

G-8 Investment Task Force MENA-OECD Investment Programme

Arab Business Council Presentation
November 19, 2004

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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

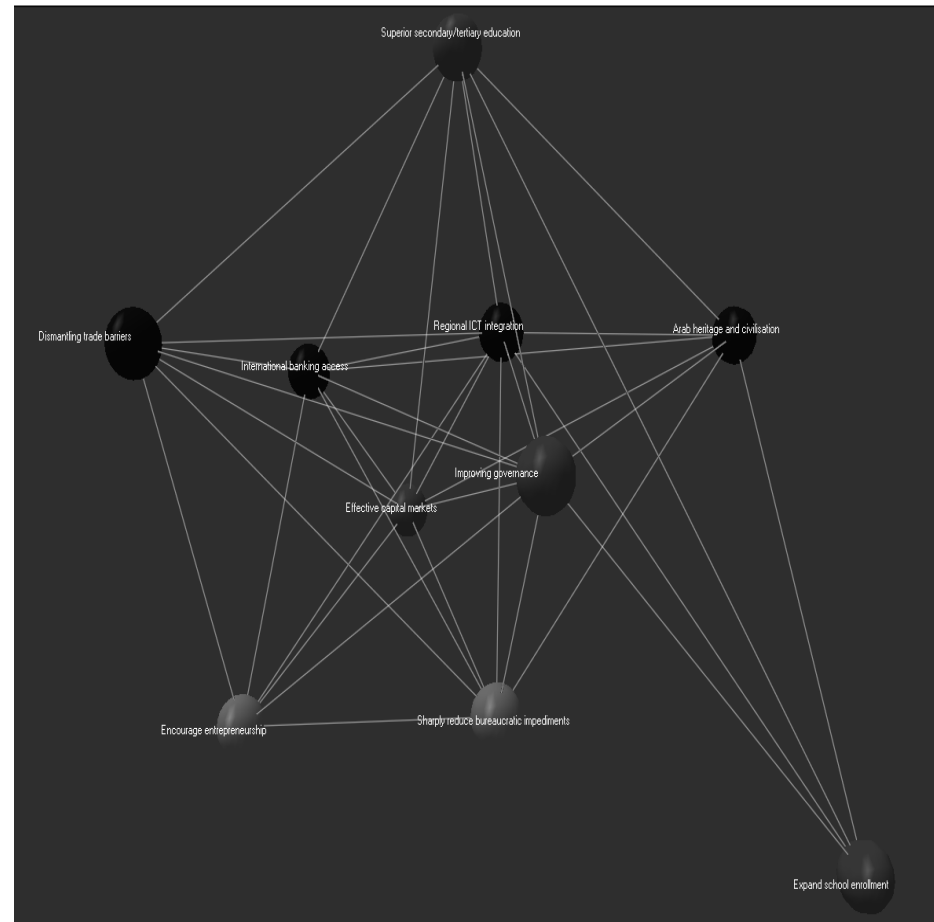
- One survey identified ten criteria of highest saliency:
 - a flexible foreign investment regime
 - comprehensive, stable and predictable laws and regulations
 - protection of intellectual property
 - a physically safe operating environment
 - freedom of external trade
 - market-orientated macro-economic 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 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

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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

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Human Capital Development

- Central to our success
- Arab/Islamic world was pre-eminent in knowledge generation between 9th and 13th 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



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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

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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