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OECD's FDI Restrictiveness Index: 2010 Update

Blanka Kalinova,

Angel Palerm,

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Abstract

OECD'S FDI RESTRICTIVENESS INDEX: 2010 UPDATE

by

Blanka Kalinova, Angel Palerm and Stephen Thomsen*

The 2010 update of the FDI Restrictiveness Index (FDI Index) expands the sectors covered and revises the way in which FDI measures are scored and weighted. The FDI Index is now available for all OECD Members, adherents to the Declaration on International Investment and Multinational Enterprises, Enhanced Engagement countries and other G-20 countries.

The FDI Index, originally developed in 2003, is jointly maintained by the OECD Investment Division and the OECD Economics Department as one component of the revised 2008 OECD Indicator of Product Market Regulation (PMR) from which the *Going for Growth* policy priorities are drawn. It is also used on a stand-alone basis to assess the restrictiveness of FDI policies in OECD Economic Surveys; reviews of candidates for accession; and OECD Investment Policy Reviews, including reviews of Enhanced Engagement countries, new adherents to the OECD Declaration on International Investment and Multinational Enterprises and of other non-OECD partner countries. The FDI Index has been used as a summary measure of OECD members' positions under the OECD investment instruments in the Committee's 2009 report updating countries' reservations to the OECD Codes and exceptions to the OECD National Treatment instrument (NTI). The extension to all G-20 countries enables its use in the G-20 context.

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* Senior Economists in the Investment Division of the OECD Directorate of Financial and Enterprise Affairs. This paper does not necessarily reflect the views of the OECD or those of its member governments. Further information on investment-related work at the OECD may be found at www.oecd.org/daf/investment.

TABLE OF CONTENTS

OECD'S FDI RESTRICTIVENESS INDEX: 2010 UPDATE

The 2010 update of the FDI Restrictiveness Index (FDI Index) expands the sectors covered and revises the way in which FDI measures are scored and weighted. The FDI Index is now available for all OECD Members, adherents to the Declaration on International Investment and Multinational Enterprises, Enhanced Engagement countries and other G-20 countries.

The FDI Index, originally developed in 2003, is jointly maintained by the OECD Investment Division and the OECD Economics Department as one component of the revised 2008 OECD Indicator of Product Market Regulation (PMR) from which the *Going for Growth* policy priorities are drawn.[1,2] It is also used on a stand-alone basis to assess the restrictiveness of FDI policies in OECD Economic Surveys; reviews of candidates for accession; and OECD Investment Policy Reviews, including reviews of Enhanced Engagement countries, new adherents to the OECD Declaration on International Investment and Multinational Enterprises and of other non-OECD partner countries.[3] The FDI Index has been used as a summary measure of OECD members' positions under the OECD investment instruments in the Committee's 2009 report updating countries' reservations to the OECD Codes and exceptions to the OECD National Treatment instrument (NTI).[4] The extension to all G-20 countries enables its use in the G-20 context.

The FDI Index was last updated in 2006, when the set of countries was broadened and the methodology was revised.[5] With the 2010 update, the coverage of the FDI Index by sectors has been upgraded, an improvement in which delegates had expressed an interest. All primary sectors (agriculture, forestry, fishing and mining), as well as investments in real estate, are now included. Subsectors have been added to cover services other than banking and insurance (under finance), as well as media services (TV and radio broadcasting, as well as printed and other media). There is greater detail in manufacturing (five subsectors), in electricity (generation and distribution), distribution (retail and wholesale) and transport (added international/domestic breakdown for air and road transport). Overall, the expanded coverage by sector and finer detail by subsector improve the cross-country comparability of the results, as restrictions in some sectors/subsectors may be more extensive in certain groups of countries.

The work on the update of the FDI Index has also looked into how best to weight individual sectors. The results show that alternative systems of weights do not significantly alter the results and the choice among alternatives has been based on simplicity, ease of use and coherence with how other PMR indicators are calculated (see Appendix I for details).

1 See: Golub, Stephen (2003) and Wölfl, A., I. Wanner, T, Kozluk, G. Nicoletti (2009).

2 The relevant data and indicators are available at www.oecd.org/eco/pmr. The PMR indicators are also available for a number of non-OECD countries, see ECO/CPE/WP1(2009)14 *Product market regulation: Extending the analysis to candidate countries for accession, enhanced engagement and other non-OECD countries.*

3 See, for example, the OECD investment policy reviews of Egypt (2007), Peru (2008), Russia (2008), India (2009), Morocco (2009), and Indonesia (forthcoming).

4 See *Modifications of OECD Countries' Positions under the Codes of Liberalisation of Capital Movements and of Current Invisible Operations and the National Treatment Instrument* [DAF/INV(2008)8/REV3].

5 Koyama, Takeshi and Stephen Golub (2006).

Finally, the update has looked into the methodology for scoring individual measures, which is described in Appendix I. The revision of the scoring rules includes more precise definitions, greater simplicity and increased transparency of the various measures covered by the FDI Index. These changes enhance the consistency of the scoring across countries and make it easier to replicate results, which is important for updating and for developing the historical time series needed to track the pace of liberalisation over time.

The FDI Index retains its focus on four types of measures: equity restrictions, screening and approval requirements, restrictions on foreign key personnel, and other operational restrictions (such as limits on purchase of land or on repatriation of profits and capital). The discriminatory nature of measures is the central criterion to decide whether a measure should be scored. Nevertheless, non-discriminatory measures are also covered when they are burdensome for foreign investors. This is the case, in particular, for rules regarding nationality of key personnel/directors.

As in the 2006 FDI Index, actual enforcement of statutory restrictions, which is difficult to assess, is not factored into the scoring. The FDI Index scores overt regulatory restrictions on FDI, ignoring other aspects of the regulatory framework, such as the nature of corporate governance, the extent of state ownership, and institutional or informal restrictions which may also impinge on the FDI climate. The FDI Index does not combine existing regulations with either perceptions of the investment climate or implementation issues but rather seeks to assess how countries' policies towards FDI affect their attractiveness to foreign investors. When used in combination with indicators measuring other aspects of the FDI climate, the FDI Index can help to account for variations in countries' success in attracting FDI.[6] But even if the FDI Index is only part of the universe of elements shaping the investment climate, it does capture an important element of countries' performances in attracting FDI: more restrictive countries tend to receive less FDI relative to the size of their economy (see Graph 1).

For OECD countries the source of information for measures to be scored under the FDI Index is the list of countries' reservations under the OECD Code of Liberalisation of Capital Movements and their lists of exceptions and of other measures reported for transparency under the National Treatment instrument (NTI). The new scores are based on the countries' positions as recorded after the 2009 modifications of OECD countries' positions under the Code of Liberalisation of Capital Movements and the NTI.[7] For the 12 non-member countries adhering to the Declaration, an effort has been made to ensure they reflect updated information. For adherents, additional sources of information have been used to identify restrictions on activities of non-residents, which are not reported under the NTI. Such additional sources include official national publications, information gathered by the Secretariat in the preparation of OECD Investment Policy Reviews, as well as by other international organisations.[8] For non-adhering countries, greater use has been made of OECD Investment Policy Reviews when available (*e.g.* China, India, Indonesia and Russia), and of official national sources.

The consistency of sources used is a strong point of the OECD's FDI Index. The use of country positions under the Codes and the NTI and the standards of these instruments within OECD Investment Policy Reviews ensures the use of well-defined criteria for OECD members, adherents to the Declaration

6 See Nicoletti, G., S. Golub, D. Hajkova, D. Mirza and K.-Y. Yoo (2003).

7 These can be found at www.oecd.org/daf/investment/instruments. Recent liberalisation measures that were not covered by the 2009 update are to be included in the FDI Index following notification by countries of modifications to their positions.

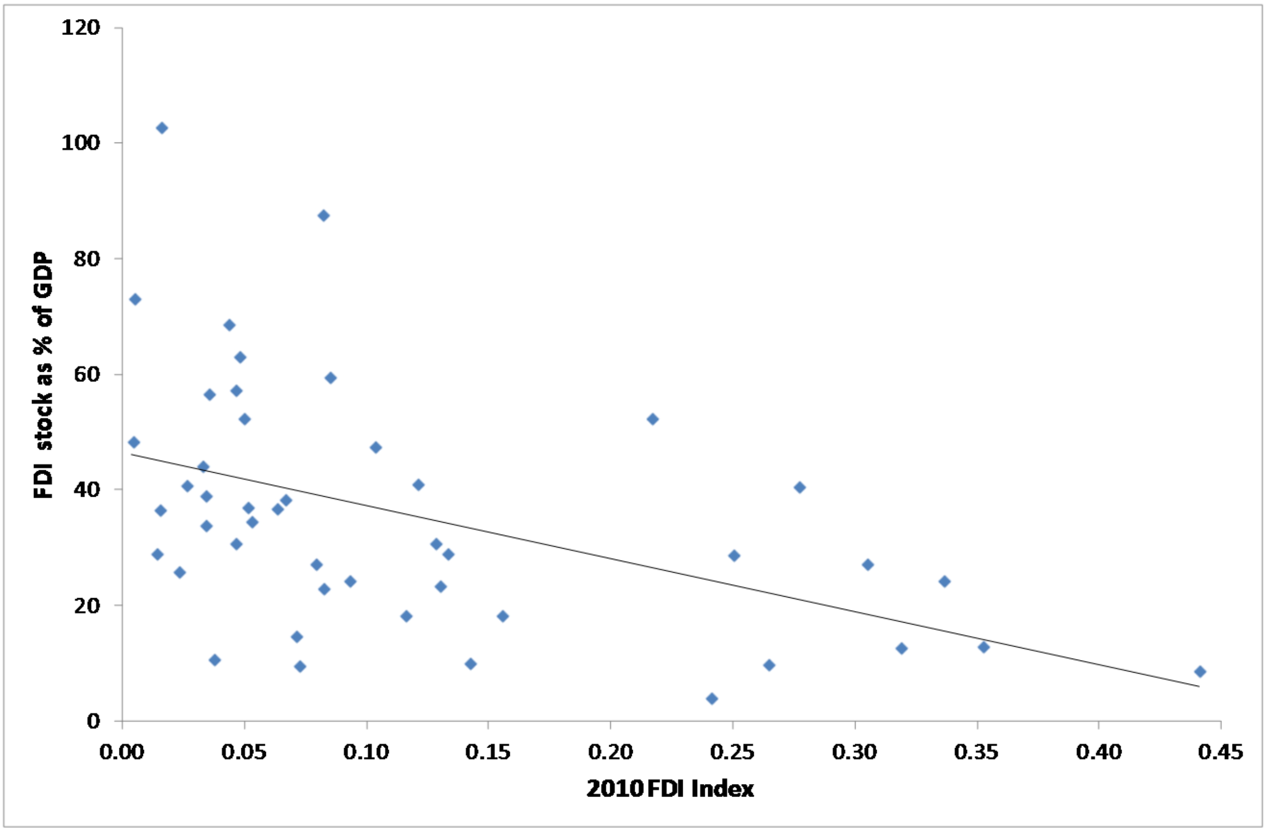
8 These include, among others, WTO Trade Policy Reviews and the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions.

and countries for which Investment Policy Reviews are available[9]. It makes possible the use of the FDI Index to track the progress of liberalisation over time. Work in progress to update historical data on the FDI Index will provide a perspective on recent trends in FDI liberalisation.

Appendix II compares the results of the 2010 update with the 2006 results, though a comparison of absolute values is not strictly appropriate given the changes in the methodology. Appendix III presents results for the update by country, sector and type of measure.

Future work to be carried out includes developing time series to insure the FDI Index is available on the same basis as all other components of the PMR Indicator. The time series will aid in the appraisal of FDI liberalisation over time. Consideration should also be given to the issue of how to score measures adopted for national security reasons and how to deal with state ownership. As described in greater detail in Appendix I, at present neither type of measure is scored. The development of an alternative including state ownership restrictions is being undertaken as a first step.

Graph 1: FDI Stocks and the FDI Index



9 For instance, several OECD member countries maintain measures that are directed at historically disadvantaged groups; such as the indigenous populations of some countries. Such measures are not reflected in member countries' reservations under the OECD Codes of Liberalisation, nor are they listed as exceptions under the National Treatment instrument, as they do not introduce discriminatory treatment on the basis of the nationality or residency of investors. This same criteria has been applied in the case of similar measures maintained by countries that are not adherents to OECD Declaration on International Investment and Multinational Enterprises, such as the Black Empowerment Act of South Africa.

APPENDIX I: METHODOLOGY FOR THE 2010 UPDATE[1]

Measures scored and rules for scoring

Four types of measures are covered by the FDI Restrictiveness Index: (i) foreign equity restrictions, (ii) screening and prior approval requirements, (iii) rules for key personnel, and (iv) other restrictions on the operation of foreign enterprises. The highest score for any measure in any sector is 1 (the measure fully restricts foreign investment in the sector) and the lowest is 0 (there are no regulatory impediments to FDI in the sector). The score for each sector is obtained by adding the scores for all four types of measures, with the constraint that their sum is also capped at a value of 1. The Index covers 22 sectors, the scores for which are averaged to obtain a country score: the FDI Index for the country concerned.

An attempt has been made to gauge scores according to the scope of measures. Thus, if a measure is not applied for partners in regional integration agreements, the score is reduced; if a foreign equity restriction does not apply to greenfield investments, the score is reduced; likewise if the measure only affects a portion of a particular sector or is applied only in parts of the territory of a country (*e.g.* border areas for restrictions on the purchase of land), the scores are adjusted.[2]

The intent of the methodology is to capture regulatory restrictiveness; no attempt is made to appraise the overall restrictiveness of the regulatory regime as it is actually implemented. Thus, the scoring reflects the extent of countries' commitments not to discriminate in the treatment afforded to domestic and foreign/non-resident investors.[3]

A measure adds to a country's score if it is discriminatory vis-à-vis foreign/non-resident investors. However, measures taken for reasons of public order and essential security interests (*i.e.* falling within the purview of Article 3 of the OECD Code of Liberalisation and included in the countries' list of other measures reported for transparency under the OECD National Treatment instrument) are not scored. Admittedly this introduces a certain bias for countries that have been willing to place national security motivated measures under the disciplines of the Codes by lodging appropriate reservations, rather than invoking the safeguard provisions of Article 3 of the Codes.

Rules on state ownership and state monopolies, to the extent they are non-discriminatory towards foreigners, are not scored. The 2006 version of the FDI Index did make an attempt to reflect such measures. However, coverage was uneven and it should be noted that the PMR Indicator already includes a separate index for the state's participation in each sector of the economy. Thus, excluding state ownership

1 The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

2 As in the 2006 FDI Index, the methodology takes into account intra-European investment liberalisation recognised in conformity with the Codes (Article 10). When specific FDI restrictions on intra-European investment are waived, corresponding European scores are weighted by 0.45, reflecting the fact that in 2007 55% of total FDI stock was constituted by intra-European FDI.

3 It should also be noted that measures maintained at the sub-national level are not scored. As a practical matter, the information provided by countries under the Codes of Liberalisation and the NTI does not always allow a consistent assessment of the scope of sub-national measures in force.

restrictions from the FDI Index avoids double-counting of such measures in the overall PMR Indicator. Furthermore, while state ownership may be a barrier to FDI in certain sectors, it should be remembered that there are other non-FDI regulations which also may act as barriers. The FDI Index is geared to providing a gauge of the restrictiveness of FDI regulations, to be used as one element in the appraisal of the overall FDI attractiveness of the regulatory framework.[4]

The scoring also covers certain measures that are burdensome for foreign investors, even though they are non-discriminatory. This is in keeping with the approach followed in the OECD investment instruments. Such restrictions include rules on the hiring of key personnel, which may hinder the foreign investor's control over the enterprise, and limits on transfers of profit and repatriation of capital abroad.

The full list of measures and the scores associated with each in the 2010 update of the FDI Index are provided in Table I-1. The rest of this section explains the approach adopted for scoring of different categories of restrictions.

(i) Foreign equity limits

Foreign equity limits in specific sectors have constituted important barriers to FDI in the past and many countries still apply them, particularly in services. The scoring makes a difference between a full exclusion of foreign participation, restrictions on majority holdings and limits on full foreign ownership.[5] These three thresholds are also the key limits most commonly found in legislation. If no foreign equity is permitted the score is 1 (the sector is closed); if majority foreign control is not allowed the score is 0.5 and if there is a requirement of a domestic minority holding the score is 0.25. Thus, the 2010 update returns to a simpler – and economically more meaningful – distinction first suggested by Hardin and Holmes (1997) to replace the sliding scale from zero to one used in the 2006 update.[6] The score is scaled down when foreign equity limits affect only a portion of the sector.

The 2010 update introduces a further distinction between start-ups and acquisitions: the score is reduced by half if the restriction only applies to takeovers.

Restrictions on the purchase of land are recorded in two ways: if they concern restrictions on real estate (*i.e.* they are the counterpart of a reservation under item III/A of the Code of Liberalisation of Capital Movements), they are recorded as an equity restriction in the real estate sector; if they impinge on the use of land for business purposes (*i.e.* they are the counterpart of a reservation under item I/A of the Code of Liberalisation of Capital Movements), they are recorded under other operational restrictions in all

4 Nevertheless, the development of an alternative index is being undertaken in order to assess the implications of state ownership. The alternative index will be most useful when using the FDI Index on a stand-alone basis to assess the pace of FDI liberalisation over time, in particular for sectors in which state ownership has been prevalent in the past. To the extent that, in the initial stages of liberalisation, the scope of state ownership is reduced by allowing only domestic investors in liberalised sectors, the FDI Index will record an increase, and will only come down as the extent of discrimination vis-à-vis foreign investors is removed. In such circumstances, the alternative index will be useful as a stand-alone indicator of a country's degree of openness to FDI.

5 Multinational enterprises seem to rely on their proprietary assets to compete in foreign markets. That retaining full control of proprietary assets is an important requirement to invest abroad can be seen from the fact that 94% of the foreign affiliates of US MNEs are majority-owned.

6 In exceptional cases, when foreign equity restrictions are well above 50% but still below 100%, a sliding scale has been used.

sectors concerned (see other operational restrictions below). Restrictions which only concern border areas and coasts have been scaled down.

(ii) Screening and prior approval

Screening mechanisms applicable only to foreign investors fulfil many functions and vary widely in their scope. At their most restrictive, they may apply economic needs, net economic benefit or national interest tests to both start-ups and acquisitions. But in some cases, they are automatic and amount to little more than a pre-notification requirement for investors. The 2010 update retains the criteria used for the 2006 update not to cover the screening mechanisms applied for national security reasons, nor screening at the sub-national level.

Table I-1: Scoring of restrictions 2010 of FDI index

I.	**Foreign equity limits**		**Scores**
			Start-ups and acquisitions
		No foreign equity allowed	1
		Foreign equity < 50% of total equity	0.5
		Foreign equity > 50% but < 100% of total equity	0.25
			Acquisitions
		No foreign equity allowed	0.5
		Foreign equity < 50% of total equity	0.25
		Foreign equity > 50% but < 100% of total equity	0.125
II.	**Screening and approval 1/**		
		Approval required for new FDI/acquisitions of < USD 100mn or if corresponding to < 50% of total equity	0.2
		Approval required for new FDI/acquisitions above USD100mn or if corresponding to > 50% of total equity	0.1
		Notification with discretionary element	0.025
III.	**Restrictions on key foreign personnel/directors**		
		Foreign key personnel not permitted	0.1
		Economic needs test for employment of foreign key personnel 2/	0.05
		Time bound limit on employment of foreign key personnel 2/	0.025
		Nationality/residence requirements for board of directors	
		Majority must be nationals	0.075
		At least one must be national	0.02
IV.	**Other restrictions**		
		Establishment of branches not allowed/local incorporation required	0.05
		Reciprocity requirement	0.1
		Restrictions on profit/capital repatriation	1 - 0.1
		Access to local finance	0.05
		Acquisition of land for business purposes 3/	0.1
		Land ownership not permitted but leases possible	0.05 - 0.01
	TOTAL		**Up to 1**

1/ Excludes reviews of foreign investment based solely on national security grounds.
2/ If both restrictions apply, 0.05 is added to score.
3/ Score scaled by 1/3 when the measure applies only to border and coastal areas and by a factor of 5 for agriculture and forestry.

The scoring for the FDI Index focuses exclusively on regulatory restrictions regarding: the thresholds for the amount of the investment and share of foreign equity above which foreign investments are reviewed. The fact that the absolute level of the threshold could have a different impact depending on the size of an economy (a relatively low threshold being comparatively less restrictive in a small economy than in a larger one) is not taken into account as it could also be argued that the average firm size is independent of the overall size of the economy. For screening, more so than for other policies covering FDI, the degree of restrictiveness of measures in place can vary greatly depending on how rules are implemented. As noted above, implementation issues are not addressed and no attempt is made to take into account factors such as the degree of transparency or discretion in granting approvals.

The 2010 update of the FDI Index does not make any major changes to the way screening is treated within the overall restrictiveness index; but it does make more explicit the criteria for assessing the relative restrictiveness of a country's screening mechanism. The country rankings for the screening measure are correlated with restrictions in other areas[7] and hence the maximum weight attached to a screening mechanism is 0.2, even if in extreme cases screening can severely discourage foreign investors.

(iii) Restrictions on foreign key personnel.

Measures regarding key personnel (directors, managers and other key personnel) are systematically recorded under the transparency list of the NTI. Such measures include economic needs tests for the employment of foreign managers, time bound limits on the employment of foreign managers as well as nationality requirements for members of the board of directors. The scoring rules for these measures have been streamlined. In particular, the requirement that there be some legal representative that resides in the country is quite common and not necessarily as restrictive as rules excluding foreigners from the management/direction of the local enterprise.[8]

(iv) Other restrictions on the operation of foreign controlled entities.

The update of the FDI Index also covers various restrictions which affect the potential operations of foreign investors. While this category formerly covered mainly performance requirements in the form of domestic value added and a broad category of "other" measures, the 2010 FDI Index provides more detailed guidance on the scoring of a broad range of measures. Some of the measures covered cut across all sectors, which accounts for their significant impact on the overall index for some countries. These measures include:

- Restrictions on the establishment of branches.
- The acquisition of land for business purposes, including cases where foreigners may not own property but may sign leases.
- Reciprocity clauses in particular sectors.
- Restrictions on profit or capital repatriation.

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7 In general, the most restrictive economies in terms of screening are also among the most restrictive in terms of foreign equity, key personnel and operational restrictions combined.

8 Restrictions on the movement of people, which are not necessarily germane to the issue of openness to foreign investment, have been dropped from the Index.

Coverage by sector and weighting system

The FDI Index has been broadened to cover 22 sectors. The 2010 update adds to the Index measures affecting investment in agriculture, forestry, fishing, mining, media services (broadcasting and other media), and financial services other than banking and insurance. Additional sub-sectors are added in manufacturing (5 new sub-sectors). In addition rules regarding foreign investment in real estate are now covered. A further breakdown is provided for electricity (generation and distribution) and distribution (wholesale and retail) (see Table I-2). This more detailed sectoral coverage allows the FDI Index to capture more accurately most of the restrictions reported under the Codes of Liberalisation and notified under the NTI. The main sectors that are not yet covered relate to health and education.

The economy-wide index is obtained by averaging the scores for all 22 sectors. A simple average has been used for the 2010 update in keeping with the methodology employed more broadly in the calculation of the product market regulation (PMR) indicators. In addition to coherence with other PMR indicators, the use of equal weights for each sector has the advantages of being simple, flexible and easy to use.[9] Comparisons of alternative weighting schemes for the FDI and other similar indices suggest that correlations are high for the indexes calculated using the various alternatives.[10] In part this reflects the fact that restrictions tend to fall in similar sectors across countries, but also the fact that more restrictive countries are generally more restrictive across the board. Thus, there is a case for returning to the use of simple averages advocated by Hardin and Holmes (1997). There is also a case for retaining common sectoral weights for all countries. Common weights avoid the pitfall of variations in the index across countries that are due to the variations in the weights used, rather than to the severity of restrictions in place.

The 2006 Index used weights largely based on each sector's share in global FDI flows. The use of global flows helps mitigate the problem that a lower share of FDI for a sector in one country may be the result of the country maintaining more restrictions on that sector. But using global weights will only help solve this problem to the extent that country restrictions do not fall upon the same sectors. In fact, the low shares of certain sectors could reflect the severity of restrictions in those sectors. A case in point is the transport sector, which is more heavily restricted than others on average and represents less than 1% of OECD inward stocks. A further difficulty is the lack of availability of global flows for all sectors and subsectors for a sample of countries that could be considered representative of those covered. For the 2006 update, data on global FDI flows were supplemented by data on cross-border services trade. However, the problems with data availability become more acute with the expanded coverage by sector and detail by subsectors. Value added weights are one popular alternative, but, for the specific purpose at hand, they give too much weight to sectors in which little FDI activity takes place, such as health or education. They also raise questions about the relevant group of countries from which to compute the average and how these sectoral shares might change over time. Furthermore, for the sectoral breakdown that is used for the restrictions, a value-added based set of weights is not readily available for a representative sample of countries.

The 2010 FDI Index is calculated as the simple average of 22 sectors listed in Table I-2, which also provides a correspondence showing how broader aggregates are calculated from these sectors and the further breakdown considered for each.

9 The use of equal weights also has pitfalls, as the weights will vary according to the level of disaggregation. Attention has thus been given to maintaining a similar level of disaggregation for all sectors. Another solution for a weighting scheme would be a tree structure based on the three main sectors (primary, secondary and tertiary) with a disaggregation in sub-sectors at the lower level.

10 See, for example, Conway, P., V. Janod, and G. Nicoletti (2005)

Table I-2: Sectors covered by 2010 FDI Index

Sectors	Further breakdown/detail		
1. Agriculture		***Agri. & forestry (1-2)***	***Primary (1-4)***
2. Forestry			
3. Fishing			
4. Mining and quarrying	Incl. oil exploration and drilling		
5. Food and other manuf.	Incl. textiles, wood, paper & publishing, other manuf.	***Manufactu-ring (5-9)***	***Secondary (5-11)***
6. Oil refining & chemicals			
7. Metals, mach. & other min.			
8. Electronic, elec. & other inst.			
9. Transport equipment			
10. Electricity	Generation		
	Distribution		
11. Construction			
12. Wholesale trade		***Distri-bution (12-13)***	***Tertiary (12-21)***
13. Retail trade			
14. Transport	Land		
	Maritime		
	Air		
15. Hotels and restaurants			
16. Media			
	Radio & TV broadcasting		
	Other (newspapers, etc.)		
17. Telecommunications			
	Fixed telecoms		
	Mobile telecoms		
18. Banking		***Financial serv. (18-20)***	
19. Insurance			
20.Other finance	Incl. securities & commodities brokerage, fund management, custodial services, etc.		
21. Business services			
	Legal services		
	Accounting & audit		
	Architectural services		
	Engineering services		
22. Real estate			

APPENDIX II: COMPARISION OF THE 2010 AND 2006 FDI INDEXES

1. Changes in countries' regulations are, naturally, one source of variation between the 2006 and 2010 results. The 2010 update uses the 2009 updated positions of countries under the Codes and updated lists of exceptions and of other measures noted for transparency under the National Treatment instrument. The advance in the process of liberalisation accounts for significant changes in several European countries. The score for Canada is significantly reduced by its elimination of exceptions to national treatment in financial services.

2. In comparing the results of the 2010 and 2006 versions of the Index (see Graph II-1), it should be noted that, due to the various changes made in the methodology, the absolute scale of the index may have shifted. While the new methodology retains the previous balance between the different types of measures, and hence is not in itself a source of significant variation, there have been adjustments in the list of measures scored, number of sectors covered and changes in the weighting scheme.[1]

3. As narrowing of the scope of reservations and exceptions is not the only factor at play, it may therefore be inappropriate to reach conclusions regarding how the degree of restrictiveness of FDI regulations has evolved from direct comparisons of the absolute scale of both versions of the index. A recalculation of the historical series of the Index under the new methodology will be needed so that it can be used to track progress in the liberalisation process.

4. The changes made in the methodology of the Index have altered the scores in several ways:

- The expanded coverage of the Index has a significant impact on the scores as the new sectors in general have a higher degree of restrictiveness. This can be verified in Graph III-2, which shows that scores in the primary sectors (notably in fishing), in media and for land and other real estate investments are higher than average. The added coverage by sectors has a significant impact on the ranking of countries (such as Australia, Iceland, Korea, Israel, Japan and New Zealand) with significantly tighter restrictions in these sectors.

- Changes in weights also play a role:

  – The role of the adjustment in the weighting system is most relevant for restrictions on business services and transport, which appear to have been over-represented in the 2006 version of the Index.[2] The change further tends to lower the score for some fairly open

1 The update exercise has offered an opportunity to score all countries and all sectors in a single sweep, thus enhancing the coherence of scores.

2 In particular, the weight for business services has been significantly reduced. In the 2006 update they were given a weight of 19%, which may seem to be justifiable on account of their large share in total inward FDI investment positions for OECD countries. However, in light of the distortions created by special purpose entities (SPEs) in FDI statistics, as recognised in the 2008 OECD Benchmark Definition of FDI, it would seem that the share of business services in total FDI positions is significantly overstated for certain countries.

countries (including most EU countries), for which remaining restrictions are concentrated in these sectors.

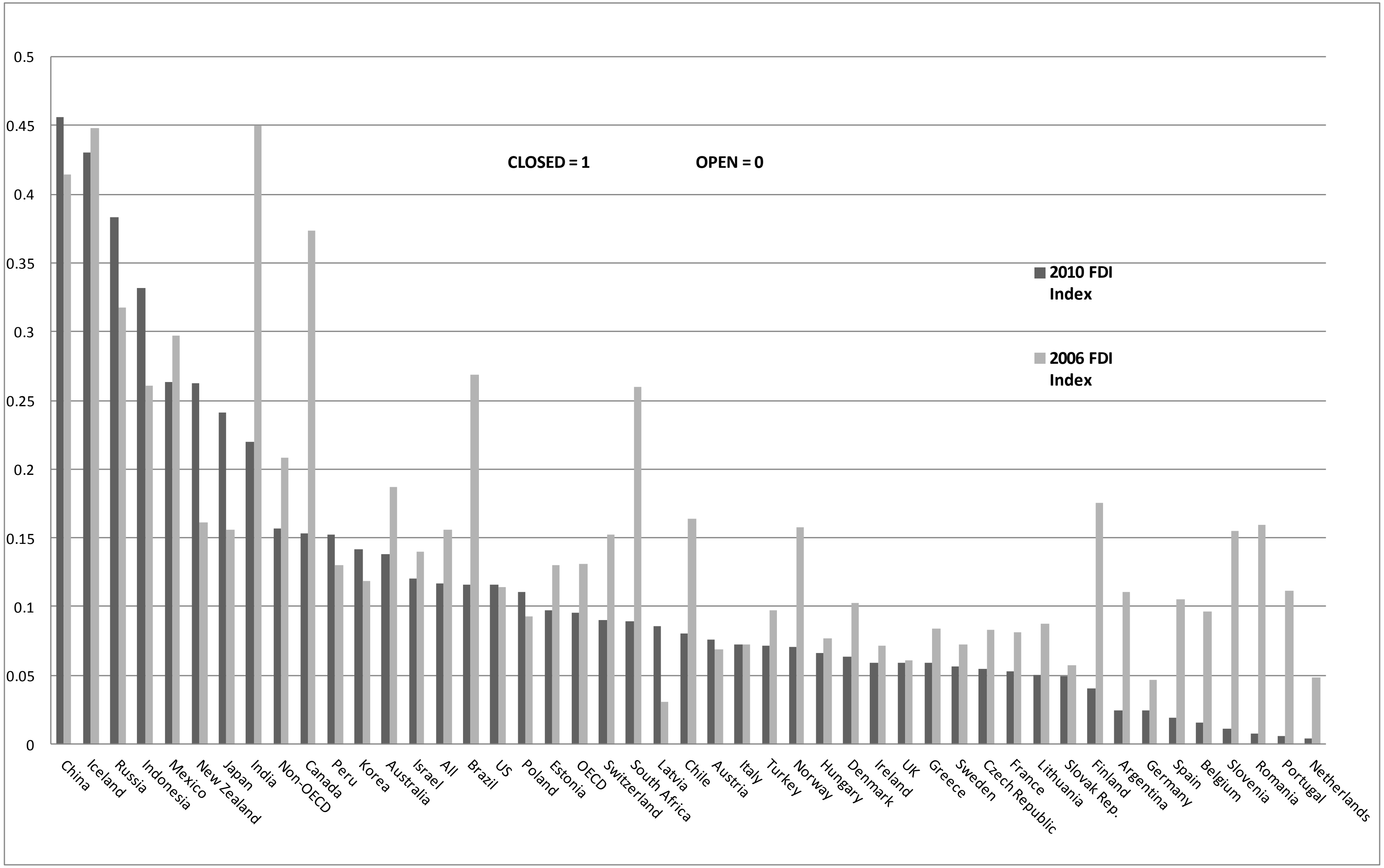
- The greater weight given in the 2010 update to electricity may also be having an impact on certain countries (*e.g.* Israel).

- More systematic recording of measures is another significant source of variation.

  - Some country scores (including those for Brazil and South Africa) have been significantly revised due to the more precise and transparent scoring rules for regulations regarding foreign key personnel and the removal from the Index of rules regarding movement of persons.

  - The more systematic accounting for intra-regional liberalisation in the 2010 update has reduced country scores for EU countries.

Graph II-1: 2006 and 2010 FDI Indexes by Country



APPENDIX III: RESULTS FOR THE 2010 UPDATE OF THE FDI INDEX

Results by country

Graph III-1: 2010 FDI Index by country

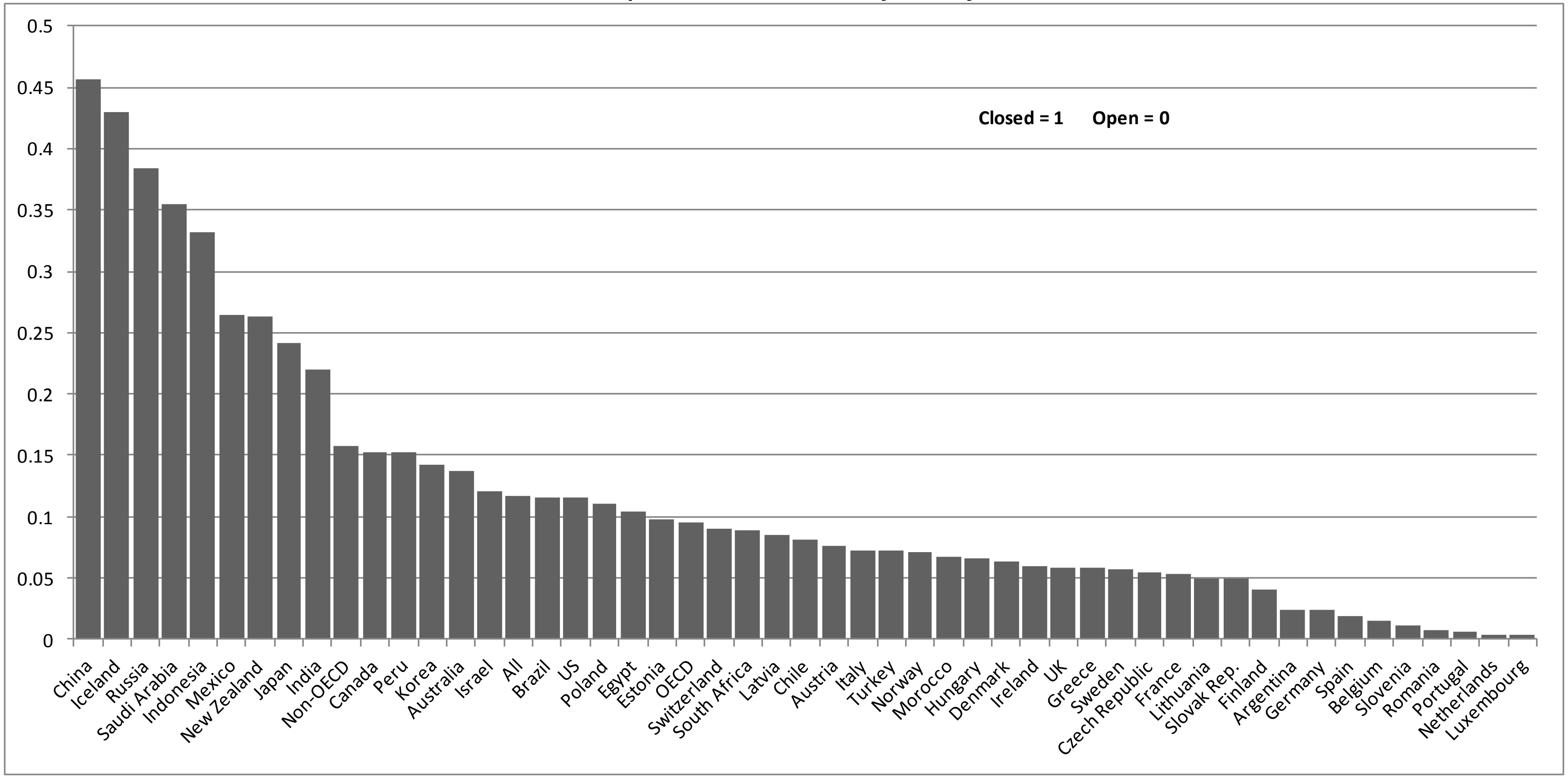


Table III-1 FDI Index Scores by Country and Type of Measure (closed = 1, open = 0)

	Equity Restrictions	Screening	Key Personnel	Operational Restrictions	Total FDI Index
ALL COUNTRIES	0.072	0.020	0.006	0.021	0.117
OECD	0.059	0.024	0.001	0.013	0.095
NON-OECD	0.096	0.014	0.014	0.036	0.157
Australia	0.023	0.108	0.003	0.003	0.138
Austria	0.058	0.009	0.000	0.009	0.076
Argentina	0.025	0.000	0.000	0.000	0.025
Belgium	0.014	0.000	0.000	0.002	0.016
Brazil	0.080	0.000	0.005	0.033	0.116
Canada	0.067	0.082	0.000	0.005	0.153
Chile	0.067	0.000	0.015	0.003	0.081
China	0.226	0.135	0.048	0.069	0.457
Czech Rep.	0.049	0.000	0.000	0.006	0.055
Denmark	0.063	0.000	0.000	0.001	0.063
Egypt	0.055	0.000	0.000	0.049	0.104
Estonia	0.052	0.000	0.000	0.046	0.098
Finland	0.019	0.000	0.000	0.021	0.040
France	0.038	0.000	0.001	0.014	0.053
Germany	0.020	0.000	0.000	0.004	0.025
Greece	0.032	0.002	0.002	0.024	0.059
Hungary	0.065	0.000	0.000	0.001	0.066
Iceland	0.173	0.200	0.000	0.108	0.430
India	0.191	0.025	0.005	0.000	0.220
Indonesia	0.274	0.000	0.048	0.014	0.332
Ireland	0.035	0.000	0.000	0.024	0.059
Israel	0.070	0.018	0.000	0.032	0.120
Italy	0.069	0.000	0.000	0.004	0.073
Japan	0.230	0.000	0.007	0.005	0.241
Korea	0.139	0.000	0.001	0.002	0.142
Latvia	0.051	0.000	0.000	0.034	0.085
Lithuania	0.036	0.000	0.000	0.014	0.050
Luxembourg	0.003	0.000	0.000	0.000	0.004

Table 1.

Table III-1 (cont'd) FDI Index Scores by Country and Type of Measure (closed = 1, open = 0)

	Equity restrictions	Screening	Key Personnel	Operational Restrictions	Total FDI Index
Mexico	0.131	0.095	0.000	0.037	0.264
Morocco	0.056	0.000	0.005	0.006	0.067
Netherlands	0.003	0.000	0.000	0.001	0.004
New Zealand	0.039	0.200	0.000	0.023	0.263
Norway	0.063	0.000	0.002	0.005	0.071
Peru	0.057	0.000	0.050	0.045	0.152
Poland	0.058	0.000	0.000	0.053	0.111
Portugal	0.003	0.000	0.000	0.003	0.006
Romania	0.008	0.000	0.000	0.000	0.008
Russia	0.216	0.040	0.005	0.122	0.384
Saudi Arabia	0.199	0.025	0.075	0.080	0.354
Slovak Rep.	0.049	0.000	0.000	0.000	0.049
Slovenia	0.011	0.000	0.000	0.000	0.012
South Africa	0.022	0.000	0.000	0.067	0.089
Spain	0.019	0.000	0.000	0.000	0.019
Sweden	0.028	0.027	0.000	0.001	0.057
Switzerland	0.070	0.009	0.000	0.011	0.090
Turkey	0.070	0.000	0.001	0.001	0.072
UK	0.036	0.000	0.000	0.022	0.059
US	0.100	0.000	0.008	0.008	0.116

Table III-2 FDI Restrictiveness Index Scores by Country and Sector (closed = 1, open = 0)

	ALL COUNTRIES	OECD	NON-OECD	Australia 5/	Austria	Argentina	Belgium	Brazil	Canada 6/ 7/	Chile
Agri. & For. 1/	0.163	0.128	0.227	0.100	0.000	0.000	0.000	0.095	0.000	0.000
Fishing	0.324	0.320	0.333	0.100	0.000	0.000	0.000	1.000	0.600	1.000
Mining	0.153	0.122	0.209	0.100	0.100	0.000	0.000	0.025	0.150	0.000
Manuf. 2/	0.040	0.030	0.059	0.100	0.000	0.000	0.000	0.025	0.100	0.000
Electricity	0.123	0.123	0.125	0.100	1.000	0.000	0.000	0.025	0.100	0.000
Construction	0.057	0.055	0.055	0.100	0.000	0.000	0.000	0.025	0.100	0.000
Distribution 3/	0.062	0.029	0.120	0.100	0.000	0.000	0.000	0.025	0.100	0.000
Hotels & res.	0.047	0.030	0.077	0.100	0.033	0.000	0.015	0.025	0.100	0.000
Transport	0.249	0.227	0.289	0.243	0.133	0.042	0.092	0.292	0.267	0.413
Media	0.228	0.180	0.316	0.210	0.000	0.500	0.000	0.675	0.700	0.225
Telecom	0.121	0.092	0.174	0.300	0.000	0.000	0.000	0.025	0.350	0.000
Financial Serv. 4/	0.081	0.053	0.132	0.150	0.002	0.000	0.004	0.025	0.067	0.042
Business Serv.	0.102	0.067	0.167	0.128	0.197	0.000	0.225	0.025	0.100	0.013
Real Estate	0.281	0.283	0.277	0.300	0.200	0.000	0.000	0.000	0.000	0.000
Total FDI Index	**0.117**	**0.095**	**0.157**	**0.138**	**0.076**	**0.025**	**0.016**	**0.116**	**0.153**	**0.081**

1/ Average scores for Agriculture and for Forestry.

2/ Average scores for 5 manufacturing sectors.

3/ Average scores for Retail and Wholesale Distribution.

4/ Average scores for Banking, Insurance and Other finance.

5/ The scores for Real Estate, Banking, Air Transport and Mining have been calculated on the basis of Australia's list of exceptions under the National Treatment instrument. The corresponding sectoral reservations under the Capital Movements Code are under review by Australia.

6/ The score for Financial Services has been calculated on the basis of National Treatment instrument. Canada's position under the Codes of Liberalisation in the area of financial services is discussed in the July 2009 Report by the Investment Committee to the OECD Council (www.oecd.org/daf/investment/instruments).

7/ The scores for Fishing, Maritime Transport, Media and Telecoms have been calculated on the basis of Canada's list of exceptions under the National Treatment instrument. The corresponding sectoral reservations under the Capital Movements Code are under review by Canada.

Table III-2 (cont'd) FDI Restrictiveness Index Scores by Country and Sector (closed = 1, open = 0)

	China	Czech Rep.	Denmark	Egypt	Estonia	Finland	France	Germany	Greece	Hungary
Agri. & For. 1/	0.545	0.050	0.000	0.167	0.497	0.023	0.230	0.000	0.075	0.225
Fishing	1.000	0.000	0.225	0.033	0.033	0.248	0.000	0.225	0.240	0.000
Mining	0.390	0.000	0.000	0.033	0.033	0.023	0.100	0.000	0.060	0.000
Manuf. 2/	0.252	0.000	0.000	0.033	0.033	0.023	0.000	0.000	0.015	0.000
Electricity	0.608	0.000	0.000	0.033	0.033	0.098	0.000	0.000	0.015	0.000
Construction	0.265	0.000	0.000	0.583	0.033	0.023	0.000	0.000	0.015	0.000
Distribution 3/	0.238	0.000	0.000	0.033	0.033	0.023	0.000	0.000	0.015	0.000
Hotels & res.	0.250	0.000	0.000	0.033	0.033	0.023	0.000	0.000	0.030	0.000
Transport	0.665	0.075	0.083	0.367	0.183	0.098	0.150	0.275	0.165	0.092
Media	1.000	0.000	0.000	0.033	0.033	0.023	0.285	0.025	0.128	0.000
Telecom	0.800	0.000	0.000	0.033	0.033	0.023	0.000	0.000	0.015	0.000
Financial Serv. 4/	0.610	0.010	0.002	0.050	0.035	0.023	0.054	0.005	0.044	0.005
Business Serv.	0.138	0.000	0.181	0.058	0.033	0.059	0.003	0.000	0.071	0.000
Real Estate	0.275	1.000	0.900	0.367	0.367	0.000	0.000	0.000	0.165	0.900
Total FDI Index	**0.457**	**0.055**	**0.063**	**0.104**	**0.098**	**0.040**	**0.053**	**0.025**	**0.059**	**0.066**

1/ Average scores for Agriculture and for Forestry.

2/ Average scores for 5 manufacturing sectors.

3/ Average scores for Retail and Wholesale Distribution.

4/ Average scores for Banking, Insurance and Other finance.

Table III-2 (cont'd) FDI Restrictiveness Index Scores by Country and Sector (closed = 1, open = 0)

	Iceland	India	Indonesia	Ireland	Israel	Italy	Japan	Korea	Latvia	Lithuania
Agri. & For. 1/	0.300	0.451	0.125	0.225	0.100	0.000	1.000	0.375	0.675	0.050
Fishing	1.000	0.000	1.000	0.000	0.020	1.000	1.000	0.500	0.015	0.460
Mining	1.000	0.525	0.085	0.450	0.020	0.020	1.000	0.000	0.015	0.010
Manuf. 2/	0.300	0.026	0.075	0.000	0.020	0.000	0.070	0.000	0.015	0.010
Electricity	1.000	0.000	0.110	0.000	0.720	0.000	0.000	0.417	0.015	0.010
Construction	0.300	0.000	0.310	0.000	0.020	0.000	0.000	0.000	0.015	0.010
Distribution 3/	0.300	0.420	0.685	0.000	0.020	0.000	0.000	0.000	0.015	0.010
Hotels & res.	0.300	0.000	0.248	0.000	0.020	0.015	0.000	0.000	0.015	0.010
Transport	0.317	0.174	0.416	0.125	0.353	0.150	0.550	0.500	0.090	0.252
Media	0.300	0.600	0.746	0.000	0.270	0.363	0.000	0.400	0.015	0.010
Telecom	0.300	0.425	0.410	0.000	0.470	0.000	0.300	0.500	0.015	0.010
Financial Serv. 4/	0.317	0.248	0.143	0.009	0.057	0.018	0.000	0.020	0.017	0.012
Business Serv.	0.300	0.500	0.560	0.000	0.020	0.000	0.000	0.000	0.015	0.010
Real Estate	1.000	0.000	1.000	0.250	0.220	0.000	0.100	0.000	0.164	0.110
Total FDI Index	**0.430**	**0.220**	**0.332**	**0.059**	**0.120**	**0.073**	**0.241**	**0.142**	**0.085**	**0.050**

1/ Average scores for Agriculture and for Forestry.

2/ Average scores for 5 manufacturing sectors.

3/ Average scores for Retail and Wholesale Distribution.

4/ Average scores for Banking, Insurance and Other finance.

Table III-2 (cont'd) FDI Restrictiveness Index Scores by Country and Sector (closed = 1, open = 0)

	Luxembourg	Mexico	Morocco	Netherlands	New Zealand	Norway	Peru	Poland	Portugal	Romania
Agri. & For. 1/	0.000	0.500	0.050	0.000	0.350	0.000	0.217	0.500	0.000	0.000
Fishing	0.000	0.550	0.575	0.000	0.700	0.500	0.083	0.000	0.000	0.000
Mining	0.000	0.100	0.000	0.000	0.300	0.050	0.413	0.000	0.000	0.000
Manuf. 2/	0.000	0.103	0.000	0.000	0.200	0.000	0.083	0.000	0.000	0.000
Electricity	0.000	0.100	0.000	0.000	0.200	0.000	0.083	0.000	0.000	0.000
Construction	0.000	0.100	0.000	0.000	0.200	0.000	0.083	0.000	0.000	0.000
Distribution 3/	0.000	0.150	0.000	0.000	0.200	0.000	0.083	0.000	0.000	0.000
Hotels & res.	0.000	0.100	0.000	0.000	0.200	0.000	0.083	0.000	0.000	0.000
Transport	0.075	0.500	0.267	0.083	0.383	0.350	0.467	0.092	0.083	0.167
Media	0.000	0.625	0.025	0.000	0.200	0.125	0.333	0.298	0.000	0.000
Telecom	0.000	0.350	0.000	0.000	0.400	0.000	0.083	0.075	0.000	0.000
Financial Serv. 4/	0.002	0.433	0.033	0.002	0.233	0.033	0.083	0.010	0.017	0.002
Business Serv.	0.000	0.100	0.400	0.000	0.200	0.188	0.083	0.000	0.000	0.000
Real Estate	0.000	0.167	0.000	0.000	0.200	0.250	0.367	0.950	0.000	0.000
Total FDI Index	**0.004**	**0.264**	**0.067**	**0.004**	**0.263**	**0.071**	**0.152**	**0.111**	**0.006**	**0.008**

1/ Average scores for Agriculture and for Forestry.

2/ Average scores for 5 manufacturing sectors.

3/ Average scores for Retail and Wholesale Distribution.

4/ Average scores for Banking, Insurance and Other finance.

Table III-2 (cont'd) FDI Restrictiveness Index Scores by Country and Sector (closed = 1, open = 0)

	Russia	Saudi Arabia	Slovak Rep.	Slovenia	South Africa	Spain	Sweden	Switzerland	Turkey	UK	US
Agri. & For. 1/	0.650	0.180	0.000	0.000	0.060	0.000	0.000	0.000	0.000	0.023	0.000
Fishing	0.383	1.000	0.000	0.000	0.060	0.000	0.500	0.000	0.000	0.523	1.000
Mining	0.943	1.000	0.000	0.000	0.060	0.000	0.000	0.000	0.000	0.023	0.300
Manuf. 2/	0.197	0.180	0.000	0.000	0.060	0.000	0.000	0.000	0.000	0.023	0.000
Electricity	0.249	0.180	0.000	0.000	0.060	0.000	0.000	0.500	0.000	0.023	0.247
Construction	0.183	0.180	0.000	0.000	0.060	0.000	0.000	0.000	0.000	0.023	0.000
Distribution 3/	0.183	0.243	0.000	0.000	0.060	0.000	0.000	0.000	0.000	0.023	0.000
Hotels & res.	0.348	0.180	0.000	0.000	0.060	0.000	0.000	0.000	0.000	0.023	0.000
Transport	0.375	0.430	0.075	0.150	0.227	0.075	0.292	0.417	0.208	0.114	0.553
Media	0.383	0.680	0.000	0.000	0.060	0.225	0.200	0.465	0.250	0.248	0.300
Telecom	0.283	0.305	0.000	0.000	0.060	0.000	0.200	0.000	0.000	0.023	0.023
Financial Serv. 4/	0.533	0.263	0.002	0.002	0.127	0.002	0.002	0.067	0.000	0.024	0.042
Business Serv.	0.308	0.305	0.000	0.000	0.385	0.113	0.051	0.000	0.125	0.023	0.000
Real Estate	0.733	1.000	1.000	0.100	0.010	0.000	0.000	0.400	1.000	0.000	0.000
Total FDI Index	**0.384**	**0.354**	**0.049**	**0.012**	**0.089**	**0.019**	**0.057**	**0.090**	**0.072**	**0.059**	**0.116**

1/ Average scores for Agriculture and for Forestry.

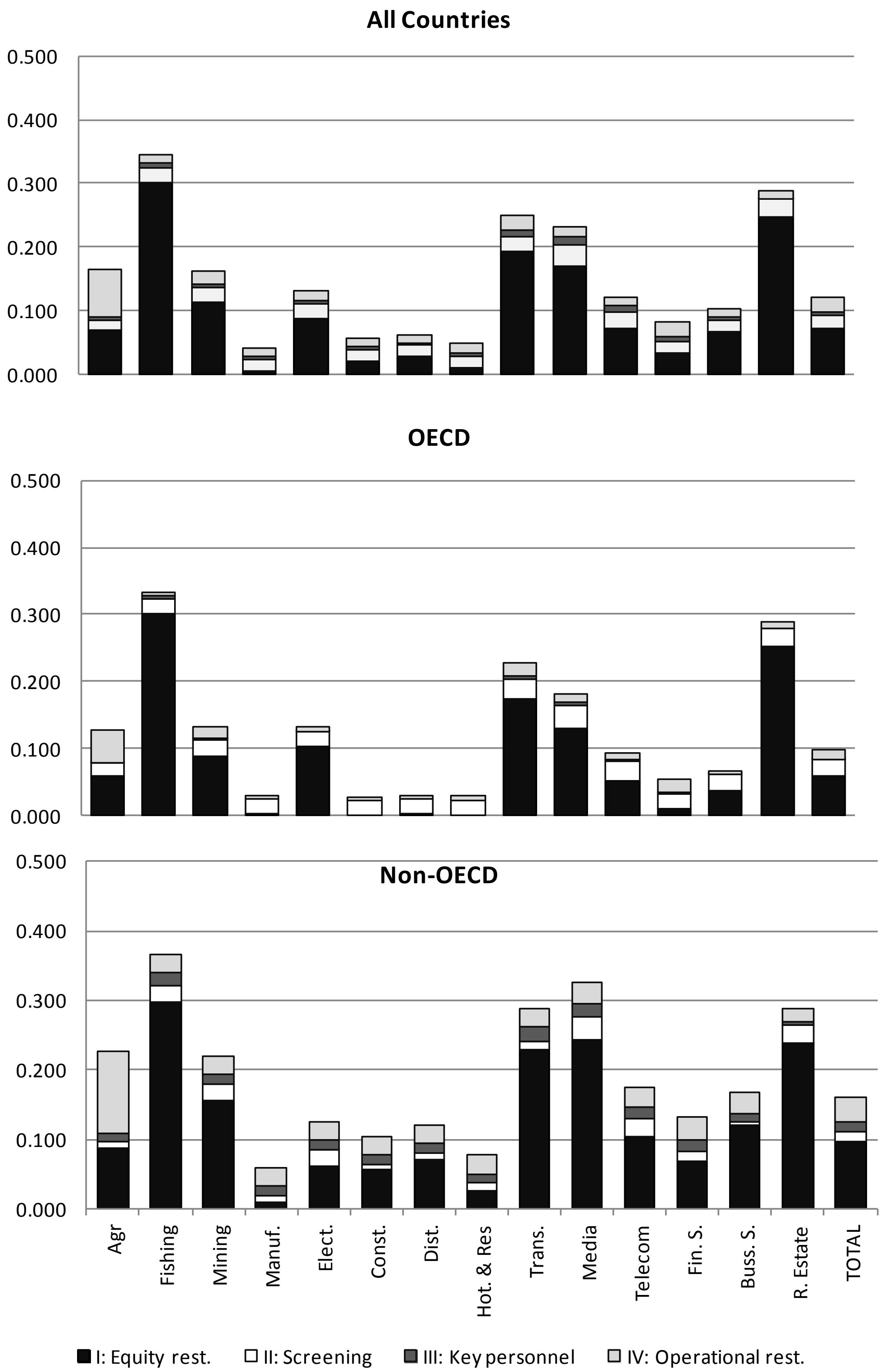
2/ Average scores for 5 manufacturing sectors.

3/ Average scores for Retail and Wholesale Distribution.

4/ Average scores for Banking, Insurance and Other finance.

Results by sector

Graph III-2 FDI Index by sector and type of measure



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