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# Investment facilitation in APEC

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## 1. Background

The APEC Investment Facilitation Action Plan (IFAP) was 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<sup>1</sup> that address issues of transparency, simplicity, and predictability.

At the first meeting of the Investment Experts' Group in 2015, the members nominated specific actions relating to investment facilitation which will be undertaken and reported by APEC implementing economies. These actions are based on three priority themes: (1) e-transparency; (2) reducing investor risk; and (3) simplifying business regulation. Significant progress has been made and this article reports on developments.

## 2. Progress under the IFAP Priority Themes

### 2.1. E-transparency

E-transparency under the IFAP includes actions such as the publication and dissemination of relevant laws and regulations; the electronic adoption of a centralized registry of laws and regulations; the establishment of an investment promotion agency and the subsequent 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.

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)<sup>2</sup> mention that non-transparency, which could translate into a higher incidence of corruption and poorly enforced property rights, is an important factor in an economy's attractiveness to foreign investors. On average, an economy could expect a 40 percent increase in foreign direct investments (FDIs) from a one-point increase in its transparency ranking.



The following examples enumerate the specific actions undertaken by selected APEC economies to promote transparency in investment facilitation:

- Chile maintains several websites that provide free information on investment-related laws and regulations as well as judiciary proceedings. In addition, the Chilean Investment Promotion Agency (InvestChile) provides direct and open communication lines for foreign investors in seven languages, offering investors a crucial avenue where their concerns are addressed and clarified.
- 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.
- Indonesia, with its National Single Window for Investment (NSWi) or Investor Online SPIPISE, 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 as of February 2016.

## *2.2. Reducing investor risk*

Under the IFAP priority theme of reducing investor risk, implementations cover the following: providing advanced notice and opportunity for public comments on proposed changes to laws and regulations; fostering the dissemination of accurate market reputation information; and encouraging or establishing an effective formal mechanism for resolving disputes.

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; fostering the dissemination of accurate market reputation



information; and encouraging or establishing an effective formal mechanism for resolving disputes. Below are some examples from the submission of APEC member economies:

- Viet Nam has revised its public consultation mechanism so that currently, it 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 that are being considered to address this issue include increased social media use and providing more a more comprehensive information backed by facts and analysis to deepen investor knowledge on the investment environment and available options in Canada.
- The 2015 International Arbitration Survey conducted by the Queen Mary University of London (QMUL) cited Hong Kong, China and Singapore as among the five most preferred and widely used arbitration seats<sup>3</sup>.

### *2.3. Simplifying business regulation*

Simplifying business regulation is also a critical decision factor 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. Actions under this principle involve simplifying and streamlining application and registration processes as well as licensing and taxation procedures; establishing one-stop windows; reducing processing time and procedures for investment applications; improving administrative performance at the lower levels of government; and conducting periodic reviews of investment procedures.

The following are a few examples of the implementation of this IFAP principle:

- Peru, in 2015, established a Single Procedure System to simplify administrative procedures and avoid delays in investments and instituted a regulatory framework to promote the integration of government services and procedures, specifically developing a Single Window System (SWS) that facilitates information exchange between public entities with a view towards eliminating burdensome regulations.
- The Philippines launched the Predictive Evaluation and Registration Project (PERP), which reduced processing time in the pre-evaluation of applications for the Philippine Board of Investments (BOI) registration from six weeks to four weeks, and in the issuance of the Certificate of Registration from two weeks to one week.



### 3. Future Directions: FDI and GVC

Overall, APEC economies have stepped up efforts to put in place mechanisms that facilitate and promote investments. Important strides have been made, 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.

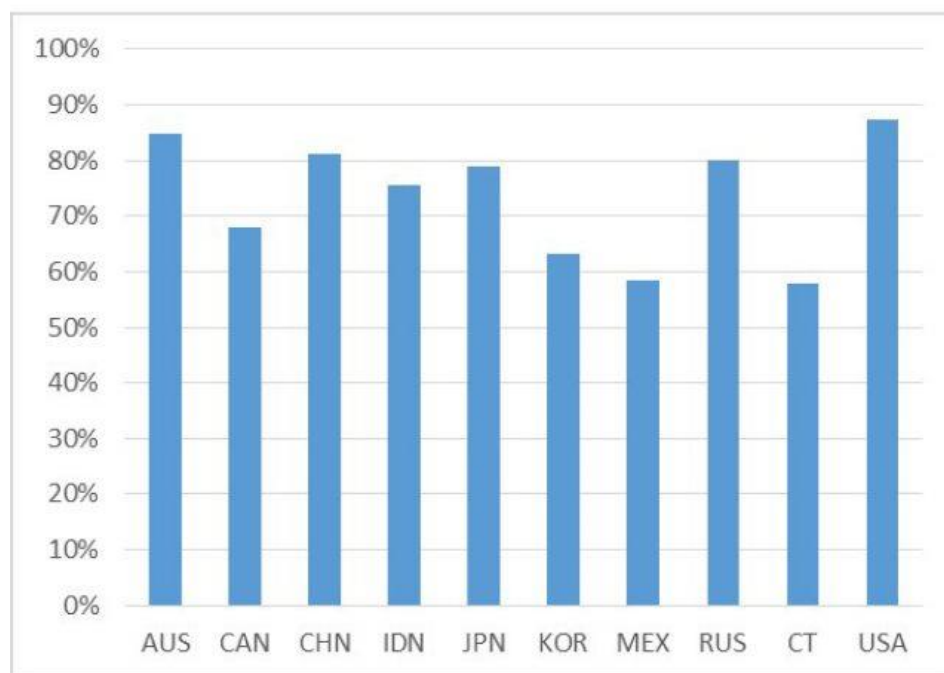
The IFAP has entered its ninth year of implementation, and the nature of FDI activities has changed considerably since 2008, with the prominence of Global Value Chains (GVCs), e-commerce, and services trade. APEC may want to consider refining and updating the current IFAP principles to address new and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

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.

APEC economies are highly involved in GVCs, particularly in outsourcing their inputs for production. Using the data from the World Input-Output Database (WIOD), the share of domestic value added in exports for the manufacturing industry in APEC ranged from 58 to 87 percent; which means that a significant share was contributed by imported inputs (Figure 1)<sup>4,5,6</sup>.



**Figure 1. Domestic content of value-added export, in manufacturing industry (%), 2014**



MNEs and their supply chain networks 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.

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. Facilitating FDI across these different industries may require a different set of policies catering to the specific needs of certain industries.



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- <sup>1</sup> The IFAP's original eight principles are discussed in detail in an APEC October 2009 publication.
  - <sup>2</sup> Drabek, Z. and W. Payne. 2001. 'The impact of transparency on foreign direct investment'. Staff Working Paper ERAD-99-02. Geneva: World Trade Organization.
  - <sup>3</sup> Queen Mary University of London (QMUL). 2015. 2015 International Arbitration Survey: Improvements and Innovations in International Arbitration. London: School of International Arbitration at QMUL and White & Case LLP.
  - <sup>4</sup> Preliminary calculation. Method of calculation is based on Stehrer (2013) and Timmer et. al. (2015).
  - <sup>5</sup> Stehrer, R. 2013. 'Accounting relations in bilateral value added trade'. Working Paper. Vienna: Vienna Institute for International Economic Studies.
  - <sup>6</sup> Timmer, M.P., E. Dietzenbacher, B. Los, R. Stehrer and G.J. de Vries. 2015. 'An illustrated user guide to the world input–output database: The case of global automotive production', *Review of International Economics* 23(3): 575–605.