

# G-8 Investment Task Force MENA-OECD Investment Programme

Arab Business Council Presentation  
November 19, 2004

November 19, 2004

# Arab Business Council

- Born at the WEF *Extraordinary Annual Meeting* in 2003 in Jordan
- Comprises some 100 Chairmen/CEOs of the leading companies of the Arab world
- Created to facilitate cooperative action among leading members of the Arab corporate sector to:
  - address key issues of importance on the regional and global agendas;
  - enhance the competitiveness of the Arab region; and
  - facilitate its integration into the global economy.

# Foreign Investment Requirements

- The purpose of investment is to earn an attractive return on capital put at risk
- The return required correlates with the risk; the higher the risk, the greater the expected return
- Prudence dictates that investors must be able to quantify the risk, to allow them to calculate the return required to justify it
- Risk models of varying degrees of sophistication are used to do this

# Foreign Investment Requirements

- In principle, investors also need:
  - adequate physical infrastructure – water, power, transport and telecommunications
  - access to educated and skilled human resources
- Weaknesses in some of these can be overcome if high returns and long dividend flows are probable
- ... but the additional costs incurred in providing infrastructure are capitalized and the expected return, based on the assessed risk, is calculated on the *total* investment

# Foreign Investment Requirements

- All surveys of the criteria investors employ in deciding on new investments in unfamiliar environments, show similar results
- The key requirements are:
  - safety, legal stability and predictability; and
  - market orientation in economic policy
- These allow for prudent calculation and assumption of the risk associated with the expected return

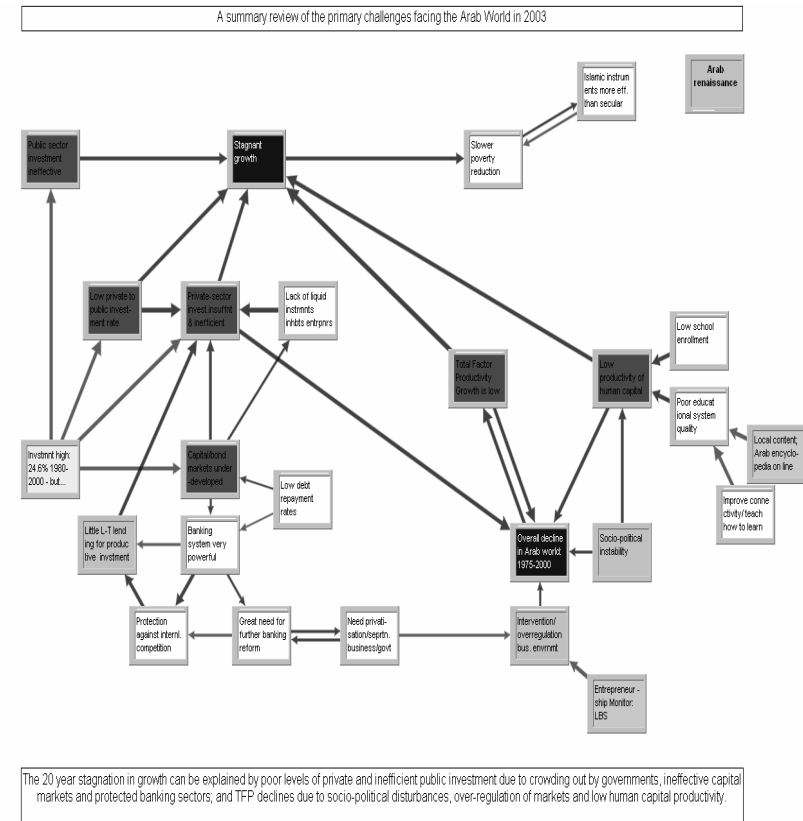
# Important criteria for FDI

- One survey identified ten criteria of highest saliency:
  - a flexible foreign investment regime
  - comprehensive, stable and predictable laws and regulations
  - protection of intellectual property
  - a physically safe operating environment
  - freedom of external trade
  - market-orientated macro-economic and monetary policy
  - a well developed private international law regime
  - flexibility in the employment of expatriates
  - taxation on profits (not turnover, etc.), and
  - the absence of price controls

# Arab World: Agenda For Development

## Core diagnosis

- Acute knowledge deficit and poor human capital development and use
- Weak banking sector and poor capital market development
- Uneven and inadequate governance and excessive bureaucracy
- Poor global and regional economic integration in non-oil trade and FDI
- Low growth and exceptionally high unemployment, especially among youth



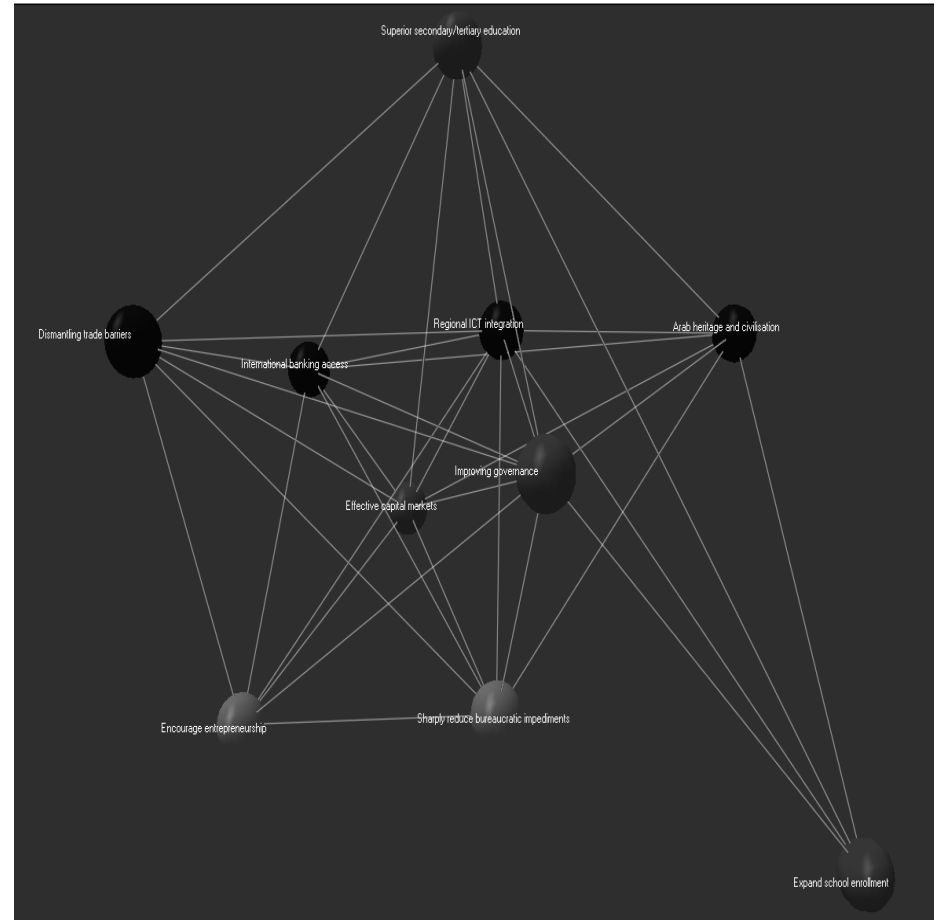
November 19, 2004

# Arab World: Agenda For Development

## Core prescription

- Promote Arab/Islamic renaissance based on principles from Golden Age
- Invest in knowledge transfer and creation, and human capital development
  - Strengthen role of women
  - Recognize central role for ICT and local content development
  - Expand international links with leading global tertiary institutions
- Integrate economies regionally and globally
  - Deeper, integrated capital markets; broader banking access
  - Strengthen and expand reciprocal market access, regionally and globally
- Improve quality of governance through transparency and democratic accountability
- Transform bureaucracy to play facilitating, rather than constraining, role

November 19, 2004



# Arab World: Agenda For Development

## Economic Liberalization

- Investment
  - Need greater transparency and efficiency in financial services
    - Deeper, integrated capital markets
    - More extensive international banking access
  - ABC Task Force on Capital Markets created
  - G-8 Investment Task Force, MENA-OECD Investment Programme, IFC Facility and other G-8 and OECD initiatives can assist
- Trade
  - Core principle is *open regionalism*
  - Intra-Arab and wider regional trade initiatives important, but economies have limited complementary
  - Satisfactory completion of Doha Development Round most important

## Competitiveness

- Principles
  - Trade liberalization easier with competitive economies
  - Must be pursued at national and regional levels
  - Needs support from G8 and other OECD countries in technology and skills transfer
- Regional/global Competitiveness
  - Competitive performance benchmarked globally, regionally and nationally (Arab Competitiveness Reports)
  - Governments and business communities take benchmarking seriously
- National Competitiveness
  - Poor performance has led to efforts to address the challenge on national level: National Competitiveness Councils

November 19, 2004

# Arab World: Agenda For Development

## Human Capital Development

- Central to our success
- Arab/Islamic world was pre-eminent in knowledge generation between 9<sup>th</sup> and 13<sup>th</sup> centuries CE; in line with *Koran* and *a'hadith*
- Need for urgent focus now:
  - Deploy ICT effectively and stimulate local content development
  - Expand links between Arab and Islamic universities and leading global tertiary institutions
  - Strengthen the role of women
- Engaging with UNESCO-led educational initiative to define the educational and skills needs of business
- Promote and support Centers for Entrepreneurship



November 19, 2004

# Arab World: Agenda For Development

## **Governance**

- Business community must get own house in order
- ABC had adopted two Covenants and two Declarations
- Covenants on:
  - Corporate Governance
  - Elimination of Corrupt Business Practices
- Declarations on:
  - Accounting and Audit Standards
  - Corporate Social Responsibility
- ABC has created Task Force on Governance
- Study initiated on rule of law, corruption and transparency, political and economic freedom
- Quality of governance to be measured in terms of:
  - Professional competence
  - Transparency in formulation, legislation and application
  - Democratic accountability
  - Delivery
- Support being sought from World Bank, Transparency International, International Chamber of Commerce

**November 19, 2004**

# Arab World: Agenda For Development

## Next steps

- G-8/OECD endorsement of need for regional leadership in *Agenda for Development*
- G-8/OECD commitment of support to governments and communities pursuing this Agenda
- Regional business communities' commitment to engage and help drive the *Agenda for Development*
- Collaborative effort by all parties to advance progress