MEASURING INVESTMENT POLICY REFORM IN THE ASIA-PACIFIC REGION

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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
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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Description</th>
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<td>1. Agriculture</td>
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<td>2. Forestry</td>
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<td>3. Fishery</td>
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<td>4. Mining &amp; Quarrying (incl. oil extract.)</td>
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<td>5. Manufacturing - <em>Food &amp; Other</em></td>
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<td>6. Manufacturing - <em>Oil Ref. &amp; Chemicals</em></td>
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<td>7. Manufacturing - <em>Metals, Machinery and Other Minerals</em></td>
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<td>8. Manufacturing - <em>Electric, Electronics and Other Instruments</em></td>
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<td>9. Manufacturing - <em>Transport Equipment</em></td>
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<td>10. Electricity (generation, distribution)</td>
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<td>11. Construction</td>
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<td>12. Distribution – Wholesale</td>
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<td>13. Distribution - Retail</td>
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<td>14. Transport (surface, water, air)</td>
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<td>15. Hotels &amp; restaurants</td>
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<td>16. Media (broadcasting and other media)</td>
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<td>17. Communication (fixed &amp; mobile telecoms)</td>
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<td>18. Financial services - Banking</td>
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<td>19. Financial services - Insurance</td>
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<td>20. Financial services - Other financial services</td>
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<td>21. Business Services (accounting, legal, architecture, engineering)</td>
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<td>22. Real estate</td>
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FDI restrictiveness varies greatly across countries

2017 FDI RR Index

Closed = 1; Open = 0

Non-OECD average

OECD average
Restrictions often occur in the same sectors
The Asia-Pacific region is more restrictive on average…
...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
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

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

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For further information

FDI Regulatory Restrictiveness Index

www.oecd.org/investment/fdiindex.htm