



OECD Investment Policy Reviews: Lessons for the Asia-Pacific Region

3rd Meeting of the Asia-Pacific (FDI) network
for Least Developed and Landlocked
Developing Countries

19 November 2013, Bangkok

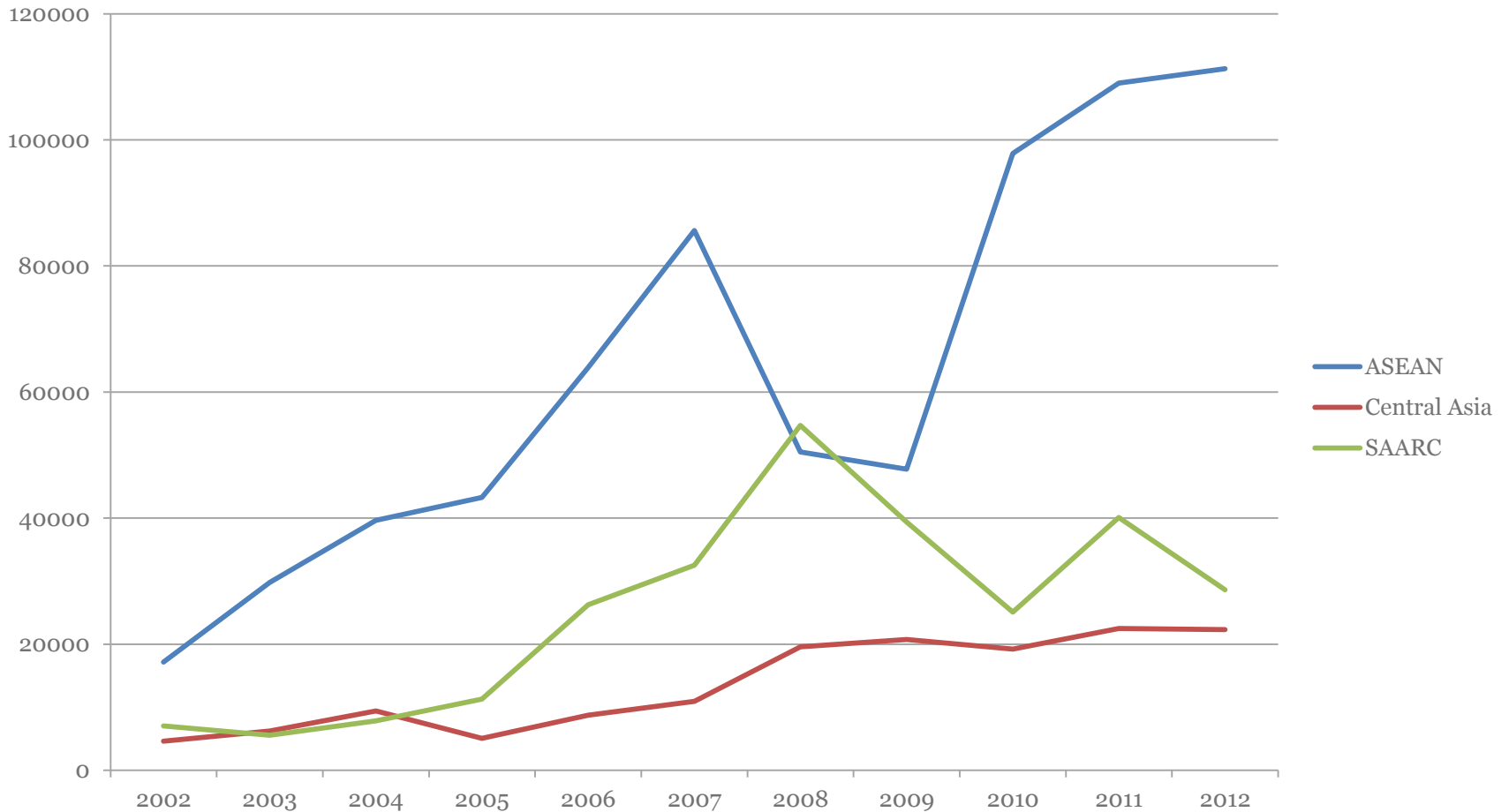


The Asia - Pacific investment destination

- 2012: Around 33% of global FDI inflows
- 2000: Around 2% of global FDI inflows without China, around 5% when including China
- Diverse region
 - Natural resource vs efficiency driven
 - Land-locked/land-linked vs sea-transport hubs
 - Malaysia 6th in Doing Business
 - New investment frontiers, eg: Myanmar and Cambodia
 - About 50% investors in ASEAN from OECD countries



Increase in FDI inflows over the past 10 years



Source: UNESCAP & UNCTAD



Intra-regional investment and integration

- China and ASEAN important AP investors
- Relatively resilient in light of crisis
- Countries around large investment destinations can benefit (regional production networks...)
- Push factors:
 - Regional integration (agreements, co-operation among IPAs...)
 - Infrastructure connectivity
 - Open and investment friendly business climates
 - Sound investment policies (incl. legal and regulatory)
 - Responsible business agendas



No template for investment climate improvements

- No model, difficult to “engineer” investment climate reforms
- But principles and lessons learnt
- That’s where OECD adds value with
 - Setting principles and standards
 - Technical work in committees and working parties
 - Global co-operation, TA, country and regional reviews based on sound policy experience and tested principles



In practice...

Investment Policy Reviews

Sub-saharan Africa

- Zambia
- Burkina Faso
- Mozambique
- Botswana*
- Tanzania
- Mauritius*
- Nigeria*



Asia

- India
- China
- Viet Nam
- Indonesia
- Malaysia*
- Myanmar*
- Philippines*
- Lao PDR*

MENA

- Egypt
- Morocco
- Tunisia
- Jordan*

Eurasia

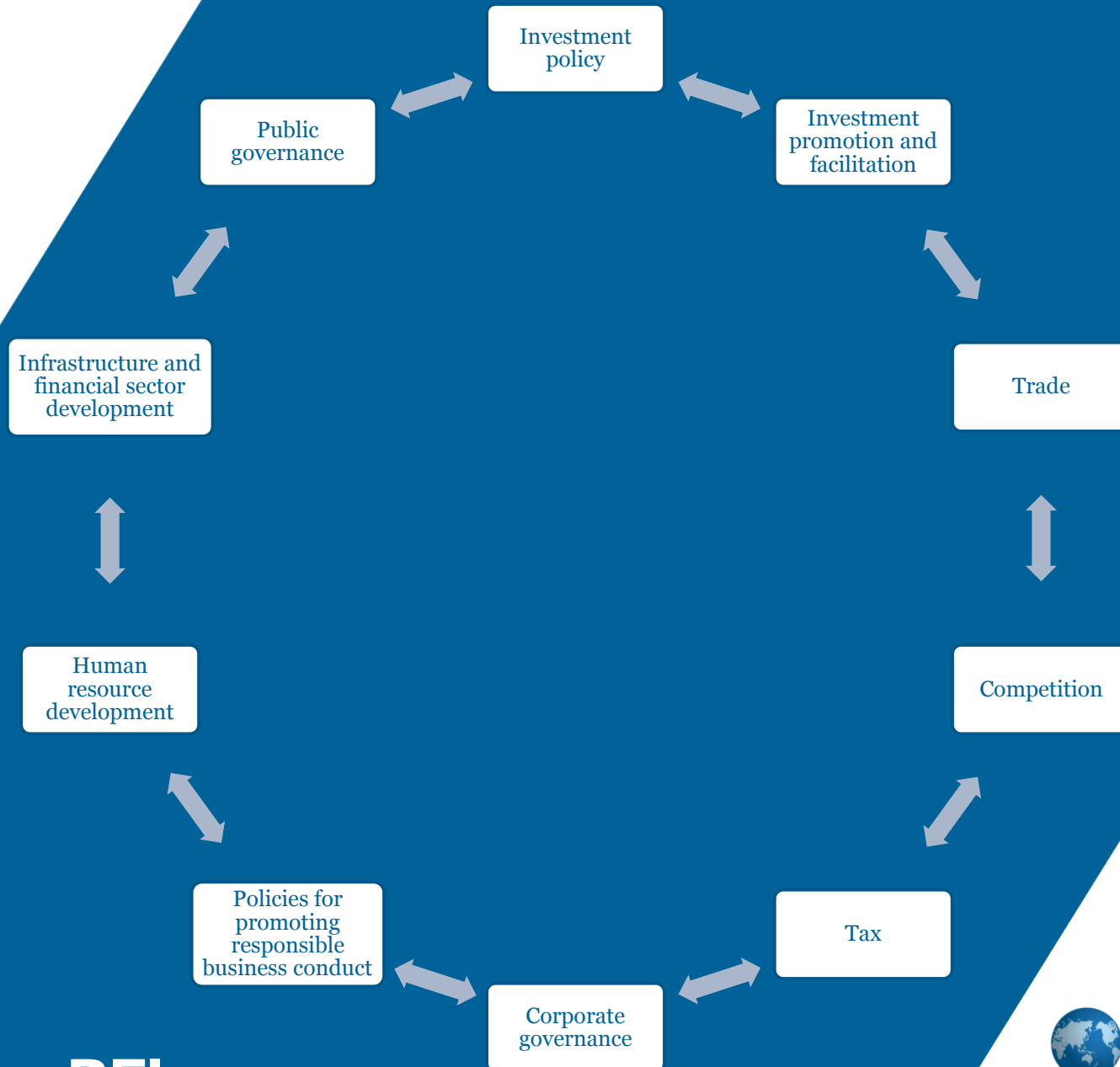
- Ukraine
- Russia
- Kazakhstan

South America

- Peru
- Costa Rica*
- Colombia



* On-going



Source: PFI



OECD IPRs in Asia based on the PFI

- India, China, Viet Nam, Indonesia, Malaysia, Myanmar, Philippines, Lao PDR
- Establishment of Task Force central to process – capacity building, cross-government approach
- Policy Framework for Investment: Flexible
 - Malaysia: MITI led inter-agency coordination, IPR led to increased co-operation with other OECD bodies (regulatory framework, GVC)
 - Myanmar: All chapters of the PFI + agriculture, Task Force seminars
 - Philippines: Investment Policy, Investment Promotion & Facilitation, Competition Policy
 - CLMV: technical guidance training with task forces, regional training (Danang 2013)
 - Issues can cover licensing, strengthening SMEs for investment linkages and JVs, addressing investment screening



Contribute to transparency

- Disclosure of information beyond investment trends:
 - on reform processes, “behind the scenes”
 - laws,
 - policy developments,
 - investment and policy trends,
 - institutions
- Database of investment-related laws and regulations
- Insights into administration of investment and processes
- Peer Review and open exchange of experiences and practices at regional and international level
(e.g. COI Cairns 2013, OECD Investment Committee meetings, road-show)

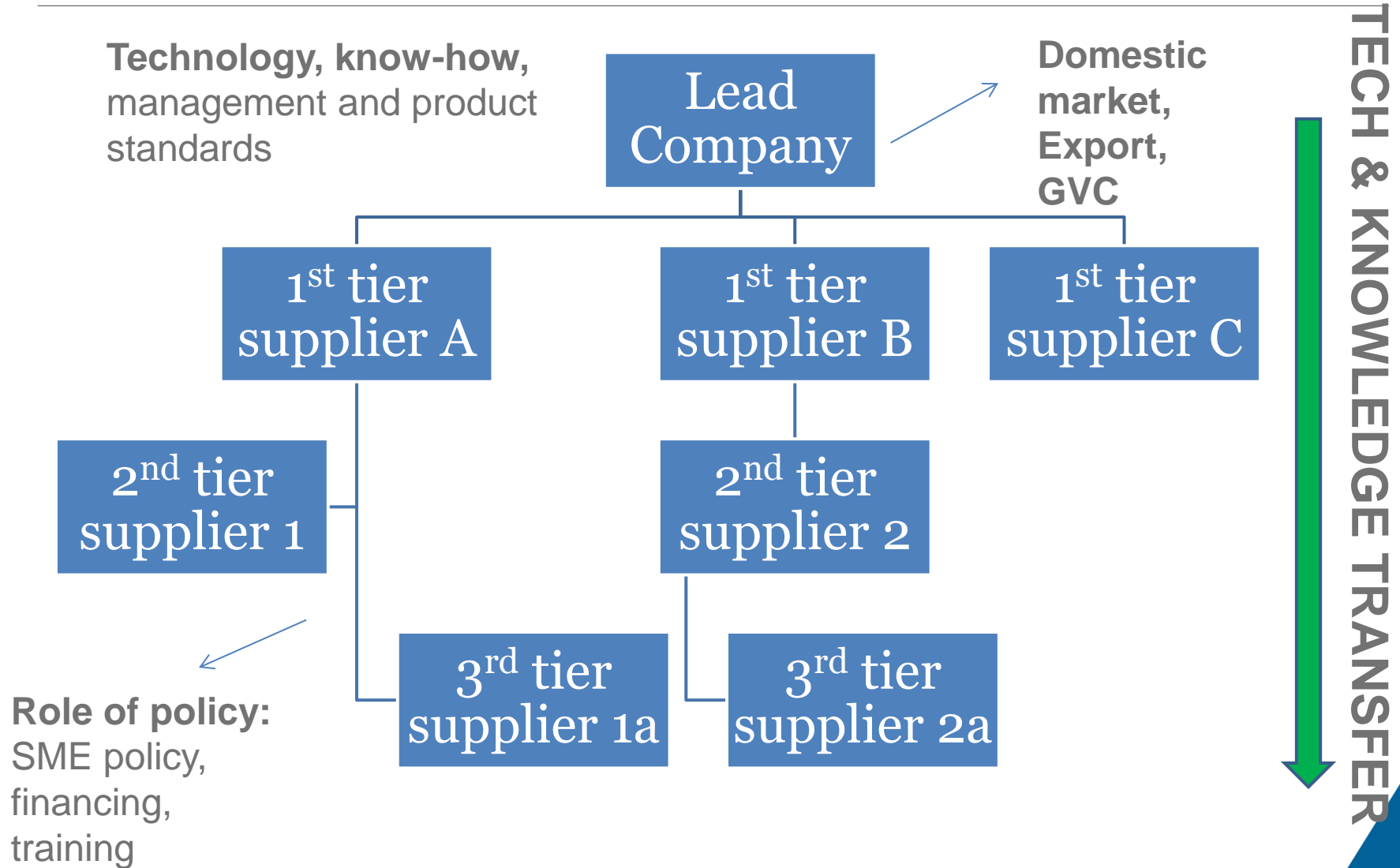


Example of policy lesson: Linkages

- Marginal Benefit > Marginal Cost = Business case
- **Linkages form when the *business case* is very clear**
- Different types of linkages:
 - SME-SME
 - Large domestic – SME
 - Large domestic – large domestic
 - MNE-Large domestic
 - MNE-MNE
 - MNE-SME
- Sector specific: manufacturing, extractive industries, service industry (tourism, finance, business services)

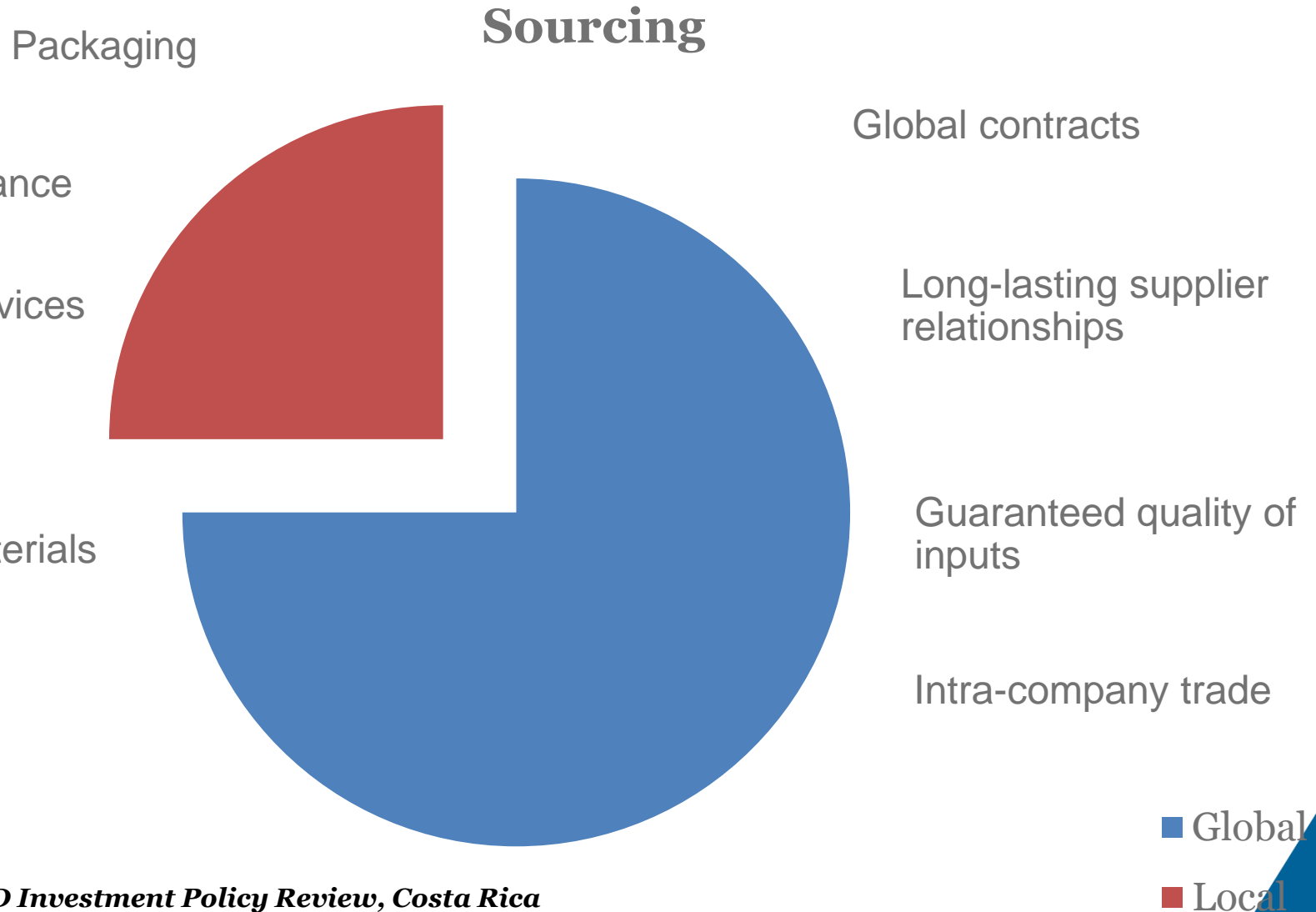


Backward linkages: technology & knowledge transfer





Supply side challenges vs exogenous factors – eg: MNE sourcing





Policy recommendations

Investor protection	Investment promotion (incl. incentives)	Legal framework	Investor screening	Linkages
Increase the capacity and independence of the judicial system (Vietnam)	Strengthen cooperation starting from the MPI Foreign Investment Agency (Vietnam)	Persist with efforts to ensure greater consistency in policies and laws (Indonesia)	Make the entry and approval procedures of investors and their investment undertakings more transparent and readily accessible (Vietnam)	Develop policies to facilitate and encourage the development of backward linkages and spillovers from FDI to the local economy (Indonesia)
Further secure access to dispute resolution mechanisms, both through the domestic court system and through arbitration (Myanmar)	Improve the BKPM website (Indonesia) Undertake a cost-benefit analysis with regards to fiscal incentives (Zambia)	Strengthen the framework for PPPs (Zambia) Consider putting together an Investor's Guide or a Compendium of rules , which would group all relevant legal instruments for investment in Mauritius (Mauritius)	Continue to relax restrictions on foreign investment and to streamline business licensing (Indonesia) Consider further easing of the remaining restrictions in commercial banks (Malaysia)	Develop mechanisms to channel industry demands to human resource development agendas (Zambia) BITC's role in promoting business linkages between small and large investors should also be clarified, in relation to similar responsibilities incumbent on other agencies (Botswana)
Enhance security of land tenure by providing greater protection from expropriation within the DUAT (Mozambique)	Expand Enhance MIDA's role as the government interface with the private sector (Malaysia) Together with the private sector, Government should consider means of streamlining channels of communication among itself, investors, and BITC (Botswana)	Reinforce governance and provide political support for law drafting bodies (Vietnam)		

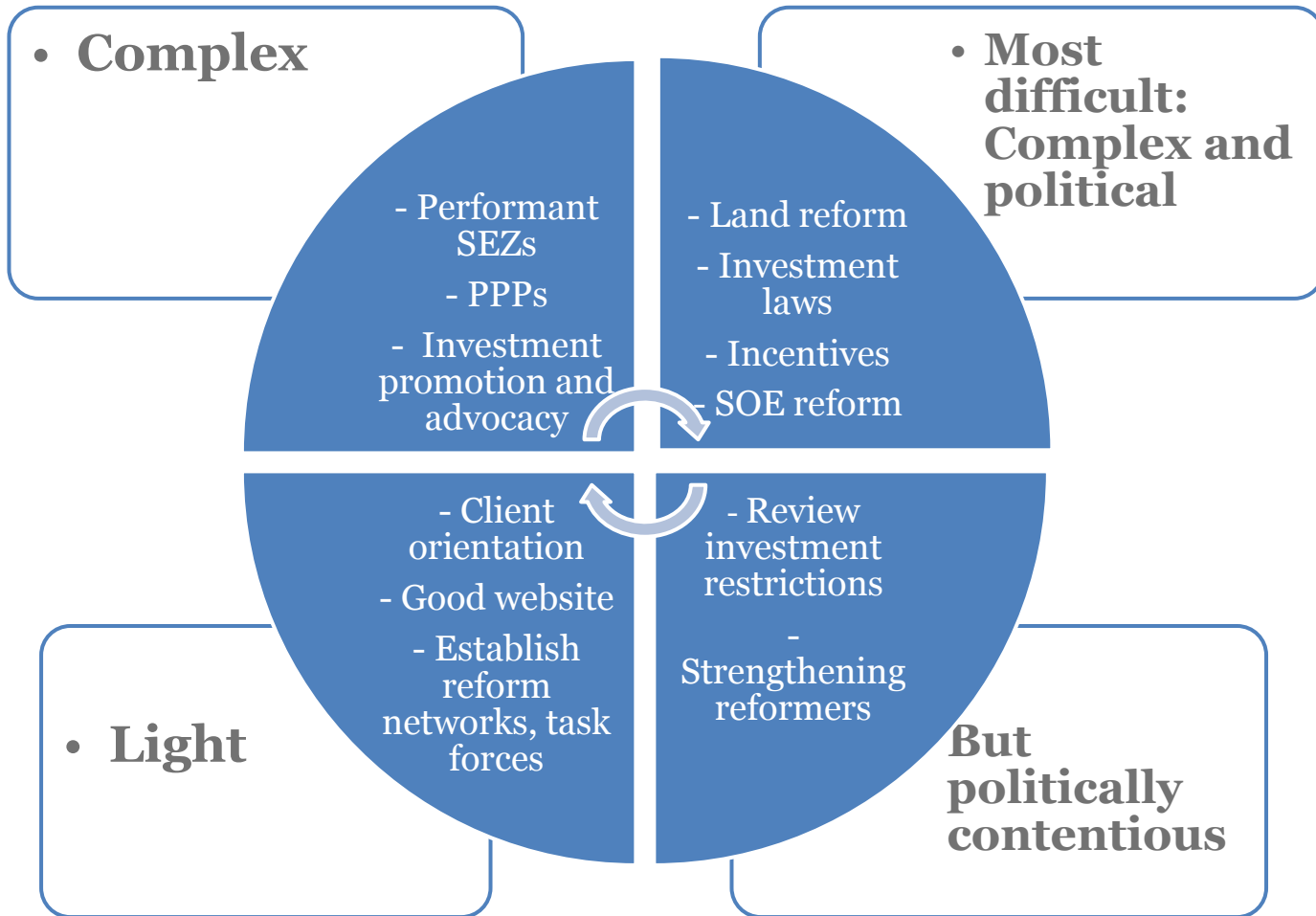


Policy recommendations

Investor protection	Investment promotion (incl. incentives)	Legal framework	Investor screening	Linkages
Expand the role of BKPM to include a consolidated programme of consultations with investors and local IPAs leading to recommendations to government (Indonesia)	DICA's performance should be focused and measured in terms of reducing the administrative burden for the private sector (Myanmar)	Strengthen the intellectual property right regime (Malaysia)	Continue streamlining the business licensing regime (Zambia)	Improve cooperation between business and institutions of higher learning to address skills shortages (Malaysia)
Rationalise and make easily accessible investor rights and obligations (Tanzania)	Improve co-ordination between central and provincial IPAs (Viet Nam)	Group all sector restrictions on FDI within a regularly updated negative list (Mozambique)	Build capacity in line ministries while reduce centralised screening (Myanmar)	Actively promote linkages with local companies, strengthen training institutions for local companies, and monitor social and environmental performance (Myanmar)
Implement financial penalties for acts of grand corruption (Burkina Faso)		Reforms should be intensified (Myanmar)	Reduce barriers to entry in the banking sector (Burkina Faso)	Promote mutually beneficial business partnerships (Tanzania)
		Create a comprehensive national investment strategy, with a greater focus on sectoral competitiveness and export potential than currently exists in the EDD Strategy (Botswana)		



Investment reform challenges





Main messages from IPRs

- List of reforms is long, IPR supports in prioritising and sequencing
- Exposing a country to international competition through trade & investment is a good start
- No way around improving the investment climate fundamentals, a process rather than a quick-fix
- Internal resistance to reform: “losers” need to be compensated, and results are in the long-term
- IPA capacity: private sector attitude, policy advocacy, performance monitoring
- Improve and revitalise regional IPA co-operation
- **Responsible** Business is **good** business (OECD MNE Guidelines)



Discussion & Feedback on the PFI



Liberalising the investment regime

- What are the main challenges your government is facing in attracting foreign direct investment?
- What measures does your government use to attract investment? Does your government see bilateral investment agreements as an effective instrument for attracting investment?



Promoting linkages and local industrial development

- What policies and measures do you find most effective in ensuring foreign direct investment benefits the local economy?
- What policies do you consider important to support domestic companies in participating in global value chains through regional and global production networks?



Competition & competitive neutrality:

What measures do you see as effective in ensuring a level playing field for foreign investors, domestic state-owned enterprises, and domestic companies including SMEs?

Infrastructure & regional integration:

- What elements do you see as most effective in promoting regional integration and infrastructure connectivity?



Thank you

Mike.Pfister@oecd.org

www.oecd.org/investment/pfi

<http://www.oecd.org/investment/toolkit/>

<http://www.oecd.org/daf/inv/investment-policy/seasia>