ERIA Study to Further Improve the AEC Scorecard: INVESTMENT LIBERALIZATION AND FACILITATION

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In 1990, ASEAN and APTA had comparable trade shares; by 2008, ASEAN’s share (around 16.5%) dwarfed by APTA’s share (around 33%).

Model simulations suggest that China will crowd out ASEAN exports in third markets by 2020 if China continues to liberalize while ASEAN does not.

ASEAN leading investment destination in developing world in 1990-1991; but global share declined to less than 10 percent by 2008.

Moderate economic growth in 2000s, lower than APTA and BSEC. ASEAN more trade dependent than APTA and BSEC.

Mixed individual country performance, with higher growth rates in CLMV countries during the 2000s. Highly skewed foreign investment inflows, dominated by Singapore (46%), Thailand (17%) and Malaysia (14%).

Substantial progress in poverty reduction and improvements in public health. Rise of middle class. But considerable number of poor remain (mainly in Indonesia, Myanmar, Philippines and Viet Nam).
Estimates of East Asia’s Middle Class

- **METI:** 880 million (2008) incl. NIEs
- **Estimate A:** $3-12 per capita per day PPP (similar to D & B and McKinsey and China)
  - ASEAN 7: 156 million mid-2000s
  - China: 526 million mid-2000s
  - India: 96 million mid-2000s
- **Estimate B:** $4 – 30 per capita per day PPP (similar to METI)
  - ASEAN 7: 111 million mid-2000s
  - China: 378 million mid-2000s
  - India: 49 million mid-2000s
<table>
<thead>
<tr>
<th></th>
<th>Cambodia</th>
<th>Indonesia</th>
<th>Lao PDR</th>
<th>Malaysia</th>
<th>Philippines</th>
<th>Thailand</th>
<th>Viet Nam</th>
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<tbody>
<tr>
<td>Poor</td>
<td>5.0</td>
<td>n.a</td>
<td>96.7</td>
<td>47.3</td>
<td>2.4</td>
<td>2.4</td>
<td>0.3</td>
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<tr>
<td>Low Income</td>
<td>4.4</td>
<td>11.7</td>
<td>72.1</td>
<td>125.5</td>
<td>1.7</td>
<td>2.6</td>
<td>4.3</td>
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<td>Middle Income</td>
<td>0.9</td>
<td>2.0</td>
<td>9.3</td>
<td>45.8</td>
<td>0.2</td>
<td>0.5</td>
<td>11.2</td>
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<td>Upper Income</td>
<td>0.0</td>
<td>0.1</td>
<td>0.1</td>
<td>1.9</td>
<td>0.0</td>
<td>0.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Total Population</td>
<td>10.4</td>
<td>13.8</td>
<td>178.2</td>
<td>220.6</td>
<td>4.3</td>
<td>5.4</td>
<td>19.1</td>
</tr>
</tbody>
</table>
ASEAN Region in International Perspective

- Highest rate of intra-regional trade compared to LAIA, APTA and BSEC
- Rise in intra-regional share gradual as ASEAN is linked to East Asia production networks. Also, region’s practice of “open regionalism” with low margins between MFN and preferential tariffs (CEPT): direction of trade dictated by changing comparative advantages and market access (e.g., Cambodia, Viet Nam, Philippines, Singapore)
- ASEAN intra-regional trade has two hubs: Thailand (for C, L, M) and especially Singapore
Changing Comparative Advantage in East Asia

- **China** emerged as global export powerhouse. Increased global export share in most commodity groups.
- Both **Malaysia and Philippines** lost global market share, esp. HS 85.
  - Malaysia: adjustment process; Philippines: apparent generalized loss of international competitiveness
- **Singapore**’s global share holds steady despite high wages and increased share in HS 85, other tech intensive products; largest number of products gained RCA (gross and net) during 2000s; second largest number of products with RCA after Thailand
- **Thailand**: largest number of sectors with revealed comparative advantage but largest number of net loss in RCA during 2000s
- **Indonesia**: strong in natural resources. Third largest number of products with RCA but largest number of net loss in RCA
- **Viet Nam** gained global share; second highest net gain in number of products with RCA
- **Cambodia**: gaining global share in HS 61 (garments) and 64 (footwear)
- Successful exporters/adjusters have better investment record
Challenges & Opportunities for ASEAN

**Challenges**

1. Improve ASEAN’s investment attractiveness
2. Improve ASEAN’s international competitiveness

**Opportunities:**
ASEAN and the ASEAN Member Countries to grow and have deeper economic linkages (via implementation of AEC Blueprint and ASEAN Connectivity)
ASEAN region remains the most trade oriented among major regional cooperation within developing countries, with significantly larger reliance on FDI as a driver of trade growth.

**Critical Questions:**

1. Can ASEAN regain its more robust growth performance of the early 1990s?

2. Can ASEAN become a better investment destination and thereby garner a higher share of FDI than in recent years, despite the tight competition posed by a growing number of regional integration areas?

3. Can ASEAN become a more integrated economic region at the same time that it opens up more and deepen further its economic linkages with the rest of East Asia and the world?
East Asia is in the throes of a major economic transformation. Major redirection of regional production networks toward China as the hub in the region.

China’s real wages can be expected to spike up while the growth of China’s middle class would mean more solid growth in domestic consumption and imports of tradable services (especially tourism).

A more open, integrated and connected ASEAN countries is better to respond both to the challenges and the opportunities of the emergent China & emerging India.

Realization of AEC Blueprint
III. The AEC Blueprint & the Challenges of ASEAN Integration
**Figure 2. Key Initiatives Towards AEC**

**Domestic Policy Imperative and Regional Initiatives**
1. Elimination of tariffs
2. Elimination on Non Tariff Barriers (NTBs)
3. Liberalization of Services Industries
4. Trade facilitation, including ASEAN (and National) Single Window and Customs integration
5. Investment Liberalization and facilitation
6. MRAs
7. Standards & conformance
8. Competition Policy & IPR
9. SME Development
10. Transport, Infrastructure and Logistics

**Pathways**
- (i) Free flow of Goods
- (ii) Free flow of Services
- (iii) Free flow of direct investment
- (iv) Free flow of skilled labor
- (v) Freer flow of (financial) capital

**Glues**
- (i) Efficient transport, infrastructure and logistics
- (ii) Fair and effective competition

**AEC Goals**
1. Towards a Single Market and Production Base
2. Towards a Highly Competitive Economic Region
3. Towards a Region with Equitable Economic Development
4. Towards Full Integration with the Global Economy

**Source:** Author’s, ASEAN Economic Community Blueprint (ASEAN Secretariat).
IV. Investment Liberalization and Facilitation
Importance of Investment

- Primary vehicle for a country or region to maintain and improve, its international competitiveness
- Firms invest to improve technologically if not innovate; deepen their market linkages; and strengthen their human and organizational capability and flexibility
- Firms need better infrastructure, trade facilitation services, and other public good-type or club-good type services and facilities, all of which mean the need for investment funds
- Improved investment climate and increased investment flow are important elements. ASEAN member countries need to benefit more from deeper economic integration
Investment Liberalization

- Urata and Ando Study (2010)

- U/A method used modified version of Golub (2003) examination of restrictiveness of FDI in OECD countries.

- Components and weights of FDI policy regime:
  - Restriction on ownership and market access (0.40)
  - Restriction on national treatment (0.20)
  - Screening and approval (0.10)
  - Restrictions on boards and management (0.10)
  - Restrictions on movement of persons (0.10)
  - Performance requirements (e.g., local content) (0.10)

- Used information from legal documents and at times from FDI guides to score FDI policy regime by component and overall.
Investment Liberalization

Results: Urata and Ando (2010)

- **Market Access:**
  - Most open: Cambodia, Singapore
  - Most restrictive: Thailand, Laos

- **National Treatment:**
  - Most open: Thailand, Singapore
  - Most restrictive: Malaysia, Brunei

- **Overall Scores:**
  - Most open: Singapore, Philippines, Cambodia
  - Most restrictive: Myanmar, Malaysia, Laos
<table>
<thead>
<tr>
<th>Country</th>
<th>Total score</th>
<th>Market access</th>
<th>National treatment</th>
<th>Screening &amp; appraisal</th>
<th>Board of directors</th>
<th>Movement of investors</th>
<th>Performance requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brunei</td>
<td>0.394</td>
<td>0.243</td>
<td>0.795</td>
<td>0.434</td>
<td>0.590</td>
<td>0.180</td>
<td>0.180</td>
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<tr>
<td>Cambodia</td>
<td>0.242</td>
<td>0.140</td>
<td>0.183</td>
<td>0.622</td>
<td>0.000</td>
<td>0.750</td>
<td>0.117</td>
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<td>Indonesia</td>
<td>0.375</td>
<td>0.364</td>
<td>0.198</td>
<td>0.789</td>
<td>0.308</td>
<td>0.546</td>
<td>0.255</td>
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<td>Lao, PDR</td>
<td>0.428</td>
<td>0.392</td>
<td>0.410</td>
<td>0.608</td>
<td>0.250</td>
<td>0.793</td>
<td>0.245</td>
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<td>Malaysia</td>
<td>0.438</td>
<td>0.320</td>
<td>0.833</td>
<td>0.250</td>
<td>0.397</td>
<td>0.562</td>
<td>0.227</td>
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<tr>
<td>Myanmar</td>
<td>0.463</td>
<td>0.378</td>
<td>0.401</td>
<td>0.921</td>
<td>0.399</td>
<td>0.714</td>
<td>0.284</td>
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<td>Philippines</td>
<td>0.237</td>
<td>0.257</td>
<td>0.279</td>
<td>0.112</td>
<td>0.519</td>
<td>0.043</td>
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<td>Singapore</td>
<td>0.175</td>
<td>0.197</td>
<td>0.143</td>
<td>0.154</td>
<td>0.356</td>
<td>0.074</td>
<td>0.091</td>
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<tr>
<td>Thailand</td>
<td>0.300</td>
<td>0.423</td>
<td>0.000</td>
<td>0.500</td>
<td>0.000</td>
<td>0.805</td>
<td>0.000</td>
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<tr>
<td>Vietnam</td>
<td>0.315</td>
<td>0.338</td>
<td>0.262</td>
<td>0.364</td>
<td>0.286</td>
<td>0.469</td>
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<tr>
<td>Average</td>
<td>0.339</td>
<td>0.305</td>
<td>0.350</td>
<td>0.475</td>
<td>0.310</td>
<td>0.494</td>
<td>0.194</td>
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<tr>
<td>Standard deviation</td>
<td>0.100</td>
<td>0.092</td>
<td>0.272</td>
<td>0.266</td>
<td>0.193</td>
<td>0.296</td>
<td>0.113</td>
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</table>

## Incidence Distribution of Foreign Equity Restrictions & National Treatment in ASEAN Member States

<table>
<thead>
<tr>
<th>Country</th>
<th>Foreign Equity Restrictions (FER)</th>
<th>National Treatment</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Closed</td>
<td>Problematic</td>
</tr>
<tr>
<td>Brunei Darussalam</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>9</td>
<td>16</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Malaysia</td>
<td>5</td>
<td>23</td>
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<tr>
<td>Myanmar</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td>Philippines</td>
<td>0</td>
<td>21</td>
</tr>
<tr>
<td>Singapore</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Thailand</td>
<td>0</td>
<td>56</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>7</td>
<td>13</td>
</tr>
</tbody>
</table>

**Source:** Author’s Analysis and Urata & Ando (2010).
Investment Facilitation

• **Scoring System**
  See Table 4.4 in main paper

• **Key areas:**
  - Investment Promotion and Facilitation Strategy (0.15)
  - Quality of IPA (0.15)
  - Image building and promotion (0.10)
  - Quality of investor servicing and facilitation (0.25)
  - Investor linkages and policy consistency (0.10)
  - Barriers to investment attractiveness (ease of doing business) (0.25)
Approach

- Study undertaken by country research team in each ASEAN member country, led and coordinated by ERIA with advice from Steering Committee members (HLTF, ASEC, ERIA RIN) and Senior Research Advisers (from Waseda and ANU)
- 2 questionnaires on investment facilitation and promotion:
  - IPF Questionnaire for IPAs and Government Officials
  - IPF Questionnaire for Private Firms
- Questions in the questionnaires based on OECD Investment Reform Index, World Bank Investment Climate Advisory Services, APEC, academic literature, and internal discussions. Questions crafted to elicit scorable responses and specific answers.
Characteristics of Best Performing IPAs

- Autonomous or joint govt private or wholly private
- Salary close to or comparable to private sector
- Corporate culture: continuous development of staff; “account officer” approach to client relations
- IPA has in house research capability or can tap outside research institution
- Adequate funding and staffing with some flexibility in use of resources
- Information is clear, up to date, complete, readily available or accessible
- Quality of handling investor initial inquiries
Characteristics of Effective Investment Facilitation

- Minimize time and cost for investors to start up business
- Processes are expeditious, clear, coordinated, and transparent.
- One stop shops’ effectiveness lies on good interagency coordination and efficient systems.
- Ease of doing business and reduced barriers to starting and operating business
- Quality of investor–govt interactions/consultations and policy transparency
INVESTMENT FACILITATION

Ease of Doing Business

Investor Servicing & Facilitation

Investment Promotion & Facilitation Strategy

Investment Promotion Agency

Image Building & Promotion

Investor Linkages & Policy Consistency

Overall

Singapore

Malaysia

Philippines, Thailand, Brunei
Investment Facilitation: Results

- **Singapore** highest score; virtually “best practice”
- **Malaysia** second highest; highest in IPFP, IPA quality and very high in image building and promotion.
- **Philippines, Thailand, Brunei**: Comparable overall scores as next rung after Singapore and Malaysia
- **Philippines**: high on IPFP, IPA quality, and investor servicing; very low on ease of doing business
- **Thailand**: high on IPFP and image building, moderate on investor servicing, ease of doing business and investor linkages; very low on IPA quality
Investment Facilitation: Results (Cont’d)

- **Brunei**: high on IPFP and IPA quality; low in investor servicing and ease of doing business
- **Viet Nam**: high on IPFP, moderate on image building, investor servicing, and investor linkages; low on IPA quality
- **Cambodia**: high on IPFP, moderate on investor linkages and image building, very low on IPA quality and ease of doing business
- **Indonesia**: high on IPFP, low on investor servicing, investor linkages and ease of doing business
- **Myanmar**: Lowest score. Moderate on image building and promotion, low on IPFP; very low on investor servicing, quality of IPA, and investor linkages
EASE OF DOING BUSINESS – ASEAN Vs APEC

0.30 – 0.49
Timor Leste, Cambodia, India, Philippines, Laos, Russia, Indonesia

0.50 – 0.69
Vietnam, Papua New Guinea, Peru, China, Brunei, Mexico, Chinese Taipei, Chile, South Korea

0.70 – 0.89
Thailand, Mongolia, Malaysia, Japan, Australia

0.90 – 1.00
Canada, United States, Hong Kong, New Zealand, Singapore

Note: Scale 0-1 where 1 is the highest score

Source: World Bank (2010), Author’s Calculation
Singapore’s EDB: Insights for IPAs

- Singapore country study highlights role of EDB
- EDB no mere IPA; “center of decision making and policy making”
- Little gap between policy and practice or policy and operational follow through
- Ample resources for strategic equity participation, specialized skills training and technical upgrading support, and outposts abroad for investment service and economic/technological intelligence
- Effective coordination of government agencies
- EDB ahead of curve in technological developments for forward looking investment and industrial strategy
- EDB’s efforts well complemented by govt efforts in infra, good governance and public administration, efficient processes, etc.
Malaysia’s PEMUDAH Task Force

- Special Task Force to Facilitate Business (PEMUDAH) – 23 high level govt and private sector leaders – to identify and address bureaucratic impediments to doing business in response to WB Doing Business Report

- Improvements done on many fronts, esp. in:
  - **Starting a Business**: bus registration from 5 days to 1 day
  - **Dealing with Licenses**: developed BLESS (Business Licensing Electronic Support System), an on-line, one-stop centre for application, payment, and tracking of licenses, permits and approvals
  - **Paying Taxes**: tax refund from one year to 14-30 days
  - **Registering Property**: expatriate work permits from 14 to 7 days; registering free hold property from 144 days to at most 61 days
  - **Trading Across Borders**: cargo clearance from 3 days to 1 day

  - Source: MIER, *Malaysia Country Report*
Investor Servicing and Facilitation

- **Speed of processing**
  - Alright to Quick: Singapore, Malaysia
  - Alright: Philippines, Thailand, Viet Nam
  - Slow to alright: Indonesia
  - Mainly slow: Cambodia, Laos, Myanmar

- **Key common investor concerns/problems:**
  - Too much red tape/long and complex procedures/long time
  - Lack of transparency/corruption/unofficial payments
  - Local permit process from local governments/unnecessary regulations of local governments
  - Lack of coordination among government agencies

(NOTE: Virtually no investor processing concern in Singapore)
Factors Affecting Investment Decisions

- **Access to ASEAN Market**
  - Significant for Singapore, Philippines and Indonesia
  - Marginal for Cambodia and Viet Nam

- **Key investment factors by country**
  - Low labor cost in top five in CLMV
  - Protection of intellectual property rights important in Singapore and the Philippines
  - Political stability important in virtually all countries
  - Investment incentives important in all, except Singapore
  - Low corruption a minor factor in Cambodia, Myanmar and Viet Nam but high in Singapore and the Philippines

- **Change in status of key investment factors**
  - Most factors for *Malaysia improved*. Most key factors unchanged for other countries.
  - *Marginally improved*: a few in Singapore, Cambodia, and Laos. *Marginally worsened*: Philippines (corruption), Thailand (political stability, domestic supplier), Viet Nam (investment incentives, macroeconomy) Myanmar (labor cost)
Key Recommendations: Investment Facilitation and Liberalization

- Streamline processes, increase transparency, and improve coordination of agencies to speed up processing of papers and approvals
- Strengthen national and local government coordination with respect to investment facilitation and promotion
- Address the bottlenecks to improve ease of doing business. Malaysia’s PEMUDAH a good example
- Strengthen, reorganize and capacitate IPAs
- Strengthen linkages between investors and govt agencies
- Open up the ASEAN economies further to foreign equity participation: ACIA
Thank You

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