



**Asia-Pacific
Economic Cooperation**

2019/CTI/WKSP4/007

Session: I

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

Submitted by: OECD



**Workshop on Optimizing Investment Measures in
the Asia-Pacific Region
Shanghai, China
11-12 April 2019**



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

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Shanghai, 11-12 April 2019



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

| | | I. | II. | III. | IV. | Total by sector |
|-----|--|------|------|------|------|-----------------|
| 1 | Agriculture | 0.44 | 0.00 | 0.00 | 0.00 | 0.442 |
| 2 | Forestry | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| 3 | Fisheries | 0.25 | 0.10 | 0.00 | 0.00 | 0.350 |
| 4 | Mining & Quarrying (incl. Oil extr.) | 0.05 | 0.01 | 0.00 | 0.00 | 0.060 |
| 5 | Manufacturing | | | | | |
| | <i>Food and other</i> | 0.10 | 0.00 | 0.00 | 0.00 | 0.100 |
| 6 | <i>Oil ref. & Chemicals</i> | 0.06 | 0.02 | 0.00 | 0.00 | 0.075 |
| | <i>Metals, machinery and other minerals</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| | <i>Electric, Electronics and other instruments</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| 9 | <i>Transport equipment</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| 10a | Electricity | | | | | |
| | <i>Electricity generation</i> | 0.13 | 0.00 | 0.00 | 0.00 | 0.128 |
| 10b | <i>Electricity distribution</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| 11 | Construction | 0.00 | 0.00 | 0.00 | 0.05 | 0.050 |
| 12 | Distribution | | | | | |
| | <i>Wholesale</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| 13 | <i>Retail</i> | 0.30 | 0.18 | 0.00 | 0.11 | 0.583 |
| 14a | Transport | | | | | |
| | <i>Surface</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| 14b | <i>Maritime</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| 14c | <i>Air</i> | 0.13 | 0.08 | 0.08 | 0.00 | 0.280 |
| 15 | Hotels & restaurants | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| 16a | Media | | | | | |
| | <i>Radio & TV broadcasting</i> | 0.15 | 0.06 | 0.00 | 0.00 | 0.210 |
| 16b | <i>Other media</i> | 0.25 | 0.10 | 0.00 | 0.00 | 0.350 |
| 17a | Communications | | | | | |
| | <i>Fixed telecoms</i> | 0.00 | 0.10 | 0.08 | 0.00 | 0.175 |
| 17b | <i>Mobile telecoms</i> | 0.00 | 0.10 | 0.08 | 0.00 | 0.175 |
| 18 | Financial services | | | | | |
| | <i>Banking</i> | 0.19 | 0.10 | 0.08 | 0.05 | 0.413 |
| 19 | <i>Insurance</i> | 0.40 | 0.00 | 0.00 | 0.00 | 0.400 |
| 20 | <i>Other finance</i> | 0.02 | 0.00 | 0.00 | 0.01 | 0.025 |
| 21a | Business services | | | | | |
| | <i>Legal</i> | 1.00 | 0.00 | 0.00 | 0.00 | 1.000 |
| 21b | <i>Accounting & audit</i> | 1.00 | 0.00 | 0.00 | 0.00 | 1.000 |
| 21c | <i>Architectural</i> | 0.00 | 0.00 | 0.00 | 0.00 | 0.000 |
| 21d | <i>Engineering</i> | 0.25 | 0.00 | 0.00 | 0.00 | 0.250 |
| 22 | Real estate investment | 1.00 | 0.00 | 0.00 | 0.00 | 1.000 |
| | Total FDI Index | | | | | 0.212 |

- I. Equity restrictions
- II. Screening
- III. Key personnel
- IV. Other restrictions

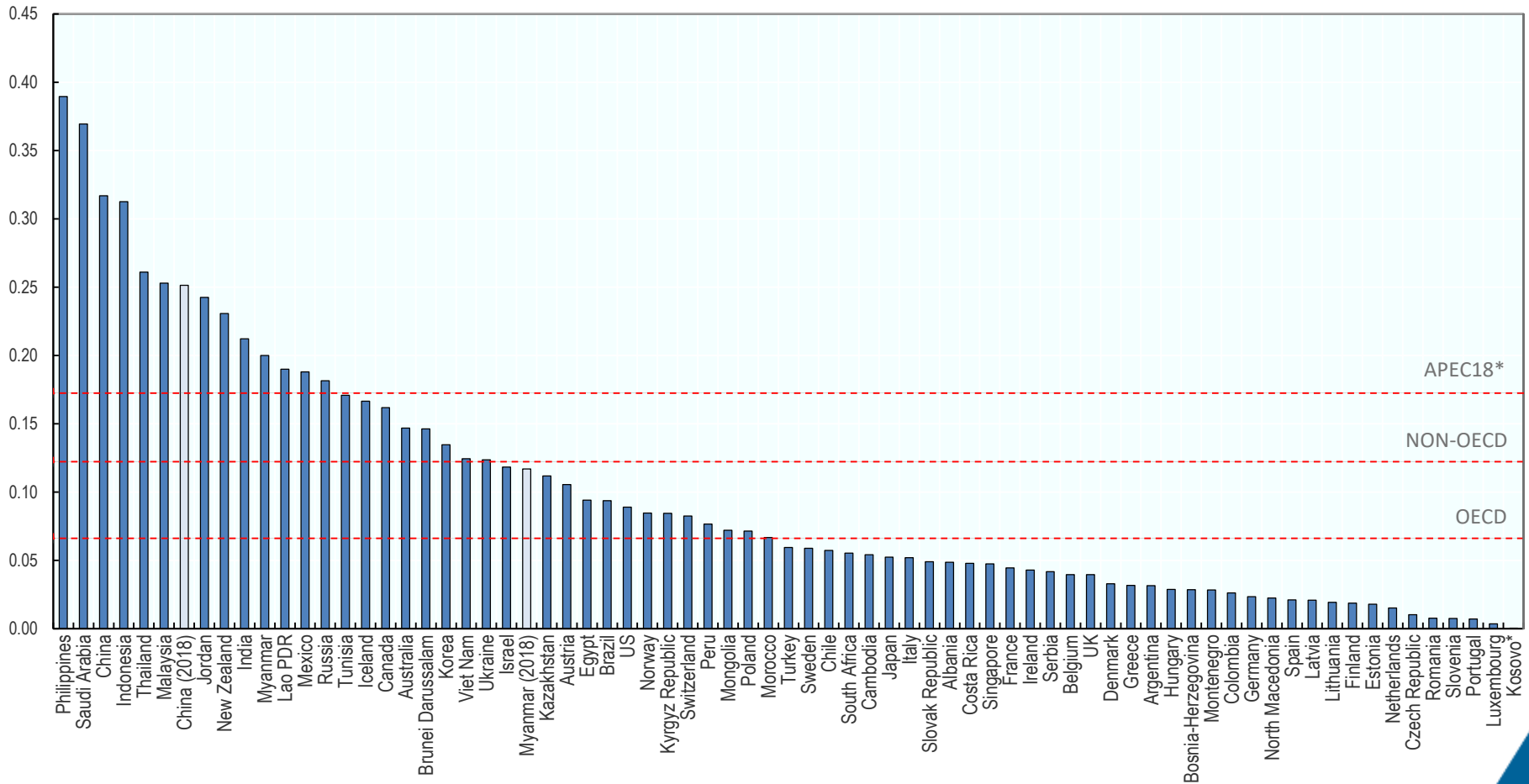


FINDINGS



FDI restrictiveness varies greatly across economies

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

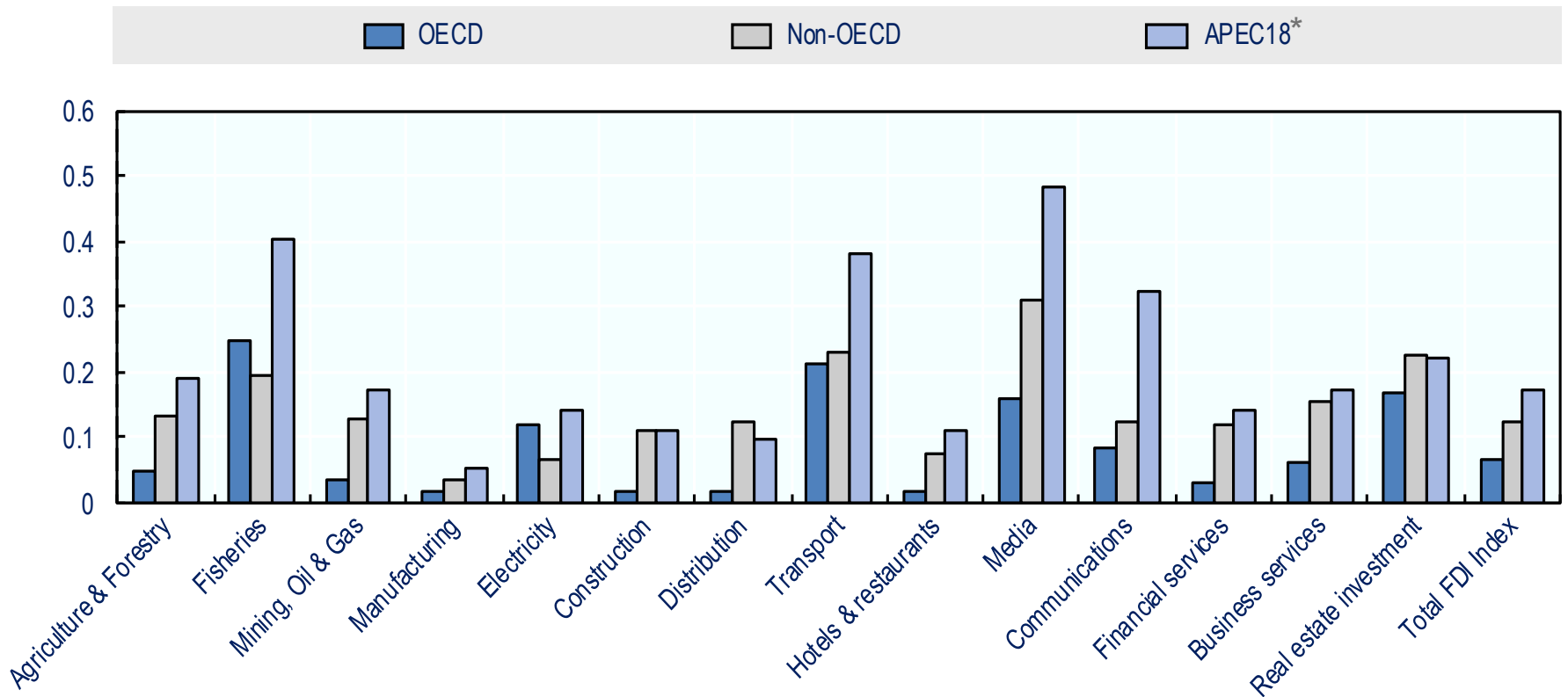


*APEC18: excluding Chinese Taipei; Hong Kong, China; and Papua New Guinea (missing data)



Restrictions often occur in the same sectors

2017 FDI RR Index - Sector Benchmark

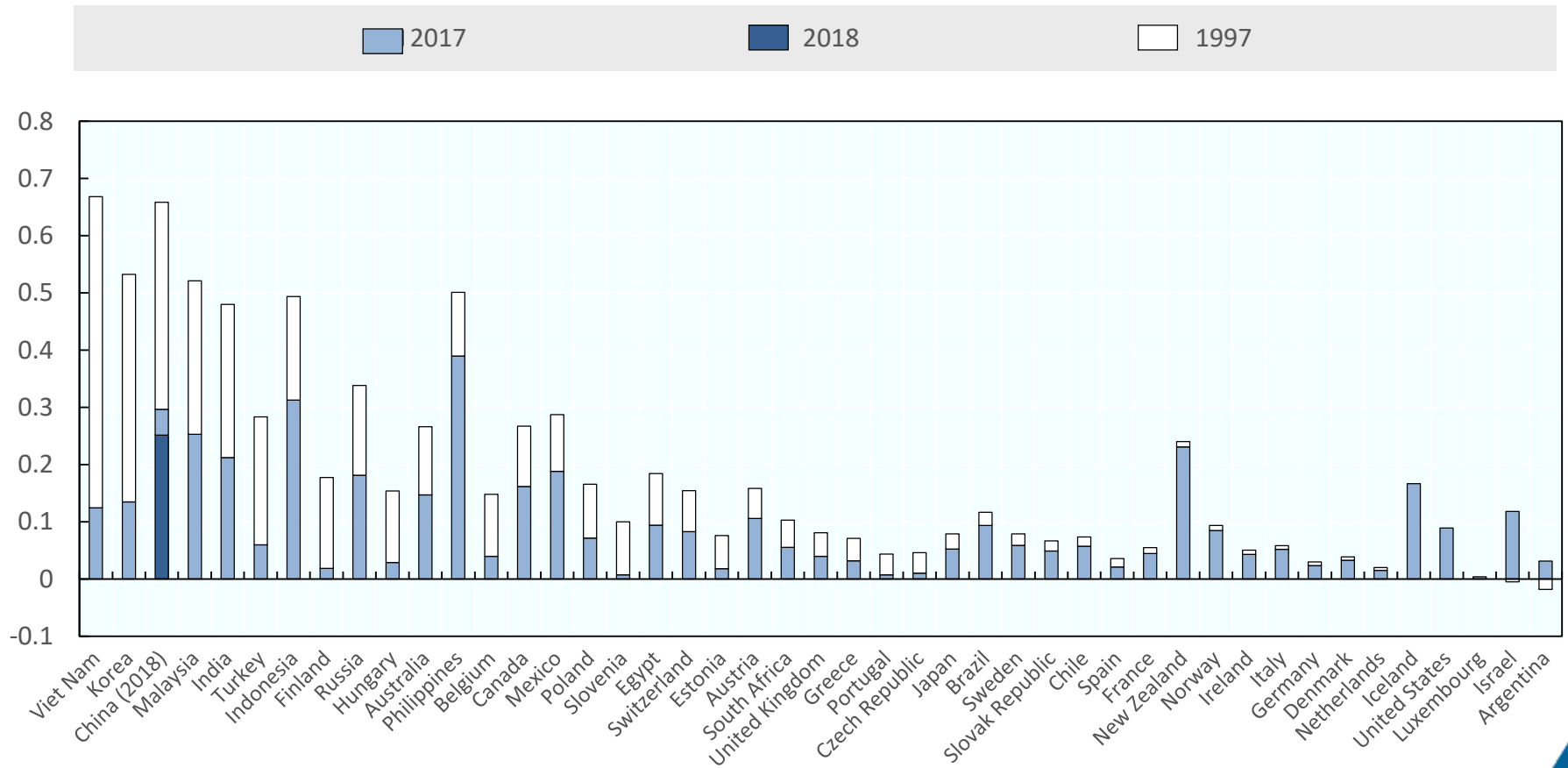


*Data for China refers to 2018; APEC18: excluding Chinese Taipei; Hong Kong, China; and Papua New Guinea (missing data).



Some APEC economies have been among the biggest reformers since 1997

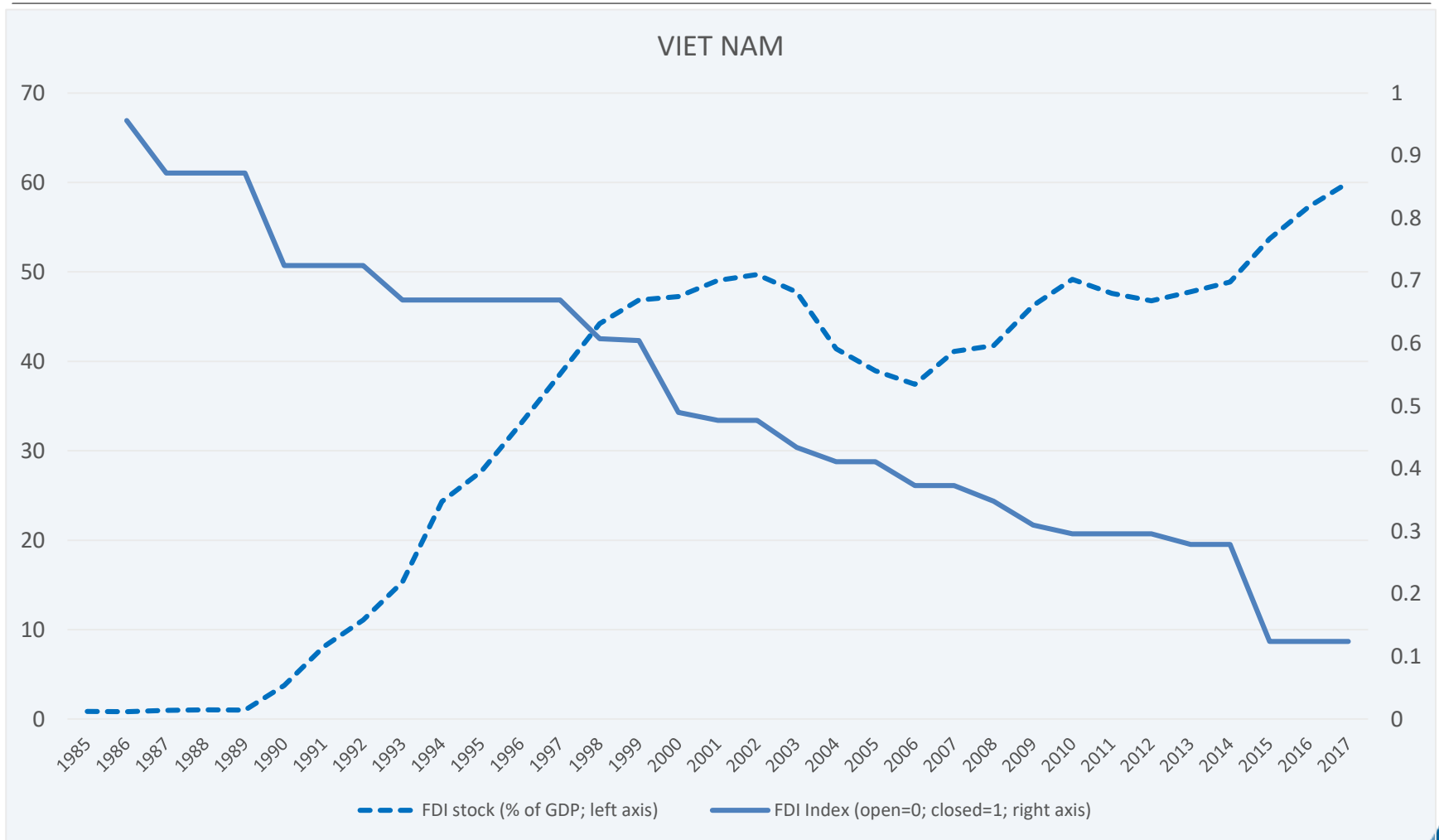
OECD FDI Regulatory Restrictiveness Index (open=0; closed=1)



*Data for China refers to 2018; APEC18: excluding Chinese Taipei, China; Hong Kong, China and Papua New Guinea (missing data).



Investors respond positively to reforms





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

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For further information

FDI Regulatory Restrictiveness Index
www.oecd.org/investment/fdiindex.htm