Executive Summary

Accelerating Investment in Services in APEC

The APEC Business Advisory Council requested USC Marshall to interview APEC business leaders and to capture their views and experiences on the challenges to investing in services in APEC economies. This report presents those findings through a detailed comparative analysis of not just restrictiveness but the overall quality of investment environments for services across APEC economies.

Policy makers debate the best way to promote trade and investment in services. However there is no dispute that investments in services contribute more to economic growth than investments in manufacturing and agriculture and will contribute even more in the future. Investments in services have a multiplier effect and impact overall levels of competitiveness across economic sectors. Few yet understand the full implications of technological innovation on how services are produced and delivered. Economies must be proactive and forward thinking to create services policies that will promote FDI, anticipate changes, and improve the competitiveness of economies.

APEC has done much to encourage openness to investment in services, but business executives believe it can and should do much more. The relative neglect of services in trade and investment discussions is understandable because of their complexity but it has had a negative impact. Liberalizing and facilitating trade and investment in services will promote economic growth, create jobs, and improve levels of prosperity. Many APEC economies, those most in need for FDI, are currently ranked in the bottom 20 percent of all global economies in terms of barriers and impediments to FDI in services. All APEC economies have significant room for improvement.

Our research included:

- Taking a sectorial approach to identify and assess the challenges in FDI in services. This study evaluated the barriers and impediments to services by examining seven specific services sectors: Trucking Services, Container Port Services, Retail & Restaurants, Telecom & Broadband Infrastructure, Accounting Services, Software & Cloud Services, and Life Insurance.
- Interviewing 368 APEC business executives, industry association leaders, consultants and government officials in gathering the data for this report in all 21 APEC economies.
- Cataloging what business executives identify, at a services sector-level, as the most important barriers and impediments to FDI within each Services sector.
- Rating how business executives, at an economy-level, assess the relative impact of those barriers and impediments to FDI on investment decisions in services within each APEC economy.
- Developing a comprehensive business perspective FDI in services analytical framework to assess the factors affecting FDI across all seven services sectors.
- Capturing the recommendations on changes that will improve investment climates.

Overall Findings:

- Services remain overly restrictive with no evidence of change. Restrictions on investment in services are more limiting than manufacturing and even agriculture. There is no evidence of concerted efforts in APEC economies to liberalize services. While services require guiding regulations and consistent enforcement to dissuade problems of opportunism most services regulatory environments remain weak, outdated, discriminatory, protectionist, and counterproductive.
- High quality FDI environments increase domestic investment in services. Improvements to the quality of FDI environments were found to encourage greater than equal domestic business investment in services. Policies that seek to mandate local content discourage both foreign and domestic investment.
- Technology is changing services. Technology is enabling services, previously delivered by physical presence, to potentially become tradable services. Services such as accounting and life insurance are beginning to outsource major elements of their value chains to more competitive economies. Policies that do not recognize these fundamental changes risk increasing transaction costs and harming the competitiveness of entire services sectors.
- Human capital frustrations: Quality services require a specialized, well educated workforce. Access to domestic skilled talent, and restrictions on movement of people, were found to be major concerns in all services sectors. Obtaining working visas and the lack of mutual recognition of qualifications were found to be particularly problematic in developed economies.
- Adopting global standards and ensuring coherence in services policies improves competitiveness: Economies that adopt global standards improvement attractiveness and lower investment costs. Additionally where services policies are coherent with those in other economies greatly facilitate the investment process.
- Common APEC-wide impediments: The most problematic challenges for FDI in services are: jurisdictional overlap among oversight agencies, highly independent local governments that impose and enforce their own rules, and overly bureaucratic institutions and biased approval processes.
Services Sector-Specific Findings:
The seven services sectors examined in detailed varied widely in FDI inflows, their permissiveness and the types of impediments that had the greatest impact on incentives to invest.

- **Container Port Services**: APEC ports currently handle 64% of global container volumes and continue to increase their role in global trade. Quality port infrastructure is strongly correlated with high quality investment environments. Major impediments are access to land and long-term leases, bureaucratic and biased permit and approval and enforcement processes, and multiple powerful stakeholders including local municipalities and community activism.

- **Trucking Services**: Two notable findings characterize APEC trucking – no improvements in quality and performance over the last ten years within APEC economies and very little FDI. The core challenge in trucking is providing high quality reliable services in markets where competition is low cost driven. Major impediments include lack of coordinated national policies, powerful competing stakeholders, regulatory inconsistencies and uncoordinated oversight, corruption and unregulated informal trucking sectors. Poor infrastructure, bureaucracy, and limits on foreign ownership are major challenges in emerging economies.

- **Retail & Restaurants**: This sector is the only sectors studied that has experienced increases in FDI. Market access restrictions remain problematic; while most economies allow 100% foreign ownership, restrictions on licenses for expansion, access to land, and needs/benefits tests remain major FDI barriers in some economies. However, foreign firms encounter their most challenging problems in operating and expanding their businesses. Recurring biased enforcement and different requirements and approval processes imposed by autonomous local government significantly increase transaction costs. Critical FDI impediments in developing economies are tariffs, customs delays, the ability to find competent well-capitalized domestic partners, and the impact of unregulated informal markets.

- **Telecom & Broadband Services**: Across economies telecom is the most restrictive services industry. Differences in national policies on ownership of backbone infrastructure influence openness to FDI. Foreign ownership limits, barriers to competition, especially the impact of strong incumbent and SOEs, access to spectrum, and the stability and predictability of regulations are the major impediments.

- **Accounting**: There has been essentially no FDI in accounting services. Global accounting firms are, in fact, coordinated networks of domestic partnerships. Resistance to full adoption IFRS, strong self-regulating professional organizations, and complex and time consuming accreditation processes severely limit FDI opportunities.

- **Life Insurance**: Investment and development of life insurance in APEC closely follows economic development. Major impediments include limits on foreign ownership and requirements for joint ventures, inefficient approval process, restrictive prudential rules and limits on movement of capital, and limits of foreign workers and shortages of skilled labor.

- **Software, Platform and Cloud as a Service**: As a rapidly emerging services sector in most economies the biggest threat to FDI are policy fumbles. These ICT services are tradable services. Competitive hubs will develop in economies with strong IP protection, high quality ICT infrastructure, availability of high quality skilled talent, and supportive venture capital industries.

Recommendations
We offer the following recommendations to APEC and individual economies:

- **Take a whole of government approach to services**: Services regulatory regimes must be aligned and coordinated across ministries and levels of government and be coherent with other economies to accelerate growth in services.

- **Increased commitment to adopting global standards without modifications**: Adopting generally accepted global standards reduces transaction costs and lowers entry costs for foreign services investors.

- **Services FDI must be made a Policy Priority and Championed**: FDI in services must be actively championed. It is not sufficient for policy makers to remove restrictive market access barriers and guarantee national treatment.

- **Keep Access to Talent and Talent Mobility on the APEC Agenda**: APEC must address gaps in the human capital talent pool and update arcane talent mobility rules.

- **Track progress on Key Factors in APEC Investment Climates**: Much is gained by measuring and reporting progress on key factors that promote or inhibit FDI.

- **More Public-Private Dialogues**: Inclusion in the regulatory process, especially for foreign firms, is a critical element of high quality investment environments.

- **Accelerate the Inclusion of Services Provisions in FTAs**: FTAs increase market size, encourage regulatory coherence and improve confidence in long-term stability.