Opening Statement of H.E. Prof. Savaş Alpay, Director General of SESRIC at the Workshop on Increasing Foreign Direct Investment (FDI) Flows to OIC Member Countries

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بسم الله الرحمن الرحيم

Distinguished Guests,
Ladies and Gentlemen,

Assalamu Alaikum wa Rahmatullahi wa Barakatuhu,

It is a great pleasure for me to welcome you on the occasion of the workshop on "Increasing FDI Flows to OIC Member Countries". We are very pleased to organize this important workshop in collaboration with the IDB Group through its Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), COMCEC Coordination Office (CCO) and the Investment Support and Promotion Agency of Turkey (ISPAT).

At the outset, I would like to welcome and thank you all for accepting our invitation to attend and participate in the deliberations of this important workshop. Our thanks and appreciations are also extended to the IDB/ICIEC, CCO and ISPAT for their efforts in supporting and contributing to the organization of the Workshop.

Distinguished Guests,

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 (i.e. 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 played a vital role and accounted for a significant share of the total investment in many developing countries. Long-term foreign investment, in particular foreign direct investment (FDI) flows, became an instrumental complementary element in the national development efforts of these countries. FDI is a constructive tool of economic growth and long-term development. It is the largest source of private foreign capital in the developing countries, including the OIC members. In the host country, FDI flows have the potential for creating employment, increasing productivity, attracting new technologies and expanding trade capacity.

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.

However, 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 makes 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 these 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.

Distinguished Guests,

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 various reasons related to economic structures and policy issues, developing countries in general, and the least-developed ones in particular, are still less equipped 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 increased by almost 7 times from $207.3 billion in 1990 to $1413.2 billion in

2000. They reached the peak in 2007 with $2002.7 billion before being affected by the global financial crisis, which led to a contraction in FDI flows worldwide, to decline to $1408.6 billion in 2010. Following a 17.3% increase in 2011, FDI flows worldwide decreased again by 18.2% to reach $1350.9 billion in 2012. It is also worth mentioning that, over the last two decades, the share of the developing countries in world FDI flows was increasing steadily from 16.8% in 1990 to 58.5% in 2012. In contrast, the share of the developed countries was decreasing steadily from 83.2% to 41.5% during the same period.

In the case of the OIC member countries, though they constitute a substantial part of the developing countries, FDI flows into the group were generally unsatisfactory. Total FDI flows to all OIC member countries increased from only $6.8 billion in 1990 to $11.9 billion in 2000, and reached their peak of $173.8 billion in 2008. Following the decrease to $136.5 billion in 2010, FDI flows to OIC countries increased slightly in the following two years to reach $139.5 billion in 2012. During the period since 1990, the 11.4% maximum share of OIC member countries in total worldwide FDI flows, which has been recorded in 2009, decreased to 10.3% in 2012.

It is also observed that FDI flows into OIC member countries are still concentrated in a few of them. For example, in 2012, only five countries (Indonesia, Kazakhstan, Turkey, Saudi Arabia and Malaysia) accounted for 50% of the total FDI flows to all OIC countries. And, together with UAE, Nigeria, Mozambique, Iran and Lebanon, these 10 countries accounted for 71% of total FDI flows to all OIC countries.

Considering these figures, it seems that many 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.

Although the recent trends in policy changes are generally positive in OIC countries, including the policies specifically targeted to FDI, investment regulatory frameworks in many of our countries are still inadequate. When the basic indicators on the business environment in OIC countries are considered, it seems that most of them do not have attractive institutional investment frameworks to facilitate starting new businesses, registering properties, dealing with licenses, enforcing contacts and protecting investors.

Given this state of affairs, this workshop is timely, and addressing a very important issue for OIC member countries. I am confident that the deliberations you will hold and the recommendations and proposals you will make will contribute significantly to achieve this important goal and, ultimately, enhance the collective welfare for our member countries. As we all look forward to the successful outcome of this workshop, I wish you all the success.

Thank you for your kind attention.

Wassalamu Alaykum we Rahmatullahi we Barakatuhu