

CONCEPT NOTE



WORKSHOP ON

INCREASING FOREIGN DIRECT INVESTMENT (FDI) FLOWS TO OIC MEMBER COUNTRIES

24-25 September 2013, Ankara, Republic of Turkey

1- Introduction

The positive role of domestic and foreign capital formation (or investment) has long been acknowledged, both theoretically and empirically, in the voluminous literature on economic growth and countless development experiences. Indeed, economic growth and development of a country depend essentially on its ability to allocate and employ (invest) efficiently its available resources.

In addition to domestic savings as a major source of financing massive investments, access to foreign sources of capital also plays an increasingly important role. Over the last three decades, foreign capital sources have been playing a vital role and accounting for a significant share of the total investment in many developing countries. Long-term foreign investment flows, in particular foreign direct investment (FDI) flows, have become an instrumental complementary element of those countries' national development efforts. FDI is a constructive tool of economic growth and long-term development. In the host country, FDI flows have the potential for creating employment, increasing productivity, attracting new technologies and expanding trade capacity. FDI is the largest source of private foreign capital reaching the developing countries, including the OIC members.

Promoting and enhancing FDI flows have, therefore, become mainstream items on the national and international development agendas. During the last three decades, most developing countries, including OIC members, have initiated national strategies with the aim of creating enabling environments to offer safer and profitable investment opportunities, thus enabling them to have the edge in the global competition for FDI flows.

Yet, the increasing trends of globalisation, liberalisation, regional economic integration and financial crises have led to intense competition and unpredictable fluctuations in international financial markets. This has rendered the national economic environment for development ever harder to manage particularly for developing and least-developed countries. In this context, foreign investors look for certain important pointers such as freedom to control investments, convertibility, greater privatisation, stock market reforms, greater political stability, and adequate legal frameworks for doing business. Beyond those general characteristics of a well-functioning market economy, investments in infrastructure particularly transport and telecommunications are also important. Evidence indicates that countries that offer safe and profitable investment opportunities win in the global competition for FDI flows.

Although developing countries have been seeking to enhance FDI inflows to supplement their domestic investment and benefit from the economy-wide associated gains of such floating capital resources, things have not developed as expected in many of them, including the OIC members. Indeed, for a variety of reasons related to economic structures and policy issues, developing countries in general, and the least-developed ones in particular, are still less equipped than their developed counterparts to take advantage of the potential of liberalisation and globalisation to stimulate their economic growth and development. Consequently, albeit with a decreasing trend, the bulk of the world's FDI flows still take place among the developed countries.

FDI flows have been significantly rising worldwide since early 1990s. World total FDI flows have increased by almost 7 times from \$207.5 billion in 1990 to \$1400.5 billion in 2000. They reached the peak in 2007 with \$1975.5 before affecting by the global financial crisis, which led to a contraction in FDI flows worldwide, to reach \$1309 billion in 2010. Yet, with a 16.5% increase, FDI flows worldwide amounted to \$1524.4 billion in 2011. It is also worth mentioning that, over the last three decades, the share of the developing countries in world FDI flows was increasing steadily from 16.8% in 1990 to 51% in 2011. In contrast, the share of the developed countries was decreasing steadily from 83.2% to 49% during the same period.

However, as for the OIC member countries, though they constitute a substantial part of the developing countries, FDI flows into the group were generally unsatisfactory. The total FDI flows to all OIC member countries increased from only \$6.8 billion in 1990 to \$12 billion in 2000, and reached their peak of \$145.8 billion in 2007 before decreasing to \$ 134 billion in 2011. During the period since 1990, the 10.3% maximum share of OIC member countries in total worldwide FDI flows has been recorded in 2010 and decreased to 8.8% in 2011. It is also observed that FDI flows into OIC member countries are still concentrated in a few of them. For example, in 2011, only five countries (Indonesia, Saudi Arabia, Turkey, Kazakhstan, and Malaysia) accounted for 52% of the total FDI flows to all OIC countries. And, together with Nigeria, UAE, Iran, Lebanon and Turkmenistan, these 10 countries accounted for 71% of total FDI flows to all OIC countries.

Given this state of affairs, it seems that most of the OIC countries are still not able to create a favourable economic environment and to provide the required conditions to attract more FDI flows. To achieve this goal, reforms are needed to improve the business climate and to introduce investment incentives for foreign investors. This requires, among others, building adequate infrastructure and investment in modern technologies to enhance their productive capacities, which is still more of a challenge in the majority of them.

However, although the basic trend in policy changes is generally positive in many OIC countries, including the policies specifically targeted to FDI, the investment regulatory framework in many of them remains inappropriate. When the basic indicators on the business environment in most of these countries are considered, it seems that most of them still have inefficient legal and institutional investment frameworks to facilitate starting new businesses, registering properties, dealing with licenses, enforcing contracts and protecting investors.

In this context, the 28th Session of the COMCEC, held in Istanbul in October 2012, decided that "Increasing Foreign Direct Investment Flows to OIC Member Countries" is the theme for the Exchange of Views at the 29th Session of the COMCEC, which will be held in November 2013, and requested the SESRIC and IDB group, in cooperation with COMCEC Coordination Office and

relevant OIC institutions, to organize a workshop on this theme and submit its report to the next COMCEC Session.

2- Objectives of the Workshop

The workshop on the theme “Increasing Foreign Direct Investment Flows to OIC Member Countries” will provide the representatives of the relevant ministries and the national investment promotion agencies in the OIC member countries and those of relevant OIC and international institutions a distinct opportunity to discuss and deliberate on the major and common challenges and obstacles facing the OIC member countries in attracting more FDI flows. The participants will exchange their views, knowledge and expertise to come up with concrete recommendations and project proposals for increasing FDI flows into the member countries as well as to identify specific areas for cooperation in this important area. In particular, the workshop aims at:

- Examining and discussing the recent trends in FDI flows to OIC countries with a view to evaluating the performance of these countries in a comparison manner with the other groups of countries.
- Highlighting the challenges, policies and practices, as well as opportunities for increasing FDI flows into the member countries;
- Exchanging and sharing knowledge, experiences and best practices and models for more effective attracting of FDI flows;
- Recommending and proposing concrete and feasible ways and means for enhancing intra-OIC cooperation in this regard; and
- Facilitating networking among the participants, particularly the national investment promotion agencies, for future cooperation and exchanging of expertise.

3- Format and Structure of the Workshop

The workshop will be organized in two days. In addition to the opening session in the first day and the closing session in the second day, the workshop will include six working sessions (as shown in the tentative work programme in Annex I). During these five working sessions, presentations and discussions will be made on the following sub-themes:

- Trends in global and regional FDI flows
- Issues and challenges in attracting FDI in OIC member countries
- Country experiences, best practices and lessons for OIC countries
- Promoting FDI in key sectors (tourism, agriculture and transportation)
- The way forward: solutions and initiatives to enhance the role of FDI in the development efforts of OIC countries
- Wrap up and Recommendations

Following the presentations in each session, a significant time will be given to the group and panel discussion (general debate and discussions). In the working session on “wrap up and recommendations) at the end of the second day, the participants will work out the draft of the final report and recommendations of the workshop. The outcome of the workshop will be translated into Arabic and French by SESRIC to be submitted to the 29th Session of the COMCEC in November 2013.

4- Participants in the Workshop

The participants include representatives at expert senior level of the following bodies:

- 1- National investment promotion agencies responsible for policy makings related to enhancing FDI flows into their countries.
- 2- Relevant Ministries, such as Ministries of economy, finance, trade and industry.
- 3- Relevant OIC institutions: OIC General Secretariat, IDB, SESRIC, COMCEC, ICCIA, and ICDT.
- 4- Relevant regional and international institutions, such as World Bank, UNCTAD, UNDP, UNIDO, OECD, etc.
- 5- Individual international experts or academicians from local universities.

5- Expected Outcomes of the Workshop

Expected outcomes of the workshop are the followings:

- Identifying and addressing major challenges, obstacles and constraints related to attracting FDI flows into the member countries;
- Identifying and recommending concrete policies and measures at both the national and OIC-cooperation levels for increasing FDI flows into member countries; and
- Identifying and recommending cooperation and collaboration initiatives among the OIC member countries with a view to promoting and enhancing intra-OIC FDI flows.

6- Organizers of the Workshop

SESRIC, IDB (ICIEC), COMCEC Coordination Office and Investment Support & Promotion Agency of Turkey (ISPAT).¹

7- Date and Venue of the Workshop

Proposed date: 24-25 September 2013. Proposed venue: SESRIC Headquarters, Ankara, Republic of Turkey.

8- General Information on the Workshop

Two types of invitations will be issued by SESRIC: 1- Note Verbal to be circulated to all member countries and relevant OIC institutions; and 2- Letters to be signed by the Director General of SESRIC to invite individual experts from international institutions and universities. Logistics, organisational and other related information and documents will be available at a special web page of the workshop which will be designed and hosted by SESRIC.

¹ To be confirmed.

Annex I
WORKSHOP ON
INCREASING FOREIGN DIRECT INVESTMENT (FDI) FLOWS TO OIC
MEMBER COUNTRIES

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Draft Work Programme

Day 1: Tuesday, 24 September 2013

09:30 – 10:00

Registration

10:00 – 11:00

Opening Session

Chair: SESRIC

- Recitation from the Holy Quran
- Statements/Addresses by:
 - IDB/ICIEC
 - OIC
 - COMCEC
 - Investment Support & Promotion Agency of Turkey (ISPAT)
 - SESRIC

11:00 - 11:30

Coffee Break and Networking

11:30 - 13:00

Working Session 1: Trends in Global and Regional FDI Flows

Chair: IDB/ICIEC

Three or four presentations will be made in this session to highlight the following:

- a. Current trends in FDI flows and the situation in OIC countries
- b. What drives investment, and in particular, FDI?
- c. Impacts of FDI flows

Proposed international institutions to make the presentations: SESRIC, UNCTAD, and World Bank

General debate and discussions

13:00 - 14:30

Lunch and Prayer Break

14:30 - 16:00

Working Session 2: Issues and Challenges in attracting FDI in OIC Member Countries

Chair: ISPAT

Three or four presentations will be made in this session to highlight the following:

- a. Main obstacles and barriers faced by member countries
- b. The role of government policies to attract FDI and key aspects for host countries to attract more FDI:
 - i. Tax and subsidy instruments
 - ii. (Regulatory Framework: legislative, legal, and institutional arrangements, and R&D
 - iii. Special economic zones

Proposed international institutions to make the presentations: ICIEC, --, --

General debate and discussions

16:00 - 16:20

Coffee Break and Networking

16:20 - 17:50

Working Session 3: Country Experiences, Best Practices and Lessons for OIC Countries

Chair: COMCEC

Three or four country case presentations will be made in this session by the representatives of the following member countries:²

- a. Country I: Indonesia
- b. Country II: Saudi Arabia
- c. Country III: Turkey
- d. Country IV: Kazakhstan
- e. Country V: Malaysia

General debate and discussions

19:00 – 21:00

Dinner

Day 2: Wednesday, 25 September 2013

09:00 - 10:30

Working Session 4: Promoting FDI in Key Sectors

Chair: SESRIC

Three presentations will be made in this session on the following sectors:

- a. Tourism
- b. Agriculture
- c. Transportation

Proposed international institutions to make the presentations: ISPAT, COMCEC and UNIDO

General debate and discussions

² Based on the number of confirmations of other member countries, it will be decided whether we may designate another session to continue with country experiences. For example, in case that we received 6 confirmations, we may designate session 5 to continue with country experiences instead of "The Way Forward: Solutions and Initiatives to Enhance the Role of FDI in the Development Efforts of OIC Countries".

10:30 - 11:00	Coffee Break and Networking
11:00 - 12:30	<u>Working Session 5: The Way Forward: Solutions and Initiatives to Enhance the Role of FDI in the Development Efforts of OIC Countries</u> ³ Chair: ICCIA ICIEC and other relevant institutions are proposed to make presentation on: <ul style="list-style-type: none"> a. Looking ahead b. Promoting intra-OIC FDI flows General debate and discussions
12:30 - 14:00	Lunch and Prayer Break
14:00 - 16:00	<u>Working Session 6: Wrap up and Recommendations</u> Chairs: SESRIC & COMCEC Wrapping up and drafting of the key recommendations and final report
16:00 - 16:20	Coffee Break
16:20 - 17:20	<u>Closing Session</u> Chair: SESRIC <ul style="list-style-type: none"> - Adoption of the report and recommendations - Closing statements: IDB, COMCEC and SESRIC
19:00 – 21:00	Dinner

Note: This program is a tentative draft. The name of institutions/experts and the exact titles of their presentation under the subject of each working session will be specified in due course based on the results of the communications currently undertaking by SESRIC and other organizing partners.

³ Or as mentioned in footnote 1 above, this session could be a continued session for country experiences if we received more confirmations for making presentations by the member countries.