Asia-Pacific
Economic Cooperation

APEC High-Level Public-Private Policy Dialogue on the Policy Framework for Investment

Australia, April 2007

APEC Investment Experts Group

APEC Committee on Trade and Investment

July 2007

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APEC High-Level Public-Private Policy Dialogue on the Policy Framework for Investment (PFI)
Agenda

*** The meeting will be held in the Promenade Room, Crown Promenade Hotel.

25 April 2007 (Wednesday)

1600 – 1930	**Registration** (Crown Promenade Hotel)
1800 – 2000	**Welcome Reception** (The Garden Rooms Restaurant — Sponsored by the State Government of Victoria)

26 April 2007 (Thursday)

0800 – 0845	**Registration** (Crown Promenade Hotel)
0900 – 0915	**Session I: Welcome and Opening Remarks** • The Honourable Chris Pearce, *Parliamentary Secretary to the Treasurer of Australia* • Mr. Masashi Mizukami, *APEC Senior Official, Japan*
0915 – 1045	**Session II: The PFI, Policy Coherence and Behind-the-Border Barriers** Moderator: Mr. Jim Murphy, *Executive Director, Australian Treasury* ► Speakers (15 minutes each): • Mr. Masashi Mizukami, *APEC Senior Official, Japan* • Dr. Rainer Geiger, *Deputy Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD* • Mr. Hayden Fisher, *Economist, Centre for International Economics, Sydney* ► Panel Discussion (speakers + experts below): • Mr. Andrew Stoler, *Executive Director, Institute for International Trade, the University of Adelaide* • Mr. Ken Waller, *ABAC Australia* ► Questions
1045 – 1100	Morning tea

1100 – 1300	**Session III: Improving the Investment Climate – Partnership for Reform** Moderator: Mr. Chris Decure, *APEC Senior Official, Australia* ► Speakers (10-15 minutes each): • Ms. Anna Joubin-Bret, *Senior Legal Officer and Coordinator of Training and Technical Assistance, UNCTAD* • Dr. Peter van Diermen, *Economic Adviser, Advisory Group, AusAID* • Mr. Chee Sung Lee, *Assistant Director, IMF Asia* • Mr. David Rynne, *Minerals' Council of Australia* • Ms. Jane Drake-Brockman, *Australian Services Roundtable* Panel Discussion (speakers + expert below): • Mr. Mahendra Siregar, *Deputy Minister for International Economic Cooperation, Coordinating Ministry for Economic Affairs, Indonesia* ► Questions
1300 – 1430	***Informal Lunch*** (Conference Centre Mezzanine, Crown Promenade Hotel)
1430 – 1545	**Session IV: Potential of the PFI to Generate Reform ─ Preliminary Results of Viet Nam's Partnership with the OECD** Moderator: Dr. Rainer Geiger, *Deputy Director, Directorate for Financial, Fiscal and Enterprise Affairs, OECD* ► Speakers (15-20 minutes each): • Dr. Nguyen Thi Bich Van, *Deputy Director, Foreign Investment Agency, Ministry of Planning and Investment, Viet Nam* • Ms. Marie-France Houde, *Manager, OECD Foreign Investment Policy Reviews* • Ms. Alice Pham, *Director, CUTS Hanoi Research Centre*
1545 – 1615	Afternoon tea
1615 – 1730	**Session IV: Potential of the PFI to Generate Reform ─ Preliminary Results of Viet Nam's Partnership with the OECD (<u>continued</u>)** ► Panel Discussion (speakers + experts below): • Mr. Kazushi Hashimoto, *Director-General, Sector Strategy Development Department, Japan Bank for International Cooperation* • Mr. Sharad Bhandari, *Senior Economist, Asian Development Bank* • Mr. Truong Ba Dong, *Department of Legislation, Ministry of Planning and Investment, Viet Nam* ► Questions

1900 for 1930 – 2200	***Formal Dinner — Address by Mr. Mark Johnson, Chair, ABAC 2007 with introductory remarks by Mr. Gary Johnston, Executive Manager of Axiss Australia, a Division of Invest Australia*** (River Room, Crown Towers Complex)

27 April 2007 (Friday)

0800 – 0845	**Registration** (Crown Promenade Hotel)
0900 – 1045	**Session V: Investment Climate Reform Strategies in Selected APEC Member Economies** Moderator: Mr. Michael Michalak, *APEC Senior Official, USA* ► Speakers (15 minutes each): • Mr. Mahendra Siregar, *Deputy Minister for International Economic Cooperation, Coordinating Ministry for Economic Affairs, Indonesia* • Mr. Gregorio Canales, *Director-General, Foreign Direct Investment, Ministry of Economics, Mexico* • Ms. Lilia de Lima, *Director General, Philippine Economic Zone Authority, Philippines* ► Panel Discussion (speakers + experts below): • Mr. Heinz L.T. Chien, *Senior Specialist, Department of Investment Services, Ministry of Economic Affairs, Chinese Taipei* • Mr. Thamrong Mahajchariyawong, *Deputy Secretary-General, Board of Investment, Thailand* • Dr. Rizal Lukman, *Coordinating Ministry for Economic Affairs, Indonesia* ► Questions
1045 – 1100	Morning tea
1100 – 1245	**Session VI: Policy Reform Priorities and Capacity Building Needs** Moderator: Mr. Ken Waller, *ABAC Australia* ► Speakers (20 minutes each): • Mr. Andrew Elek, *Executive Director Bellendena Partners (an international economic co-operation think tank); Senior Advisor, Pacific Economic Cooperation Council; and First Chair of APEC's Senior Officials* • Mr. Alan Schoenheimer, *Managing Director, Australasia, Russell Investment Group* ► Panel Discussion (speakers + experts below): • Mr. Sharad Bhandari, *Senior Economist, Asian Development Bank* • Ms. Anna Joubin-Bret, *Senior Legal Officer and Coordinator of Training and Technical Assistance, UNCTAD*

	► Questions
1245 – 1300	**Session VII: Summary and Concluding Remarks** • Mr. Chris De Cure, *APEC Senior Official, Australia*
1300 – 1430	***Informal Lunch — Address by Dr. Brent Davis, Australian Chamber of Commerce and Industry*** (Conference Centre Mezzanine, Crown Promenade Hotel)

APEC High-Level Public-Private Policy Dialogue on the Policy Framework for Investment (Melbourne: 26-27 April 2007)

On 25-27 April 2007 in Melbourne, Australia hosted a High-Level Public-Private Policy Dialogue on the Policy Framework for Investment (PFI) to consider how APEC's member economies might make use of the OECD's PFI to improve investment climates. The Dialogue was endorsed by APEC's Investment Experts Group (IEG) last year.

The Dialogue was held against the broader context that the APEC region is underperforming in investment growth and that many economies in the region are significant exporters of capital despite huge domestic needs. It also occurred as IEG is finalising analysis of behind the border barriers to investment including IPR, transparency, governance, taxation, competition policies, business mobility, poor physical and legal infrastructure, and the need to improve human capital.

The main purpose of the Policy Dialogue was to educate government officials and other opinion leaders in APEC member economies about the PFI — approved last year by OECD Ministers, — and the effective use of that tool in domestic reform efforts. Discussion of the PFI brought focus to the Busan Business Agenda and the need to improve the regional business environment. It also constituted a significant step toward the implementation of the Ha Noi Action Plan. The Dialogue also played an integral role in reinforcing the collaboration between the IEG, business and relevant international organisations which is essential to progress IEG's expanded work program on investment liberalization and facilitation.

ABAC, as well as major players from Australian business, had a substantial presence. In addition, international organisations were well-represented (the ADB, UNCTAD, IMF, Japan Bank for International Cooperation, and, of course, the OECD). Senior investment officials from APEC developing member economies played an active role.

In opening the Dialogue, the OECD, Japan and Australia's Centre for International Economics (CIE) made the case for APEC developing member economies to use the PFI focussing on its use as a framework to guide policy choice and, in particular, its comprehensiveness. Japan focussed on the necessity for the development of the PFI. The OECD laid out the case for policy coherence through using the PFI as a benchmarking policy design tool that represents international best practice based on widespread contributions. (Sixty countries — including 15 out of 21 APEC member economies — the World Bank, UNCTAD and other international organisations were involved in the development of the PFI.) The CIE outlined the World Bank's work and its use by the CIE to examine the significance of behind-the-border barriers to investment liberalisation.

The Dialogue then considered the role of the PFI as an organising principle for conducting investment climate reform and the case for reform partnerships as the most likely avenue to achieve investment climate reform. Broadly, speakers focussed on the benefits arising from reform partnerships and the perils of undue focus on low-hanging fruits. UNCTAD presented on its work program including the *World Investment Report* and investment policy reviews to demonstrate the importance of an analytical base for reform partnerships. AUSAID commented on lessons from its reform experiences and the IMF focussed on savings imbalances and improving investment efficiency in the APEC region.

The Dialogue then moved away from the abstract towards the practical. Viet Nam presented on the state of its investment climate reform actions, including the weakness of business in Viet Nam, the ad hoc nature of the reform process to date despite substantial improvements and, consequently, its commitment to a PFI assessment. The OECD discussed the PFI methodology, including the use of

real performance benchmarks, to provide a critical path to reform. CUTS, an NGO based in Ha Noi which had put together a scoping study on Viet Nam's investment climate in partnership with the OECD, outlined some areas in need of reform.

Mark Johnson, Chair of ABAC for 2007 delivered a dinner address in which he focused on the importance of the role of institutions, including ABAC, in driving reform.

Continuing this practical line of inquiry, Indonesia, Mexico and the Philippines presented on their reform experiences by outlining their priorities and approaches, identifying common reform bottlenecks and problems, and considering how the PFI might streamline existing reform plans. A salient outcome was that certain elements of the PFI have already been addressed or are under consideration but that the comprehensiveness of the PFI offered an opportunity to bring more order to the myriad reform challenges.

Business focused APEC member economies on the significance of the reform challenges and the payoffs. That is, investment climates played a significant role in business considerations to invest and that the consequences of improved climates enabled member economies and business to profit. Business also urged member economies and donor organizations to collaborate in identifying and addressing capacity building needs. It also welcomed the collaboration between IEG and the OECD in examining avenues to assess investment environments, taking into account the substantial work of the World Bank and UNCTAD in particular.

The Dialogue concluded that the PFI is a valuable tool — one of several complementary tools — available to assist APEC member economies to explore strategically the issues that impact on investment flows and effectiveness.

A tangible outcome of the Dialogue was that it set in train a concrete program of cooperation between APEC member economies, Donor organisations and the OECD to conduct an assessment of Viet Nam's investment regime against five key policy issues in the PFI: investment policy, competition policy, public governance, investment promotion and facilitation, and trade policy.

Broadly, the Dialogue noted that the PFI readily complements other programs and strategies, and assessment under the PFI sends a message to business that a member economy is serious about addressing investment bottlenecks. It is neither rules-based nor threatening. It is flexible and provides ownership to the economy being reviewed. It provides benchmarks and measures of performance. It provides a framework through which to address problems, including through reform partnerships. If implemented, the PFI should provide real benefits to economies.

APEC has a valuable role to play in supporting the ambitions of member economies to boost their investment performance by using the PFI. This includes examining implications and policy options, sharing experiences with the process, and through capacity building.

APEC has particular strengths that make it an ideal vehicle consideration of ways to use the PFI. These include its diverse levels of and economic development of its membership, its non-binding nature, its informality, its willingness to engage with other international fora, and its emphasis on cooperation and capacity building.

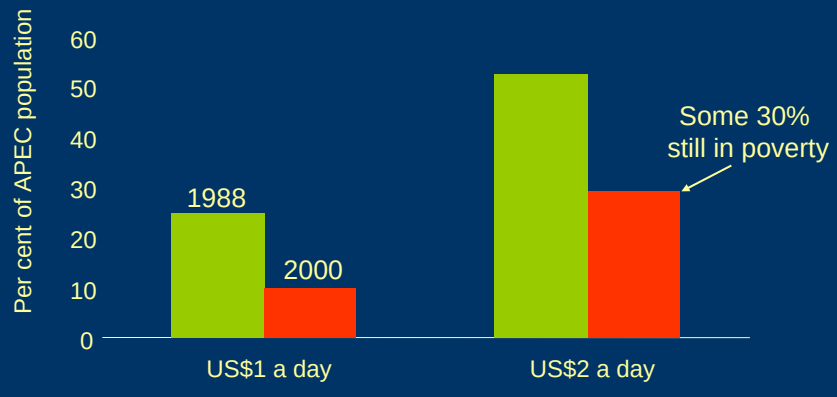
TheCIE.com.au

Behind-the-border barriers to investment

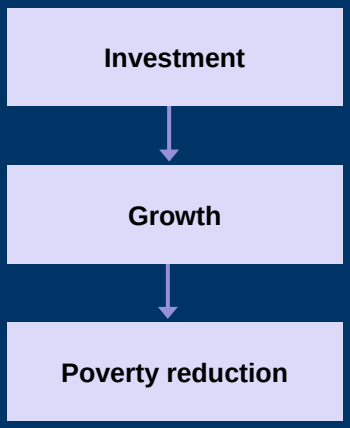
Prepared for
APEC High-level Public-Private policy dialogue on the Policy Framework for Investment (PFI)
Melbourne, 26 April 2007

Presentation by
Hayden Fisher
Centre for International Economics

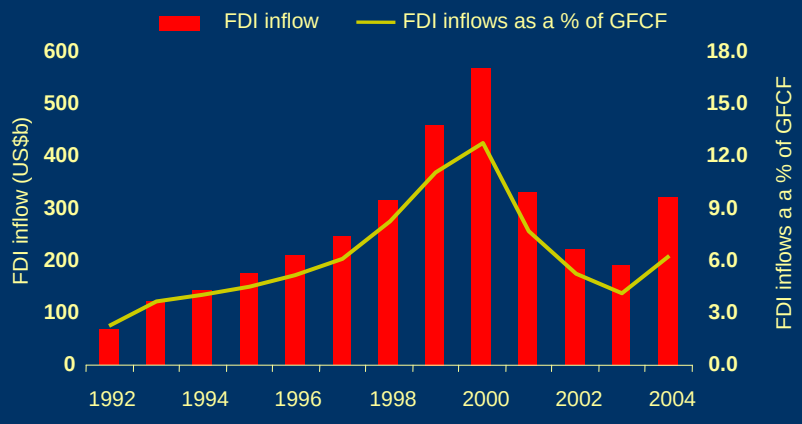
Poverty rates have fallen across APEC, but are still high



The key role of investment

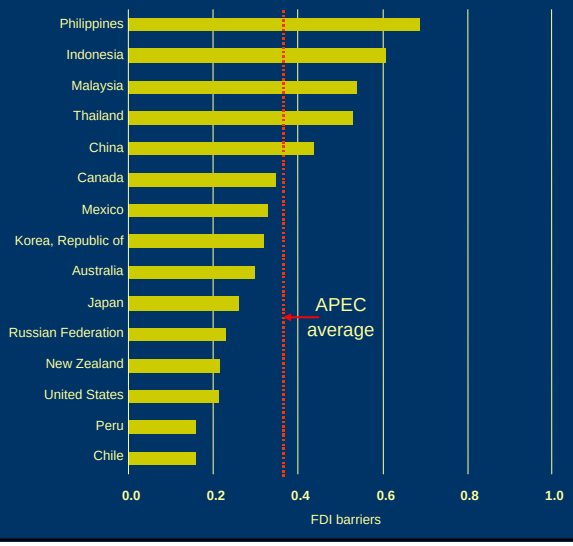


FDI inflows into APEC economies not recovered

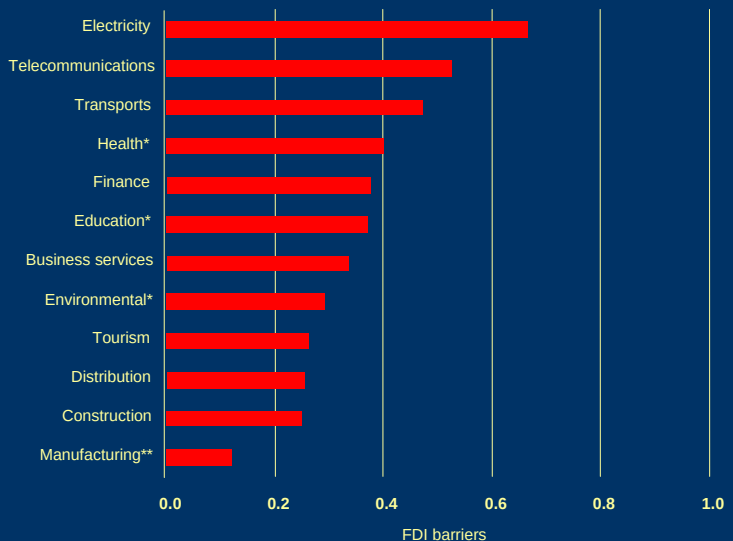


… still has not fully recovered from Asian Financial Crisis

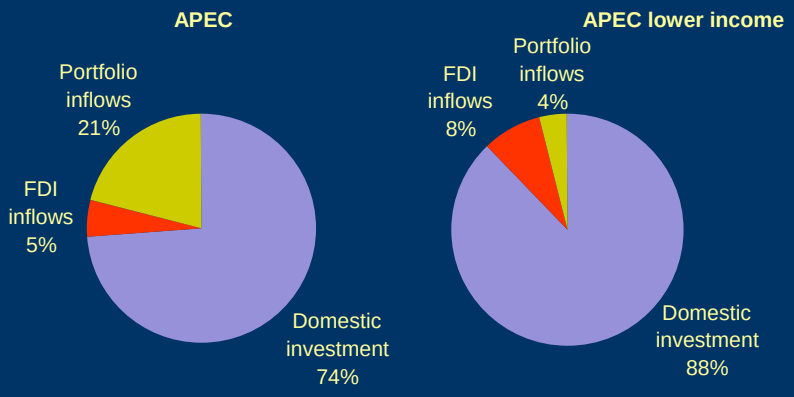
FDI barriers highest in lower income APEC economies



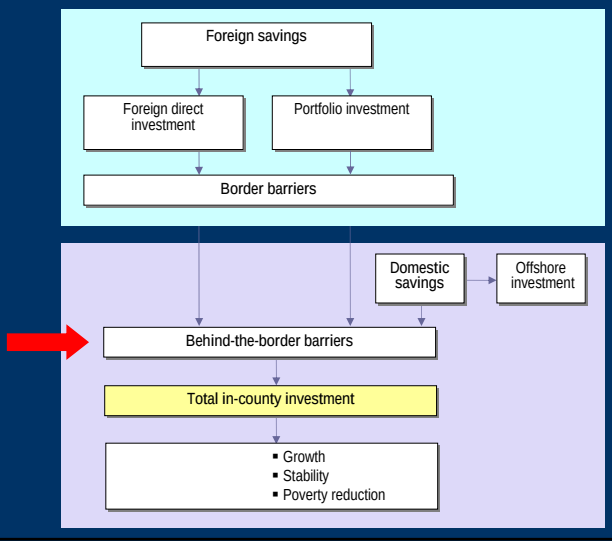
Barriers in APEC by sector



But, domestic investment comprises the bulk of investment (average 2002 to 2004)



So examine behind-the-border barriers to investment



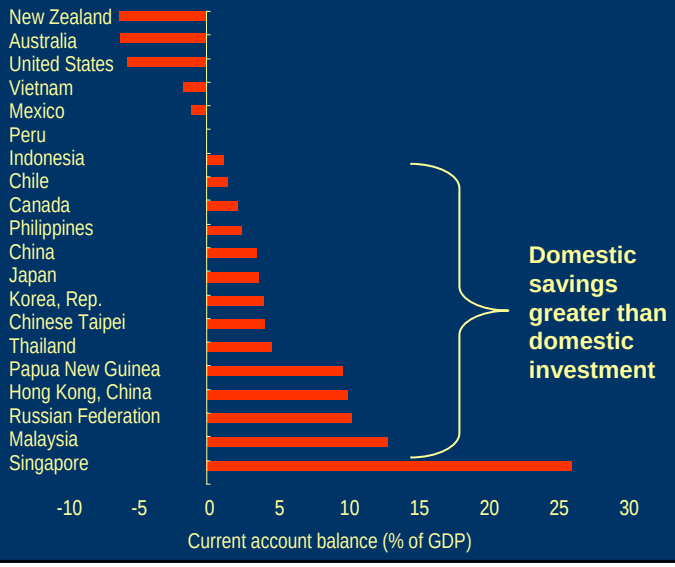
Behind-the-border barriers

• Finance costs	• Property rights	• Barriers to entry
• Inefficient taxes	• Legal systems	• Competition law
• Regulatory burden	• Contract enforcement	• Infrastructure and finance
• Corruption	• Policy predictability and credibility	
• Poor infrastructure		
Cost	**Risk**	**Competition**

Productivity

Growth

Low investment in some APEC economies is not due to low savings



Key points

- There are some 30 per cent of people in APEC in poverty (US$2 per day)
- Growth is the main driver for poverty reduction
- Investment is a precursor to growth
- Low investment in many poor economies is not due to low savings

Key points (continued)

- There are large barriers to investment across APEC economies
  - Higher in poor countries
  - Border barriers to FDI well known, higher in APEC
  - But behind-the-border barriers more important and less well researched
- Both the quantity and quality of investment matters
- Better investment across APEC is needed
  - right amount, right type, right area, right time
  - all at least cost

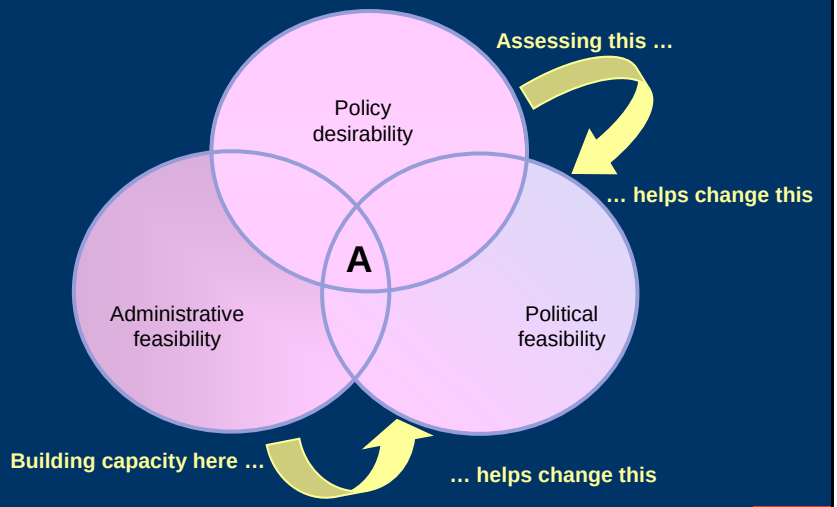
What to do

- Host of factors need to be right for better investment to lead to economic growth
- Factors are different for each economy
- Issues are *within* economies — the behind-the-border issues
- Need to focus on those barriers where benefits greater than costs

What to do (continued)

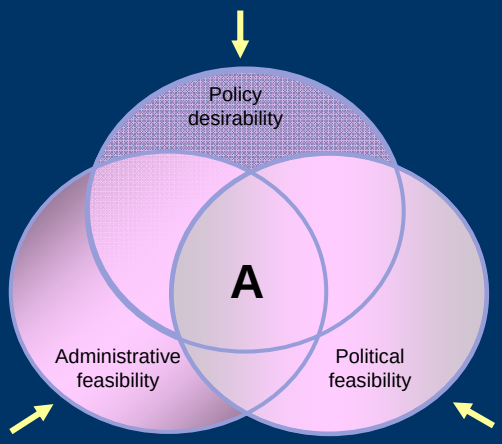
- Each economy needs an internal process to systematically assess barriers to investment for benefits and costs
  - In Australia well developed (PC and NCP)
  - Open, transparent, independent, economywide analysis
- But 'model' does not translate well to other countries
  - Different cultures, institutions, etc
- Challenge is to devise effective processes and institutions and build that capacity
- We know what needs to be done, but the challenge is how to do it

The challenge: increasing the 'sweet spot' (A)



Source: *World Bank Development Report*, 2005

The challenge: increasing the 'sweet spot' (A)



Source: *World Bank Development Report*, 2005


Ease of getting credit
Easiest
Hong Kong, China
New Zealand
Malaysia
Australia
United States
Singapore
Canada
Japan
Korea
Thailand
Peru
Chile
Taiwan, China
Mexico
Vietnam
Indonesia
Philippines
Papua New Guinea
China
Russia
Most difficult

Enforcing contracts

Starting a business

"Development of the PFI, History and Future"

Session II : The PFI, Policy Coherence and Behind-the-Border Barriers

The PFI Seminar, Melbourne, 26 April 2007

Mr. Masashi MIZUKAMI,
APEC Senior Official, Japan

Mr. Jim Murphy, the Moderator of the Session, dear speakers, and ladies and gentlemen.

1. Introduction

In my presentation today, I would like to speak about three points in terms of development of PFI; (1) a brief historical background of the PFI, (2) how the PFI could be further developed in quality and (3) the future potential of the PFI geographical expansion to new countries and regions.

2. Historical Background and the Current Status of the PFI

Firstly, I would like to remind you of the original value of the PFI, which is the linkage between investment and development.

Private investment has vital role in promoting sustainable development. The significance of this also came to be widely shared when it was clearly stated in the United Nations Monterrey Consensus on the occasion of the International Conference on Financing for Development in 2002.

Japan had been recognizing that there was a great need among many countries for their own investment environments in order to attract more private investment for their development. We believe that development of a kind of tool would be useful, by which developing countries are able to assess their own investment environments and find ways to improve their investment climate voluntarily based on the idea of ownership. This is why the development of the PFI was proposed by Japan as a part of the Initiative of Investment for Development in 2003.

As a result, a PFI task force was formed in the OECD, where many non-OECD members including APEC members have participated. Japan chaired the task force together with Chile in order to contribute to drafting the PFI, which, in the end, was adopted by the OECD Council and welcomed by Ministers at their annual OECD meeting in May 2006.

Soon after the adoption of the PFI, the Tokyo Seminar was held to disseminate the PFI, inviting Secretary-General of the OECD Angel Gurria. Then a Pilot Project on a PFI Assessment of Vietnam was held at Hoi-An in September 2006 where Japan sponsored this Project with the co-sponsorship of the OECD.

The scope of the PFI is not only limited to investment policies like deregulation, protection of investment, promotion of transparency and predictability. But the PFI, in addition, covers such broad areas as promotion and facilitation of investment, trade policy, competition policy, tax policy corporate governance, policies for promoting responsible business conduct, human resource development, infrastructure and financial sector development and public governance. Moreover, users can choose any policy areas in the PFI in accordance with their need. Actually, Vietnam has applied the first 5 parts in the pilot project last year, then is expected to apply the rest of the parts for the second project. These wide policy coverage and flexible character are notably one of the advantages and strength of the PFI, aside from its non-compulsory nature.

3. How the PFI could be Further Developed

Now let me move on to the second point. How could the PFI be further developed in terms of PFI qualitative development?

I think that the start of the discussion of the PFI in 2003 until the formulation of the PFI could be considered the early stage of the PFI, and we started moving on to the actual application of the framework with the Pilot Project in Vietnam in 2006 was the first stage of the PFI.

The PFI needs to be developed. We know many APEC economies, both OECD and non-OECD members, are strongly interested in the PFI, but at the same time, self-evaluations by the countries using the PFI are vital to

the development of this Framework. We need to sit together discussing such evaluations, and the detail analysis is needed to come up with concrete ideas for development to establish the PFI firmly.

We are encouraged by the fact that Egypt, Rwanda and Zambia, as well as South East Europe also attempted to apply the PFI and are suggesting the need for further development of the Framework. The OECD Investment Committee therefore proposed to draft a PFI Users Handbook for better application to the various types of countries or regions and to their specific requirements.

Based on the experiences in Vietnam, in other countries and regions, currently the PFI Users' Handbook is being discussed in the working group of the OECD Investment Committee. The tentative conclusion of the latest discussion in March was that the Handbook should be drafted step by step based on feedbacks from users' experiences so far and the needs of each of the countries. Japan is ready to contribute positively to the discussion and drafting process of the Handbook.

This is one of the qualitative development of the PFI for better understanding on the concept and purpose of the Framework, and Japan is continuously supporting for construction of the Handbook so that the PFI can be more convenient and friendly to users.

4. Geographical development (expansion) of the PFI

Thirdly, we would like to encourage the wider use of the PFI from one country to another. The Vietnam Project features a first pilot case of the PFI in the Asia-Pacific region. The country, as well as the region, is rapidly growing and absorbing a great deal of foreign direct investments. I have myself been concerned with how sound and sustainable growth could be secured in developing countries and developed countries, and believe that the PFI is a useful tool to apply. As mentioned earlier, Japan sponsored and financed the Vietnam Pilot Project hoping to spread the PFI throughout and beyond the region.

I would like to recognize with highly appreciation, Australia's initiative this time around to host the OECD/APEC joint seminar on the PFI.

It will surely contribute to the further usage of this framework in the region and will also contribute to the OECD work to develop functioning of the PFI and the structure of the Handbook.

With the Vietnam Pilot Project and the Melbourne seminar, I am hoping that the idea of the PFI will prevail widely with APEC members. The APEC region needs to address the co-existence of poverty alleviation and rapid economic growth. In order to harmonize these two challenges, the PFI could be an effective tool for realizing sound and sustainable development as well as contributing to the improvement of the investment climate.

I am quite encouraged by the fact that the PFI was applied in South East Europe, within NEPAD (New Partnership for Africa's Development), MENA (Middle East and North Africa), and some countries in the Middle East, and in Central and South America are requesting for the cooperation with the OECD in order to utilize the PFI.

A recent development in worldwide phenomena is the increase of democracy around the peripheral Eurasian Continent. The Japanese Foreign Minister H.E. ASO calls it "the Arc of Freedom and Prosperity". The PFI can also be applied to countries and regions in that area.

Lastly the PFI could be one of the appropriate topics to be discussed at the G8 Japan summit as well as at the TICAD IV summit (the Fourth Summit of Tokyo International Conference on African Development) next year.

4. Conclusion

I began my introduction today by stating that the PFI process is moving forward in two dimensions, namely, through its qualitative development and the geographical development, after providing a historical PFI itself.

At this stage, only a year after the PFI was created, our priority is to apply this framework to as many countries and regions as possible, in order to bring about more development through investment and the accumulation of cases which allow us to where we can learn more through users'

experiences. Next, we should always conduct consultations and review those matters that need to be considered.

The PFI is a self-evolving tool that will repeat a cycle of application, experience, review and development. By being involved in the PFI cycles, more countries and regions will be developed, and as a result, as the PFI itself will be developed even more.

The Vietnam Project and the Melbourne Seminar are important in this context, since the Project and the Seminar are the first case that begins this cycle of the evolution and development process in Asia-Pacific region. In order to mobilize this cycle in a smooth manner, we should do our best to make this a very successful seminar.

Therefore, let us continue to work together for the development of the PFI, in cooperation with OECD and APEC members, and with anyone interested in the potential of this framework, so that it becomes more user-friendly tool for all stakeholders, who will in turn gain more benefits from the framework.

Thank you very much for your attention.

THE PFI, Policy Coherence and Behind-the-Border Barriers

Dr. Rainer Geiger
OECD Deputy-Director, Financial and Enterprise Affairs and
Director of the MENA Investment Programme

Melbourne, 26 April 2007

OECD OCDE

CONTENTS

- WHY A PFI ?
- WHAT MAKES IT SPECIAL ?
- HOW TO MAKE THE BEST USE OF IT ?

WHY A PFI ?

- In a changing environment for international investment…
  - New countries emerging as outward investors;
  - Concerns about the consequences of globalisation for social relations and national security in the "old" economies;
  - FDI's growing importance for development.
- …there is a need for structured and inclusive dialogue.

PFI and the emerging players

- A growing importance of south-south and, as of recent, also south-north investment
- The emerging players are increasingly sensitive to the conditions their national enterprises face abroad…
- …and wish to engage other countries in discussions about shared values and level playing fields.

PFI and developing countries

- Direct investment is one of the most promising alleys of development finance
- Countries need not only to attract investors but also to maximise the benefits of their presence
- PFI provides a tool of structured self-assessments, dialogue and progress reporting.

THE PFI

- Identifies 10 core policy areas and 82 questions to assist governments maximise the benefits of international and home investment
- That promotes tailor-made and development-orientated solutions reflecting good practice
- Is the most comprehensive multilaterally-endorsed investment policy instrument to date

THE 10 PFI POLICY AREAS

1. Investment policy
2. Investment promotion and facilitation
3. Trade policy
4. Competition policy
5. Tax policy
6. Corporate governance
7. Policies for promoting responsible business conduct
8. Infrastructure and financial sector development
9. Human resource development
10. Public governance

THREE PRINCIPLES APPLY THROUGHOUT THE 10 PFI CHAPTERS

1. Policy Coherence
2. Transparency and Accountability
3. Regular Policy Evaluation

An unprecedented partnership

- A task force of some 60 governments from OECD and non-member economies
- Input from 8 specialised OECD Committees
- Business, labour, civil society representatives
- World Bank, UNCTAD and other international organisations
- Meetings in five regions
- Web-based public consultation

HOW TO TAKE ADVANTAGE OF THE PFI

- The PFI is a flexible tool with different possible applications:

- Self-evaluation by governments (Vietnam)
- Peer reviews (Egypt)
- Regional co-operation (SEE, MENA and NEPAD)
- Public-private dialogue (APEC)
- Tool for sustainable development

RELEVANT AT DIFFERENT STAGES OF INVESTMENT CLIMATE REFORM

- Diagnostic stage
- Designing a policy reform road-map
- Implementation of reforms and evaluation process

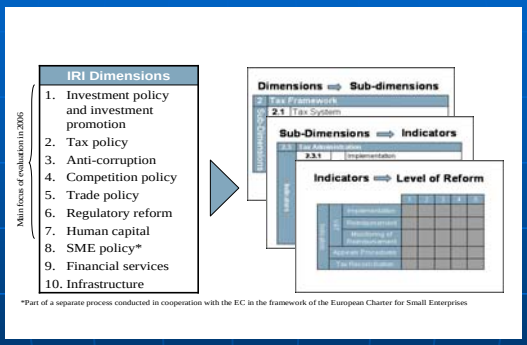
WITH THE FOLLOWING FEATURES

- Nationally owned
- Time bound
- Partnership based
- Not just measuring but providing guidance and structured evaluation
- Comprehensive based on public and private sector involvement

The example of the Investment Reform Index for South East Europe

- Is the most comprehensive application of the PFI so far
- Covers 8 of the 10 PFI policy chapters
- Divided into sub-dimensions
- Further divided into indicators
- Ordinal scales (e.g. ranging from 1 to 5)

The structure of IRI



CONCLUSION
USING THE PFI CAN BRING MAJOR BENEFITS

- Better informed decision-making
- Enhanced whole-of-government sensitivity to investment climate issues
- Adjustments in course of action
- Public-private mutual trust
- More effective aid
- Basis for regional investment dialogue

Visit PFI at:
www.oecd.org/daf/investment/pfi

APEC High-Level Public-Private Policy Dialogue on the Policy Framework for Investment
Melbourne, 26 April 2007
Session II: The PFI, Policy Coherence & Behind the Border Barriers

Panel Discussion:

QUESTION: How might the use of the PFI bring about unilateral services liberalisation and what would be the likely benefits?

ANSWER (Stoler):

First of all, let me say how impressed I am by the comprehensiveness of the Policy Framework for Investment. You can see that a lot of serious work went into this exercise and what has resulted can clearly be a very important tool for governments to identify the issues and problems standing in the way of a welcoming environment for investment.

The question of how the PFI might be used to bring about unilateral services liberalization and the benefits of this liberalisation brings to mind a series of country case studies that I helped to edit a couple of years ago. Some of the case studies give us a real-life answer to the question.

One of the case studies involved Barbados and its liberalization of telecommunications services on the island. Barbados (or any other country in its circumstances) could have started with PFI question 9.3 – "In the telecommunications sector, does the government assess market access for potential investors and the extent of competition among operators? Does the government evaluate whether telecommunications pricing policies are competitive, favouring investment in industries that depend on reliable and affordable telecommunications?"

In fact, officials in Barbados must have asked themselves something like this question because in the mid-1990s they were faced with a situation where an incumbent monopoly telecoms provider, through its pricing policies, was seriously damaging the island's tourism and financial services industries. There was also substantial evidence to the effect that foreign companies operating in the Caribbean avoided establishing subsidiary operations on Barbados because of the very high cost of telecommunications.

Two other PFI questions that were likely asked by Barbados in the context of its liberalisation of the telecommunications sector are question 4.3 – "To what extent and how have the competition authorities addressed anticompetitive practices by incumbent enterprises that inhibit investment?" and question 10.1 – "Has the government established and implemented a coherent and comprehensive regulatory reform framework consistent with its broader development and investment strategy?"

Now what happened in Barbados was the successful liberalisation of the telecommunications sector and the introduction of a well-functioning independent regulator in the form of the Barbados Fair Trading Commission that has required the incumbent to allow mobile phone competitors to interconnect to the fibre optic network and invest in the provision of telecommunications services.

The benefits to the economy have been substantial: costs have been reduced dramatically and lower costs have greatly expanded the penetration of telephone service in the population. New

services have been introduced. For example, mobile phones in Barbados can now be used to pay bills and a company offers a service by which credit checks can be displayed on cellular phones as a service to small retailers. In 2002, annual telecommunications investment in Barbados grew by 64 percent.

That's a pretty good example of how the PFI could work to bring about unilateral services liberalisation. Another case study that I am reminded of relates to the banking sector in Vietnam. The situation might have changed, but at least when our case study was written, Vietnamese officials could have started with PFI question 9.7 – "What process does the government use to evaluate the capacity of the financial sector, including the quality of its regulatory framework, to support effectively enterprise development? What steps has the government taken to remove obstacles, including restrictions on participation by foreign institutions, to private investment in the development of the financial sector?"

The case study written by our Vietnamese researchers detailed a situation where the economy lacked the ability to mobilize internal capital with the financial capacity of state-owned banks far too low to meet the country's economic development requirements. Vietnamese-owned companies were generally under-capitalized and the lack of banking competitiveness and competence was seriously holding back exporters like the fishing sector.

Asking PFI question 1.6 – "Has the government taken steps to establish non-discrimination as a general principle underpinning laws and regulations governing investment?" would have drawn attention to the very un-welcoming 30 percent ceiling on foreign investors' stakes in listed business organizations. Similarly, asking PFI question 10.2 – ""What mechanisms are in place for managing and coordinating regulatory reform across different levels of government to ensure consistent and transparent application of regulations and clear standards for regulatory quality?" would probably have yielded an answer demonstrating that the soundness and security of Vietnam's financial system was being undermined by the banks' inexperience in dealing with secured commercial lending.

I know that Vietnam is now involved in the PFI process with what I understand are positive outcomes. What our earlier case study demonstrates is that asking the PFI questions would probably lead Vietnam to conclude that unilateral liberalisation of the financial services sector – at least for banking – would produce a number of important benefits including: much-needed injection of additional capital into the economy; increased competitiveness and greater use of modern technology in the banking sector and lower cost loans and banking facilities for the country's exporters who depend upon a competitive banking environment for their own competitiveness in overseas markets.

These are just two examples, but I think very good ones, that demonstrate how the use of the PFI might bring about unilateral services liberalisation with important benefits throughout the economy.

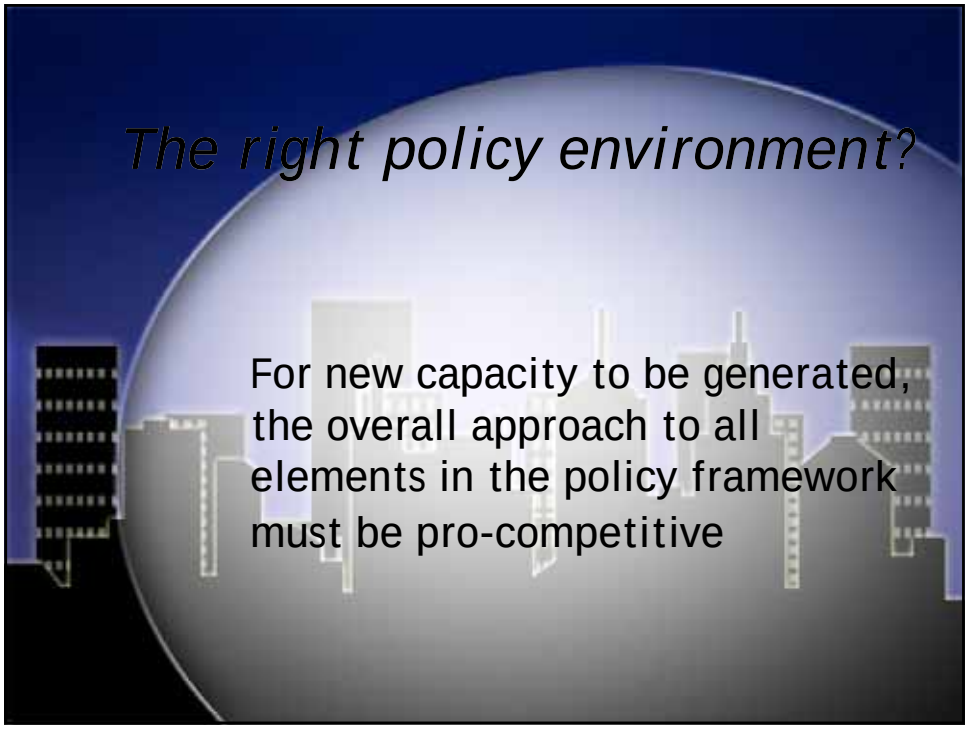
What does business want from APEC?

Business wants continued regional economic growth

This means we need productivity gains

Productivity gains are generated by enabling new capacity

If the policy environment is right, the business community can help to deliver ,via investment, this new capacity


The right policy environment?
For new capacity to be generated, the overall approach to all elements in the policy framework must be pro-competitive


Pro-competitive reforms
APEC Governments need to free up the regional environment for doing business so that business can operate relatively seamlessly as if in a single market across the region. This means
- freeing up investment regimes
- facilitating business visas
- improving transparency of regulatory and other behind the border barriers
- reducing the cost of doing business by cutting red tape

Domestic processes and institutions

APEC economies need processes to help improve the transparency of regulatory and other behind the border barriers.

Once they are made more visible, Governments need to make a concerted effort to re-regulate ie eliminate the most inefficient aspects of the regulatory environment

Regulatory Best Practice

This means APEC economies also need access to policy dialogue on regulatory best practice along with technical assistance and regulatory capacity building

All of this must be accompanied by intensified efforts to improve corporate and financial governance across the region

Progress towards the Bogor Goals; Investment?

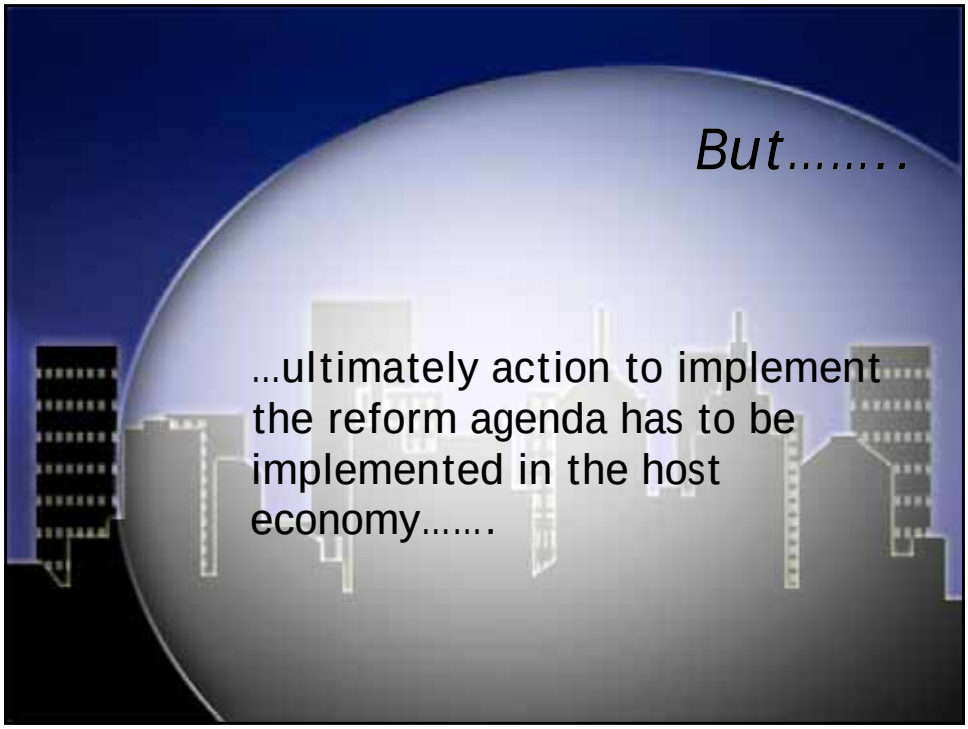
APEC has done reasonably well on the Investment front; adoption of the Non-Binding Investment Principles in 1994 was very constructive

But from a business perspective, the APEC region still has along way to go; caps on foreign ownership in key infrastructural services sectors are common.

Key Infrastructural Services

- Telecommunications services
- Financial Services
- Construction services
- Transport and Logistics
- Professional Services
- Education services
- Health services
- Environmental Services
- R&D services
- Energy services
- Distribution services


Adding value through Partnerships
Australian business is working in partnership with business counterparts throughout the APEC region
And partnering wherever possible in policy and regulatory debate and dialogue with APEC governments
APEC capacity building can do much, by focusing on economic governance, to help reduce investor costs and risks


But……..
…ultimately action to implement the reform agenda has to be implemented in the host economy…….

Business needs certainty

No matter how badly-needed it is, FDI will only come if it is allowed in!!

There are still plenty of "border" as well as "behind the border barriers" to investment.

Investors need clear signals that they will be welcome.

The best signal is a binding legal commitment eg in the GATS

Its time for APEC to focus on Investment

Australian Services Roundtable

The Importance of Transparency in Domestic Regulation (Behind-the Border Barriers Affecting Services)

(Paper submitted to the APEC High- Level Public-Private Policy Dialogue on the Policy Framework for Investment, Melbourne 27-28 April 2007)

Preamble

Good policy-making in services suffers from inadequate definition of the nature of services industries in economic theory and in official statistical collections. Services are poorly and vaguely understood as 'tertiary' activities that do not produce tangible 'things' or 'goods'. In the official statistical classifications, the services sector is generally defined negatively – as a "residual" of all economic activity that is not mining, manufacturing, agriculture, forestry or fishing. This prevailing residual definition of services is not very insightful from a policy perspective. Nor, as a result, is most of the official data. For most purposes to do with international trade in services, the service sectors are best understood as those identified in the WTO General Agreement on Trade in Services (GATS).

Identifying Restrictions to International Trade in Services

It follows from the intangible nature of services, that services can be delivered to markets in a number of different ways all of them quite different to the ways in which goods are delivered to markets. These different ways are defined in the GATS as 4 separate "Modes" of delivery. International trade in services is largely about people movement (Modes 2 and 4) and commercial establishment/direct investment (Mode 3) inside the export market. Where actual "cross-border" trade (Mode 1) is technically feasible, it generally takes place via telecommunications links. It is important, in trying to identify the restrictions to trade in services, to understand how services are traded via these different Modes.

- **Mode 1: Cross-border supply** is defined in the GATS to cover services flows from the territory of one country (the exporter) into the territory of another (e.g. banking or architectural services transmitted enabled technically via telecommunications or e- mail); once considered technically not feasible, this is now the fastest growing mode of international services delivery.
- **Mode 2: Consumption abroad** refers to situations where a services consumer (e.g. a tourist, student or medical patient) travels temporarily into another country's territory (that of the exporter) to obtain a service abroad;
- **Mode 3: Commercial presence** takes place where a services supplier of one country (the exporter) establishes a local presence, including through ownership or lease of premises, in another country's territory to provide a service in that market (e.g. domestic subsidiaries of foreign insurance companies or hotel chains). This activity is generally picked up and measured

and described as **"investment"** but conceptually, from an international trade law perspective, this activity constitutes services export activity. Services franchises would be included under this mode.

- **Mode 4: Movement of natural persons** consists of services providers of one country (the exporter) travelling temporarily (less than a year) to the territory of another country to supply a service (e.g. accountants, lawyers, engineers, architects, doctors, teachers, consultants).

It can be expected, from this description of the Modes of services delivery to international markets, that the barriers to international trade in services are completely different from the barriers to international trade in goods. Liberalisation of barriers to trade in services has nothing to do, for example, with removing tariffs or quotas at the border. Services trade liberalisation is, instead, about achieving more liberal immigration regimes to facilitate temporary movement of personnel and about opening up to foreign investment. It is also, and this needs some explanation, about achieving more transparent, less discriminatory and less trade restrictive services sector regulation.

Relevance of Regulatory Regimes to International Trade in Services

The history of many services industries (apart for example from the professions, which tend to be self-regulated) has tended to be one of a high degree of government intervention, including government ownership and control. This is in direct response to a widespread perception of market failure in many services activities. Some services activities have typically been seen as constituting "public goods" justifying government service delivery, for example health, education, urban bus transport or water supply (which in most countries are still seen as legitimate pubic services) or banking (which in most countries is now in the realm of the private sector). Other large infra-structural services, like telecommunications, energy distribution, airlines or shipping, have similarly tended historically to be seen as "natural monopolies" with capital resource requirements beyond the means of the domestic private sector.

Typically all these services activities have consequently been highly regulated, usually to specify an appropriate standard of public service delivery and to ensure that the various public policy objectives are met. For example, banking and insurance are everywhere subject to stringent prudential controls, telecommunications is typically subject to "universal service" requirements etc.

In much of both the developed and developing world, over the past two decades, many of these services activities have been reformed; many have been privatised or at least opened up to private investment and competition, allowing a huge range of new services activities to enter the realm of the market place, including potentially the global market place. Sometimes the regulatory regimes governing these activities have not kept up with the rapid pace of change in the global business environment. Very often the regulatory regimes continue to restrict foreign access to domestic services activities. Sometimes this is intentional and sometimes accidental. Sometimes it is an appropriate step in the sequencing of competition policy reforms. Sometimes the regulatory regime is perceived by foreign services providers as a discriminatory

obstacle to market penetration. And hence a target for inter-governmental trade and investment negotiations. Sometimes the regulatory regime is perceived by domestic entrepreneurs as an obstacle to domestic competitiveness and hence to export opportunity. And hence a target for domestic regulatory reform.

In essence, therefore, it is chiefly the nature and structure of these various domestic regulations which determine – and limit – the extent of foreign access to services markets. For this reason, the barriers to trade in services are often described as domestic regulatory barriers which exist 'beyond' or 'behind' the border'. Behind the border regulatory barriers are typically less transparent and less obvious than barriers at the border. They are also typically less well understood, in both government and business circles, as being "trade" barriers, or indeed even having anything to do with "trade" at all.

Redefining "Trade Policy" to take account of Services

Traditionally we have thought of **"trade policy"** as being about managing the flow of **goods across the border**. And **"trade liberalisation"** as being about letting more foreign goods in (offering **Market Access**).

When we consider **services** as well as goods, trade policy becomes much more complex because it covers not only what happens at the border but also what happens **beyond or behind the border**.

Modern **"trade policy"** is now about managing the nature and extent of foreign participation in all domestic economic transactions (Market Access).

And **"trade liberalisation"** is about allowing foreigners to compete in (including **invest** in) a wider range of transactions (**Market Access**) and on equal terms with nationals (**National Treatment**)

Handling regulatory issues in the context of trade negotiations

The rules for international trade in services are set by members of the WTO and are contained in the General Agreement on Trade in Services (GATS). Under the Agreement, individual WTO members make specific undertakings on the degree of access foreign service providers will enjoy in their market, and whether they are treated differently from local service providers. The GATS is different to other WTO Agreements, in that there is no one rule to which all Members must adhere. Under GATS, each WTO member makes their own individual offers of commitments on opening up their markets to competition from foreign service suppliers.

Most importantly, there is nothing in the GATS which forces governments to deregulate. Indeed the GATS explicitly recognizes the right of governments to regulate and to fund all public services such as water supply, public health and public education. The nature and extent of GATS commitments are strictly a matter of choice for WTO member governments.

In the case of bilateral negotiations, most trading partners are seeking to achieve new commitments in Market Access and National Treatment which go beyond existing GATS schedules. The box below illustrates some relevant sorts of constraints.

Market Access

(1) Limitations on the number of service suppliers (e.g., numerical quotas, monopolies, exclusive service suppliers)
(2) Limitations on the total value of services transactions or assets in the form of numerical quotas or the requirement of an Economic Needs Test
(3) Limitations on the total number of service operations or on the total quantity of service output
(4) Sector specific Economic Needs Tests or limitations on the number of persons that can be employed
(5) Measures that restrict or require specific types of legal entity or joint venture through which a service may be provided
(6) Limitations on the participation of foreign capital in terms of a maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.

National Treatment

(7) Measures which affect nationals differently from foreigners (eg taxation/incentive measures, local content requirements, other performance requirements?)
(8) Measures which affect established foreign companies differently from established nationally-owned companies

The Importance of Ensuring Best Practice Regulation

Whether or not trading partners are requesting domestic regulatory reforms in local services sectors, it is important to realise that overly restrictive or inefficient domestic regulation is not only a barrier to imports but can also act as a key constraint to the export of local services. For any domestic services industry to be internationally competitive, domestic regulation of that sector needs to be world's best practice. Where domestic regulation is unduly burdensome and costly, potential local services exporters will be prejudiced vis-à-vis foreign suppliers, as will local exporters of all goods in which services are increasingly heavily embedded.

Regulatory reform in the services sector therefore tends to improve the business environment for both domestic firms and foreigners. Interestingly, services trade liberalisation tends to be win – win rather than win – lose. The evidence is that domestic services sector tends to grow, rather than decline, when the sector is opened up to increased competition. This is unlike the situation in goods markets, where trade liberalisation may lead to a decline in former heavily protected industries.

Principles for best practice in services trade regulatory regimes

Every services industry is affected by government decisions on who can do business and how business must be conducted. If a country's regulatory house is not in order, domestic competition will be impaired and export potential will be prejudiced. In such cases, international services negotiations could result in easier access by foreigners to markets in which domestic suppliers remained restricted in their terms of entry or operations. The trade liberalisation challenge, therefore, is to remove barriers to doing business facing all entrants, domestic and foreign, not just to foreign suppliers. Domestic reform – and sometimes reregulation - is often an essential prerequisite to the removal of discrimination against foreign services suppliers.

There is strong international evidence of links between regulatory reform and productivity growth. Productivity is boosted by a focus on reforming those regulations that are overly prescriptive, poorly targeted, mutually inconsistent, duplicative, difficult to enforce or unduly costly or resource intensive for business to comply with. Industry self regulation similarly needs ongoing critical evaluation and assessment. Governments need also to try to introduce a degree of separation between policy-maker, regulator and compliance enforcer. It is important to ensure also that there is a degree of harmonisation of regulatory practice between central, provincial and local administrative levels and wherever possible among close regional trading neighbours.

The policy issues associated with services trade regulation are often among the hardest issues on the domestic political agenda. Competition policy, foreign investment policy, immigration policy, the recognition of standards and qualifications in other countries, and the management of public funding in sectors like health, education and transport infrastructure are some of the key issues. All countries have a strong economic interest in getting these regulatory issues right. Getting it right ultimately requires benchmarking the domestic regulatory system with relevant international practice. The first step in the reform process is to increase the transparency of the regulatory regimes.

Benefits of Reforming Regulatory Restrictions to Services Trade

Relative to the goods sectors, the services sector is by far the most heavily protected sector globally, burdened with the highest degrees of entrenched politically sensitive government intervention. While tariffs have come down in goods trade, a wide range of opaque impediments to international business continues to distort world trade and investment in services. It follows that the global benefits to liberalisation in services will far exceed the gains from liberalisation in other sectors.

A recent estimate in a study commissioned by the United States Coalition of Services industries (USCSI) suggests that full services sector liberalization could result in global welfare gains equalling $1.7 trillion. This is more than double the potential gains from liberalization of trade in industrial goods, and 31 times the projected gains from liberalisation of agriculture. These modelling results make sense given that a strong services sector enables financial, technological, and infrastructure development economy-wide, which in turn facilitates greater investment and trade also in the agricultural and manufacturing sectors.

Improving the Investment Climate – Partnership for Reform

Policy Perspectives

APEC High-Level Public-Private Policy Dialogue on the Policy Framework for Investment (PFI)

Melbourne, Australia, April 26-27, 2007

Chee Sung Lee
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Agenda

- Trends in investment level
- Constraints to Domestic Investments
- Policy Implications
  - Political and macroeconomic situation
  - Financial sector issues
  - Broader investment climate issues

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Trends in Investment Level: Post-crisis Decline in Investment Level

- Investment to GDP ratio in emerging Asia has not recovered from the decline following the Asian crisis.
- Nevertheless, the level of investment remains high relative to other sub-groupings and regions.

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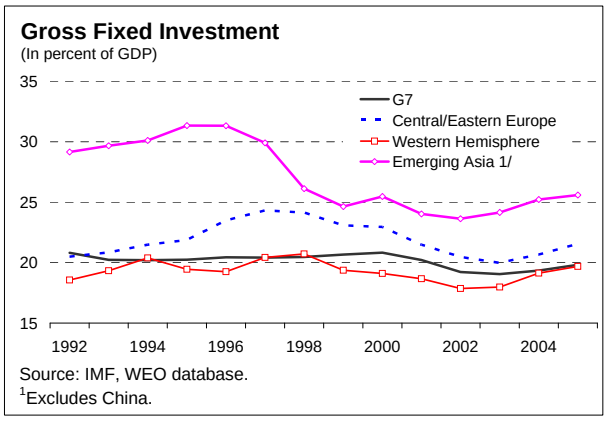
Trends in Investment Level: Post-crisis Decline in Investment Level



Source: IMF, WEO database.
[1]Excludes China.

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Trends in Investment Level:

Some explanatory elements for the lower level:

- Pre-crisis run-up of investment partly explains current lower level.
- Return to pre-crisis level may be neither necessary nor appropriate.

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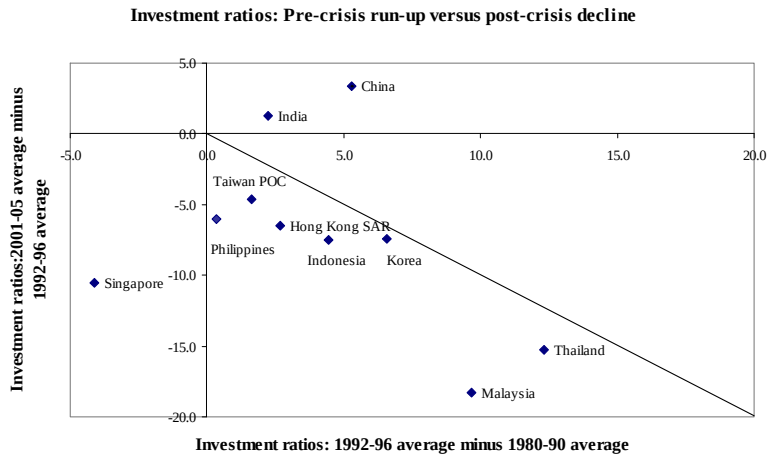
Trends in Investment Level: Pre-crisis Run-up Partly Explains the Decline



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Constraints to Domestic Investment

- Key additional factors that may explain the lower level of investment in much of emerging Asia in the past decade include:
  - Political and macroeconomic uncertainty
  - Some evidence of financing constraints
  - Limited impact of competition from China?

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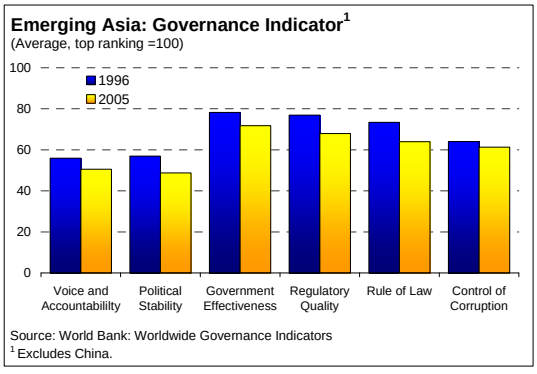
Constraints to Domestic Investment: Political Risk

- World Bank's Worldwide Governance Indicator shows deterioration of all six indicators in emerging Asia
  - Possibly reflecting an increased perception of risks and withdrawal of guarantees



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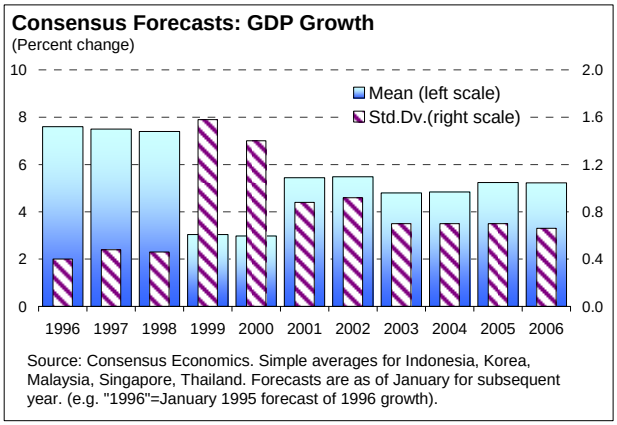
Constraints to Domestic Investment: Macroeconomic Risk

- Increased volatility of output growth



Source: Consensus Economics. Simple averages for Indonesia, Korea, Malaysia, Singapore, Thailand. Forecasts are as of January for subsequent year. (e.g. "1996"=January 1995 forecast of 1996 growth).

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Constraints to Domestic Investment: Financing Issues

- With improvement in overall banking system performance, the financial sector constraints are expected to be less binding.
- However, there are some evidence that domestic firms (especially SMEs in non-tradable service sectors) face financing difficulties.

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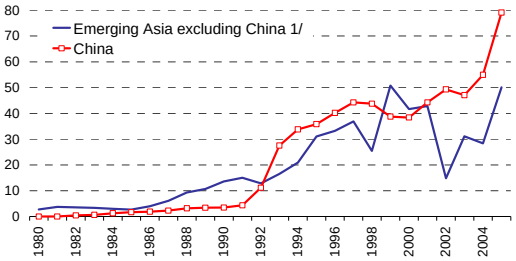
Constraints to Domestic Investment: Competition from China?

- FDI to China has increased sharply since 1990s, but the growth in China's domestic market and imported inputs for export has also contributed to creating trade and investment opportunities for APEC.

Emerging Asia: Gross Foreign Direct Investment Inflows



Source: IMF, WEO database.

[1] Sharp decline in 2002 reflects contraction in flows into Hong Kong SAR.

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Policy Implications

- Political and macroeconomic situation
- Financial sector issues
- Broader investment climate issues

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Political and macroeconomic situation

- Reducing political and macroeconomic uncertainties.
- Improving risk-adjusted returns to investments.
- Measures that may contribute to reduce the cost of doing business include:
  - Improved governance framework
  - Consistency and reliability of legal system
  - Enhancing macroeconomic stability

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Financial sector issues

- Further need to deepen and broaden financial markets and make them more efficient.
- Improve access of domestic firms to financing
  - For larger firms, greater reliance on bond and equity markets
  - For SMEs, improve access to bank finances
- Provide wider range of investment opportunities to domestic savers
- Improved capacity for risk assessment and information sharing

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Broader Investment Climate Issues

- Broader business and investment climate needs to be improved to boost investment further.
  - Sector specific strategies and policies
  - Stronger institutions
  - Property rights
- While policy priorities will necessarily be country specific, the areas which may contribute to enhancing the investment environment include:
  - Regulatory and structural reforms
  - Infrastructure
  - Labor market issues

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Broader Investment Climate Issues: Regulatory and Structural Reforms

- Productivity growth is relatively low in service sectors, partly reflecting sheltered nature of those sectors.
- Regulatory and structural reforms to increase competition and improve productivity include:
  - Reforms measures need to be:
    - transparent and consistently implemented
    - administrative procedures should be streamlined
    - harmonize regulations among states or jurisdictions
  - Open more business opportunities to the private sector, including in the social services, health and education
  - Reduce barriers to entry and greater openness to trade
  - Support investments in innovation and R&D

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Broader Investment Climate Issues: Infrastructure

- Key issues in improving infrastructure include:
  - Improve overall quality, reliability and accessibility
  - Strengthen public investment
  - Facilitate public-private partnerships
  - Provide a legal framework supportive of private infrastructure investment
  - Promote greater competition in infrastructure-related services through regulatory and structural reforms

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Broader Investment Climate Issues: Labor Market Issues

- Strengthening human capital.
  - Improve education systems and training programs
  - Diversify and increase the pool of skilled labor
- Enhancing labor market flexibility may contribute to productivity growth.
- For some economies, facilitating shifts of labor from sectors with declining or stagnant productivity to those with potential for large productivity gains, e.g. from agriculture or labor intensive activities.

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Broader Investment Climate Issues: General Issues

- Inequality
- Domestic integration

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Thank you

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United Nations Conference on Trade and Development

EFFECTIVENESS OF FOREIGN DIRECT INVESTMENT POLICY MEASURES

Anna JOUBIN-BRET
Senior Legal Advisor
IA-DITE-UNCTAD

Policy Experience

- UNCTAD has carried out 11 Investment Policy Reviews
- Another 5 Investment Policy Reviews are underway
- A further 15 Investment Policy Reviews are in the pipeline

UNCTAD

Objectives

Undertake investment policy reviews with member States that so desire to familiarize other Governments and the international private sector with an individual country's investment environment and policies.

National

- Improvement of national capacity in investment policy making.
- Institutional strengthening and training.
- Dialogue with the private sector

International

- Peer review of national policies at the intergovernmental level.
- Exchange of experiences and dissemination of best practices.

UNCTAD

IPR methodology

Reviews have a country focus but they proceed in a global context.

- **Assess a country'investment environment and policies, comparing with those of other countries particularly in the same region.**
- **Establish constructive dialogue with private sector.**
- **Evaluate FDI policies and institutional framework.**
- **Delineate policy options. Inputs by:**
  - national and international experts, UNCTAD staff;
  - actual and potential investors through surveys and case studies.

UNCTAD

IPR follow-up programmes

On-going

- Algeria
- Rwanda
- Zambia
- Benin

Pending

- Colombia
- Nigeria
- Morocco

UNCTAD

Impact

Selected examples…

UNCTAD

IPR Egypt

Vision

- *Improving the contribution of FDI by shifting focus from job creation and output expansion to export promotion and new activities development.*

Strategy

- *Set an action plan to streamline investment approval and establishment procedures;*
- *Launch investment promotion to enhance Egypt leadership in the region;*
- *Train Egyptian diplomats to become focal points in investment promotion activities.*

UNCTAD

IPR Rwanda

Vision

- *Turn Rwanda into a centre of excellence in soft infrastructure and governance*
- *Correct Rwanda's international image*
- *Attract small to medium scale FDI*

Strategy

- *Improve administrative procedures across the board and build on good governance in public administration*
- *Set up a skills attraction and dissemination programme to help bridge the human capacity gap*
- *Implement selected sectoral FDI attraction packages (mining, manufacturing, tourism)*

UNCTAD

IPR Peru

Before IPR

- **COPRI (privatization).**
- **CONITE (proposing and executing investment policy).**
- **Ministry of Foreign Affairs (BITS, promotion abroad).**
- **Promperú (image building).**

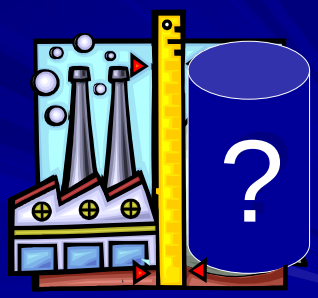
New structure

- **Investment policies defined by Government.**
- **Collaboration with private sector.**
- **Established a single Investment Promotion Agency: "PROINVERSION".**

UNCTAD

What We Know and Don't Know

- Policy makers seek to attract FDI but also benefit from it
- However, there is more knowledge on policy measures on how to attract FDI than on how to benefit from it



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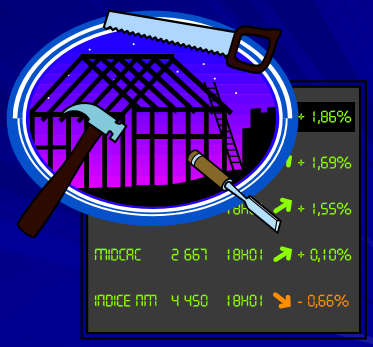
Attracting FDI

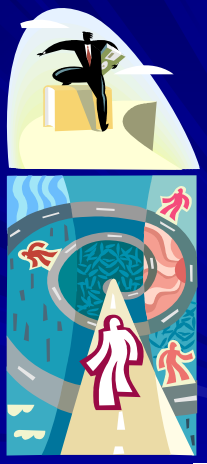
- Countries can act on:
  - Policy framework for FDI
  - Pro-active measures to augment dynamic economic determinants



UNCTAD

Policy Framework for Attracting FDI

- The policy framework consists of:
  - Specific rules governing foreign investors
  - General operating measures affecting all business, including FDI
- UNCTAD experience: specific rules are less an impediment than the general environment



UNCTAD

Policy Framework for Attracting FDI

- Key general regulatory issues:

taxation regime

Optimal ⟷ **Inhibiting**

Peru — Mauritius (now being revised with UNCTAD cooperation)

labour policy

Optimal ⟷ **Inhibiting**

Lesotho — Ghana

business immigration

Optimal ⟷ **Inhibiting**

Mauritius, Ghana — Botswana

UNCTAD

Pro-active Measures to Attract FDI

- Measures acting on dynamic economic determinants:
  - preferential market access (e.g. AGOA, EBA)
  - regional trade access (e.g.CAN, SADC)
  - human resource development
  - privatisation

UNCTAD

Pro-active Measures to Attract FDI

- Use of economic zones, when appropriate
- Investment promotion agencies play important role through advisory, promotion and attraction services
- Given limited resources, FDI targeting in industries is important

UNCTAD

Benefiting from FDI

- Key policy recommendations to benefit from FDI include:

  - Encouraging technological spillovers (e.g. Ethiopia, Peru)

  - Supportive home country measures (e.g. Lesotho)

  - Increasing linkages with local firms (e.g. Ghana, Peru)

  - Effective public-private dialogue (e.g. Botswana)

UNCTAD

Australian Government
AusAID

Improving the Investment Climate

Partnership for Reform

Australian Government
AusAID

Outline

1. Background: AusAID White Paper
2. Donor context: Paris Declaration
3. Donor role in partnerships
4. AUSAID experience in 2 places
   1. Indonesia: TAMF III
   2. Philippines: PEGR Facility
5. Lessons learned : aid modality

What the aid program will focus on

Accelerating economic growth

Generating shared and sustainable economic growth is the single most important objective for the Asia–Pacific region over the next ten years. The aid program will encourage growth by:

- improving the policy environment for private sector growth. Initiatives include a collaborative and demand-driven **Pacific land mobilisation program** to explore ways to overcome the major land tenure constraints to growth in the region.
- promoting trade through assistance for trade analysis, trade policy and trade facilitation, such as more efficient customs and quarantine services
- supporting the drivers of growth by:

Joint Progress Toward Enhanced Aid Effectiveness

Harmonisation, Alignment, Results

High Level Forum
Paris ■ February 28 – March 2, 2005

PARIS DECLARATION ON AID EFFECTIVENESS

Ownership, Harmonisation, Alignment, Results and Mutual Accountability

i. Strengthening partner countries' national development strategies and associated operational frameworks (e.g., planning, budget, and performance assessment frameworks).

ii. Increasing alignment of aid with partner countries' priorities, systems and procedures and helping to strengthen their capacities.

iii. Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.

iv. Eliminating duplication of efforts and rationalising donor activities to make them as cost-effective as possible.

v. Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries' priorities, systems and procedures.

vi. Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices and their quick and widespread application.

Indonesia: Decentralisation Support Facility (DSF)

The DSF is a multi-donor effort to support Indonesian decentralization. Its existing partners include the ADB, AusAID, Netherlands, UNDP, World Bank and Dfid.

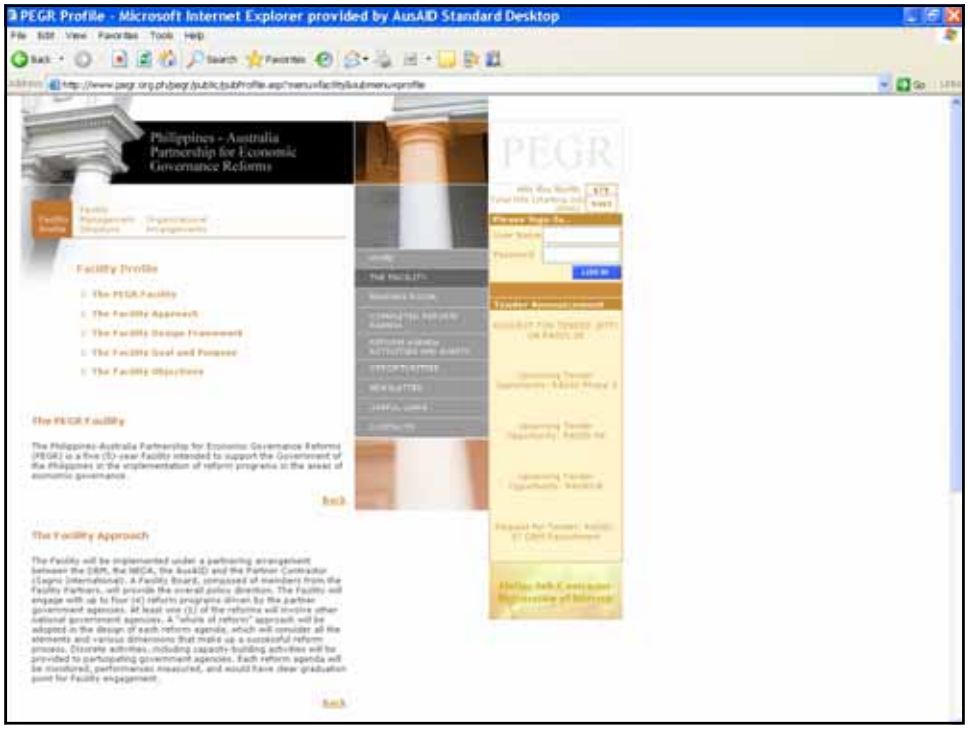
The DSF aims to help harmonise (in line with the Rome and Paris Declarations on Aid Effectiveness) donor support to decentralisation strategies, good governance and poverty reduction efforts of the Indonesian Government.

The DSF's current focus is on providing a range of knowledge and research services; facilitating harmonisation around existing and new programs; and supporting emerging decentralisation in areas such as planning, budgeting and managing financial resources for decentralization, strengthening local government regulatory environment and promoting accountability through informed public participating in decision making.

In terms of achieving these functions, the emphasis is on the DSF acting as a "facilitator" rather than acting as an "implementation agency".

Technical Assistance Management Facility Phase (TAMF)

- TAMF is designed to assist Indonesia carry out key economic and financial reforms during the period 2004-2009.
- The Indonesian counterpart agency for the Facility is the Coordinating Ministry for Economic Affairs (CMEA).
- TAMF Phase III undertake various activities within its three initial "core policy areas":
  - achieving fiscal sustainability;
  - protect the GoI's financial position; and
  - strength the Indonesian financial system.
- Assistance will be provided through a combination of delivery mechanisms, including but not limited to individual advisory services, specialized training programs, studies, surveys, public communication programs, workshops, and study tours.



The PEGR Facility

The Philippines-Australia Partnership for Economic Governance Reforms (PEGR) is a five (5)-year Facility intended to support the Government of the Philippines in the implementation of reform programs in the areas of economic governance.

The Facility Approach

The Facility will be implemented under a partnering arrangement between the DBM, the NEDA, the AusAID and the Partner Contractor (Sagric International). A Facility Board, composed of members from the Facility Partners, will provide the overall policy direction. The Facility will engage with up to four (4) reform programs driven by the partner government agencies. At least one (1) of the reforms will involve other national government agencies. A "whole of reform" approach will be adopted in the design of each reform agenda, which will consider all the elements and various dimensions that make up a successful reform process. Discrete activities, including capacity-building activities will be provided to participating government agencies. Each reform agenda will be monitored, performances measured, and would have clear graduation point for Facility engagement.

Improving the Investment Climate

Partnership for Reform

What does this all mean for

Policy Framework for Investment?

Australian Government
AusAID

Lesson learned

a) Ownership & leadership by country
b) Work through government systems
c) Need for champions
d) Different modality possible
e) Focused but flexible design
f) Leverage of, and work with, other donors/ initiatives
g) Coordination of donor community activities
h) Long term engagement

Benchmarking Select Policies in Viet Nam against the OECD Policy Framework for Investment (PFI)

APEC High-Level Public-Private Policy Dialogue on the PFI
Melbourne: 25-27 April 2007
Alice Pham
CUTS Hanoi Resource Centre
www.cuts-international.org

The PFI in Vietnam – The Scoping Study

- The OECD's PFI
- CUTS & CUTS in Vietnam
- The Scoping Study: An independent assessment on the path of reforms of a government (vis-à-vis the investment climate) by a CSO
  - Third party:

  Donor ←→ Gvt Receiving TA ←→ CSO as TA deliverer
  - Trilateral Development Cooperation (TDC) – A model developed by CUTS: Assesment from a developing country's perspective → enhancing the appropriateness and effectiveness of the study

The Methodology

- Literature review:
  - Vietnam's economic policy vis-à-vis the investment climate
    - Original source: policies/laws/regulations
    - Second source: other research/papers
  - Other investment climate assessment, such as the ICA by the World Bank, undertaken the first time in Vietnam in 2006
- Interviews (anonymous source) with government officials and experts (including independent analysts), private sector representatives, the media, and non-governmental organisations)
- The study is meant to (a) identify the main areas of progress; and (b) the major shortcomings of Vietnam investment policies; and (c) identify possible areas of improvement and their sequencing.

The PFI in Undertaking

- The selection of the fiver areas for the scoping study:
  (i) Investment policy; (ii) Investment promotion and facilitation; (iii) Trade policy; (iv) Competition policy; (v) Public governance
- Three out of the five selected policy areas are related to the contentious Singapore issues at the WTO, however, they are the key when it comes to the domestic regulatory framework for economic growth and development. Investment promotion and facilitation measures are of course key to any country's investment climate; while public governance is the foundation for sustainable reform. Vietnam is no exception
- How is the PFI different from other assessment, such as the ICA by the World Bank?
  - ICA = Private Sector's Perceptions vis-à-vis issues related to regulation, governance, infrastructure, access to finance → informing the government about the necessary reforms to be undertaken
  - PFI = The government having a critical look at their own policies against an objective set of benchmarks → informing their policy making and implementation process → Being proactive instead of reactive

Sample

CHAPTER 1 – INVESTMENT POLICY					
Questions	Policy action	Stronger points	Weaker points	No action taken or foreseen	Recommendation
Q1.1. Steps to ensure that laws and regulations are clear, transparent, readily accessible and unduly burdensome?	• New Common Investment Law and Unified Enterprise Law – July 2006 •	Increased transparency and simplification of investment approval and registration procedures; greater level playing field between domestic and foreign investors	Government/ parliamentary discretion on large investment projects Possible interference at local government level	Government procurement	"One-stop shop"
Q1.2. Steps towards timely, secure and effective methods of ownership registration for land and other form of property			No private ownership of land		

The Findings (1) – Investment policy

(Specific findings are presented in details in the full paper of the scoping study)

- In general, Vietnam maintains a policy of encouraging foreign investment
  - Clear from the various policies, laws and regulations adopted and their content: e.g., the Constitution 1992 amended in 2001, the CPV's resolutions, the Common Investment Law (CIL) and the Unified Enterprise Law (UEL), annual "business forums" between the government and the private sector representatives, etc.
  - Various stakeholders' perceptions
- Problems:
  - Poorly developed infrastructure;
  - Underdeveloped and cumbersome legal and financial system;
  - Non-transparent regulations;
  - High start-up costs;
  - A myriad of outdated land acquisition and transfer regulations;

Investment policy (Cont)

- Problems (Cont):
  - Lengthy process of issuing investment licenses/registration;
  - Sub-licenses eliminated but emerging again, with overwhelming number
  - Frequent changes in the investment environment
  - Weak judiciary/arbitration system, unwilling to enforce the laws
  - Weak enforcement of IPR rules

The Findings (2) – Investment Promotion & Facilitation

- No comprehensive strategy
- No necessary institutions
- Relevant activities are found to be scattered and stop at the provincial levels → Problems:
  - Confusing investors
  - Ineffective
  - "Race-to-the-bottom" & "the prisoner's dilemma"
  - No cost-benefit evaluation of incentives
- The Gvt has not been able to make use of available initiatives and information exchange networks cross-border related to this area

The Findings (3) – Trade policy

- Vietnam's trade policy reforms have been going hand-in-hand with the country's efforts to integrate effectively into the regional and global economy, as well as to join several trade liberalisation institutions currently prevailing:
  - Ratification of the BTA with the US,
  - Commitments under the ASEAN Free Trade Area,
  - Accession to the WTO → lock-in domestic reforms *vs.* challenges
- Some drawbacks remain *vs.* Continued efforts to reform trade policy also has the effect of promoting investment and enhancing investors' confidence

The Findings (4) – Competition Policy

- A positive step: 'competition' used to be a alien and capitalist concept in Vietnam until recently → now considered the 'cornerstone' for economic development
- However, there are still deficiencies in the substantive provisions of the law
- Lack of competency and experiences of the competition authority (CA)
- Weak power of the CA over competition-related matters, such as in sectoral regulation, and privatisation, etc → competitive principles might not be embedded in investment-related issues
- Relations with other legislative, executive, regulatory and judiciary bodies ???

The Findings (5) – Public Governance

- Problems pertinent to the law-making process:
  - Limited experiences/skills in law-making
  - Limited exposure to new issues/approach in the world
  - Disconnect between the central and the provincial levels
  - Constraints of expertise/capability of the National Assembly
  - Problems of implementation guidelines for laws/regulations promulgated (delayed, contradictory, etc)
  - No Regulatory Impact Assessment (except for a pilot one for the CIL/UEL undertaken by the PMRC with support from GTZ) → Inefficiency and waste of resource in law making
- Problems pertinent to governance:
  - Corruption
  - E-governance cannot be properly applied and best utilized

Recommendations

- Some specific recommendations are given for each question of the PFI, under the five main chapters studied
- Broad recommendations:
  - Continued and Intensive Technical Assistance (with a focus on Capacity Building for Sustainable Reforms) and Completion of the Full PFI
  - Given the limited resources and capacity constraints, policy formulation and policy implementation should be have appropriate priority and sequencing
  - Inter-agency cooperation and coordination within Vietnam is crucial to an overall success of the PFI, while the MPI of Vietnam could be the focal point

The Viet Nam-Japan Joint Initiative

to improve the business environment with a view to strengthening Vietnam's competitiveness

Kazushi Hashimoto
Japan Bank for International Cooperation (JBIC)

APEC High-Level Public-Private Policy Dialogue on the Policy Framework for Investment (PFI) on April 26-27, 2007
Melbourne, Australia

1

Chronology of the Viet Nam-Japan Joint Initiative

2

Dec. 2002 Japan proposed the comprehensive reform of the investment climate of Vietnam at the CG Meeting
Apr. 2003 GOJ and GOVN agreed to start the Vietnam-Japan Joint Initiative in the PM Meeting
Dec. 2003 GOJ and GOVN approved the Vietnam-Japan Joint Initiative Report including the Action Plan
Nov. 2005 Vietnam-Japan Joint Initiative (Phase 1) was successfully completed
Dec. 2005 GOJ and GOVN agreed to start the Vietnam-Japan Joint Initiative (Phase 2) in the PM Meeting
July 2006 GOJ and GOVN approved the Vietnam-Japan Joint Initiative (Phase 2) Report including the Action Plan

3

Work Flow of the V-J Joint Initiative

Analysis of problems encountered by Japanese business communities in Vietnam

↓

Discussion between Japan and Vietnam

↓

Formulation of the Action Plan

(Vietnam) Revision of laws, improvement of administration related to investment

(Japan) Support utilizing of ODA

4

Organization of the V-J Joint Initiative (Japanese side (1))
Japanese Chamber of Commerce in Vietnam

12 WGs for

1. Foreign Investment Law
2. Investment Promotion
3. Finance/Tax/Accounting
4. Labour
5. Law and Enforcement
6. Technology Transfer
7. Trade/Custom/Transport
8. Power and Telecommunication
9. Automobile Industry
10. Bike Industry
11. Electrical and Electronics Industry
12. Cement Industry

5

Organization of the V-J Joint Initiative (Japanese side (2))

(4Js)
Japanese Embassy
JETRO
JBIC
JICA

Joint Work

Japanese Chamber of Commerce in Vietnam

Coordination

MOFA
METI
Keidanren

6

Organization of the V-J Joint Initiative (Vietnamese side)

Ministry of Planning and Investment (MPI)

Communication /Coordination

Prime Minister's Office
M. of Finance
M. of Commerce
M. of Industry
M. of Science and Technology
M. of Transport
M. of Post and Telecom.
M. of Natural Resources and Environment
M. of Justice
M. of Labour

Organization of the V-J Joint Initiative (Vietnam-Japan) Formulation of Action Plan

V-J Joint Committee

(Co-Chairs: Minister for Planning and Investment of Vietnam, Japanese Ambassador, Chairman of Japanese Keidanren)

Task Force

(Co-Chairs: DG for Department of Investment of Vietnam, Minister of Embassy of Japan. Active participation of Japanese Chamber of Commerce.)

Consultant

(Formulation of Draft Action Plan based on the results of hearing from private sector)

8

Organization of the V-J Joint Initiative (Vietnam-Japan) Monitoring of Action Plan

Evaluation and Promotion Committee

(Co-Chairs: Minister for Planning and Investment of Vietnam, Japanese Ambassador, Chairman of NIPPON Keidanren)

Monitoring Committee

(Co-Chairs: DG for Department of Investment of Vietnam, Minister of Embassy of Japan. Active participation of Japanese Chamber of Commerce)

Task Force

(Co-Chairs: Deputy DG for Department of Investment of Vietnam, Secretary of Embassy of Japan. Active Participation of Japanese Chamber of Commerce)

9

Support from Japan's ODA

Technical Assistance from JICA for;

- investment environment improvement
- small- and medium-scale industry promotion
- formulation of policies for electric/electronics industry and motorcycle industry
- enhancing tax system and tax administration
- building the intellectual property related information system

ODA Loan co-financing with World Bank Poverty Reduction Support Credit (PRSC)

ODA loans for various infrastructures (Energy, Transport, Water etc.)

JETRO organized trade fairs

10

World Bank's PRSC (II) and V-J Initiative

4 pillars of WB's PRSC
- Improvement of business environment
- Improvement of social equity
- Strengthening the management of natural resources and environment
- Strengthening of governance

← V-J Initiative

11

OECD Policy Framework for Investment (PFI) and Vietnam-Japan Joint Initiative (V-J Initiative)

12

(PFI) 1. Investment Policy

(V-J Initiative –items 8, 9, 11,12, 17, 21, 22)

The Law on Investment and Law on Enterprise enacted in 2006 removed various restrictions which previously existed.

The Law on Land (2004) permitted companies to obtain land-use rights with lump-sum payments.

The Law on Intellectual Property was enacted in 2005. Its enforcement is being strengthened. (Phase 2)

13

(PFI) 2. Investment promotion and facilitation

(V-J Initiative–items 1, 2, 4)

Master Plans for supporting industries such as automobile, motorbike, electronics, textile and leather is being formulated by the Ministry of Industries.

Corporate income tax incentives for FDI was clarified in the by-laws of the Law on Investment.

Strengthening of FDI promotion activities (One stop service for FDI) is underway.

14

(PFI) 3. Trade policy

(V-J Initiative–items 8,12,19,24)

The amended Law on Customs was enacted to ensure transparency, reliability, harmonization, timeliness and simplification of customs procedures.

Import plan registration for parts and raw materials was abolished. (2005)

The local contents requirement for Japanese investors was abolished.

Restriction on the fraudulent import strengthened.

Custom reduction for goods which have competitiveness is being discussed in Phase 2.

15

(PFI) 4. Competition policy

(V-J Initiative–items 8, 12, 15, 17, 28)

The Law on Competition was enacted in 2004.

The Law on Investment and the Law on Enterprise enacted in 2005 abolished the restrictions previously imposed on FDI, such as the minimum capital requirement, 80% export obligation, import plan registration for parts/raw materials, the board of directors' unanimous agreement rule, bidding requirements in the placement of orders for equipment and buildings, etc. by joint ventures.

16

(PFI) 5. Tax policy

(V-J Initiative–items 3, 14, 20)

The highest income tax rate was lowered to 40% (previously 50%) by the Ordinance on Personal Income Tax (2004).

Tax Administration Reform is underway. Since July 2005, promotion activities for self-declaration of tax and tax survey system enhancement have been implemented. The strategy for tax administration development has been publicized introducing the information provision for tax payers.

17

(PFI) 6. Corporate governance

(V-J Initiative–items 8, 30)

International Accounting Standards were introduced. (2005)

Law on Enterprise (2005) abolished the unanimous agreement rule for Board of Directors.

Strengthening of the implementation of the Law on Tax and the Law on Accounting is being implemented in Phase 2.

18

(PFI) 7. Principles for promoting responsible business conduct

(V-J Initiative–items 10,14)

Revision of the Labor Code is being considered reflecting the needs of joint venture companies.

Removal of the deductibility limit is being discussed in order to enable companies to perform public relations and CSR activities.

In the course of enactment of the Law on Investment and the Law on Enterprise (2005), discussions were conducted between GOVN and business communities on the respective roles of government and the private sector.

19

(PFI) 8. Human resource development

(V-J Initiative–items 6, 32)

Plans for vocational training and IT manpower development were approved by GOVN.

Visa waiver – Japanese visitors have been exempted from Vietnamese entry visas since 2004.

20

(PFI) 9. Infrastructure and financial sector development

(V-J Initiative–items16, 30, 34, 35, 36, 37, 38, 39)

The Master Plan of HCMC urban traffic development was formulated, to be followed by Hanoi.

4 ports are being developed.

The same electricity price is applied for Vietnamese and foreigners.

The fares for international calls have largely been lowered.

Nationwide plans for wastewater and solid waste treatment were formulated.

The system of bills and checks was introduced.

21

(PFI) 10. Public governance

(V-J Initiative–items 23, 25, 26, 27)

The Anti-Corruption Law was enacted in 2005.

The promulgation of the legal process was improved. (2006)

The Law on Judicial execution was enacted in 2006.

The human resource development plan for judges, lawyers and inspectors was formulated and implemented.

22

Public-Private Policy Dialogue on the OECD's Policy Framework for Investment

Presented by: Dr. Nguyen Thi Bich Van
Deputy Director of Foreign Investment Agency,
Ministry of Planning and Investment, Vietnam

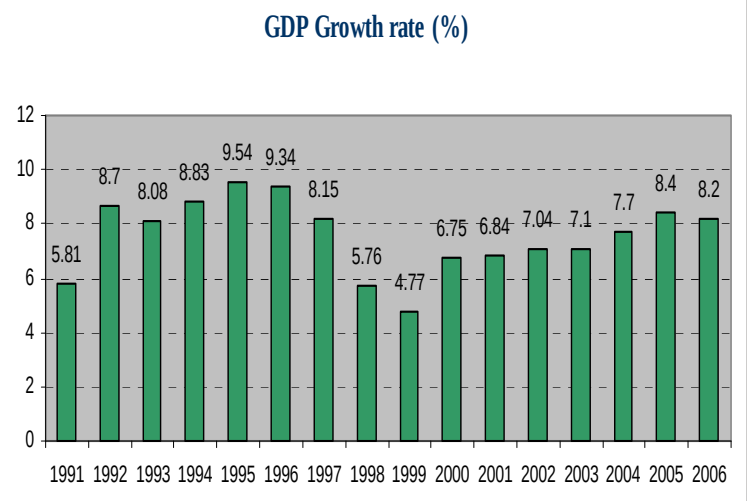
1

Content

I. **Progress in Vietnam's investment climate**
II. **Weakness of business environment**
III. **Comments and recommendations**

2

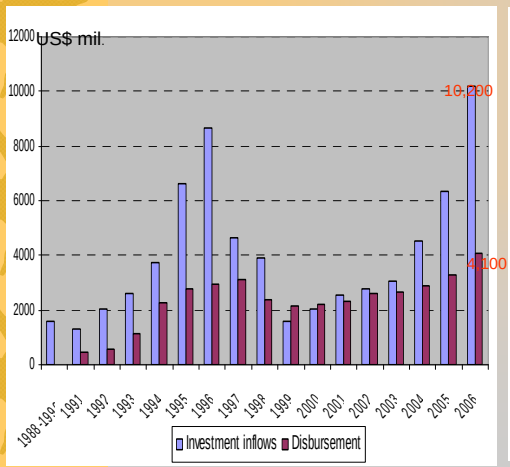
I. Progress in Vietnam's investment climate

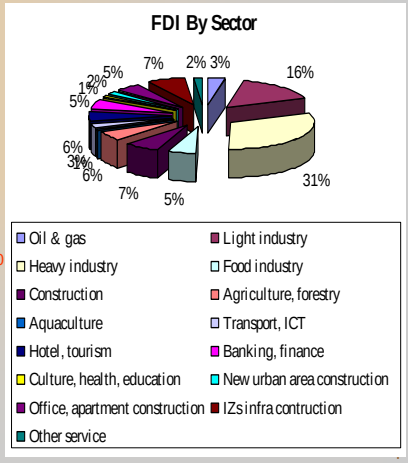


3

Foreign Direct Investment in Vietnam

FDI inflows to Vietnam 1988 - 2006

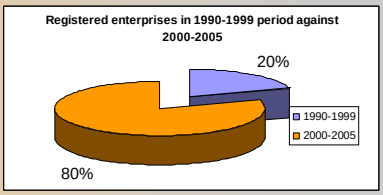


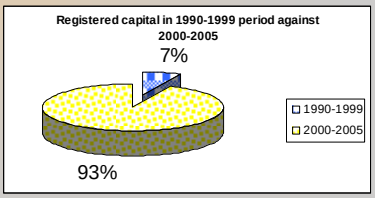


Private sector growth

The first Enterprise Law came into effect 01 January, 2000 had played important role in liberating and mobilizing productive forces.

- In 2000-2005, enterprises rose 4 times in number in comparison with that of 1991-1999 period.
- On average each year, the number of registered enterprises rose 6 times compared with previous period;
- Registered capital in 2000-2005 rose 13 times against previous 10 years.





5

Major economic laws

1. **Civil Code**
2. **Trade Law**
3. **Competition Law**
4. **Intellectual Property Law**
5. **Land Law**
6. **Construction Law**
7. **Investment Law**
8. **Enterprise Law**
9. **Law on security market**
10. **Banking Law**
11. **Law on Insurance Business**

Etc…

Hundred of Decrees of the government on implementation of these laws.

6

Joining WTO and integration into international economy

1. Removing trade barrier related to investment;
2. Reducing more than 10,000 tariff lines
3. Opening up services sectors
4. Implementation of Intellectual Property Right
5. Signing 47 bilateral treaties, 40 tax double avoidance treaties;
6. Allowing & encouraging participation of private sector in infrastructure development

7

Key contents of Investment Law

- Basically, the new law remains investment protection and guarantees proclaimed by Vietnam's government from 1987 Foreign Investment Law and afterward amendments
- Fair and equitable treatment to both domestic and foreign enterprises in all economic sectors
- Foreign investors are entitled to set up types of investment in conformity with the Law on Enterprise
- Forms of investment (direct investment and indirect investment, state investment and private investment)

8

Key contents of Investment Law

(continued)

- Simplification of investment procedure: streamlined registration procedure and clear & transparent approval procedure
- In most case, Investment Certificate shall be issued within a time-limit of 15 days with project subject to registration procedure and no later than 45 days with project subject to approval procedure.
- Issuing Authorities: Provincial People's Committees and Management Board of Industrial Zone, Export Processing Zone and Hi Tech Zone and Economic Zone.

9

State owned enterprise's Privatization

- In the end of 1990s, there were nearly 6,000 SOEs
- At the end of 2006: 2,794 SOEs been privatized
- 2007: expected privatization of 600 SOEs
- Reducing the number of fields with State holds capital.
- Other sectors offered fully or partly to private investors
- Private participation in electricity, post & telecommunication, seaport, airport, oil and gas, insurance and banking industries.

10

Removed Business Licenses and permits; reduced administrative procedures

- 2000-2006, removal of 200 business licenses and permits
- Setting up “one-stop-shop” for business registration;
- Conditional business sectors made public

11

Economic Development Goals to 2010

- GDP growth rate 2006-2010: 7.5% - 8% p.a.
- Economic structure:
  - Agriculture, forestry & fishery: 15-16% GDP
  - Industry & construction: 43-44% GDP
  - Services: 40-41% GDP
- Investment capital for development: US$140 bil.
  - FDI: US$23-24 bil. (35%)
- Investment demand for infrastructure: US$14.9 bil.

12

II. Weakness of Business Environment

-Poor infrastructure

-Poor law enforcement;

-Lack of intellectual protection;

-Tax disadvantages;

-High cost of doing business;

-Unnecessary permits and business licences

13

Available Evaluation Tools in Vietnam

- Vietnam Business Forum - *an official Dialogue between government and enterprises*
- Vietnam-Japan Joint Initiative – *a governmental structure for settlement of enterprise issues*
- WB/IFC: *doing business – how to reform – a WB/IFC survey*
- PWC, Fitch's
- VCCI's assessment on local competitiveness *(between provinces and central subordinated cities)*
- PFI: *government country self-assessment*

14

Vietnam business forum
Perception of the current & future business environment ***(business environment sentiment survey)***

- Asked enterprises: local enterprises and foreign invested enterprises
- Surveyed Area: 18
- Rating Methods (used indications)
- Sentiment shall be reported to high level governmental agencies.

15

Used indications

- Very unsatisfactory;
- Somewhat unsatisfactory;
- Somewhat satisfactory;
- Very satisfactory;

16

The doing business 10 indicators

(WB/IFC's survey)

1. Starting a business;
2. Getting Licenses
3. Hiring and Firing
4. Property Registration
5. Getting credit
6. Protection of Investor
7. Trade accross borders;
8. Paying tax
9. Contract Enforcement
10. Closing a business

17

III.Comments & Recommendations

1. Positive Side:

- Help to analyse the situation, strengthen the transparency of policy and legal system.
- Reveal the weaknesses and challenges and the gap between the real situation and international standards.
- Create forum for stakeholders from public and private sectors.
- Affect strongly the formulation of policy and awareness of governmental agencies to work out measure for improvement in business climate.

18

III.Comments & Recommendations

2. Limitations:

- Lack of consistent and systematic assessment.
- Some assessments are not correct and have contradictions.
- These shortcomings take adverse impacts on the expectations of investors.

19

III.Comments & Recommendations

3. Recommendations:

- Recognition of VN Government on the OECD' PFI as a tool of self-assessment.
- Involvement of different government agencies due to the interdisciplinary nature of the PFI and identification of one agency taking coordinating role
- Elaboration of the raised questions and recommendation an appropriate method of answering these questions
- Recommendation of a set of policy with a linkage to ODA policy
- Identification of need of capacity building, focus on those agencies and organization with law enforcement task.

20


Thank you!
21

VIET NAM'S PARTNERSHIP WITH OECD

THE MELBOURNE POLICY DIALOGUE

Presentation by Marie-France Houde
Senior Economist, OECD Investment Division

26 April 2007

OECD OCDE

CONTENT

- ORIGINS AND PURPOSES OF THE PARTNERSHIP
- A TWO-PHASE WORK PLAN
- METHODOLOGY AND IMPLEMENTATION
- LESSONS LEARNED SO FAR

ORIGINS AND PURPOSES OF THE PARTNERSHIP

- **October 2006**. Vietnam informs the OECD that "it needs a policy framework for investment meeting international practice that will sustains its economic development and agrees to be the "first" APEC economy to test the PFI.
- **November 2006**: The Chair of the Investment Committee welcomes Vietnam's initiative and confirms OECD readiness to work with Vietnamese authorities towards a PFI assessment of Vietnam.
- **January 2007**. OECD mission goes to Hanoi; general agreement is reached on a road map for a PFI assessment of Vietnam.

A TWO-PHASE WORK PLAN

- **Phase I.** Vietnam presentation of its experience in Melbourne. A scoping study is prepared identifying possible policy priorities against selected chapters of the PFI.
- **Phase II.** Preparation by the OECD of a complete PFI assessment of Vietnam's policies to be initially discussed at the OECD Global Forum on International Investment in December 2007 and finalised at a seminar organised by Vietnam in 2008.

VIETNAM's DOUBLE CHALLENGE :

- Formulate the right policies
- Implement them effectively

WAY FORWARD:

- Peer learning and sharing of experience
- Working with international principles
- National ownership – no *one-size-fits-all*
- Monitoring and measuring progress in time

HOW TO IMPLEMENT THE PFI?

- Essential steps:
  - Diagnostic of the problems
  - Identification of policy actions in reference to the PFI
  - Designing an effective implementation strategy
  - Securing the necessary policy capacities and budgetary resources

METHODOLOGY FOR VIETNAM ASSESSMENT

- Identification of the Chapters for Review
- Identification of policy action(s) relevant to each question of the chapter
- Evaluation of stronger and weaker points
-
- Priorities for future action
- Identification of capacity building needs
- Implementation

THE ADVANTAGES OF USING A GENERIC TEMPLATE

I Question	Diagnostic/Assessment	Actions taken	Proposed actions	Responsible agency	Timeline	Comments

LESSONS LEARNED

- PFI covers the critical areas of reforms Vietnam needs to address in order to promote investment
- PFI offers the means of canalizing government efforts around a common path of reforms
- PFI can measure and communicate progress and sequence policy actions over time
- PFI gives access to peer learning and capacity building support

Thank you

www.oecd.org/daf/investment

Policy Framework for Investment Implementation in Mexico

Presented at the APEC High-Level Public-Private Dialogue

Melbourne, April 2007

Policy Framework for Investment (PFI)

DGIE

The PFI is the most comprehensive approach for improving investment conditions in a country.

It addresses some 82 questions to governments in 10 policy areas to help them design and implement good policy practices for attracting and maximising the benefits of investment.

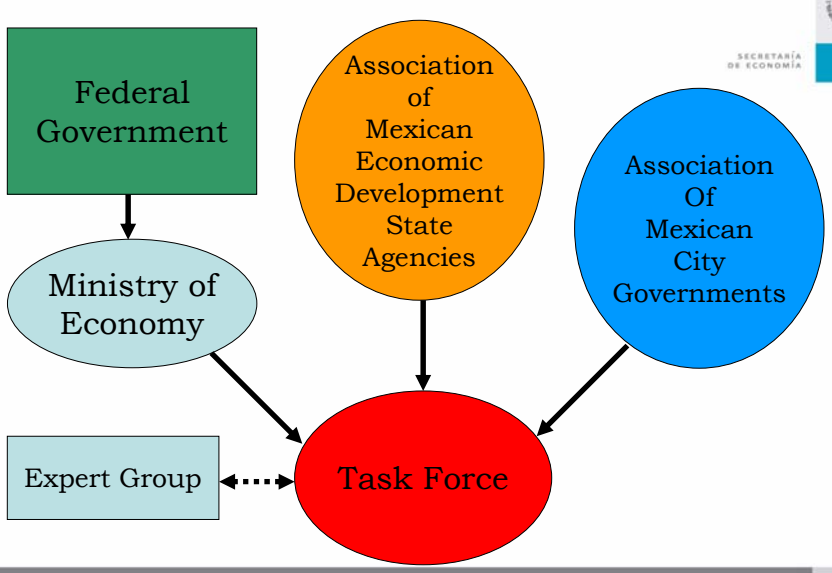
The PFI is based on the common values of rule of law, transparency, non-discrimination, protection of property rights in tandem with other human rights, public and corporate sector integrity, and international co-operation.

Policy Framework for Investment (PFI)

Government Structure

- Federal or National
- State or Provincial
- County or District
- City o Municipal
- Business
- Stakeholders

How can be implemented in México?



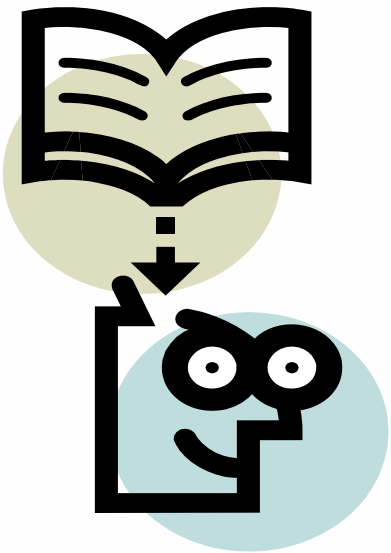
Task Force (Action Plan….)

- Selection of activities
- Office or Team in charge
- Timetable
- Coordination among governmental bodies
- Implementation
- Control and follow up

Task Force (defining activities)

- PFI Chapter Selection
- Assessment Plan
- Budgetary Program
- Studies and evaluations
- Conclusions
- Policy Recommendations

The Experts Group

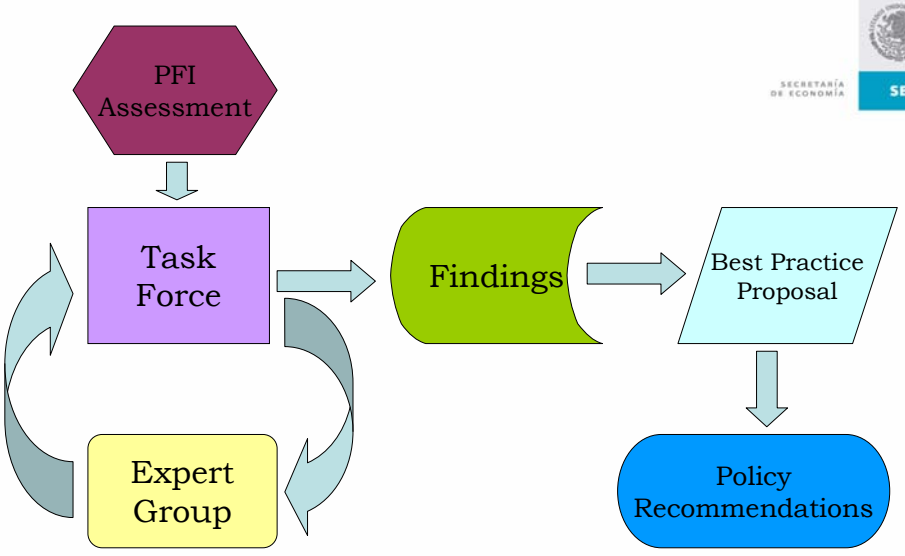


- Academia
- National Research Centers
- Business Associations
- OECD Experts

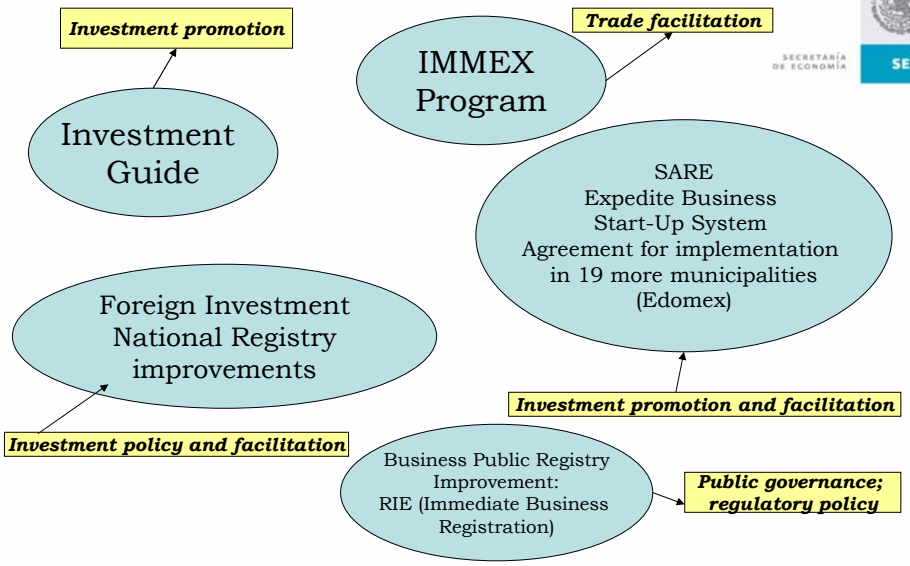
Experts Group (*First Assignment*)

- Study on Public Policy Strategy in Mexico.
- Assessment Study of Mexican Regulatory Framework.
- Study on the Evolution of the Investment Promotion Strategy in Mexico.

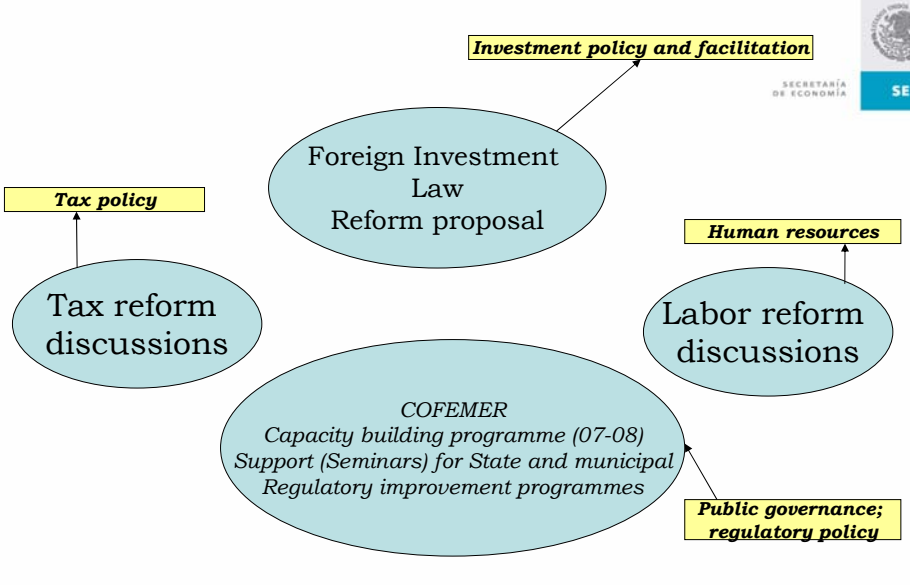
PFI Workflow



Concrete Action Examples: Good practices



Concrete Future Action Plans

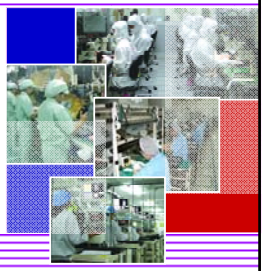


Thank you very much….

Gregorio Canales
Director General of Foreign Direct Investment

gcanales@economia.gob.mx

PHILIPPINE ECONOMIC ZONE AUTHORITY



The PHILIPPINE
ECONOMIC ZONE DEVELOPMENT PROGRAM

Lilia B. de Lima
Director General
Philippine Economic Zone Authority

A presentation for the

Asia-Pacific Economic Cooperation

APEC High-Level Public-Private Policy Dialogue on
the Policy Framework for Investment (PFI)
Session V: Investment Reform Strategies in the Philippines

Crown Promenade Hotel
Melbourne, Australia
27 April 2007

Republic Act No. 7916

" The Special Economic Zone Act of 1995 "

(principally authored by then Senator Gloria Macapagal-Arroyo)

**Provides the
legal framework and mechanisms
for the creation, operation, administration
and coordination of special economic zones
in the Philippines, creating for this purpose,
The Philippine Economic Zone Authority.**

Signed by
President FIDEL V. RAMOS
24 February 1995

The Special Economic Zone Act of 1995

Reinforce government's efforts on:

Investment Promotion

Employment Creation

Export Generation

PHILIPPINE ECONOMIC ZONE AUTHORITY

Attached to the Department of Trade and Industry

Other Investment Promotion Agencies include:

- **Board of Investments**
- **Bases Conversion Development Authority (former US military installations converted into freeports and economic zones like Subic and Clark)**

The PEZA VISION

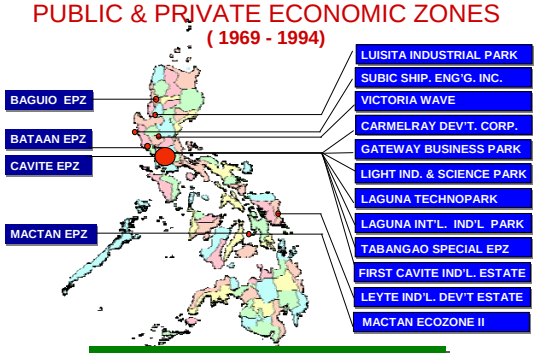
To be a "major player" in providing a globally competitive environment in generating investments, exports and employment in the Philippines.

The PEZA MISSION

To provide support to investors through effective management of incentives and delivery of services, investment promotions and advocacy.

16 EPZA- REGISTERED PUBLIC & PRIVATE ECONOMIC ZONES

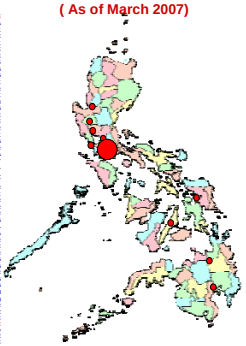
(1969 - 1994)



Total Area : 3,183 hectares

118 OPERATING ECONOMIC ZONES

(As of March 2007)



BAGUIO CITY ECONOMIC ZONE
FORT BONIFACIO
LUISITA INDUSTRIAL PARK
TECO SPECIAL ECONOMIC ZONE
ANGELES INDUSTRIAL PARK
AGUS INDUSTRIAL ESTATE
VICTORIA WAVE
ROBINSONS PLACE NOVALICHES
DILIMAN IT BUILDING
CONVERGYS IT BUILDING
HTMT CYBER PARK
EDSA CENTRAL IT CENTER
E-SQUARE INFORMATION TECHNOLOGY PARK
MULTINATIONAL BANCORPORATION
PEOPLESUPPORT CENTER IT BUILDING
NORTHGATE ECOZONE
MONTALBAN ECOZONE
EUGENIO LOPEZ JR. COMMUNICATION CENTER
EASTWOOD CITY CYBERPARK
EXPORTBANK PLAZA BUILDING
THE ENTERPRISE CENTER
RCBC PLAZA
SM iCITY
SM CYBERZONE 1
G.T. TOWER INTERNATIONAL
AMKOR TECHNOLOGY
PACIFIC INFORMATION TECHNOLOGY CENTER
ROBINSONS CYBERPARK
ROBINSONS EQUITABLE TOWER
PBCOM TOWER
SUMMIT ONE OFFICE TOWER
PHILAMLIFE I.T. BUILDING
6750 AYALA BLDG.
UNIVERSITY PLAZA
BF CORINTHIAN CENTER
EAST CYBER GATE
GATEWAY OFFICE TOWER
INSULAR LIFE BUILDING
MARVIN PLAZA BUILDING
MSE CENTER
OCTAGON IT BUILDING
ORIENT SQUARE IT BUILDING
RIVERBANK CENTER ICT BLDG. I
UP SCIENCE & TECHNOLOGY PARK (South)
V-TECH TOWER
FOOD TERMINAL INC. SEZ
EMI SPECIAL ECOZONE
BATAAN ECONOMIC ZONE
SUBIC SHIPYARD
PLASTIC PROCESSING CENTER SEZ
HERMOSA ECOZONE
LEYTE IND'L. DEVELOPMENT ESTATE
LEYTE INFORMATION COMMUNICATION TECH. PARK
JOSE PANGANIBAN SEZ
RAPU-RAPU ECOZONE

CAVITE ECONOMIC ZONE
LAGUNA INT'L. INDUSTRIAL PARK
LIGHT INDUSTRY & SCIENCE PARK I
LIGHT INDUSTRY & SCIENCE PARK II
LIGHT INDUSTRY & SCIENCE PARK III
TABANGAO SPECIAL ECONOMIC ZONE
LAGUNA TECHNOPARK I
FIRST CAVITE INDUSTRIAL ESTATE
GATEWAY BUSINESS PARK
GATEWAY BUSINESS PARK I
GREENFIELD LAGUNA AUTOMOTIVE PARK
YTMI REALTY SPECIAL ECONOMIC ZONE
LIMA TECHNOLOGY CENTER
FIRST PHILIPPINE INDUSTRIAL PARK EXP. I
COCOCHEM AGRO INDUSTRIAL PARK
PEOPLE'S TECHNOLOGY COMPLEX
FIRST PHILIPPINE INDUSTRIAL PARK
CARMELRAY INDUSTRIAL PARK
CARMELRAY INDUSTRIAL PARK II
CALAMBA PREMIERE INTERNATIONAL PARK
TOYOTA STA. ROSA SEZ
TOYOTA STA. ROSA SEZ II
DANCHI INDUSTRIAL PARK
LAGUNA TECHNOPARK III
LAGUNA TECHNOPARK III
LAGUNA TECHNOPARK IV
FILINVEST TECHNOLOGY PARK - CALAMBA
EASTBAY ARTS, RECREATIONAL AND TOURISM
ROBINSONS SIG-II SUPERCENTER
STA. ROSA COMMERCIAL IT PARK
PHILTOWN TECHNOLOGY PARK
ROBINSONS PLACE LIPA
BIGGOT IT PARK
MACTAN ECONOMIC ZONE II
MANGO SQUARE
ARCENAS ESTATE IT BUILDING
JY SQUARE IT CENTER
CEBU LIGHT INDUSTRIAL PARK
WEST CEBU INDUSTRIAL PARK
NEW CEBU TOWNSHIP
MRI ECONOMIC ZONE
HVG ARCADE IT PARK
INNOVE IT PLAZA
AGUATOWN IT PARK
FEDERATED IT PARK
ROBINSONS METRO BACOLOD
PASEO DE ORO IT PARK
CAGAYAN ORIENTAL ECOZONE
SBFP PLAZA
THE BLOCK IT PARK
CIF AGRO-INDUSTRIAL PARK
BIO TUBA EXPORT PROCESSING ZONE
SARANGANI ECONOMIC DEVELOPMENT ZONE
SBC CALUMPANG ECONOMIC DEV'T. ZONE
FIRST ORIENTAL BUSINESS & INDUSTRIAL PARK

MAJOR POLICY THRUST

PEZA ceased developing economic zones

Encouraged private sector to develop economic zones

TWELVE-YEAR ECONOMIC ZONE INVESTMENTS

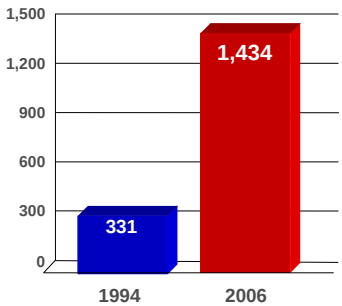
41 Times Bigger

PEZA
1995 - 2006
P 1.039 T

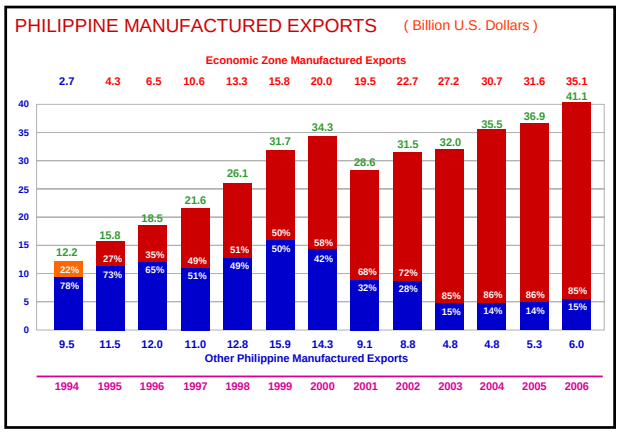
EPZA
1983 –1994
P 24.5 B

COMPARATIVE NUMBER OF LOCATORS

1994 / 2006



332 % Increase

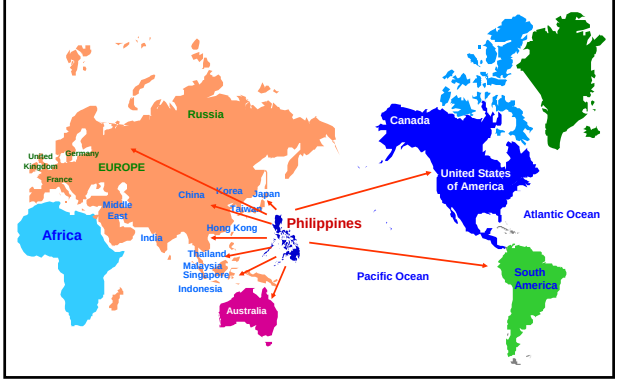


INCENTIVES FOR LOCATORS

- Income Tax Holiday (ITH) of 4 to 8 years
- Thereafter, 5% Tax on Gross Income, in lieu of all national and local taxes
- Tax and Duty free importation of capital equipment and raw materials
- Domestic sales allowance of up to 30% of total sales
- Exemption from export taxes, wharfage dues, imposts and fees
- Zero Value Added Tax (VAT) Rate on local purchases to include telecommunications, power, and water bills
- Exemption from payment of real property tax on land
- Simplified import and export procedures
- Employment of foreign nationals
- Special visa for foreign investors and immediate family members

COMPETITIVE ADVANTAGE OF THE PHILIPPINES

STRATEGIC LOCATION

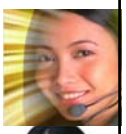


FILIPINO WORKERS

Among the Best in the World

THE COUNTRY'S COMPETITIVE EDGE

Literate, English – speaking, easy to train, hardworking and very friendly



In the IT Service Sector

Filipino Workers are considered the new breed of world-class service professionals and are referred to as Global Knowledge Workers because they are intelligent and able to compete at the highest levels among the best in the world.

HIGH RANKING IN THE FOLLOWING CATEGORIES: (2005 EDITION OF THE IMD WORLD COMPETITIVENESS YEARBOOK COVERING 60 ECONOMIES)

- **Skilled Labor #2**
- **Competent Senior Manager #8**
- **Language Skills #12**
- **Qualified Engineers #20**

BUSINESS-FRIENDLY POLICIES

- **100% Foreign Ownership of Companies;**
- **Deregulated banking, energy, telecommunications, shipping, and other trade sectors;**
- **Basic rights of Investors are guaranteed (right to remit profits and pay foreign obligations, right to repatriate investments)**
- **Simplified investments procedures**

THE PEZA EDGE

PEZA ECONOMIC ZONES

- **World-class, Environment-friendly**
- **Fully-secured perimeter area**
- **Adequate, clean and uninterrupted power supply**
- **Adequate water supply**
- **State-of-the-art telecommunications facilities**
- **Ready-to-occupy standard factory buildings**
- **Waste water treatment facilities**
- **Computer security and building monitoring system**
- **Presence of Banks, Fire Fighting Facilities, Sports Facilities**

PEZA IS A ONE-STOP SHOP

- **Building and Occupancy Permits are issued by PEZA.**
- **Import and Export Permits are issued by PEZA.**
- **Special non-immigrant visa processed in PEZA.**
- **Harmonized customs processes because of PEZA-BOC MOA.**
- **Environment Clearance made easy because of PEZA-DENR MOA.**
- **Exemption from Local Government Business Permits for companies inside PEZA.**
- **Registration requirements simplified, registration forms made simple, approval made easy.**

  If a company files its application 1 day before a Board Meeting, its application will be included in the agenda for approval. The PEZA Board meets 2 times a month.

PEZA,
A "Total Service Plus Shop"

- **More than granting incentives, PEZA serves as THE advocate and champion for economic zone stakeholders' concerns.**
- **No red-tapes, only red-carpet treatment for investors.**

RED INVESTMENT PROGRAM

RETENTION
EXPANSION
DIVERSIFICATION

DOING BUSINESS IN PEZA

- **LESS COSTLY**
- **NO RED TAPE**
- **NO CORRUPTION**
- **EASIER AND MORE COMPETITIVE**

PEZA'S INITIATIVES

LABOR
DOLE AND PEZA MOA PRECLUDE LABOR ISSUES THAT RESULT IN IMPASSE

PEZA'S INITIATIVES

PAPER-LESS TRANSACTION
AUTOMATION OF IMPORT AND EXPORT PERMITS TOGETHER WITH THE BUREAU OF CUSTOMS

PEZA'S INITIATIVES

CUT PROCESSING TIME
AND PAPERWORK

TRIMMING and RESTRUCTURING the BUREAUCRACY

EPZA
1,006 Officers and Personnel
(31 December 1994)

39.56 % Reduction in Officers and Personnel

PEZA
608 Officers and Personnel
(31 December 2006)

Some Areas of Concern and Course of Action

On High Cost of Power:

Action:
- **Passage of the Electric Power Industry Reform Act (EPIRA Law)**
- **Wholesale Electricity Spot Market (WESM)**
- **Privatization of the National Power Corporation (NAPOCOR)**

Some Areas of Concern and Course of Action

On Infrastructure:

Action:
- **Construction of 6 new international airports**
- **Construction of new seaports particularly for roll-on-roll-off carriers**
- **Construction of new expressways starting 2007**

Some Areas of Concern and Course of Action

On Education and Training:

Action:
- **Construction of more classrooms**
- **Hiring of more Teachers**
- **Increased budget for education**
- **Release more funds to TESDA (Technical Education and Skills Development Authority) for training and skills upgrade**

CREATING OPPORTUNITIES FOR FILIPINOS IN THE COUNTRYSIDE

Regulatory Reform in Some Countries: Particularly in Indonesia

Rizal A. Lukman
Monitoring Team of Investment Policy Package
Coordinating Ministry for Economic Affairs, Indonesia

APEC High-Level Public-Private Policy Dialoguen on the Policy Framework for Investment, Melbourne, 26-27 April 2007

Reforms in some countries

Country	Period of Reforms	Trigger to do Reforms
Mexico	1990s	Joining NAFTA
Korea	Late 1990s	Financial Crises
Indonesia	1983-late1980s	Post Oil Boom
	1998-2003	Under IMF Program
	2003-2004	Exit from the IMF Program
	2006-2007	Higher economic growth under global competition

Results from the Regulatory Reforms in Some Countries

	Target of Reform	Before Cleanup	% Eliminated	% Simplified
Korea (11 months)	Regulations	11,125	48.8%	21.7%
Mexico (5 years)	Regulations	2,038	54.1%	51.2%
Moldova (16 weeks)	Regulations	1,130	44.5%	12.5%
	Fee-based Permits	400	68.0%	20.3%
Ukraine (12 weeks)	Regulations	15,000	46.7%	43.3%
Croasia (9 months)	Regulations	1,500	40% (target)	??

Source: Scott Jacobs, April 10-11, 2006

2

Indonesia's Reform Agenda in 2006-2007

Aim: to improve business environment in order to increase private investment for employment creation and poverty reduction

- ***Investment climate improvement***
  - 1 ***Investment Law & Procedure***
  - 2 ***Tax & Custom Reform***
  - 3 ***Labor & Immigration***
  - 4 ***Trade Licenses***
- ***Infrastructure***
  - 5 ***Cross Sector Strategic Policy Reform***
  - 6 ***Sector Restructuring, Corporatization and Policy Reform***
  - 7 ***Regulation on natural monopoly & investment protection***
  - 8 ***Clear separation on the role of policy maker, regulator, contracting agency, and operator***
- ***Financial***
  - 9 ***Coordination Monetary & Fiscal Authority***
  - 10 ***Financial Institution (Banking & Non Banking)***
  - 11 ***Capital Market and SOE Privatization***

3

Example Format of Investment Policy Package

POLICY	PROGRAM	ACTION	OUTPUT	TIME TARGET	RESULT (OUTCOME)	RESPONSIBLE PERSON
(1)	(2)	(3)	(4)	(5)	(6)	(7)
I. INSTITUTIONS						
A. Strengthen investment service institutions.	1. Revise regulations related to investment.	a. Prepare Investment Procedures and Implementation of Integrated Investment Service.	▪ Presidential Regulation (Perpres).	June 2007	Clarity for investors and a simplified investment process	**Minister of Trade**

4

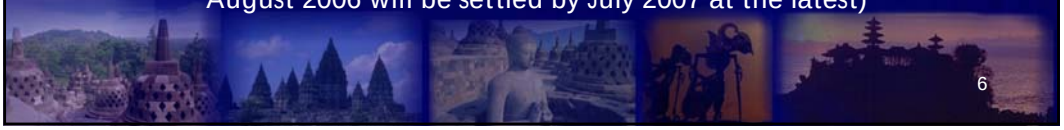
One Stop Shops and Regulatory Impact Assestment: Implementation in the local governments of Indonesia

- One Stop Shops (OSS) to streamline business licensing and regulatory business licensing and regulatory processes
- In 2006 as part of Investment Policy Package, government decree passed to authorize OSS establishment in all districts
- At present, about 90 of 440 districts have established OSS
- Regulatory Impact Assessment (RIA) can reduce number of licenses
- At present, more than 20 districts are experimenting with RIA under assistance of the Asia Foundation

5

Some Actions to be included in the 2007 Investment Policy Package in Indonesia

- Prepare Investment Procedures and Implementation of Integrated Investment Service
- Formulate a clear division of tasks between the Central Government and Regional Governments regarding investment affairs
- Accelerate the process of establishing a limited liability company from 97 days to be a maximum of 25 days
- Simplify business licensing in the fields of investment and trade
- Establishment of a custom and cargo clearance system through an Indonesian National Single Window (INSW)
- Accelerate the handling of tax refund requests by simplifying ***audit*** method (i.e. all VAT refund requests submitted before August 2006 will be settled by July 2007 at the latest)

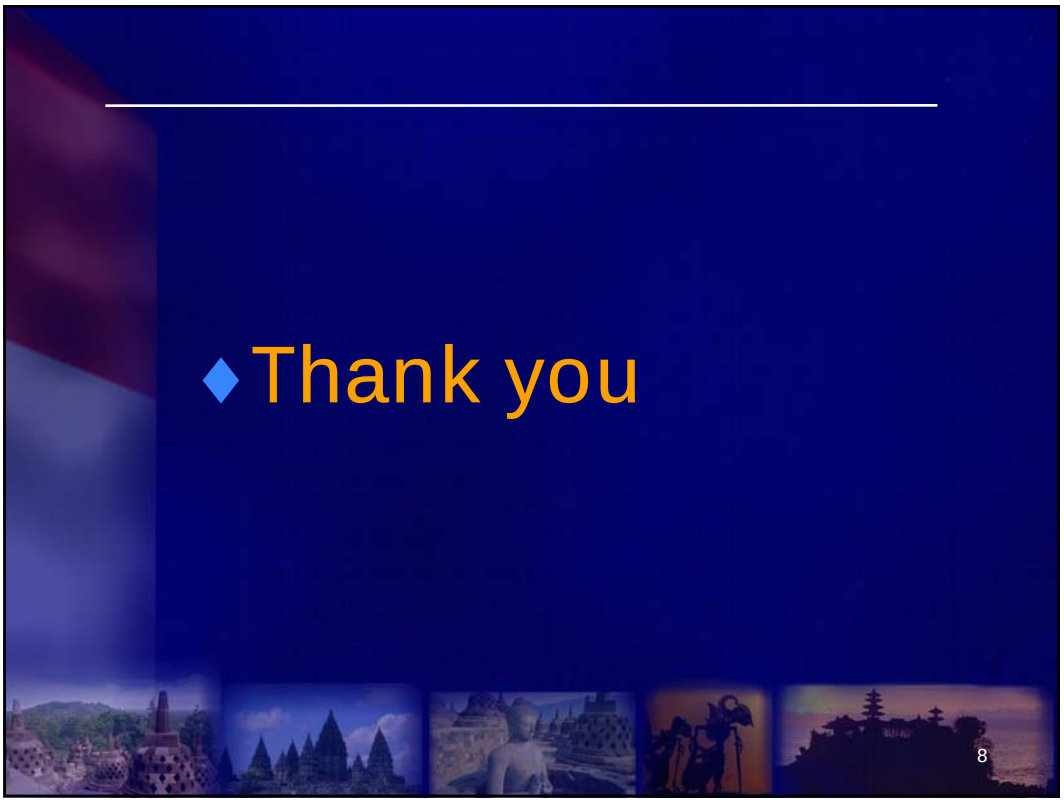


6

More reforms to come, be patient

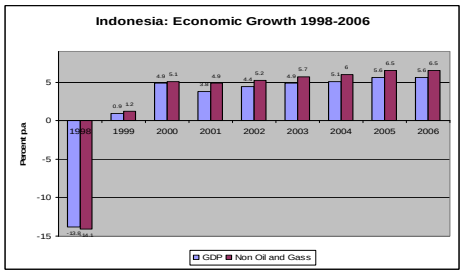
- Indonesia's improving political stability and growing economy provide opportunity for Indonesia to push through more economic reforms.
- However, reform has been slower than expected.
- But Broader ownership and acceptance: more long lasting?

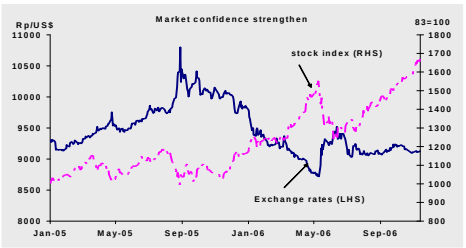
7


Thank you
8

Macroeconomic Update and Outlook

Republic of Indonesia



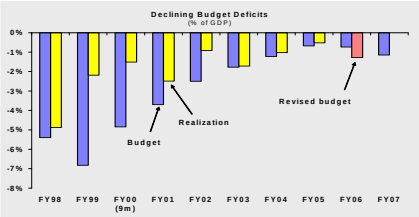


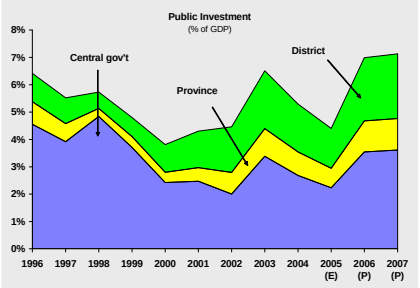
- **Growth steadily recovers**
  - 2006:expected to reach 5.5-5.6%; government consumption and export driven; investment remains weak.
  - Medium Term
    - 2007-2010 : 6-7 % p.a
    - After 2010 : 7+% % p.a
- Confidence has been restored after fuel price adjustment.
  - Stock prices are historic high
  - Exchange rates are stable
  - Reserves stronger and still increased
  - Ratings upgraded.
- Macroeconomic Stability has been achieved
  - Y o y inflation down from more than 17 % last year to 6% or less this year
  - Over Medium Term: 3-4% is the target

Other Macroeconomic Development

Republic of Indonesia

- Fiscal sustainability has been reestablised.
  - Budget deficits has been contained around 1% of GDP
  - Public debt ratio will be down to about 40% at the end of 2006 and continue falling to below 30% of GDP in 2011.
- On spending side
  - Public spending now back to the pre crisis level around 7-8% of GDP but with different composition.
  - Sub-national gov'ts control more than 50% of total
  - Education spending on the rise and now comparable to the peer countries around 4-5% of GDP
  - Spending on health and infrastructures is also increasing.
  - Commitment for PPP development.





Three Policy Packages Plus…

Republic of Indonesia

Investment Climate Improvement	1	Investment Law & Procedure
	2	Tax & Custom Reform
	3	Labor & Immigration
	4	Trade Licenses
Infrastructure	5	Cross Sector Strategic Policy Reform
	6	Sector Restructuring, Corporatisation and Policy Reform
	7	Regulation on natural monopoly & investment protection
	8	Draft Bills on elimination of SOE Monopoly in several infrastructure services
Financial	9	Coordination Monetary & Fiscal Authority
	10	Financial Institution (Banking & Non Banking)
	11	Capital Market and SOE Privatization

Investment Climate Reform : Progress Report and 2007 Plan

Republic of Indonesia

Progress Report of Policy Actions on Improving Investment Climate

Issues	Actions	Completed	Pending	On going
General	19	14	1	4
Customs	17	7	2	8
Tax	20	4	2	14
Labor	19	6	4	9
SME	10	4	6	0
Total	85	35	15	35

- Progress of Implementation
  - Overall, up to the end of November 2006 around 71% of Policy Actions (35/50) has been completed.
  - Remaining actions are on going or related to the completion of new laws.
- Plan 2007
  - Completed unfinished policy actions and implement implementation regulations once the laws being passed.
  - Revise and take concrete measures to reduce number of days for establishing a new company.
  - Introduce new measures to further improve our investment climates
    - Government Regulation on Negative List
    - Introduction of Electronic Registration
    - Expansion of National Single Window in Jakarta

Infrastructure Reform Package: Progress of 2006 and Extension for 2007

Republic of Indonesia

	Policy Actions	Completed
Strategic Policy Frameworks	33	28
Sector Policy Frameworks	86	44
Local Government Related Policy	5	4
Transactions of Infrastructure Projects	32	8
Total	153	84 or 54%

- **Major Achievement in 2006**
  - RUU Transportation, RUU BUMD, RUU Electricity, RUU Post, RUU Energy
  - Establishment of Risk Management Unit in Ministry Finance and Public Service Agency for Land Acquisition in Ministry of Public Works
  - Infrastructure Summit 2006
  - Establishment of 10 model projects for Public Private Partnership (PPP)
  - Establishment of Toll Road Regulatory Board and Water Regulatory Board
  - Preparation of Operation, Guidelines and Manual for PPP
  - Finalization of various regulations including presidential decree on land
  - Establishment of Committee to accelerate the development of multi-stories housing for low and middle income people
- **Plan for 2007**
  - Completing carry over policy actions of 2006:
    - Finalization of pending laws and regulations
    - Tender for 10 PPP model projects
    - Establish Infrastructure Fund and Government Support Facilities
  - New Policy Initiatives and Actions
    - Government Regulations on Central-Local Government Roles in Infrastructure Provision.
    - Renewal of Telecom Industry Structures

Financial Sector Reform Package: Current Progress and new coverage for 2007

Republic of Indonesia

Policy Area	Actions	
	Scheduled	Completed
Financial System Stability	3	2
Banking Institutions	13	11
Non- Bank Financial Institution	10	9
Capital Market	12	11
Privatization and Export Financing	2	1
Total	40	34

- **Progress of Implementation**
  - Until November 2006, 34 out of the 40 policy actions scheduled for implementation under this package were completed (80% achievement)
  - The remaining pending policy actions will be carried over to 2007.
    - 10 policy actions are scheduled for 2007
- **Plan for 2007**
  - The second financial sector package will focus on strengthening financial institutions and improve the quality of financial intermediation.

New Reform Packages and Special Programs

Republic of Indonesia

- SME Policy Reform Package
  - Focus on particularly four areas:
    - Access to Finance
    - Access to Market
    - Human Resource Development and Entrepreneurship
    - Regulatory Reform and Deregulation
- Poverty Reduction Program
  - Focus 1: Mainstreaming Budget for Poverty
  - Focus 2: Integration and expansion of KDP and P2KP into PNPM
  - Focus 3: Shifting Cash Transfer to Conditional Cash Transfer
  - Focus 4: Others like Biofuel, Housing and Rural Infrastructures
- Crash Program for Electricity Expansion
- Crash Program for Energy Conversion
  - LPG for Kerosene
  - Gas for Gasoline
  - Coal and Gas for Power Generation
  - Bioenergy

Investment Climate Reform Strategies in Indonesia[1]

By Mahendra Siregar
Deputy Minister of International Economic and Financial Cooperation
Coordinating Ministry for Economic Affairs
Republic of Indonesia

First of all, I would like to thank the Australian Treasury and the APEC Investment Experts Group for inviting me to this important meeting to exchange views on the OECD's Policy Framework for Investment (PFI). I hope this event will be followed by similar dialogues in the future to complement the meetings and existing mechanisms on investment liberalization and facilitation within APEC.

Before I speak about reforms in Indonesia, I would like to report to this meeting that Indonesia together with the OECD Secretariat will undertake the OECD Peer Review Mechanism for Policy Reform later this year. For that purpose, we had organized the first OECD – Southeast Asia Regional Forum: Peer Review Mechanism for Policy Reform earlier this year.

As a non-OECD member, we hope that a peer review mechanism, which has been the OECD's traditional method of work, will be beneficial for Indonesia at least on two grounds. First, it will provide feed-back and good

[1] Presented at the APEC High-Level Public-Private Policy Dialogue on the OECD's Policy Framework for Investment in Melbourne, 26-27 April 2007.

opportunities for us in Indonesia to improve public policy making and to adopt better practices. Secondly, the review will provide a credible independent assessment of our policy reforms which will help the international communities and our business partners better understand the performance of the economy.

Update on Indonesia Economy

Now let me say something on our progress in recovering the economic growth rates to a level that we were experiencing before the crisis. After ten years of economic and political challenges, we are now on the threshold of once again achieving growth in the 7% range. We have all been taught the painful lesson that macroeconomic stability can never be taken for granted. However, it is increasingly clear that the challenge of fiscal stabilization is behind us.

The challenge now is to increase the amount of government resources used to push growth and reduce poverty while simultaneously addressing the policy and institutional challenges we still face. However, it is also very important to recognize that for a new full-fledge democracy like ours, there are links that we believe exist between economic growth and political development. While we are confident of growth prospects in the near term, one has to recognize that democracy is a fragile flower. A failure on our part to sustain growth at rates that move Indonesia solidly into middle income status, risks not only an economist’s concern of lower welfare but more broadly the vibrant democratic experiment that is underway.

Three Policy Reforms in Progress

Allow me to brief you on where we are in terms of our economic and investment climate reforms. Last year, the Government launched three broad policy reform packages. The three packages are intended to improve investment climate, to boost the infrastructure development, and to strengthen stability of the financial sector.

Investment Climate Reform

The policy package aiming to improve the investment climate in general is mainly trying to bring back Indonesia as an attractive investment destination for both domestic and foreign investors. The package consists of policies designed to strengthen investment service institution, synchronize central and regional regulation, improve customs, excise, and taxes services, create an environment conducive for employment creation, and provide support for small & medium enterprises.

After a year of the package implementation, more than 90 percent of 50 measures due have been completed. The Government is now conducting a full review on its implementation in order to launch the second stage of the reform package this year. It will consist of the unfinished measures from last year and fewer but more focus other measures that would greatly improve investment climate in Indonesia.

Infrastructure Development Reform

The essence of the policy package on infrastructure is intended to boost investment in infrastructure development. Investment in infrastructure, which accounted for more than 6% of annual gross domestic product (GDP) before 1997, has fallen to 2% in recent years, reflecting a sharp decline in public and private spending. As a result of the financial crisis, many planned public and private infrastructure projects were canceled or suspended. Only some basic preservation and maintenance of infrastructure, with very little expansion, have taken place since.

The Government recognizes that major infrastructure expansion is required to remove existing bottlenecks, increase service coverage, and attract private sector investment through Public-Private Partnership initiatives to help achieve and sustain the projected economic growth of 6-7% per annum.

There has been progress since we launched the infrastructure reform package: we have changed policy about government partial risk guarantees, established a unit at the Ministry of Finance to assess projects and contingent risks and we have explicitly put aside funds in last year's and this year's budget to provide for land acquisition, guarantees and an infrastructure fund. Further, there is progress on model projects that will be put to international tender. However, the situation in many areas is critical and we are also pushing ahead with accelerated tendering of power plants as we attempt to find the right mix between a longer term framework and short term needs.

Financial Sector Reform

The third policy package is conducted together by the Government and Bank Indonesia on financial sector reform. It has three objectives, namely:

1. to maintain and strengthen financial sector stability so as to build market confidence;
2. to diversify funding sources for business activities, not only from the banking industry but also from the capital market and non-bank financial institutions; and
3. to improve market efficiency of the financial sector through promoting competition between banks, non-bank financial institutions and the capital market.

Almost all of 40 policy actions scheduled for implementation were completed. As a result: now state owned banks are allowed to write down non-performing assets in the same manner as private banks, which we believe will allow them to spur lending this year. Most recently, we have seen Bank Indonesia relax some of the regulations that have prevented banks from extending credit, including allowing banks more independence to assess borrower risk for projects and allowing them to lend to small enterprises on the basis of business plans rather than audited accounts which they may not have had time to develop. We also intend to push forward with improvements to the operations of capital markets, including the regulatory framework for insurance and pensions. Deeper and more diversified capital markets are critical to increased corporate borrowing and long term infrastructure finance.

In line with the government's target to accelerate economic growth above 6 percent annually in 2007 and onward, and considering that the financial intermediation function of financial institutions has not yet performed as optimally as expected, the government and Bank Indonesia plan to develop a follow-on financial sector policy package in 2007. This second financial sector package will likely focus on developing financial capacity in some sectors, such as agribusiness, low-cost housing, natural resources exploration, infrastructure development, and small and medium enterprise development.

Key Challenges

Obviously we had to face many challenges in undertaking these reforms. We appreciate that public opinion, including international public opinion, is impatient with our reform. Expectations were high that significant reforms would be forthcoming faster than has proven to be the case, but we have to accept that we are operating in a new reality.

The situation is such that policy is now made in an environment where many more stakeholders, including Parliament, are engaged, and where many international media consider Indonesia has the region's best freedom of press. This inevitably slows things down, but at the same time adds legitimacy. For example, last month Parliament passed a new Investment Law that we believe represents a clear improvement from the existing situation. Among other things, it includes national treatment for foreign firms. In the areas that are not explicitly listed in a forthcoming negative list, it provides for land tenure close to 100 years and the right of foreign firms to

seek redress through binding foreign arbitration if there are disputes with government.

The investment law will only be as good as the regulations that support it and we are already working to conclude the regulations laying out the procedures for the negative list and investment approval procedures.

The set of tax laws has now moved to the forefront of our discussions with Parliament. While the government may not agree on every point with the parliament, the business community is playing a constructive role that should result in a better tax system in the near future.

Another area where we expect progress is trade facilitation, and especially the establishment of a national single window that will allow importers and exporters to deal on line with customs and all related government agencies cutting time and transaction costs. Pilots will be getting underway for the single window this year.

Probably the most contentious area is labor. Last year saw an attempt to increase labor market flexibility that was not well received. We accept that it is important to create more flexibility for companies, but it is also important that workers have a degree of income security. It is going to take time to move to a better balance, but this time we have to get it right.

Another tough challenge is civil service reform. It is no secret that one of the reasons we have had difficulty moving quickly on reforms has been an inability to deliver quickly on regulations needed to cut transactions costs.

An even greater problem is our inability to make sure that policies once enacted are carried out as desired. This is not going to be a simple matter to fix. It will require difficult changes to incentives and institutions. We are not attacking the problem comprehensively as yet, but are rather allowing a few institutions as pilot programs to develop and implement new approaches, including assigning full time structural units to the reform process and looking more carefully at job descriptions and compensation. As this effort progresses and we see the results, we will undoubtedly adopt the strategies more widely.

Social-Welfare Program Reform

Despite these challenges, we are most pleased to see we were able to successfully increase our attention to employment generation and poverty reduction issues. As a result of last year's decrease in the fuel indirect subsidy, we were able to put in place a program of unconditional cash transfers. Given time pressures, there were inevitably some problems of targeting, but overall our assessment is that the program protected the poor from the severity of the price shock that the fuel price increase generated.

However, we never felt that this was a long term solution to poverty and we are now moving to attack the root of the problem on two fronts. First, we are expanding existing Community Driven Development (CDD) programs nationwide. Thus, by 2009, every district in Indonesia will be given a grant to support community development. Most of these funds will go to local level infrastructure, generating immediate employment and longer term returns through improved access and services.

With this short briefing about Indonesia’s priority agenda, I hope you now have a good picture about where we are heading in our economic policy reform and what are the key challenges.

Thank you very much.

Investment and capacity-building through APEC

APEC High-level policy dialogue

on:

Policy Framework for Investment

Andrew Elek

Australian National University and

The Australian Pacific Economic Cooperation Committee (AUSPECC)

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Initial objectives of APEC

- To open a new channel of communications among the economic leaders of a very diverse, but dynamic region.
- To foster better understand the implications of their policies on the rest of the region.
- To identify, then act co-operatively on their shared economic interests.

Early focus on trade policy

Advantages:

trade policy objectives relatively easy to understand;

relatively less interference in 'domestic' policy-making;

Early focus on trade policy

Disadvantages:

relatively narrow interpretation of the scope of economic co-operation;

trying to measure progress in APEC against progress in the WTO;

This narrow focus steered the APEC process away from its comparative advantage.

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Narrowing the scope of cooperation

Instead of a broad-based effort to promote the development and integration of the Asia Pacific region;

The APEC process became obsessed with the old issue of liberalising traditional border barriers to trade,

And, within that,
the liberalisation of 'sensitive sectors'.

1998 – APEC's low point

The 1998 meetings of APEC:

saw the predictable failure of EVSL to tackle 'sensitive sectors'.

APEC helped avoid a relapse into protectionism following the East Asian economic crises.

That was a major success,

but APEC was seen to have failed over the side-issue of Japanese fish and forestry policy.

Reacting to the setbacks

1999 saw the beginning of the current infatuation with regional trading arrangements (RTAs);

BUT

on the positive side:

APEC leaders accepted the need to broaden the base of economic co-operation .

Capacity-building

Cooperative policy development and technical cooperation among APEC economies

Sharing:

- information,
- experience,
- expertise and
- technology.

to help each other to design and administer a progressively more efficient set of economic policies.

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Promoting better policies:

- to enhance the capacity of all Asia Pacific economies to:
  - increase their productive resources; and
  - to allocate them in an increasingly efficient and sustainable way.
  - in order to reach their capacity for sustainable development
- TILF is one part of the effort needed to meet this challenge.

Promoting better policies:

International economic policies

- *customs procedures*
- *paperless trading*
- *movement of people*
- *tariffs*

Direct effects on costs and risks of international economic transactions

Domestic economic policies

- *commercial regulations*
- *investment and competition policies*
- *financial sector management*
- *legal system*

Indirect effects on costs and risks of international economic transactions

Regional economic integration in the 21st Century

Needs an Asia Pacific environment in which we come as close as we can to:

- free movement of goods and services;
- free movement of business people and capital;
  - direct foreign investment and
  - other capital flows;
- respect for intellectual property rights;
- transparency, best practice, and consistency of regulations, including:
  - competition policy,
  - regulations on government procurement.
  - mutual recognition of standards and qualifications;
- efficient communications, including e-commerce;
- best practice logistics.

Implementing capacity-building:

APEC should not become one more development co-operation agency;

we already have many of them.

Any project or program for enhancing the capacity of Asia Pacific economies for sustainable growth which can, in principle, be financed and managed by:

- multilateral and regional development banks (World Bank, ADB etc);
- various UN agencies;
- development agencies of many APEC economies; or
- the private sector.

APEC as a catalyst

- **APEC needs to find its comparative advantage relative to existing development institutions;**
  - not duplicate them.
- **APEC governments will need to learn to catalyse the resources needed for mutually beneficial economic integration in the region:**
  - either through public-private partnerships,
  - or by mobilising resources from multilateral and regional development banks.

Presentation to the APEC High-level policy dialogue on the OECD policy framework for investment

Melbourne, April 2007

The challenge of capacity-building

Andrew Elek

Australian National University and AUSPECC

The OECD policy framework for investment (PFI) sets out a wide range of issues which need to be addressed by economies wishing to encourage domestic as well as international investment. These include the need for sound economic regulations, legal institutions, human resource development and economic infrastructure. Capacity-building is needed to enhance all of these.

As discussed at this policy dialogue, APEC can play a useful role in helping member governments to address the many issues raised by the policy framework for investment (PFI). The Investment Expert Group (IEG) can advise interested governments on ways to adopt and adapt the suggestions in the PFI to their economies, in order to boost investment and growth.

APEC can play more than an advisory role. If the IEG is to encourage certain kinds of capacity-building, then it also has the responsibility to consider how the APEC process can help economies to mobilise the considerable resources which will be needed for capacity-building.

APEC should not become a development agency. However, the process can become an effective catalyst for essential investments in capacity-building from outside sources.

This paper reviews the evolution of the APEC process, noting the early preoccupation with liberalising border barriers to trade, followed by a renewal of interest in capacity-building.

The evolution of APEC

When APEC was established in 1989, the initial hope was to establish a channel of communications among the policy-makers of a very diverse, but dynamic region. APEC was to be a forum where their leaders could better understand the implications of their decisions on others as well as to identify, then act co-operatively on their shared economic interests.

Early focus on trade policy

A vital interest of all Asia Pacific economies is to preserve a rules-based multilateral trading system based on the GATT/WTO. Consequently, in APEC'S early years, the emphasis was on trade policy.

This focus had some advantages. Trade liberalisation objectives are relatively easy to define and progress is easy to measure. Moreover, cooperation on

trade policy was considered to be less intrusive of the right of Asia Pacific governments to set their own 'domestic' policies.

The disadvantage of focusing on trade was that it led a rather narrow interpretation of the scope of economic co-operation and a tendency to assess APEC's progress in terms of whether APEC governments are liberalising trade more rapidly than in the World Trade Organisation (WTO).

As described in the Busan Roadmap, Asia Pacific governments have liberalised their trade and investment policies. Since 1960, border barriers to trade have been lowered, largely unilaterally and the Asia Pacific is more open to trade than any other region. Most goods and services face no, or negligible, border barriers.[1]

The few significant border barriers which remain are concentrated in a few sensitive products. In the near future, these barriers will be reduced only through negotiations, which are most likely to succeed in the WTO.

APEC is not a negotiating forum, so it does not have comparative advantage over the WTO in terms of negotiating the liberalisation of trade in sensitive products, where short-term political costs outweigh long-term economy-wide gains.

The early voluntary sectoral liberalisation (EVSL) experiment of 1997-98 demonstrated that APEC was not designed to address the liberalisation of sensitive products. [2]

The attempt to negotiate on sensitive issues led to APEC's worst year, 1998. When APEC leaders met in Kuala Lumpur, the East Asian financial crisis was at its height. APEC's concentration on trade policy left it unprepared for coordinating a cooperative response to the crisis.

While unable to make a significant contribution to resolving the crisis, APEC was seen to fail to liberalise Japan's forestry and fishing industries. APEC allowed itself to be seen as a failure, even though the partial protection of these sectors is not a strategic constraint to economic integration: Japan is the largest importer of these products from the rest of the region.

The perceived failure of APEC to liberalise sensitive products contributed to the current infatuation with bilateral and sub-regional preferential trading arrangement (PTAs), which are becoming a serious problem in the region and are undermining the WTO.

On the positive side the experience of the financial crisis is that APEC leaders accepted the need to broaden the base of economic co-operation. It was seen to be essential to consider all the foundations of development,

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[1] See also Garnaut 2005, "A new open regionalism in the Asia Pacific" in *The Future of APEC and Regionalism in the Asia Pacific*: *perspectives from the second track*, Pacific Economic Cooperation Council, Singapore, and Centre for Strategic and International Studies, Jakarta, April.

[2] On the other hand, there is scope to follow up the information technology initiative by seeking to ensure that other new products do not become the sensitive products of the future. This option is described in Elek (2007) "Immunising future trade against protectionists: preventing the emergence of more sensitive sectors", paper submitted for consideration by the Market Access Group of the APEC Committee on Trade and Investment.

recognising that trade and investment liberalisation and facilitation (TILF) is just one part of these foundations. Attention began to turn to capacity-building.

Turning to capacity-building

In the context of APEC capacity-building means the sharing of information, experience, expertise and technology among member economies, helping each other to design and administer a progressively more efficient set of economic policies.Cooperation among Asia Pacific economies can help them to add to their productive resources and to allocate them more efficiently by sharing the information, experience, expertise and technology needed to design and administer a progressively more efficient set of economic policies in order to realise their potential for sustainable development.

Promoting better policies for trade and investment liberalisation and facilitation is only part of this challenge. There is scope to design and implement better policies which have a direct bearing on international commerce, such as:

- customs procedures;
- paperless trading;
- movement of people;
- border barriers including tariffs.

But other economic policies, sometimes seen as ‘domestic’ policies also have an important effect on links among Asia Pacific economies. For example, some coordination and harmonisation of competition and fiscal policies is essential to reduce the incidence of trade disputes and resort to anti-dumping measures. Sound competition and fiscal policies are also needed to promote investment.

It is very hard to distinguish between international and domestic economic policies. Almost all aspects of economic policy and regulation have some indirect effect on prospects for mutually beneficial economic integration. Therefore effective international economic cooperation needs to look behind the border.

The Busan Roadmap

The 2005 mid-term stocktake of progress towards the Bogor goals of free and open trade and investment indicated that the goals themselves needed to be redefined.

It had become evident that even if all tariffs were to be cut to zero, that would not mean free trade. There is extensive resort to contingent protection, such as anti-dumping and countervailing subsidies. These measures are now a more serious obstacle to free trade than most of the remaining border barriers. As noted above, they are a symptom of underlying problems caused by different approaches to competition policy, tax relief and subsidies for selected producers.

The stocktake also noted that the scope and composition of international economic transactions has changed dramatically since 1989. This is reflected in significant changes in the nature of impediments to international movements of goods, services, finance, people and information. The very

concept of completely free and open international commerce is under challenge from terrorists, from potential pandemics and, in a very different way, from advances in technology. New technology can serve to reduce transaction costs, but new technology also keeps raising new issues to be dealt with.

The Busan Roadmap, endorsed by APEC leaders in 2005 reflects these realities. The Roadmap accepts the reality that a voluntary process is the only viable option for cooperation in the diverse Asia Pacific region. And it aims to promote free and open trade and investment in ways which are consistent with the powerful advantages, as well as the limits, of voluntary cooperation.

The centrepiece of the roadmap is the Busan Business Agenda for facilitating trade and investment. This comprehensive business facilitation program builds on APEC's Shanghai Accord of 2001 and the subsequent successful implementation of APEC's Trade Facilitation Action Plan.

The Busan Business Agenda responds to the call by the business sector, particularly the APEC Business Advisory Council (ABAC) to address the full range of factors relevant to international commerce in the 21st century. The Busan Business Agenda aims to create an open Asia Pacific region, where investors can work more confidently in a gradually more consistent operating environment, where low border barriers are complemented by:

- transparency, best practice, and consistency of regulations;
- national treatment of investment;
- well-managed financial systems;
- mutual recognition of standards;
- paperless commerce;
- free movement of business people and capital;
- best practice logistics and
- affordable access to the internet for all APEC communities.

The objectives listed above are not day-dreams. Each of them has been closely approached, or even attained, by some Asia Pacific economies.

Indeed, some Asia Pacific economies already have most of these characteristics. Not surprisingly, they tend to be the most prosperous, or fastest growing, Asia Pacific economies.

APEC can help other economies which want to adapt current best practice by sharing the information, experience, expertise and technology available in the region. The APEC process should also be able to catalyse the significant investments in capacity-building which will be needed to move towards best practice.

The potential gains from progress in terms of the dimensions of economic integration listed above are very large. A 2005 Organisation for Economic Co-operation and Development (OECD) *Trade Policy Working Paper 21*, provides

a thorough overview of the potential economic gains from trade facilitation[3]. Research by the World Bank has estimated that bringing below average APEC members half way to the APEC average in terms of the efficiency of their trade logistics would result in a 10 per cent increase in intra APEC trade, worth about 280 billion. The Asian Development Bank has recently drawn attention to the potential to save up to 1 per cent of the value of traded products by reducing port clearance times by just one day.

Realising these gains is a never-ending challenge as best practice itself keeps evolving in response to technological and institutional improvements. Nevertheless, by measuring progress in terms of the above list, APEC leaders should be able to record a sequence of successes in each of the coming years.

Investment policy fits well into this Busan Roadmap. All of the matters listed are consistent with the issues raised in the PFI. The next challenge is to find ways for Asia Pacific economies to help each other address these issues.

Catalysing resources for capacity-building

The constraint on liberalising the remaining border barriers to trade in sensitive products and investment in sensitive sectors is the lack of adequate political will.

By contrast, the effective constraint to cooperation on behind-the-border issues are limits of capacity: these are limits on skills, institutions (including policy-making institutions) and the capacity of economic infrastructure.

APEC needs to adopt a strategic approach to meeting these capacity-building needs. The process should not duplicate the work of existing development financing agencies such as the OECD in terms of developing detailed policy options.

It will be more efficient for APEC to develop the capacity to draw on the wide range of experience available in this diverse region, as well as on the policy ideas flowing from organisations such the OECD, UNCTAD and the Pacific Economic Cooperation Council (PECC). APEC can intermediate the information available from all these sources, helping member economies to adapt ideas to their own situations.

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[3] This paper, by the Trade Committee of the OECD, examines the economic impact of trade facilitation and, in particular, the link between trade facilitation and trade flows, government revenue and foreign direct investment. It reviews recent quantitative work that has been conducted on border-related trade transaction costs and presents the experiences of a large number of countries that have recently implemented customs modernisation programs. The analysis also draws on information from business surveys, corporate case studies and various other sets of data.
The paper assesses the costs as well as benefits of trade facilitation, particularly improved border clearance procedures. It notes that the trade and customs procedures practices by different countries affect the price of traded goods, the ability of governments to collect border-related trade taxes and the geographical location of supply chains. As a result, the prospective gains from reducing trade transaction costs arising directly and indirectly from such procedures are substantial. Business surveys and modelling exercises in the paper indicate that improved border procedures have a considerable positive effect on trade flows.

Developing the capacity to address all of the challenges identified in the Busan Business Agenda and the PFI checklist will need massive resources, both time and money.

As stated at the outset, APEC should not become a development agency. Its contribution to capacity-building in Asia Pacific economies should not be measured in terms of projects directly financed or managed by any new APEC mechanism, such as APEC-funded dams, bridges or training institutes. That would certainly not be in line with comparative advantage.

Nor should APEC seek to measure progress in terms of grants and soft loans contributed to APEC by its member governments or by other development agencies. Funding from those sources can only scratch the surface of the overall need for capacity-building in the region. It is essential to move beyond a perception that capacity-building is something to be financed from 'foreign aid'. Capacity-building needed to design and implement better policies needs to be seen as an investment.

Capacity-building as an investment

Once capacity-building to enhance policies, human resources and economic infrastructure are seen as investments, it is possible to go beyond the very limited funds Asia Pacific economies can expect in the form of grant aid or soft loans.

If capacity-building programs are well designed, they should be able to yield a commercial rate of return. Such projects can be financed by tapping into international capital markets, for example through intermediation by international financial institutions (IFIs) or through public-private partnerships.

Just as APEC needs to learn to use the WTO, rather than to imitate it, APEC will need to learn to catalyse the resources needed for mutually beneficial economic integration in the region from the private sector and IFIs such as the World Bank and the Asian Development Bank.

This is not a revolutionary idea: it is a matter of investing in capacity-building. Development banks have been lending to individual economies for decades, to enhance the capacity to promote growth. The APEC process can identify opportunities for IFIs to work with groups of Asia Pacific economies, not just with individual economies, in order to reap economies of scale and scope.

Economies of scale and scope

APEC can add value to capacity-building in many ways.

One example is in promoting mutual recognition of standards. APEC is already laying the groundwork for a potentially comprehensive set of region-wide agreements on mutual recognition of product and process standards. That is a vital means to facilitate international trade and investment.

To give effect to such agreements, we will need to train many people in the relevant skills. APEC working groups have already developed excellent new training methods and materials, including for understanding, adopting and conforming to international product and process standards. Some people have already been trained.

However, region-wide mutual recognition of many standards will require training not just dozens, but thousands of people. All of these will not only need to be well trained, but they will also need to trust each other to administer standards, fairly as well as competently. The most effective way to meet this combined challenge is to train these people at regional centres of excellence.

We need to expand training in this, and many other relevant fields, to a scale that can make a real difference. And it will be far more efficient to do this regionally or at least sub-regionally not just economy by economy.

Turning to an example of supply chains, enhancing the efficiency and security of trade logistics is part of the policy framework for encouraging investment. The effectiveness of investment to promote more efficient supply chains, such as more effective use of information and communications technology, can be enhanced by drawing on the experience of others. Efficient logistics, depends on the use of agreed procedures and communications standards, so there is extensive scope for collective action.

Some of the presentations at the APEC Public-Private Dialogue on trade facilitation (Ho Chi Minh City, May 2006) provided examples of successful partnerships between APEC economies and the private sector, as well as examples of IFI support for projects designed to improve trade logistics. These included the Shanghai Model Port project and a FedEx partnership with the US and Vietnam governments on a customs modernization project. These are examples of public-private cooperation in critical trade facilitation activities. It should be possible to replicate such models not only in individual APEC economies, but also by groups of economies.[4]

There are many other ways that APEC process can add value, by facilitating a region-wide, rather than fragmented capacity-building efforts. [5]

Capacity-building to encourage investment

The PFI framework contains many recommendations for investment in capacity-building in order to encourage investment. If Asia Pacific economies are to reach their potential for sustainable growth, these investments will be made, sooner or later.

The challenge for APEC is to help ensure that

- these investments happen sooner rather than later, and
- they are made at least possible cost

Once again, it will be helpful to share experience.

For example, the cost of capacity-building to improve the efficiency of Asia Pacific ports and airports, could be reduced by exchanging ideas and technology. If APEC economies with relatively more efficient ports, such as

[4] The public-private partnership in Viet Nam was described by Ralph Carter, Vice President of FedEx, at the Public-Private Dialogue in Trade Facilitation, Ho Chi Minh City, Viet Nam, May 2006.

[5] More such examples are set out in "ECOTECH at the heart of APEC", by Andrew Elek and Hadi Soesastro in Ippei Yamazawa ed. *Asia Pacific Economic Cooperation (APEC): challenges and tasks for the 21st century,* Routledge, London and New York (2000) and also published, with their permission, by The Foundation for Development Cooperation.

Singapore, were willing to share their experience and technology (for example, the software used for scheduling the loading/unloading and customs clearance of containers) and to provide relevant training (possibly on a cost-recovery basis).

The economic rate of return of potential investment in ports could also be enhanced by sharing experience on how capital could be raised at least cost and with the least delay. For example, the pooled experience of APEC governments could be used to negotiate the risk and revenue sharing terms for prospective public–private partnerships. Governments can learn from each other to negotiate state-of-the-art agreements speedily.

APEC governments could also help ensure that IFIs gave priority to assessing and processing lending for projects which APEC leaders agreed to be of high interest. There is an increasingly constructive relationship between the APEC process and the IFIs. They are are already lending for capacity-building in Asia Pacific economies.

However, there is room for a lot more synergy between the IFIs and the capacity-building needs being identified by APEC. The Committee on Trade and Investment (CTI), the IEG and the Economic Committees of APEC can do more, so that the collaboration with IFIs makes it possible to realise economies of scale and scope offered by working with groups or, rather than just individual APEC economies.

To succeed, it will be essential to set priorities. To date, APEC has not been good at setting priorities. There has been a tendency to pursue very many good ideas at the same time. The ECOTECH program contains more than a thousand small programs. If too many efforts are pursued at the same time, with equal emphasis, none of them will lead to significant, tangible achievements.

In framing the second phase of the Trade Facilitation Action Plan (TFAP), the CTI has adopted a more strategic approach to capacity-building. Four important opportunities for collective action have been agreed and it should be possible to concentrate attention on attracting private sector and IFI support to implement the capacity-building needs which are being identified.

Conclusion

The IEG is doing an excellent job in terms of helping APEC governments to address the many issues raised in the PFI. They are giving helpful advice to governments to adapt experience from others to their own circumstances.

To accept this advice, they will need to mobilise investment in appropriate capacity-building. If the IEG is to be really helpful to member economies, they should also work with them to strengthen their strategies to mobilise the resources which will be needed for capacity-building.

There is an opportunity to help steer more of the savings generated in the Asia Pacific to investments in capacity-building with a high rate of return.

What might Fund Managers look for when establishing a business in another country

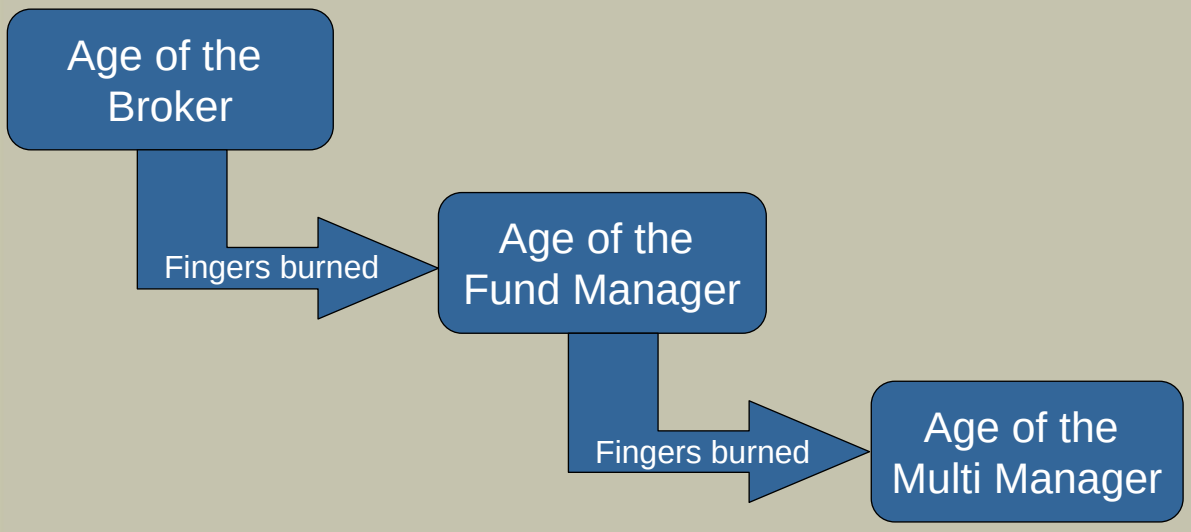
April, 2007

Alan Schoenheimer

Managing Director – Asia ex Japan

OPTIONAL COVER PAGE DISCLOSURE

The evolution of funds management industry



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2

What Fund Managers need

- Ability to build value adding portfolios
  - Lots of securities to choose from
  - Fair and open primary market
  - Liquid secondary markets
  - Low transaction costs
  - Few investment restrictions
- Ability to build a business
  - Freedom to establish
  - Freedom to charge
  - Freedom to hire the right people
  - Lots of potential clients
  - Level playing field
  - Regulatory oversight

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