



**Asia-Pacific
Economic Cooperation**

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Session: II

APEC Investment Facilitation Action Plan

Submitted by: Policy Support Unit, APEC Secretariat



**Workshop on Optimizing Investment Measures in
the Asia-Pacific Region
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Asia-Pacific
Economic Cooperation

APEC Investment Facilitation Action Plan

SESSION II: Optimizing Investment Facilitation Measures

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Advancing Free Trade
for Asia-Pacific Prosperity

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Background: IFAP is...

Investment facilitation

- refers to actions taken by governments designed to attract foreign investment and maximise the effectiveness and efficiency of its administration through all stages of the investment cycle.

Aims of IFAP

- strengthen regional economic integration;
- strengthen the competitiveness and sustainability of economic growth of APEC's member economies;
- expand prosperity and employment opportunities in the APEC region; and
- make further progress toward achievement of the Bogor Goals.



Background

- APEC's IFAP was started in 2008/2009: the same year that APEC initiate the Trade Facilitation Action Plan (TFAP).
- APEC TFAP: refers to the simplification and rationalisation of customs and other administrative procedures that hinder, delay or increase the cost of moving goods across international borders.
- The IFAP includes a comprehensive menu of prescribed actions derived from eight principles that address issues of transparency, excessive regulations, simplicity, and predictability which, in turn, enable investment to flow efficiently to fund productive business activities.

IFAP Principles

IFAP outlines eight guiding principles:

- promote accessibility and transparency in the formulation and administration of investment related policies;
- enhance stability of investment environments, security of property and protection of investments;
- enhance predictability and consistency in investment related policies;
- improve the efficiency and effectiveness of investment procedures;
- build constructive stakeholder relationships;
- utilise new technology to improve investment environments;
- establish monitoring and review mechanisms for investment policies; and enhance international cooperation



IFAP Principles

- Many factors drive a firm's decision to invest abroad: the investment climate, size of the foreign market, access to export markets, stable political and economic systems, a skilled workforce, openness to trade, transparency and lack of corruption among others.
- Firms will consider all of these dimensions before choosing where to place their investment, so economies hoping to attract more foreign investment would be wise to carefully analyze all these variables when formulating a wider economic policy.

IFAP Principles

The IFAP principles therefore target investment related policies/actions to improve the ability of an economy to attract foreign investment and maximise the effectiveness and efficiency of investment administration through all stages of the investment cycle.

In principle, the IFAP principles seek to improve:

- the availability of information important to the investment decision making process;
- the process of foreign investment policy formulation; and
- the attractiveness of APEC member economies to foreign investment through lowering the cost of making, and risk to, a foreign investment.

Source: APEC PSU (2009)



Cost, Risk, and IFAP

IFAP aims to mitigate two important factors affecting investor's decision:

- **Regulatory Cost:** An overly-onerous regulatory process that requires months of regulatory approval will discourage firms from even considering investment in a potential host economy. It is important for policymakers to balance the public interest with efforts to make the investment process more efficient and effective, primarily by encouraging transparency, consistency and accessibility in their business and investment regulations.
- **Regulatory Risk:** Managing risk is an investor's primary business. Regulatory risk is the main area IFAP hopes to address, making the regulatory process clear and easily understood. These risks are particularly important since foreign investors may be unfamiliar with the domestic regulation environment.

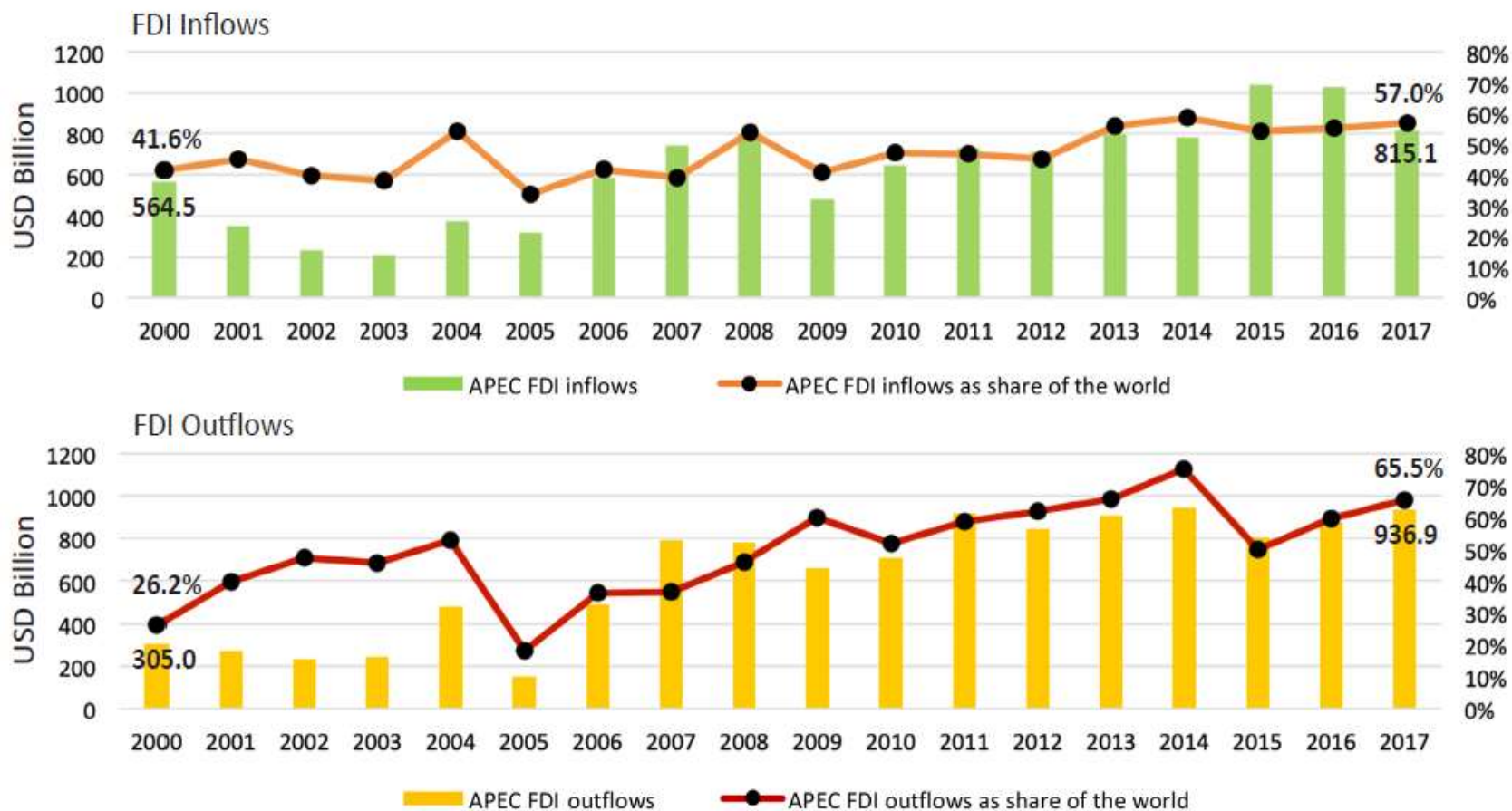
Source: APEC PSU (2013)

Cost, Risk, and IFAP

- Once investors have entered a host economy and gain more first-hand experience in dealing with the domestic regulation, predictable and consistent policy application becomes even more important.
- If these firms encounter too many challenges or the risk of unexpected policy changes becomes too high, they may decide to divest their positions and move operations to a new location.
- Actions such as this set a bad precedent and send negative signals to other potential investors about an economy's investment environment, providing further evidence of the importance of predictable, consistent policy application.

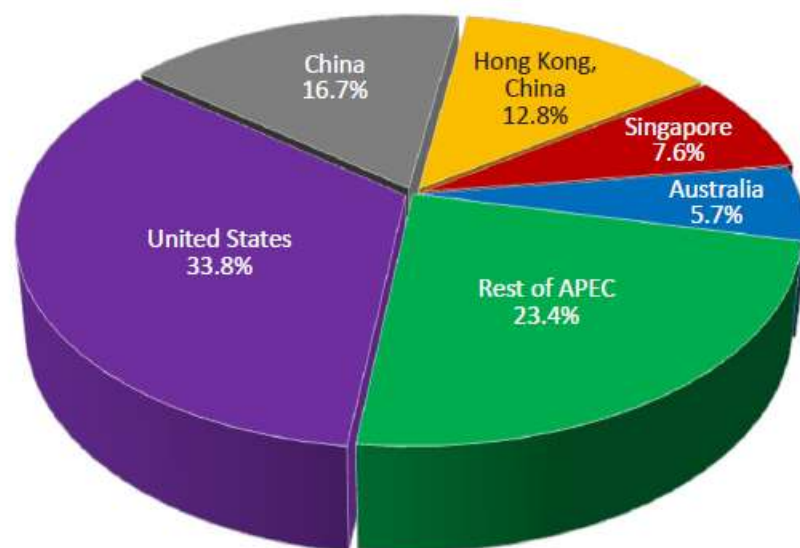
Source: APEC PSU (2013)

FDI Inflows and Outflows in APEC (value in USD billion, share in percent), 2000 – 2017

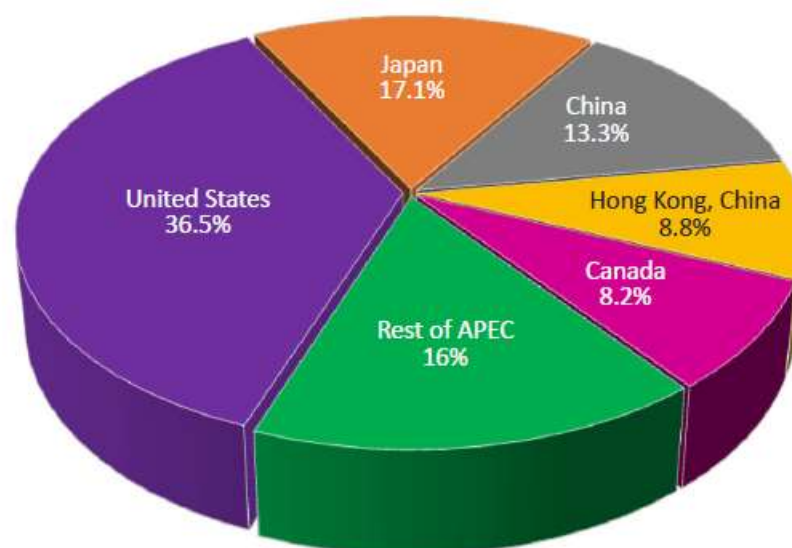


Top 5 APEC FDI Hosts and Sources (percent share), 2017

FDI Inflows



FDI Outflows



APEC FDI inflows have become more balanced

FDI Inflows (as a % of APEC total)				
	2017	2012	2005	2000
United States	33.79	24.04	33.28	54.94
China	16.73	17.37	22.99	7.12
Hong Kong, China	12.80	10.7	10.68	10.84
Singapore	7.61	8.13	5.74	2.71
Australia	5.69	8.17	7.75	2.73
Mexico	3.64	1.82	n.a.	3.17
Russia	3.10	7.37	4.09	0.47
Canada	2.97	6.51	8.16	11.69
Indonesia	2.83	2.85	2.65	n.a.
Korea	2.09	1.42	2.24	1.58

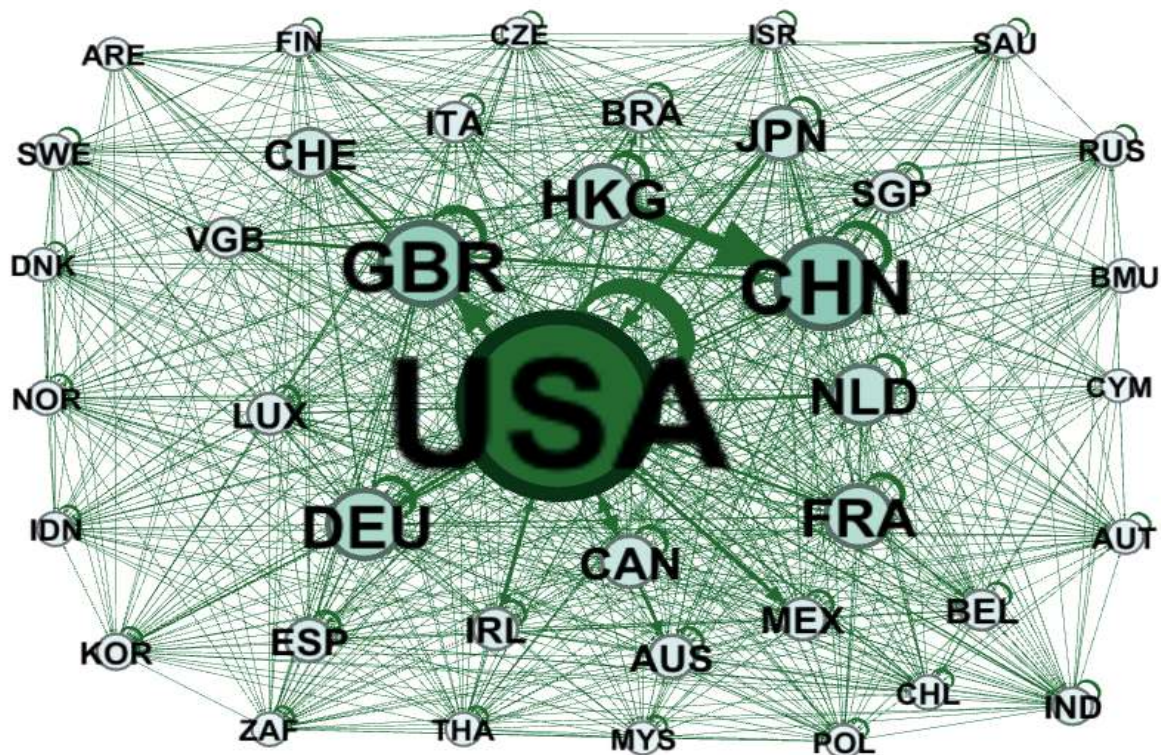
The world's top 100 non-financial MNEs, ranked by foreign assets, 2017 (millions of dollars and number of employees)

Home economy	Sectors/Products	Assets		Sales		Employment	
		Foreign	Total	Foreign	Total	Foreign	Total
Australia	Mining, quarrying and petroleum	55,191	116,985	35,567	37,565	10,240	26,146
Canada	Electricity, gas and water	107,374	199,477	26,869	44,547	8,419	19,479
China	Transport; Mining; Computer/Data	236,579	490,713	82,069	217,202	324,598	670,496
HKC	Retail Trade	125,804	140,795	25,036	31,890	279,000	300,000
Japan	Motor Vehicles, Telecom; Wholesale Trade; Comp/Electric Equipment	1,215,285	1,995,636	657,524	1,085,937	907,549	1,737,354
Korea	Communications equipment	83,371	282,814	183,963	211,859	215,541	308,745
Singapore	Electronic components	52,764	54,418	17,313	17,636	13,100	14,000
Chinese Taipei	Electronic components	95,809	114,824	151,752	154,650	728,431	873,000
United States	Petroleum; Machinery; Computer Eqp; Rubber/Plastics; Pharma; Motor Vehicles; Comp&Data Proc; Chem; Retail; Food; Elect. Comp.; Aircraft; Ecommerce	1,841,202	3,750,152	1,107,012	2,339,216	2,315,926	5,224,710
Total		3,813,379	7,145,814	2,287,105	4,140,503	4,802,804	9,173,930

Source: World Investment Report, 2018. UNCTAD

FDI Network

Network of FDI Positions Based on New Global FDI Estimates



Source: IMF Working Paper: *The Global FDI Network: Searching for Ultimate Investors*, prepared by Jannick Damgaard and Thomas Elkjaer (November 2017)

Example of GVC: Laptop PCs

Major suppliers and production locations

Leading suppliers

High cost parts
(\$50-\$200)

Processor

- 1) Intel (U.S.)
- 2) AMD (U.S.)

Display

- 1) Toshiba (Japan)
- 2) Samsung (Korea)

Hard disk drive

- 1) Fujitsu (Japan)
- 2) Hitachi (Japan)

Medium cost parts
(\$20-\$50)

Battery

- 1) Simplo (Chinese Taipei)
- 2) Sony (Japan)

DVD/Blu-ray drive

- 1) Panasonic (Japan)
- 2) Hitachi-LG (Japan)

Memory board

- 1) Samsung
- 2) Hynix (Korea)

Low cost parts
(\$1-\$20)

Dynamic random-access memory (DRAM)

- 1) Hynix (Korea)
- 2) Elpida (Japan)

Power supply controller

- 1) Texas Instruments (U.S.)
- 2) Toshiba

I/O controller

- 1) Broadcom (U.S.)
- 2) Standard Microsystems (U.S.)

Major parts production and assembly locations

China

- Display
- Battery

Korea

- Display
- Memory board
- DRAM

Final assembly in China

Japan

- Display
- Hard disk drive
- Battery
- DVD drive
- Battery

U.S.

- Processor
- Power supply controller
- I/O controller



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Progress and Review of IFAP Implementation (2015-2016): Specific actions on e-transparency

- **Chile** maintains several websites that provide free investment-related information on laws, regulations and judiciary proceedings. The Chilean Investment Promotion Agency offers direct communication lines for foreign investors in 7 languages.
- **Russia** is working on an online database comprising laws and regulations for all investors. It will be updated regularly and include English translations of regulations.
- **Japan** established the Working Group for Revising Regulations and Administrative Procedures to discuss how to simplify FDI related regulations and administrative procedures. The Council for Promotion of Foreign Direct Investment also focuses on shortening the waiting time for certain immigration procedures.
- An Immigration Unit has been established in the **Malaysian** Investment Development Authority to issue visas and work permits for positions in the manufacturing and services sectors. MIDA also houses an Advisory Services Centre, which is composed of key representatives from government agencies.

Progress and Review of IFAP Implementation (2015-2016): Specific actions on e-transparency

- PROINVERSION launched an active agenda to promote **Peru** for investment in infrastructure and public services sectors. Peru also implemented actions to enhance capacity building for investment promotion at the sub-national governments.
- The Board of Investments of **Thailand** plans to open more overseas offices in Asia, namely Myanmar, Indonesia and Vietnam to attract more investments.
- **Indonesia** with its National Single Window for Investment or Investor Online (SPIPISE) and also the **Philippine's** BOI-One Window Network provided one-stop and one-window service for investment application and registration.
- **Viet Nam's** National Business Registration Portal allows organizations and individuals to transact online (including business registration, issuance of certificates, and making related information readily available). Viet Nam targets an online foreign investment registration rate of 5% nationwide and 10% in Hanoi and Ho Chi Minh.

Progress and Review of IFAP Implementation (2015-2016): Specific actions on reducing investor risk

- The **United States** Administrative Procedure Act (APA) imposes procedural requirements when the agency plans to enact new regulations. This is to ensure the general public is aware and is provided enough time to review and comment on proposed regulations, as well as to give relevant agencies adequate time to respond.
- **Viet Nam** now requires drafting agencies to solicit the opinions of stakeholders and to consider their views during the process of adjusting the draft documents.
- **Canada** recognized a gap between foreign investors' perspective and the existing information about Canada's investment climate. Strategies are being considered to address this issue, including through increased social media use and providing a more substantiate facts and compelling arguments and analyses.

Progress and Review of IFAP Implementation (2015-2016): Specific actions on reducing investor risk

- **Australia** maintains a mechanism to provide timely and relevant advice of changes in procedures, applicable standards, technical regulations and conformance requirements.
- **Brunei** has established timely, secure and effective systems of ownership registration and/or property use rights for land and other forms of property.
- **Hong Kong, China** has established effective formal mechanisms for resolving disputes between investors and host authorities and for enforcing solutions, such as judicial, arbitral or administrative tribunals or procedures.
- The 2015 International Arbitration Survey cited **Hong Kong, China** and **Singapore** as among the five most preferred and widely used arbitration seats.

Progress and Review of IFAP Implementation (2015-2016): Specific actions on simplifying business regulation

- **Peru's** Single Procedures System simplifies administrative procedures reducing delays in investments. It has a regulatory framework to promote integration of government procedures.
- From 2015, limited partnerships in **Chinese Taipei** can apply for startups online, while a digital signature mechanism will be used to simplify the online application procedure.
- **Philippine's** PERP (Predictive Evaluation and Registration Project) reduced processing time in pre-evaluation of applications for BOI registration from 6 to 4 weeks, and issuance of the certificate from 2 to 1 week. PHL also shortened the process of starting a business from 16 to 6 steps and 34 to 8 days.
- **Mexico** plans to provide support to subnational courts of justice under the Federal Commission for Regulatory Improvement to encourage cooperation agreements with lower levels of government, and to develop instruments to measure regulation quality.
- Led by Global Affairs Canada, **Canada** has undertaken national consultations to review federal, provincial, regional and municipal procedures to identify overlap and redundancy.
- **Russia** is actively involved in the WB's DB exercise & OECD's Policy Framework for Investment.

Measuring IFAP progress against DB Indicators

- Using the DB DTF scores for 2015, those with higher DB scores in terms of best regulatory practices received higher FDI.

Economies grouped by distance to frontier	Average FDI inflows (US\$ millions)	Average FDI stocks (US\$ millions)	Average distance to frontier (percentage points)
Lowest 20	1,199	13,327	39.28
Middle 20	2,089	31,010	60.28
Top 20	45,238	687,883	81.33

Source: Doing Business database; United Nations Conference on Trade and Development, UNCTADstat database, calculated by PSU

IFAP Implementation (2015-2016): Conclusion

- The IFAP's three priority themes of e-transparency, reducing investor risk, and simplifying business regulation complement the region's thrust of open and free trade and investment.
- Important strides have been made by implementing APEC economies. These specific actions that facilitate investment inflows would need to be monitored to see how they remain aligned with the local economy's investment goals and relevant in view of the dynamic international business environment
- At the broader level, these actions would need to be sustained by taking into account its contribution to the economy's growth and development agenda. This means that investment policy actions should fully address and reflect both specific issues and the broader picture of sustainable development.
- A holistic approach with a firm focus on development would contribute to the APEC region's commitment to achieve inclusive and sustainable growth for all.



IFAP Implementation (2015-2016): Conclusion

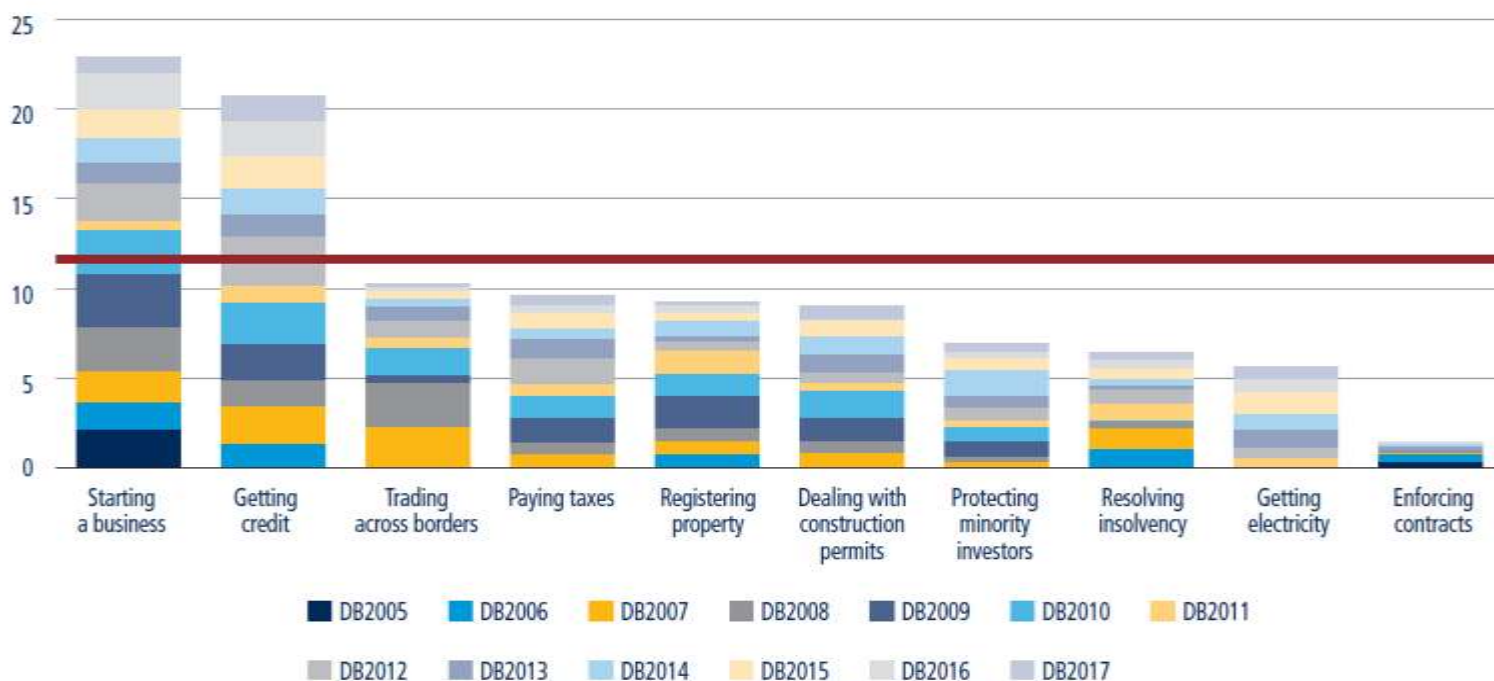
- There is still room for significant improvements, especially in the following:
 - making investment-related information available online;
 - protecting investors by instituting relevant laws and enhancing the clarity of existing regulations; as well as
 - streamlining registration and licensing requirements and procedures to make investment applications a more convenient process.
- The latest DB 2017 report has noted that improvement in starting a business have been the most common reforms during these years. Less initiated reforms seem to have happened under protecting minority investors and enforcing contracts. As such, APEC economies may want to focus their next steps on initiating or strengthening reforms in these areas.



IFAP Implementation (2015-2016): Conclusion

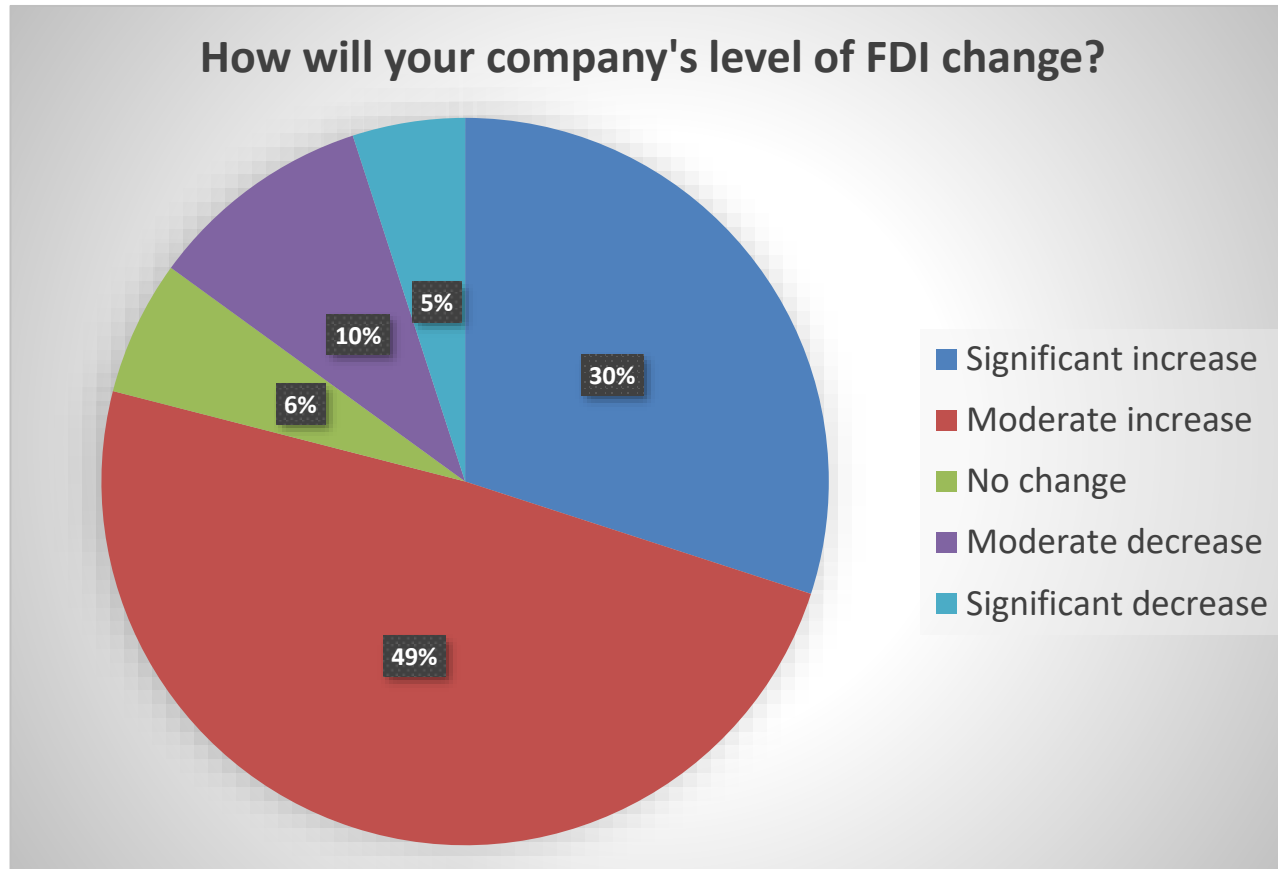
Figure 17. Average year-on-year improvement in DTF score, by areas of reform

Average year-on-year improvement in distance to frontier score



Source: DB 2017, Figure 1.7.

FDI outlook



Source: The 2018 A.T. Kearney FDI Confidence Index



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What are the most important factors in choosing where to make investments?

	Rank				
2017	2018	Factors	percentage	Market asset and infrastructure factors	Governance and regulatory factors
5	1	Regulatory transparency and lack of corruption	15		X
3	2	Tax rates and ease of tax payment	14		X
12	3	Cost of labor	13	X	
1	4	General security environment	13		X
6	5	Domestic market size	11	X	
4	6	Technological and innovation capabilities	11	X	
7	7	Domestic economic performance	10	X	
8	8	Ease of moving capital into and out of economy	10		X
10	9	Government incentives for investors	9		X
9	10	Strength of investors and property rights	9		X
11	11	Economy's participation in trade agreements	8		X
2	12	Efficiency of legal and regulatory processes	7		X
19	13	Quality of telecommunication infrastructure	7	X	
16	14	R&D capabilities	7	X	
15	15	Talent and skill level of labor pool	7	X	
13	16	Availability of financial capital in domestic market	6	X	
14	17	Availability of land and real estate	6	X	
17	18	Availability of raw materials and other inputs	6	X	
18	19	Quality of transportation infrastructure	6	X	
20	20	Quality of electricity infrastructure	4	X	

Source: The 2018 A.T. Kearney FDI Confidence Index

What are the most important factors in choosing where to make investments?

Five key factors for overseas investment decision:

1. Market (e.g. size, growth potential)
2. Value chain infrastructure (e.g. logistics infrastructure such as roads and harbors, communication infrastructure)
3. Institution/regulation (e.g. taxation and incentive scheme)
4. Personnel (e.g. personnel expenses, recruitment)
5. Country risk (e.g. economy, compliance, geopolitics, natural disasters)

Source: APEC CTI (2017). Global Value Chains (GVCs) Investment Climate Improvement Report



Next Steps

Next IFAP 3 key priorities (IEG 1 in Chile, 2019):

1. Enhance stability of investment environments, security of property and protection of investment;
2. Enhance predictability and consistency in investment-related policies; and,
3. Build constructive stakeholder relationships.

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