



UNITED STATES  
DEPARTMENT OF  
THE TREASURY



# OECD-MENA Investment Program

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*Working Group 3: Tax Policy for Investment*  
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“Foreign investment in the United States strengthens our economy, improves productivity, creates good jobs, and spurs healthy competition. Americans have prospered as foreign companies have put their money to work here.”

Treasury Secretary, Henry Paulson

May 10, 2007



## U.S. has greatly benefited from an open investment regime

- Foreign firms reinvested \$38.6 billion back into the U.S. in 2004.
- Foreign companies employed more than 5 million workers and provided 4.5% of all private sector investment in the U.S. in 2005.
- Foreign companies generate a disproportionate share of national R&D spending in the U.S., 13% or \$29.9 billion.
- Total stock of FDI in the U.S. in 2005 was \$1.9 trillion or 15% of GDP.



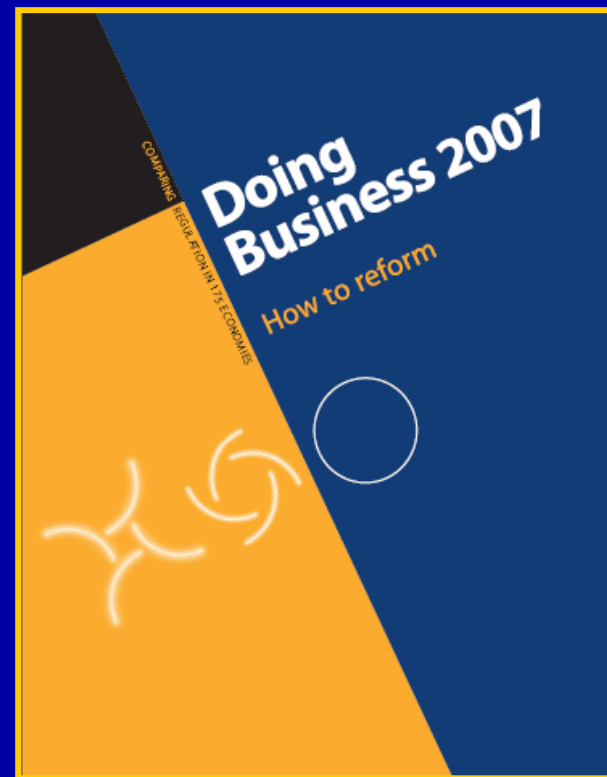
## **FDI IS BOOMING IN EMERGING MARKET**

- **Increased from \$223 billion to \$522 billion from 2003 – 2007.**
- **Africa/MENA FDI projected to reach \$30 billion in 2007.**
- **Causes:**
  - **Improved macro fundamentals**
  - **Competent structural reforms**
  - **Global wealth**
- **Risks remain: volatile inflows and market turbulence.**



# SOUND INVESTMENT REGIMES

- Predictable, fair, and low taxes
- Transparent processes
- Low corruption
- Right to private ownership
- Macroeconomic stability
- Effective and functioning judicial system
- Obligatory and enforced contracts
- Enforceability of bankruptcy/foreclosure
- Established dispute-settlement mechanisms
- Government as facilitator, not impediment



**Investment regimes should be dynamic, adaptable, and accommodating under changing circumstances.**



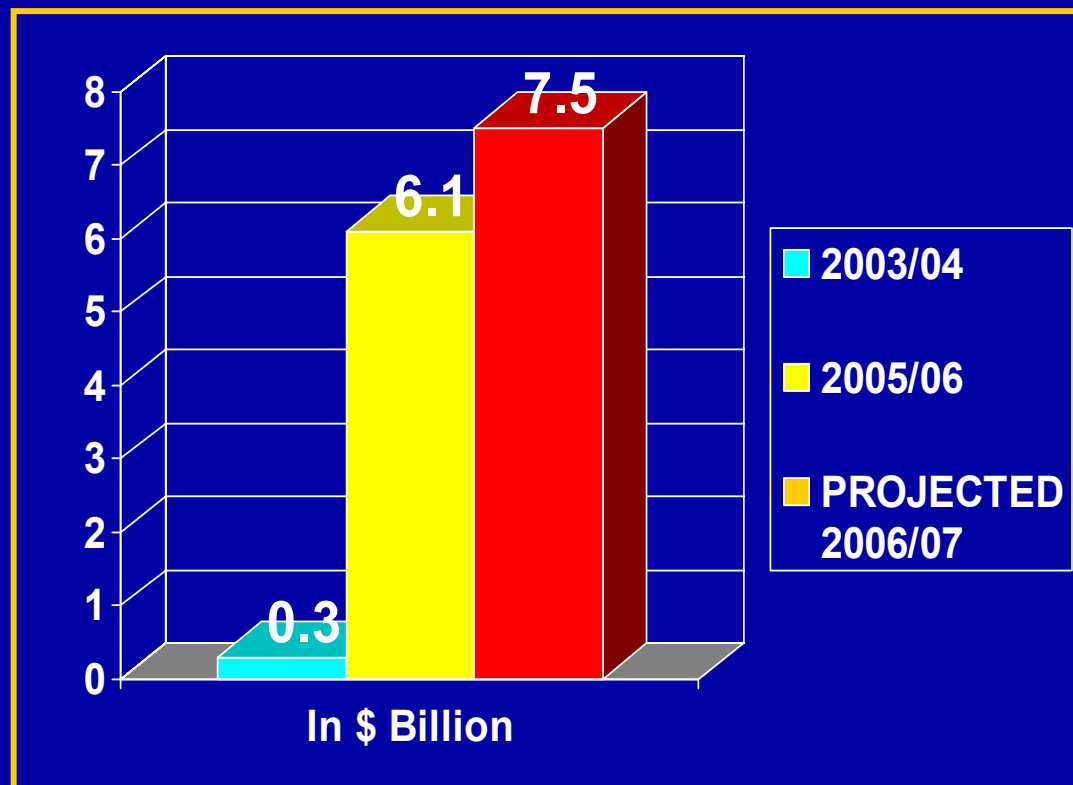
# THE IMPORTANCE OF TAXATION

- **As emerging market countries seek to increase revenue, governments typically look to large taxpayers as an obvious source of income.**
- **Challenges:**
  - **Achieving the appropriate balance between increased income and maintaining a welcoming environment**
  - **Avoiding excessive tax breaks, unnecessarily generous tax holidays, or overly burdensome taxes**
  - **Maintaining simplicity, predictability, and transparency**
- **Financial investment decisions are driven by a variety of factors. Simplicity, predictability and transparency are more important factors than overall taxable amount.**



## EGYPT'S FDI TRENDS

- **GOE's strategy to improve business climate includes:**
  - Tax improvements
  - Reducing time to register property
  - Reducing administrative and bureaucratic burden
- **FDI in non-petroleum sectors now accounts for more than 80% of total investment.**
  - Tourism
  - Telecommunications
  - Land reclamation





## EGYPT'S INVESTMENT CLIMATE IS IMPROVING

- However, all other countries are improving also
- Egypt has remained in the 165th position (out of 175 countries) in the *World Bank's Doing Business Indicators* for two years running.
- Egypt is making great strides in the area of taxation. Egypt moved from 155 to 144 (out of 175) following its 2005 reforms to the tax system.

	Egypt	Region
# payments required	41	28
Time to pay taxes	536 hr/yr	236 hr/yr
Total tax rate as % gross profits	50%	41%



## GCC FDI IN EGYPT

**GCC economic boom due to rising oil prices presents enormous potential for cross-border investments in Egypt.**

- Unprecedented levels of liquidity encourage Gulf-based public and private sector entities to seek out new markets with larger populations.
- Egypt's recent reforms make it an strong target for GCC FDI.
- Two-thirds of extra-GCC investment took place within the MENA region in 2006.
- Saudi Arabian investment in Egypt:
  - *Industrial sectors (food products/processing, building materials, chemicals)*
  - *Tourism*
  - *Financial Services*



## CONCLUSIONS

- FDI promotes economic growth and creates job opportunities.
- Nations globally are introducing reforms to make investment easier.
- Egypt and the MENA region are moving towards creating FDI-friendly environments. However, the pace of reform must multiply in order to remain competitive with other emerging markets.
- Taxation regimes are one important variable in investor decisions.
- Successful tax regimes are:
  - ***SIMPLE***
  - ***PREDICTABLE***
  - ***TRANSPARENT***
- U.S. remains a strong supporter of open investment regimes.



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# QUESTIONS?

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