Global Trends in Investment Liberalization: An Analysis based on the OECD Foreign Direct Investment Regulatory Restrictiveness Index

Submitted by: OECD

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GLOBAL TRENDS IN INVESTMENT LIBERALISATION

An analysis based on the OECD FDI Regulatory Restrictiveness Index

APEC Workshop on Optimising Investment Measures in the Asia-Pacific Region

Stephen Thomsen
Head, Investment Policy Reviews, OECD

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Main findings

In terms of the main statutory barriers to FDI:

• Economies worldwide have liberalised substantially over time, with little backtracking;

• But wide differences still exist worldwide in terms of de jure openness;

• APEC economies are, on average, more restrictive than in other parts of the world;

• Liberalisation can be both unilateral, plurilateral or multilateral;

• But international commitments still sometimes lag behind actual openness on the ground
Restricting FDI to maximise benefits and minimise costs from foreign investment

• All countries discriminate against foreign investors in at least one sector

• **Screening** to keep out potentially harmful investment and in an attempt to extract maximum benefit from new projects

• **Equity restrictions** to allow local firms to share rents, to maximise linkages and spillovers and to provide time for local firms to become competitive
How to measure investment openness

WEF *Global Competitiveness Index*

World Bank *Investing across Borders*

UNCTAD *Investment Policy Monitor*

Heritage Foundation *Index of Economic Freedom*

OECD

- FDI Regulatory Restrictiveness Index
- Product Market Regulation Indicators
- Services Trade Restrictiveness Index
OECD FDI REGULATORY RESTRICTIVENESS INDEX

A TOOL FOR BENCHMARKING PERFORMANCE, SHOWCASING REFORM AND ESTIMATING IMPACT
What does the FDI Index measure?

**Statutory restrictions:** Discriminatory measures affecting foreign investors, covering both market access and national treatment:

- **Screening** above a monetary threshold or foreign equity share
- **Equity restrictions** by sector or overall, for acquisitions or greenfield projects
- Restrictions on **key personnel:** managers, directors, technical experts
- **Operational restrictions:** land ownership, profit/capital repatriation, branching, reciprocity, discriminatory minimum capital requirements, etc.

**What is not covered?**

- Degree of implementation/circumvention
- State monopoly or SOE participation in a sector
- Special treatment accorded to a group of investors, whether by activity (e.g. exporting) or country of origin (treaty partner)
- Restrictions based purely on national security or prudential measures
Most sectors of the economy are included

1. Agriculture
2. Forestry
3. Fishery
4. Mining & Quarrying (incl. oil extract.)
5. Manufacturing - *Food & Other*
6. Manufacturing - *Oil Ref. & Chemicals*
7. Manufacturing - *Metals, Machinery and Other Minerals*
8. Manufacturing - *Electrical, Electronic and Other Instruments*
9. Manufacturing - *Transport Equipment*
10. Electricity (generation, distribution)
11. Construction
12. Distribution – Wholesale
13. Distribution - Retail
14. Transport (surface, water, air)
15. Hotels & restaurants
16. Media (broadcasting and other media)
17. Communication (fixed & mobile telecoms)
18. Financial services - Banking
19. Financial services - Insurance
20. Financial services - Other financial services
21. Business Services (accounting, legal, architecture, engineering)
22. Real estate
Sources of country information

- OECD *Investment Policy Reviews*
- WTO *Trade Policy Reviews*
- List of exceptions to national treatment under the OECD *Declaration on International Investment and Multinational Enterprises* (48 adherents)
- Other lists of non-conforming measures in international agreements (though they may not always reflect actual levels of openness)
- National legislation, including investment laws with negative lists, sectoral rules
Calculating the score: an example

<table>
<thead>
<tr>
<th>Sector</th>
<th>I.</th>
<th>II.</th>
<th>III.</th>
<th>IV.</th>
<th>Total by sector</th>
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<td>Radio &amp; TV broadcasting</td>
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<td>Communications</td>
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<td>Fixed telecoms</td>
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<td>Total FDI Index</td>
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<td>0.212</td>
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FINDINGS
FDI restrictiveness varies greatly across economies

OECD FDI Regulatory Restrictiveness Index, 2017 or latest (open=0; closed=1)

*APEC18: excluding Chinese Taipei; Hong Kong, China; and Papua New Guinea (missing data)

Source: OECD
Restrictions often occur in the same sectors

*Data for China refers to 2018; APEC18: excluding Chinese Taipei; Hong Kong, China; and Papua New Guinea (missing data).
Some APEC economies have been among the biggest reformers since 1997.

OECD FDI Regulatory Restrictiveness Index (open=0; closed=1)

*Data for China refers to 2018; APEC18: excluding Chinese Taipei, China; Hong Kong, China and Papua New Guinea (missing data).
More restrictive economies tend to attract less FDI.

The graph shows the relationship between the OECD FDI Regulatory Restrictiveness Index, 2017 (open=0; closed=1) and FDI stocks, 2017, current US dollar per capita (log). The equation $R^2 = 0.1446$ indicates the strength of the relationship.
Investors respond positively to reforms

Viet Nam

FDI stock (% of GDP; left axis) vs. FDI Index (open=0; closed=1; right axis)
Estimating the impact of liberalisation

• A 10% FDI liberalisation as measured by the Index could increase FDI inward stocks by 2.4% on average

• If the most restrictive economies were to achieve OECD levels of average openness, their FDI stocks could increase by up to 95%

• Foreign equity restrictions and screening policies (excluding national security) are found to significantly deter FDI

• The effect is estimated to be greater in the services sector, partly reflecting the greater relative incidence of restrictions

Based on an augmented gravity model with fixed effects for 60 countries, 1997-2016

The drivers of investment policy reform

Unilateral

• To attract FDI for its contribution to exports, jobs and skills, technology and capital
• In response to balance of payments or other crises, IMF conditionality

Plurilateral, multilateral

• WTO accession, FTAs and other agreements
• Locking in reforms that have already been implemented
• Commitments on services liberalisation can sometimes lag behind reforms on the ground: “water”
Thank you

Contact

Stephen Thomsen
Head, Investment Policy Reviews,
OECD Investment Division

stephen.thomsen@oecd.org

For further information

FDI Regulatory Restrictiveness Index

www.oecd.org/investment/fdiindex.htm