How Manufacturing-related services contribute to trade in goods? -focusing on distribution/logistics services-

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JETRO

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Conceptual framework：Service-link-costs and manufacturing related services
- importance of distribution/logistics service -

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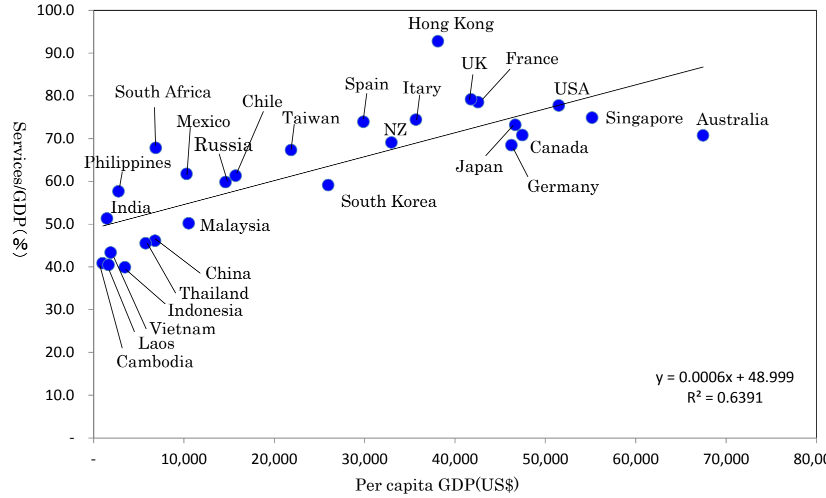
Correlation between the share of services in terms of GDP and income

■ The share of the service sector in terms of GDP is inclined to increase in accordance with income increase and economic growth. APEC economies, emerging economies in particular have much space for service sectors to grow further.



Note: Based on 2013 except for USA(2012), Japan(2012),Canada(2010),NZ(2010).
Source: WDI(WB), CEIC, Tawian, NA, Japan.

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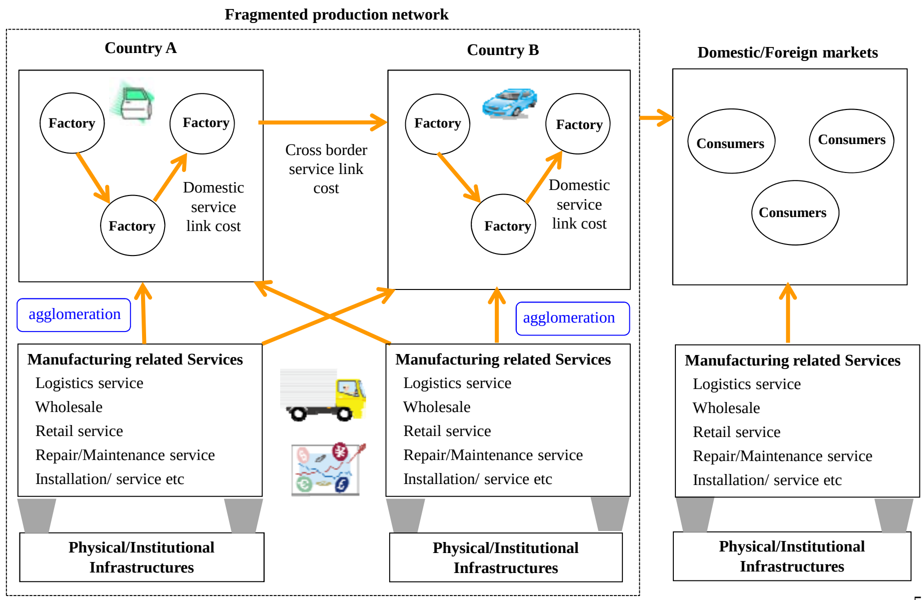
Conceptual framework: supply chains and MRS(Manufacturing related services)



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Distribution/logistics service sectors play important role for exports in goods

Shares of value added embodied in gross exports by source country and source industry (Unit: %)

	Japan			China			Mexico		
	Transport equipment	Electrical and optical equipment	Textiles, textile products, leather and footwear	Transport equipment	Electrical and optical equipment	Textiles, textile products, leather and footwear	Transport equipment	Electrical and optical equipment	Textiles, textile products, leather and footwear
Primary Sectors	3.4	3.2	3.9	8.7	7.9	20.1	3.5	4.5	6.8
Manufacturing Sectors	68.2	63.9	61.9	64.3	63.7	57.8	65.0	65.2	66.1
Textiles, textile products, leather and footwear	0.3	0.3	46.3	1.1	0.5	38.5	1.6	0.5	52.1
Chemicals and non-metallic mineral products	4.5	3.8	7.0	6.7	7.8	8.4	6.6	7.2	5.2
Basic metals and fabricated metal products	7.3	4.8	0.8	8.1	6.7	1.4	6.7	7.3	1.2
Electrical and optical equipment	3.6	47.0	0.4	4.3	40.6	0.9	5.5	43.0	0.8
Transport equipment	45.7	0.2	0.2	33.1	0.6	0.5	40.1	0.7	0.6
Service Sectors	28.4	32.9	34.2	27.0	28.4	22.1	31.6	30.3	27.2
Construction	0.6	0.7	0.6	0.2	0.3	0.2	0.3	0.4	0.2
Wholesale and retail trade; Hotels and restaurants	8.9	9.8	9.2	8.1	8.6	5.8	14.0	10.0	10.5
Transport and storage, post and telecommunication	6.4	6.5	6.8	4.2	4.4	3.7	4.5	4.6	4.0
Financial intermediation	3.8	4.2	7.3	4.0	4.9	4.3	3.8	4.2	3.2
Business services	7.4	9.8	8.6	8.6	8.6	6.5	8.3	10.1	8.6
Other services	1.3	1.8	1.6	1.8	1.6	1.7	0.7	1.0	0.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: OECD-WTO Trade in Value Added (TiVA)

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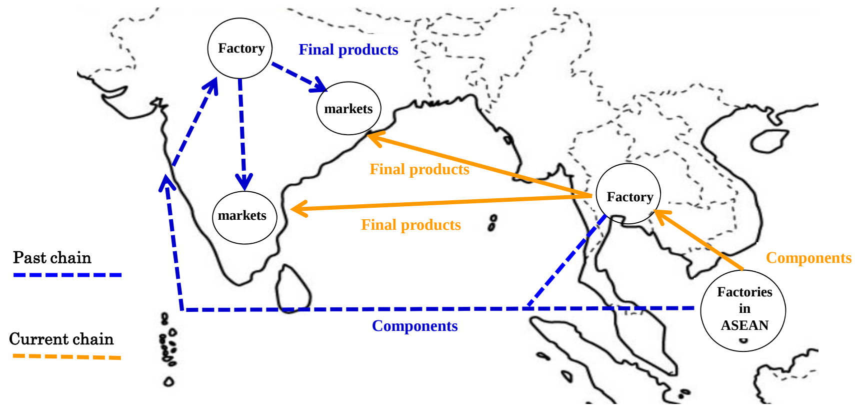
Case : Domestic service-link-costs > International service-link-costs

- **Manufacturing base shifted to ASEAN**

The company “A” used to manufacture electronic devices in northern India using components imported from ASEAN and distribute final products to major cities in India by truck.

- **Why did they transfer the factory?**

Domestic service-link-costs are comparatively higher than international service-link-cost. They found that it was reasonable to transport final products directly from ASEAN rather than manufacturing them domestically.



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FDI policies and case studies related to the restrictions on foreign ownership in distribution/logistics service sectors and movement of people

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Correlation between restriction in services and manufacturing exports

■ **Findings by APEC Policy Support Unit**

"Services, Manufacturing and Productivity ISSUES PAPER No.9" (APEC Policy Support Unit, January 2015) finds the following.

■ **Restrictions in services have adverse impact on export in goods**

Restrictions on services have adverse impact on economies' capacity to export manufactured goods. STRI(Services Trade Restrictiveness Index) and manufacturing exports show a negative correlation.

■ **Restrictions on foreign ownership and movement of people are main contributor to STRI index**

STRI score can be decomposed into five sub-sectors :1) restrictions on foreign ownership and other market entry conditions, 2) restrictions on the movement of people, 3) other discriminatory measures and international standard, 4) barriers to competition and public ownership and 5) regulatory transparency and administrative requirements. Out of which, the main contributors to the scores are restriction on foreign ownership and movement of people.

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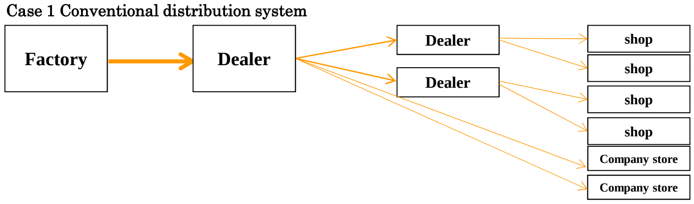
Modern distribution system may decrease distribution costs

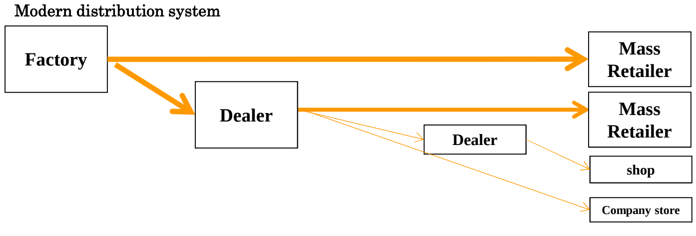
■ **Modern distribution system may decrease distribution costs**

Distributing products through modern distribution system such as mass retailer would result in saving distribution costs for delivering goods to consumers, compared with distributing goods to numerous conventional shops. Alleviation of restrictions on foreign investment may contribute to building modern distribution network in the economy and to expanding the market.

Case 1 Conventional distribution system



Modern distribution system



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Restrictions on foreign ownership in “retail service”

	Restrictions on foreign ownership in retail service
Economy A	100% foreign equity and franchise operations are allowed in principle for retail services.
Economy B	"Retail services with minimum capitals of less than a certain amount (abuot US$3,078,787) and minimum capitals of less than a certain amount (about US$6,157,673) per store" and "food sales" are subject to foreign equity restrictions under the relevent act (100% foreign equity is allowed for retail services with minimum capitals of abuot US$3,078,787 or more and about US$6,157,673 or more per store). However, the relevent act defines companies with less than 50% foreign equity as local companies and therefore less than 50% foreign equity is allowed. As an exception, the act stipulates that foreign equity is allowed based on the relevent committee's approval with the chief's permission. 75% foreign equity is allowed under certain conditions pursuant to some FTAs and a preferential agreement.
Economy C	Foreign investment in stores with floor spaces that are less than 3000㎡, convenience stores, and grocery shops is not permitted. There are requirements for a minimum of 30% local stake in hypermarkets (floor spaces over 5000㎡) and supermarkets (floor spaces between 3000㎡ and 4999㎡) (limiting foreign capital ratio to 70%). A minimum capital of about US$611,086 for department stores and about US$305,543 for specialised stores is required.
Economy D	100% foreign equity is allowed for minimarkets with floor spaces of 400m^2 or larger, supermarkets with floor spaces of 1200m^2 or larger, and department stores with floor spaces of 2000m^2 or larger (the entry of foreign companies is prohibited for those of a smaller scale). Foreign investment is prohibited in the toy retail service, cosmetics retail service, footwear retail service, electric appliance retail service, mail-order and internet retail service, food service, and beverage retail service.
Economy E	(1) 100% foreign equity is allowed if $2.5 million or more of the minimum capital is invested and investment per store is $830,000 or more (foreign equity is prohibited with the amount of US$2.5 million or less) and (2) the minimum capital requirement is relaxed to US$25,000 or more for businesses that handle luxury goods designated by the relevent ministry. However, strict requirements are imposed on parent companies. For example, if the parent company's net assets apply to (1) above, it must be capitalized at $200 million or more and if the parent company's net assets apply to (2) above, it must be capitalized at $50 million or more and must have five or more stores or franchises worldwide and the capital of one of these stores must be US$25 million or more.
Economy F	100% foreign equity is allowed. However, official approval is necessary for carrying out additional stores. Approval for the second or more stores is measured based on the Economic Needs Test (ENT), which examines the compatibility of the project with the number of retail stores, market stability, and population density in the district. The guidelines enforced in 2013 brought about relaxation to ENT standards and relaxation measures were introduced that stipulated that the second or more stores with floor spaces less than 500m^2 would be exempted from ENT.
Economy G	100% foreign equity is allowed.
Economy H	Foreign equity is not allowed.

Source: JETRO

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Restrictions on foreign ownership in “retail service”

	Restrictions on foreign ownership in retail service
Economy I	Detailed enforcement regulations by the relevent Commission (released in 2013) indicate that foreign equity will be allowed for retail services other than those related to automobiles and motorcycles with investments of US$3 million or more from 2015 onward. On the other hand, the regulations state that small-scale retail services and entry to areas close to existing stores of local companies are not permitted and each case requires confirmation from the relevent ministry, etc. The notification from the the relevent Commission deleted retail services from the negative list in 2014.
Economy J	Single Brand: 100% foreign equity is allowed for retail services selling only a single brand with individual permission from the government and under certain conditions. However, for foreign equity exceeding 51%, procurement regulations are applied (30% of the procurement amount must be procured domestically and procurement from small-scale companies is recommended). Multiple Brand: Up to 51% foreign equity is allowed for general retail services that handle goods from multiple brands such as supermarkets and convenience stores under a series of certain conditions. Such conditions include the minimum investment amount of US%100 million, investing in back-end infrastructures (logistics and related services, warehouses and manufacturers, etc.) with 50% or more of the investment amount in three years, procuring 30% of the procurement amount from small-scale companies (companies with investment in factories and machineries of US$1 million or less), and permission from a state government is required in cities with less than 1 million people. For general retail services, state governments are given authority to judge whether to adopt the regulations. As of March 2015, 12 states allowed entry of foreign companies.
Economy K	100% foreign equity is allowed.
Economy L	100% foreign equity is allowed if a certain minimum investment amount is satisfied.
Economy M	100% foreign equity is allowed.
Economy N	100% foreign equity is allowed. However, if a foreign company takes more than a 49% stake in an existing company in a non-restricted industry and the investment exceeds a certain amount (about US$ 271million), the relevent commission's approval is required. In calculating the proportion of foreign equity in industries with upper limits on foreign participation, indirect investment through a local company for which more than half of the capital is owned by local investors is not considered as "foreign equity."

Source: JETRO

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Restrictions on foreign ownership in “wholesale services”

	Restrictions on foreign ownership in Wholesale Service
Economy A	100% foreign equity and franchise operations are allowed in principle for wholesale services.
Economy B	Wholesale services with a "minimum capital of less than a certain amount (abuot US$3,078,787) per store" are subject to foreign equity restrictions under the relevent Act (100% foreign equity is allowed for those with a minimum capital of about US$3,078,787 or more per store). However, the relevent Act defines companies with less than 50% foreign equity as local companies and therefore less than 50% foreign equity is allowed. As an exception, the act stipulates that foreign equity is allowed based on the relevent committee's approval with the chief's permission. In some business operations, 100% foreign equity is allowed if a company obtains permission from the relevent ministry. Up to 75% foreign equity is allowed under certain conditions pursuant to some FTAs and a preferential agreement.
Economy C	100% foreign equity is allowed (before 2010, at least 30% of local equity was required but this requirement was abolished). Companies are required to obtain open approved permits in order to import and sell new completely assembled vehicles.
Economy D	Up to 33% foreign equity is allowed for distributor businesses, warehouse businesses, and cold storage businesses. Until 2014, 100% foreign equity was allowed.
Economy E	100% foreign equity is allowed for import-export businesses. Foreign equity is restricted to up to 40% for domestic wholesale services in principle, but 100% foreign equity is allowed if paid-in-capital is over $200,000.
Economy F	100% foreign equity is allowed in principle. However, certain items such as cigarettes, books, newspapers, magazines, video recording devices, precious metals, medicines, and sugar are not allowed to be handled by foreign companies.
Economy G	100% foreign equity is allowed.
Economy H	Among ASEAN investors, up to 49% foreign equity is allowed under the conditions that an import company is set up and that the company handles fiber, clothing, or shoes.
Economy I	Detailed enforcement regulations by the relevent commission provide that foreign equity restrictions for wholesale services are dependent on the opinion of the relevent ministry. However, participation of foreign equity in the commerce field has yet to be permitted.
Economy J	100% foreign equity is allowed.
Economy K	100% foreign equity is allowed.
Economy L	100% foreign equity is allowed if a certain minimum investment amount is satisfied.
Economy M	100% foreign equity is allowed.
Economy N	100% foreign equity is allowed. However, if a foreign company takes more than 49% of a stake in an existing company in a non-restricted industry and the investment exceeds a certain amount (about US$ 271million), the relevent commission's approval is required. In calculating the proportion of foreign equity in industries with upper limits on foreign participation, indirect investment through a local company for which more than half of the capital is owned by local investors is not considered as "foreign equity."

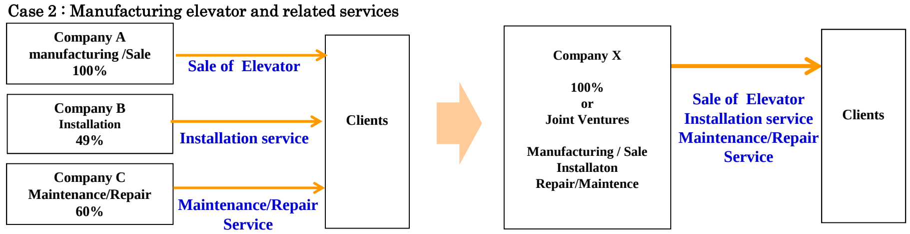
Source: JETRO

Manufacturing and Service Integration is the key

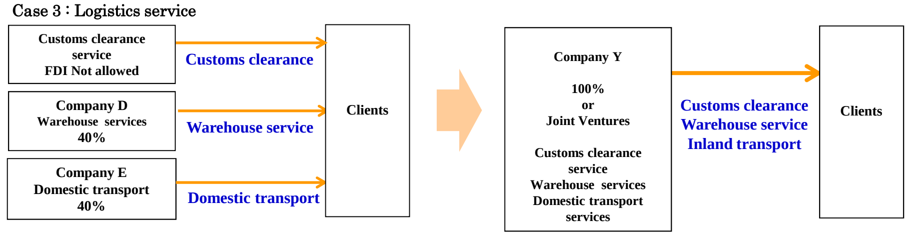
Case: Elevator business requires comprehensive operation including manufacturing and related services

Restrictions on foreign ownership still widely remains in emerging economies. While foreign investors are allowed to invest in an elevator manufacturing/sale company up to 100%, permitted invest is up to 49% for installation and up to 60% for maintenance/repair. If this restriction on foreign investment is eliminated, the company will be able to provide comprehensive/integrated services including manufacturing, sales, installation and maintenance services.

Case 2 : Manufacturing elevator and related services



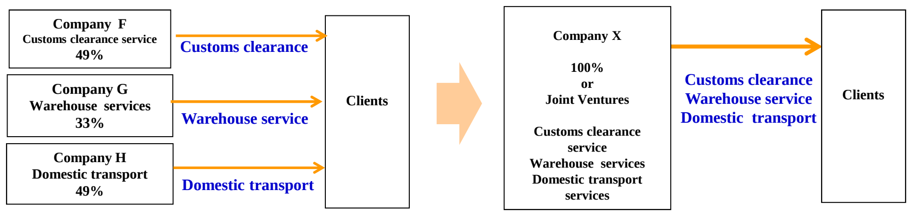
Case 3 : Logistics service



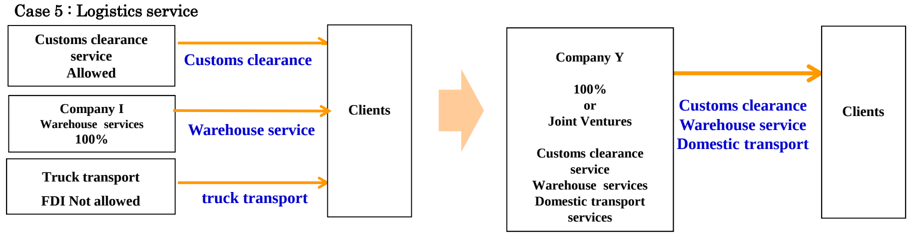
Manufacturing and Service Integration is the key

Case : Comprehensive /consistent logistics service covering clearance, warehouse and transport is expected.
While foreign investors are allowed to invest up to 49% for custom clearance service and up to 49% for domestic transport service, permitted invest is up to 33% for warehouse services. If this restriction on foreign investment is eliminated, the company will be able to provide comprehensive/consistent services including customs clearance, warehouse and domestic transport services.

Case 4：Logistics service



Case 5：Logistics service



Restrictions on foreign ownership in "domestic transport service"

	Restrictions on foreign ownership in Domestic Transport service
Economy A	100% foreign equity is allowed for freight transport by road. The proportion of foreign equity is restricted to up to 49% for freight transport by railway.
Economy B	"Domestic land transport, water transport, and air transport" are subject to foreign equity restrictions under the relevent act and the proportion of foreign equity is restricted to less than 50%. However, the relevent act defines companies with less than 50% foreign equity as local companies and therefore less than 50% foreign equity is allowed. As an exception, the act stipulates that foreign equity is allowed with the relevent minister permission based on the Cabinet's approval. In some business operations, 100% foreign equity is allowed if a company obtains permission from the relevent ministry.
Economy C	The proportion of foreign equity is restricted to up to 49% for commercial vehicles licensing of freight transport and container transport. The minimum capital is about US$76,386 and about US$152,772, respectively. 100% foreign equity is allowed for transportation of goods held by a company (minimum capital of about US$76,386). The proportion of foreign equity is restricted to 49% in principle for domestic shipping licensing.
Economy D	The proportion of foreign investment is restricted to 49% in general cargo transport, the domestic shipping business, and the freight forwarding business, etc.
Economy E	There are no clear foreign equity restrictions for warehousing, but the proportion of foreign equity is restricted to 40% or less for companies that are considered as operating and managing public utilities.
Economy F	Foreign equity restrictions are set for each individual area in detail such as freight transport by land (51% or less foreign equity), freight transport by sea (49% or less foreign equity).
Economy G	100% foreign equity is allowed. However, companies need to obtain a license from the relevent ministry.
Economy H	100% foreign equity is allowed. However, companies need to (1) have registered capital of at least about US$372,719 and (2) own at least 20 trucks.
Economy I	Detailed enforcement regulations by the relevent commission provide that 80% foreign equity is allowed for domestic air transport, international air transport, freight transport by ship and cargo, and domestic port services and warehousing through construction of inland container depots. However, prior discussions with the relevent ministrys are necessary for individual cases. There are some cases where 100% foreign equity was allowed in certain logistics services.
Economy J	100% foreign equity is allowed.
Economy K	100% foreign equity is allowed.
Economy L	100% foreign equity is allowed if a certain minimum investment amount is satisfied.
Economy M	Less than 49% foreign equity is allowed for domestic commercial air transport. However, up to 70% foreign equity is allowed after six months since permission. In addition, the majority of management must have its nationality or permanent residency. In domestic marine transport, the proportion of foreign equity must be less than 49% and the company must own at least one ship of its nationality. In addition, the majority of management must have its nationality and must be residents. 80% or more of the ship's captain and crew must have its nationality.
Economy N	Domestic freight transport by land (excluding home delivery services) is a restricted industry and is reserved for its nationals only or for local corporations. Domestic air transport, air-taxi transport, and special air transport are restricted industries for foreign equity participation and only up to 25% foreign equity is allowed. For port transport services such as towing, mooring, and chartering, shipping companies engaged in marine operations of ocean transportation, and provision of public railway services, companies with foreign equity participation that exceeds 49% need approval from the relevent commission.

Source: JETRO

Restrictions on foreign ownership in “Warehouse service”

	Restrictions on foreign ownership in Warehouse service
Economy A	Warehousing of freight transport by air is restricted to joint ventures. However, up to 100% foreign equity is allowed for warehousing of international marine transport and freight transport by road.
Economy B	"Warehousing" is subject to foreign equity restrictions and the proportion of foreign equity is restricted to less than 50%. However, the relevent act defines companies with less than 50% foreign equity as local companies and therefore less than 50% foreign equity is allowed. As an exception, the act stipulates that foreign equity is allowed based on the relevent committee's approval with the chief's permission . 100% foreign equity is allowed if conditions (capital of about US$307,884 and installation of the latest computer systems, etc.) are met upon permission from the relevent ministry as a "logistics center".
Economy C	100% foreign equity is allowed for private bonded warehouse operators. The minimum capital for storage of critical goods (alcoholic beverages, cigarettes, and automobiles) is about US$45,831 and that for storage of non-critical goods is about US$30,554. At least 30% local equity is required for ordinary warehouse operators. A minimum capital of about US$305,543 and about US$76,386 is required for storage of critical goods and non-critical goods, respectively. 100% foreign equity is allowed for non-bonded warehouse operators.
Economy D	The proportion of foreign equity is restricted to up to 33%. However, up to 67% of foreign equity is allowed for refrigerated warehousing in certain areas.
Economy E	100% equity is allowed for companies certified by the relevent authority . For non-export-oriented certified companies, there are no clear foreign equity restrictions for warehousing, but the proportion of foreign equity is restricted to 40% or less for companies that are considered as operating and managing public utilities.
Economy F	100% foreign equity is allowed for the warehousing service.
EconomyG	100% foreign equity is allowed. However, acquisition of land by foreign companies is not allowed.
Economy H	Up to 49% foreign equity is allowed. Companies need to have registered capital of at least about US$124,240.
Economy I	Detailed enforcement regulations by the relevent commission provide that 80% foreign equity is allowed for domestic air transport, international air transport, freight transport by ship and cargo, and domestic port services and warehousing through construction of inland container depots. However, prior discussions with the relevent ministrys are necessary for individual cases.
Economy J	100% foreign equity is allowed.
Economy K	100% foreign equity is allowed if a certain minimum investment amount is satisfied.
Economy L	100% foreign equity is allowed. However, at least 25% of registered capital needs to be paid.
Economy M	100% foreign equity is allowed. However, if a foreign company takes more than 49% of a stake in an existing company in a non-restricted industry and the investment exceeds about a certain amount (about US$ 271million), the relevent commission's approval is required. In calculating the proportion of foreign equity in industries with upper limits to foreign participation, indirect investment through local companies for which more than half of the capital is owned by local investors is not considered as "foreign equity."

Source: JETRO

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Restrictions on foreign ownership in “customs clearance service”

	Restrictions on foreign ownership in Customs Clearance Service
Economy A	Up to 100% foreign investment is allowed for agents of international freight transport.
Economy B	The "customs service" and "freight forwarding business" are subject to foreign equity restrictions under the relevent act as the service industry and the proportion of foreign equity is restricted to less than 50%. However, the relevent act defines companies with less than 50% foreign equity as local companies and therefore less than 50% foreign equity is allowed. As an exception, the act stipulates that foreign equity is allowed based on the relevent committee's approval with the chief's permission.
Economy C	The proportion of foreign equity is restricted to 49% for the customs service. The minimum capital requirement varies depending on categories.
Economy D	The proportion of foreign equity is restricted to up to 49%.
Economy E	Foreign equity is prohibited in the customs brokerage business. For the harbor cargo handling business, the proportion of foreign equity is restricted to 40% or less for companies that are considered as operating and managing public utilities.
Economy F	Up to 99% foreign equity is allowed for customs services.
Economy G	100% foreign equity is allowed for customs services. However, companies need to obtain permission from a customs broker that employs at least one customs specialist certified by the relevent ministry in acting as an import-export customs agent for other companies.
Economy H	Up to 50% foreign equity is allowed. In addition, a company needs to have registered capital of at least about US$372,719.
Economy I	Detailed enforcement regulations by the relevent commission provide that 80% foreign equity is allowed for domestic air transport, international air transport, freight transport by ship and cargo, and domestic port services and warehousing through construction of inland container depots. However, prior discussions with the relevent ministrys are necessary for individual cases. .
Economy J	100% foreign equity is allowed.
Economy K	100% foreign equity is allowed if a certain minimum investment amount is satisfied.
Economy L	100% foreign equity is allowed. However, at least 25% of registered capital needs to be paid.

Source: JETRO

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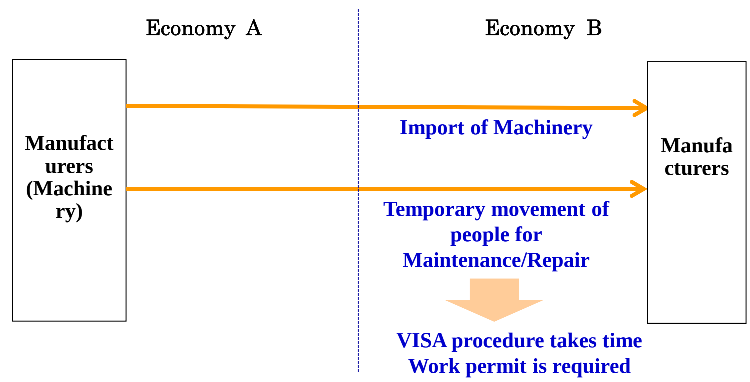
Movement of People and Maintenance/Repair services

Facilitating movement of people for maintenance/repair will contribute to increase the productivity.

Regular maintenance/repair is essential to allow manufactures to use the machineries to its maximum potential. Maintenance/repair service is provided not only through local companies but also through foreign companies under which foreign engineers are sent to the factories in other economies. In some economies, it takes time to obtain Visa, or work permit is required for maintenance/repair activity. Facilitating temporary movement of people for maintenance/repair will contribute to increase the productivity.



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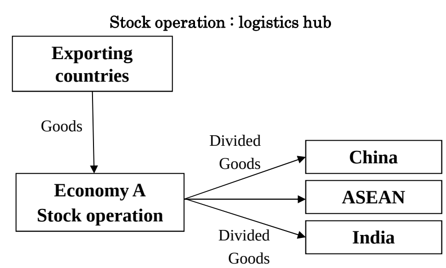
Agglomeration in service industries

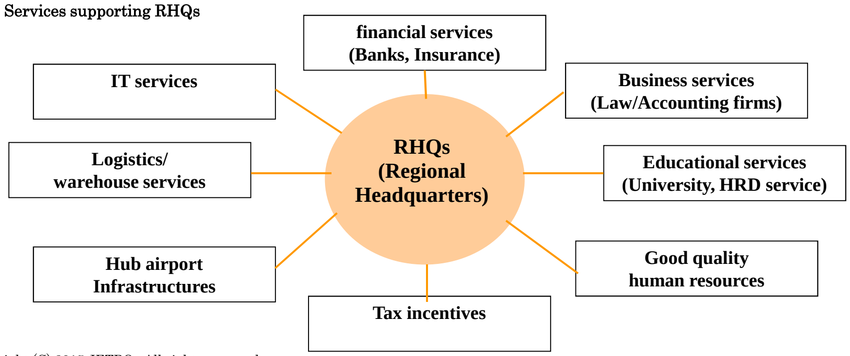
RHQs and accumulation in service

There are many regional headquarters in one of Asian economies and companies providing services for these RHQs.

A virtuous cycle has been created where accumulation of many firms that provide services for RHQs helps attract more RHQs.



Services supporting RHQs



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Summary & Conclusions

■ Supply chains could be fragmented across economies by taking comparative advantages of each economy. Manufactures use multiple production bases to produce parts and components. Eliminating service-link-costs between individual production sites play important roles to attract manufacturers and create industrial clusters.

■ Manufacturing-related services, including logistics services, wholesale service and retail service, will contribute to eliminate the service-link-costs, because these services account for about 15% of the total exports on value added basis. In addition, maintenance/repair services are also important factors of manufacturing-related services which allow clients to use the machineries to its maximum potential.

■ Foreign investment restriction on services sector still widely remains in emerging economies, in Asia in particular. Liberalization/facilitation of manufacturing-related services within the framework of APEC, TPP, RCEP, AEC etc. will contribute to eliminate the service-link-costs and have positive impact on economies' capacity to export manufactured good. Facilitating temporary movement of people for maintenance/repair will also contribute to increase the productivity.

＜APEC Ministers Qintgdao Statement, May 2014＞
30. We instruct officials to advance actions to address next generation trade and investment issues as agreed in 2011 and 2012. We note discussions on promoting effective, non-discriminatory, and market-driven innovation policies. We welcome the endorsement of manufacturing related services in supply chains/value chains as a next generation trade and investment issue, and instruct officials to take actions to address this issue in 2014 and 2015, with possible input from PSU. We also encourage ABAC and PECC to continue discussions from business perspective.

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