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**Asia-Pacific
Economic Cooperation**

Advancing Free Trade
for Asia-Pacific **Prosperity**

IFAP Implementation to Facilitate FDI in APEC: Updates in 2016

APEC Policy Support Unit
May 2017

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The views expressed in this paper are those of the authors and do not necessarily represent those of APEC member-economies.

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KEY ABBREVIATIONS

DB	Doing Business (World Bank report)
DTF	distance to frontier
FDI	foreign direct investment
GVC	global value chain
IEG	Investment Experts' Group (APEC)
IFAP	Investment Facilitation Action Plan (APEC)
M&As	mergers and acquisitions
MNE	multinational enterprise
OECD	Organisation for Economic Co-operation and Development
PSU	Policy Support Unit (APEC)
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

EXECUTIVE SUMMARY

This report analyses the implementation of the Investment Facilitation Action Plan (IFAP) for the period 2015–2016. The analysis draws primarily from the progress reports submitted by APEC implementing economies, and in part from secondary sources and comparative measures such as the Doing Business reports released by the World Bank.

This report applies a two-pronged approach: analysing the recent investment trends in the APEC region on the one hand; and assessing the progress of APEC economies on their implementation of the IFAP for the period 2015–2016, on the other hand. It should be noted that due to data constraints, it is difficult to link IFAP actions to specific increase or decrease in foreign direct investment (FDI) flows.

The report centres on specific actions undertaken by APEC economies to encourage the entry of investments. These actions, in turn, are based on the agreed priority themes for the IFAP implementation, namely: (1) e-transparency; (2) reducing investor risk; and (3) simplifying business regulation.

Overall, APEC implementing economies have stepped up efforts to put in place mechanisms to facilitate and promote investments. They have instituted changes in procedures, policies and processes; made available online pertinent information on investment registration and licensing; provided access to more efficient means of resolving disputes; adopted new technologies; as well as established and/or strengthened investment promotion agencies and business centres.

The APEC region's general improvements in quantitative measures such as the World Bank's distance to frontier (DTF) scores and other Doing Business indicators lend credence to APEC economies' implementation of actions under the IFAP.

Nonetheless, there remains a need to continually look for ways to enhance existing systems and regulations so as to make the investment process more transparent, more convenient and less risky for both domestic and foreign investors.

1. INTRODUCTION

The APEC Investment Facilitation Action Plan (IFAP) was first launched in 2008 to strengthen regional economic integration, expand prosperity and employment, and improve the competitiveness and sustainability of growth among APEC economies. The IFAP includes a comprehensive menu of prescribed actions derived from eight principles¹ that address issues of transparency, simplicity and predictability that enable investment to flow efficiently to fund productive business activities.

At the first meeting of the Investment Experts' Group in 2015 (IEG1), the members nominated specific actions to be reported by implementing economies based on three priority themes: (1) e-transparency; (2) reducing investor risk; and (3) simplifying business regulation.

APEC Ministers in 2015 expressed their support for the IFAP priority actions for 2015–2016 and encouraged members to take on specific IFAP actions on a voluntary basis to support a more predictable and transparent investment climate and strengthen the role of investment as a driver of growth and jobs.

This report attempts to review and document the efforts of APEC members toward initiating and maintaining reforms under the three IFAP priority principles, and to provide inputs on the way forward.

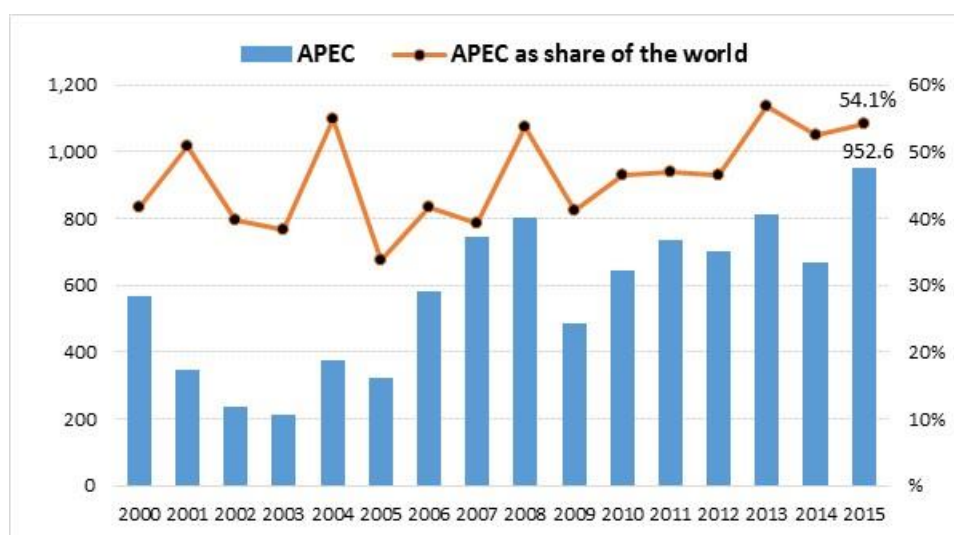
¹The IFAP's original eight principles are found in: APEC (2008).

2. INVESTMENT TRENDS IN THE APEC REGION

2.1 FDI INFLOWS

During the 15-year period covering 2000–2015, the APEC region attracted an average of 46.1 percent of the world's foreign direct investments (FDI). In 2015 alone, FDI inflows to APEC reached USD 953 billion, equivalent to 54.1 percent of world FDI or an increase of 42.3 percent from the 2014 level (Figure 1).

Figure 1. FDI inflows to APEC (in USD billion) and share of the world (in %, rhs)



rhs= right-hand side

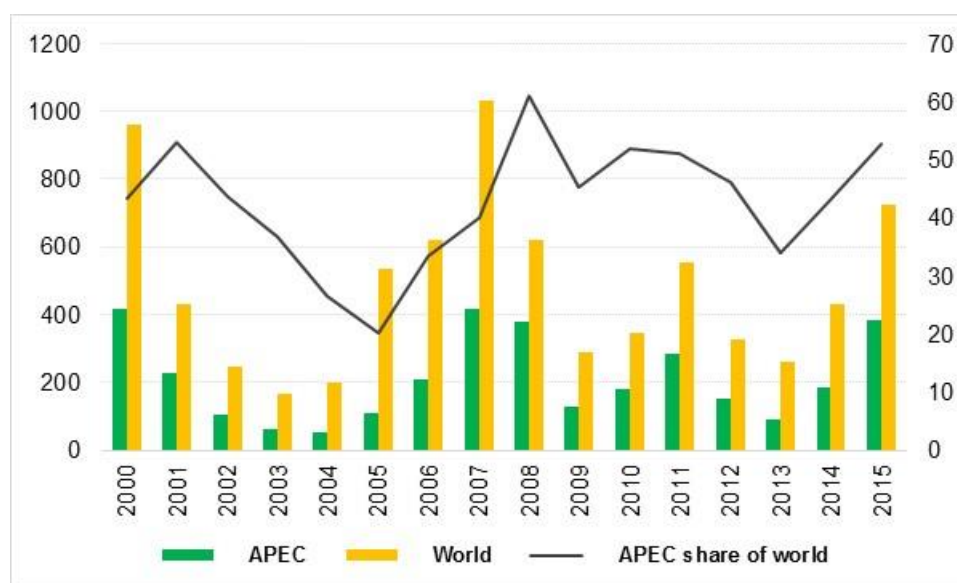
Source: Data from UNCTAD, APEC PSU calculations.

The rise in FDI inflows to APEC in 2015 mirrored the trend in global FDI, which saw a 38 percent increase to USD 1.76 trillion. The main factor behind this upward movement in world FDI was the jump in cross-border mergers and acquisitions (M&A) to USD 721 billion in 2015 from the year-ago level of USD 432 billion. In 2015, the APEC share of FDI inflows is the highest among regional groupings such as the G20 (53%), the Transatlantic Trade and Investment Partnership or TTIP (46%) and the Regional Comprehensive Economic Partnership or RCEP (19%). However, in terms of inward nominal FDI stock, the G20 and TTIP are still in first and second place, respectively, followed by APEC.²

In the APEC region, M&A sales more than doubled, to USD 381.2 billion in 2015 (compared to USD 186.6 billion in 2014) representing 52.8 percent of world M&A sales (Figure 2). This APEC share of world M&A sales accounted for one of the highest shares during the period 2000–2015, comparable to the 53.0 percent reached in 2001.

² Data from the UNCTAD World Investment Report 2016.

Figure 2. Cross-border M&As in APEC (in USD billion) and share of the world (in %, rhs)



rhs= right-hand side

Source: Data from UNCTAD, APEC PSU calculations.

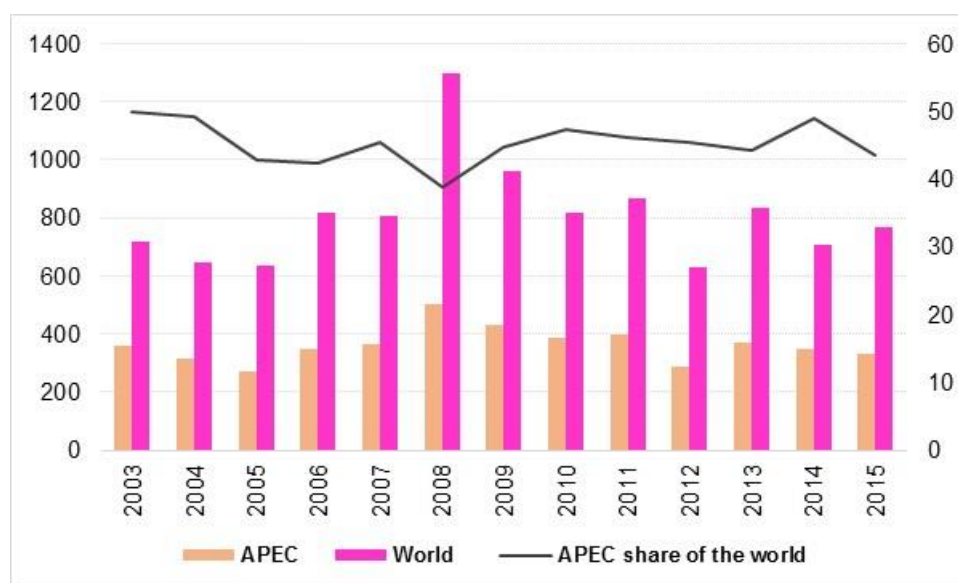
Among the top 10 recipients of FDI inflows in 2015, APEC economies occupied the top three spots: the United States at around USD 380 billion; Hong Kong, China with a new record of USD 175 billion; and China at USD 136 billion. APEC members in the top 20 FDI recipient economies in 2015 were Singapore (USD 65 billion); Canada (USD 49 billion); Mexico (USD 30 billion); and Chile (USD 20 billion).

FDI inflows to the United States were characterized by significant acquisition of assets in manufacturing and services, with total M&A sales at around USD 228 billion, the biggest volume of cross-border acquisitions since 2000. In Hong Kong, China, corporate reconfigurations partly drove FDI inflows; while inward investments to the services sector formed a considerable chunk of China's FDI.

An important form of FDI is greenfield investment, which involves the creation of a subsidiary by non-resident investors from the ground up. This new venture requires the construction of new facilities, new distribution hubs, offices and living quarters, and therefore, translates into the creation of new jobs and transfer of competencies, among others.

Greenfield investment projects in the APEC region accounted for 43.4 percent of the world total in 2015, reflecting a lower share compared to the level in 2014 (Figure 3). Available data covering the period 2003–2015 show that, on average, 45.3 percent of the world's investment in greenfield projects is directed to APEC economies.

Figure 3. Greenfield FDI projects (in USD billion) and share of the world (in %, rhs)



rhs= right-hand side

Source: Data from UNCTAD, APEC PSU calculations.

The marked increase in overall FDI inflows to the APEC region in 2015, along with the continued investments of greenfield projects, reflects investors' optimism about the economic strength and sustainability of APEC economies. Notwithstanding that, the World Investment Report (2016) noted that, while global FDI recovery in 2015 was indeed strong, it may lack productive impact as the bulk of the FDI recovery was due to cross-border M&A activities rather than greenfield investments. M&A activities, which mainly consist of change in ownership structure may have a less tangible impact on the economy compared with greenfield investments, which require more capital spending and human resources, among others.

The latest data from UNCTAD's Global Investment Monitor (2017) show that global FDI flows fell by an estimated 13 percent in 2016, to USD 1.52 trillion amid a weak economic outlook and slower world trade. APEC economies have experienced both a decrease and an increase in FDI inflows. Economies such as Canada (from USD 43 billion to USD 29 billion); Hong Kong, China (USD 175 to USD 92 billion); Chile (USD 16 billion to USD 11 billion); and Mexico (USD 33 billion to USD 26 billion) experienced decreases. Others have reported notable increases: the United States (from USD 348 billion to USD 385 billion); Australia (USD 22.3 billion to USD 44 billion); Russia (USD 12 billion to USD 19 billion); and Japan (USD -2 billion to USD 16 billion).³

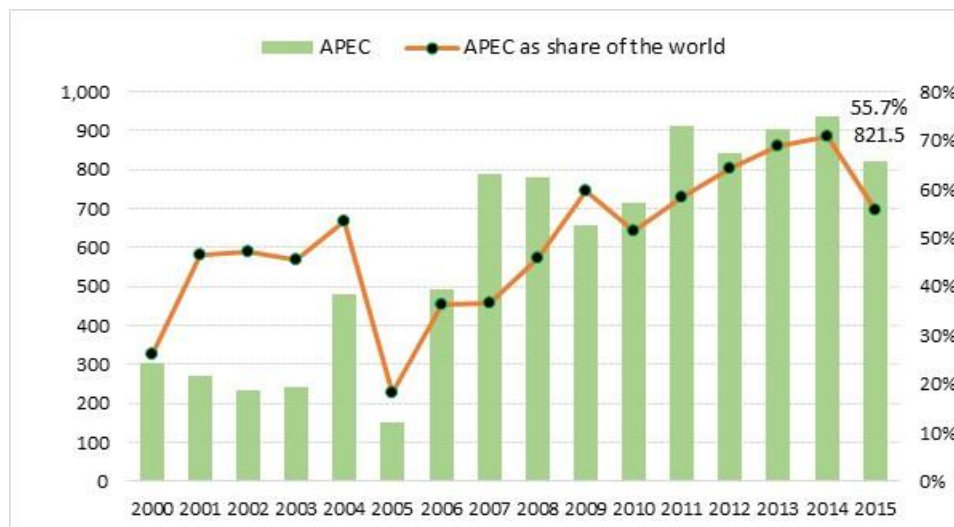
2.2 FDI OUTFLOWS

FDI outflows from the region have also been steadily increasing in the period after the global economic downturn, reaching a high of 70.9 percent of global FDI outflows in 2014 before falling to 55.7 percent in 2015 (Figure 4). Investment from the region fell 12.1 percent year-on-year in 2015, where USD 821.5 billion in FDI flowed out of the APEC region (Figure 4). Among APEC

³ Estimated figures from UNCTAD.

economies, the largest sources of FDI were the United States; Japan; and China; with a combined share of 68 percent (Figure 5).

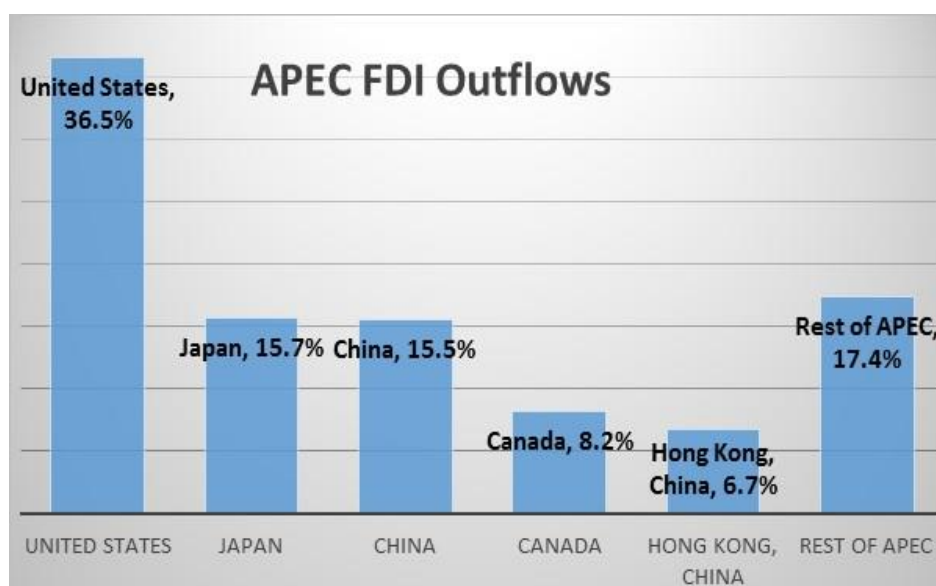
Figure 4. FDI outflows from APEC (in USD billion) and share of the world (in %, rhs)



rhs= right-hand side

Source: Data from UNCTAD, APEC PSU calculations.

Figure 5. APEC FDI outflows, % among APEC economies

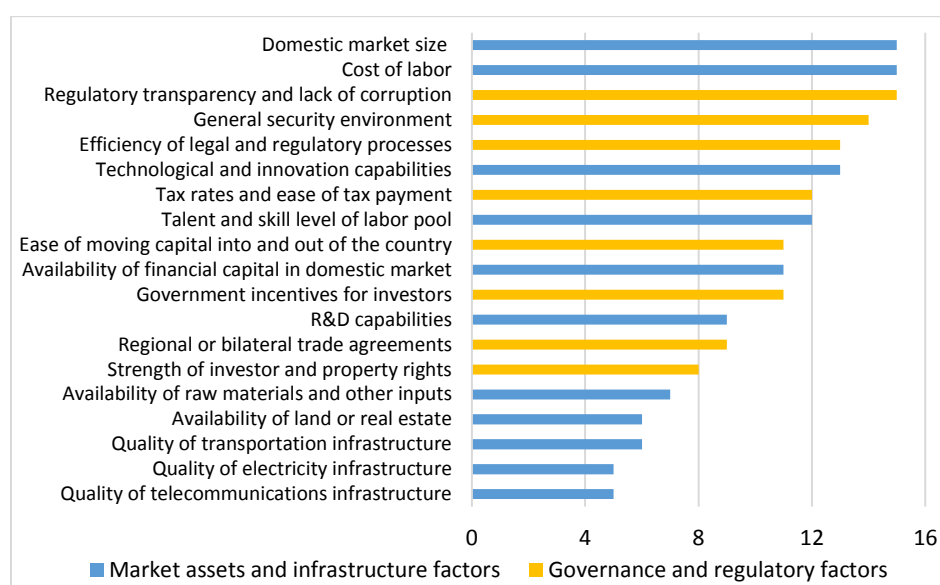


Source: Data from UNCTAD, APEC PSU calculations.

3. DETERMINANTS OF FDI

Like any other investment activity, FDI is primarily motivated by profit. Profit-seeking investment will naturally explore business opportunities with high rates of return, potential market opportunities and expansion, as well as low or manageable risks. To operate efficiently, business would also need sufficient infrastructure services as well as adequate manpower supply. From the investors' perspective, as highlighted by A.T. Kearney's FDI Confidence Index, policy issues of labour, transparency, corruption, security and efficiency of legal and regulatory process are among the highest-rated factors (Figure 6).

Figure 6. Factors that affect investors' FDI decisions, 2016



Source: Data from A.T. Kearney FDI Confidence Index 2016.

3.1 FDI AND GLOBAL VALUE CHAINS (GVCS)

The World Investment Report 2016 highlighted that, out of USD 26 trillion of global FDI stock, 64 percent was invested in services, 27 percent in manufacturing and 7 percent in the primary sector. For FDI sectoral inflows covering APEC economies in which data are available, around 35 percent was invested in services, 30 percent in manufacturing and 13 percent went to the mining sector (Table 1).

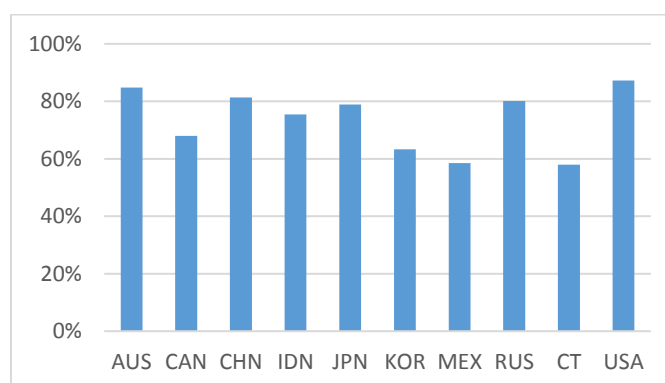
Table 1. Sectoral FDI inflows (in USD million), 2012

	2012	Percentage
Agriculture and fishing	1,645	0.3%
Mining and quarrying	81,379	12.8%
Manufacturing	188,672	29.7%
Electricity, gas and water	8,380	1.3%
Construction	5,008	0.8%
Services	219,284	34.6%

Source: Data from the OECD and the ASEAN Secretariat. Data available only for Australia; Brunei Darussalam; Canada; Chile; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; the Philippines; Singapore; Thailand; USA; Viet Nam.

Moreover, the World Investment Report 2016 report revealed a steady increase in multinational enterprise (MNE) activities, with sales and value-added of the foreign affiliates of MNEs growing by 7.4 percent and 6.5 percent respectively in 2015. Employment from these MNE affiliates reached 79.5 million in 2015, an increase of 2.5 million from the previous year. The report also noted some signs of weakening in MNE operations as commodity prices fell and global growth flattened. This slower global demand may have caused the rate of return on FDI to decrease: from 6.7 percent to 6.0 percent for inward FDI; and from 6.3 percent to 5.6 percent for outward FDI (data for 2014–2015).

APEC economies are highly involved in global value chains (GVCs), particularly in outsourcing their inputs for production. Using the 2014 World Input-Output Table, the share of domestic value added in exports for the manufacturing industry in APEC ranged from 58 to 87 percent;⁴ which means that a significant share was contributed by imported inputs (Figure 7).

Figure 7. Domestic content of value-added export, in manufacturing industry (%), 2014

Source: The World Input-Output Database (WIOD) November 2016 release, preliminary APEC PSU calculations. Data only available for Australia; Canada; China; Japan; Korea; Mexico; Russia; Chinese Taipei; and the USA.

⁴ Preliminary calculations. Method of calculation is based on Stehrer (2013) and Timmer et. al. (2015).

MNEs bring significant economic benefits in terms of employment and sales. Using data from the World Investment Report 2016 on the top 100 non-financial MNEs, the MNEs based in APEC economies contributed around 7 million to employment levels and generated foreign sales value of USD 3.3 trillion (Table 2).

Across economies, these MNEs are operating in different industries. Those based in developed economies are dominated by medium to high-tech companies (producing computer/computer equipment, data processing, pharmaceuticals, motor vehicles and petroleum refining) while those based in developing economies are concentrated in utilities, electronic components, food and beverages, and trade.

Table 2. The world's top 100 non-financial MNEs based in APEC economies, ranked by foreign assets, 2015 (USD million and number of employees)

Home economy	No. of companies	Assets		Sales		Employment	
		Foreign	Foreign as % of total	Foreign	Foreign as % of total	Foreign	Foreign as % of total
Australia	1	62,274	50%	42,431	95%	21,415	50%
China	16	326,435	15%	441,998	26%	321,360	8%
Hong Kong, China	17	307,321	62%	223,381	79%	1,036,253	73%
Japan	11	1,034,856	64%	585,621	64%	875,011	55%
Korea	7	145,296	23%	312,389	66%	336,345	54%
Malaysia	4	51,080	73%	20,400	66%	101,175	50%
Mexico	4	93,906	59%	68,155	60%	243,644	42%
The Philippines	1	10,158	37%	2,145	12%	2,879	16%
Russia	2	48,043	13%	214,511	74%	51,217	9%
Singapore	10	135,286	65%	97,482	73%	292,468	68%
Chinese Taipei	8	146,032	59%	230,452	72%	1,278,394	69%
Thailand	1	6,825	99%	2,946	94%	6,115	99%
United States	21	1,730,042	49%	1,073,973	47%	2,425,302	48%
Total	103	4,097,555	42%	3,315,886	50%	6,991,578	43%

Source: UNCTAD World Investment Report 2016, APEC PSU calculation.

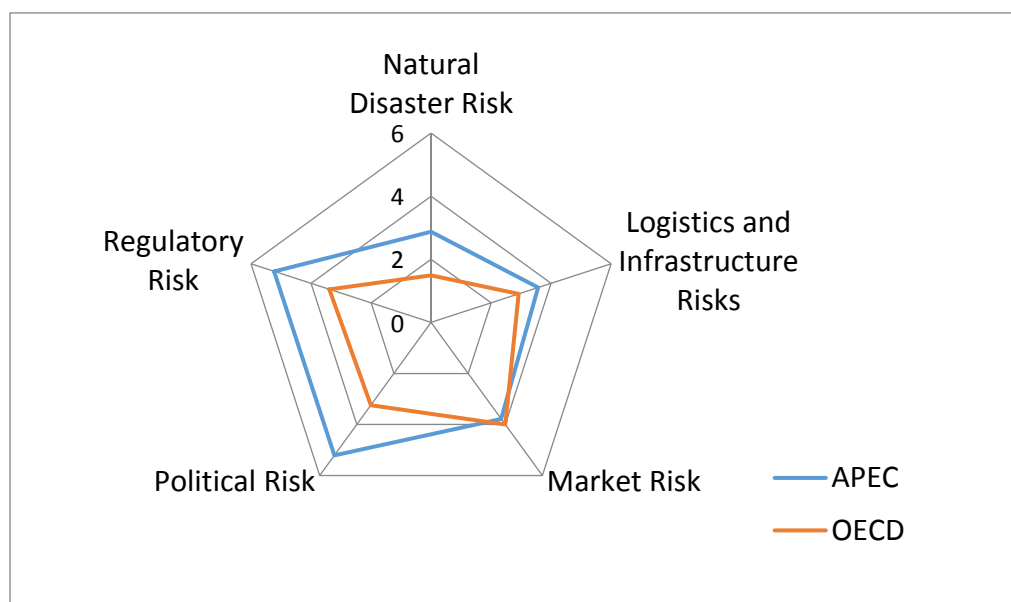
4. INVESTMENT FACILITATION IN APEC

4.1 BACKGROUND

There are three IFAP priority themes for 2015–2016: (1) e-transparency; (2) reducing investor's risk; and (3) simplifying business regulation (see Appendix for the complete list of actions under these themes). Transparency is one of the key factors considered by foreign investors. As foreign investors, they already face natural barriers originating from language as well as lack of (local) legal and regulatory knowledge. Drabek and Payne (2001) mention that non-transparency, which could take the form of higher incidence of corruption and poorly enforced property rights, is an important factor in an economy's attractiveness to foreign investors. In fact, on average, an economy could expect a 40 percent increase in FDI from a one point increase in its transparency ranking.

As firms engage in international production or through GVCs, their exposure to risks increases. Local risks could now be easily transmitted through the GVC network, creating additional exposure and layers of risks. For foreign investors, a clear dispute settlement mechanism and an efficient judiciary and legal process will help to secure their investment abroad and to reduce uncertainty. A clear legal and regulatory framework will also increase the potential for investment expansion. An APEC Policy Support Unit (PSU) study in 2014 noted that, using the OECD grouping as a benchmark, APEC has considerable room for improvement under regulatory risk⁵ (Figure 8).

Figure 8. Value chain risks for APEC and OECD, 2013



Source: APEC PSU (2014).

⁵ In the APEC PSU (2014) report, regulatory risk is defined as unexpected changes in regulatory stance, or inconsistency in enforcement, that can increase business uncertainty, and thus the transaction costs associated with value chain processes.

Bilateral investment treaties (BITs) are among some of the common policy tools used to provide further assurance to foreign investors that their asset will receive the same treatment as domestic investors. BITs could also help protect foreign investors under the international law principles of receiving fair and equitable treatment as well as full protection and security, thus reducing the risk exposure. However, Skovgaard Poulsen (2010) has noted that many multinationals may not take BITs into consideration when they decide the location and amount of their investment overseas.

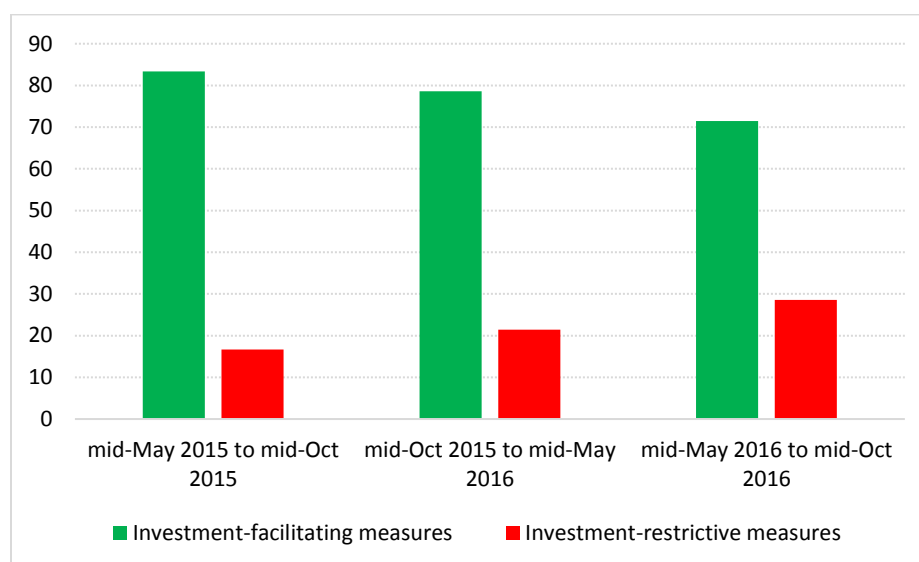
In addition, most investment laws have the objective of investment promotion – with more than half of the laws providing access to international arbitration, with only a few dealing with investment facilitation (UNCTAD 2016a).

The last item under the IFAP priorities for 2015–2016, simplifying business regulation, is important for both domestic and foreign investors. Businesses always demand a fast, transparent and simple process of registration, and efficient licensing and taxation procedures related to investment.

UNCTAD's 2016 Action Menu for Investment Facilitation highlights the following foci: (1) promote accessibility and transparency in investment policies and regulations and procedures; (2) enhance predictability and consistency in the application of investment policies; (3) improve the efficiency of investment administrative procedures; (4) build constructive stakeholder relationships in investment policy practice; (5) designate a lead agency, focal point or investment facilitator; (6) establish monitoring and review mechanisms for investment facilitation; (7) enhance international cooperation on investment facilitation; (8) strengthen investment facilitation efforts in developing-economy partners, through support and technical assistance; (9) enhance investment policy and proactive investment attraction in developing economy partners, through capacity building; and (10) complement investment facilitation by enhancing international cooperation for investment promotion for development.

4.2 RECENT DEVELOPMENTS IN INVESTMENT MEASURES

Aside from the positive investor sentiment on the APEC region's economic fundamentals and outlook, the sustained inflow of FDI into the APEC region is also owed to the economies' implementation of measures that encourage the entry of FDI. Recent data covering the period mid-May 2016 to mid-October 2016 indicate that investment-friendly measures continue to outnumber investment-restrictive measures at 71.4 percent compared to 28.6 percent. However, investment-restrictive measures are on the uptrend, from 16.7 percent of the total in the mid-May to mid-October 2015 period, to 21.4 percent in the mid-October 2015 to mid-May 2016 period, and 28.6 percent as of the latest available data (Figure 9).

Figure 9. Investment measures by APEC economies, as percent of total

Source: OECD and UNCTAD (2016).

To encourage the entry of FDI, some APEC economies have simplified registration systems and procedures; implemented new foreign investment promotion strategies; relaxed foreign-exchange related requirements and foreign ownership rules; and expanded tax incentives for manufacturing industries.⁶ One economy liberalized rules on foreign ownership of real properties. Other measures that promoted investments include widening access to foreign exchange and securities markets; relaxing the requirements on offshore investments by domestic investors and onshore investments by foreigners; and introducing up-to-date macro-prudential systems to boost cross-border financing.

Recent BITs completed by APEC member economies also contain articles related to: (1) transparency, which usually take the form of publishing and making available an economy's laws, regulations, procedures, and administrative rulings of firm applications relating to investment; (2) investor protection, by granting foreign firms the same rights as domestic firms and to cover the investments under international law principles; and (3) promotion of investment, through encouraging bilateral activities and exchange of information.

4.3 PROGRESS AND REVIEW OF IFAP IMPLEMENTATION

The following are the observations on the IFAP implementation for the period 2015–2016, based largely on the submissions of APEC implementing economies, and partly on the ease of doing business indicators.

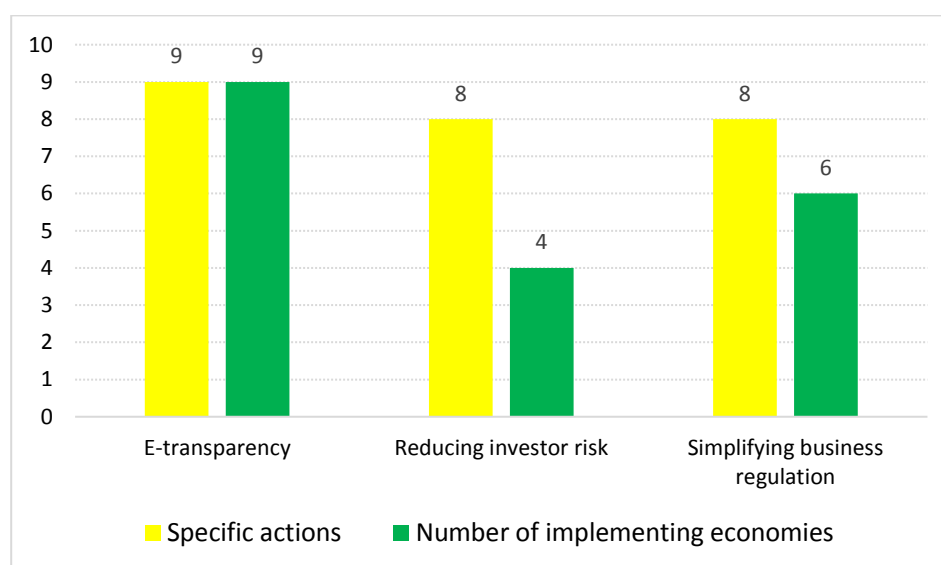
The IFAP implementation report for 2015–2016 reflects stepped-up efforts by APEC implementing economies toward encouraging increased FDI flows according to the priority themes

⁶ See: APEC PSU (2015).

of: (1) e-transparency; (2) reducing investor risk; and (3) simplifying business regulations. Overall, APEC economies have instituted changes in procedures, policies and processes; made available online pertinent information on investment registration and licensing; as well as established and/or strengthened investment promotion agencies and business centres.

Fourteen APEC economies have implemented specific actions according to the agreed priority themes to increase investments during the covered period. Of the three priority themes mentioned, implementing economies leaned more toward actions that promote e-transparency (Figure 10), even as actions that reduce investor risk and simplify business regulation were also significant.

Figure 10. Specific actions by implementing economies



Source: IFAP Implementation Reports of APEC economies, 2015–2016.

A measure of APEC's performance on the regulatory front is the World Bank's distance to frontier (DTF) scores⁷ in the annual Doing Business (DB) reports covering the period 2010–2017. While the indicators and methodology under the DB reports may not specifically focus on FDI, these indicators could still be a useful signal to foreign investors about the overall quality of the business environment.⁸ Policies and regulations governing FDI are being implemented under a national scheme of domestic laws and regulations, so the DB scores would still serve as indicative measures of progress related to IFAP. Additionally, using DTF instead of the usual DB rankings would be more appropriate in terms of measuring progress over time.

Using the DB DTF scores for 2015, it is apparent that those with higher DB scores in terms of best regulatory practices received higher FDI (Table 3).

⁷ The DTF score benchmarks economies with respect to regulatory best practice, showing the absolute distance to the best performance on each DB indicator. The DB 2017 indicators consist of the following: starting a business; dealing with construction permits; getting electricity; registering property; getting credit; protecting minority investors; paying taxes; trading across borders; enforcing contracts; and resolving insolvency.

⁸ See: Dhasmana (2016).

Table 3. Average FDI inflows and stocks by rank of economies based on their DTF scores, 2015

Economies grouped by DTF	Average FDI inflows (USD million)	Average FDI stocks (USD million)	Average DTF (%)
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: World Bank DB database; UNCTADstat database, calculated by APEC PSU.

It should be noted that the DB reports cover economies' performance in the year previous to the report. For example, DB 2017 measures the performance in 2016. Thus, this IFAP Implementation Report covering 2015–2016 corresponds to DB 2016 and 2017.

The overall DTF score and selected measures show that, on average, the regulatory environment in the APEC region as a whole has seen improvements from DB 2010 up to DB 2017 (Table 4). Specifically, APEC's average scores for DTF and the other selected measures are generally higher during the IFAP implementation years of 2015–2016 compared to the years prior.

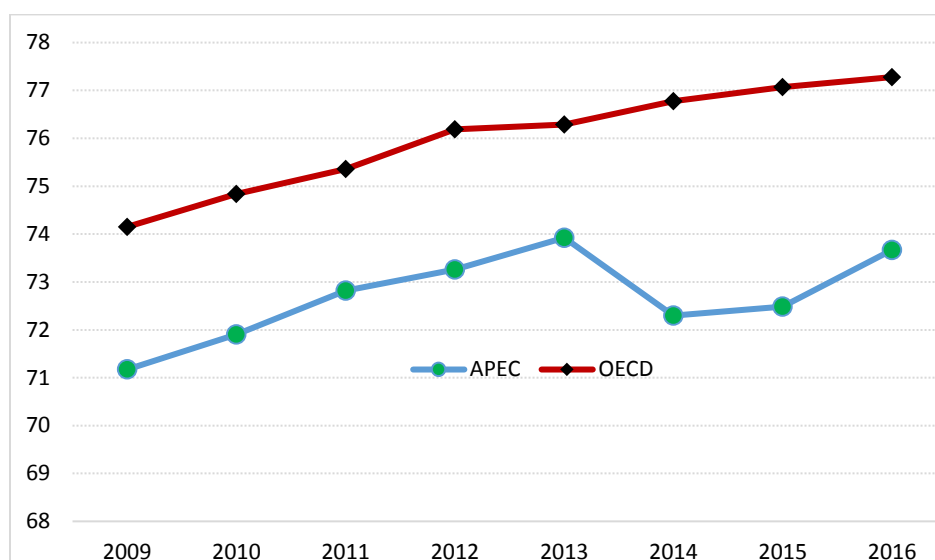
Table 4. APEC average scores in overall DTF and other measures

Performance years	DB Reports	Overall DTF	E-transparency	Reducing investor risk		Simplifying business regulation	
			Starting a business	Protecting minority investors	Enforcing contracts	Registering property	Paying Taxes
2009	2010	71.2	80.9	64.9	65.6	73.6	74.0
2010	2011	71.9	82.1	65.0	65.7	74.0	75.6
2011	2012	72.8	84.1	67.0	65.6	75.1	76.3
2012	2013	73.3	84.8	67.1	65.6	74.1	76.8
2013	2014	73.9	84.7	67.2	65.2	74.4	77.5
2014	2015	72.3	85.5	63.2	65.5	72.0	77.6
2015	2016	72.5	87.7	62.4	65.2	71.7	75.1
2016	2017	73.7	88.4	64.0	65.5	72.3	76.5

Note: A particular year's DB report corresponds to the previous year's performance. For example, DB 2017 presents the 2016 performance.

Source: World Bank DB reports for 2010–2017.

The average DTF overall score for the APEC region has increased during the 2015–2016 IFAP implementation (at 72.5 and 73.7, respectively, from 72.3 in 2014). However, the APEC region's DTF scores are lower compared to the average DTF score of the OECD, which is around 77.2 in the period corresponding to the 2015–2016 IFAP implementation period (Figure 11).

Figure 11. Overall DTF average score for APEC and OECD

Source: World Bank DB database.

4.3.1 E-transparency

E-transparency under the IFAP includes actions such as the publication of laws and regulations; the electronic adoption of a centralized registry of laws and regulation; the establishment of an investment promotion agency and the expansion of its role beyond investment facilitation; the expansion of access to available investment promotion and incentive schemes; the introduction of online enquiries and online submissions of forms; and the promotion of the use of new technologies to make the investment process simpler and faster.

Chile maintains several websites that provide free investment-related information on laws and regulations as well as judiciary proceedings. In addition, the Chilean Investment Promotion Agency (InvestChile) offers a good number of direct communication lines for foreign investors in seven languages. Russia is currently working on a platform comprising a database of laws and regulations that will be made available to all investors. This platform will also include English translations of regulations and will be updated on a regular basis.

In 2016, Japan established the Working Group for Revising Regulations and Administrative Procedures to discuss how to fundamentally simplify regulations and administrative procedures associated with FDI. The Council for Promotion of Foreign Direct Investment in Japan also focuses on shortening the waiting time for certain immigration procedures. In Malaysia, an Immigration Unit has been established in the Malaysian Investment Development Authority (MIDA) to issue visas and work permits for expatriate positions approved for the manufacturing and services sectors. MIDA also houses an Advisory Services Centre, which is composed of key representatives from government agencies.

During the period 2015–2016, PROINVERSION in Peru launched an active agenda that promotes Peru as an attractive place for investment in the infrastructure and public services sectors. Parallel

to this agenda, Peru also implemented actions that enhance capacity building for investment promotion offices at the subnational government level. Meanwhile, the Board of Investments (BOI) of Thailand plans to open more overseas offices in Asia, specifically, in Myanmar, Indonesia and Viet Nam, to attract more investments.

Indonesia, with its National Single Window for Investment (NSWi) or Investor Online SPIPSE, and the Philippines, with its BOI-One Window Network (BOI-OWN), provide one-stop and one-window service for investment application and registration.

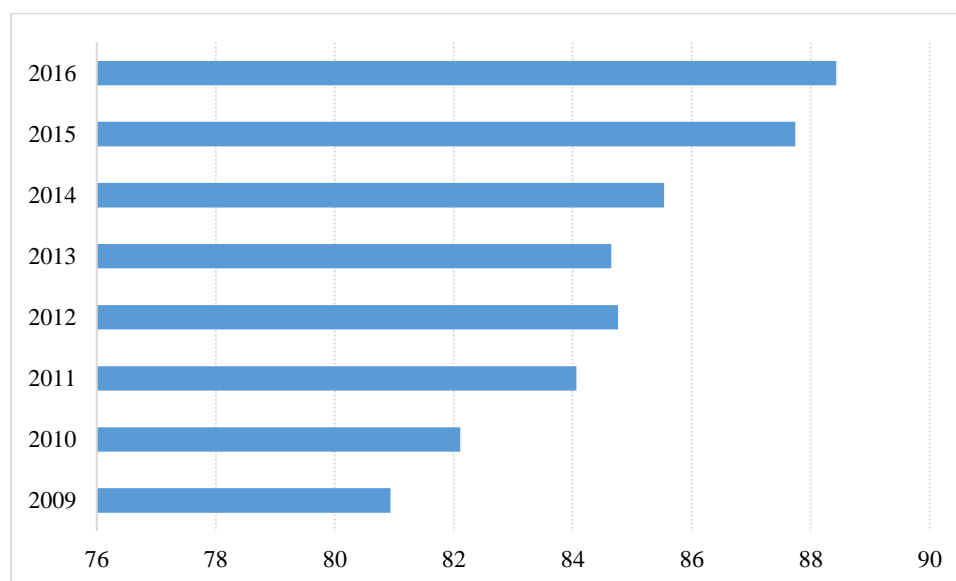
The efforts of APEC economies to promote and facilitate the flow of investments have resulted in positive FDI developments.

Japan, in their submission, mentioned that the establishment of the Council for Promotion of Foreign Direct Investment contributed to the doubling of inward FDI stocks to JPY 35 trillion. Indonesia noted that, under their new 3-hour investment licensing service, investments of up to IDR 52 trillion were facilitated in February 2016. Under the action on promoting the use of new technology, Peru and Viet Nam highlighted the significant contribution of the PPP Knowledge Portal and National Investment Information System (NIIS) in attracting FDI.

Viet Nam's National Business Registration Portal has also contributed markedly by allowing organizations and individuals alike to transact online, including engaging in such processes as business registration and the corresponding issuance of business registration certificates, and by making related information readily available and accessible. Viet Nam targets an online foreign investment registration rate of 5 percent nationwide and a higher 10 percent in Hanoi and Ho Chi Minh City.

The DB indicator on starting a business can be used to gauge APEC's performance under the 'e-transparency' priority theme, particularly since it relates to the online availability of documents and forms required in starting a business.

APEC's average score in terms of starting a business has seen good progress over the years, with the score surging in 2015–2016 (Figure 12). This result indicates that the procedures and systems for starting a business in the APEC region as a whole will benefit from further streamlining together with other related administrative and regulatory reforms.

Figure 12. Starting a business, APEC average

Source: World Bank DB database, DTF figures.

4.3.2 Reducing investor risk

For this IFAP theme, economies have submitted actions related to providing advanced notice and opportunity for public comments on proposed changes to laws and regulations; to fostering the dissemination of accurate market reputation information; and to encouraging or establishing an effective formal mechanism for resolving disputes.

The United States Administrative Procedure Act imposes procedural requirements when federal agencies plan to enact new regulations. This is to ensure that the public is aware of the proposed regulations and has enough time to review and comment on them, 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 draft documents.

Canada, during its recent domestic review, recognized that there is a gap between foreign investors' perspectives about Canada's investment climate and existing information. Thus, strategies are being considered to address this issue, including increased social media use and providing more substantive facts and compelling arguments and analyses.

Meanwhile, Hong Kong, China – with its efficient legal infrastructure and sophisticated legal services – maintained its fine reputation in resolving investment/commercial disputes, and promoting the use of different forms of dispute resolution mechanisms. The 2015 International Arbitration Survey cited Hong Kong, China and Singapore as among the five most preferred and widely used arbitration seats. The primary determinants behind the preference are the international arbitration courts' reputation and recognition, specifically based on respondents' assessment of the

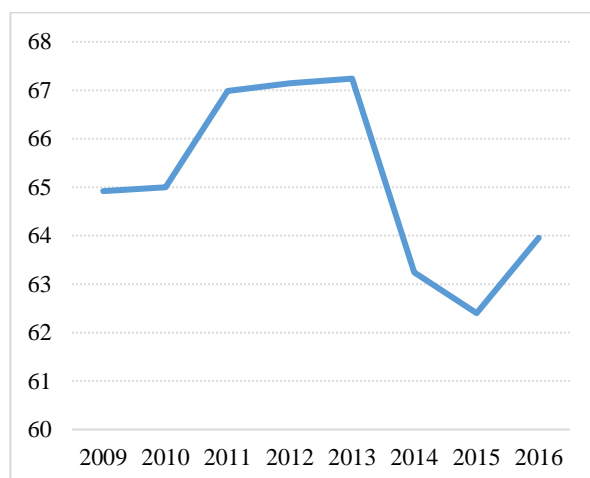
formal legal infrastructure; the neutrality and impartiality of the legal system; the national arbitration law; and the track record for enforcing agreements to arbitrate and arbitral awards.⁹

The survey also identified the five most preferred arbitral institutions: the International Chamber of Commerce (ICC); the London Court of International Arbitration (LCIA); the Hong Kong International Arbitration Centre (HKIAC); the Singapore International Arbitration Centre (SIAC); and the Arbitration Institute of the Stockholm Chamber of Commerce (SCC). The survey also highlighted that the most improved arbitral institution, taken over the last five years, is the HKIAC, followed by the SIAC, ICC and LCIA. The survey further reported that 90 percent of the respondents indicated international arbitration as their preferred dispute resolution mechanism with ‘enforceability of awards’ as the most valuable characteristic and ‘cost’ as arbitration’s worst feature.

Under the ‘reducing investor risk’ priority theme, DB indicators on protecting minority investors and enforcing contracts can be used to examine how APEC economies fared. After registering a strong performance in 2009–2013, APEC’s average score in terms of protecting minority investors declined in the period 2014–2015, before inching higher in the performance year 2016 (Figure 13). Meanwhile, APEC’s performance in enforcing contracts has been steady for around eight years now, with an average score ranging between 65.2 and 65.6 (Figure 14).

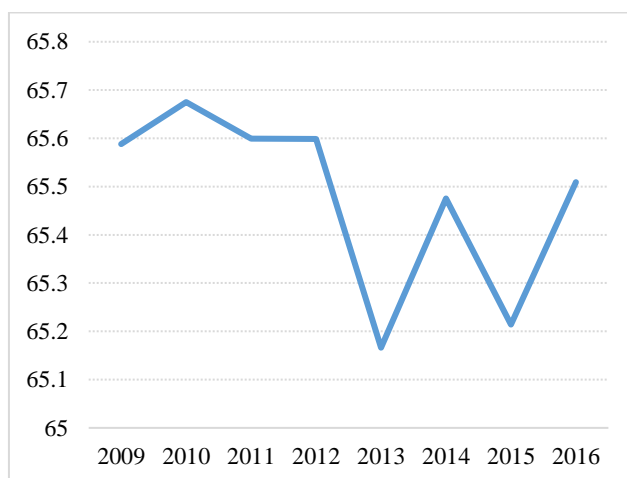
Improvements in enforcing contracts can be done in several ways. Brunei Darussalam is cited in DB 2017 for making contract enforcement easier through electronic filing for commercial cases and allowing users to pay court fees electronically. Additionally, Korea and Singapore are among the four economies globally that receive full points on the court automation index.

Figure 13. Protecting minority investors, APEC average



Source: World Bank DB database.

Figure 14. Enforcing contracts, APEC average



⁹ QMUL (2015).

4.3.3 Simplifying business regulation

Actions under this principle involve simplifying and streamlining application and registration processes and licensing and taxation procedures; establishing one-stop windows; cutting down processing time and procedures for investment applications; improving administrative performance at the lower levels of government; and conducting periodic reviews of investment procedures.

Toward this end, Peru accomplished the following in 2015: (1) established a Single Procedure System to simplify administrative procedures and avoid delays in investments; (2) instituted a regulatory framework to promote the integration of government services and procedures, specifically developing a Single Window System and introducing an information exchange between public entities in order to eliminate burdensome regulations. The government of Peru is aiming for a 100 percent simplification of prioritized business procedures linked to private investment by 2018. Chinese Taipei mentioned that, starting in 2015, limited partnerships can also apply for startups online, and a digital signature mechanism will be used to simplify the online application procedure.

The Philippines, in their submission, mentioned the Predictive Evaluation and Registration Project (PERP), which resulted in the reduction of processing time in the pre-evaluation of applications for the Philippine Board of Investments (BOI) registration from six weeks to four weeks and the issuance of the Certificate of Registration from two weeks to one week. The Philippines also shortened the process of starting a business from 16 steps and 34 days, to 6 steps and 8 days.

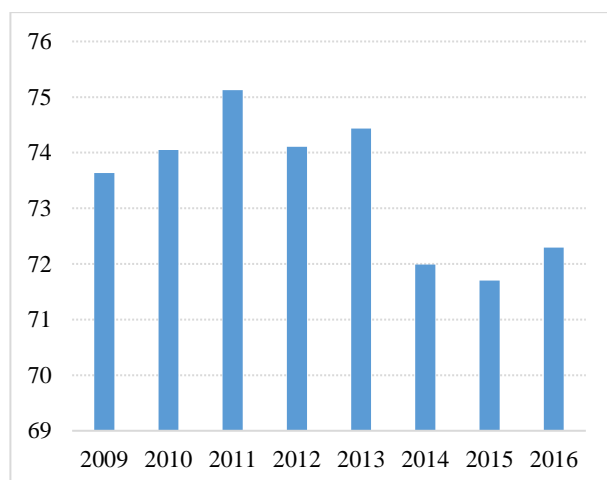
Mexico plans to provide support to subnational courts of justice under the Federal Commission for Regulatory Improvement (COFEMER) strategic plan to encourage cooperation agreements with lower levels of government, and to develop instruments to measure regulation quality.

Canada, through Global Affairs Canada, has undertaken national consultations to review federal, provincial, regional and municipal programmes and procedures so as to identify overlap and redundancy.

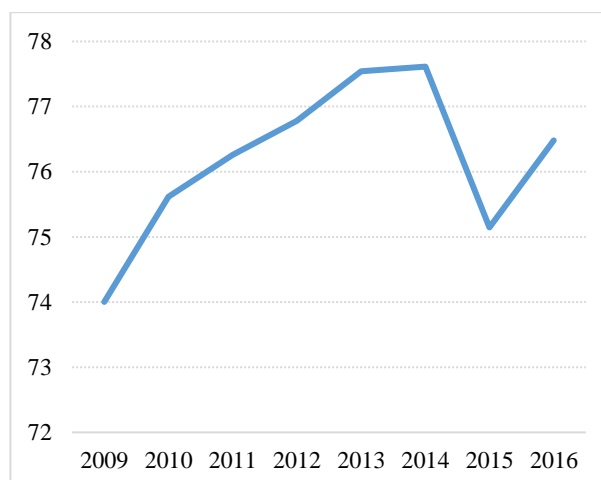
Russia is actively participating in the Doing Business exercise of the World Bank and in the OECD Policy Framework for Investment.

On the ‘simplifying business regulation’ priority theme, two DB indicators can be used to measure how APEC fared in this category. These DB indicators relate to registering property and paying taxes. APEC has recorded incremental improvements in the IFAP implementation years 2015–2016 compared to the 2014 performance in terms of registering property, although the corresponding average scores are slightly lower compared to those achieved in the earlier years (Figure 15). In terms of paying taxes, APEC fared better in 2016 after dipping in 2015 (Figure 16).

**Figure 15. Registering property,
APEC average**



**Figure 16. Paying taxes,
APEC average**



Source: World Bank DB database.

These scores reflect the continuing efforts of APEC economies to further simplify business procedures and processes to make the regulatory environment more convenient for investment applications. It is worthwhile to note that, in 2016, APEC's scores have gone up, suggesting intensified work to encourage more investments.

5. CONCLUSION

Investment trends in the APEC region show the relative strength of FDI inflows into APEC economies, with M&A sales dominant while greenfield investments also remain an important component of FDI. The continued inflow of FDI into APEC, amid weakened growth as a legacy of the 2008 global financial crisis, reflects investors' optimism, underpinned by strong economic fundamentals and a general leaning toward investment-friendly measures.

FDI can bring significant economic benefits, both for the home and host economy. In the creative and digital age, global firms will look for business opportunities and business partners everywhere, trying to establish networks and expand markets. Global FDI flows, particularly in 2015, have been surprisingly robust, given global economic uncertainty and trade slowdown. Indeed, FDI is an important source of capital and should be seen as complementary to domestic capital – particularly in the context of GVCs. Calderon et. al. (2004) finds that economic growth acts as a pull factor for foreign investment in which FDI helps to increase domestic investments in the future.

As such, economies should continue their efforts to facilitate productive investment, both foreign and domestic. The IFAP principles launched in 2008 still serve as a useful guide for APEC members. There is a need to continually look for ways to improve the business and regulatory environments in APEC by implementing actions based on the agreed priority themes. Quantitative measures of APEC's efforts to make the regulatory environment more conducive to businesses suggest advances and upgrades through the years.

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.

APEC economies have implemented specific actions along these priority themes. Important strides have been made by APEC implementing economies, including the establishment of single windows providing one-stop and one-window service for investment application and registration; the provision of timely and relevant advice on changes in regulations, procedures and requirements; the availability of more efficient means of resolving disputes; the adoption of new technologies; and the streamlining of registration and licensing systems, among others.

These specific actions that facilitate investment inflows would need to be monitored for alignment with an economy's investment goals and for relevance in view of the dynamic international business environment. At the broader level, these actions would need to be sustained by taking into account their 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.

There is still room for significant improvements, especially in 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. DB 2017 has noted that improvement in starting a business has been the most common reform from DB 2005 onwards. Fewer reforms seem to have been initiated in the areas of 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.

Responding to specific investor issues and ensuring that the investment process is transparent, secure and easy could be done parallel with meeting the economy's growth and development objectives. This requires a holistic investment framework that will have a development dimension to enable economies to implement reforms and adjustments in keeping with the changing global and local business environments. This means that the framework has to go beyond investment promotion and facilitation, and be cognizant of the objectives of economic growth and sustainable development and the role that investment plays in achieving these goals.

The IFAP has entered its ninth year of implementation, and the nature of FDI activities has changed considerably since 2008, with the prominence of GVCs, e-commerce, and services trade. The IEG may want to consider refining and updating the current IFAP principles to address new and emerging issues of investment facilitation.

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APPENDIX

APEC Investment Facilitation Action Plan (IFAP) Priority Themes and Their Associated Actions 2015–2016

IFAP Priority Themes

- (1) E-transparency
- (2) Reducing investor risk
- (3) Simplifying business regulation

Actions for IFAP Priority Themes

<i>Specific actions</i>	<i>Implementing economy</i>
<i>E-transparency</i>	
▪ Publish laws, regulations, judicial decisions and administrative rulings of general application, including revisions and updates.	Chile; Russia
▪ Adopt a centralized registry of laws and regulations and make this available electronically.	
▪ Establish an investment promotion agency, or similar body, and make its existence widely known.	Japan; Malaysia; Peru; Thailand
▪ Promote the role of policy advocacy within investment promotion agencies as a means of addressing the specific investment problems raised by investors including those faced by small and medium-sized enterprises (SMEs).	Japan; the Philippines
▪ Make available to investors all rules and other information relating to investment promotion and incentive schemes.	Chile; Malaysia; Thailand
▪ Establish an APEC-wide website or e-portal to replace the hard copy publication of the <i>APEC Guide to Investment Regimes of APEC Member Economies</i> .	
▪ Encourage online enquiries and online information on all foreign investment issues.	Chile; Indonesia; the Philippines
▪ Simplify and reduce the number of forms relating to foreign investment and encourage electronic lodgement.	Indonesia

<i>Specific actions</i>	<i>Implementing economy</i>
<ul style="list-style-type: none"> Promote the introduction and use of new technologies aimed at making the investment process simpler and faster. 	Peru; Viet Nam
<i>Reducing investor risk</i>	
<ul style="list-style-type: none"> Increase the use of legislative simplification and restatement of laws to enhance clarity and identify and eliminate inconsistency. 	
<ul style="list-style-type: none"> Maintain a mechanism to provide timely and relevant advice of changes in procedures, applicable standards, technical regulations and conformance requirements. 	
<ul style="list-style-type: none"> To the extent possible, provide advance notice of proposed changes to laws and regulations and provide an opportunity for public comment. 	US; Viet Nam
<ul style="list-style-type: none"> Establish timely, secure and effective systems of ownership registration and/or property use rights for land and other forms of property. 	
<ul style="list-style-type: none"> Foster the dissemination of accurate market reputation information including credit worthiness and reliability. 	Canada
<ul style="list-style-type: none"> Encourage or establish effective formal mechanisms for resolving disputes between investors and host authorities and for enforcing solutions, such as judicial, arbitral or administrative tribunals or procedures. 	Hong Kong, China
<ul style="list-style-type: none"> Explore the possibility of using the World Bank Doing Business indicator ‘enforcing contracts’ as the basis for peer dialogue and benchmarking and measuring progress across APEC. 	
<ul style="list-style-type: none"> Where possible, give effort to international norms for property protection. 	
<i>Simplifying business regulation</i>	
<ul style="list-style-type: none"> Simplify and streamline application and registration, licensing and taxation procedures and establish a one-stop authority, where appropriate, for the lodgement of papers. 	Peru; the Philippines; Chinese Taipei
<ul style="list-style-type: none"> Shorten the processing time and procedures for investment applications. 	The Philippines
<ul style="list-style-type: none"> Promote the use of ‘silence is consent’ rules or no objections within defined time limits to speed up processing times, where appropriate. 	

<i>Specific actions</i>	<i>Implementing economy</i>
▪ Simplify the process for connecting to essential services infrastructure.	
▪ Establish and disseminate widely clear and simple instructions and explanations concerning the application and registration process.	
▪ Implement strategies to improve administrative performance at lower levels of government.	Mexico
▪ Conduct periodic reviews of investment procedures ensuring they are simple, transparent and at lowest possible cost.	Canada; Russia