Accelerating Investment in Services in APEC:
Growing Businesses Globally for the Benefit of Member Economies

University of Southern California, Marshall School of Business
APBO April 2015
There is Unprecedented Opportunity to Invest in Services Across APEC

APEC Economies are Moving Away from Traditional Manufacturing and Becoming Service-Based Economies

GDP Composition By Sector

Source: World Bank OECD Database
Despite the Importance of Investment in Services, Service Sectors Remain Highly Restrictive

Services Industries Lag Manufacturing and Agriculture and APEC Economies Lag OECD Average in Openness Across Sectors

Comparison of FDI Restrictiveness across Economic Sectors

Source: Compiled from OECD FDI Restrictiveness Index data

Introduction | Framework | Main Findings | Sector Findings
The Aim of This Year’s Study is to Identify the Critical Barriers and Incentives to Foreign Direct Investment in Services Across APEC

In Order to Evaluate Barriers to FDI in Services We Selected Seven Sectors to Stand In for the Breadth of Services Across APEC

- Consumer Services
- Infrastructure ICT Services
- Transportation Services
- ICT Services
- Financial Services
- Professional Services
- Infrastructure Transportation Services
- Retail & Restaurants
- Broadband & Telecom
- Trucking Services
- Software, Platform, & Cloud Services
- Life Insurance
- Container Port Services
- Accounting
The Report Utilizes Secondary Sources Such as the OECD, World Bank, and World Economic Forum to Support 368 In-Depth Interviews

Secondary Sources

368 Interviews
21 Economies
496 Economy Sectors

Port Services: 53 Sector Economies Discussed
Trucking Services: 82 Sector Economies Discussed
Retail & Restaurants: 103 Sector Economies Discussed
Telecom: 51 Sector Economies Discussed

Accounting: 72 Sector Economies Discussed
Life Insurance: 81 Sector Economies Discussed
Cloud Services: 56 Sector Economies Discussed
The Study Identifies the 51 Most Critical Barriers to Foreign Investment in Services and Evaluates How Those Barriers Affect Service Industries

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Location and Relative Importance of Critical FDI Factors

When

Demand Attractiveness
Starting a Business
Operating a Business
Long-Term Stability

Categories

Regulations
Approval & Enforcement of Regulations
Quality of Infrastructure
Enhancers
Business Conditions
Human Capital

Very Impactful
Net Impactful
**Sector-Specific Barriers and Impediments to FDI in Container Port Services Rated Across Economies**

Twenty factors were found to be important or very important to FDI in container port services across economies. The impact of those factors are presented below.

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<td>Jurisdictional overlap and conflict between approving agencies</td>
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We have also used our framework to produce stacked bar charts for each sector. Larger bars represent economies with lower quality investment environments, and smaller bars represent those more conducive to investment. Each color in the chart represents a category of factors seen in our framework. The chart below represents the overall foreign investment environment in our seven sectors across APEC—in this chart we use secondary data only and not interview data to provide an economy-by-economy comparison.
Introduction Framework Sector Findings Main Findings

**Through In-Depth Interviews the Study Identifies Critical Barriers to Each of the Seven Sectors**

**Retail & Restaurants**
Industries that rely on efficiencies of scale derived from multiple brick and mortar locations are stunted by a lack of coordination between municipalities.

**Software, Platform & Cloud**
In order to support investment in innovation industries, governments must protect intellectual property rights and invest in human capital.

**Trucking Services**
Commitment to the enforcement of global standards enables industries comprised of small or independent operators to expand across borders.

**Life Insurance**
Investment in financial services is deterred by foreign ownership restrictions and lack of high-quality of capital markets.

**Container Port Services**
Long-term economic, regulatory, and political stability are critical to service industries that require significant infrastructure investment.

**Accounting**
The adoption of global standards (like IFRS) and the mutual recognition of qualifications incentivizes growth in professional services.

**Broadband & Telecom**
Industries that rely on large shared resources require government support and regulation without biased support of State-Owned Enterprises.
Two Key Findings Across Service Sectors

**Services are Inherently Different**
Because they are Intangible, Ephemeral, and Un-returnable

Governments Will Naturally Regulate Service Industries More Closely

**Technology is Changing the Way Services are Being Delivered**

Improved Fluidity in Trade in Services Will Attract Greater Foreign Direct Investment
Traditionally, Foreign Investors Weigh an Economy’s Market Attractiveness Against the Impediments to Foreign Direct Investment

Historically, services industries have been confined by the need to produce a service where it is consumed. Because of that, foreign firms are particularly focused on market attractiveness when making investment decisions. They weigh the draw of market opportunities and enhancers (enhancers being free trade agreements, tax incentives, investment promotion agencies, etc.) against the costs and risks of impediments.
Technology is Changing the Way that Services are Being Delivered

Through technological innovation more and more services are capable of being delivered remotely. Across the seven sectors evaluated in this study, some sectors are more confined by physical location than others. The degree to which services are confined to location determines the factors most critical to investment.

Tradable Factors
- Adoption of International Standards
- Government Support of FDI
- Existence of FTAs

Common Factors
- Human Capital Restrictions
- Approval & Permit Process
- Jurisdictional Overlap

Non-Tradable Factors
- Market Attractiveness
- Quality of Infrastructure
- Access to Land
- Impact of Business Networks

Ability to Deliver Remotely

Individual Economy
Investment Required

Introduction Framework Sector Findings Main Findings
Market Attractiveness No Longer Stops at the Border

**Market Attractiveness**

- Natural Factor Endowments
- Population
- GDP per capita
- All Levels of Government are Aligned
- Ease Visa Restrictions
- Infrastructure Investment
- Investment in Education
- Efficient Approval Processes
- Coherent Regulations
- FDI as a Policy Priority
- Recognition of Global Standards
- Quality of Life
- Quality of Approval Process

**New Understanding of Market Attractiveness**

- Free Trade Agreements
- Recognition of Global Standards
- FDI as a Policy Priority
- Coherent Regulations
- Efficient Approval Process
- Quality of Education System
- Infrastructure Investment
- Ease of Visa Restrictions
- Alignment Across Levels of Government

**Traditional Market Attractiveness Factors**

- Natural Factor Endowments
- Populations
- GDP Per Capita
- Population Density
- Consumer Preferences

**Framework**

- Introduction
- Framework
- Main Findings
- Sector Findings

USC University of Southern California

ABAC (Asia Business Advisory Council)
Global Standards Enable Economies to Participate in and Appropriate the Benefits of Trade in Services

Adoption of Global Standards Decreases Costs, But No Global Standard Has Been Fully Adopted in Any Sector

- Global Standardization
- Coherence of Regulations Across Economies
- Lower Entry Costs
- Higher Efficiency
- Increased FDI
Jurisdictional Overlap is Ubiquitous in Service Industry Regulation and Cripples Both Domestic and Foreign Investment

National Government

Ministry of Trade
Ministry of Labor
Ministry of Health
Ministry of Finance

Provincial Government


Local Government


Economies Must Limit Restrictions on Foreign Worker Visas and Invest in Long-Term Development of the Domestic Workforce

Human capital is consistently impactful across all sectors and has the lowest variance in rating. Visa restrictions and quality and availability of human capital are the most critical impediments.

Human Capital Factor Impact Ratings

Factor Impact Comparison Using Aggregate Sector Scores

Introduction Framework Main Findings Sector Findings
Foreign Investors Look for a Permanent Home When Investing in Service Industries

Factors Relating to Long-Term Stability Rated as the Most Critical Barriers to Investment in Services Across the Seven Sectors

Long-Term Stability Rated Across All Service Sectors in APEC
Recommendations to Increase Foreign Direct Investment in Services Across APEC

1. Commit to the adoption of global standards without modification in service industries

2. Eliminate jurisdictional overlap and increase coordination between levels of government

3. Invest in the long-term development of domestic human capital and ease the restrictions on worker mobility

4. Commit to coherent and stable economic, political, and regulatory policy
Service Sectors
Container Port Services
Container port services is the second most restrictive service industry in the study, and there is significant opportunity for improvement in the investment climate. Currently APEC accounts for 64% of global container volume and continues to grow faster than the rest of the world. The size of the market and future growth rates make investing in ports particularly attractive in the APEC region. While APEC has some of the most developed ports in the world, additional investment will be needed to access new markets and lower transaction costs for the entire supply chain network. The five most problematic factors across all of APEC are:

- Ability to access land and obtain leases greater than 20 years
- Efficiency of approval process
- Number of permits and licenses required to start a port
- Autonomy of local states and governments to implement their own rules and regulations
- Jurisdictional overlap between approving agencies

Across APEC we see a high correlation between the degree of openness to foreign investment and the quality of port infrastructure as rated by the World Economic Forum. More developed economies have made investment easier across all factors. The complicated and time consuming nature of container port investments requires economies to reduce restrictions in all categories. Governments can also spur port investment by expanding public-private partnerships to stimulate investment and offset high initial construction costs.

Port services are important links in the transportation system. Because of the connected nature of transportation networks, the system is only as strong as the weakest link. While capacity may be strong in other parts of the network, ports have the ability to constrain capacity. Continued investment in container ports will allow economies to take advantage of increases in other parts of the supply chain.
APEC Dominates World Trade

- 64% of global container volume passes through an APEC port
- APEC container volumes have grown faster than the rest of the world

World Bank LPI: cost and time to export goods
When & Where Impediments Arise in Container Port Services

Location and Relative Importance of Critical FDI Factors Within Container Port Services
Stacked Bar Chart Illuminating the Most Impactful Type of Impediments to Container Port Services in Each Economy

Note: No data was collected on container port services in Russia.
The discussion below focuses specifically on the most important challenges in container port services. A careful analysis of all port interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the container port sector. Twenty FDI factors were found to be important or very important across economies. The horizontal bar chart below summarizes the impact of these factors for each APEC economy.

Five Most Critical Challenges:
- Efficiency of Approval Process
- Ability to access land and gain lease terms greater than 20 years
- Number of Permits/Licenses Required to start a port
- Autonomy of states and local governments to implement their own regulations
- Jurisdictional Overlap between Approving Agencies

Most Critical Challenges Rated Across Economies:
### Sector Specific Barriers and Impediments to FDI in Container Port Services Rated Across Economies

Twenty factors were found to be important or very important to FDI in container port services across economies. The impact of those factors are presented below.

**Key**

- Least Impactful
- More Impactful
- Most Impactful

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<tr>
<th>Factor</th>
<th>Australia</th>
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<th>Canada</th>
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<td>Market Size: Total production and consumption habits of an economy</td>
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<td>Quality of infrastructure connecting ports to other modes of transportation</td>
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<td>Limits on foreign ownership of container ports</td>
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<td>Number of permits/licenses required to start a port</td>
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<td>Quality of connecting supply chain partners including trucking and railroads</td>
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<td>Community Activism: Ability of local communities to block or delay port investments</td>
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<td>Competitiveness of markets from both SOEs and collusion among incumbents</td>
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<td>Ports are deemed to be of strategic national interest limiting access to firms from certain economies</td>
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<td>Efficiency of approval process to start a new port project</td>
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<td>Presence of government agency &amp; Judicial corruption in starting or operating a port</td>
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<td>Regulations on capital movement to fund port construction</td>
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<td>Quality of capital markets to borrow money to fund construction</td>
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<td>Additional requirements to add additional berths</td>
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Critical Issues and Key Recommendations for Container Port Services

**Critical Issues**

- Approval & Enforcement of Regulations in Starting a Business
- Regulations in Starting a Business
- Long-term Economic & Political Stability
- Access to Land & Long-term Leases

**Key Recommendations**

- Time to Start a New Terminal Must Be Tracked and Published on an Annual Basis Across APEC
- Develop Public Private Partnerships to Spur Investment
- Globalize and Promote Quality Supply Chain Partners, Especially the Trucking Industry
Trucking Services
An Overview of FDI in the Trucking Industry

As multinational companies continue to expand their global supply chains, the competitiveness and attractiveness of economies become increasingly defined by the availability of world-class trucking and logistics services. While cost is always an important factor, multinational companies consider the quality (defined by trackability, safety, reliability, and concern for the environment) of trucking services as more important. So far, there has been little FDI in this sector because of the existence of various impediments. The most problematic issues across all economies are:

- Lack of a long-term national plan for investment in the transportation infrastructure network
- Regulatory inconsistency regarding weight limits, emissions, and other trucking regulations between national, state, and municipal agencies
- Fragmented and uncoordinated regulatory oversight (different modes of transport (air, rail, road, maritime) are regulated by different bodies)
- Access to certified and reliable drivers

Most problematic issues for less-developed economies are:

- Quantity and quality of roads; the level of infrastructure development across metropolitan and rural areas
- Number of permits/licenses required to start or expand a business
- Equity ownership limits on foreign trucking firms
- Impact of delays, additional costs, and corruption in customs procedures
- Size and impact of informal trucking firms

Despite the minimal amount of FDI in this sector, foreign trucking firm executives have expressed great interest in growing their businesses and expanding their market access in emerging economies if go/no-go impediments are removed and add-on–costs are alleviated. In order to enhance competitiveness, economies should set FDI as a priority in the development of trucking services and logistics networks.
Nothing Has Improved Across APEC Economies for Almost a Decade

Overall Logistics Performance Index (LPI)

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Little FDI in Trucking Services

Quality Price Analysis for No-Go Barriers

![Graph showing the relationship between service price, revenue, reasonable profit, operating cost, minimum quality, and service quality.](image)
Little FDI in Trucking Services

Quality Price Analysis for No-Go Barriers

- Reasonable Profit
- Operating Cost
- Revenue
- Minimum Quality
- Service Quality

Ignorance of Quality No-Go
Quality Price Analysis for No-Go Barriers

- Ignorance of Quality No-Go
- Corruption No-Go
- Minimum Quality
- Service Quality
- Service Price
- Revenue
- Operating Cost
- Reasonable Profit
Little FDI in Trucking Services

Quality Price Analysis for No-Go Barriers

- Ignorance of Quality No-Go
- Corruption No-Go
- Additional Costs No-Go

Service Price

Revenue

Reasonable Profit

Operating Cost

Minimum Quality

Service Quality
When & Where Impediments Arise in Trucking Services

Location and Relative Importance of Critical FDI Factors Within Trucking

- Regulations
- Approval & Enforcement of Regulations
- Quality of Institutions
- Enhancers
- Business Conditions
- Human Capital

Demand Attractiveness, Starting a Business, Operating a Business, Long-Term Stability
Stacked Bar Chart Illuminating the Most Impactful Type of Impediments to Trucking Services in Each Economy

Relative Attractiveness of the Investment Environment Across Economies

- Human Capital
- Business Conditions
- Enhancers
- Quality of Institutions
- Approval and Enforcement of Regulations

Indonesia, Brunei Darussalam, Mexico, Philippines, Thailand, Russia, China, Peru, Malaysia, Papua New Guinea, Japan, Vietnam, Korea (Rep.), Chile, United States, Canada, Chinese Taipei, Australia, New Zealand, Singapore, Hong Kong, SAR
The discussion below focuses specifically on the most important challenges in trucking services. A careful analysis of all trucking interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the trucking sector. Twenty-one FDI factors were found to be important or very important across economies. The horizontal bar chart below summarizes the impact of these factors for each APEC economy.

**Nine Most Critical Challenges:**
- Long term national plan for investment in transportation infrastructure network
- Regulatory consistency in weight limits, emissions, and other trucking regulations between national, state and municipal agencies
- Fragmented and uncoordinated regulatory oversight (different modes of transport, air, rail, road, maritime, are regulated by different bodies)
- Access to certified and reliable drivers
- Quantity and quality of roads; Infrastructure development level across metropolitan and rural areas
- Equity ownership limits on foreign trucking firms
- Number of permits/ licenses required
- Impact of delays, cost and corruption of customs procedures
- Size and impact of informal trucking firms
Twenty-one factors were found to be important or very important to FDI in trucking services across economies. The impact of those factors are presented below.

### Key

<table>
<thead>
<tr>
<th>Least Impactful</th>
<th>Most Impactful</th>
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<td>Australia</td>
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<td>United Arab Emirates</td>
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<tr>
<td>United Kingdom</td>
<td>Vietnam</td>
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#### Sector Findings

- Quantity and quality of roads: Infrastructure development level across metropolitan and rural areas
- Regulatory consistency in weight limits, emissions, and other trucking regulations between national, state, and municipal agencies
- Size and impact of informal trucking firms
- Availability and quality of logistic parks and their level of modernization and efficiency
- Existence of corruption in police force and other regulatory officials
- Adoption of global standards for weight, emissions, safety standards and product regulations
- Number of permits/licenses required
- Access to certified and reliable drivers
- Fragmented and uncoordinated regulatory oversight (different modes of transport, e.g. rail, road, maritime, are regulated by different bodies)
- Equity ownership limits on foreign trucking firms
- Impact of organized crime
- Impact of delays, cost and corruption of customs procedures
- Preference of domestic firms for using domestic trucking companies
- Long term national plan for investment in transport and infrastructure network
- Limits on domestic trucking operations for foreign trucking firms
- Power of unions, including driver unions, port unions, and warehouse unions
- Impact of under-developed ICT
- Special taxes imposed by governments at different levels
- Presence of FTAs and impact on cross-border trucking
- Prevalence of manufacturers and retailers vertically-integrated into trucking, compared with 3rd-party independent trucking firms
- Physical safety, theft, and high costs of insurance for foreign firms
Critical Issues and Key Recommendations for Trucking Services

Critical Issues

- Inconsistent Regulations
- Fragmented Oversight
- Road Infrastructure
- Foreign Ownership Limitations
- Informal Trucking Market

Key Recommendations

- Implement Uniform Operational and Safety Standards
- Promote Regulations That Enhance Competition
- Enhance Long-Term Transportation Infrastructure
Retail & Restaurants
An Overview of FDI in the Retail & Restaurant Industry

APEC is currently home to the largest retail markets in the world and the rapid transition of many APEC economies from producer to consumer markets will only increase this opportunity. Market attractiveness is the single most important factor in attracting FDI. While market access limitations are issues in some countries, the majority of issues impacting investment are in business operations. Across economies, the major deterrents to investment reported were:

- Power and discretion of local government agency to make and enforce their own rules.
- Efficiency of the approval process including domestic bias timeliness, and corruption
- Judicial overlap of ministries and government agencies
- Stability and predictability of regulations
- Ability to expand and scale operations

Within emerging economies, the major deterrents to investments reported were:

- Sourcing goods internationally, including tariff and customs delays
- Limits on foreign ownership
- Restrictions on hiring and firing workers
- Ability to find competent well capitalized domestic firms for partnerships, JV’s, or acquisition
- Challenge with dispute resolution
- Competitiveness of local markets; particularly the impact of informal markets

Within developed economies, the major deterrent to investments reported were:

- Access to visas for foreign workers
- Access to land

Major changes are expected within this industry. E-Commerce is likely to play a much larger role in emerging economies as firms seek to skip the need for heavy investment in brick and mortar retailing.
Retailers from Emerging Markets Will Be The Ones to Capture Retail Growth in Those Regions

7 Out of the 10 Largest Retailers Within Emerging Markets Are From Emerging Markets

<table>
<thead>
<tr>
<th>Retail Sales in US$ Bn</th>
<th>Retailers from Developed Markets</th>
<th>Retailers from Emerging Markets</th>
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<tr>
<td>Magnit</td>
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<tr>
<td>X5 Retail Group</td>
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<tr>
<td>Suning Appliance</td>
<td>16.6</td>
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</table>
When & Where Impediments Arise in Retail & Restaurant Services

Location and Relative Importance of Critical FDI Factors Within Retail & Restaurants
Stacked Bar Chart Illuminating the Most Impactful Type of Impediments to Retail & Restaurant Services in Each Economy

Relative Attractiveness of the Investment Environment Across Economies

- Human Capital
- Business Conditions
- Enhancers
- Quality of Institutions
- Approval and Enforcement of Regulations
- Regulations

Countries: Brunei Darussalam, Indonesia, Peru, Philippines, Russia, Malaysia, Mexico, Viet Nam, Papua New Guinea, Thailand, China, Korea, Rep, Chile, Japan, Chinese Taipei, Canada, Australia, United States, Singapore, New Zealand, Hong Kong S-A-P
Most Problematic Investment Challenges in Retail & Restaurant Services

The discussion below focuses specifically on the most important challenges in retail & restaurant services. A careful analysis of all retail & restaurant interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the retail & restaurants sector. Twenty-two FDI factors were found to be important or very important across economies. The horizontal bar chart below summarizes the impact of these factors for each APEC economy.

**Ten Most Critical Challenges:**
- Long-term economic growth outlook for the country
- Market Size: Consumer behavior in the economy
- Efficiency of approval process: impartiality, timeliness, corruption
- Land ownership or security of stable long-term leases
- Ability to expand and scale retail and restaurant operations
- Ability to find competent, well capitalized, domestic companies for partnership, joint venture, or acquisition
- Limits on foreign ownership and control: Requirements for joint ventures
- Quality of supply chain partners: transportation, logistics, and refrigeration infrastructure
- Global standards for food safety
- Competitiveness of domestic market: impact of the informal market
Twenty-two factors were found to be important or very important to FDI in retail & restaurants services across economies. The impact of those factors are presented below.

### Sector Findings

#### Key

<table>
<thead>
<tr>
<th>Least Impactful</th>
<th>Most Impactful</th>
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<tbody>
<tr>
<td>Efficiency of approval process for retail/restaurant operations: impartiality, domestic bias, timeliness, corruption</td>
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<tr>
<td>Market Attractiveness</td>
<td></td>
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<tr>
<td>Impact of local government discretion to independently set and enforce their own rules and requirements</td>
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<tr>
<td>Land ownership or security of stable long-term leases for retail/restaurant locations</td>
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<tr>
<td>Ability to expand and scale retail/restaurant operations</td>
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<tr>
<td>Ability to find competent, well-capitalized, domestic companies for partnership, joint venture, or acquisition</td>
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<td>Limits on foreign ownership and control: requirements for joint ventures</td>
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<tr>
<td>Accessibility and transparency of regulations</td>
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<tr>
<td>Stability &amp; predictability of regulations</td>
<td></td>
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<tr>
<td>Quality and availability of supply chains partners: transportation, logistics, and refrigeration infrastructure</td>
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<tr>
<td>Efficiency of sourcing international goods including: tariff and import restrictions, customs process, and existence of FTAs</td>
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<tr>
<td>Adoption of global standards for food safety, technical and labeling requirements</td>
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<tr>
<td>Competitiveness of domestic market: impact of the informal retail/restaurant market</td>
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<tr>
<td>Receptiveness of consumers to modern international retailing and restaurant concepts</td>
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<tr>
<td>Restrictions on scope and scale of retail/restaurant operations: local content requirements, number of stores, zoning restrictions</td>
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<tr>
<td>Restrictions on hiring and firing domestic workers including: part-time and seasonal workers</td>
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<tr>
<td>Business corruption</td>
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<tr>
<td>Political Stability</td>
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<tr>
<td>Judicial overlap and conflict between oversight/approving agencies</td>
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<tr>
<td>Dispute resolution</td>
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<tr>
<td>Economic conditions</td>
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<tr>
<td>Visa &amp; Work permit restrictions for foreign employees</td>
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</tbody>
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**Australia**

**Brazil**

**Canada**

**Chile**

**China**

**Egypt**

**France**

**Germany**

**India**

**Indonesia**

**Japan**

**Korea, Rep.**

**Malaysia**

**Mexico**

**New Zealand**

**Peru**

**Rwanda**

**Singapore**

**Thailand**

**United Arab Emirates**

**Vietnam**
Critical Issues and Key Recommendations for Retail & Restaurant Services

**Critical Issues**

- Market Size & Consumer Behavior
- Competent, Well Capitalized Local Partners
- Ability to Expand and Scale Operations
- Competitiveness and Power of Informal Market

**Key Recommendations**

- Standardize Approval Process Across Local Governments
- Information on Local Markets
- Legislate for the Future
Broadband & Telecom
An Overview of FDI in the Broadband & Telecom Industry

The telecommunications industry includes fixed-line, mobile, and broadband infrastructure and services. This is projected to be a major growth area. However, it is also one of the most restrictive sectors across APEC, due to a combination of regulations and business conditions. APEC economies employing the strictest regulatory constraints on new investment in telecom and broadband have fallen behind as a result of those choices. The five main impediments hindering investment in telecom and broadband are:

- Lack of Competitiveness
- Access to Spectrum
- Ability to Earn an Acceptable ROI
- Foreign Ownership Requirements
- Regulatory Stability and Predictability

Governments create anti-competitive markets by protecting incumbents or SOEs through their regulatory frameworks. Governments also hinder competition by restricting foreign entry because they view telecom as a strategic industry impacting national security. The business community is also frustrated by incoherent and unstable regulations.

Stable regulations, equal access to the network, and a level playing field are necessary to incentivize investment in telecommunications. Creating those conditions, particularly regarding broadband investment, will enhance economic growth in the short-term. Improving telecom infrastructure has the added benefit of lowering transaction costs across all industries. These effects will snowball, socially and economically. Conversely, failure to develop this sector will only serve to impede existing and future growth across all economic sectors, falling behind nations more open to investment. It is critical that APEC economies develop the telecommunications foundation required for future economic prosperity.
Restrictiveness is Harmful for Economies Because It Decreases Broadband Penetration

0.1% Increase in Restrictiveness Results in 0.5% Decrease in Internet Subscriptions

Source: OECD STRI
When & Where Impediments Arise in Broadband & Telecom Services

Location and Relative Importance of Critical FDI Factors Within Broadband & Telecom Services
Stacked Bar Chart Illuminating the Most Impactful Type of Impediments to Broadband & Telecom in Each Economy

Relative Attractiveness of the Investment Environment Across Economies

- Human Capital
- Business Conditions
- Enhancers
- Approval and Enforcement of Regulations
- Regulations
- Quality of Institutions

Note: No data was collected on Broadband & Telecom Services in Russia
Most Problematic Investment Challenges in Broadband & Telecom Services

The discussion below focuses specifically on the most important challenges in broadband & telecom services. A careful analysis of all broadband & telecom interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the broadband & telecom sector. Seventeen FDI factors were found to be important or very important across economies. The horizontal bar chart below summarizes the impact of these factors for each APEC economy.

Ten Most Critical Challenges:
- Extent of Competitiveness
- Access to Spectrum
- Stability and Predictability of Regulations
- Human Capital
- Access to Land
- Third Party Access to the Network
- Adoption of Global Standards
- Access to Energy and Raw Materials to Power the Grid
- Ability to Earn an Acceptable ROI
- Limits on Foreign Ownership

Most Critical Challenges Rated Across Economies:
Seventeen factors were found to be important or very important to FDI in broadband & telecom services across economies. The impact of those factors are presented below.

<table>
<thead>
<tr>
<th>Key</th>
<th>Least Impactful</th>
<th>Most Impactful</th>
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<tbody>
<tr>
<td></td>
<td>Australia</td>
<td>Brazil</td>
</tr>
<tr>
<td>Limits on Foreign Ownership</td>
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<td>🟠</td>
</tr>
<tr>
<td>Access to land to lay fiber cables and masts</td>
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<tr>
<td>Requirements for Expansion</td>
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<tr>
<td>Stability &amp; Predictability of telecom Regulations</td>
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<tr>
<td>Efficiency of Approval Process</td>
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<tr>
<td>Autonomy of state and local governments to form their own policies and rules</td>
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<tr>
<td>Adoption of Global Standards and Protocol</td>
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<td>🟠</td>
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<tr>
<td>Protection for IP</td>
<td>🟠</td>
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</tr>
<tr>
<td>Market attractiveness for fixed line, mobile, and broadband services</td>
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</tr>
<tr>
<td>Quality and Availability of third party suppliers</td>
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<tr>
<td>Quality of Infrastructure (including ICTs)</td>
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<tr>
<td>Competitiveness in Domestic Markets</td>
<td>🟠</td>
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<tr>
<td>Presence of Monopolies and SOEs</td>
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<tr>
<td>Quality and Availability of Human Capital with science/technical/computer training</td>
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<tr>
<td>Open access to the spectrum including for third party and foreign providers</td>
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<tr>
<td>Government price controls on telecom and broadband services</td>
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<tr>
<td>Telecommunications is considered an industry of special national interest or has special protected status</td>
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<tr>
<td>Accessibility and clarity of telecom regulations</td>
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</tbody>
</table>
Critical Issues and Key Recommendations for Broadband & Telecom Services

Critical Issues

- Lack of Competitiveness
- Access to Spectrum
- Infrastructure Investment Costs
- Foreign Ownership Requirements
- Regulatory Stability and Predictability

Key Recommendations

- Enhance Regulatory Stability
- Proactive PPP Investment in Infrastructure
- Increase Access and Quality of Human Capital
- Increase Coordination Across Ministries
Software, Platform, & Cloud Services
An Overview of FDI in the Software, Platform & Cloud Services Industry

The ecosystem surrounding cloud and software services is changing dramatically. As broadband and telecom infrastructures are becoming globally ubiquitous, newly burgeoning economies are now anxious to participate in the greater ICT industry: software as a service (SaaS), platform as a service (PaaS), and cloud as a service.

Unlike broadband and telecom, which require physical presence in an economy, SaaS, PaaS, and cloud services are potentially tradable. While this section of the report includes cloud services, because of its ability to be delivered remotely, this section focuses on challenges facing software and platform services, which represent completely tradable, innovation-driven services. The most significant factors to foreign investment in these industries are:

- Quality of ICT Infrastructure
- IP Protection
- Quality of High Skilled Human Capital
- Availability of Venture Capital
- Adoption of Global IT Standards

Moving forward, SaaS, PaaS, and cloud services will be provided nationally and internationally by the economies with the largest pool of skilled labor in computer science, the best ICT infrastructure, and the greatest ability to innovate. FDI in ICT will consist of foreign companies looking for a hospitable hub from which to export—not companies targeting attractive domestic markets, as is the case with broadband and telecom services. While economies have the opportunity to make immediate changes to help promote FDI in this sector, the real changes will come from long-term investment in education and the domestic industry.
Restrictiveness in Software, Platform, & Cloud Services Inhibits Essential Trade

The Restrictiveness of Services Is Highly Correlated To ICT Exports
When & Where Impediments Arise in Software, Platform & Cloud Services

Location and Relative Importance of Critical FDI Factors Within Software, Platform & Cloud Services
Stacked Bar Chart Illuminating the Most Impactful Type of Impediments to Software, Platform & Cloud in Each Economy
Most Problematic Investment Challenges in Software, Platform & Cloud Services

The discussion below focuses specifically on the most important challenges in software, platform & cloud services. A careful analysis of all software, platform & cloud interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the SaaS, PaaS & cloud sector. Twenty-four FDI factors were found to be important or very important across economies. The horizontal bar chart below summarizes the impact of these factors for each APEC economy.

Ten Most Critical Challenges:

- Quality and Availability of Human Capital Trained in Math and Computer Science
- Intellectual Property Rights
- Quality of Broadband and Telecom Infrastructure
- Adoption & Acceptance of Current International ICT Standards
- Quality of Financial Markets: the Availability of Venture Capital Funding
- Presence and Quality of Research and Technology Institutes and Universities
- Tax Incentives for ICT Start Ups
- Cooperation across Ministries to Form and Implement a Unified Digital Strategy
- Efficiency in the Approval Process for Starting a Tech Business

Most Critical Challenges Rated Across Economies:
Sector Specific Barriers and Impediments to FDI in Software, Platform & Cloud Services Rated Across Economies

Twenty-four factors were found to be important or very important to FDI in software, platform & cloud services across economies. The impact of those factors are presented below.
Critical Issues and Key Recommendations for Software, Platform & Cloud Services

Critical Issues

- Intellectual Property Rights
- Quality of Broadband & Telecom Infrastructure
- Quality & Availability of Human Capital
- Access and Availability of Venture Capital

Key Recommendations

- Commit to Comprehensive IP Protection
- Invest in Broadband, Telecom, and Cloud Infrastructure
- Increase Foreign Worker Visas & Invest in Developing Domestic Human Capital
- Increase Access to and Availability of Venture Capital to Both Domestic and Foreign Firm
An Overview of FDI in the Accounting Industry

The accounting industry is a highly self-regulated industry that has developed in a way that discourages foreign direct investment and traps investment domestically. The Big 4 firms are not truly multinational, but rather global networks of locally-owned accounting firms whose autonomous activities are coordinated under their respective brand names. The three main barriers to FDI in this industry are:

- Lack of mutual recognition of qualifications
- Varying degrees of IFRS adoption
- Self-interest within the accounting profession

These factors increase costs and lower efficiency for multinational corporations. Businesses are forced to hire local accountants at locally-determined rates to restate financial reports. While businesses understand the fiduciary responsibilities that necessitate accounting, many wonder why the costs need to remain so high.

De-regulating the accounting industry via worldwide adoption of IFRS in all economies and the creation of internationally recognized and accounting credentials will likely result in:

- Elimination of unnecessary transaction costs for businesses
- Enhanced global competitiveness in accounting services and downward pressure on prices
- Increased trade in accounting services
  Investment in economic hubs specializing the in various accounting services
Little to No FDI in Accounting Services

Coordinating Entity for Big 4 Brands

Japan

Chinese Taipei

Indonesia

Hong Kong

Philippines

Singapore

New Zealand
When & Where Impediments Arise in Accounting Services

Location and Relative Importance of Critical FDI Factors Within Accounting Services
Stacked Bar Chart Illuminating the Most Impactful Type of Impediments to Accounting in Each Economy
The discussion below focuses specifically on the most important challenges in accounting services. A careful analysis of all accounting interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the accounting sector. Eighteen FDI factors were found to be important or very important across economies. The horizontal bar chart below summarizes the impact of these factors for each APEC economy.

**Five Most Critical Challenges:**
- Mutual recognition of certification, skills, and/or qualifications of accountants
- Ease or difficulty of the process for obtaining local accreditation for non-locally licensed accountants.
- Local language proficiency needed to become accredited in local economy
- Extent of IFRS adoption and compliance
- Use of local GAAP for part or all of reporting & tax requirements
Eighteen factors were found to be important or very important to FDI in accounting services across economies. The impact of those factors are presented below.

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- Mutual recognition of certification, skills, and/or qualifications of accountants
- Extent of IFRS adoption and compliance
- Local language proficiency needed to become accredited in local economy
- Quality and availability of locally licensed accountants
- Local resident status requirement in order to provide accounting services
- Ease of obtaining visa & work permits for movement of people to different branches
- Limits on the scope of activities accounting firms can provide in the local economy
- Limits on percentage of ownership or control allowed to non-locally licensed accountants
- Limits on percentage of ownership or control allowed to foreign nationals
- Ease or difficulty of the process for obtaining local accreditation for non-locally licensed accountants
- Use of local GAAP for part or all of reporting & tax requirements
- Efficiency of approval process in setting up a firm
- Impartiality in approval process in setting up a firm
- Stability & predictability of regulations in setting up and operating a firm
- Accessibility and clarity of regulations in setting up and operating a firm
- Availability of multinational clients requiring accounting services abroad
- Quality of capital markets
- Quality of life for expatriates and personal safety
Critical Issues and Key Recommendations for Accounting Services

**Critical Issues**

- Mutual Recognition of Certification, Skills & Qualifications of Accountants
- Ease or Difficulty in Obtaining Local Accreditation
- Local Language Requirement for Accreditation
- Extent of IFRS Adoption & Compliance
- Use of Local GAAP for Part or All of Reporting & Tax Requirements

**Key Recommendations**

- Adoption of IFRS Without Modification
- Create Global Standards for Accounting Accreditation
Life Insurance
An Overview of the Life Insurance Industry

The life insurance industry within APEC economies displays a dichotomous split between developed and developing. While economies such as the United States and Japan have world-leading life insurance markets, economies such as the Philippines and Viet Nam have severely underdeveloped markets. However, the flow of FDI from mature to emerging markets is already taking place. Across our interviews, market attractiveness—a substantial population, an emerging middle class, and low life insurance penetration rates—is widely considered the top factor in investment decisions. However, significant issues impact the investment climate. They are:

- Restrictive foreign ownership and market entry conditions and inefficient approval processes
- Shortage of local skilled labor, especially qualified sales agents, and limited foreign worker mobility
- Fair prudential rules and capital movement policies, well-developed capital markets, and ample private-equity investment opportunities for foreign investors to invest long-term

Economies with higher restrictions tend to be underdeveloped relative to market potential. To increase investment in the life insurance sector, APEC should:

- Remove entry barriers such as foreign ownership restrictions and improve quality of investment promotion agencies to encourage FDI and facilitate search for JV partners
- Reform approval processes to be more efficient, streamlined, and transparent
- Relax regulations for hiring and transferring foreign labor to supplement local labor market. Require understudies if necessary to concurrently develop local talent. Implement laws to retain and protect talent to incentivize training
- Foster a stable capital market, liberalize investment restrictions, and enact fair prudential rules to enable foreign investors to compete effectively
When & Where Impediments Arise in Life Insurance Services

Location and Relative Importance of Critical FDI Factors Within Life Insurance Services
Stacked Bar Chart Illuminating the Most Impactful Type of Impediments to Life Insurance in Each Economy
The discussion below focuses specifically on the most important challenges in life insurance services. A careful analysis of all life insurance interviews across economies was undertaken to identify the most important barriers and impediments to FDI in the life insurance sector. Twenty-one FDI factors were found to be important or very important across economies. The horizontal bar chart below summarizes the impact of these factors for each APEC economy.

**Five Most Critical Challenges:**

- Efficiency of approval process
- Limits on foreign ownership and the number of permits/licenses required
- Quality and availability of human capital, including actuaries, investment specialists and sales agents
- Quality and sophistication of domestic capital market for investing of life insurance premiums
- Jurisdictional overlap between approving agencies

**Most Critical Challenges Rated Across Economies:**

[Bar chart showing criticality ratings of factors across different countries.]
Sector Specific Barriers and Impediments to FDI in Life Insurance Services Rated Across Economies

Twenty-one factors were found to be important or very important to FDI in life insurance services across economies. The impact of those factors are presented below.
Critical Issues and Key Recommendations for Life Insurance Services

Critical Issues

- Limitations on Foreign Ownership
- Efficiency of Approval Process
- Availability & Quality of Life Insurance Professionals
- Capital Market Environment for Reinvestment of Premiums
- Fair Prudential Rules

Key Recommendations

- Eliminate Restrictions on Foreign Ownership
- Publish Standards for Approval Milestones and Timelines
- Ease Restrictions on Visas and Work Permits
- Liberalize Capital Movement