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STRENGTHENING THE LINKS BETWEEN INTRA-OIC FDI AND REGIONAL INTEGRATION*

** Issued on the occasion of the discussion on "Increasing FDI flows to the OIC Member Countries", COMCEC Ministerial Meeting, Istanbul, Turkey, 18–21 November 2013.*

HIGHLIGHTS

Links between intra-regional foreign direct investment (FDI) and regional integration are weak in the Organization of the Islamic Cooperation (OIC) region.

Trends in FDI and intra-regional FDI in the OIC region have the following characteristics:

- FDI is concentrated only in a limited number of countries.
- FDI flows remain small relative to the size of the regional economy, in comparison with other developing regional groups.
- FDI is attracted to only a limited number of industries: intra-regional FDI is concentrated in telecommunications (through mergers and acquisitions (M&As)) and construction including real estate development (through greenfield investments).
- The United Arab Emirates (UAE) is by far the largest intra-regional investor, accounting for half of the total intra- regional FDI projects through M&As and greenfield investments.
- Intra-regional FDI recipient countries are more diversified. Egypt is the largest recipient.

There are challenges facing the advancement of intra-regional investment:

- Because of the high incidence of poverty in many OIC member states, including many least developed countries (LDCs), they should also take into account negative impacts of integration and investment liberalization.
- Several countries in the OIC's sub-regions produce and export similar products that compete with one another.
- Host country constraints, such as weak infrastructure and limited market access, explain the slow pace of integration.
- Attention is diverted away from efforts towards deeper integration in the region because of the increased number of bilateral agreements between OIC member states and non-OIC partners.

- The present regional investment agreement among OIC member states needs to be reviewed in light of the recent evolution in international investment policy making.
- A lack of political will and weak institutional capacity in some countries negatively impact intra-regional FDI and regional integration efforts.

Deeper regional integration would create a larger market where complementarities could emerge and where specialization in products and activities by different countries could also develop. Such a scenario would facilitate intra-regional FDI. In order to realize the potential for greater intra-regional FDI, therefore, governments in the OIC region are encouraged to do the following:

- Adopt policies on FDI that respond to the two principal forces of globalization – trade and investment flows – and ensure that trade and investment policies are coherent and coordinated.
- Use the opportunities offered by globalization and investment liberalization more effectively as a means to enhance regional economic integration.
- Foster public and private sector cooperation at the regional level (e.g. regional infrastructure projects), which is effective in promoting intra-OIC FDI.
- Support information and communication technology (ICT) development at the sub-regional level.
- Create a regulatory and policy environment that encourages cooperation and integration through firm production chains and corporate networks, thereby intensifying regional integration.
- Embed sustainable development in FDI policies at both national and sub-regional levels, and through the codes and business practices of transnational corporations (TNCs).

There are significant efforts for regional integration throughout the world including in the OIC and its several sub-regional groups. These efforts could lead, for the most part, to increased FDI by opening up sectors for investment and aligning policies for the treatment of foreign investors. This is made possible by the direct and indirect effects of trade and investment liberalization and market integration; by the harmonization of general policy frameworks, including those for investment; and by direct cooperation on investment projects at the regional level. The experience of long-established and successful regional groups such as the European Union (EU) and regional agreements such as the North-American Free Trade Agreement (NAFTA) suggests that regional economic integration provides a strong boost to intra-regional cross-border investment linkages. The Association of Southeast Asian Nations (ASEAN) and the EU have also demonstrated that regional economic intregration supports industrial growth, through relocation of production to lower-cost countries and specialization of production on a regional basis. However, such patterns have proved largely, though not entirely, more difficult to emulate in the OIC region.

Regional integration is a means to achieve comprehensive region-wide economic development through enhanced trade and investment. However, even if the OIC region considers this a strategically desirable option, the diversified social and political nature of the region as well as its geographical spread, means that full economic integration, for example, along the lines of the EU, may not be the objective or the model. Similarly, the experience of South-East Asia (ASEAN) or that of Latin America (e.g. MERCOSUR) may not necessarily be applicable as, unlike the OIC, these groups have fewer member states and show greater similarities among them, beyond just social and cultural characteristics. In contrast, the OIC contains as many as 57 economies that are spread over several continents. Each sub-region has its own historical, economical, political and cultural specificities. Having said this, and whatever the obstacles to success, regional integration could be one of the main driving forces for achieving common developmental objectives in the region.

This paper addresses intra-regional FDI as a result of regional integration in the OIC, based on the hypothesis that the higher the level of intra-regional FDI, the deeper the level of integration is likely to be. This hypothesis is based on the observation that countries linked by regional or international production networks – which are themselves an aspect of *de facto* regional integration – display high levels of intra-regional FDI. Within the OIC region, the share of intra-regional investment in total OIC investment is large, which would indicate a significant level of integration. However, the high share of intra-regional FDI is not necessarily a result of integration. Instead, it reflects the large investments made by only a few OIC countries in other OIC member states. The previous hypothesis therefore does not hold true for the OIC as a whole.

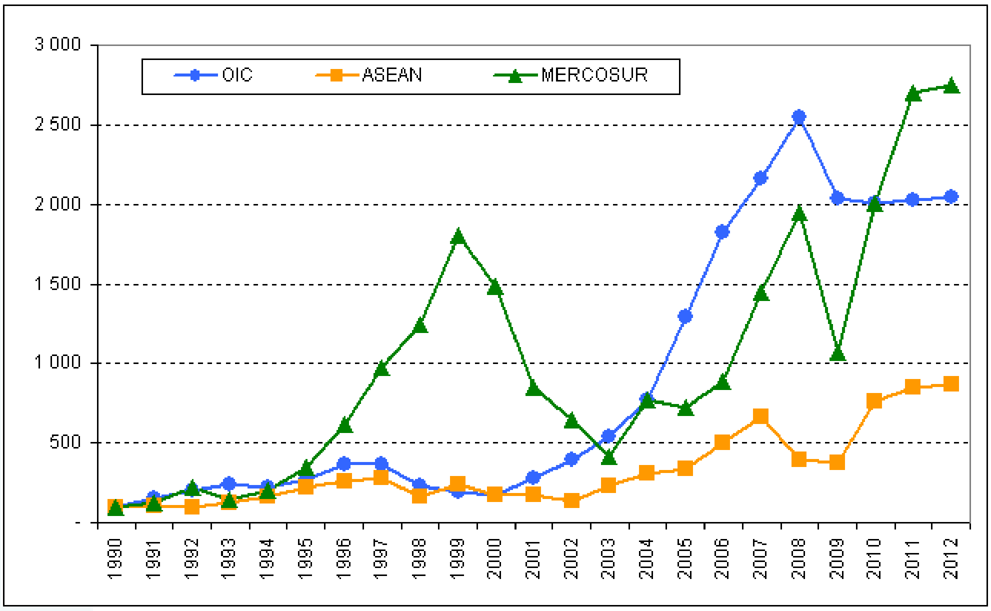
This paper starts with the discussion of trends in both FDI in the region and intra-regional FDI, followed by the problems and challenges faced by the OIC in advancing further intra-regional FDI. The paper concludes with policy suggestions to realize the potential of intra-regional FDI.

FDI in the OIC region

The OIC is a large international organization which includes members that belong to several sub-regional groupings. Some of these groupings contain members that are all also members of the OIC (e.g. the League of Arab States, the Gulf Cooperation Council (GCC), and the Arab Maghreb Union), while other groupings contain members that are not also members of the OIC (e.g. ASEAN, ECOWAS). Among all the sub-regional groupings of the OIC, the Arab region has the longest history of formal economic cooperation. Indeed, some of the first initiatives anywhere in the world to promote regional trade and investment integration took place in this region. As early as the 1950s and 1960s, Arab states had already concluded agreements aimed at fostering economic cooperation among themselves, such as the Arab Economic Unity Agreement (AEUA). The agreement was implemented by the Council of Arab Economic Unity, established in 1964. The objectives of the Council were to encourage the freedom of movement of individuals and capital; freedom of exchange of domestic and foreign goods; freedom of residence; freedom to work and engage in economic activity; freedom of transport, transit, and civil airport facilities; and freedom of ownership. In 1970, the Agreement on Investment and Free Movement of Arab Capital among Arab Countries was concluded to promote preferential investment treatment among Arab countries. This agreement was followed a year later by the conclusion of the Convention Establishing the Inter-Arab Investment Guarantee Corporation, further creating an enabling framework for investment flows within the region.

Despite these early efforts at economic integration in the Arab region, little impact can be seen on FDI until the beginning of the 2000s (figure 1). Only in the 2000s did the growth of FDI inflows pick up and outperform even the relatively more integrated regional groupings such as ASEAN and MERCOSUR. The growth of FDI in OIC during the period 2005–2008 is, however, led by a limited number of countries: Indonesia, Kazakhstan, Malaysia, Saudi Arabia, Turkey and UAE. If these six economies are excluded from total OIC inflows, then the amount of FDI to the OIC is much smaller than the 10 ASEAN countries or the five MERCOSUR countries.

Figure 1. FDI inflows index of selected regions, 1990–2012
(Base 100: 1990)



Source: UNCTAD, FDI/TNC database.

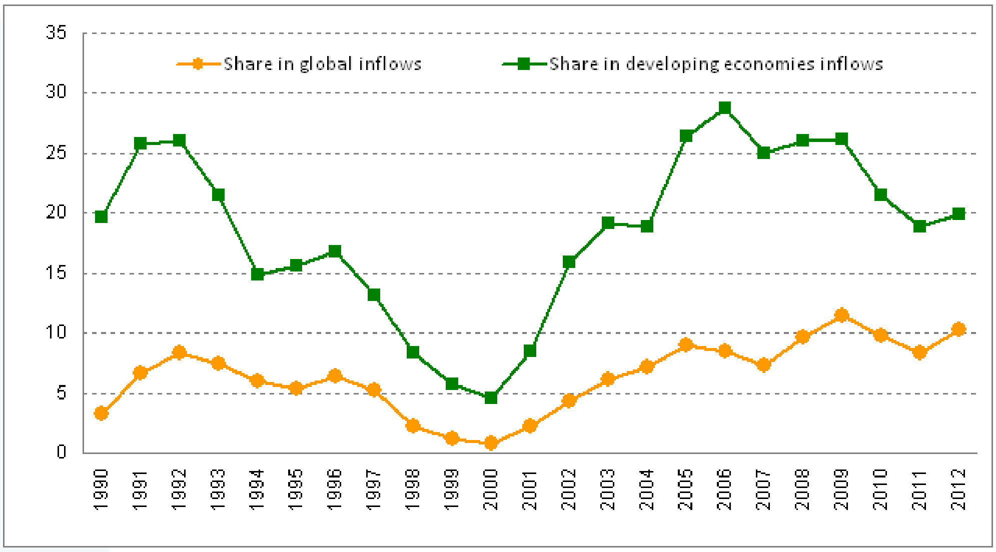
The 57 OIC member countries have been attracting FDI flows throughout the 2000s, from a low of less than 2% of global FDI inflows in 2000, to about 10% of global flows in 2012 (figure 2). The observed increase is mainly due to a sharp rise of FDI inflows in the oil sector (particularly downstream activities), and to infrastructure and services (banking and telecommunications) partly as a result of privatization. However, since the global financial crisis, flows have fallen off their peak. The dramatic rise in FDI flows to the OIC at the beginning of the 2000s is partly a result of increased flows to the GCC countries, from a relatively modest $1 billion a year average between 1990 and 2000, to $28 billion a year average between 2001 and 2012. This growth can largely be explained by the policy shift towards the increased liberalization of FDI flows, improved economic cooperation among the GCC (for example, the Economic Agreement between GCC States, signed on 31 December 2001)[1], together with new business opportunities offered by the surge in oil revenues.

By geographical sub-region, South-East Asia (including Indonesia and Malaysia) and West Asia (including all GCC states) are relatively more competitive in terms of attracting substantial FDI from investors both within and outside the OIC region. Most traditional determinants of FDI are in place: a big market, abundant natural resources, a qualified and cheap labour force, and an investor-friendly business climate. This climate includes a legal framework constituting a large number of bilateral investment treaties and favourable domestic investment laws which grant, among other things, national treatment, prohibitions against expropriation, and the freedom of transfer of funds. In other sub-regions, Sub-Saharan Africa's abundant natural resources have attracted investment both during and after the global economic crisis.

The political situation is also relatively stable in comparison to other regions outside the OIC, though some after-shocks of the Arab Spring may interrupt FDI flows to certain countries. But despite the political uncertainty, FDI flows to many OIC countries in West Asia, South-East Asia and Sub-Saharan Africa are relatively small. To summarize, main characteristics of FDI trends include the following:

[1] This agreement highlighted the need to "enhancing local, external, and intra-GCC investment levels, and provide an investment climate characterized by transparency and stability" (Article 5).

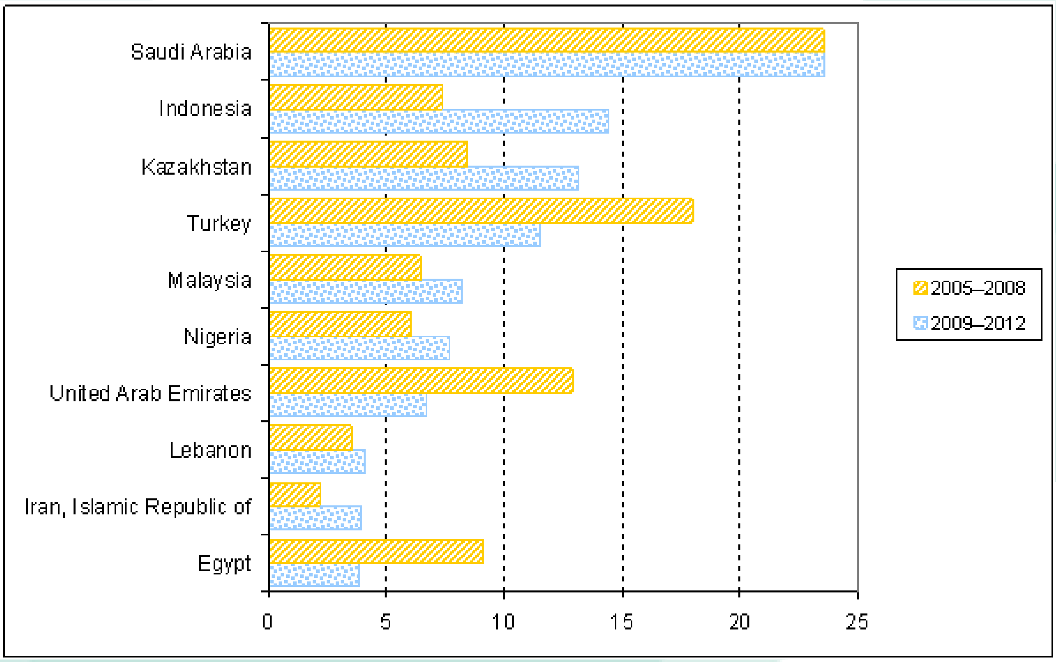
Figure 2. Inflows to OIC: Share in global inflows and in developing countries inflows, 1990–2012
(Per cent)



Source: UNCTAD, FDI/TNC database.

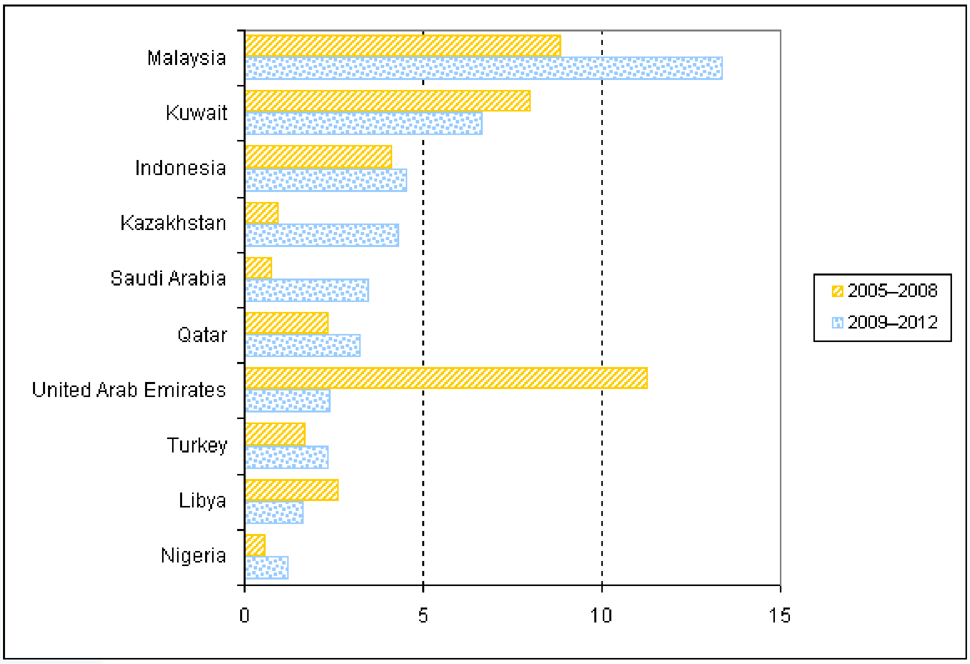
- FDI is concentrated in a limited number of OIC countries. During 2009-2012, the top five countries, Saudi Arabia, Indonesia, Kazakhstan, Turkey and Malaysia, were responsible for half of FDI inflows to OIC member states (figure 3). Malaysia, Kuwait, Indonesia, Kazakhstan and Saudi Arabia accounted for about 70% of FDI outflows (figure 4).

Figure 3. Top 10 host economies for FDI: FDI inflows, average 2005–2008 and 2009–2012
(Billions of dollars)



Source: UNCTAD, FDI/TNC database.

Figure 4. Top 10 home economies for FDI: FDI outflows, average 2005–2008 and 2009–2012
(Billions of dollars)

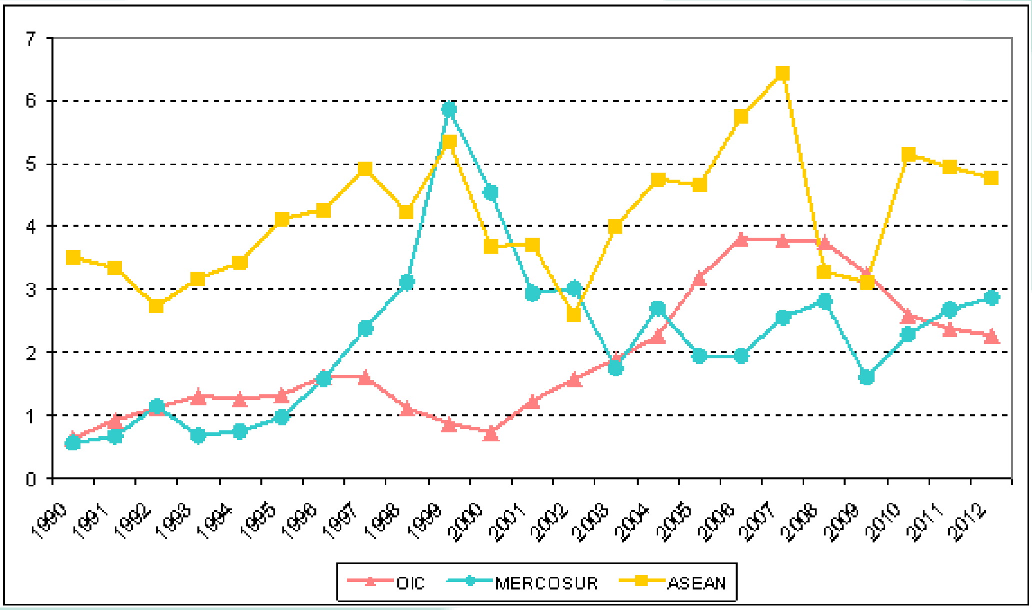


Source: UNCTAD, FDI/TNC database.

- Major recipient countries of FDI tend to also be major investors: Indonesia, Kazakhstan, Saudi Arabia, Malaysia, Turkey and the UAE are typically such countries. Only Kuwait appears among the top investors, but not among the top recipients. This implies that the bulk of investments among OIC countries are accounted for by these countries (see the next section).

- As a share of GDP (sometimes used as a proxy for the contribution of FDI to economic activity), FDI flows to OIC member states remain small: 2%, compared with 4% for ASEAN and 3% for MERCOSUR (figure 5).

Figure 5. FDI flows as percentage of GDP in OIC, compared with ASEAN and MERCOSUR, 1990–2012
(Per cent)



Source: UNCTAD, FDI/TNC database.

- Furthermore, FDI flows to the OIC region are concentrated in selected industries: for example, in the oil and gas sector (downstream activities) and services in GCC, mining and other natural resources in sub-Saharan Africa, and manufacturing in South-East Asia.

Because of the relative underperformance of FDI in many OIC countries, there is a great incentive to try to coordinate investment promotion measures and investment regulation. OIC countries should, at least at the sub-regional level, work towards achieving a common vision on how best to attract and to benefit from FDI for their economic growth and sustainable development.

Intra-regional FDI in the OIC

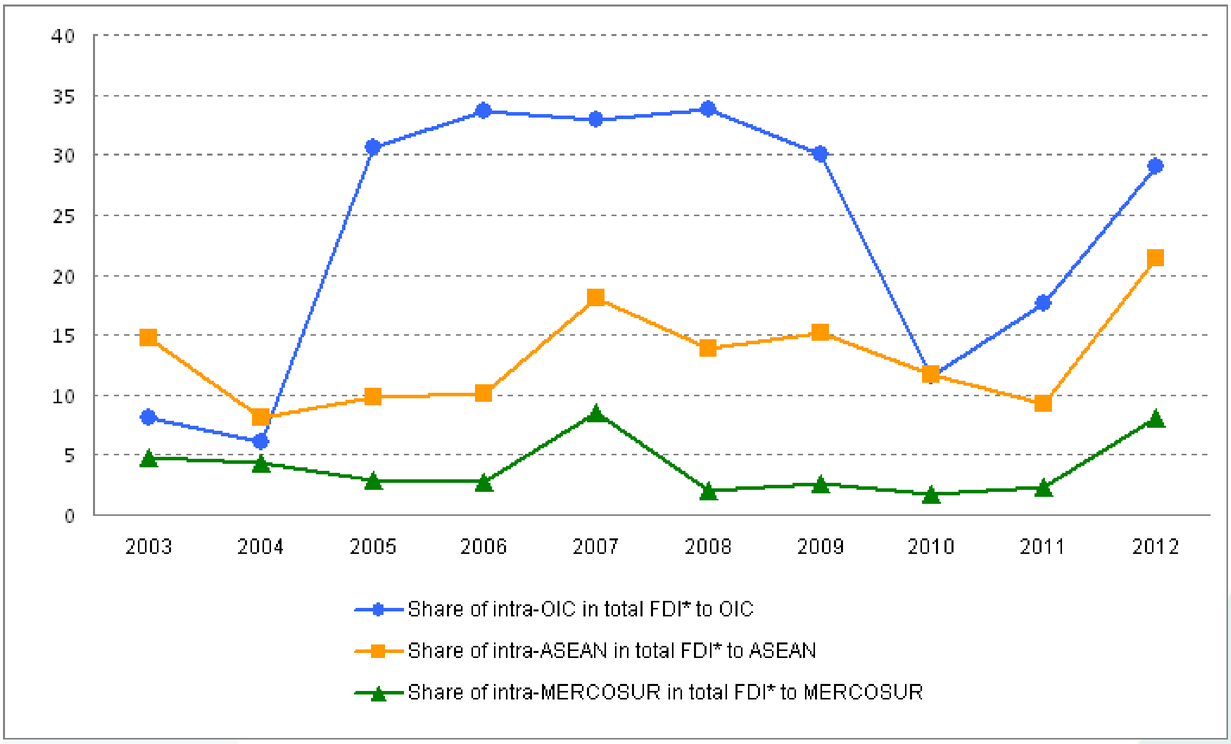
The above characteristics suggest that there is scope for further increases in FDI to the OIC region. One means of doing so is to increase investments among OIC member states. This potentially entails the intensification of efforts to formally (*de jure*) or informally (e.g. through firms) strengthen regional integration that will in turn lead to rising levels of FDI. However limited the FDI data are,[2] data show that intra-OIC FDI already accounts for a significant share of total FDI inflows to OIC countries, and is higher than that of ASEAN or MERCOSUR. At its peak, in the mid-2000s, it represented nearly 35% of total OIC FDI – a level which has still not been surpassed (figure 6). However, intra-OIC FDI is driven by a limited number of countries and industries only.

From the investors' point of view, based on data for the past decade, UAE is by far the largest intra-OIC investor, accounting for about half of total intra-regional FDI during this period, followed by Bahrain, Qatar, Kuwait and Saudi Arabia (table 1). However, Malaysia, which is the largest investor from the OIC, invests the bulk of its FDI outside the OIC (as mentioned above and in figure 4). Other large investors such as Indonesia and Kazakhstan also invest in non-OIC countries (thus not featuring as large intra-OIC investors). The share of investment in the OIC region from these investors ranged from 12% (Malaysia) to 100% (Bahrain) in the past five years (2008–2012) (figure 7).

Intra-OIC FDI is more diversified among recipient countries. Egypt is the largest recipient, followed by Tunisia, Libya, Indonesia and Iraq. Other than Egypt, all other top 10 recipients received almost the same level of investments from other OIC countries. As a source of FDI, OIC economies accounted for 18% of total FDI, during 2008–2012, in Malaysia and Turkey to more than half in Egypt, Tunisia, Jordan, and Libya (figure 8).

[2] Many OIC countries do not compile FDI by source or destination. Therefore, data in the intra-regional FDI refer to both cross-border M&As and greenfield investments. These data are not necessarily FDI.

Figure 6. Intra-regional FDI[a], 2003–2012
(Shares in per cent)



Source: UNCTAD, cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

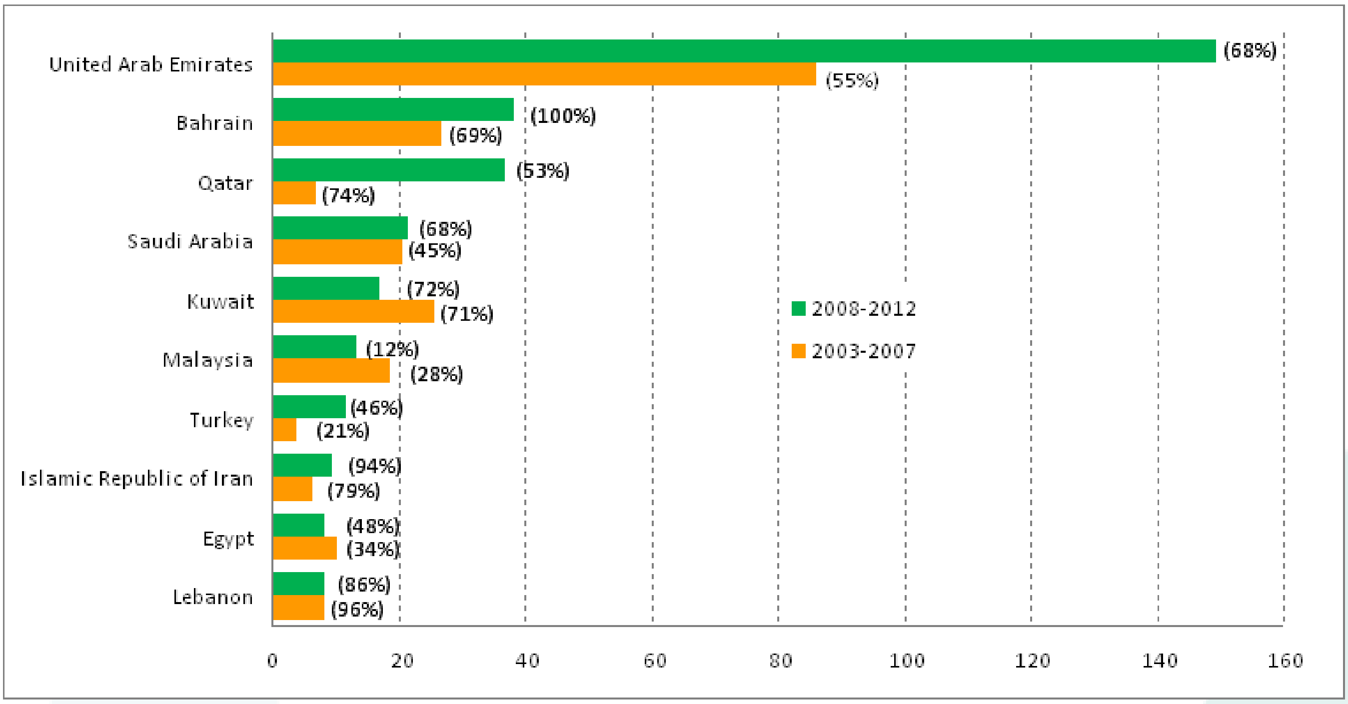
[a] Comprised of greenfield investments and net cross-border M&As. Note that the nature of these two data sets is different. Therefore the sum of these two investments is not equal to FDI inflows. It should be considered an indication of FDI.

Table 1. Intra-OIC investment matrix, cumulative 2003–2012
(Millions of dollars)

Top 10 intra-OIC recipients	Top 10 intra-OIC investors: United Arab Emirates	Bahrain	Qatar	Kuwait	Saudi Arabia	Malaysia	Egypt	Lebanon	Iran, Islamic Republic of	Turkey	Others	Total
Egypt	35 781	99	15 862	6 748	3 494	2 524	-	6 440	1 559	333	1 076	73 916
Tunisia	32 287	6 000	- 805	1 466	48	-	19	9	-	653	113	39 791
Libya	2 855	25 214	2 527	139	32	2 413	209	-	-	255	4 973	38 616
Indonesia	10 063	42	2 291	228	2 823	11 771	469	-	5 600	51	507	33 843
Iraq	22 895	1 239	-	939	115	-	672	5 853	507	513	586	33 320
Turkey	3 936	-	234	1 551	12 988	14	616	112	225	-	13 080	32 755
Saudi Arabia	12 385	868	4 308	473	-	3 301	5 129	89	-	222	1 945	28 719
Algeria	16 637	-	2 000	1 000	926	-	5 978	57	159	208	1 275	28 240
United Arab Emirates	-	1 033	2 354	7 637	5 138	896	998	1 339	55	749	3 882	24 080
Jordan	14 764	2 715	800	2 126	3 215	-	- 364	178	-	101	210	23 744
Others	83 381	27 252	13 972	19 874	12 910	10 611	4 454	1 906	7 360	12 201	10 838	204 759
Total	**234 982**	**64 462**	**43 542**	**42 181**	**41 689**	**31 529**	**18 179**	**15 983**	**15 464**	**15 286**	**38 485**	**561 782**

Source: UNCTAD, cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: FDI here is comprised of greenfield investments and net cross-border M&As. Note that the nature of these two data sets is different. Therefore the sum of these two investments is not equal to FDI inflows. It should be considered as an indication of FDI.

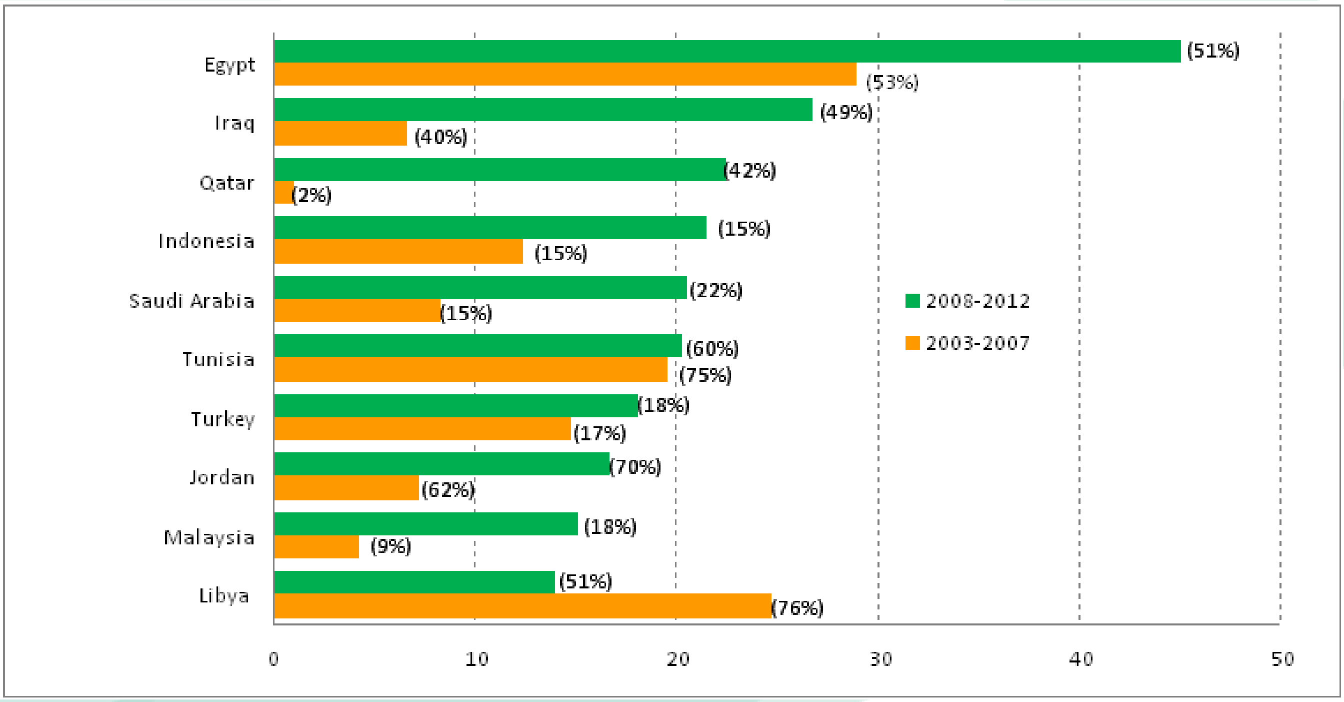
Figure 7. Ten largest intra-OIC investors, cumulative 2003–2007 and 2008–2012
(Billions of dollars and per cent)



Source: UNCTAD, cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: FDI here is comprised of greenfield investments and net cross-border M&As. Note that the nature of these two data sets is different. Therefore the sum of these two investments is not equal to FDI inflows. It should be considered an indication of FDI. Figures in parenthesis show the share of OIC in the total outward FDI of each investor.

Figure 8. Ten largest OIC recipients, cumulative 2003–2007 and 2008–2012
(Billions of dollars and per cent)



Source: UNCTAD, cross-border M&A database and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

Note: FDI here is comprised of greenfield investments and net cross-border M&As. Note that the nature of these two data sets is different. Therefore the sum of these two investments is not equal to FDI inflows. It should be considered an indication of FDI. Figures in parentheses show the share of OIC in the total inward FDI of each recipient.

Large intra-OIC investments are concentrated in telecommunications (mainly through M&As) and construction (mainly through greenfield investments) with some investments in natural resources and refinery industries (tables 2 and 3). The limited number of target industries reflects the limited comparative advantages of the investors as well as the needs of host countries. Nevertheless increasing intra-regional FDI in various industries is one of the driving forces of OIC integration, and for achieving complementarities in various industries among individual member countries.

Table 2. Intra-regional cross-border M&A deals in the OIC countries worth over 1 billion, 2003–2012

Year	Value ($ billion)	Host economy	Acquired company	Industry of the acquired company	Acquiring company	Acquiring nation
2005	6.6	Turkey	Turk Telekomunikasyon AS	Telecommunications	Oger Telecom	United Arab Emirates
2007	3.8	Kuwait	National Mobile Telecommunications Co KSC {Wataniya}	Telecommunications	Qatar Telecom QSC{Qtel}	Qatar
2005	3.1	Indonesia	Hanjaya Mandala Sampoerna Tbk PT	Cigarettes	Philip Morris Indonesia PT	Indonesia
2007	3.0	Malaysia	Binariang GSM Sdn Bhd	Telecommunications	Saudi Telecommunications Co	Saudi Arabia
2012	3.0	Kazakhstan	Karachaganak Petroleum Operating BV	Crude petroleum and natural gas	AO Natsionalnaya Kompaniya "KazMunaiGaz"	Kazakhstan
2008	2.9	United Arab Emirates	Oger Telecom	Telecommunications	Saudi Telecommunications Co	Saudi Arabia
2006	2.6	Pakistan	Pakistan Telecommunication Co Ltd	Telecommunications	Emirates Telecommunications Corp{ETISALAT}	United Arab Emirates
2006	2.3	Tunisia	Tunisie-Telecoms	Telecommunications	Investor Group	United Arab Emirates
2008	2.1	Turkey	Petkim Petrokimya Holding AS {Petkim}	Petroleum refining	Investor Group	Kazakhstan
2005	2.0	Indonesia	Hanjaya Mandala Sampoerna Tbk PT	Cigarettes	Philip Morris Indonesia PT	Indonesia
2011	1.9	Malaysia	RHB Capital Bhd	Investment advice	Aabar Investments PJSC	United Arab Emirates
2012	1.9	Kuwait	National Mobile Telecommunications Co KSC {Wataniya}	Radiotelephone communications	Qatar Telecom QSC{Qtel}	Qatar
2008	1.8	Indonesia	Indonesian Satellite Corp PT {Indosat}	Telecommunications	Qatar Telecom QSC{Qtel}	Qatar
2003	1.8	Egypt	Egyptian LNG	Natural gas liquids	Petroliam Nasional Bhd {PETRONAS}	Malaysia
2008	1.5	Kazakhstan	AES Corp-Ekibastuz coal-fired power plant	Electric services	Kazakhmys Power BV	Kazakhstan
2007	1.4	Egypt	Egyptian Fertilizers Co SAE	Nitrogenous fertilizers	Abraaj Capital Ltd	United Arab Emirates
2005	1.4	Turkey	Yapi Ve Kredi Bankasi AS	Banks	Koc Finansal Hizmetler AS	Turkey
2006	1.3	Sudan	MobiTel	Radiotelephone communications	Mobile Telecommunications Co Kuwait	Kuwait
2008	1.2	Malaysia	RHB Capital Bhd	Investment advice	Abu Dhabi Commercial Bank PJSC	United Arab Emirates
2011	1.2	Tunisia	Orascom Telecom Tunisie SA	Telecommunications	Investor Group	Kuwait
2008	1.2	Iraq	IRAQNA Company for Mobile Phone Services Ltd	Telecommunications	Zain Group	Bahrain
2008	1.1	Turkey	Turkiye Finans Katilim Bankasi AS	Banks	National Commercial Bank	Saudi Arabia
2007	1.0	Kazakhstan	KazGerMunai	Crude petroleum and natural gas	KazMunaiGas Exploration & Production JSC	Kazakhstan
2006	1.0	Kazakhstan	KazGerMunai	Crude petroleum and natural gas	AO Natsionalnaya Kompaniya KazMunaiGaz	Kazakhstan

Source: UNCTAD cross-border M&A database (www.unctad.org/fdistatistics).

Table 3. Intra-regional greenfield FDI projects in the OIC countries worth over 3 billion, 2003–2012

Year	Estimated amount ($ million)	Destination country	Sector industry	Key business function	Source (investing) country	Investing company
2006	20 000	Libya	Real Estate, Residential building construction	Construction	Bahrain	Tameer Holding
2007	14 000	Tunisia	Real Estate, Residential building construction	Construction	United Arab Emirates	Sama Dubai
2009	10 000	Qatar	Real Estate, Industrial building construction	Construction	Bahrain	Gulf Finance House (GFH)
2008	10 000	Iraq	Real Estate, Real estate services	Construction	United Arab Emirates	Al Maabar International
2008	10 000	Kazakhstan	Real Estate, Real estate services	Construction	Bahrain	Gulf Finance House (GFH)
2008	10 000	Jordan	Real Estate, Real estate services	Construction	United Arab Emirates	Al Maabar International
2008	10 000	Tunisia	Real Estate, Real estate services	Construction	United Arab Emirates	Al Maabar International
2009	9 000	Egypt	Real Estate, Residential building construction	Construction	Qatar	Barwa Real Estate
2007	5 600	Indonesia	Coal, Oil and Natural Gas, Petroleum refineries	Manufacturing	Iran, Islamic Republic of	National Iranian Oil Engineering and Construction (NIOEC)
2005	5 400	Algeria	Metals, Alumina & aluminium production and processing	Manufacturing	United Arab Emirates	Dubai Aluminium
2007	5 400	Egypt	Real Estate, Residential building construction	Construction	United Arab Emirates	DAMAC Holding
2008	5 000	Morocco	Coal, Oil and Natural Gas, Petroleum refineries	Manufacturing	United Arab Emirates	International Petroleum Investment Company (IPIC)
2008	5 000	Tunisia	Leisure & Entertainment, Performing arts, spectator sports, & related	Construction	United Arab Emirates	Bukhatir
2008	5 000	Malaysia	Coal, Oil and Natural Gas, Petroleum refineries	Manufacturing	Kuwait	Gulf Petroleum Investment (GPI)
2008	5 000	Algeria	Real Estate, Real estate services	Construction	United Arab Emirates	Societe des Parcs d'Alger
2009	4 800	Malaysia	Coal, Oil and Natural Gas, Oil & gas extraction	Manufacturing	Iran, Islamic Republic of	National Iranian Oil Engineering and Construction (NIOEC)
2008	4 000	Egypt	Real Estate, Real estate services	Construction	Lebanon	Solidere
2005	4 000	Syrian Arab Republic	Real Estate, Real estate services	Construction	Kuwait	Aref Investment Group
2009	4 000	Indonesia	Metals, Alumina & aluminium production and processing	Manufacturing	United Arab Emirates	Trimex Group
2005	3 900	Egypt	Real Estate, Residential building construction	Construction	United Arab Emirates	Emaar
2012	3 600	Egypt	Coal, Oil and Natural Gas, Petroleum refineries	Manufacturing	Qatar	Qatar Petroleum International
2006	3 500	Egypt	Real Estate, Residential building construction	Construction	United Arab Emirates	Al-Futtaim Group
2008	3 500	Qatar	Leisure & Entertainment, Performing arts, spectator sports, & related	Construction	Bahrain	Arcapita Bank
2005	3 400	Syrian Arab Republic	Hotels & Tourism, Accommodation	Construction	United Arab Emirates	Emaar Properties
2008	3 200	Bahrain	Real Estate, Real estate services	Construction	Kuwait	Kuwait Finance House
2009	3 079	Iraq	Real Estate, Commercial & institutional building construction	Construction	United Arab Emirates	Bonyan International Investment
2007	3 000	Indonesia	Alternative/Renewable energy, Biomass power	Electricity	Malaysia	Genting Biofuels Asia Pte Ltd
2009	3 000	Tunisia	Real Estate, Real estate services	Construction	Bahrain	Gulf Finance House (GFH)
2006	3 000	Iraq	Coal, Oil and Natural Gas, Petroleum refineries	Manufacturing	Lebanon	Make Oil
2007	3 000	Tunisia	Real Estate, Real estate services	Construction	Bahrain	Gulf Finance House (GFH)
2009	3 000	Turkey	Food & Tobacco, Crop production	Manufacturing	Saudi Arabia	Planet Food World (PFWC)
2007	3 000	Saudi Arabia	Metals, Alumina & aluminium production and processing	Manufacturing	Malaysia	MMC (MMC Corporation Berhad)
2008	3 000	Iraq	Real Estate, Residential building construction	Construction	United Arab Emirates	Bonyan International Investment
2008	3 000	Iraq	Real Estate, Real estate services	Construction	United Arab Emirates	Gas Cities LLC

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: Data refer to estimated amounts of capital investment.

Within this context, other successful economic integration experiences should be considered. In ASEAN and MERCOSUR, for example, integration was consolidated by a network of regional agreements with substantive provisions on services and investment, particularly for the former. In the case of ASEAN, these were the Framework Agreement on Services, the Agreement on the Promotion and Protection of Investment (amended by the 1996 Protocol), the Framework Agreement on the ASEAN Investment Area (1998) and then the ASEAN Economic Community in 2015. In the case of Latin America, the Colonia Protocol for the Promotion and Protection of Investments within MERCOSUR (1994 although not ratified) and the Protocol of Montevideo on Trade in Services (1997), have not only encouraged intra-regional trade and investment, but also made it easier for foreign companies to access the markets of the whole region once they are established in any one member country. Member states, particularly those of ASEAN, are deeply integrated through investment and interlocking production networks within the region, a characteristic not observed in the OIC or its sub-regions.

Problems and challenges faced by the OIC in advancing intra-regional FDI

OIC member countries have attracted FDI flows, though they remain relatively small in comparison to the size of their GDP. There is, therefore, scope for further increases in the future, as countries strengthen their economic fundamentals and enhance their FDI regulatory framework. However, the diversity of OIC member countries, both in terms of their geographic distribution and level of economic development, poses significant obstacles to the process of integration and boosting intra-regional FDI. There are six main obstacles:

First, in terms of their level of development, poverty and inequality are widespread and remain a serious challenge to policymakers in many OIC countries. There are 20 LDCs[3] in the region, accounting for more than one third of OIC member states. Not only do these countries not attract much FDI (except Mozambique and Uganda), but also large segments of the population in these countries who live in poverty and are highly vulnerable could be negatively affected by further regional trade and/or investment liberalization. In considering the benefits of economic integration and regional development, such as faster economic growth and poverty reduction, it is also important to factor in the potential downside risks of integration and investment liberalization, which may result in the opposite effect on certain sections of the population.

Second, countries in many OIC sub-regions produce and export similar products that compete with one another from the same region. In sub-regions such as North Africa and the GCC, economies lack complementarities in products and markets. However, expanding the geographical coverage of OIC sub-regions to the OIC region as a whole could produce increasing complementarities in products and a larger market, for example between oil producing economies and other countries with the requisite skilled and unskilled human resources. Historically, the oil producing countries have tended, often for political reasons, to import foreign personnel from developed countries or other developing countries, but in the future could source these resources from advanced OIC countries (e.g. Malaysia).

Third, the existence of many host country constraints among OIC members could explain the slow pace of regional integration and wider integration within the global economy. These include: weak infrastructure and business support institutions; limited market access to other OIC member states for natural resource exports (from oil producing OIC countries), for agricultural exports (from African OIC countries) and for manufacturing exports (from Asian OIC countries); weak host country demand; and an absence of investment facilitation and promotion measures.

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[3] They are Afghanistan, Bangladesh, Benin, Burkina Faso, Chad, Comoros, Djibouti, Gambia, Guinea, Guinea-Bissau, Mali, Mauritania, Mozambique, Niger, Sierra Leone, Somalia, Sudan, Togo, Uganda and Yemen.

Fourth, OIC regional integration efforts compete with an increasing number of bilateral and regional trade agreements (which also often include investment chapters) between OIC countries and non-OIC parties, mainly the EU, Japan and the United States of America, or inter-regional agreements (such as the Trans-Pacific Partnership) covering both OIC member states and non-OIC member states. Bilateral and regional agreements may oblige partner countries to make deep commitments on a wide range of issues, including investment, government procurement, and intellectual property rights. As a result, these bilateral or regional agreements substantially reduce the space for national policy instruments available to OIC policymakers and compete with OIC efforts towards its own deeper regional integration.

Fifth, related to the above, existing regional investment agreements, if any, at national and sub-regional levels need to be revised in light of the recent evolution of international investment rulemaking. To a large extent, the domestic frameworks covering investment (national laws on investment) in OIC member countries tend towards liberalization and create a business-friendly environment. This orientation is geared towards encouraging FDI from non-OIC member states, without specifically targeting intra-regional investments. A need therefore exists to better balance agreements between those among OIC members and those with non-OIC partners, as well as to give attention to regional investment commitments at the sub-regional level, for example, the GCC and the Arab Maghreb Union.

Lastly, lack of political will and weak institutional capacity directly and indirectly affects intra-regional FDI and regional integration. For example, a question mark remains over the political will among OIC member states to push for an integrated approach to intra-regional investment flows. At present, no robust framework agreement for the liberalization of investment exists in the region. A regionally coordinated approach to the liberalization of investment regimes of individual countries with a view to increasing intra-regional investment flows would be an important step in this respect. Similar problems of weak political will and institutional capacity affect the trade area, for example, in reducing tariff and non-tariff trade barriers. These can, in turn, have an impact on investment flows given the close relationships between trade and investment.

The way forward: realizing the potential for intra-regional FDI

Successful regional integration would create a large market where complementarities could emerge and where specialization in products and activities by different countries could also develop. UNCTAD has consistently argued that the development of regional markets and regional integration can boost competitiveness at the national and regional level and act as a stepping stone to greater competitiveness at the international level.

The main economic policy challenge for the OIC today is to leverage the opportunities arising from globalization and use investment more effectively as a vehicle for regional economic integration. OIC countries need to adopt active trade, investment and industrial policies not only at the national level but at a regional level too.

As trade-related measures affect FDI, it is important that OIC members address tariff reduction/elimination, and also trade facilitation measures, such as regional cooperation in the area of transport. One area of great potential for OIC economic integration is increased cooperation in regional infrastructure projects such as electricity, roads and seaports. Public and private sector cooperation could be very effective in this area and strengthened infrastructure will, in turn, attract more export-oriented FDI and facilitate integration into regional and global value chains.

Another major driving factor behind growth and development of this region that is spread over different continents is the installation of sound information and communication technology (ICT) and cooperation for its harmonization. This could allow the OIC to link seamlessly all different sub-regional groups while helping to contribute to growth and economic diversification. However, this would require support at the regional level to promote specific architecture and technology to uniform all different standards in the area of ICT.

Looking at the case of ASEAN (whose members include three OIC countries), regional integration was initially driven by the private sector and regionally based companies. Subsequently, formal institutions were established and mechanisms were put in place to speed up the pace of cooperation. In many other sub-regions of the OIC, while formal and institutional frameworks exist, integration at the private sector level is very weak. For example, corporate networks and the formation of global value chains by TNCs are missing. In addition to giving attention to formal mechanisms for cooperation and regional institutions to facilitate this, member countries also need to make greater efforts to create an environment conducive to firm integration along regional and global value chains.

In seeking to boost intra-regional FDI and encourage regional integration, OIC countries, like many other developing countries, should pursue FDI policies that are rooted in a sustainable development agenda and that aim to achieve regional as well as sub-regional development targets. Investment policy should be set within a framework that clearly identifies sustainable development. At the same time, OIC member states will need to offset any adjustment costs as a result of deeper integration at the regional or international levels. Economic and social policies will therefore need to be better coordinated between individual countries. Indeed, developing a regional policy on how best to tackle poverty, and any negative impacts of regional integration on the poor, is crucial. In the long run, links between regional trade/investment expansion and poverty reduction at the national level should aim at a more diversified regional economy, a more efficient utilization of productive capacities and their upgrading, and accumulation of physical, human and organizational capital in the entire region.

The next regular edition of UNCTAD's *Global Investment Trends Monitor* will be released in mid-January 2014.

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