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What APEC economies need to do to grow

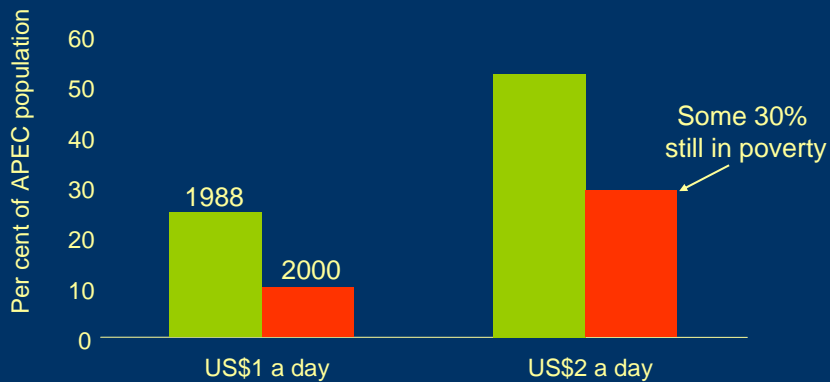
Prepared for

Preliminary conference for APEC 2007
'Reshaping APEC for the Asian Pacific
Century: Priorities and Strategies'
Melbourne, 11 & 12 December 2006

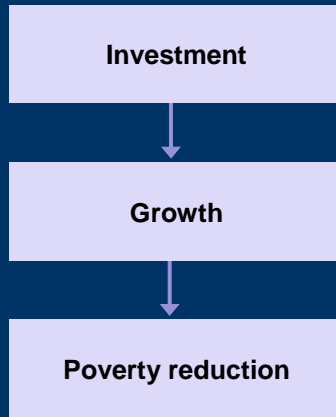
Presentation by

Dr Andrew Stoeckel, Executive Director
Centre for International Economics

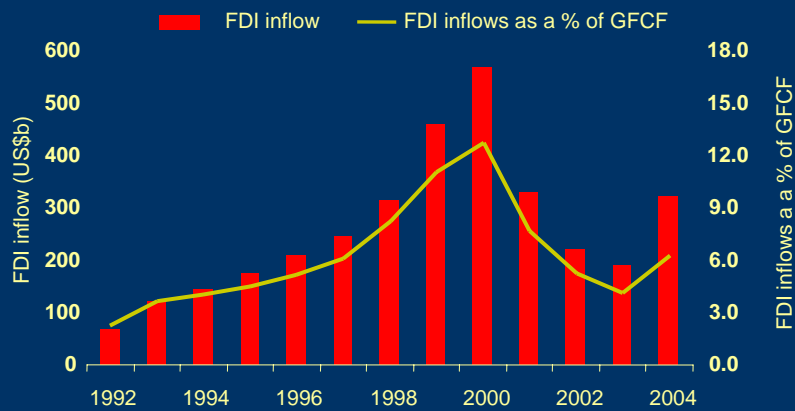
Poverty rates have fallen across APEC, but are still high



The key role of investment



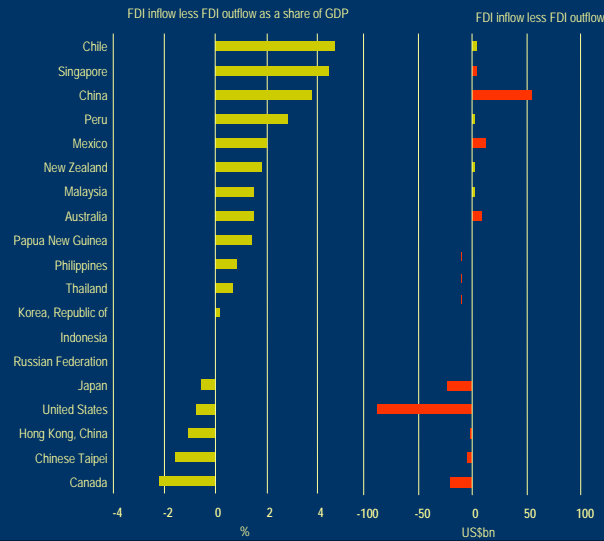
FDI inflows into APEC economies



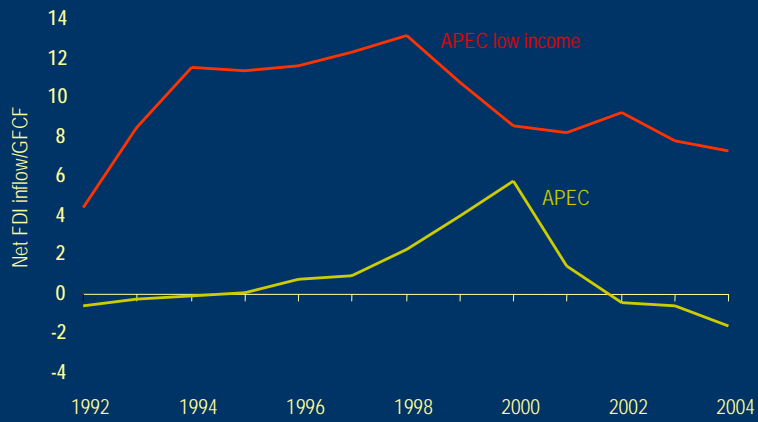
... still has not fully recovered from Asian Financial Crisis



FDI inflow less FDI outflow for APEC economies (2002-2004)



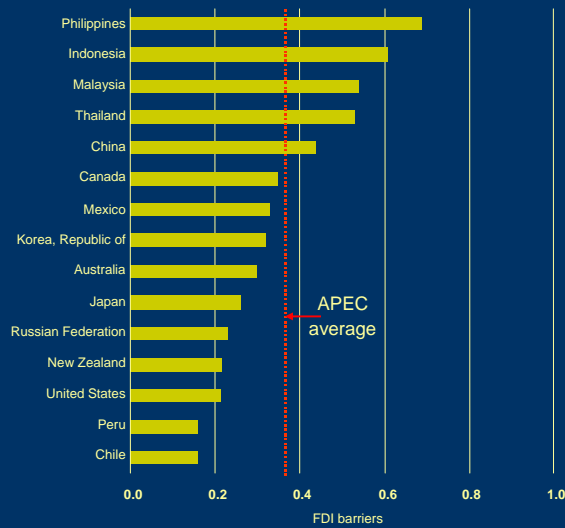
FDI inflows less FDI outflows for APEC economies



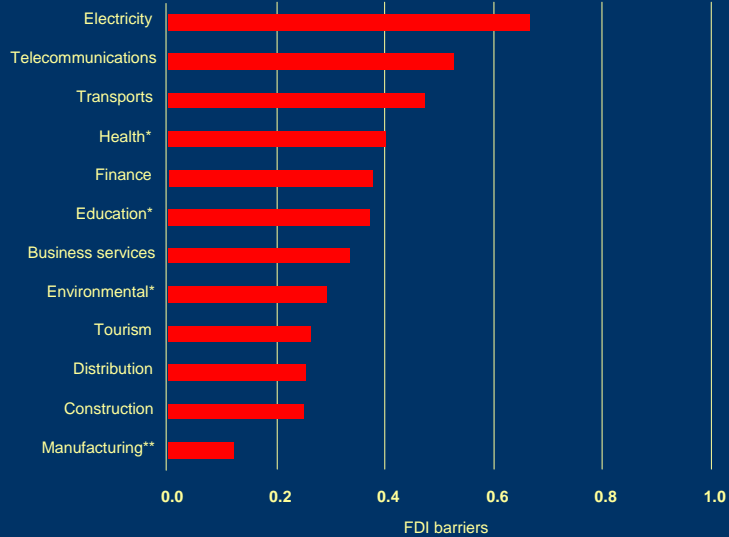
... worrisome drop in FDI inflow in poorest countries



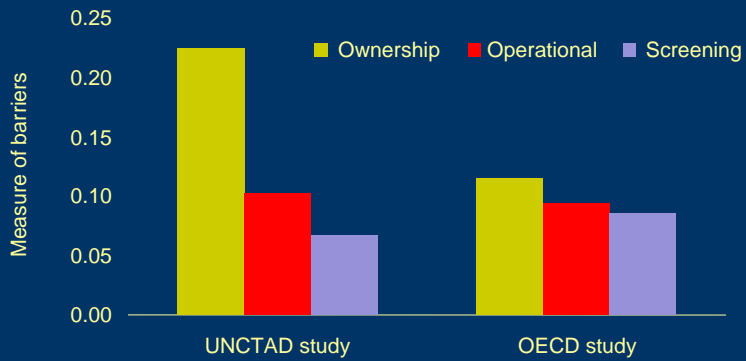
FDI barriers highest in lower income APEC economies



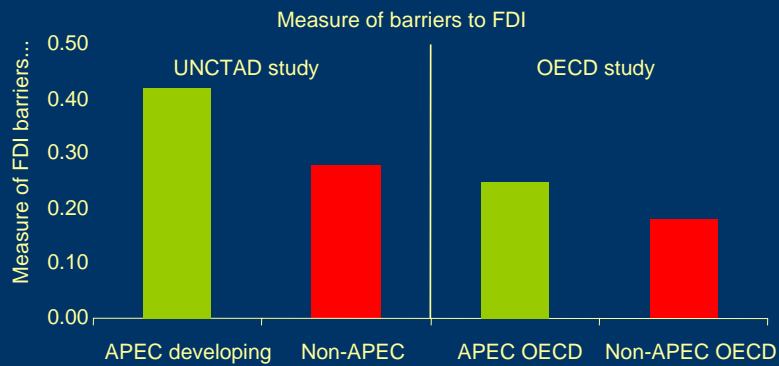
Barriers in APEC by sector



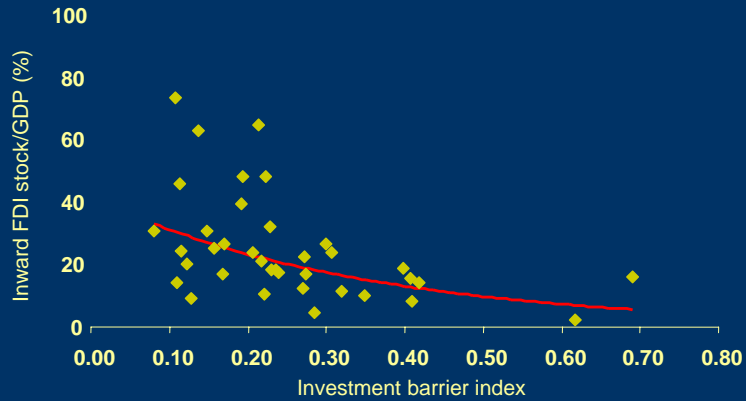
Type of FDI barriers in APEC



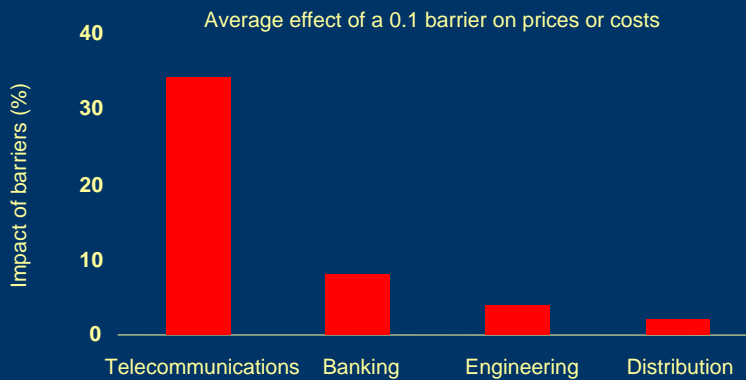
Barriers in APEC are higher than in other regions



FDI falls as barriers increase: FDI and barriers in 37 countries' service sectors



Impacts of barrier on prices/costs in different industries



If FDI barriers across APEC removed

- OECD and World Bank methodology suggests:
 - FDI boosted by 20 – 30 per cent
 - GDP in region could increase by 2 – 3 per cent



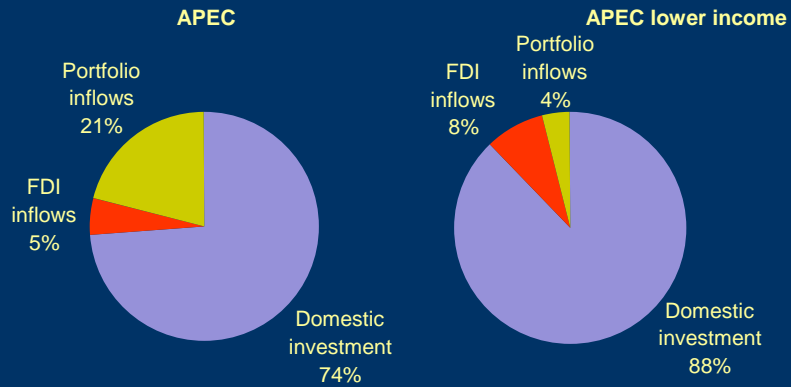
... but

- Analyses are partial
 - If APEC liberalised, world interest rates would change
- Analyses rely heavily on cross-sectional data and inferences
 - There is a large variation due to other barriers to investment
- Besides, domestic investment is more important and often impeded by behind-the-border barriers



Composition of investment in APEC

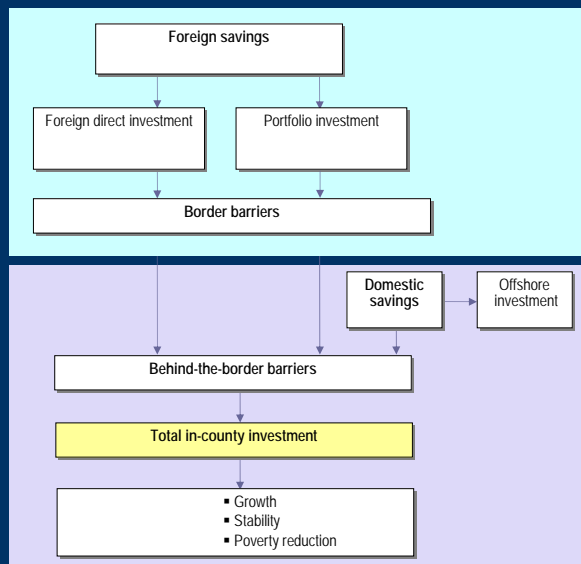
(average 2002 to 2004)

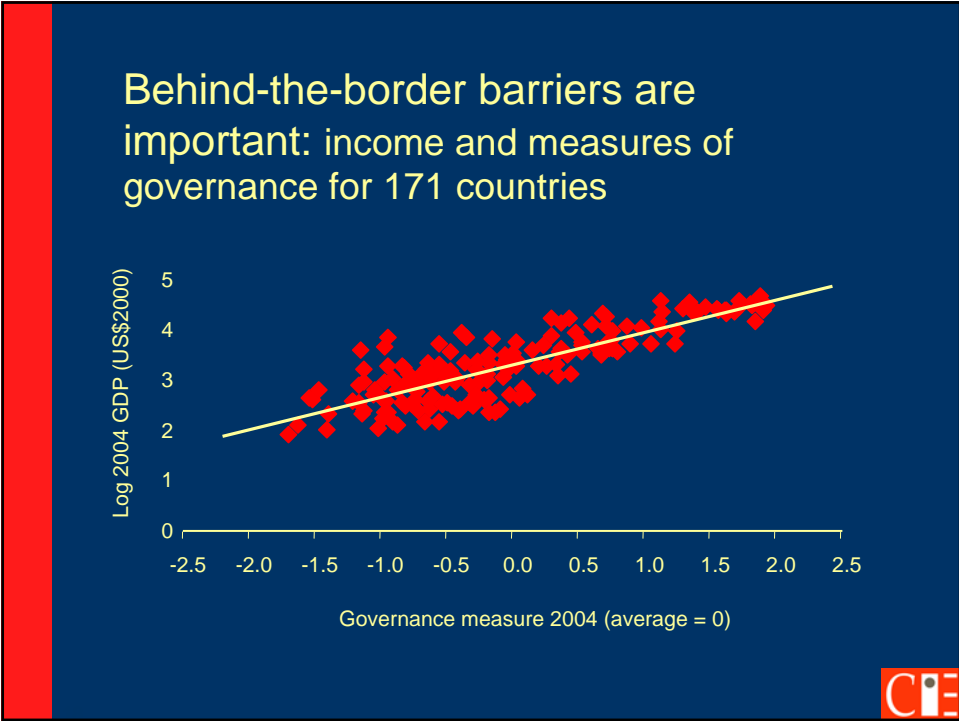
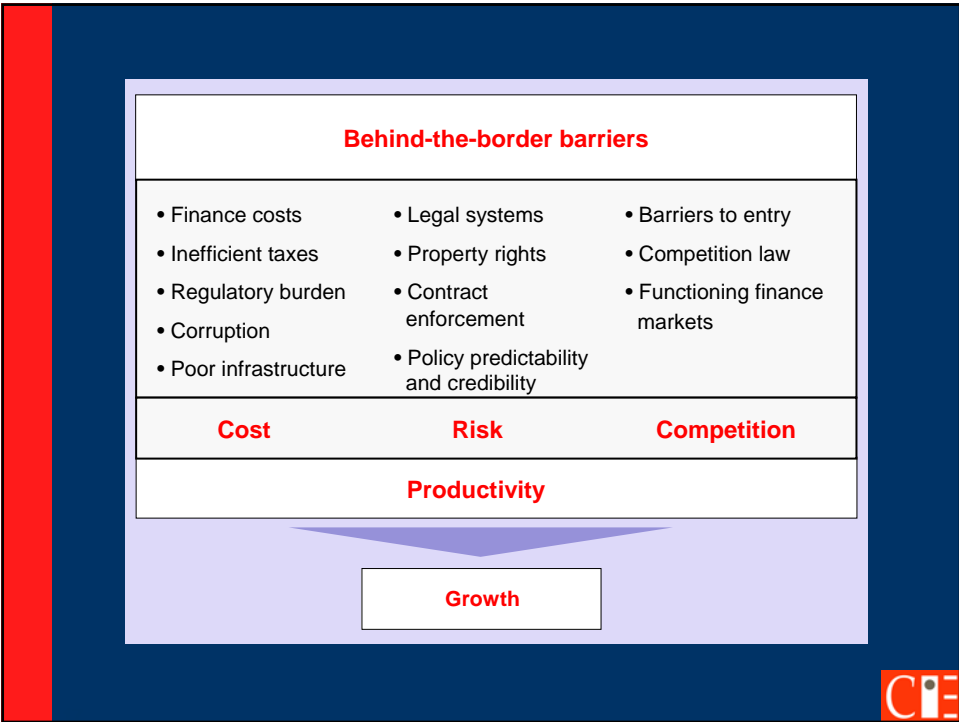


... FDI is but a small part of total investment



Investment flows and barriers in context





Enforcing contracts

Easiest

Japan
United States
Australia
Hong Kong, China
New Zealand
Canada
Korea
Singapore
Russia
Thailand
Philippines
Taiwan, China
China
Chile
Malaysia
Mexico
Papua New Guinea
Vietnam
Peru
Indonesia

Most difficult



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



Starting a business

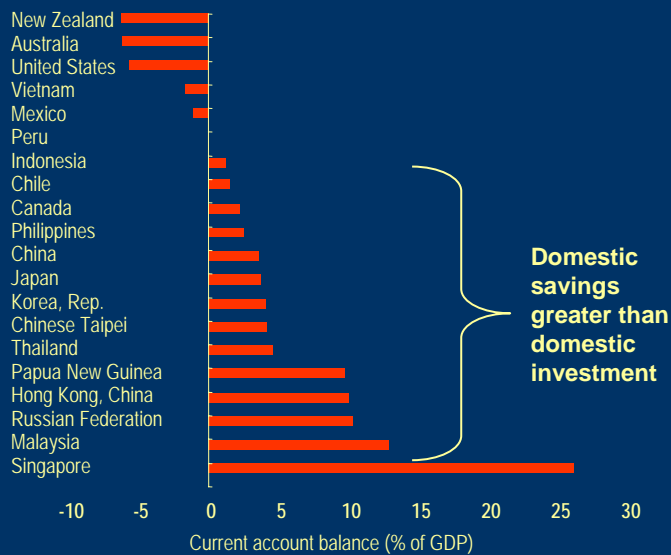
Easiest

Canada
 Australia
 United States
 New Zealand
 Hong Kong, China
 Singapore
 Japan
 Thailand
 Chile
 Russia
 Mexico
 Papua New Guinea
 Malaysia
 Peru
 Taiwan, China
 Vietnam
 Philippines
 Korea
 China
 Indonesia

Most difficult



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

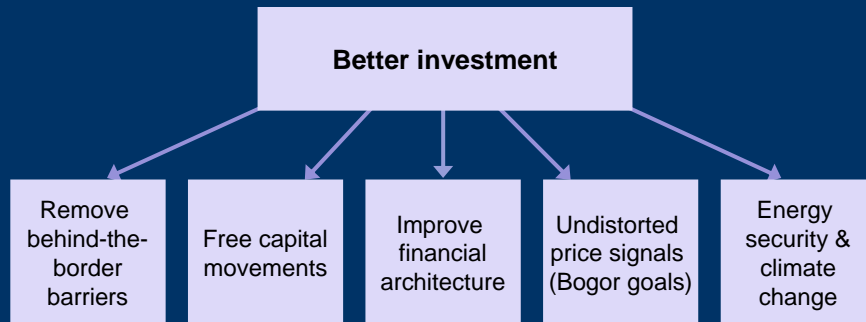


Key points (continued)

- 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



Better investment has several elements



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

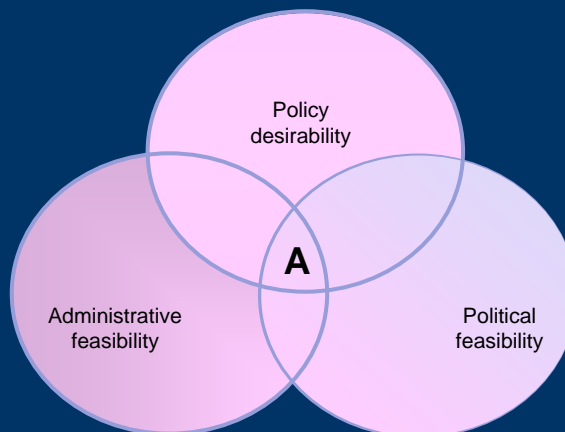


What to do (continued)

- Each economy needs an internal process to systematically assess barriers to investment
 - 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



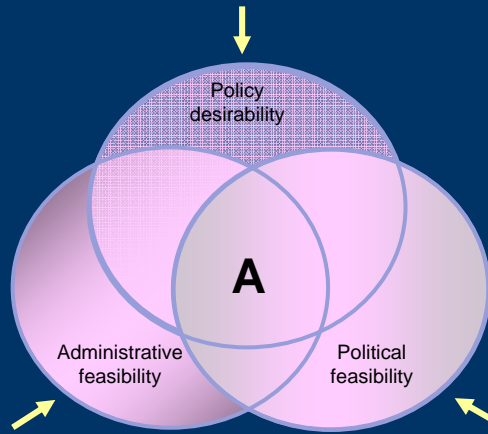
The challenge: increasing the 'sweet spot'



Source: *World Bank Development Report*, 2005



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Source: *World Bank Development Report*, 2005

