



IEG/EC

**Capacity Building for Sharing Success Factors in the
Improvement of Investment Environment**

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The Japan External Trade Organization (JETRO), the Ministry of Economy, Trade and Industry and the APEC co-hosted a symposium on capacity building on the 27th of July 2009 in Singapore. Entitled “Capacity Building for Sharing Success Factors in the Improvement of Investment Environment”, the symposium was conceived as a follow-up to the importance of capacity building highlighted at the Leaders’ Declaration in Sydney, Australia in September 2007, and in response to instructions from Ministers to implement customized capacity building for each APEC member as well as to cater to calls for improvements in the business climate. The two objectives of this symposium were: 1) to provide capacity building to enhance the abilities of government officials to plan, develop and implement policies concerning international investment rules and 2) to share successful experiences of APEC economies and identify their key success factors. The two broad areas treated at the symposium were: (a) the improvement of supply chain connectivity and transport infrastructure; and (b) “behind the border” improvements in individual economy business environments to stimulate FDI flows. Various models for implementing improvements in these areas were presented, and their advantages debated.

SUMMARY OF CONCLUSIONS

A consensus arose that increasing cross-border economic integration was a necessary (if not sufficient) condition for advancing economic growth, and by implication the living standards of the populace, as this was associated with an influx of technology, knowledge, skills and hence productivity improvements amongst less developed economies. The symposium

concluded that increasing foreign direct investments (FDI), mergers and acquisitions (M&A) and Public-Private-Partnerships (PPP) were three avenues to advance these goals in the Asia-Pacific region. Throughout the symposium, three strands of discussion emerged:

- Improving supply chain connectivity (including transport infrastructure capacity and quality) was critical in promoting FDI by catalysing the integration of supply chains across borders. However there was a need for governments to pursue an integrated, multi-agency strategy. There might be merit in governments at the sub-region level (eg ASEAN) agreeing to a master-plan of sorts, since without bilateral or multilateral government direction, necessary investments could not realistically be asked of the private sector. The discussion around increasing intra-ASEAN road transport usage, which in turn would enhance efficiency (“faster than sea, cheaper than air”), underlined this point. Such plans should reflect the need for environmental sustainability and security. The role of government incentives in attracting logistics FDI was debated, with some arguing that incentives could not substitute for a holistic strategy that included more general business environment improvement.
- Investors’ confidence was critical to enhancing investments. In APEC, there was a need to enhance the business environment in terms of agreed KPIs such as the World Bank’s ease of doing business indicators. To this end, participants agreed that it was necessary for governments to deploy effective models of consultation with the private sector (particularly existing investors) to ensure correctness of both policy reform and implementation, as the example of KADIN’s engagement with the Indonesian government underlined. However investment and M&A liberalization would always be limited by considerations of each economy’s interests, competitive fairness, “invisible barriers” and the need for inclusive development.
- APEC had a role to play in disseminating knowledge of PPP models, best practices and exemplary KPIs. The symposium discussed a number of these, such as: (a) privatization of public utilities (eg Manila Water Company); (b) Private Finance Initiatives (PFIs) in the UK; and (c) government building of infrastructure ahead of FDI demand (eg EDB and the Airport Logistics Park of Singapore). What was agreed by participants was the importance of an integrated investment strategy of which the pursuit of FDI and PPPs should be important constituents.

DETAILED DISCUSSION

The meeting opened with remarks from Mr. Yoshichika Terasawa, the Managing Director of JETRO Singapore. Mr. Terasawa said that APEC members had agreed to prevent protectionism and refrain from raising new barriers to global trade and investment till the end of 2010. APEC members discussed measures for the current economic crisis and the improvement of the business environment through regulation reforms. Mr. Terasawa

reiterated how JETRO with Japanese companies was promoting regional integration in ASEAN. Mr. Terasawa also highlighted the role that JETRO was playing with Japanese companies to stimulate business activities in APEC and the ASEAN region in particular.

Mr. Ravi Menon, APEC's Senior Officers' Meeting (SOM) Chair, emphasized the need for each economy to position itself for the recovery from the current economic crisis and to plan for integration with the new emerging economy. Mr. Menon highlighted the need to identify key performance indexes (KPIs) to measure progress, and for each economy to implement "behind the border" business environment improvements. He also reiterated the five key areas for business environment improvement identified at the previous week's meeting. By enhancing supply chain connectivity, Mr. Menon suggested that the APEC region would be made more attractive for investment and hence more competitive in economic terms.

The first panel comprised of presentations by three key personnel.

Mr. Takashi Tsuchiya, Director General of the Trade and Economic Cooperation Department in JETRO, Japan, highlighted the importance of logistics infrastructure in attracting FDI. Mr Tsuchiya explained that recently, land transport had been increasingly viewed as a more viable and advantageous transportation option due to its efficiency, time savings (*vis-à-vis* sea) and lower cost (*vis-à-vis* air).

Mr Tsuchiya proposed two effective ways to reduce cost- 1) secure return cargo and 2) improve loading rates via less-than-container loads (LCL). Through a trial land transport exercise between Bangkok and Hanoi, Mr Tsuchiya revealed that having single stop service at borders would facilitate greater time efficiency. Mr Tsuchiya also highlighted a few key success factors for land transport, as seen through the trial exercise, namely reducing costs through boosting cooperation among carriers, ensuring information sharing among shippers, expediting custom clearance, introducing a GPS cargo monitoring system and lastly, guaranteeing quality by developing human resource in logistics and having better equipment for the handling of materials. All these factors aim to minimize cost, decrease time and increase quality.

Mr. Tsuchiya used the example of road transport between Thailand and Vietnam to demonstrate how intra-government agreements could mesh with private investment to generate efficiency gains. Mr. Tsuchiya also stressed the necessity of public sector support in order to attract private sector FDI. Mr. Tsuchiya suggested governments to provide incentives to the private sector such as tax breaks.

Mr. Albert Lim, the Head of the Logistics and Supply Chain Management Cluster at the Singapore Economic Development Board, presented that Singapore had been ranked as the

World's Best Logistics Hub by the World Bank and was also one of the world's busiest ports and airports. Among other factors, this was due to Singapore's speedy and efficient customs clearance processes and special government incentive programs to attract logistics hubs. Consequently, not only had Singapore attracted a critical mass of world-class logistics firms; it also hosted regional distribution centers and "supply chain control towers" (handling procurement and SCM optimization) for many world-class Multinational Companies (MNCs). Going forward Singapore sought to develop enhanced SCM technology deployment, Green SCM, secure SCM and niche logistics. These past and future policies might serve as reference points for economies seeking to nurture their own logistics sectors to contribute to economic development, though policy relevance would hinge on the current level of development of an economy's logistics sector.

Mr. Lim constantly emphasized the role played by Singapore's integrated governmental strategy, involving multi-agency co-operation (eg between EDB and the Singapore Customs), in attracting logistics FDI by building world-class infrastructure and improving bureaucratic efficiency. Mr. Lim also highlighted how pertinent it was for governments to work closely with industry players to enhance the industry.

Mr. Tim Meisner, the Director General of Marine Policy at Transport Canada, introduced Canada's policy framework for strategic gateways and trade corridors. Mr. Meisner explained the drivers behind the gateway strategy and emphasized the importance of maintaining competitive and the need to adopt a long-term approach towards planning. Mr. Meisner highlighted the characteristics of the Asia-Pacific gateway and corridor and constantly stressed on participation of all levels of government and private sector and an integrated approach of policy or governance. The Canada government is also involved in two other gateways, namely Continental and Atlantic. The main strategy for both gateways, remarked Mr. Meisner, was closer collaboration and cooperation between the public and private spheres. Mr. Meisner also provided examples on how leaders from Asia-Pacific could build upon infrastructure to improve competitiveness, touching on adding value by forming partnerships and learning from Maritime Centres, having a gateway performance table (that allowed greater interaction amongst all involved parties) and having a knowledge-based economy.

Mr. Meisner concluded by highlighting two challenges that decision-makers from APEC economies should consider having- 1) an integrated transportation network, and 2) improved policies, structures and work processes. Mr. Meisner reiterated the key role of strong, transparent partnerships between the public and private sectors in realizing both the overall plan for regulatory reform as well as concrete investment projects for infrastructure improvement via co-funding.

In the morning panel discussion and Q&A session, participants debated the role of government incentives in attracting FDI, the need for transparency in public policy formulation as well as the need for supply chain improvements to be undertaken within a multi-lateral framework. The panel discussion was moderated by Mr Roy Nixon, APEC IEG (Investment Experts' Group) Convenor, and was attended by all three (3) speakers. In that session, the following were the main topics of discussion engaged by the panellists and participants:

- Ensuring and promoting FDI involves a combination of providing incentives and affording investors comprehensive infrastructure and a conducive environment to conduct business and the ratio of factors will have to be customized to each scenario.
- All policymakers among APEC member economies should understand that consultation with the private sector is critical in ensuring and promoting investments.
- In light of the competition to attract FDI, it is critical that each APEC member economy recognize the importance of differentiation, the good execution of plans and the delivery of promises. This will also ensure investors' confidence.

The second panel consisted of presentations by six (6) speakers.

Dr. Charles Adams, Visiting Professor of Economics at the Lee Kuan Yew School of Public Policy at the National University of Singapore highlighted the importance of FDI and the many direct and indirect benefits arising from FDI such as transfer of technology know-how and increased government revenue. Dr. Adams also remarked that FDI is generally longer term in nature and more stable than other capital flows. Research revealed that middle-income economies appeared to reap the benefits of FDI more than lower-income economies and FDI tend to be unevenly distributed amongst recipient economies.

Dr. Adams also spoke of the need for a compelling argument for FDI like economic motivators, economic and political stability, tax and incentives, sectoral needs and FDI investment friendly regimes. It is critical for economies to integrate their policies and liberalization reforms into their broader developmental strategies and provide open, transparent and stable regimes to attract FDI if they are to maximize the benefits of FDI. Dr. Adams also spoke on the lessons from the reform experience from IMF, World Bank and UNCTAD and shared regarding forward-looking FDI issues. The current crisis has cast doubts on the benefits of FDI. However, it is pertinent to consider FDI as long term and for economies to pursue an integrated FDI attraction strategy so as to maximize the benefits of FDI. As recent topics on FDI, he pointed that China with its economic growth will be potentially the source economy on not only accepting FDI but also direct investment to foreign economies, and also that SWFs may become a more important source of FDI as a sponsor for risk money.

Mr. Chris Kanter, Vice President for Investment and Transportation, KADIN Indonesia, spoke on the role of public consultation with business in the process of reform implementation. He used Indonesia's example to highlight the business climate improvements that could result when both public and private sector interlocutors pursue an integrated strategy in such consultations. Mr Kanter highlighted three important challenges for economies to address in developing FDI- engage and consult investors at the earliest stage of reform, aim for integrity in the rule of law and continually review weak points in implementation. As has been the Indonesian experience since President's Yudhoyono's first term, consulting with investors would allow governments to reap big benefits in terms of understanding investor priorities and their experience of how reforms were actually being implemented. Success factors in the consultation process as seen in Indonesia included: consolidating the voice of business through a ministerial chamber structure, differentiating consultation on policy from consultation on policy implementation, deploying consultative processes with both the executive and legislative branches of government, robust support from the top political leadership (in Indonesia, the President personally chairs a National Team for the acceleration of investment and exports) as well as sincerity, hard work and a willingness to compromise on both sides. As for the rule of law, a crucial success factor in stimulating FDI, the Indonesian government has had a robust Presidential democracy that has facilitated the laying of strong foundations for investment in Indonesia.

Governments can follow the Indonesia example by developing a process to review the investment climate and address weak points. Going forward APEC can play a vital role in supporting the process of investment reform. However in evaluating the success of investment reform packages, Mr Kanter opined that there was a need to move away from a quantitative "matrix approach" centered on "ticking the boxes", as all too often the few boxes that were un-ticked were the most crucial ones determining the success of the entire package.

Mr. Virgilio C. Rivera, Jr., Group Director for the Regulation and Corporate Development Group at the Manila Water Company, shared the positive experience of how the Manila government had worked with the private sector to improve the water supply system. Previously, only 58% of the population had access to water. 12 years later, and the number stands at 99%. Ensuring good water infrastructure also played a critical role in attracting FDI to Philippines. Such was the success of the Manila Water Company that they are now using their expertise and competitive advantages to bid for similar projects in the region.

Mr. Rivera underlined the government's political will in a progressive regulatory framework, alignment of business and social objectives, adoption of best practices in corporate governance, strong financial support and a credible shareholder base as key factors behind the successful private-public partnership. Mr. Rivera constantly stressed the importance of collaborations between governments and the private sector. Going forward, governments can

draw on the Philippine experience in developing a private-public sector partnership in the management of public infrastructure that generates both benefits to the public as well as business results.

Mr. Neil Arora, Executive Director for Macquarie Capital (Singapore) explained that infrastructure has predominantly been a domestic business as local players can price in domestic risks more effectively with no foreign exchange risks. However, in recent years, foreign players have started to be involved in building an economy's infrastructure.

Mr. Arora discussed how the British PFI model of PPP could serve to increase private sector participation in infrastructure development while at the same time increase FDI inflows. The Private Finance Initiative (PFI), implemented in the UK invites the private sector to build and operate an infrastructure asset for a given time period in exchange of Government payments based on performance. PFI is part of the broader Public-Private-Partnership (PPP) concept which offers key benefits such as cheaper projects, less delay, no cost overrun and high user satisfaction as a result of risk transfer, broader competition, economies of scale and less litigation. However, for PPP projects to attract FDI, certain investment grade attributes (identified pipeline of projects, fair equity return for risks taken, developed debt capital markets, whether parties are able to manage construction and O&M risks, presence of a central body with applicable skills and a good regulatory framework) have to be present. Mr. Arora also stressed that choosing the right PPP model was crucial in determining success in attracting FDI, while highlighting the UK as a successful case story. Mr. Arora reiterated that PPP is an effective method to increase private sector participation and it can attract FDI, but only if key attributes are in place; this is where individual governments play a pivotal role.

Ms. Elley Mao, of the Economic Analysis and Business Facilitation Unit, Financial Secretary's Office in Hong Kong, shared her analysis of patterns in cross-border M&As. Ms. Mao mentioned that globalization had motivated economic integration at the regional and global levels by breaking down trade barriers to facilitate flows in goods and services and breaking down investment barriers to facilitate flows in capital. Within APEC itself, there had been evidence of rapidly increasing cross-border mergers and acquisitions (M&A) and it was revealed that there were more cross-border intra-industry M&As in APEC as compared to inter-industry M&As with firm sizes decreasing over time, suggesting lower barriers. The finance and insurance sectors had been the largest inter-industry acquirer, whilst the utilities and transportation industries were the heaviest targets.

Prof. Larry Qiu of the School of Economics and Finance at the University of Hong Kong spoke of the complementarities between cross-border M&As and FDI and how economies could increase cross-border M&As by minimizing barriers and differences across economies,

facilitating human resource flows and including more cross border M&A policy elements in regional facilitation/integration agreements. It was discovered that there were strong positive relationship between exports and GDP and cross-border M&As. Complementary relationship was also found between cross-border M&As and GDP with trade. Hence, to facilitate and stimulate cross-border M&As, it is pertinent for economies to ensure higher GDP as a high GDP will lead to more trade and simultaneously more cross-border M&As. Prof Qiu's research also suggested that cross border M&A had positive effects on GDP size.

In the afternoon panel discussion and Q&A session, moderated by Mr Roy Nixon and attended by five (5) speakers and Dr. Takashi Omori, APEC Economic Committee Chair, participants discussed the relevance of paying competitive salaries and seconding talent from the private sector in order to attract able leaders into the public sector; the tendency for middle-income economies to benefit disproportionately from FDI; and the need to fix a concession agreement and employ good negotiators on both sides prior to a PPP negotiation process. In that session, the following were the main topics of discussion engaged by the panellists and participants:

- All policymakers among APEC member economies should be aware that there is a suitable model (FDI or PPP) for each economy and it is critical for policymakers to decide which will be the better model to maximise returns.
- Collaboration and consultation between the private and public realms are critical to increase trade and investments in the economy.

The Symposium benefitted from the participation of Mr Roy Nixon, APEC IEG Convenor; Mr Noriyuki Mita, Director for the Economic Partnership Division, Trade and Policy Bureau, METI, Japan; and Mr Ravi Menon, Second Permanent Secretary at Singapore's Ministry of Trade and Industry and the APEC SOM Chair.