

GLOBALIZATION & INVESTMENT

Trends & Prospects for MENA

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Globalization & Investment Agenda

- Investment flows: resurgence of private flows
- Is the Oil Price Boom sustainable? Contrasts with 1970s and 1980s
- Economic diversification & structural transformation in MENA
- Logistics & Cost of Doing Business: entering the global supply chain
- Financial Market Reform & Development
- A Soft Landing Scenario for MENA: the UAE paradigm

Major Trends & Developments in International Financial Flows: 1990-2006

- ü Decline in Aid and Official Transfers

- ü Decline in Commercial Bank Lending to Developing Countries

- ü Increase in FDI to Developing Countries

- ü Financing Infrastructure through International Capital Markets

- ü Sharply Rising Oil Prices Produced Enormous Increases in Export Earnings and Current Account Surpluses for Oil Producing Countries

- ü Oil Export Revenues fueling investment, including infrastructure

- ü South- South FDI accounts for 1/3 of investment flows to developing countries: better knowledge and ability to deliver → comparative advantage

Global Capital Flows: Inflows and Outflows

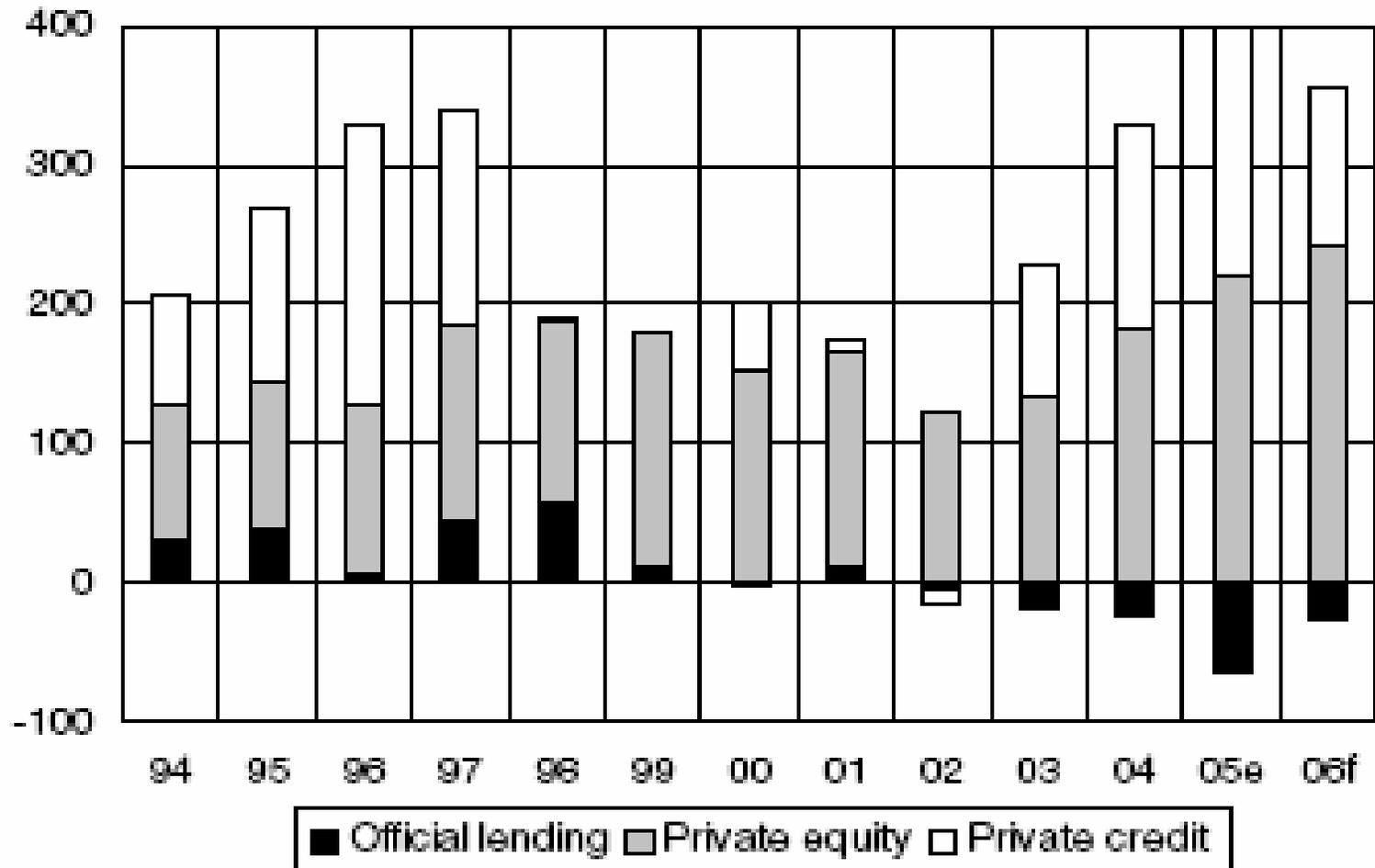
(In billions of U.S. dollars)

	Inflows										
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
United States											
Direct investment	46.1	57.8	86.5	105.6	179.0	289.4	321.3	167.0	80.8	67.1	106.8
Portfolio investment	139.4	210.4	332.8	333.1	187.6	285.6	436.6	428.3	427.6	538.8	762.7
Other investment	120.5	170.4	131.8	268.1	57.0	165.2	289.0	187.5	285.9	283.1	570.6
Reserve assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total capital flows	306.0	438.6	551.1	706.8	423.6	740.2	1,046.9	782.9	794.3	889.0	1,440.1
Canada											
Direct investment	8.2	9.3	9.6	11.5	22.7	24.8	66.1	27.7	21.4	6.1	6.3
Portfolio investment	17.2	18.4	13.7	11.7	16.6	2.7	10.3	24.2	13.4	14.5	42.5
Other investment	16.0	-3.9	15.7	28.0	5.4	-10.8	0.8	7.8	5.4	11.7	-6.0
Reserve assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total capital flows	41.4	23.9	39.1	51.2	44.8	16.6	77.2	59.7	40.2	32.3	42.8
Japan											
Direct investment	0.9	—	0.2	3.2	3.3	12.3	8.2	6.2	9.1	6.2	7.8
Portfolio investment	64.5	59.8	66.8	79.2	56.1	126.9	47.4	60.5	-20.0	81.2	196.7
Other investment	-5.6	97.3	31.1	68.0	-93.3	-265.1	-10.2	-17.6	26.6	34.1	68.3
Reserve assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total capital flows	59.8	157.1	98.1	150.4	-34.0	-125.9	45.4	49.1	15.7	121.5	272.8
United Kingdom											
Direct investment	10.7	21.7	27.4	37.5	74.7	89.3	122.2	53.8	25.5	27.6	77.9
Portfolio investment	47.0	58.8	68.0	43.7	35.1	183.8	255.8	69.6	76.2	156.8	158.3
Other investment	-10.8	106.2	251.8	322.2	110.5	90.0	414.6	327.0	109.1	409.6	758.4
Reserve assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total capital flows	46.9	186.7	347.2	403.4	220.3	363.2	792.5	450.4	210.8	594.1	994.6
Euro area											
Direct investment	...	...	...	...	...	209.7	404.8	175.7	171.2	158.2	97.1
Portfolio investment	...	...	...	...	...	282.9	270.7	316.5	286.2	363.2	444.1
Other investment	...	...	...	...	...	208.3	337.2	237.8	60.7	188.1	349.2
Reserve assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total capital flows	...	...	...	...	...	700.8	1,012.7	730.1	518.0	709.4	890.5
Emerging Markets and Developing Countries²											
Direct investment	96.1	121.9	144.4	188.0	185.1	211.6	206.2	222.9	175.6	187.9	247.5
Portfolio investment	191.5	86.1	168.2	184.6	50.8	125.6	90.1	17.3	8.9	82.4	128.7
Other investment	-3.5	111.3	96.3	159.9	-116.8	-77.8	5.4	-56.7	5.9	114.9	193.7
Reserve assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total capital flows	284.1	319.3	408.9	532.5	119.1	259.4	301.8	183.5	190.4	385.3	569.9

Sources: International Monetary Fund, *World Economic Outlook* database as of March 27, 2006; and *International Financial Statistics*. The total net capital flows are the sum of direct investment, portfolio investment, other investment flows, and reserve assets. "Other investment" includes bank loans and deposits.

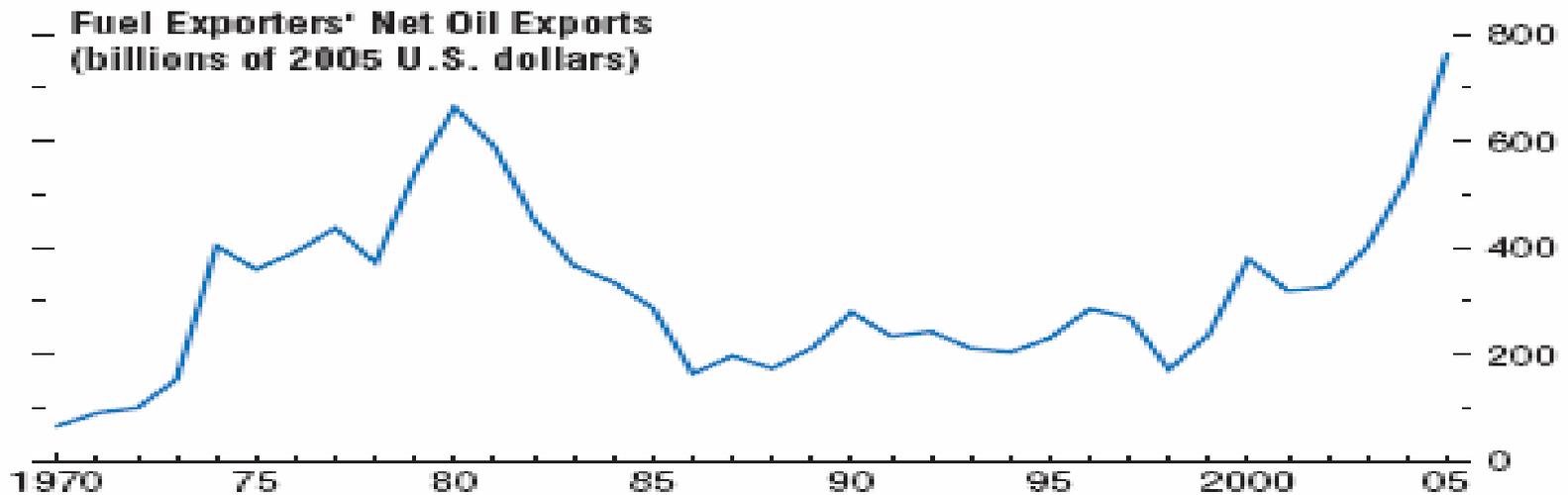
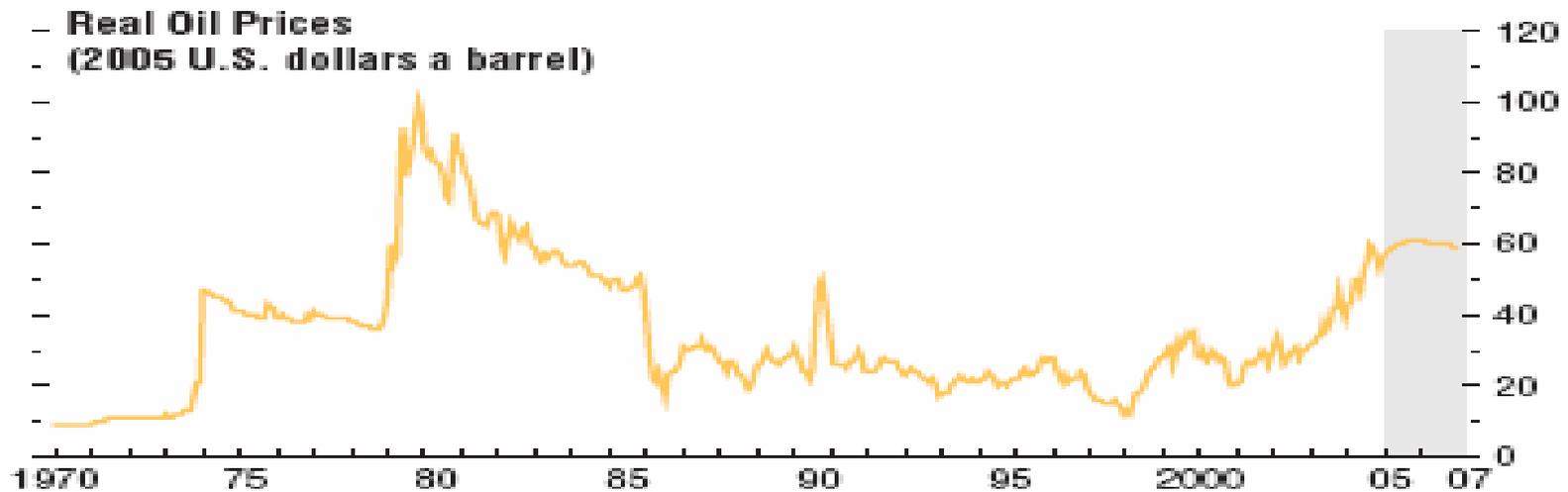
Greater Contribution of Private Sector Flows into Region

Capital Flows to Emerging Markets (*Billions of USD*)



Source: Institute of International Finance

Real Oil Prices and Net Oil Exports



Source: IMF World Economic Outlook Report, April 2006

Higher Oil Prices Mean Higher Wealth

	Percent of World Reserves	Value of Reserves in Percent of 2005 GDP ¹	Change in Value of Reserves, 1999–2005		Percent of World Crude Oil Production
			Percent of 2005 GDP	Percent of 2005 world GDP	
Sample of selected fuel exporters	88.2	2,156	1,763	98.3	62.4
Kuwait	8.3	8,178	6,708	10.5	3.0
Libya	3.3	5,847	5,034	4.3	2.0
Saudi Arabia	22.1	4,722	3,856	27.6	13.2
Kazakhstan	3.3	4,145	3,663	4.5	1.6
United Arab Emirates	8.2	4,129	3,368	10.3	3.3
Iran, I. R. of	11.1	3,679	3,199	14.8	5.1
Venezuela	6.5	3,329	2,724	8.1	3.7
Azerbaijan	0.6	3,276	2,672	0.7	0.4
Qatar	1.3	2,244	2,143	1.9	1.2
Nigeria	3.0	2,111	1,862	4.0	3.1
Angola	0.7	1,826	1,672	1.0	1.2
Congo, Rep. of	0.2	1,729	1,425	0.2	0.3
Gabon	0.2	1,416	1,123	0.2	0.3
Sudan	0.5	1,290	1,280	0.8	0.4
Equatorial Guinea	0.1	1,133	1,042	0.2	0.4
Oman	0.5	1,033	849	0.6	1.0
Yemen	0.2	1,010	995	0.4	0.5
Brunei Darussalam	0.1	927	761	0.1	0.3
Syrian Arab Republic	0.3	661	572	0.4	0.7
Algeria	1.0	635	522	1.3	2.4
Russia	6.0	529	454	8.0	11.6
Trinidad and Tobago	0.1	399	354	0.1	0.2
Norway	0.8	185	144	1.0	4.0
Turkmenistan	—	175	142	0.1	0.3
Bahrain	—	53	36	—	0.1
Iraq ²	9.7	—	—	12.1	2.5
OPEC	74.9	3,601	2,997	95.3	41.0
World	100.0	153	128	128.0	100.0

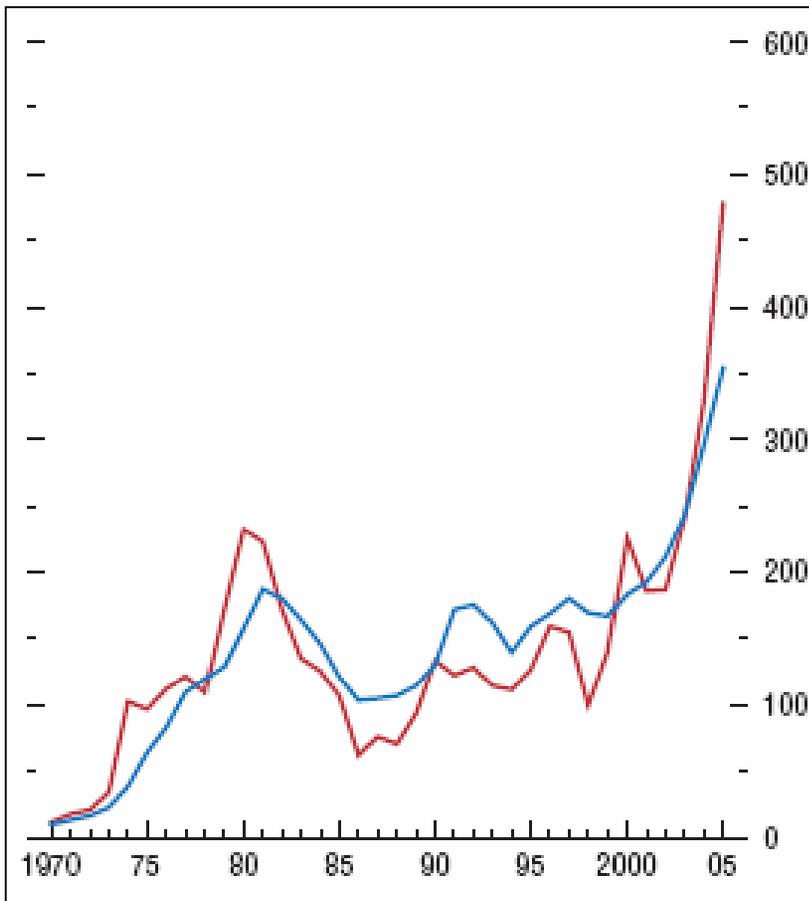
Sources: BP, *Statistical Review of World Energy 2005*; Energy Information Administration; and IMF staff calculations.

Note: Estimates of reserves refer to end-2004 and of crude oil production to 2004 (except for Bahrain, where production estimates refer to 2003).

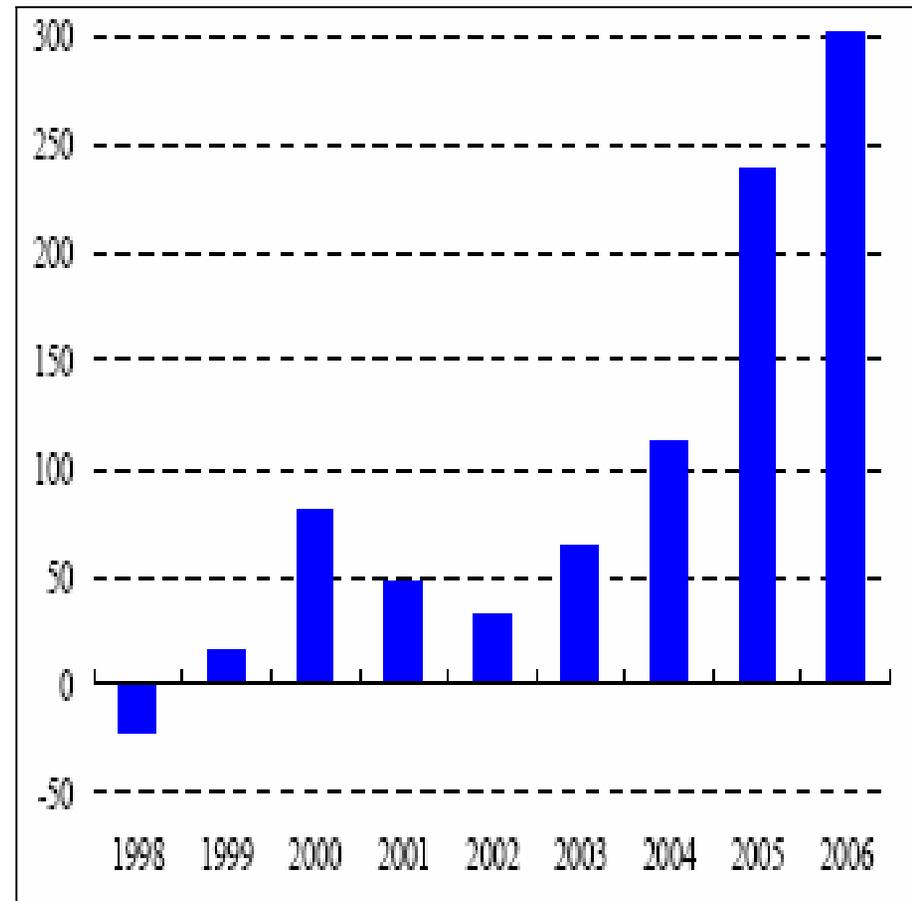
¹Total value of stock of reserves calculated using average petroleum spot price for December 2005.

Higher Oil-Related Inflows Led to Stronger External Positions for Oil Exporters with Current Account Surpluses running at 20-25% of GDP

OPEC Imports and Oil Exports
(Billions of USD)



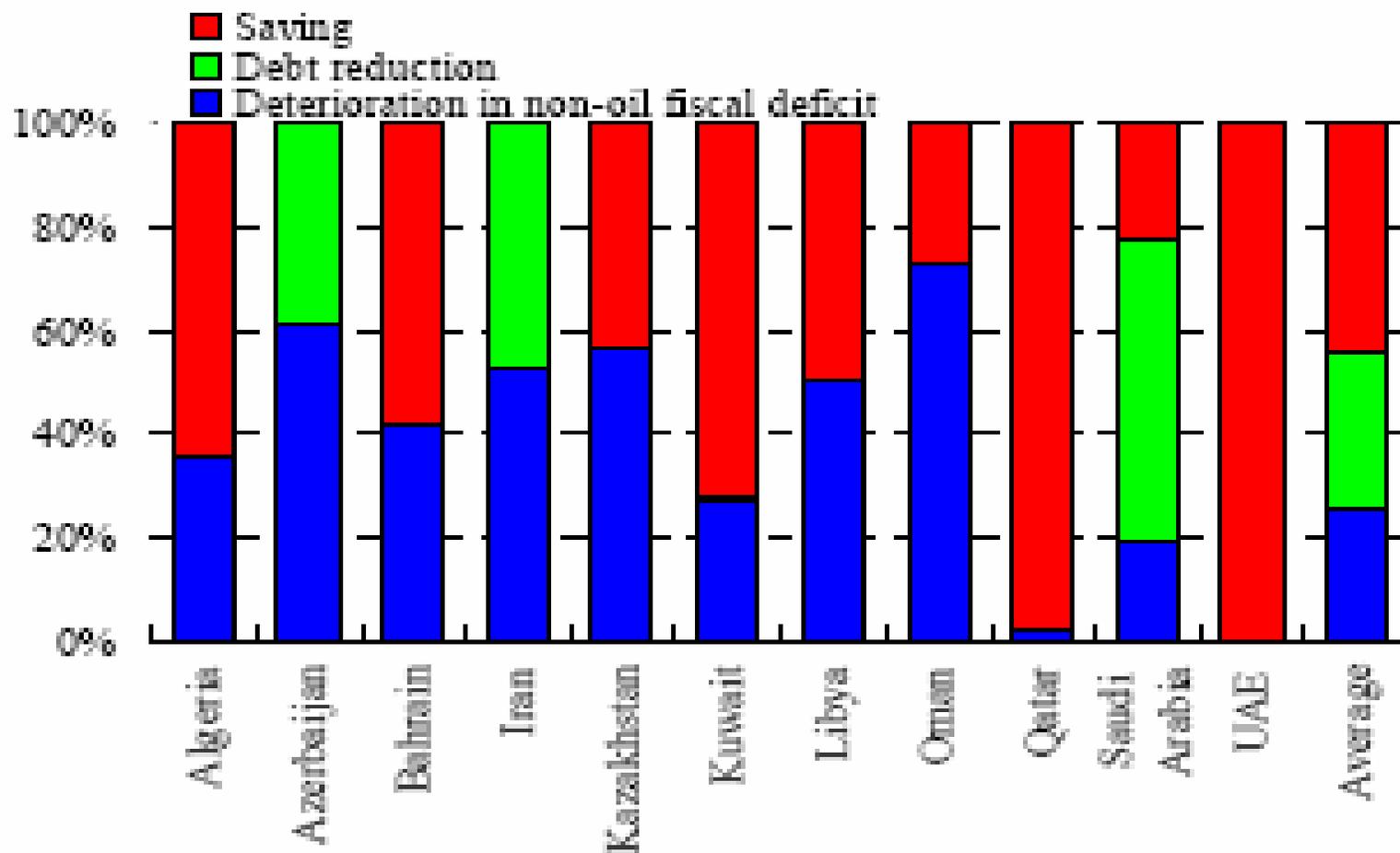
Current Account Balance for Oil Exporters
(Billions of USD)



Source: IMF World Economic Outlook Report, April 2006/ IMF Staff Estimates & Projections

Current Account Surpluses of Oil Exporters Recycled Back Into Regional Economies

Use of Additional Oil Revenue, 2003-2005 (In percent, base year = 2002)



Source: IMF Staff Estimates and Projections.

High Oil Prices leading to:

- Large Increase in Wealth in Oil Producers: Value of oil wealth increased by an estimated **\$40 trillion** between 1995 and 2005
- Permanent Income increase of some \$850 billion at a Real Rate of 3%
- Real exchange rate appreciation
- Rise in prices of non traded goods & services
- Real Estate boom & asset price appreciation
- Credit Market boom
- Regional stock market boom

Can this be sustained?

MENA Regional Developments: Sustaining the Boom I

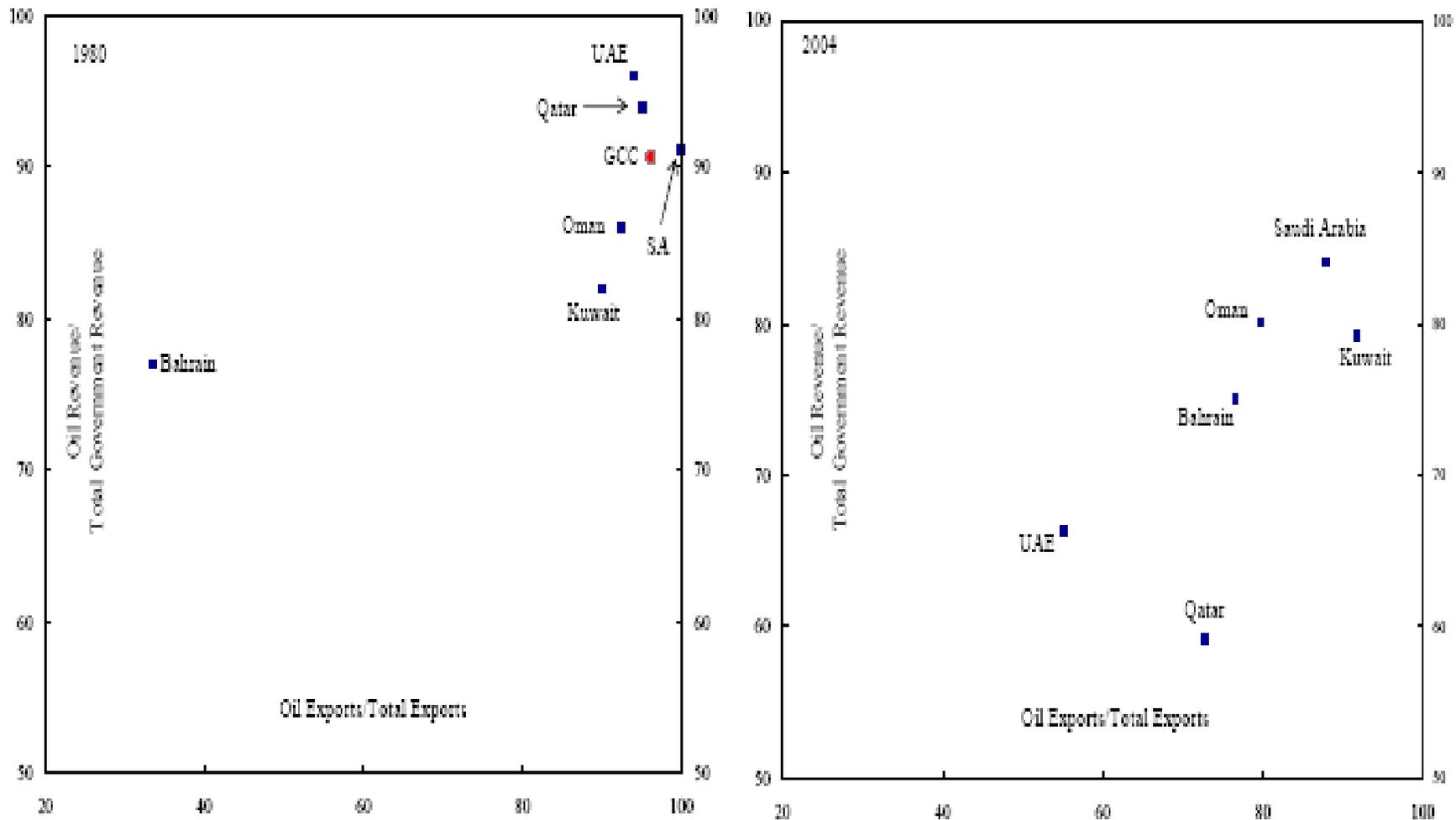
- Oil price shock more likely to be permanent than in earlier episodes 1973-1974 or 1979-1981
- Increased Absorptive Capacity
- Growth in equity markets
- Greater Economic & Financial Integration
- Oil exporters have learnt lesson from 1970s: fiscally prudent
- Regional boom: tourism, investment and wealth repatriation as a result of high returns on investment, increased asset risk uncertainty and higher barriers in external markets

MENA Regional Developments: Sustaining the Boom II

- Economic reforms and state divestment & privatisation.
- Growing private sector participation in infrastructure across MENA countries.
- Infrastructural Developments: estimated value of projects planned or under development in the Gulf exceeds USD 1 trillion.
- Greater regional economic integration: GCC Monetary Union in 2010, lower trade barriers Greater Arab FTA
- With economic diversification and liberalisation attractive prospects exist across many sectors.

Governments in region reaping gains from buoyant oil prices while pursuing economic reform & diversification strategies

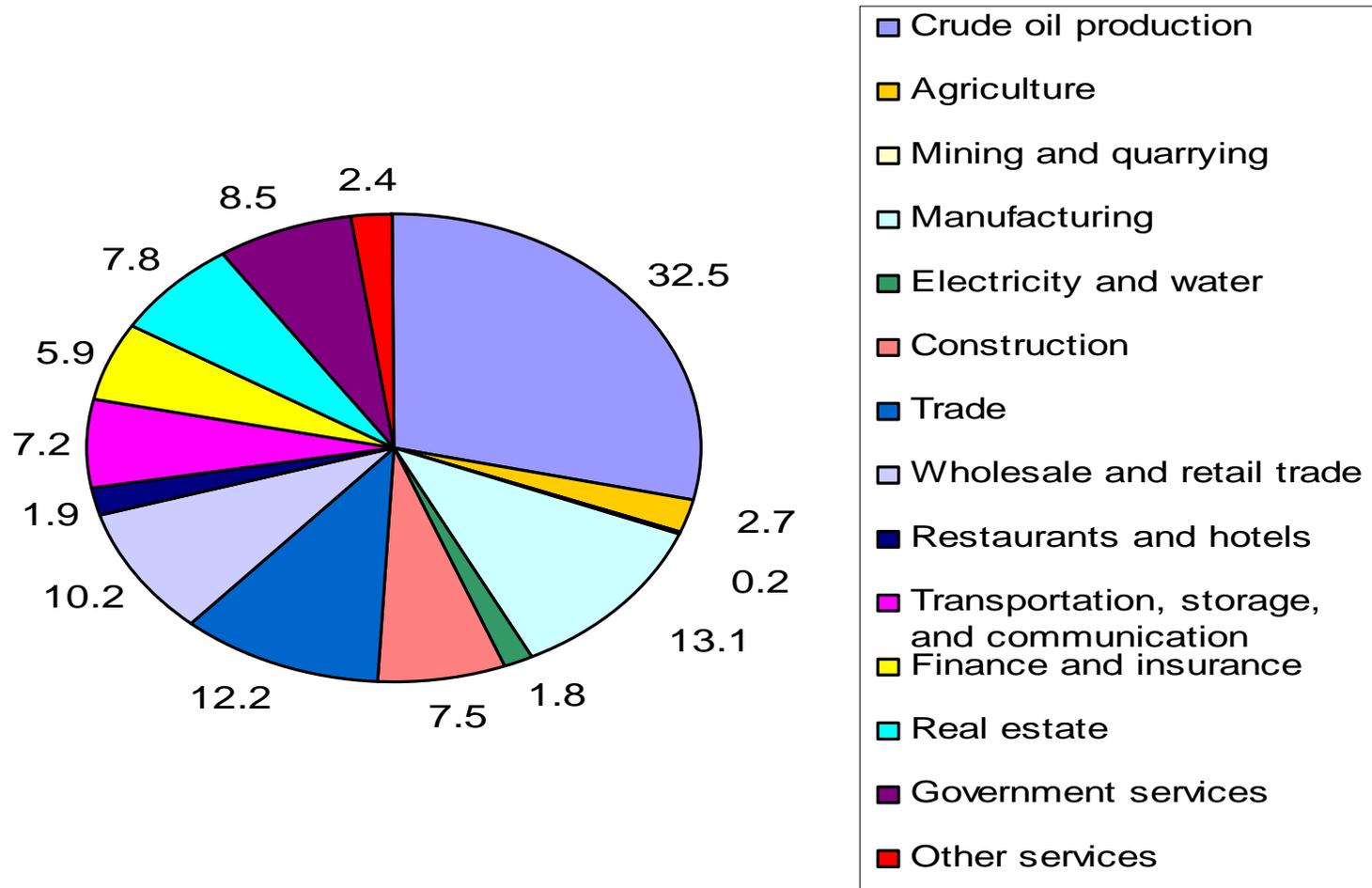
GCC Countries: Oil Dependency, 1980-2004



Source: National authorities, and author's estimates.

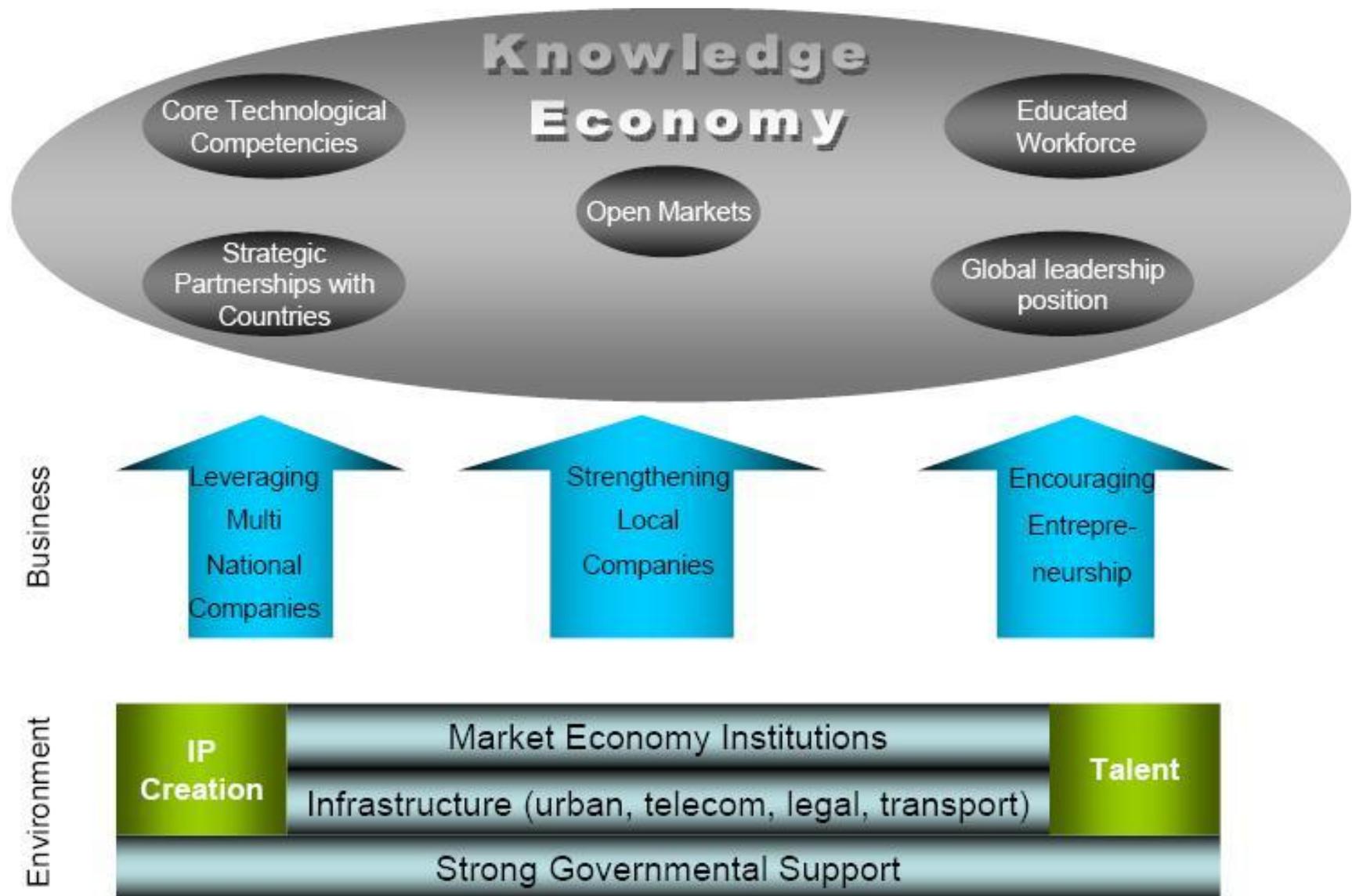
UAE: Modern Diversified Economy

GDP Breakdown by Sector 2004



Preliminary GDP at Current Prices 2004
Source: IMF UAE Country Report

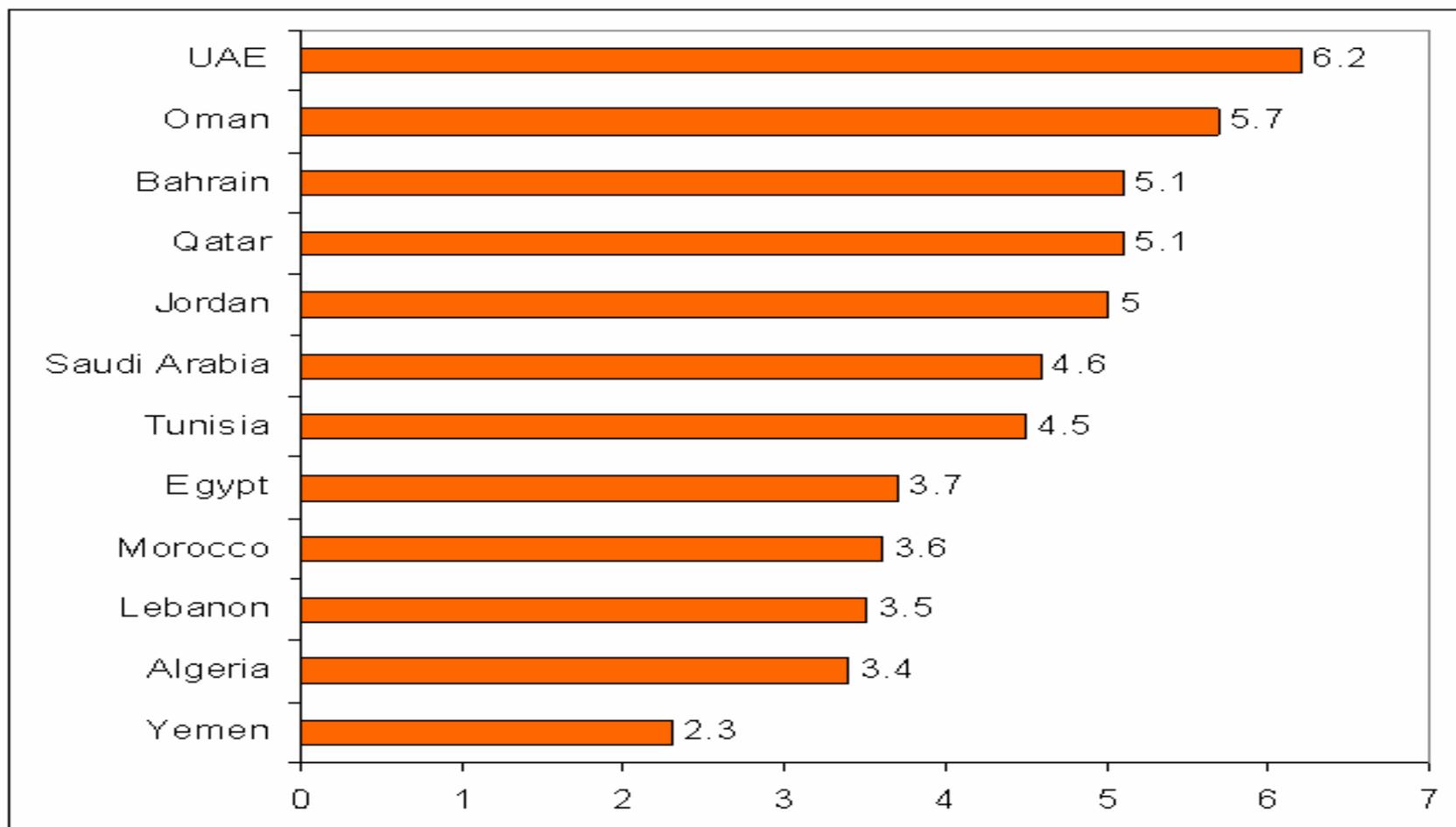
UAE: Structural Transformation



Infrastructure, Transport & Telecom = trade efficiency and international competitiveness

- Modern Infrastructure in accordance with the most efficient international standards
- 6 international airports, 9 sea-ports, 23 free zones and the modern transport system having roads with a distance reaching 4000 kilometers in length
- Modern telecommunication networks and highest internet penetration and utilization rates in MENA
- Investment in infrastructure has resulted in lower cost of doing business and logistics costs, and delivery of services and facilitating economic diversification.
- Open Skies Policy & Agreements: development of tourism and cargo

UAE Ranked highest in overall infrastructure quality



1= poorly developed and inefficient, 7= among the best in the world

Source: Arab Competitiveness Report 2005

Location + Efficient Logistics= Trade & Global Supply Chain

- UAE's central location offers an excellent opportunity for companies seeking to serve the growing markets of the Middle East, North Africa, Southeast and Central Asia. World class logistics and infrastructure, access to expatriate workers at internationally competitive wages all contribute to making the UAE an attractive place from which to do business.



Infrastructure, Transport & Telecom

- UAE's first-class seaports and airports are a vital component of trade and tourism and constantly being upgraded.
- Airport: Passengers travelling through Dubai International Airport have increased from about 22 million in 2000 to more than 40 million in 2004. By 2010, it is expected that Dubai International Airport will witness passenger throughput of 60 million.
- Ports: Dubai Ports Authority handled 6.25 million tonnes of general cargo in 2004, achieving a 20 per cent growth rate and an increase of 1.035 million tonnes over 2003.
- DPA achieved 22 per cent growth in container traffic during the first half of 2005 and presently ranks tenth in the world, having handled a total of 3,631,108 TEUs in the first six months of the year.
- UAE ports rank among the ten fastest growing ports by total cargo traffic and container traffic.
- More than 100 shipping lines are served by DPA. Dubai's ports will expand their cargo-handling capacity further through an ongoing four-phase expansion project, after which, Dubai should be able to handle 21.8 million containers a year by 2020.

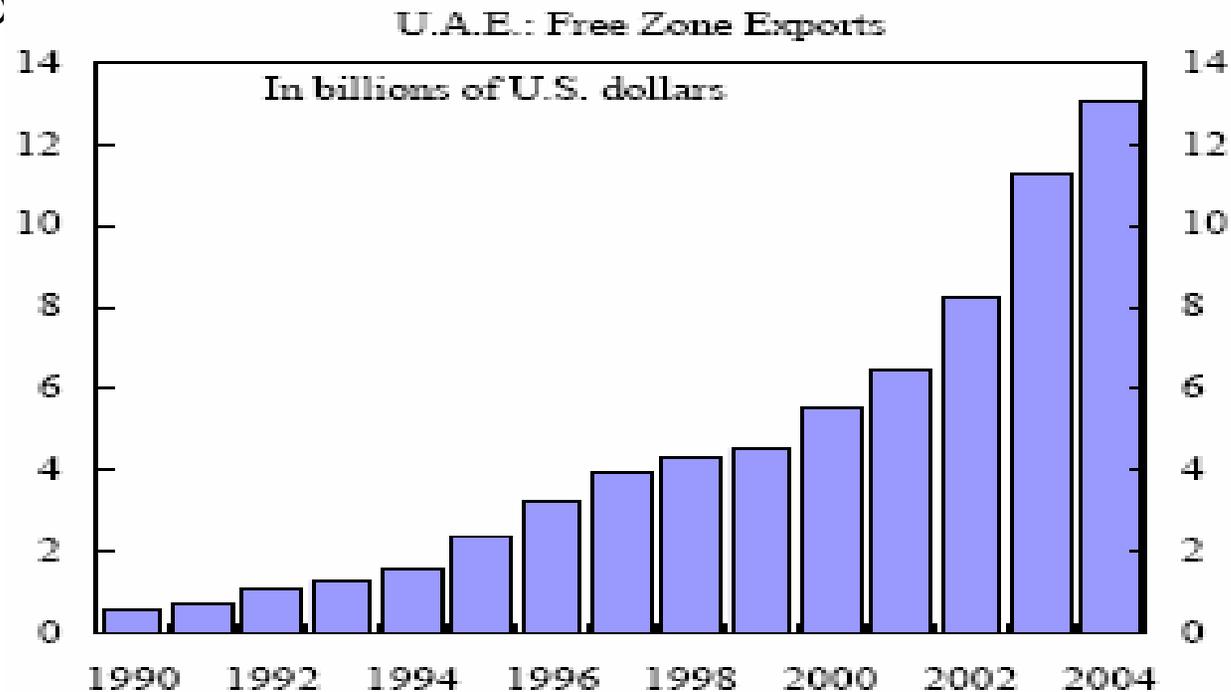
A thriving platform for production & trade

A well-developed infrastructure, along with its strategic location make it a natural centre for international trade.

- UAE Trade Figures (2004)
 - Imports: USD 47.6 billion (21% growth over 2003)
 - Exports: USD 82.8 billion (23% growth over 2003)
- The UAE accounts for about 14% of the region's exports.
- UAE ranked as 27th leading exporter in world merchandise trade in 2004, with the value of exports totalling \$82.8 billion
- UAE is the world's third largest re-exporter after Hong Kong and Singapore, with 72% of goods imported being re-exported to 160 countries. The re-export market has seen rapid growth from \$5.5 billion in 1990 to \$27.4 billion in 2004. The main re-export markets include Iran and Saudi Arabia.
- Major Trading Partners (2004): China, Japan, USA, UK, India, S. Korea, Germany, Italy.
- Main origins of imports (2004): (1) China (2) US (3) Japan

25 Free Zones in various industries

- Successful, efficient mechanism to accelerate economic development, reduce economic dependence on oil, attract foreign investment and create employment.
- Incentives include no restrictions on foreign ownership and repatriation of capital & profits, a tax free environment with world



Source: National authorities and staff estimates

Free Zones and Commercial Clusters

FOLLOWING ON FROM the development and steady expansion of the UAE's first free-trade zone at Jebel Ali, and the success of other specialised zones that provide attractive facilities for both national and international investors, it has been clearly demonstrated that the free-zone formula is an effective magnet for inward investment, bringing jobs, expertise and a significant boost to the national economy. The basic recipe (100% foreign ownership, corporate tax holidays, no personal taxes, freedom to repatriate capital and profits, no import duties or currency restrictions) differs only slightly among the various zones whose comparative assets are based more upon individual locations, facilities, areas of specialisation and, last but not least, establishment and operating costs. A list of current free zones and their main areas of activity is given below.



JEBEL ALI FREE ZONE

Major Dubai base for warehousing and regional distribution by multinational companies. Features manufacturing, trading and services companies including many global leaders.



DUBAI AIRPORT FREE ZONE

High tech, IT products, luxury items, jewellery, light industries, aviation industry related businesses.



DUBAI INTERNET CITY

Part of Dubai Technology and Media Free Zone (TECOM). Information technology and telecommunications centre. Internet related businesses.



DUBAI MEDIA CITY



AJMAN FREE ZONE

General trading, professional services, industrial production.



AHMED BIN RASHED FREE ZONE

Located in Umm al-Qaiwain, catering for companies involved in general trading, management and consultancy services, light industrial production.



RA'S AL-KHAIMAH FREE TRADE ZONE

Environmentally friendly projects in the service, manufacturing and industrial sectors, with high emphasis placed on attracting technology oriented enterprises. Zone split into business, technology and industrial centres.



FUJAIRAH FREE ZONE

General trading (import, export & re-export of agreed and specified commodities), manufacturing, warehousing.



DUBAI HEALTH CARE CITY

Healthcare industries and services. Healthcare professionals and service providers.

UAE: Free Zones

UAE Free Zones: types and specialisations



UAE: Main FDI Host in MENA

A destination of choice for foreign direct investment

- UAE has proved to be a highly attractive destination for foreign direct investment, with its liberal economic & trade policies and free zone incentives.
- FDI: \$ 9.1 billion (2004) to \$18e billion (2005)
- Positive Investment climate indicators:
 - Good governance
 - Low policy risks: stability in policy framework
 - Macroeconomic (fiscal, monetary & exchange rate) stability
 - Low cost of doing business.

UAE: New Global Tiger & Economic Integrator

- Political stability & Good Governance
- Geographic location
- Liberal economic policies
- Business friendly government
- Strong, sustained economic growth
- Growing population
- Availability of skilled labour
- Stable exchange rates
- Full currency convertibility
- Freedom to repatriate capital and profits
- Openness to foreign investment
- Zero percent tax rate on income and profits.
- 100% foreign ownership in FZs
- Efficient infrastructure & logistics
- GCC customs union
- International & regional economic integration
- Strong standing in regional and international relations

Soft Landing for MENA

- Build Financial Markets
- Address sources of Systemic Risk
- Economic Diversification

→ **Beginning of an Arab Awakening,
Economic & Financial Renaissance**

Soft Landing Scenario: Build Financial Markets & Address sources of Systemic Risk

- 1. Legal & Regulatory Infrastructure (Basel I, II, Codes & Standards)**
- 2. Independent Capital Market & Regulatory Authorities**
- 3. Privatization of Stock Markets**
- 4. Instruments & Financial Technology:**
 - 1. Securitization, Leasing, Options/Derivatives,**
 - 2. Shari'a-compliant finance**
- 5. Market Structure Reforms & Institution Building:**
 - Credit Registries,**
 - Companies Houses**
 - Insolvency frameworks**
- 6. Transparency & Disclosure: Accounting standards**
- 7. Corporate Governance:**
 - Hawkamah Institute for Corporate Governance**

Hawkamah Institute for Corporate Governance

✓Mission:

“Bridge the CG gap’ and serve as a platform for regional co-operation aiming to raise awareness of national, regional and global initiatives”

✓Objectives: Assist the countries and companies of the region in developing sound and globally well integrated CG frameworks:

- Coordinate and sequence the designing, and implementation of CG reforms
- Monitor the outcomes of CG policies at the public and private sector level.

✓First Institute of its kind in the region and serving the wider MENA region

✓An autonomous international association, hosted by the DIFC in partnership with IFC, OECD, CIPE, YAL, UAB, DSG, IMD

✓Strengthen institutional and capacity building through Hawkamah Institute of Directors.

✓Source of CG technical assistance, monitoring, analysis, research, consultation and reform.

✓Foster communication and policy dialogue on CG

Driving Forces of Sustained Investment Flows & Growth

- Economic Diversification & Demographics
- Logistics
- Cost of Doing Business: Lower market barriers & deregulation
- Infrastructure Investment:
 - Private sector participation
 - Privatization
- Economic & Monetary integration of GCC countries
- Trade & Investment Liberalization
- Family Businesses entering markets: IPOs
- Financial market reform, liberalization & development

