How APEC economies stand in their appeal to cross-border business
Results of the PwC Regulatory Conditions Index
Assessing regulatory conditions is no easy task. Yet how well an economy scores against perceptions matters.

As PwC’s annual APEC CEO Survey, 2016-2017, shows, policy factors are rising in importance for business leaders making decisions on cross-border investment in the region.

**Key findings:**

- We find that while Asia-Pacific Economic Cooperation (APEC) members have some of the best cross-border business environments in the world, the rest of the world is catching up in important areas.
- This PwC study is helpful to policymakers who want to understand where they can improve the regulatory environment to attract investors and make it possible for them to thrive and realize returns.

**Factors that matter most to CEOs investing across APEC borders today**

- **1** Regulatory environment
- **2** Expanding domestic market
- **3** A skilled talent pool
- **4** Favorable tax environment
- **5** Legal environment

Index score based on % CEOs ranking top 5 of a total 14 factors

In 2011, dynamic markets were enough for more APEC CEOs to unleash investment

<table>
<thead>
<tr>
<th>Factor</th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding market</td>
<td>46%</td>
<td>18%</td>
</tr>
<tr>
<td>Regulatory environment</td>
<td>8%</td>
<td>14%</td>
</tr>
</tbody>
</table>

Comparing #1 ranked factor in 2016 with 2011

Q: What matters the most in your business decisions to invest in APEC economies outside of your own?

Q: 2011: When compared with the other economies in the APEC region, what is the most important investment driver in (response for economy in which making largest investment over next 3-5 years) over the next 3-5 years?

Base: 1,052
Base: 295

Source: PwC’s APEC CEO Survey, 2016-17
Study factors
The study assesses regulatory conditions in three major areas:

1. Attractiveness to enter
   Do decision makers see the economy as a place where expansion is a good risk? This includes concerns like whether it is easy to get construction permits and whether intellectual property is protected.

2. Attractiveness to stay
   Do decision makers see this economy as risky to operate in, once expansion is completed? This includes concerns like the level of corruption and the perceived likelihood of government expropriation without compensation.

3. Attractiveness for realizing returns
   Does the regulatory environment make it easy to reap the benefits of an investment? This includes concerns like the ease of paying taxes and moving capital in and out of the economy.

Methodology
Our analysis focuses on regulatory conditions specifically from the perspective of foreign firms considering cross-border business. We chose this perspective because we believe it is underexplored and because developing a hospitable environment for cross-border trade is a policy priority of many APEC economies.

We are not considering what makes for good or quality regulation. There is a rich body of work from the Organization for Economic Cooperation and Development (OECD) as well from APEC working groups, among others, that define and track good regulation and the reform process in the region.

Data sources
The study utilizes data from five sources:
1. The World Bank Group’s Ease of Doing Business;
2. The World Economic Forum’s Global Competitiveness Survey;
3. The World Justice Project’s Rule of Law Index;
4. The Political Risk Group’s International Country Risk Guide; and
5. Analysis of the International Monetary Fund’s Capital Control Measures.

Variables
The data is refined down to 12 variables from these five sources that best meet the goal for assessing regulatory conditions for cross-border business. We classify these 12 under the three major regulatory condition areas:

• Attractive to enter
  ◦ Trading across borders
  ◦ Property rights
  ◦ Intellectual property protection
  ◦ Hiring and firing practices
  ◦ Dealing with construction permits

• Attractive to stay
  ◦ Enforcing contracts
  ◦ Bureaucratic quality

• Realize returns
  ◦ Paying taxes
  ◦ Outflow restrictions
  ◦ Inflow restrictions

Our ranking includes 70 major economies and 18 of the 21 APEC members. We exclude any economies, including APEC members Chinese Taipei, Brunei Darussalam and Papua New Guinea, that did not have scores for all of our 12 indicators.

The last section of this report goes into more detail on these variables.
APEC economies perform quite well against the rest of the world in terms of regulatory conditions for cross-border business

The average APEC economy score is 0.29, while the rest of the world averages a -0.10.

It is no surprise that economies like Singapore, Hong Kong, New Zealand, and Canada land at the top of a regulatory conditions index. These are renowned for their strong governance and business conditions.

It is also not unexpected for economies like Viet Nam and the People’s Republic of China, which transitioned toward market economies more recently, to be lower in the rankings.
APEC economies outperform rest of the world across three categories

The premium of APEC scores over the global average is highest in “Attractiveness to enter”.

### Findings

**Average score of APEC economies by category**

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall index</td>
<td>0.29</td>
</tr>
<tr>
<td>Attractive to enter</td>
<td>0.40</td>
</tr>
<tr>
<td>Attractive to stay</td>
<td>0.30</td>
</tr>
<tr>
<td>Realize returns</td>
<td>0.08</td>
</tr>
</tbody>
</table>

Source: PwC Regulatory Conditions Index for Cross-Border Business in APEC
**APEC economies improved in two categories between 2011 and 2014 but lost ground in ‘Realize returns’**

APEC economies as a whole seem to be widening their leadership in terms of “Attractiveness to enter” and “Attractiveness to stay” while moving closer to the rest of the world in terms of “Realizing returns.”

The “Realize returns” category includes three indicators that relate to the ease of producing economic returns. These indicators represent the ease of paying taxes, and restrictions of capital inflows and outflows of equity, bonds, money market instruments, and other investments.

### Average score of APEC economies by category

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall index</td>
<td>0.29</td>
<td>0.26</td>
</tr>
<tr>
<td>Attractive to enter</td>
<td>0.30</td>
<td>0.40</td>
</tr>
<tr>
<td>Attractive to stay</td>
<td>0.29</td>
<td>0.30</td>
</tr>
<tr>
<td>Realize returns</td>
<td>0.08</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Source: PwC Regulatory Conditions Index for Cross-Border Business in APEC
A number of lower ranking economies improved the most in overall regulatory conditions between 2011 and 2014

From 2011 to 2014, seven economies improved, six stayed the same and five dropped in the overall ranking. Most lower-income APEC economies are actively improving. This conforms to findings from the World Bank’s “Ease of Doing Business” research, which has tracked a convergence over the past 12 years towards regulatory practices globally as lower-income economies move to lift barriers to businesses.
APEC’s commitment to reducing trade barriers seems to have borne fruit

APEC’s “Attractiveness to enter” relative score versus the rest of the world is high, with “Trading across borders” as the best performing variable in the category. The largest over-performer by this metric is Indonesia. It is well into the top half of economies in terms of attractiveness to enter. Viet Nam and The Philippines also perform comparatively well by this measure.
In three out of the four variables, APEC economies shine in ‘Attractiveness to stay’

After getting set up in an economy, the hard work of doing business begins. It is at this point that conditions in an economy like bureaucratic quality and the control of corruption become paramount. The strength of APEC in this category is, in large part, due to the high scores for enforcement of contracts in 2014. Three of the four top in the world in terms of enforcing contracts are in APEC—Singapore, South Korea, and Hong Kong. But in terms of the variable that measures perceptions of government expropriation without adequate compensation, APEC economies perform relatively poorly.

Findings

How does APEC compare to the world on attractiveness to stay?

- Enforcing contracts: APEC scores 0.53 compared to 0.39 for the world, with a difference of 0.18
- Bureaucratic quality: APEC scores 0.39 compared to 0.18 for the world, with a difference of 0.21
- Absence of corruption: APEC scores 0.35 compared to 0.16 for the world, with a difference of 0.19
- The government does not expropriate without adequate compensation: APEC scores 0.02 compared to 0.06 for the world, with a difference of 0.04

Source: PwC Regulatory Conditions Index for Cross-Border Business in APEC
‘Realizing returns’: Not an area of relative strength for APEC economies vs. rest of the world

This is the more difficult category to assess because two of the three variables track controls on flows of foreign capital, which can change quickly. There can be negative perceptions on capital controls from a business perspective; restrictions and/or uncertainty can directly impact on financing and profitability. At the same time, capital controls can serve a wider purpose for policymakers dealing with volatility, for example. Two of our variables, “inflow restrictions” and “outflow restrictions,” come from a 2011-2013 analysis of IMF research on the extent of capital controls by economy. Hong Kong is the number one economy in terms of realizing returns.
Which variables are must-haves and which ones are differentiators?

There are areas where the world is trending towards a norm. An economy can consider these conditions as a “must-have” to attract expanding businesses.

Conversely, there are areas where proactive APEC economies could seize opportunity to move ahead. These are “differentiators.”

Charting how 70 economies compare by each variable reveals two things: in some cases, rankings cluster toward a high score, while in other cases, they do not create a clear pattern.

Movement towards a global norm is taking place in variables such as “trading across borders,” “restrictions on capital outflows,” and “paying taxes.” We call these measures “must-haves” for economies looking to right their global competitive standing. These are table stakes: policymakers need to shore up their economy’s performance on these factors just to be included in the consideration set of investors.

On the other hand, we can see that in other variables, the world is not trending toward a norm. These are regulatory conditions that economies can consider as “differentiators” to leap ahead. Where economies’ performance are not notably clustering include “bureaucratic quality,” “the government does not expropriate without adequate compensation,” and “absence of corruption.” These are the areas where policymakers can make deliberate, sustained progress for their economy to stand out to investors.

**Findings**

**Distribution of paying taxes**

![Distribution of paying taxes chart]

**Distribution of absence of corruption**

![Distribution of absence of corruption chart]

Source: PwC Regulatory Conditions Index for Cross-Border Business in APEC
Methodology

The PwC Regulatory Conditions Index was created to measure the regulatory environment for cross-border business in economies across the world.

The Index specifically focuses on regulatory conditions for regional and global businesses that are considering establishing or expanding their operations within an economy. It does not consider the expense of doing business or opportunities for growth, but rather looks at whether, at a certain point in time, government-driven regulations make conducting cross-border business easier or more challenging.

We collected data from five sources: The World Bank Group’s Ease of Doing Business; the World Economic Forum’s Global Competitiveness Survey; the World Justice Project’s Rule of Law Index; The Political Risk Group’s International Country Risk Guide; and an analysis based on the International Monetary Fund’s Capital Control Measures.

Some of these indicators are measured yearly, and others are measured more inconsistently. Throughout this report, we compare conditions in 2011 and 2014 because, for ten of our 12 measures, data was collected in both of those years. The two measures we use from the IMF’s Capital Control Measures were last collected in 2013. For simplicity, we are referring to comparing 2011 to 2014 throughout the report, though for these two IMF measures, the data is actually from 2013. The year refers to the date the data was collected, not the date it was published.

To create our rankings, we took these indicators and turned them into an overall score. We used a statistical method to standardize the scores to the same scale—in the original data, some indicators were scored from 1 to 7 and others from 0 to 100. We then took an overall average of how each economy scored on the 12 indicators. Each economy receives a score based on this overall average.

Individual companies may choose to weigh each indicator differently when deciding whether to enter a market. However, we believe this average gives an instructive bird’s-eye view. We can provide details on how each economy does by category, so those concerned with particular aspects of regulatory conditions can see how an economy does in that area.

The main criteria for inclusion in the index were the following:

- The methodological rigor of the indicator’s construction
- The indicator’s relevance to cross-border business
- The availability of the indicator for a large number of economies and across several years
- How recently the measure was last calculated
- Whether the variable was made up of original data—rather than a synthesis of other indices
- The method of collection of the indicator did not change in any substantial manner between the year we analyzed

If two similar measures were available, we chose to use the variable that was from a source we were not already using. Employing indicators from many different sources decorrelates results and reduces bias.
Variables
Here are the 12 indicators from five different data sources. These 12 indicators were each available for 70 economies in 2013 or 2014 and were also measured in 2011. This allowed us to make comparisons across many economies and observe recent improvement. While we would have preferred 2015 data, some sources have not yet released data for that year.

Category: Attractiveness to Enter
Indicator: Trading Across Borders
Source: Ease of Doing Business; The World Bank Group
Description: According to the World Bank Group this indicator “records the time and cost associated with the logistical process of exporting and importing goods.” This accounts for the ease of documentation, complying with border procedures and moving goods domestically. Doing Business indicators are based on direct observation of administrative processes.

Indicator: Dealing with Construction Permits
Source: Ease of Doing Business; The World Bank Group
Description: According to the World Bank Group, this indicator “tracks the procedure, time and cost to build a warehouse.” This includes dealing with licensing, submitting notification, inspections, and working with utilities. Doing Business indicators are based on direct observation of administrative processes.

Indicator: Intellectual Property Protection
Source: Global Competitiveness Survey; World Economic Forum
Description: This indicator is based on the response to the following question from the World Economic Forum’s survey of executives, “In your country, how strong is the protection of intellectual property, including anti-counterfeiting measures?” The World Economic Forum attempts to survey hundreds of executives in each country. Responses are given on a one to seven scale.

Indicator: Property Rights
Source: Global Competitiveness Survey; World Economic Forum
Description: This indicator is based on the response to the following question from the World Economic Forum’s survey of executives, “In your country, to what extent are property rights, including financial assets, protected?” The World Economic Forum attempts to survey hundreds of executives in each country. Responses are given on a one to seven scale.
**Category: Attractiveness to Stay**

**Indicator: Bureaucratic Quality**  
**Source:** International Country Risk Guide; Political Risk Group  
**Description:** This indicator is based on the assessments of experts at the Political Risk Group about whether a “bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services.” Responses are given on a 0-1 scale.

**Indicator: The Government Does Not Expropriate Without Adequate Compensation**  
**Source:** Rule of Law Index; World Justice Project  
**Description:** This indicator measures the fairness of government behavior in terms of expropriating property. Specifically, it analyzes whether homeowners and communal land users receive full market value if the government chooses to commandeer their land, and if the legal process for claiming restitution is fair and efficient. Rule of Law Index data is based on surveys of hundreds of local experts and members of the general public.

**Indicator: Enforcing Contracts**  
**Source:** Ease of Doing Business; The World Bank Group  
**Description:** According to the World Bank Group, this indicator measures the “efficiency of resolving a commercial dispute.” This includes the time and cost of going through local courts to resolve a contracts case. Doing Business indicators are based on direct observation of administrative processes.

**Indicator: Absence of Corruption**  
**Source:** Rule of Law Index; World Justice Project  
**Description:** According to the World Justice Project, this indicator measures the prevalence of “bribery, improper influence by public or private interests, and misappropriation of public funds or other resources.” This measure is specifically focused on corruption in the executive branch, judiciary, the military and police, and the legislature. Rule of Law Index data is based on surveys of hundreds of local experts and members of the general public in each country.
Methodology

**Category: Realizing Returns**

**Indicator: Paying Taxes**

*Source*: Ease of Doing Business; The World Bank Group

*Description*: This indicator measures the tax burden placed on medium-size company. This includes not just the amount of taxes, but also the time and costs associated with tax procedures. Doing Business indicators are based on direct observation of administrative processes.

**Indicator: Inflow Restrictions**

*Source*: Capital Control Measures; International Monetary Fund

*Description*: This indicator measures the impact of controls on the inflow of capital into an economy. This includes the inflow of equity, bonds, money market instruments and investments. The score for the measure is based on a set of expert researcher analysis of the IMF’s Annual Report on Exchange Arrangements and Exchange Restrictions. The analysis, Capital Control Measures: A New Dataset, was published as a working paper on April 2015 and was prepared by Andrés Fernández, Michael W. Klein, Alessandro Rebucci, Martin Schindler, and Martín Uribe. It includes detailed information on a variety of manners that nations restrict the flow of capital and the researchers have used the information to create the score.

**Indicator: Outflow Restrictions**

*Source*: Capital Control Measures; International Monetary Fund

*Description*: This indicator measures the impact of controls on the outflow of capital into an economy. This includes the outflow of equity, bonds, money market instruments and investments. The score for the measure is based on a set of expert researcher analysis of the IMF’s Annual Report on Exchange Arrangements and Exchange Restrictions. The analysis, Capital Control Measures: A New Dataset, was published as a working paper on April 2015 and was prepared by Andrés Fernández, Michael W. Klein, Alessandro Rebucci, Martin Schindler, and Martín Uribe. It includes detailed information on a variety of manners that nations restrict the flow of capital and the researchers have used the information to create the score.
This research was motivated by APEC CEO Summit host committee Peru’s request that, as Knowledge Partner to the Summit, PwC explore the competitiveness of APEC economies in terms of regulatory conditions. It was felt that this would be useful for APEC participants, businesses and policymakers for assessing progress in APEC’s mission of “championing free and open trade and investment.” PwC can prepare custom APEC economy profiles upon request. If you’d like to discuss these findings further, please contact:

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