
    - Are the most problematic impediments to FDI in services market access, efficiency of monitoring agencies, or behind-the-border restrictions?
    - What service sectors in your economy are most liberalized and which are most regulated? Why?

Appendix B | Economy Snapshots

Australia

Macro Data:

Key Indicators		Ranking within APEC
GDP	$1,564,565.96 M	(6)
GDP per Capita	$68,265.95M	(1)
GDP as a share of APEC total	3.81%	
GDP Growth	3.40%	(11)
FDI Inward Flow	$56,958.94M	(4)
FDI Inward Flow as a % of GDP	3.64%	(7)
FDI Outward Flow	$16,141.01M	(12)
FDI Outward Flow as a % of GDP	1.03%	(14)

FDI Restrictiveness:

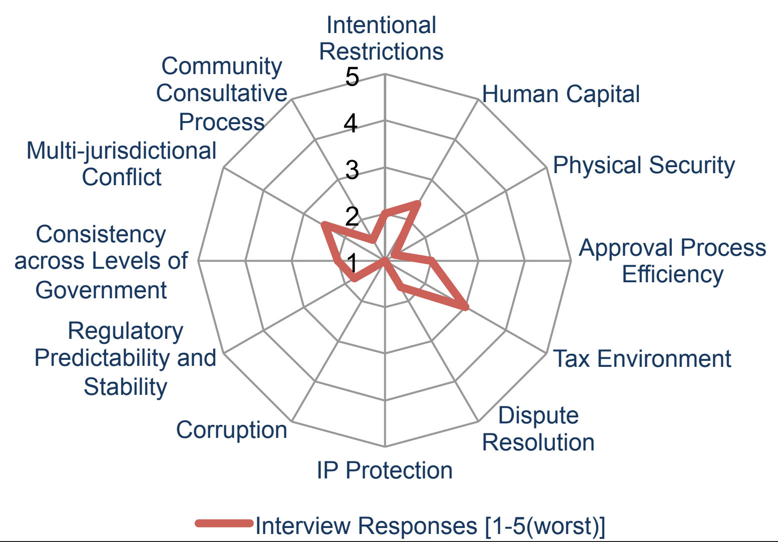
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(7)	(7)
Business Environment Issues	(6)	(9)
Regulatory Environment Issues	(5)	(6)
Approval Implementation Issues	(8)	(5)
Judicial Environment Issues	(7)	(5)
Corruption	(1)	(4)

Most Conducive Factors for FDI:

- Regulatory stability & predictability
- Rule of law
- Quality of human capital
- Natural resources
- Access to other markets

Most Problematic Factors for FDI:

- Strength of Currency (AUD)
- Cost of living
- Bureaucracy
- Tax policies
- Approval process



Brunei Darussalam

Macro Data:

Key Indicators		Ranking within APEC
GDP	$16,619.18M	(20)
GDP per Capita	$39,418.46M	(6)
GDP as a share of APEC total	0.04%	
GDP Growth	1.23%	(21)
FDI Inward Flow	$850.00M	(20)
FDI Inward Flow as a % of GDP	5.11%	(6)
FDI Outward Flow	$8.00M	(18)
FDI Outward Flow as a % of GDP	0.05%	(18)

FDI Restrictiveness:

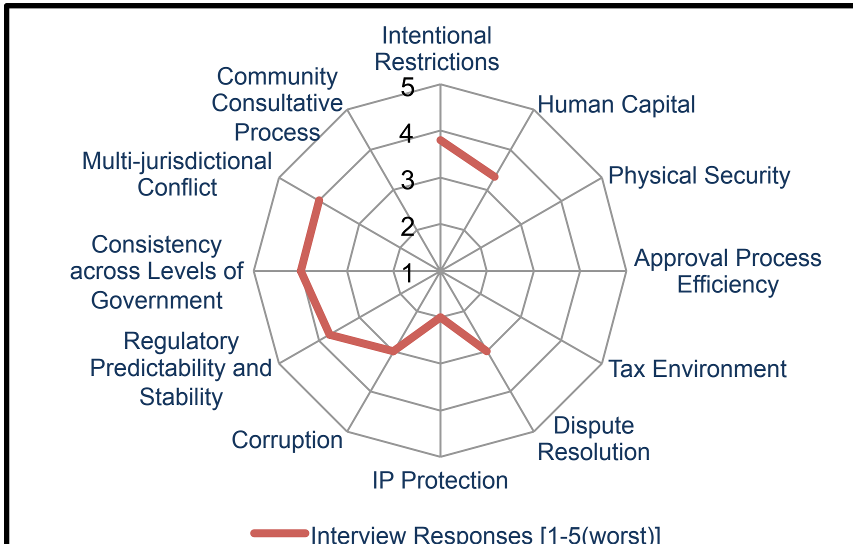
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(21)	(16)
Business Environment Issues	(19)	(12)
Regulatory Environment Issues	(19)	(11)
Approval Implementation Issues	(16)	(15)
Judicial Environment Issues	(11)	(11)
Corruption	(12)	(8)

Most Conducive Factors for FDI:

- Natural resources
- Tax Policies
- IP Protection
- Infrastructure
- Economic growth

Most Problematic Factors for FDI:

- Government influence
- Regulatory Predictability
- Human capital
- Industry Diversification
- Dispute Resolution



Canada

Macro Data:

Key Indicators		Ranking within APEC
GDP	$1,773,288.08M	(5)
GDP per Capita	$51,140.68M	(3)
GDP as a share of APEC total	4.32%	
GDP Growth	1.80%	(17)
FDI Inward Flow	$45,374.84M	(7)
FDI Inward Flow as a % of GDP	2.56%	(10)
FDI Outward Flow	$53,938.80M	(5)
FDI Outward Flow as a % of GDP	3.04%	(6)

FDI Restrictiveness:

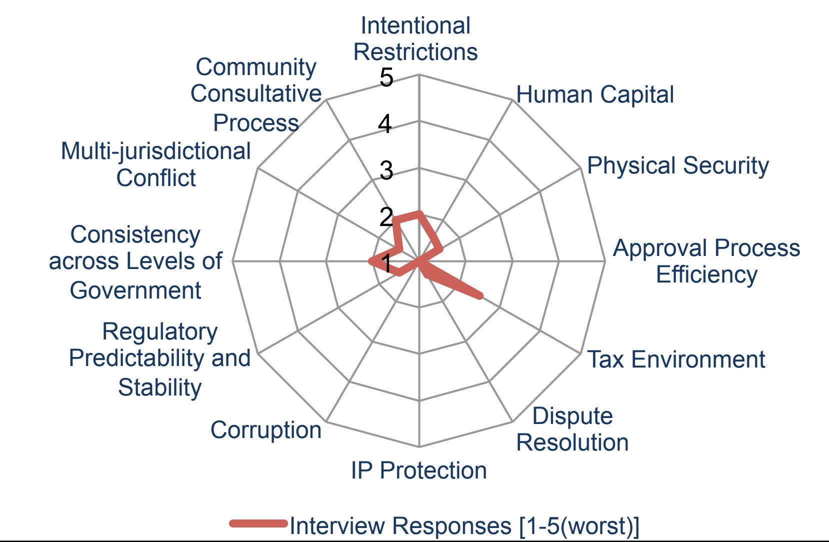
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(3)	(9)
Business Environment Issues	(5)	(3)
Regulatory Environment Issues	(8)	(4)
Approval Implementation Issues	(6)	(4)
Judicial Environment Issues	(2)	(4)
Corruption	(1)	(3)

Most Conducive Factors for FDI:

- Natural Resources
- Stability of financial system
- Infrastructure
- Ease of registration
- Market Size

Most Problematic Factors for FDI:

- Sector Specific Restrictions
- Bureaucracy
- Access to Financing
- Labor Regulations
- Tax policies



Chile

Macro Data:

Key Indicators		Ranking within APEC
GDP	$265,939.16M	(14)
GDP per Capita	$15,263.50M	(11)
GDP as a share of APEC total	0.65%	
GDP Growth	5.60%	(7)
FDI Inward Flow	$30,323.05M	(8)
FDI Inward Flow as a % of GDP	11.40%	(3)
FDI Outward Flow	$21,090.07M	(10)
FDI Outward Flow as a % of GDP	7.93%	(3)

FDI Restrictiveness:

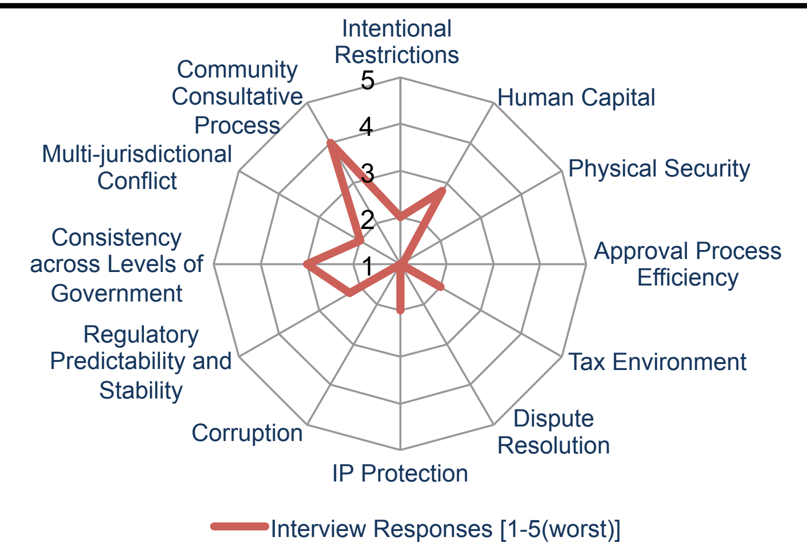
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(4)	(2)
Business Environment Issues	(8)	(10)
Regulatory Environment Issues	(10)	(8)
Approval Implementation Issues	(9)	(9)
Judicial Environment Issues	(3)	(9)
Corruption	(1)	(7)

Most Conducive Factors for FDI:

- National treatment
- Access to Financing
- FDI Opportunity Promotion
- Transparency of approval process
- International investment and trade agreements

Most Problematic Factors for FDI:

- Qualified human capital
- Community consultative process
- Market Size
- Competitiveness of markets
- Labor Regulations



People's Republic of China

Macro Data:

Key Indicators		Ranking within APEC
GDP	$8,094,361.85M	(2)
GDP per Capita	$5,979.87M	(16)
GDP as a share of APEC total	19.74%	
GDP Growth	7.80%	(2)
FDI Inward Flow	$121,080.00M	(2)
FDI Inward Flow as a % of GDP	1.50%	(14)
FDI Outward Flow	$84,220.00M	(3)
FDI Outward Flow as a % of GDP	1.04%	(13)

FDI Restrictiveness:

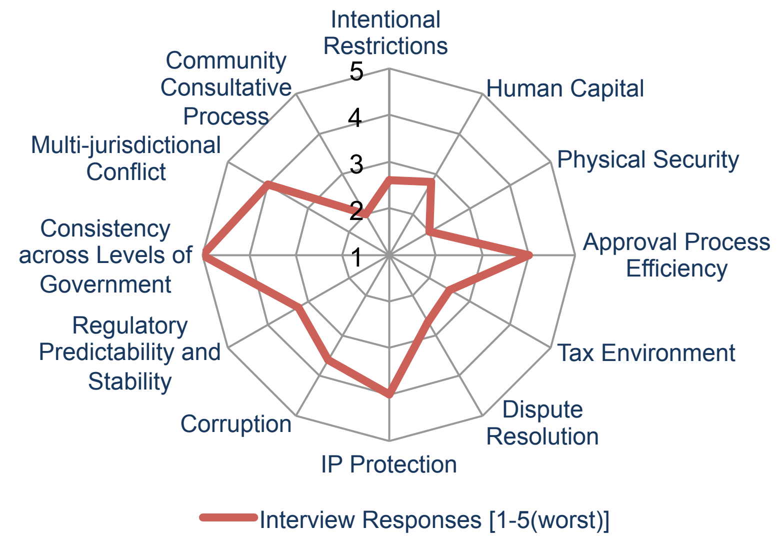
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(17)	(14)
Business Environment Issues	(11)	(13)
Regulatory Environment Issues	(18)	(13)
Approval Implementation Issues	(20)	(11)
Judicial Environment Issues	(19)	(13)
Corruption	(17)	(13)

Most Conducive Factors for FDI:

- Infrastructure
- Market Size
- Access to other markets
- Related & Supporting Industries
- FDI Opportunity Promotion

Most Problematic Factors for FDI:

- Transparency of Process
- Corruption
- Judicial Independence
- Competitiveness of markets
- Accessibility & Clarity of Investment Regulations



Hong Kong, China

Macro Data:

Key Indicators		Ranking within APEC
GDP	$257,287.94M	(15)
GDP per Capita	$35,752.06M	(8)
GDP as a share of APEC total	0.63%	
GDP Growth	1.44%	(18)
FDI Inward Flow	$74,584.15M	(3)
FDI Inward Flow as a % of GDP	28.99%	(1)
FDI Outward Flow	$83,985.27M	(4)
FDI Outward Flow as a % of GDP	32.64%	(1)

FDI Restrictiveness:

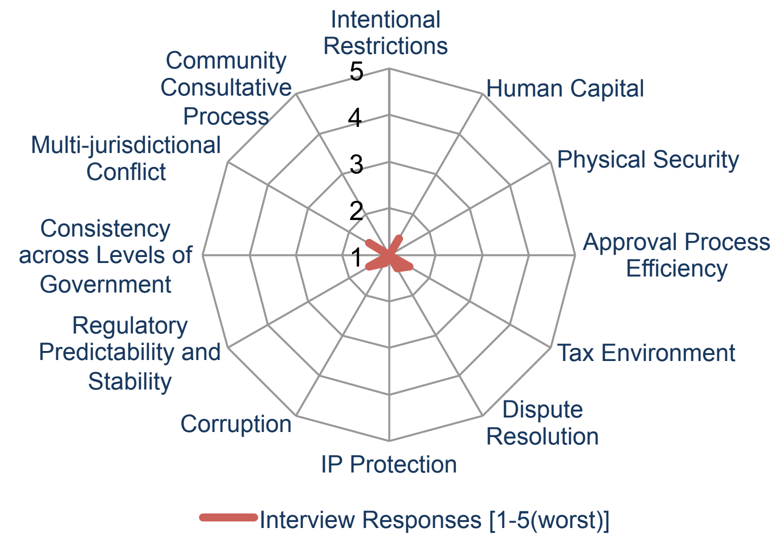
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(1)	(3)
Business Environment Issues	(1)	(1)
Regulatory Environment Issues	(2)	(15)
Approval Implementation Issues	(1)	(3)
Judicial Environment Issues	(6)	(2)
Corruption	(6)	(5)

Most Conducive Factors for FDI:

- Rule of law
- Tax Policies
- Access to other markets
- Regulatory stability & predictability
- English lingua franca

Most Problematic Factors for FDI:

- Expat Communities
- Cost of real estate
- Air quality



Indonesia

Macro Data:

Key Indicators		Ranking within APEC
GDP	$878,425.24M	(9)
GDP per Capita	$3,588.79M	(18)
GDP as a share of APEC total	2.14%	
GDP Growth	6.21%	(5)
FDI Inward Flow	$19,852.57M	(9)
FDI Inward Flow as a % of GDP	2.26%	(11)
FDI Outward Flow	$5,423.00M	(15)
FDI Outward Flow as a % of GDP	0.62%	(17)

FDI Restrictiveness:

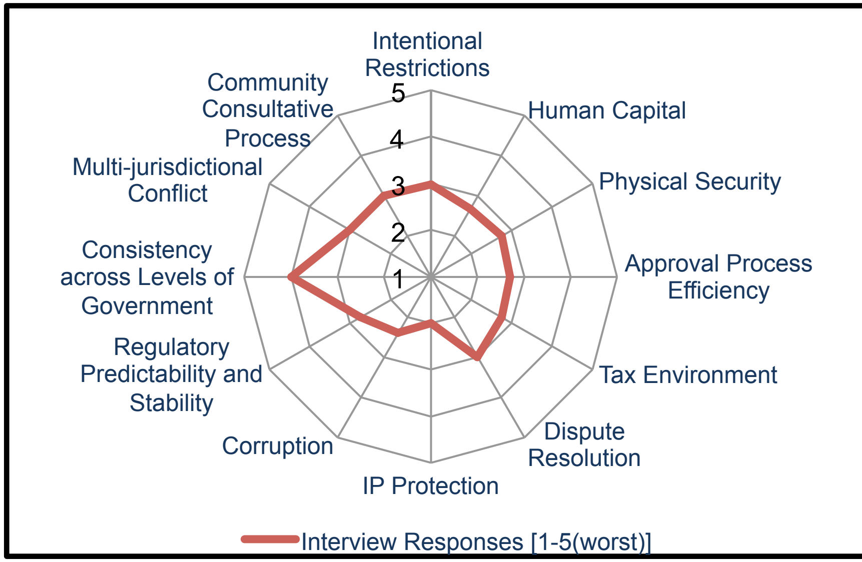
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(18)	(17)
Business Environment Issues	(16)	(15)
Regulatory Environment Issues	(12)	(9)
Approval Implementation Issues	(14)	(14)
Judicial Environment Issues	(11)	(14)
Corruption	(10)	(17)

Most Conducive Factors for FDI:

- Market Size
- Natural Resources
- Availability of human capital
- Access to Financing
- Access to other markets

Most Problematic Factors for FDI:

- Infrastructure
- Consistency Across Levels of Government
- Quality of human capital
- Bureaucracy
- Foreign Land Ownership



Japan

Macro Data:

Key Indicators		Ranking within APEC
GDP	$5,937,202.60M	(3)
GDP per Capita	$46,958.67M	(5)
GDP as a share of APEC total	14.48%	
GDP Growth	2.00%	(15)
FDI Inward Flow	$1,730.78M	(19)
FDI Inward Flow as a % of GDP	0.03%	(21)
FDI Outward Flow	$122,550.93M	(2)
FDI Outward Flow as a % of GDP	2.06%	(12)

FDI Restrictiveness:

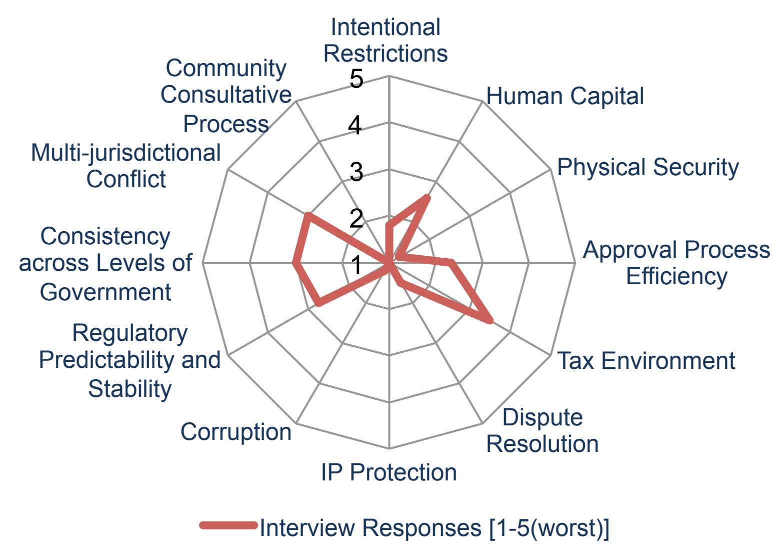
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(10)	(10)
Business Environment Issues	(10)	(8)
Regulatory Environment Issues	(7)	(12)
Approval Implementation Issues	(12)	(7)
Judicial Environment Issues	(3)	(6)
Corruption	(6)	(6)

Most Conducive Factors for FDI:

- Market Size
- Technological Innovation
- Market Competitiveness
- Infrastructure
- Proving Ground

Most Problematic Factors for FDI:

- Tax policies
- Labor Regulations
- Political Stability
- Aging Population
- Market Saturation



Republic of Korea

Macro Data:

Key Indicators		Ranking within APEC
GDP	$1,155,679.40M	(8)
GDP per Capita	$23,785.12M	(9)
GDP as a share of APEC total	2.82%	
GDP Growth	2.00%	(16)
FDI Inward Flow	$9,904.00M	(13)
FDI Inward Flow as a % of GDP	0.86%	(18)
FDI Outward Flow	$32,978.10M	(7)
FDI Outward Flow as a % of GDP	2.85%	(7)

FDI Restrictiveness:

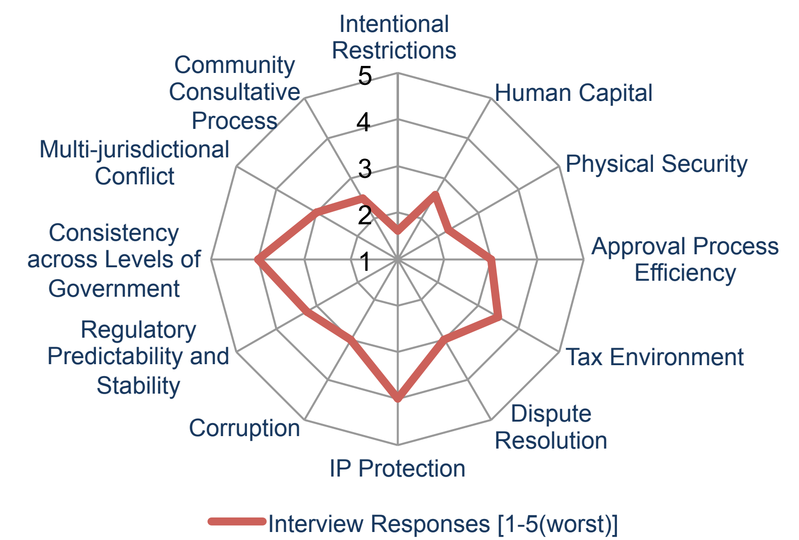
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(11)	(8)
Business Environment Issues	(14)	(11)
Regulatory Environment Issues	(15)	(7)
Approval Implementation Issues	(15)	(17)
Judicial Environment Issues	(20)	(12)
Corruption	(12)	(11)

Most Conducive Factors for FDI:

- Supporting industries
- Qualified human capital
- International investment and trade agreements
- Infrastructure

Most Problematic Factors for FDI:

- Ease of hiring and firing human capital
- Labor union
- Regional Tension
- Transparency of government policymaking
- Access to Financing



Malaysia

Macro Data:

Key Indicators		Ranking within APEC
GDP	$303,488.42M	(12)
GDP per Capita	$ 10,350.27M	(13)
GDP as a share of APEC total	0.74%	
GDP Growth	5.60%	(8)
FDI Inward Flow	$10,073.93M	(12)
FDI Inward Flow as a % of GDP	3.32%	(8)
FDI Outward Flow	$17,114.75M	(11)
FDI Outward Flow as a % of GDP	5.64%	(4)

FDI Restrictiveness:

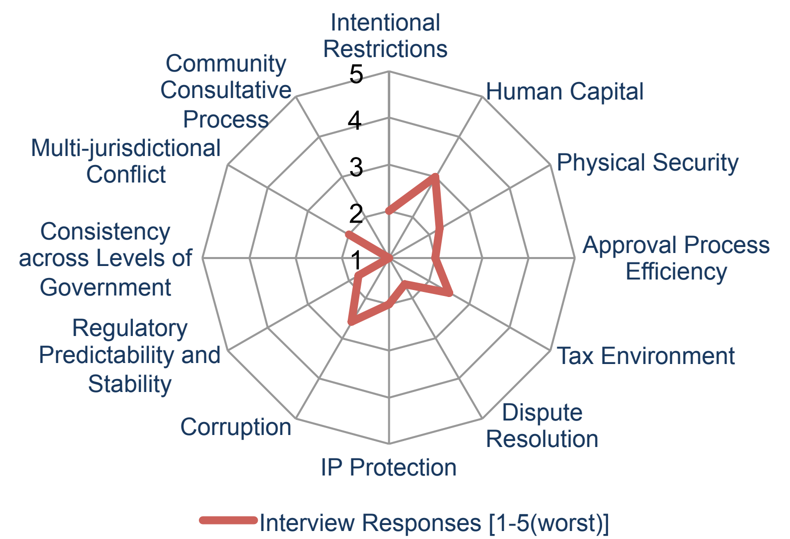
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(8)	(20)
Business Environment Issues	(9)	(7)
Regulatory Environment Issues	(3)	(14)
Approval Implementation Issues	(4)	(8)
Judicial Environment Issues	(10)	(7)
Corruption	(11)	(12)

Most Conducive Factors for FDI:

- Government and economic stability
- Regulatory Predictability
- Infrastructure
- Transparency
- Coordination between public and private sector

Most Problematic Factors for FDI:

- Human Capital
- Approval Process
- Cultural Differences
- Cost of Operation (relative to regional competitors)
- Tax policies



Mexico

Macro Data:

Key Indicators		Ranking within APEC
GDP	$1,173,434.59M	(7)
GDP per Capita	$10,103.03M	(14)
GDP as a share of APEC total	2.86%	
GDP Growth	3.90%	(10)
FDI Inward Flow	$12,659.43M	(10)
FDI Inward Flow as a % of GDP	1.08%	(16)
FDI Outward Flow	$25,596.65M	(8)
FDI Outward Flow as a % of GDP	2.18%	(10)

FDI Restrictiveness:

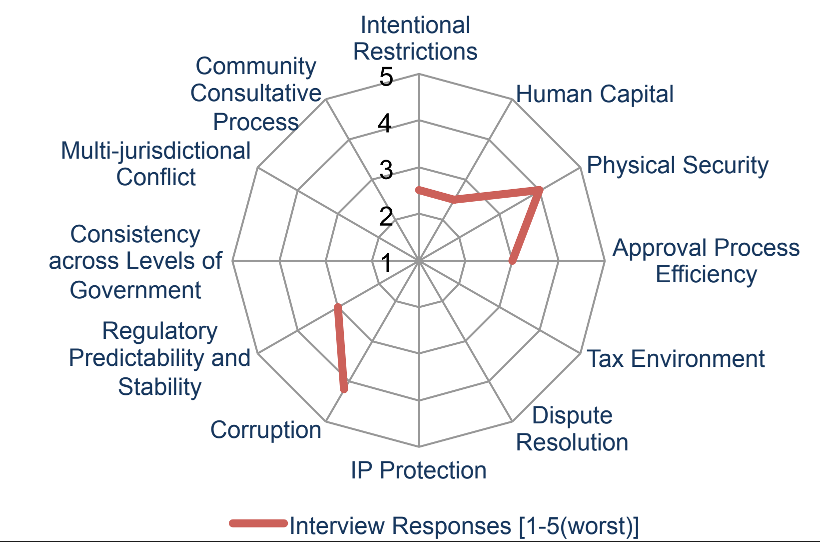
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(14)	(13)
Business Environment Issues	(12)	(17)
Regulatory Environment Issues	(16)	(2)
Approval Implementation Issues	(11)	(12)
Judicial Environment Issues	(11)	(16)
Corruption	(15)	(16)

Most Conducive Factors for FDI:

- Access to NAFTA
- Relative openness to foreigners
- Quality of capital markets
- Taxation agreements
- Availability of quality of services

Most Problematic Factors for FDI:

- Crime and Violence
- Jurisdictional overlap and conflict
- Sector-specific restrictions
- Corruption
- Readiness of local firms to accept investment



New Zealand

Macro Data:

Key Indicators		Ranking within APEC
GDP	$ 171,540.49M	(18)
GDP per Capita	$ 38,451.16M	(7)
GDP as a share of APEC total	0.42%	
GDP Growth	2.96%	(13)
FDI Inward Flow	$ 2,911.08M	(17)
FDI Inward Flow as a % of GDP	1.70%	(13)
FDI Outward Flow	$ (489.37)M	(21)
FDI Outward Flow as a % of GDP	-0.29%	(21)

FDI Restrictiveness:

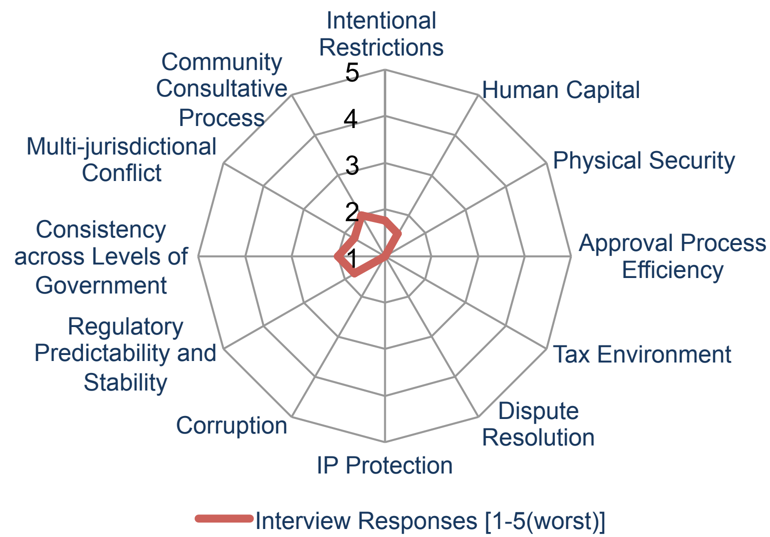
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(5)	(1)
Business Environment Issues	(3)	(6)
Regulatory Environment Issues	(4)	-
Approval Implementation Issues	(4)	(2)
Judicial Environment Issues	(1)	(1)
Corruption	(1)	(1)

Most Conducive Factors for FDI:

- Transparency in approval process
- Consistency in regulations
- Rule of Law
- Natural resources
- Access to other markets

Most Problematic Factors for FDI:

- Geographic Location
- Community consultative process
- Sector Specific Restrictions
- Human capital
- Cultural Differences



Papua New Guinea

Macro Data:

Key Indicators		Ranking within APEC
GDP	$15,712.05M	(21)
GDP per Capita	$2,191.33M	(20)
GDP as a share of APEC total	0.04%	
GDP Growth	9.42%	(1)
FDI Inward Flow	$28.80M	(21)
FDI Inward Flow as a % of GDP	0.18%	(20)
FDI Outward Flow	NA	(19)
FDI Outward Flow as a % of GDP	NA	(19)

FDI Restrictiveness:

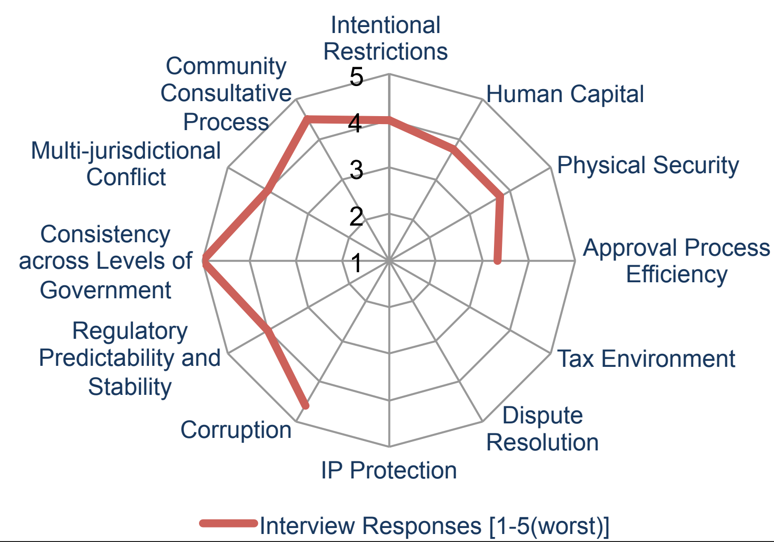
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(20)	(15)
Business Environment Issues	(21)	-
Regulatory Environment Issues	(21)	(19)
Approval Implementation Issues	(21)	-
Judicial Environment Issues	(17)	(21)
Corruption	(21)	(20)

Most Conducive Factors for FDI:

- Natural Resources
- Tourism

Most Problematic Factors for FDI:

- Corruption
- Ineffective & Opaque Governance, Inconsistent Application of Rules and Levy of Taxes
- Infrastructure
- Tribal System of Land Ownership – Community Consultative process
- Inadequately Educated Populace



Peru

Macro Data:

Key Indicators		Ranking within APEC
GDP	$202,200.70M	(17)
GDP per Capita	$6,800.36M	(15)
GDP as a share of APEC total	0.49%	(blank)
GDP Growth	6.20%	(6)
FDI Inward Flow	$12,239.67M	(11)
FDI Inward Flow as a % of GDP	6.05%	(4)
FDI Outward Flow	-$57.48M	(20)
FDI Outward Flow as a % of GDP	-0.03%	(20)

FDI Restrictiveness:

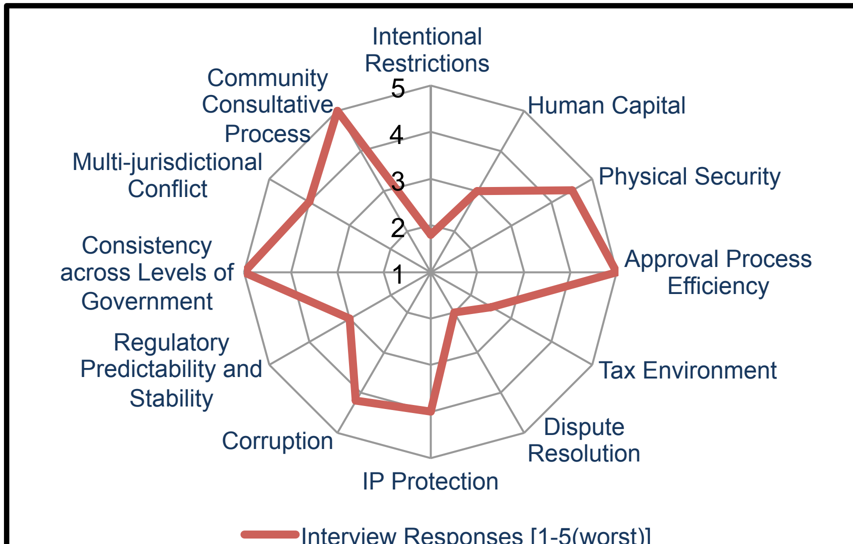
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(9)	(6)
Business Environment Issues	(18)	(18)
Regulatory Environment Issues	(20)	(20)
Approval Implementation Issues	(19)	(16)
Judicial Environment Issues	(18)	(18)
Corruption	(18)	(14)

Most Conducive Factors for FDI:

- National Treatment
- Political support for FDI
- Economic Growth opportunity
- Efficiency of Capital markets
- Dispute resolution

Most Problematic Factors for FDI:

- Multijurisdictional conflict
- Work permit process
- Corruption
- Political Interference in Regulatory process
- Community consultative process



The Philippines

Macro Data:

Key Indicators		Ranking within APEC
GDP	$250,268.77M	(16)
GDP per Capita	$2,594.23M	(19)
GDP as a share of APEC total	0.61%	
GDP Growth	6.60%	(3)
FDI Inward Flow	$2,797.00M	(18)
FDI Inward Flow as a % of GDP	1.12%	(15)
FDI Outward Flow	$1,845.00M	(16)
FDI Outward Flow as a % of GDP	0.74%	(16)

FDI Restrictiveness:

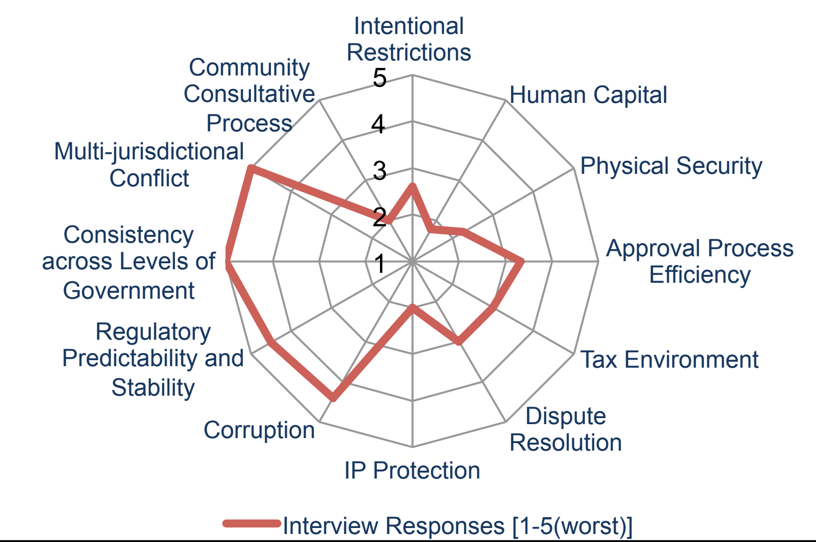
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(13)	(19)
Business Environment Issues	(15)	(19)
Regulatory Environment Issues	(17)	(17)
Approval Implementation Issues	(17)	(20)
Judicial Environment Issues	(11)	(17)
Corruption	(20)	(19)

Most Conducive Factors for FDI:

- Location
- Qualified human capital
- Cost of human capital
- Cultural similarity to west
- Natural resources

Most Problematic Factors for FDI:

- Corruption
- Infrastructure
- Regulatory Stability
- Jurisdictional Conflict
- Predictability of Judicial System



Russia

Macro Data:

Key Indicators		Ranking within APEC
GDP	$1,977,996.01M	(4)
GDP per Capita	$13,860.91M	(12)
GDP as a share of APEC total	4.82%	
GDP Growth	3.40%	(12)
FDI Inward Flow	$51,416.00M	(6)
FDI Inward Flow as a % of GDP	2.60%	(9)
FDI Outward Flow	$51,058.00M	(6)
FDI Outward Flow as a % of GDP	2.58%	(9)

FDI Restrictiveness:

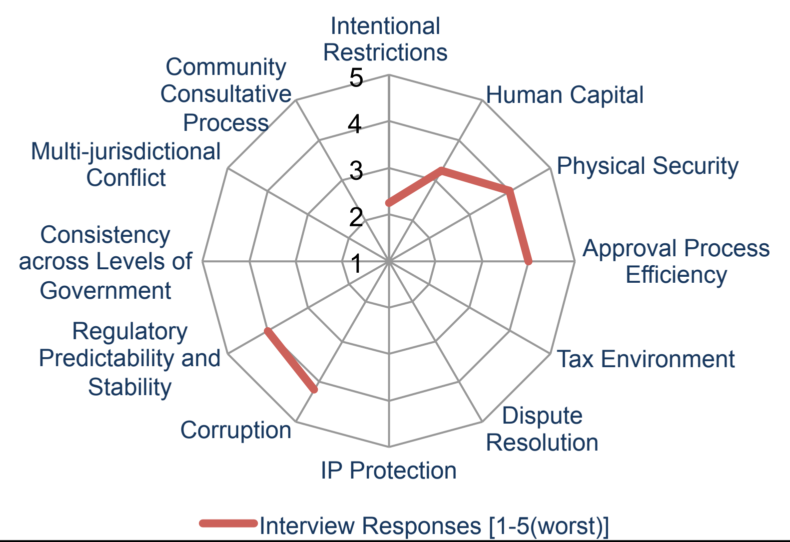
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(16)	(11)
Business Environment Issues	(20)	(20)
Regulatory Environment Issues	(13)	(1)
Approval Implementation Issues	(18)	(18)
Judicial Environment Issues	(21)	(19)
Corruption	(18)	(21)

Most Conducive Factors for FDI:

- Natural Resources
- Qualified human capital
- Cost of human capital
- Macroeconomic stability
- Market Size

Most Problematic Factors for FDI:

- Corruption
- Government bureaucracy
- Government efficiency and transparency
- Crime & Violence
- Intellectual property protection



Singapore

Macro Data:

Key Indicators		Ranking within APEC
GDP	$270,461.52M	(13)
GDP per Capita	$51,454.95M	(2)
GDP as a share of APEC total	0.66%	
GDP Growth	1.30%	(19)
FDI Inward Flow	$56,650.90M	(5)
FDI Inward Flow as a % of GDP	20.95%	(2)
FDI Outward Flow	$23,080.15M	(9)
FDI Outward Flow as a % of GDP	8.53%	(2)

FDI Restrictiveness:

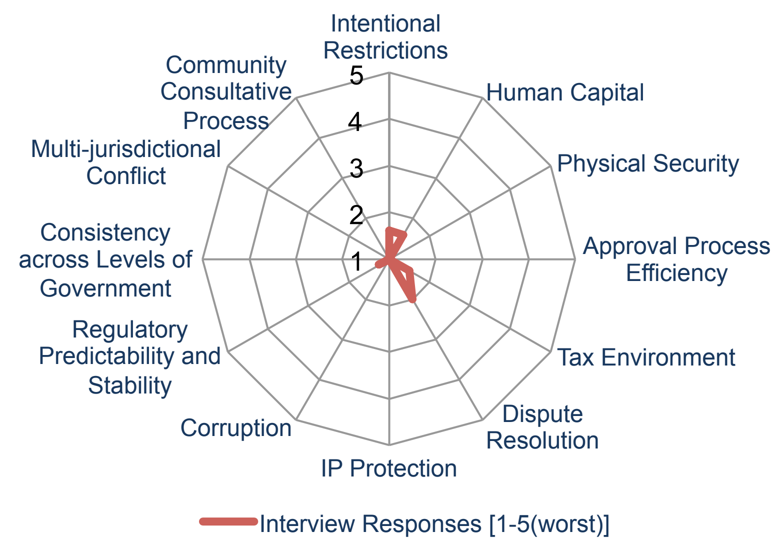
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(2)	(4)
Business Environment Issues	(2)	(2)
Regulatory Environment Issues	(1)	(5)
Approval Implementation Issues	(1)	(1)
Judicial Environment Issues	(3)	(3)
Corruption	(1)	(2)

Most Conducive Factors for FDI:

- Political and economic stability
- Infrastructure
- Access to other markets
- Tax policies
- Qualified human capital

Most Problematic Factors for FDI:

- Cost of operations
- Cost of living
- Sector specific regulations
- Natural resources
- Inflation



Thailand

Macro Data:

Key Indicators		Ranking within APEC
GDP	$390,854.95M	(11)
GDP per Capita	$5,592.26M	(17)
GDP as a share of APEC total	0.95%	
GDP Growth	6.40%	(4)
FDI Inward Flow	$8,607.45M	(14)
FDI Inward Flow as a % of GDP	2.20%	(12)
FDI Outward Flow	$11,911.15M	(14)
FDI Outward Flow as a % of GDP	3.05%	(5)

FDI Restrictiveness:

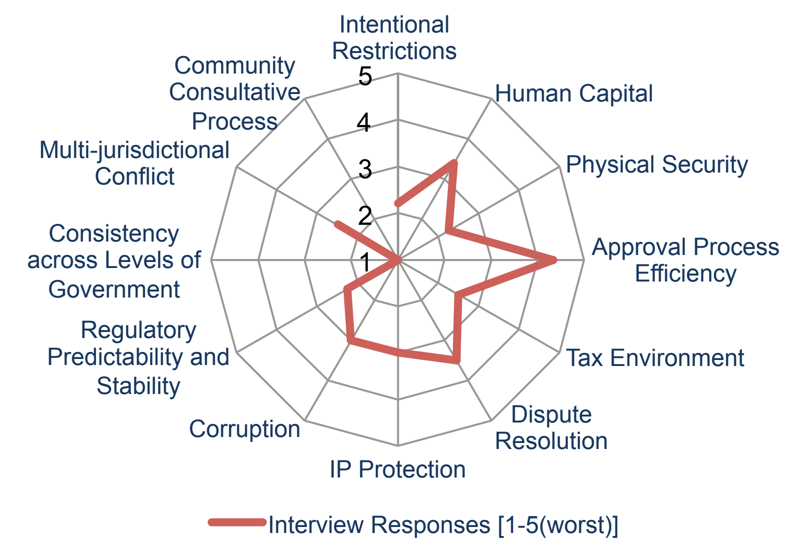
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(15)	(21)
Business Environment Issues	(13)	(14)
Regulatory Environment Issues	(9)	(16)
Approval Implementation Issues	(10)	(13)
Judicial Environment Issues	(15)	(15)
Corruption	(12)	(15)

Most Conducive Factors for FDI:

- Access to other markets
- FDI Opportunity Promotion
- Industry Clusters
- Expat Communities

Most Problematic Factors for FDI:

- Predictability and Stability
- Human Capital
- Corruption
- Foreign Exchange Stability
- Dispute Resolution



Chinese Taipei

Macro Data:

Key Indicators		Ranking within APEC
GDP	$476,419.24M	(10)
GDP per Capita	$20,437.97M	(10)
GDP as a share of APEC total	1.16%	
GDP Growth	1.26%	(20)
FDI Inward Flow	$3,205.00M	(16)
FDI Inward Flow as a % of GDP	0.67%	(19)
FDI Outward Flow	$13,031.00M	(13)
FDI Outward Flow as a % of GDP	2.74%	(8)

FDI Restrictiveness:

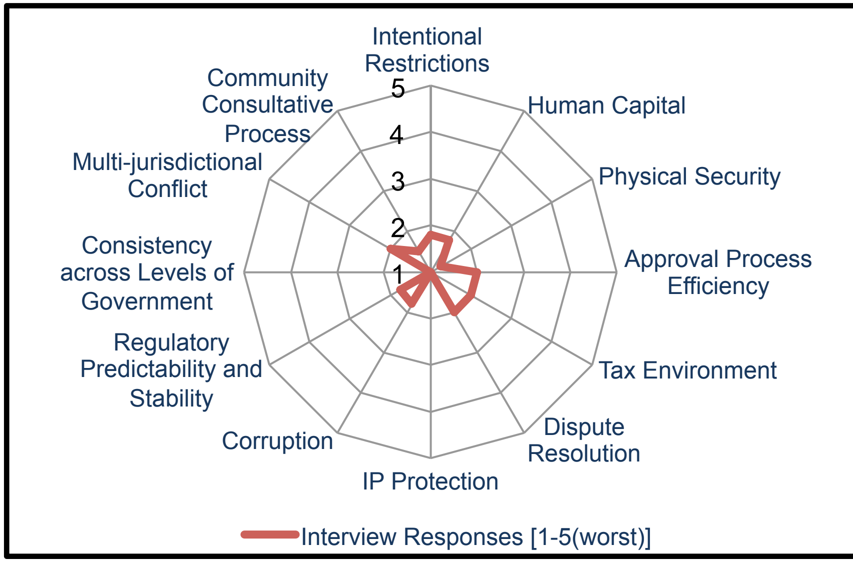
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(12)	(12)
Business Environment Issues	(4)	(5)
Regulatory Environment Issues	(5)	(3)
Approval Implementation Issues	(3)	(6)
Judicial Environment Issues	(8)	(10)
Corruption	(8)	(10)

Most Conducive Factors for FDI:

- Access to other markets
- Technological readiness
- Infrastructure
- IP Protection
- Developed supporting/related industries

Most Problematic Factors for FDI:

- Political instability
- Labor Regulations
- Tax policies
- Government efficiency
- Quality of human capital



United States

Macro Data:

Key Indicators		Ranking within APEC
GDP	$15,698,324.67M	(1)
GDP per Capita	$49,112.02M	(4)
GDP as a share of APEC total	38.27%	
GDP Growth	2.18%	(14)
FDI Inward Flow	$167,620.00M	(1)
FDI Inward Flow as a % of GDP	1.07%	(17)
FDI Outward Flow	$328,869.00M	(1)
FDI Outward Flow as a % of GDP	2.09%	(11)

FDI Restrictiveness:

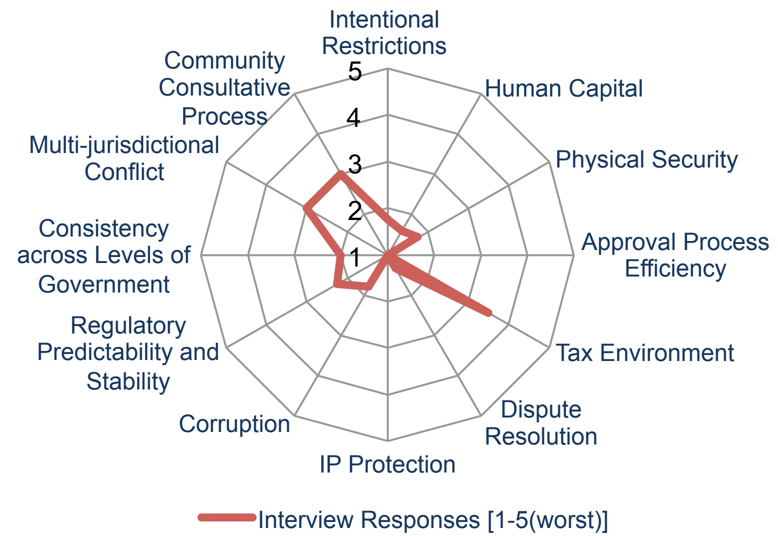
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(5)	(5)
Business Environment Issues	(7)	(4)
Regulatory Environment Issues	(11)	(10)
Approval Implementation Issues	(7)	(10)
Judicial Environment Issues	(9)	(8)
Corruption	(8)	(9)

Most Conducive Factors for FDI:

- Sophisticated Market
- Market Size
- Proving Ground
- International investment and trade agreements
- Qualified human capital

Most Problematic Factors for FDI:

- Competitiveness of Market
- Litigious Society
- Cost of Operation
- Tax policies
- Approval Process



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Viet Nam

Macro Data:

Key Indicators		Ranking within APEC
GDP	$140,604.68M	(19)
GDP per Capita	$1,566.97M	(21)
GDP as a share of APEC total	0.34%	
GDP Growth	5.01%	(9)
FDI Inward Flow	$8,368.00M	(15)
FDI Inward Flow as a % of GDP	5.95%	(5)
FDI Outward Flow	$1,200.00M	(17)
FDI Outward Flow as a % of GDP	0.85%	(15)

FDI Restrictiveness:

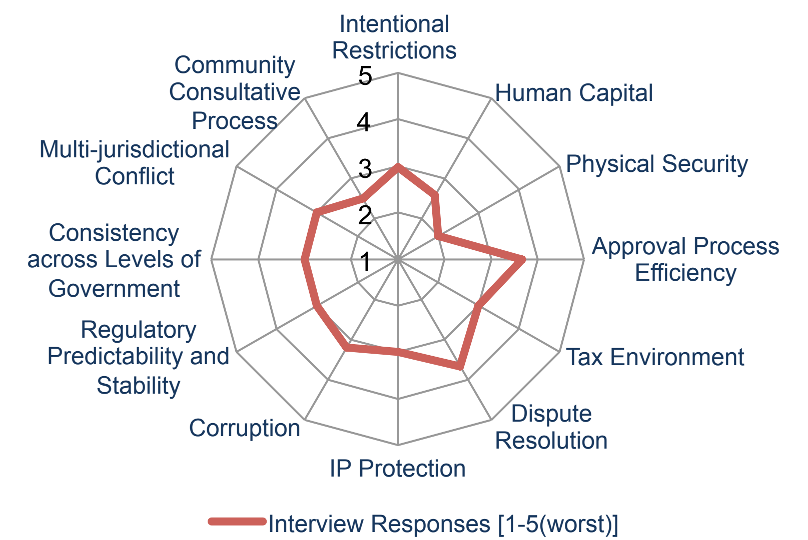
*Ties between economies are possible	Interview Response APEC Rank	Published Proxy APEC Rank
Market Access Issues	(19)	(18)
Business Environment Issues	(17)	(16)
Regulatory Environment Issues	(13)	(18)
Approval Implementation Issues	(13)	(19)
Judicial Environment Issues	(16)	(20)
Corruption	(16)	(18)

Most Conducive Factors for FDI:

- Market Size
- Availability of human capital
- Access to other markets
- Labor Market Efficiency
- Health and Primary Education

Most Problematic Factors for FDI:

- Quality of human capital
- Infrastructure
- Clarity of regulatory Policies
- Governmental Approval process
- Access to Financing



Appendix C | Participating Companies

Participating Companies

3M
ABAC Office of Indonesia
Alaska Milk Company
All In Consulting
AmBank Group
AmCham China
AMCORP GROUP
American Chamber of Commerce Chile
American Chamber of Commerce in Indonesia
American Indochina Management Ltd.
ANZ Indonesia
Atomic Recruitment
August Law Group
Australian APEC Study Centre, RMIT University
Australian Industry Group
Australian Trade Commission
Baker & McKenzie
Bakrie & Brothers
Bakrie Sumatera Plantations
Banco de Chile (Bank of Chile)
Banco de Oro
Bank Negara Indonesia (BNI)
Bank of the Philippine Islands
Bank of Tokyo-Mitsubishi UFJ
Benelli
BIBD (Bank Islam Brunei Darussalam)
Biosano Laboratorio
Investment Coordinating Board - Republic of Indonesia
BLNG (Brunei Liquefied Natural Gas)
BridgeWay Business Brokerage
Business Council of Australia
CBRE
Centennial Group International
Centre for Strategic and International Studies
Chamber of Mines of the Philippines
Chilean Association of Supermarkets
Chilean Construction Chamber
China Department of Multinational Business
China Renaissance Securities, Limited
ChinaSF
DRS Consulting
Econsult
Eli Lilly
Empresas AriztÃ-a S.A.
Everpia Viet Nam JSC
Far Glory Group

*Some companies which participated in the research requested not to be publically identified.

Participating Companies

Federation of Malaysian Manufacturers
Foraise Technologies
Foreign Investment Agency, Ministry of Planning and Investment - Viet Nam
Foreign Investment Committee - Chile
Futuris
GAP
Garamut Enterprises
Giant
Hermes & Sun Development & Construction
Holiday Villa Hotels & Resorts
Honda
Indika Energy
InvestHK
Japan External Trade Organization
Jardine Matheson Holdings, Limited
Jelly Belly
Komatsu
Korean Chamber of Commerce – Indonesia
KPMG
Kumpulan FIMA Bhd
Linklaters
Lippo Group
Lo International Sdn Bhd
MenTecWorld Co.
MIDAMinistry of Foreign Affairs
Ministry of Natural Resources and Environment – Viet Nam
Ministry of Planning and Investment – Viet Nam
Mitsubishi
Mitsui & Co. (Energy Division)
Nichirei Corp.
Opus Group Berhad
Orient Overseas (International) Ltd.
PLUS, a member of UEM
Prudential Holdings of Japan
PT Bakrie Investa Ecoindustri
PT Pertamina
PT Telkom Indonesia
PwC
SAAM Ports
Satake Corporation
Shearman & Sterling
Siam Cement Group Trading
Sigma Sembada Group

*Some companies which participated in the research requested not to be publically identified.

Participating Companies

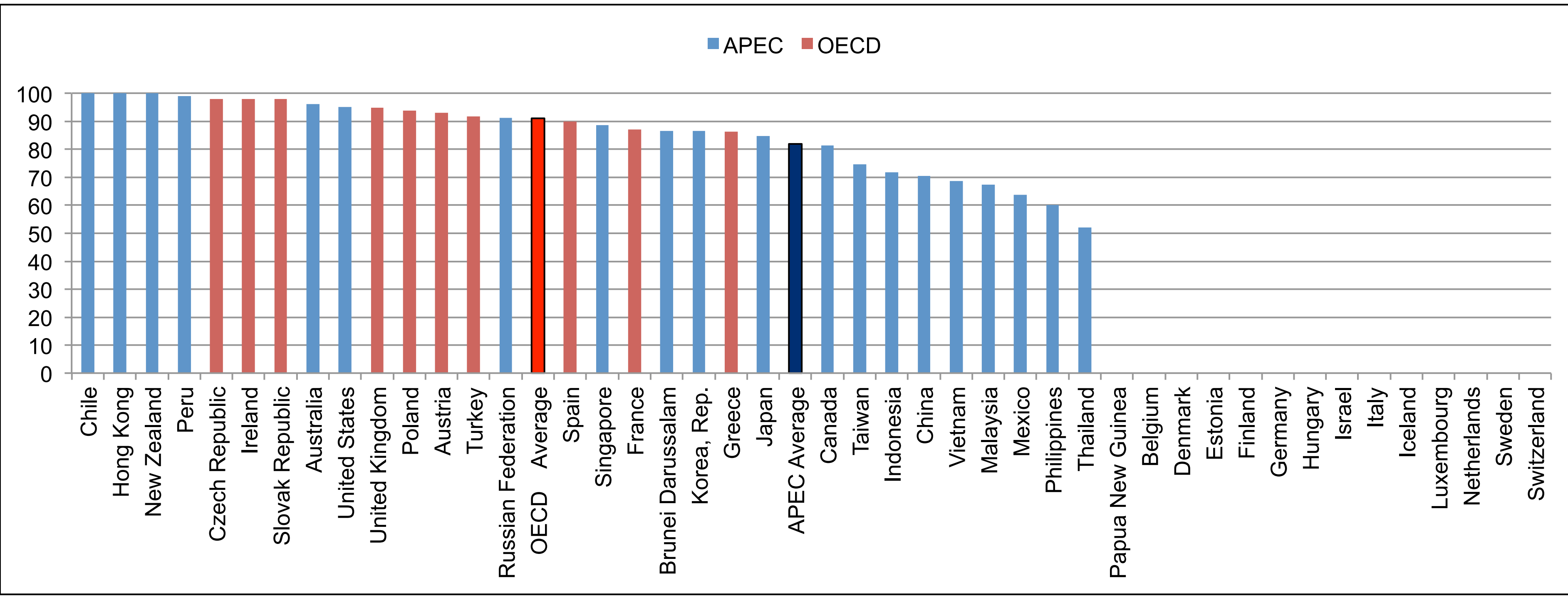
Standard Chartered
Sullivan & Cromwell
SWIFT
T-Mark
The David Harilela Group
The Top Glove Corporation
Toshiba Corporation
Tramada Systems
UC-Chrisus Healthcare
UEM
United States Information Technology Office
Ventana Global
Western Digital

*Some companies which participated in the research requested not to be publically identified.

Appendix D | APEC v. OECD Data Comparison

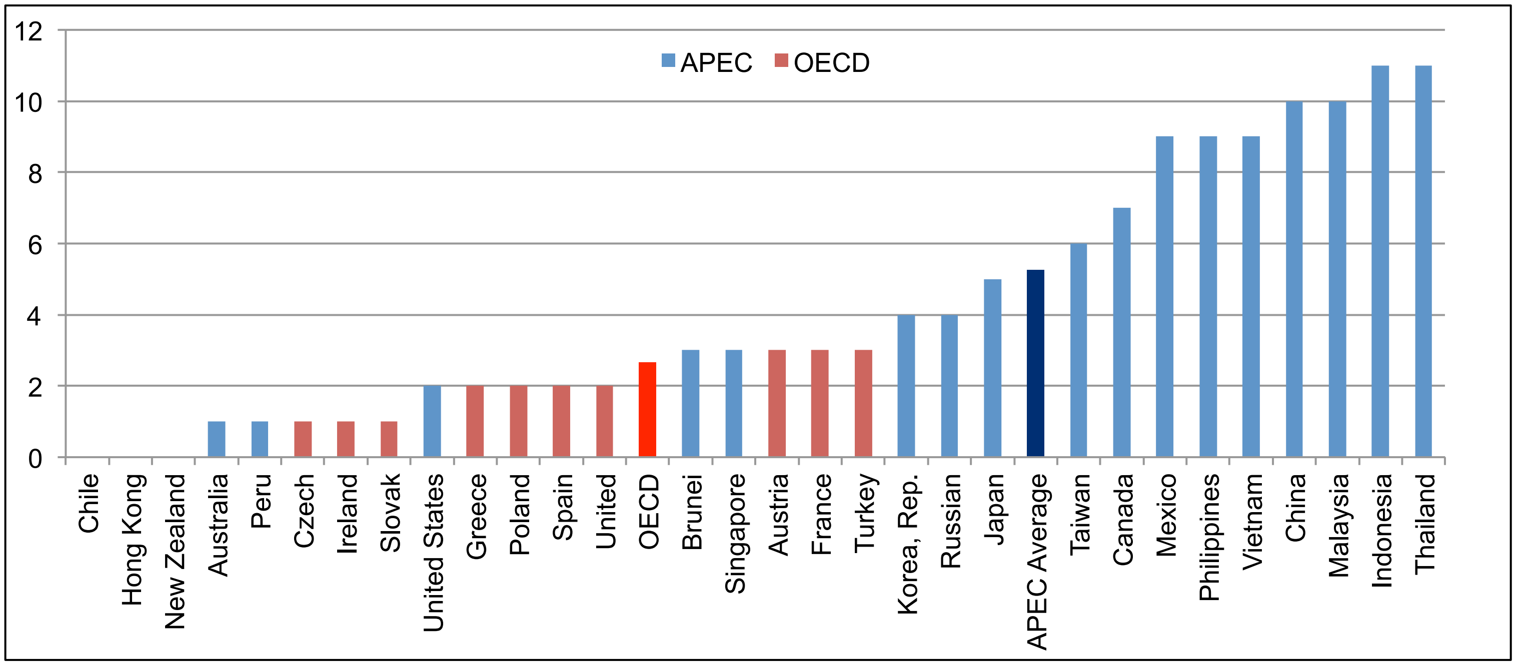
APEC v. OECD Comparison – Equity Restriction %

APEC on average has stricter equity restrictions than OECD. APEC includes best performers as well as worst performers and the gaps in performances are substantial.



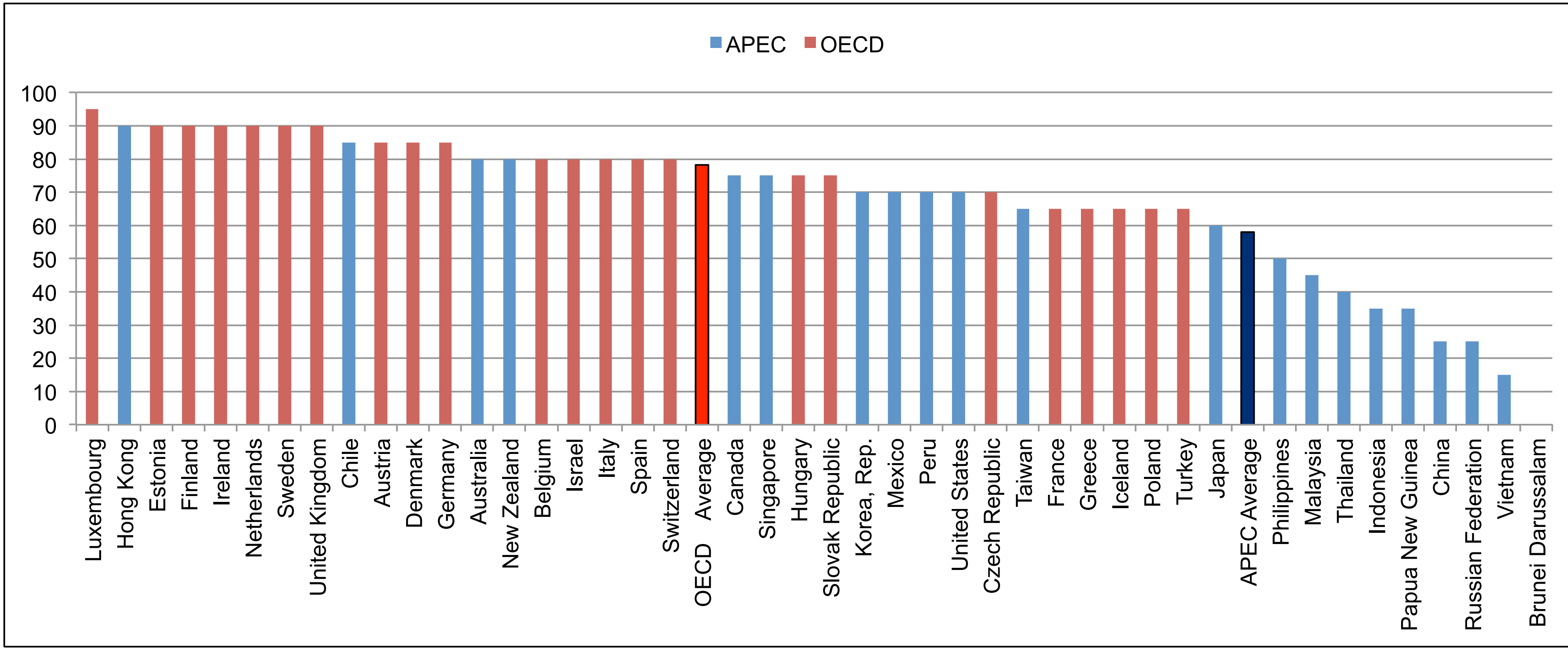
APEC v. OECD Comparison – Number of Sector Restrictions

APEC has more sector restrictions than OECD on average. While a few APEC nations impose only a few sector restrictions, most APEC nations impose many.



APEC v. OECD Comparison – Investment Capital Freedom

APEC's economies offer less investment capital freedom compared to the OECD. Many APEC nations restrict capital movement, bringing down the APEC average.



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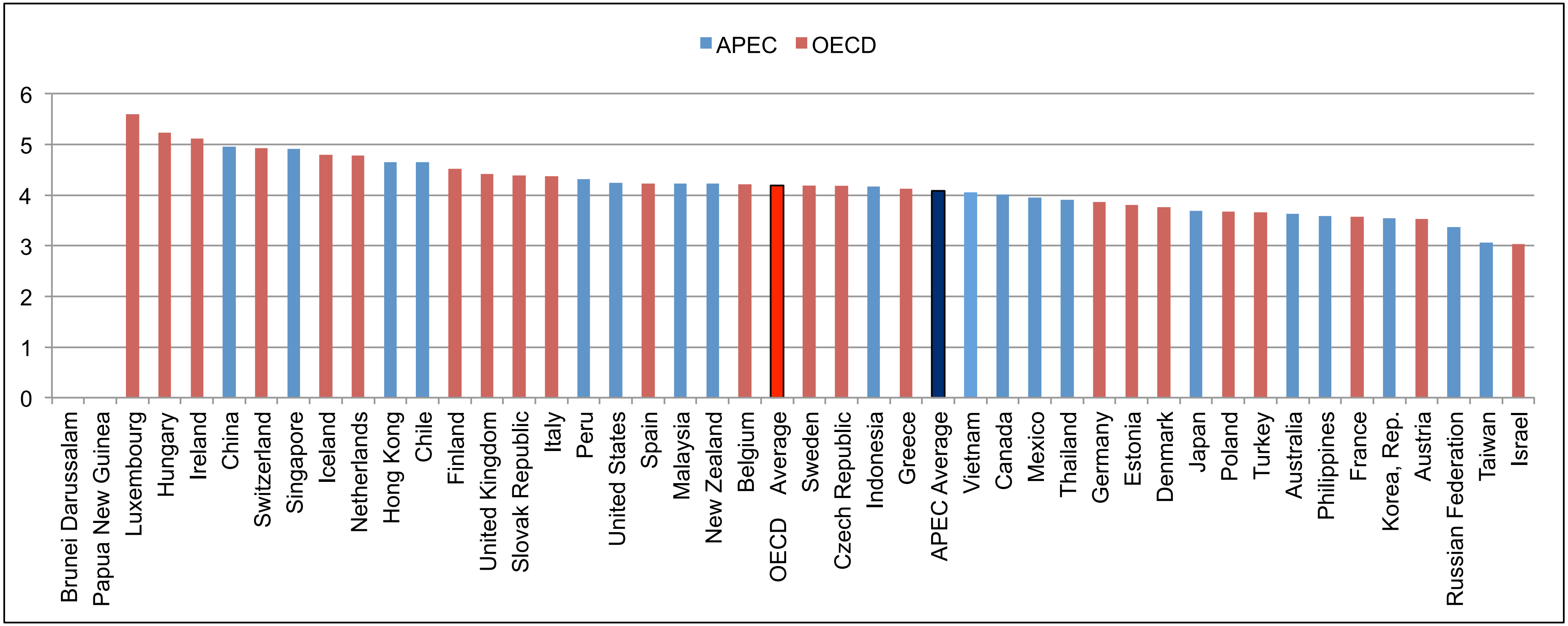
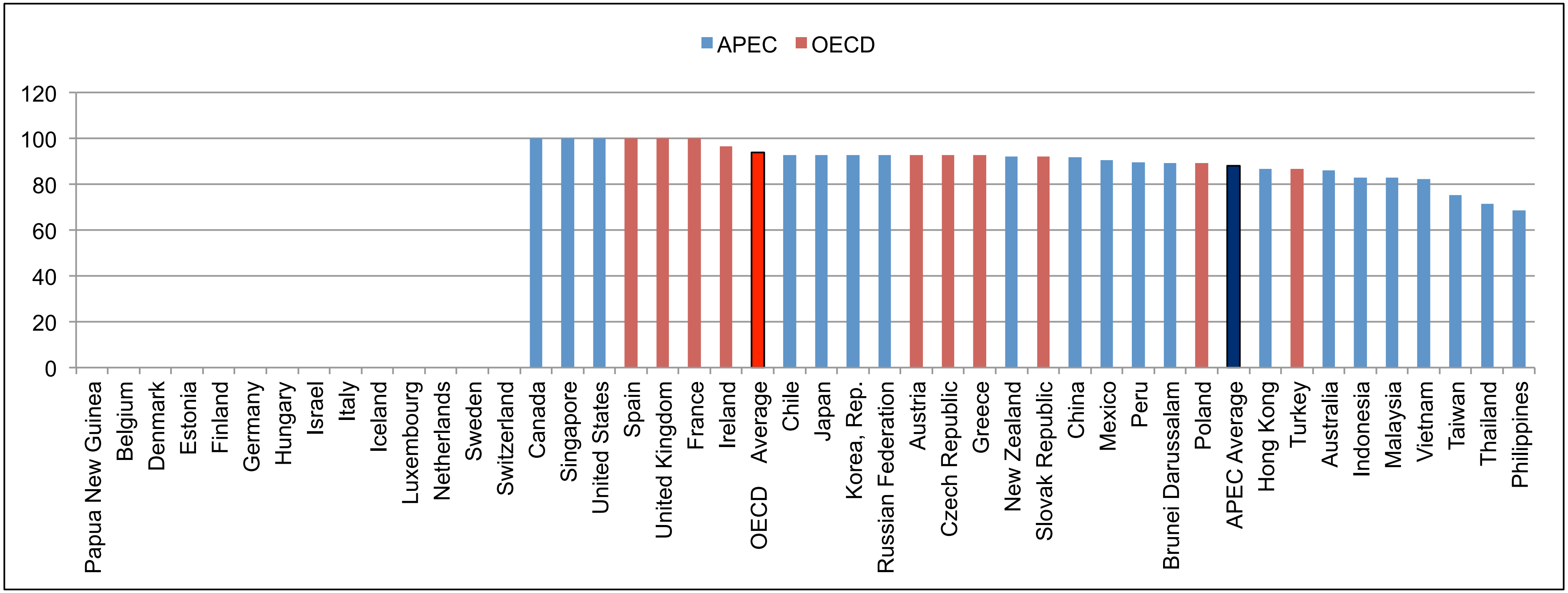
APEC v. OECD Comparison – Ease of Hiring and Firing

APEC slightly lags OECD in terms of ease of hiring and firing .
Spreads of APEC and OECD nations from their respective averages seem even.



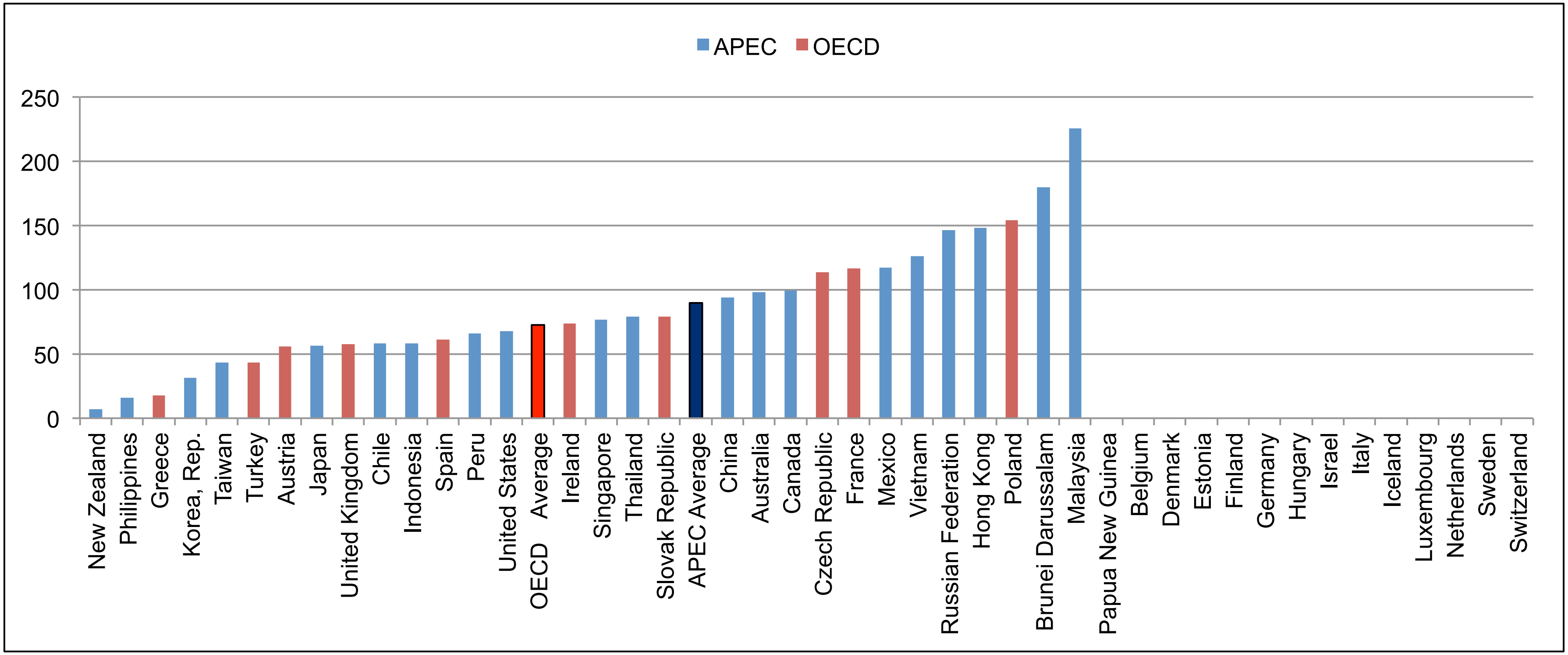
APEC v. OECD Comparison – Strength of Lease and Ownership Rights

APEC lags the OECD in strength of lease and ownership rights. This is in spite of APEC including some of the world's leading economies, but laggards drag down the APEC average.



APEC v. OECD Comparison – Time to Lease Private / Public Land

Within APEC, it takes longer to lease private/public land relative to the OECD's average. The gaps between leaders and laggards in APEC are substantial.



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Appendix E | Works Cited and Benchmark Sources

Sources for benchmark indices

MARKET ACCESS
Intentional Restrictions
Access to Land by Foreign Firms (WB -IAB Composite Score)
Foreign Ownership & Control Limitations (WB IAB average percent ownership permitted)
Sector-specific Restrictions (WB IAB number of sectors restricted)
Visa & Worker Mobility Restrictions (Ease of Hiring Foreign Workers) (WEF ET 8.07)
Investment capital freedom (Heritage Foundation)
Business Impact of FDI Rules *(WEF GCR 6.12)*
FDI Opportunity Promotion
Investment Promotion Agencies (WB Global Investing Promotion Benchmaking Report ranked 1-5, 1 being best practice)
APPROVAL ADMINSTRATION
Efficiency of Processes and Procedures for Obtaining Investment Approval
Ease of Establishment Index (WB IAB)
Time to obtain approval (WB IABnumber of days)
Number of procedures to obtain approval (WB IAB)
Burden of Government (WEF GCR 1.09)
Transparency of Process
Impartiality of government officials (Favoritism) (WEF GCR 1.07)
Transparency of government policymaking (WEF GCR 1.12)

REGULATORY ENVIRONMENT
Predictability and Stability of the Regulatory Environment
Public Trust in Politicans (WEF GCR 1.04)
Regulatory environment (WEF ET D.08)
Transparency of government policymaking (WEF GCR 1.12)
Accessibility and Clarity of Investment Regulations
Availability of online information (WEF ET 7.04)

Related & Supporting Industries
Quantity of local suppliers (WEF GCR 11.01)
Quality of local suppliers (WEF GCR 11.02)
State of industry clusters (WEF GCR 11.03)
Physical Security
Reliability of Police (WEF GCR 1.16)
Business Cost of Crime & Violence (WEF ET 9.02)
Organized Crime (WEF GCR 1.15)
Business Cost of Terrorism (WEF GCR 1.13)
Property rights protection (WEF GCR 1.01)
Physical security (WEF ET D.09)
Competitiveness of Markets
Effectiveness of Anti-monopoly policies (WEF GCR 6.03)
Intensity of local competition (WEF GCR 6.01)
Extent of Market Dominance (WEF GCR 6.02)
Technological readiness (WEF GCR9.03)
Domestic Competition (WEF ET 8.05)
Tax Environment
Effect of taxtion on incentives to invest (WEF GCR 6.04)

Sources for benchmark indices

JUDICIAL ENVIRONMENT
Dispute Resolution
Arbitrating Commerical Dispute (Composite WB IAB Score)
Strength of Law Index (WB IAB)
Ease of Process Index (WB IAB)
Extent of Judicial Assistance (WB IAB)
Ability to Challenge Regulations (sue Government) (WEF GCR 1.11)
Efficiency of legal framework in setting disputes (WEF GCR 1.10)
IP Protection
Intellectual property protection (WEF GCR 1.02)
Judicial Independence
Judicial independence (WEF GCR 1.06)
BUSINESS ENVIRONMENT
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)
Human Capital
Hiring & firing Practices (WEF GCR 7.03)
Country Capacity to retain talent (WEF GCR 7.08)
Country Capacity to Attract Talent (WEF GCR 7.09)
Human Development Index (UNDP)
Quality of Education Sysytem (WEF GCR 5.03)
Infrastructure
Infrastructure (WEF GCR A.02)
ICT Use (WEF GCR 9.02)

CORRUPTION
Irregular Payments & Bribes (WEF GCR 1.05)
Corruption Perception Index (WEF ET 4.02)
Corruption Index (Heritage Database)

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Appendix F | Research Team Biographies

Research Team Biographies

Dean Croshere (Project Manager), United States

Dean joins the ABAC team after spending three years as the General Manager of Typhoon Fruit Company, a manufacturing facility located on Thailand's Eastern Seaboard. Typhoon Fruit Company represented the Foreign Direct Investment of an American and an Australian firm, providing valuable experience with regard to the impediments to FDI in APEC. After a human capital consulting internship this summer, Dean is pursuing a career in consulting.

Deying (Darren) Fan, China

Deying (Darren) Fan is a native of Beijing, China. He earned his Bachelor of Science degree in Chemical Engineering from the University of Texas at Austin. Darren joins the ABAC research team with three years of experience working as a business project manager and lead engineer for an international portable power generation company. After obtaining an MBA, he will pursue a strategy / business development career in the global energy industry.

Weiwei Han, Chinese Taipei / Singapore

Weiwei is from Taipei, Taiwan and has spent many years living in Singapore. She joins the ABAC Research Team with extensive experience in the Asia Pacific region. She has three years of experience in corporate finance and is now pursuing a career in marketing management with a global company. Weiwei completed her undergraduate studies at the National University of Singapore in 2009 where she received a Bachelor's degree in Business Administration.

Research Team Biographies

Jim Hays, United States

Born in Phoenix, Arizona, Jim earned his Bachelor's Degree in Creative Writing from the University of Southern California. Before joining the ABAC research team, he worked in marketing at an agricultural processing machinery manufacturer based in Hiroshima, Japan and a laser cutting machinery manufacturer based in Scottsdale. Jim is pursuing an internationally-focused career in consumer product marketing.

Dan Hauser, United States

Dan is a native of Detroit, Michigan. He joins the ABAC research team after spending eight years in the United States Marine Corps where he served abroad in Afghanistan, Iraq, and aboard naval vessels throughout Southeast Asia. He graduated from Michigan State University with a Bachelor's degree in International Studies. He is now pursuing a career in management with a global company.

Gavin Johnson, United States

Gavin is a native of Roseburg, Oregon. He holds a Bachelor of Science degree in Computer Science from Oregon State University. Gavin joins the ABAC team with five years of IT system implementation experience. He interned with Deloitte Consulting in their technology service line last summer and will be joining Deloitte Consulting full-time after business school.

Research Team Biographies

Jangwook (Jay) Lee, Korea

Jangwook (Jay) Lee hails from Seoul, Republic of Korea. Prior to ABAC Research Team, he worked at General Motors as a Program Manager for their Global Small Vehicle Project and at the Royal Bank of Scotland as an equity analyst. Jay holds a Bachelor's degree in Economics with an Accounting emphasis from University of California, Santa Barbara, and is pursuing a career in the global automotive industry.

Kenji Miyoshi, Japan

Kenji joins the ABAC Research Team with five years of experience in a variety of industries including financial services, entertainment, and automotive. He has served in a multitude of functions including investment banking, business planning, and finance. Originally from Kobe, Japan, Kenji received his Bachelor's degree in Economics from the University of California, Davis.

Sharayu Rao, India

Sharayu joins the ABAC team with professional experience in electronics hardware design and development for aerospace systems. Her experience covers broad areas of engineering, project management, research and product development. A native of India, Sharayu holds a Bachelor's degree of Engineering in Electronics and Telecommunication from the University of Pune, India. She is now pursuing a career in product management.

Research Team Biographies

Stephanie Soltis, United States

A native of Orange County, California, Stephanie served as an officer and pilot in the United States Air Force for 11 years prior to joining the ABAC Research Team. She has managed operations in more than 60 countries, with extensive experience in the European, Middle Eastern, Central Asian, and Asia-Pacific regions. Stephanie holds a Bachelor of Science in Political Science from the US Air Force Academy in Colorado, and will embark on a career in financial services after obtaining her graduate degree.

David Strimple (Team Lead), United States

David joins the ABAC Research Team with experience in Wealth Management and Private Banking. He has worked as a Regional Private Banker in Beverly Hills, CA with Wells Fargo Bank, N.A. After obtaining his graduate degree, he will continue his career in strategy/consulting in financial services. David holds a Bachelor's degree in Finance from the University of Miami (FL) and is a native of Los Angeles, California.

Di (Darwin) Wang, United States / China

Di Wang graduated with dual Bachelor's degrees in Biology and Economics from the University of California, San Diego. Prior to joining USC Marshall and the ABAC team, he worked in the biotechnology industry in business development, marketing, sales, and strategic planning roles. One of the major projects that he spearheaded was to develop the market entry strategy for China while he was at the global life science reagent provider, BioLegend. He is pursuing a career in global business strategy after obtaining his graduate degree.

Document: REIWG 33-042
Draft: **FIRST**
Source: ABAC Japan
Date: 19 September 2013
Meeting: Bali, Indonesia

Meeting Document Summary Sheet Template

Document Title:

2014 Work Plan on Improving the FDI Environment (Power Point Presentation)

Purpose:
For Consideration

Issue:
Following up on the 2013 work plan proposed by ABAC Japan "Towards a better FDI environment" and introducing our 2014 work plan, which continues to seek the improvement of the FDI environment.

Background/Overview:

During 2011/2012, ABAC Japan has identified and raised several concrete issues that obstruct Foreign Direct Investment (FDI) in the region, such as transfer pricing, social security and PE taxation.

At 2013ABAC-1, ABAC Japan proposed the 2013 work plan, which was subsequently endorsed, to address remaining obstacles to FDI and actions needed to accelerate the growth of FDI. Those actions to be taken are improving predictability, transparency, and efficiency of the legal and regulatory environment for investment and providing effective mechanisms for the expedited approval process and the resolution of disputes.

In accordance with the work plan, ABAC Japan introduced an example of best practices from the Vietnam –Japan Joint Initiative, which plays an important role in improving the investment environment in Vietnam. A guest speaker from Vietnam's Foreign Investment Agency shared his experience on how much the dialogue driven by the Joint Initiative served to identify and table the difficulties and impediments that companies have faced when investing in Vietnam. This continuing initiative has been successful in enabling implementation of the Action plan to improve various policies that ultimately led to the increase of FDI.

To further elaborate on bilateral efforts, ABAC Japan would like to continue to pursue this issue by introducing how a bilateral investment agreement would drive a sustainable investment environment. ABAC Japan hopes to take additional steps to seek solutions by taking a larger view by cross cutting various aspects in response to the region's needs for resilient value chain as stated in the MRT Statement.

Proposal /Recommendations

- Continue to share best practice related to the development and implementation of bilateral investment agreements
- Liaise with APEC (CTI) to develop collective solutions for a better Investment environment.

Decision Points:
Endorse the proposal outlined above.

Document: REIWG 33-045 Draft: **FIRST** Source: ABAC New Zealand and ABAC Peru Date: 24 September 2013 Meeting: Bali, Indonesia

REI Meeting Document Summary Sheet

Document Title:

Comparison of Possible Pathways towards FTAAP.

Purpose:

For information.

Issue:

This note provides an update on progress in various regional negotiations that could lead to a Free Trade Area of the Asia Pacific.

Background:

The main developments include:

- An increased rate of activity in the Trans Pacific Partnership (TPP) negotiations in recent months. The 18th round of TPP talks, including a TPP Trade Minister's meeting, was held in Malaysia in July, during which Japan officially joined TPP. The 19th round of TPP negotiations was held in Brunei in late August. Chief TPP negotiators met in mid-September in Washington DC and some negotiating groups held inter-sessional meetings in mid to late September, all with a view to trying to advance progress in the lead up to the Bali Summit.
- The second round of Regional Comprehensive Economic Partnership (RCEP) negotiations took place in Brisbane from 24-27 September. The East Asia Business Council has set up a Working Group to provide private sector input into the RCEP negotiations on behalf of business associations across the RCEP membership.
- The Pacific Alliance trade negotiations between Colombia, Chile, Mexico and Peru (with numerous observers) were concluded on August 27th, 2013. In market access 92% of tariff lines will have free access upon entry into force (expected early 2014). The other 8% will be liberalized gradually (between 7 and 17 years). There will be no exclusions.

Proposal /Recommendations:

- For noting.

Decision Points:

- For noting.

ABAC Analysis Comparing the Trans Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) and the Pacific Alliance (PA)

Features	TPP	RCEP	Pacific Alliance
When Launched	Launched December 2009, first round of negotiations March 2010.	Launched at the East Asia Summit in November 2012; first round of negotiations to be held May 2013.	Proposed by Peru in 2010, the initiative was launched by Colombia, Chile, Mexico, and Peru in April 2011. On June 2012 the "The Pacific Alliance Framework Agreement" (Acuerdo Marco de la Alianza del Pacífico) was signed by the Presidents. It has been ratified by the Parliament of Colombia, Mexico and Chile and is under discussion in Peru's Parliament.
Members	Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, USA, Viet Nam.	ASEAN, Australia, China, India, Japan, New Zealand, South Korea.	Full members: Colombia, Chile, Mexico, Peru. Candidate observers: Costa Rica, Panama. Observers: Honduras, Guatemala, Spain, Uruguay, Japan, Canada, Australia, New Zealand, Paraguay, France, El Salvador, Portugal, Ecuador, Dominican Republic, US, South Korea, China and Turkey
Existing Agreement	P4 Agreement, 2005, between Brunei, Chile, New Zealand, and Singapore.	Builds on CEPEA (ASEAN + 6) and EAFTA (ASEAN +3) negotiations and recognizes ASEAN centrality in the emerging regional economic architecture.	FTAs in force among Colombia, Chile, Mexico and Peru.
Timeframe	At a meeting of TPP Leaders in the margins of the East Asia Summit in late 2012, Leaders indicated TPP negotiations should be concluded in 2013.	The RCEP negotiations aim to complete by end-2015.	Negotiations were concluded on August 27^{th}, 2013. In market access 92% of tariff lines will have free access with the entry into force of the agreement (expected early 2014). The other 8% will be liberalized gradually (between 7 and 17 years). No exclusions.
Coverage	Comprehensive coverage. About 20 working groups are tasked with producing draft negotiating texts in these areas: Goods, Rules of Origin, Customs, SPS, Technical Barriers to Trade, Trade Remedies, Government Procurement, Competition Policy, Cross-Border	According to RCEP's Guiding Principles "the objective of launching RCEP negotiations is to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN's FTA Partners. RCEP will cover trade in goods, trade in services, investment,	Agreements have been concluded in the following areas: Market access for goods, rules of origin, SPS, TBT, trade facilitation and customs cooperation, services (including financial, maritime transportation, telecommunications, air services and professional services),

	Services, Business Mobility (which we usually call temporary entry), Financial Services, Telecommunications, Electronic Commerce, Investment, Intellectual Property, Labour, Environment, Cooperation and Capacity Building, Legal and Institutional Issues, Horizontal Issues (e.g. REI, regulatory coherence, development and transparency, SMEs, supply chains).	economic and technical cooperation, intellectual property, competition, dispute settlement and other issues".	investment, legal issues and government procurement.
Process	The level of intensity in the TPP negotiations has increased in the last couple of months. The 18th round of negotiations took place in Kota Kinabalu, Malaysia, 15-25 July. Japan formally joined the negotiations on 24 July. The 19th round of negotiations took place in Brunei from 22-30 August. Trade Ministers also met during this round. "Aspirational" targets were set for tabling market access offers. Good progress has been made particularly in technical areas but some difficult issues remain to be resolved including intellectual property, market access, state owned enterprises and some aspects of the environmental agenda. Chief Negotiators met in Washington DC from 18-21 September with the aim of advancing the negotiations in the lead up to the APEC Summit in Bali. TPP Ministers are expected to use the Bali meeting to discuss pathways forward on remaining issues and plans for concluding the negotiation, and they will present a status report to TPP leaders.	The first round of negotiations was held in Brunei from 9-13 May 2013. Three working groups were established on goods, services and investment and there was an initial exchange of views in the other areas covered by the Guiding Principles. The second round of negotiations will be held in Brisbane Australia from 24-27 September 2013. The East Asia Business Council has formed an RCEP Working Group comprising representatives of business associations from all RCEP Member economies. Several ABAC members and staffers are involved. This Working Group has been recognised by the ASEAN+3 Economic Ministers as the business platform to provide combined inputs on the RCEP.	The last round of negotiations took place in Cartagena de Indias, Colombia in July 2013. The negotiations were structured around the following technical groups: ☐ Cooperation ☐ Services and Investments ☐ Movement of business, people and facilitation of migration transit. ☐ Trade and Integration (including Market Access for goods, rules of origin, SPS, TBT, trade facilitation and customs cooperation) ☐ Institutional matters (Dispute Settlement) ☐ Government Procurement ☐ Regulatory Reform Other groups: ☐ Trade Promotion ☐ Communicational Strategy ☐ Expert Group on IP The last Presidential Summit was held in Cali, Colombia on May 2013. There have also been Ministerial Meetings and High Level Group Meetings (Deputy trade and Foreign Affairs Ministers)

Document: REIWG 33-044 Draft: **FIRST** Source: ABAC Hong Kong, China Date: 24 September 2013 Meeting: Bali, Indonesia

Submission to REIWG from ABAC Hong Kong

Document Title: ABAC Services Update
Purpose: For discussion
Issue: Review of ABAC Services-related priorities, and proposals for 2014 action
Background: ABAC has maintained keen interest in Services trade and investment liberalisation. This paper reviews the key elements of ABAC engagement, summarises progress through 2013, and outlines for discussion a menu of activities that would constitute a Services Action Plan for 2014
Proposal /Recommendations: • Draw up a Services Action Plan for 2014. • Undertake a survey of services-focused business organisations in the APEC region (see separate note from ABAC Indonesia) • Create an ad hoc ABAC Services Group
Decision Points: Agree action elements of an ABAC 2014 Services Action Plan; endorse ABAC Indonesia proposal for study on services-related business organisations; agree form, and roles of ABAC Services Group, if the creation of such a body is endorsed.

Draft for discussion at ABAC4, Bali October 2013

ABAC Services Update

ABAC Hong Kong

October 2013

The critical importance of Services development and liberalization

The services sector has frequently been referred to as the "mangy dog" of trade and investment liberalization negotiations, neglected and ignored while the majority of effort is focused on liberalization of farm goods and manufactures. This neglect has proven costly as negotiations on farm goods and manufactures has stalled over the past decade in the Doha Development Round. ABAC has long believed that this neglect is misplaced, and that services development and liberalization is fundamental to competitiveness in all APEC economies. We believe this neglect is due to various factors:

- First, data describing the services economy are ill-developed, making it impossible to quantify the contribution of services in APEC economies. When this contribution cannot be quantified, it is impossible to demonstrate in any empirical way the indispensability of services liberalization.
- Second, services liberalization requires reform of domestic regulations that fall outside the policy remit of trade officials. The parts of government responsible (finance, health, education, etc..) are unused to regarding their policy areas as trade-relevant, and have historically answered to domestic lobbying constituencies.
- Finally, large areas of the services economy are controlled by a small number of powerful local political and business constituencies who fear international competition, and have the connections, the capacity and the focus to block liberalization.

However, evidence steadily being gathered by international development agencies, in particular the OECD, World Bank and the WTO now shows clearly first that services are hugely important to all of the APEC economies and will account for a very large proportion of future growth; and second – perhaps most important – that efficient and cost effective services are critical for the competitiveness of an economy, whether in manufacturing or in services themselves. This appears particularly true in access to financial services, professional services, ICT services and transport/logistics/distribution services.

In light of this pivotal importance, ABAC seeks urgent progress in liberalizing our services economies across the APEC region, and plans in 2014 to develop a specific Action Plan to direct and give substance to this progress.

Recent Developments of Significance

Despite the slow progress over the past decade on services liberalization, partly due to the failure to make progress in the Doha Development Round, and partly due to distinct challenges intrinsic to services liberalization, there have been a number of encouraging recent developments:

- **The Trade in Services Agreement (TiSA):** full negotiations began in June this year, involving 23 negotiators embracing 51 economies, of a plurilateral services liberalisation agreement. A fourth major round of negotiations takes place immediately prior to ABAC4. The negotiations fall outside the multilateral WTO remit, but are taking place in Geneva, and progress is being reported on a regular basis to the GATS Council. The 51 economies together account for a majority of world services trade, and are putting heavy emphasis on ensuring that participation can be extended with ease to latecomers. Services liberalization offers were tabled in September by the US and Japan. This seems to have broken the logjam on offers from other economies, and new offers are expected by November. Meanwhile, China has tentatively explored joining the negotiations, a development that would greatly help in moving the TiSA towards 'critical mass".

- **The OECD-WTO TiVA database:** in January 2013, the OECD and the WTO together released a new global trade database that tracks trade flows in terms of where value is accrued, rather than in terms of gross dollar values of goods passing through customs. The database is revolutionary in that the value of services in trade has become transparent for the first time – including in trade in manufactured goods. For the first time, governments can see the true importance of services in their economies, and in the competitiveness and efficiency of their enterprises as they seek to export, or to fend off competition from foreign enterprises seeking to sell into their economies.

- **New regional and "mega-regional" trade agreements** that include services trade and investment liberalization: as the Doha Round has seized up, so an increasing number of economies have resorted to bilateral and regional trade agreements to maintain momentum in trade liberalization. Of particular note have been recent "mega-regional" trade negotiations. These include the Trans Atlantic Trade and Investment Partnership (TTIP), the Regional Comprehensive Economic Partnership (RCEP), the Pacific Alliance and – very importantly – the Trans Pacific Partnership (TPP). Negotiators hope to conclude a TPP by the end of 2013, and the RCEP by the end of 2015. The Latin American economies involved in the Pacific Alliance are also close to an agreement. All of these agreements will include significant commitments on services trade and investment liberalization.

These mega-regional negotiations take place against a backdrop of ongoing negotiation inside ASEAN for the completion of the ASEAN Economic Community by the end of 2015. These negotiations include a series of seven packages of commitments on services liberalization that have been secured through the ASEAN Framework Agreement on Services (AFAS), first established in 1995.

ABAC Services initiatives

Despite the failure of the Doha Round to facilitate services liberalization – and perhaps even because of it – ABAC has in recent years given high priority to the urgency of need to liberalise and develop our services economies as a key component of present and future competitiveness. This priority has underpinned a number of specific initiatives:

- **"Understanding Services" report**: published in 2011, this report attempted to describe in layman terms why services are so critically important in all of our economies; to explain why government officials and national political figures failed to recognize this importance; and to make recommendations on how to remedy this oversight. This report has been widely circulated in APEC, and has been influential both among government officials and among regional business groupings, in driving home the pivotal importance of encouraging an efficient and competitive services economy.

- **Marshall School studies**: the Marshall School at the University of Southern California undertakes studies every year on behalf of ABAC, and has dedicated a study to better understanding of the importance of services in global and regional value chains, and the critical link between competitive and efficient services and an efficient and competitive economy. This report had been presented to senior APEC officials and to APEC leaders, and has been highly influential.

- **APEC Services Workshops**: over the past two years, ABAC has facilitated, often in conjunction with the Pacific Economic Cooperation Council (PECC), a number of workshops aimed at raising officials' awareness of the pivotal importance of services to all of our economies. This included a first-ever joint meeting of the APEC Group on Services and the Market Access Group in Moscow in 2012, and a further CTI workshop in Kazan in May 2012 in which ABAC and PECC presented on services aspects of global value chains.
  Most recent and significant, APEC Senior Officials invited ABAC and PECC to organize a SOM Public Private Services Dialogue (PPD) in Surabaya in May 2013. This was augmented by invitations to ABAC and PECC to participate in a High Level meeting in Surabaya of the Indonesian Services Dialogue (ISD), the membership of which is closely affiliated with ABAC Indonesia. These highly successful dialogues drew keen interest from APEC officials, and resulted in SOM level agreement to hold an annual PPD on Services and for ABAC and PECC to arrange the next Services PPD with the Chinese Chair in 2014.

Some Principles

ABAC is encouraged by these various developments, and is keen to contribute to further momentum. As it does so, it holds important a number of key principles:

- However encouraging the progress being made in bilateral, plurilateral and "mega-regional" agreements, **the ideal must be a global multilateral agreement** under the auspices of the WTO. The efforts led by the new head of the WTO to salvage a multilateral trade agreement at the WTO Ministerial to be held in Bali in December 2013 requires strong ABAC support.
- But in the absence of progress at a multilateral level, the **plurilateral and mega-regional agreements currently under negotiation have immense value** to the business community in encouraging services trade and investment liberalisation.
- Such plurilateral and mega-regional agreements should be designed in such a way that they can be **readily "multilateralised"** ie mechanisms should be included that allow the membership potentially to be extended to other countries including latecomers to development.
- The business community welcomes exploration of **innovative approaches** to scheduling of services trade and investment commitments, including hybrid approaches which attempt to adapt the GATS positive list approach, consistent with practical lessons learned from the various bilateral and regional trade agreements now in place.

Future Action: developing a Services Action Plan for 2014

ABAC intends to develop by ABAC1 in Auckland in 2014 a detailed Services Action Plan 2014. The content of this action plan will be discussed at ABAC4 in Bali in October 2013, and will then be developed intersessionally for final approval at the first ABAC meeting of 2014. China, as chair of APEC in 2014, has already encouraged ABAC input in this area, and has endorsed the proposal for a Services PPD, prospectively in May next year, alongside the year's second Senior Official cluster of meetings in Qingdao.

Elements for prospective inclusion in the Action Plan 2014, for detailed discussion in ABAC4 in Bali, include:

- **A watching brief** on plurilateral and mega-regional agreements that focus on or include services liberalization. This in particular includes the TiSA, TTIP, TPP, RCEP and Pacific Alliance agreements currently under negotiation. Attention should be given to the implications for and challenges faced by APEC member economies that are not included in these negotiations.

- Active and well-focused participation in the **APEC Public Private Dialogue on Services** in May 2014. ABAC should table detailed proposals on the content and objectives of this Dialogue for discussion at the iSOM under APEC China's chairmanship in December 2013, and endorsement by ABAC1 in Auckland in February 2014, and by APEC Senior officials in Ningbo later in the same month.

- Launch of **a study to identify those business organizations in the APEC region focused on services development and liberalisation** covering how they operate and the challenges they face, in order to coordinate and augment business initiatives focused on regional integration. (*ABAC Indonesia has offered to champion such a study. See the linked paper from ABAC Indonesia*).

- **Specific initiatives of business concern**, which might be prioritized, with ABAC positions developed, could include:
  - Encouragement of best practice in domestic regulation, encouraging transparency, rights to comment, clear licencing and authorization procedures and rights of appeal and of proper explanation in the event of refusals.Prioritisation of efforts to achieve competitiveness and build capacity in services, including in financial services, professional services, ICT services and transport/logistics/distribution services, which appear to have a powerful direct impact on efficiency and competitiveness in all areas of our economies.
  - Mutual recognition of diplomas and professional qualifications
  - Encouragement of reform in regulations impacting on energy-related services and environmental services, which have already attracted highly specific attention from APEC working groups.

- To lead and coordinate this Action Plan, ABAC should consider the creation of an **ad hoc ABAC Services Group**, which could begin work immediately after ABAC4 in Bali.

Document: REIWG 33-043 Draft: **FIRST** Source: ABAC Indonesia Date: 23 September 2013 Meeting: Bali, Indonesia

Submission to REIWG from ABAC Indonesia

Document Title:

Stocktake/Mapping of APEC Economies' Business Organisations representing the Services Sector

Purpose:

For decision

Issue:

Circulation of ABAC survey questionnaire and preparation of ABAC background paper for SOM 2014 Public Private Dialogue on Services

Background:

As foreshadowed at the APEC-ABAC-PECC Public Private Dialogue (PDD) on Services in Surabaya this year and in support of the the 2014 PPD, ABAC Indonesia proposes the preparation of an ABAC background paper to undertake a mapping of business organizations in the APEC region engaged in services sector activities. This paper would aim to assist ABAC and APEC understand how stakeholders are engaged and services reform is handled across APEC economies.

In preparing this paper, ABAC Indonesia would work in cooperation with the Indonesian Services Dialogue (ISD) and the Australian Services Roundtable (ASR) and other interested services organizations, with support which has been pledged from the International Trade Centre (ITC). It would involve preparing a short business survey instrument for proposed circulation through ABAC members, immediately following the Bali meeting. The survey is designed to achieve a region-wide mapping of the various institutions which currently exist in APEC economies to help organise and give voice to services industry stakeholders.

The resulting background paper will:

- identify (and describe the different business models involved) the whole-of-services business institutions that exist in all of the APEC economies eg the Taiwan Coalition of Services Industries, the China Trade in Services Association, the Coalition of Services Industries Canada, the Malaysian Coalition of Services Industries etc
- identify the business associations at services sub-sectoral level which exist in the APEC economies eg professional services group, computer services groups etc
- explain how these different organisations work in the policy environment and the types of activities they conduct with stakeholders eg using a few case studies including the Indonesian Services Dialogue, to highlight the business challenges and lessons learned as well as some success stories.

- identify the think tanks and academic research institutions which are engaged in a research agenda associated with services regulatory matters and with international trade and investment in services – and how they interact with the business and policy community
- identify the services sector gaps in APEC members' business association structures and in the region's mechanisms for public/private dialogue on services.

Proposal /Recommendations:

- ABAC members should circulate to local business associations and other relevant stakeholders, the short survey questionnaire which ABAC Indonesia is currently finalising with assistance from ITC.
- Based on the survey results, and on case study material inter alia from the ISD and ASR, ABAC should table an ABAC background paper (sponsored by ITC) for consideration at the proposed APEC SOM Public Private Dialogue on Services in 2014.
- ABAC should take the opportunity presented by this work to help put the various different services industry coalitions that exist in the APEC region in touch with each other so that they can work more closely together. (There is interest among several of the whole-of-services groupings, including the ISD, in the potential formation of an APEC region-wide Services Forum/Dialogue/Roundtable through which services industry can engage in an organised manner with both governments and the research community to sustain the process of regional integration in services.)

Decision Points:

Endorse the recommendations outlined above.