By Dr. Fadi Khalaf
Secretary General, Arab Federation of Exchanges (AFE)

Attracting International Investors, How Ready Are We?

Like every region, we are keen to attract international investors. But first we should take into consideration their priorities. How ready are we?

To answer, let's make a checklist so we can shed the light on our strength and weak points.

GDP Growth Rate: According to the Arab Monetary Fund, Arab economies saw an average growth rate of a 1.9% in 2017, with the figure expected to rise to 3% in 2018. Which is still relatively low.

Attractive Return on Investment: Some Arab listed companies are offering dividend yields between 5% and 9%, combined with solid fundamentals. Some companies are traded with a PE ratio below 8 and PBV below 0.8 at the same time.

Tax Incentives: Taxes in the Arab region are way below the average tax in Europe and USA.

Investor Protection Law: Large efforts are made on this level, especially on the equal treatment and non-discrimination between national and foreign investment. Still there is more to do regarding this matter.

Full Disclosure and Transparency: Regulators are ensuring compliance with listing requirements and disclosure regimes. Still in some countries, Capital Market Authorities and Exchanges should benefit from strong political support to be able to accomplish their mission.

Political Stability: Despite the general instability in the Arab region, the Arab countries have overcome the threat of region instability through adapting their economies to this long term unfortunate situation.

Legislative Stability: Most of the Arab Regulators and Exchanges are starting to cope with international norms especially the IOSCO, WFE, OECD recommendations.

Absence of Capital Control: Except very few Arab countries, the region benefit from capital control free.

Adequate Financial Network (Banks, CSDs…): The financial network in the Arab region is well known to be one of the pillars of the economy with a well-developed financial network, offering the foreign investor all the needed financial services.

Relevant Infrastructure and Human Capital: Infrastructure and human capital differ in each country. Fortunately, the oil resources permitted some Arab countries to build a high standard infrastructure especially in the GCC region.

Dedicated Market for SMEs: Several Arab countries already created a dedicated market for SMEs, and several other countries are in the process of creating such markets.

Startups Incentives: Some Arab countries are considering to offer incentives for the Start-up companies dedicating some incubators facilities to them.

Rating Agencies Coverage: Unfortunately, the rating agencies coverage is mainly limited to the financial institutions in the region. Large efforts should be done on this level.

Acceptable Sovereign Risk: Most of the Arab countries profit from an acceptable Sovereign risk evaluation, except for the countries suffering from military issues.

Sectors Diversification: Except few Arab exchanges, the sectors diversification is not yet at its attractive level. Lots of efforts should be done. The SPAFE 40 index sector breakdown shows that the financials represent 62.36%, materials 12.41%, telecommunication 11.90%...

Exchange Rate Stability: Except for the countries affected by the Arab Spring, the remaining countries profit for a stable exchange rate especially those with currencies pegged to the Dollar.

Foreign Ownership Allowance: Large improvement was made on this level, as example:

- Dubai: Law to allow 100% foreign ownership for non-oil onshore business sectors expected in Q4 2018
- Saudi Arabia: Foreign ownership raised from 20% to 49% since September 2016

An Exit Platform (A Liquid Exchange): Unfortunately, during downtrends and consolidation periods, the Arab Exchanges suffer from lack of liquidity. Several efforts are conducted now in order to provide the right tools to enhance this liquidity.

Dr. Fadi Khalaf
Secretary General
Arab Federation of Exchanges (AFE)