MEASURING INVESTMENT POLICY REFORM IN THE ASIA-PACIFIC REGION

Stephen Thomsen,
Head, Investment Policy Reviews, OECD

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BETTER POLICIES FOR BETTER LIVES

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 harmful investment and extract maximum benefit from new projects

- **Equity restrictions** to allow local firms to share rents, to maximise linkages and spillovers and provide time for local firms to become competitive

How to measure investment policy reform

WEF *Global Competitiveness Index*

- Prevalence of foreign ownership, business impact of FDI rules

World Bank *Investing across Borders*

- Equity restrictions across major sectors

UNCTAD *Investment Policy Monitor*

- Number of changes in policy over time

Heritage Foundation *Index of Economic Freedom*

- Investment freedom

FDI performance relative to peers

OECD tools

- Services Trade Restrictiveness Index
  - 22 service sectors, all modes of supply, with the weight given to restrictions varying across sectors
- Product Market Regulation Indicators
  - Extent of competition in product markets
- FDI Regulatory Restrictiveness Index

OECD FDI REGULATORY RESTRICTIVENESS INDEX

A TOOL FOR BENCHMARKING PERFORMANCE,

SHOWCASING REFORM AND ESTIMATING IMPACT

The OECD FDI Regulatory Restrictiveness Index

Statutory restrictions: All discriminatory measures affecting foreign investors, covering both market access and national treatment:

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

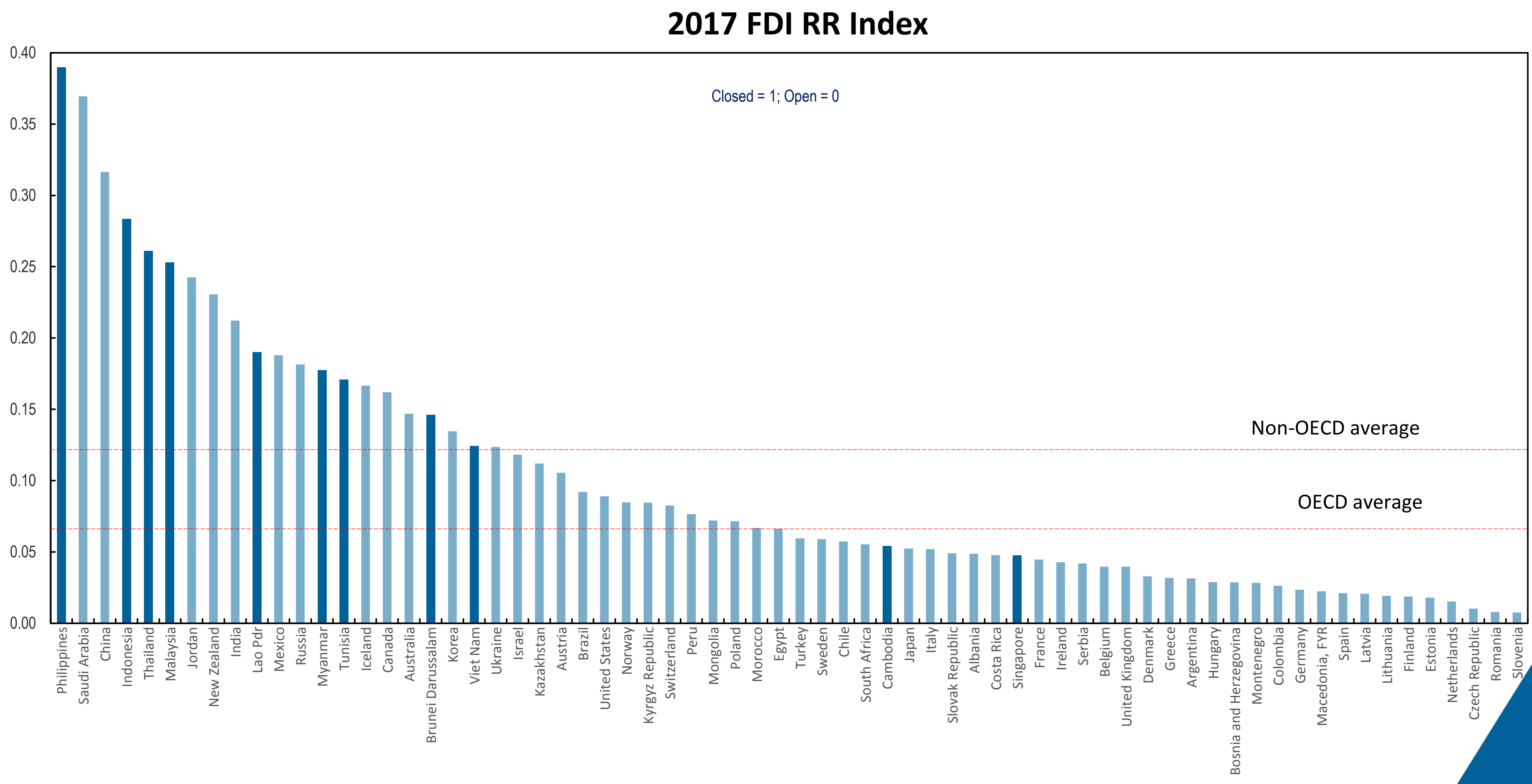
What is not covered?

- Degree of implementation/circumvention
- State monopoly or participation in a sector
- Special treatment accorded to a group of investors, whether by activity (e.g. exporting) or country of origin
- Restrictions based purely on national security

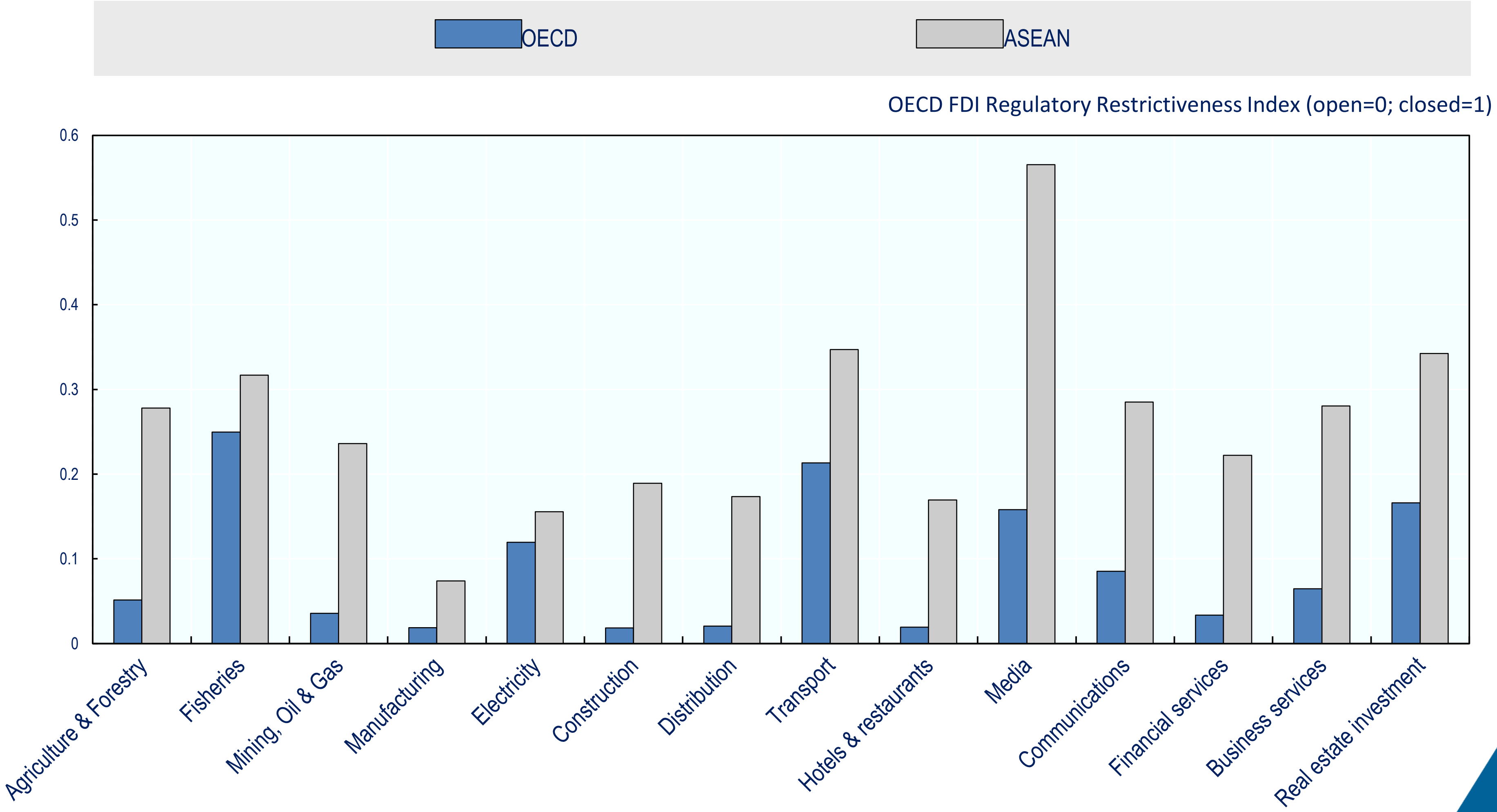
22 sectors are included

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 - *Electric, Electronics 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

FDI restrictiveness varies greatly across countries

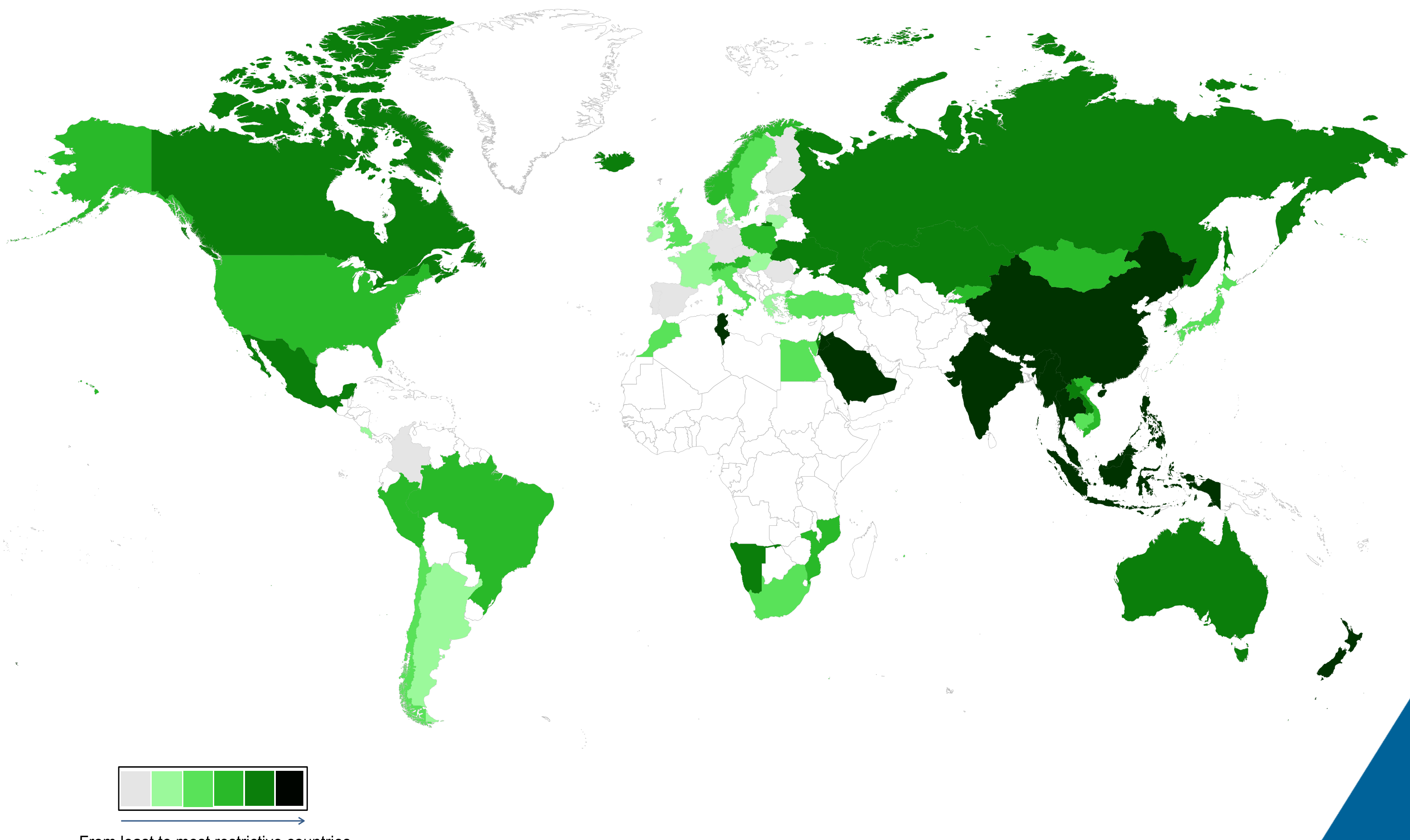


Restrictions often occur in the same sectors

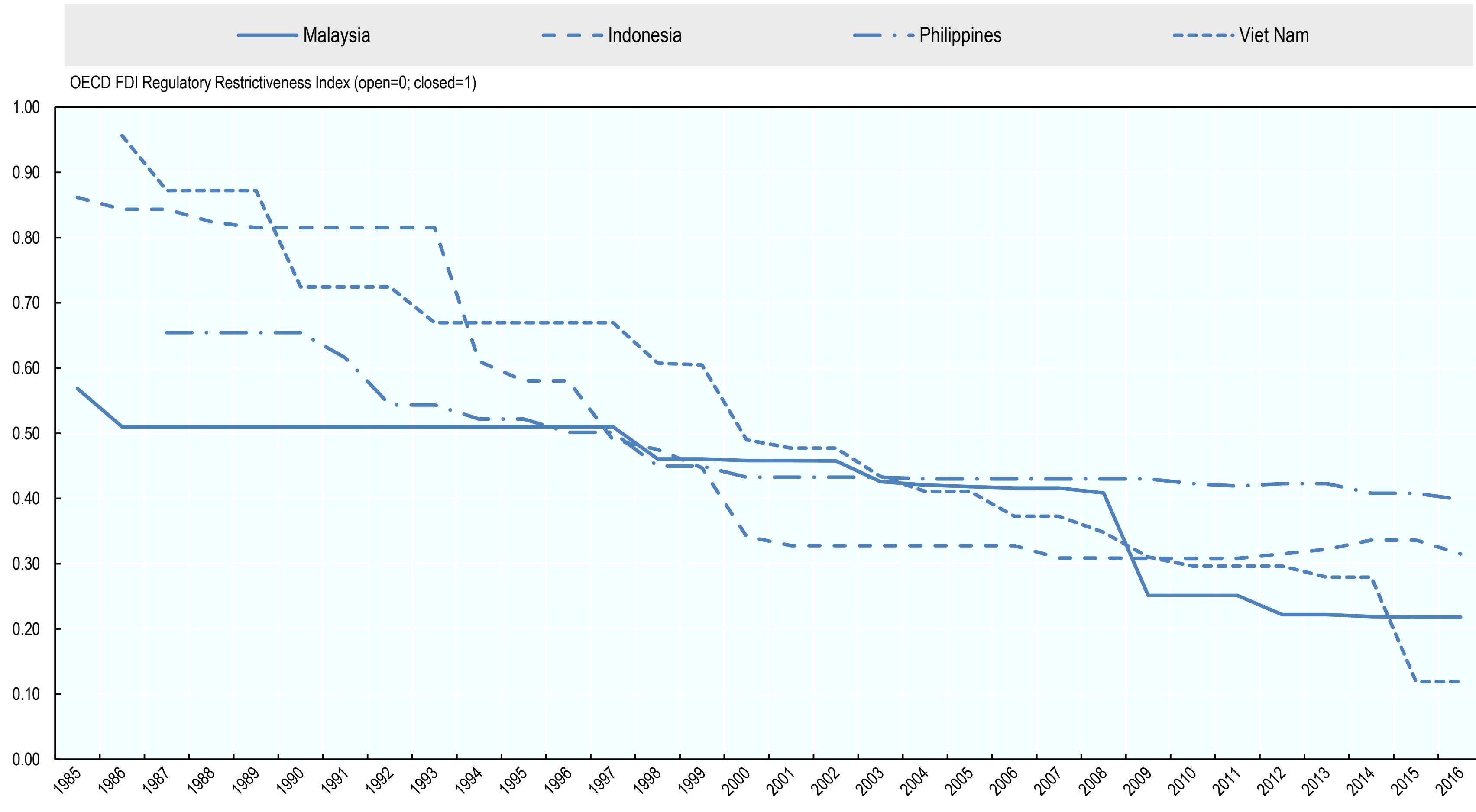


The Asia-Pacific region is more restrictive on average…

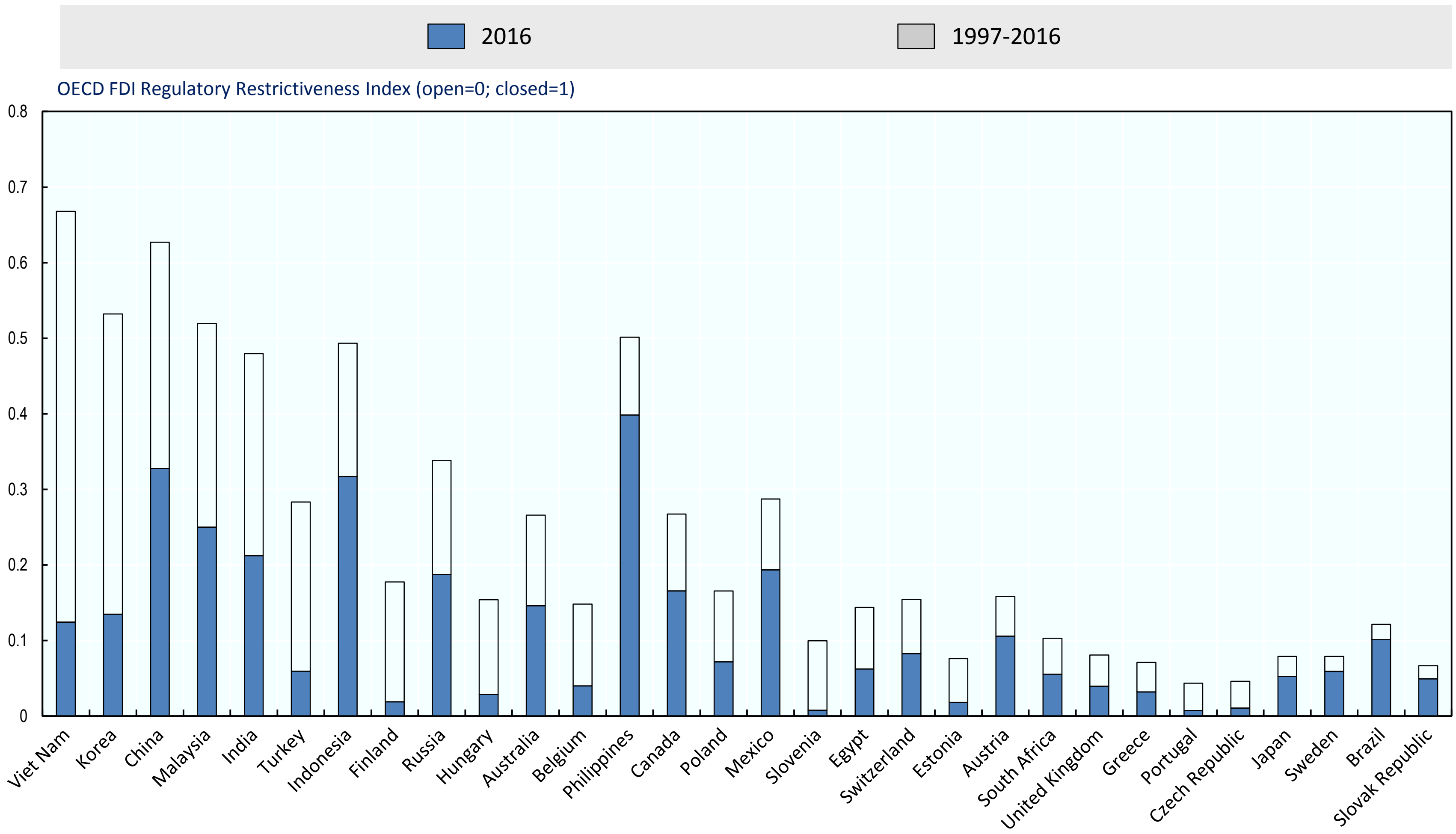
OECD FDI Regulatory Restrictiveness Index



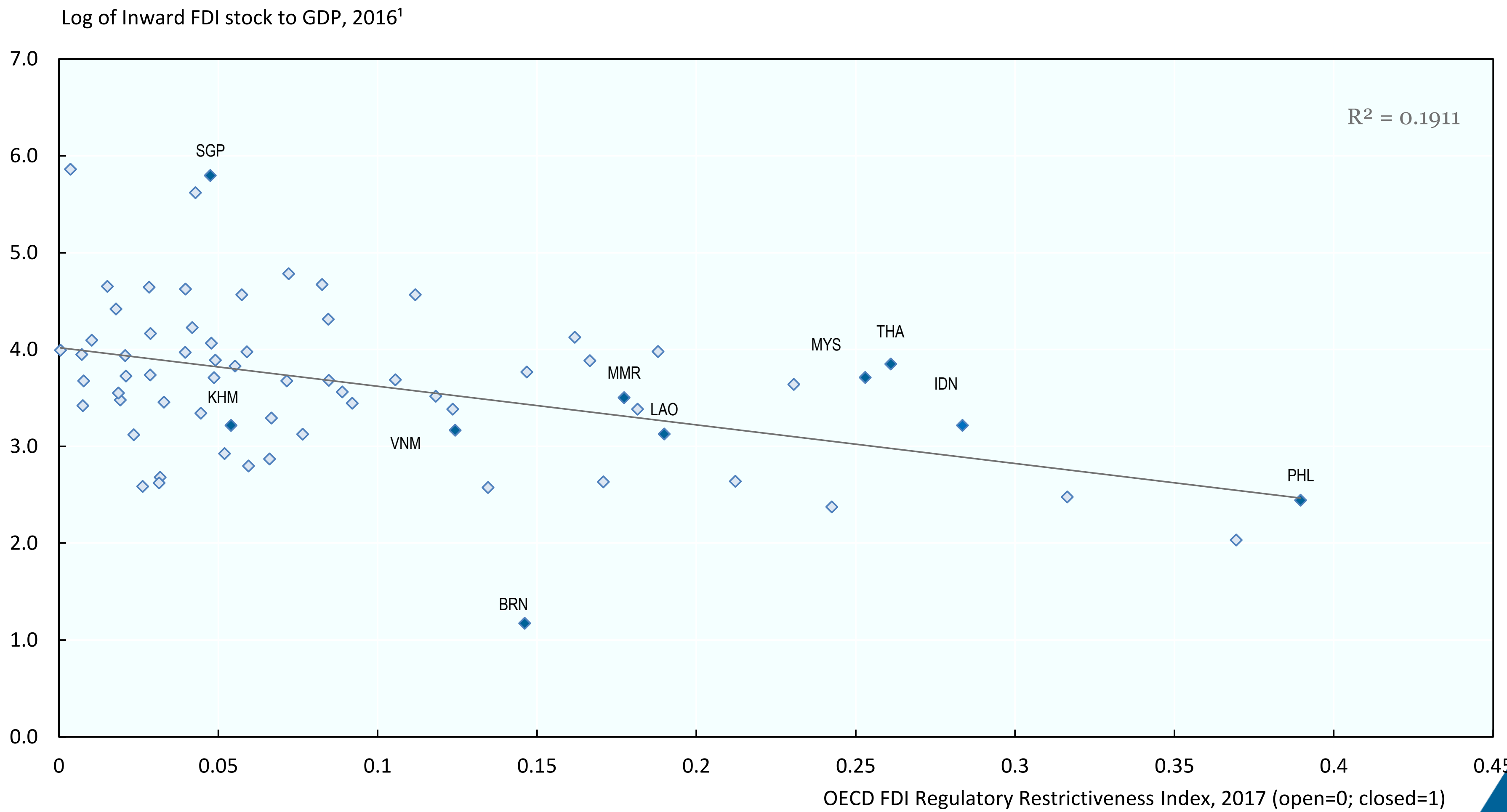
…but some countries have nevertheless reformed strongly over time



More restrictive economies have been among the biggest reformers since 1997

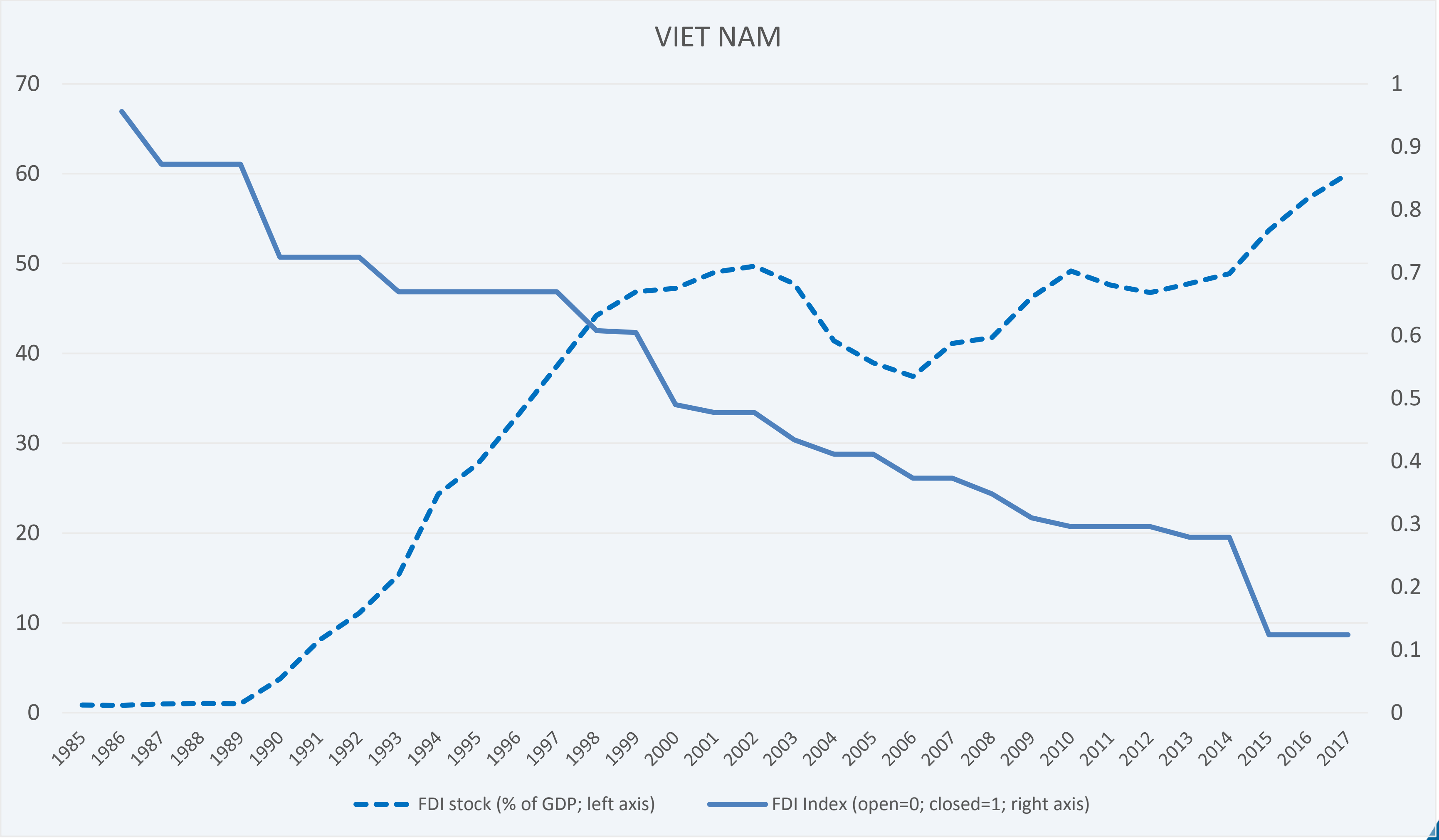


More restrictive economies tend to attract less FDI



More restrictive

Investors respond to reforms



Do statutory restrictions matter?

- A 10% FDI liberalisation as measured by the *Index* could increase bilateral FDI inward stocks by 2.4% on average
- 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 incidence of restrictions in services sectors
- But even FDI into manufacturing sectors – which are typically open to foreign investment – is negatively affected by economies' overall restrictiveness

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

Source: Mistura, F. and Caroline Roulet (2018), "The Determinants of Foreign Direct Investment: Do Statutory Restrictions Matter?", *OECD International Investment Working Paper Series*, forthcoming.

Summary of key findings

- Restrictions are still relatively high in A-P region on average but are coming down strongly over time
- Very little evidence of significant backtracking worldwide, although some countries are strengthening national security screening
- Restrictions have an impact on FDI and hence impose a cost on the economy which must be assessed against any potential gains from discriminating against foreign investors

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