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THE ROLE OF FOREIGN DIRECT INVESTMENT IN ECONOMIC DEVELOPMENT IN ESCWA MEMBER COUNTRIES

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Preface

The present study was prepared by the ESCWA Economic Development Issues and Policies Division in implementation of the activity on "The role of foreign direct investment (FDI) in economic development in ESCWA member States" under the Commission's programme of work for the biennium 1998-1999.

The ESCWA secretariat would like to express its appreciation to Mohammed Sakr and Mohammed Quotah, the two consultants who conducted the surveys of companies in Egypt and Saudi Arabia respectively, on which the analysis of FDI in these two countries is based. Their contribution to this study was invaluable.

In view of the confidential nature of some of the data compiled on the above companies, the names of the companies have not been listed in this study.

Executive summary

The purpose of the present study is to analyse the inflow of foreign direct investment (FDI) to the ESCWA region, and the impact of this FDI on various economic sectors and activities. The analysis covers the share of the ESCWA region in the global inflow, the conditions of the inflow and the role that FDI plays in the economies of the ESCWA member States. The analysis also covers the status of FDI in the ESCWA region, as well as the relevant domestic arrangements, including the application of sound and investment-friendly macroeconomic policy and the promotion of regional economic cooperation. An in-depth analysis of the status, conditions and impact of FDI on the economy of two ESCWA member countries, Egypt and Saudi Arabia, is contained in the case studies in chapter III below. These two countries were chosen for inclusion in the case studies because of their relative significance in attracting FDI. Egypt was also chosen because it represents a more diversified economy in contrast to Saudi Arabia, which represents an oil economy. The analysis is based on a survey conducted in the two countries and the results show a mixed picture in terms of the impact of FDI on the two economies concerned. In Egypt, the inflow of FDI has been more stable and more diversified, while in Saudi Arabia it has been volatile and concentrated on one sector only, namely the industrial sector. In terms of the impact of FDI, it has been more positive in Egypt, where it has led to greater employment-generation in various industries and to the transfer of technology, though of a relatively limited nature, as well as a moderate increase in export promotion. In Saudi Arabia, the impact has been limited to large industrial joint projects with public sector participation. More than 80 per cent of the FDI inflow to Saudi Arabia goes to the industrial sector, and more than 87 per cent of this goes to the chemical industries, which include the petrochemical industry. The effect of FDI on the Saudi Arabian economy has been rather limited because of this high concentration of FDI inflows to only one economic sector. The impact has been positive with regard to the quality of products. In addition, there has been a relatively positive impact on technology transfer and a limited impact on employment generation for Saudi Arabian nationals.

The underlying objective of this study is to provide policy makers in the region with a set of policy recommendations based on the study's findings, in particular the results of the above-mentioned surveys conducted in Egypt and Saudi Arabia. The recommendations are directed specifically to issues concerned with attracting FDI and promoting its role in the economies in the region as a complementary source of savings and investment. The study shows that ESCWA member countries will need higher inflows of FDI to support increased growth rates in the future.

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ABBREVIATIONS AND ACRONYMS

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
b/d	barrels per day
BOO	build, own and operate
BOOT	build, own, operate and transfer
BOT	build, operate and transfer
CIS	Commonwealth of Independent States
EU	European Union
FDI	foreign direct investment
GAFI	General Authority for Investment and Free Zones (Egypt)
GCC	Gulf Cooperation Council
GDP	gross domestic product
IAIG	Intra-Arab Investment Guarantee Corporation
ICSID	International Center for Settlement of Investment Disputes
IMF	International Monetary Fund
LE	Egyptian pound
MIGA	Multilateral Investment Guarantee Agency
M/b/d	millions of barrels per day
MW	megawatt
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Cooperation and Development
ODA	official development assistance
R and D	research and development
SABIC	Saudi Basic Industries Corporation
SRIs	Saudi Arabian riyals
TNC	transnational corporation
TQM	total quality management
UNDP	United Nations Development Programme
WTO	World Trade Organization

INTRODUCTION

Although the inflow of foreign direct investment (FDI) to the developing countries goes back to the 1940s and 1950s, its role had been limited both in terms of volume and diversification. The volume of FDI was very limited, both in absolute terms and as a percentage of gross domestic product (GDP). Furthermore, it was concentrated mainly in the primary sector (mining in particular). The role of FDI as a catalyst of economic growth and development gained momentum and importance during the first half of the 1980s. The decade of the 1980s witnessed several developments that led to the reshaping of economic policies in the majority of the developing countries. The eruption of the international debt crisis in 1982 was a major contributory factor in the shift of economic policies in these countries. The crisis led, among other things, to a sharp drop in the inflow of private financial resources, particularly bank lending, owing to the increase in bad debts associated with the crisis. The drop in bank lending, which was the major source of development finance, together with the economic stagnation and later drop in official development assistance (ODA), led to a sharp decline in economic growth in the majority of the developing countries, with the exception of East Asian and South-East Asian countries.

Moreover, the sharp fall in commodity prices led to a deterioration in the balance of trade in the majority of the developing countries that depend on the export of primary commodities. This, in turn, led to a deterioration in their external sectors, and hence created external imbalances.

In developing countries, a new conception of the role of FDI has emerged. Before the 1980s, the majority of the developing countries regarded FDI with suspicion. They either prohibited FDI inflows or limited the role of FDI to only a few activities, particularly those related to the primary sector. The revised thinking about the role of FDI stems from the fact that ODA has not been able to bridge, or narrow, the domestic savings-investment gap in the majority of these countries, while bank lending has been declining since the eruption of the international debt crisis in 1997. Moreover, the collapse of the former Soviet Union led to a diminished role for socialism as applied economic policy, not only in the former Soviet Union but in a large number of developing countries. Therefore, the notion of the market economy replaced socialist doctrine as an economic strategy in these countries, with only a few exceptions.

The economic transformation in the majority of the developing countries has been brought about through the introduction of economic reform programmes. One of the major objectives of these reforms has been the promotion of the role of private investment, including FDI.

FDI is preferred by the developing countries, owing to its relative stability compared with other forms of financial transfers such as bank lending and portfolio investment. Because FDI participates directly in the production process, it is more than a financial transfer. Its role goes beyond providing financial resources to direct participation in the productive sector. Moreover, owing to its involvement in the domestic production of goods and services, it is more stable during periods of economic crisis, in contrast with financial transfers, in particular bank lending and portfolio transfers. In addition, FDI is preferred because it leads to a transfer of modern technology, know-how, new management and marketing techniques. Therefore, it has a positive impact on productivity, efficiency and cost. FDI also has a direct spillover effect on the rest of the economy, not only in the sector with which it is directly involved. The spillover is achieved as a result of the interaction between the branches of the transnational corporations (TNCs) and the domestic firms. This cooperation and/or even competition for market and resources usually leads to an increase in productivity and efficiency in the domestic firms. In addition, FDI may lead to the upgrading of skills of the domestic labour force, which has a positive impact on the whole economy.

As a result of the new thinking about FDI and its role in economic development in the developing countries, as well as the conviction of these countries that FDI is important, demand for FDI has surged over the last decade. Tough competition for a higher share of global FDI prompted these countries to take measures to attract FDI, in the form of financial, fiscal and other incentives. A main objective of these incentives has been to complement, and sometimes to correct, the shortcomings in the domestic investment laws and regulations. However, the application of incentives (which will be reviewed below) should be evaluated against their cost to the budget, and they should be used as a temporary bonus, targeted at a specific sector or activity on a priority basis. This cost-benefit analysis should be positive and, in particular,

incentives should be offered on a temporary basis until the country's investment laws are upgraded. More important, the use of incentives should be part of the general economic deregulation and liberalization process and, therefore, the final goal should be more economic openness.

The inflow of private capital, in particular FDI, grew at an accelerated speed during the 1990s, recording higher growth rates than both world GDP and international trade.[1] The inflow of global FDI grew by an annual average of 20.4 per cent during the period 1991-1995, while world GDP grew by 5.5 per cent and world exports of goods and factor services grew by 8.9 per cent.[2] Although the growth of FDI subsequently decelerated, it remained much higher than the growth in both world GDP and world exports. While FDI grew by 18.8 per cent in 1997, world GDP grew by 6.0 per cent and exports of goods and non-factor services grew by 3.0 per cent.[3]

The share of the developing countries in the global inflow of FDI, though still below that of the developed countries, accelerated in recent years, increasing from an average annual of 18.3 per cent during the period 1988-1991 to 37.2 per cent in 1997. This increase, however, has been unevenly distributed among the developing countries. The highest share of the increase went to Asia, where the share jumped from US$ 19.6 billion on average during the period 1987-1992 to US$ 95.5 billion in 1997. Asia was followed by Latin America and the Caribbean, where the share also jumped, from an annual average of only US$ 12.4 billion during the period 1987-1992 to US$ 68.3 billion in 1997. Africa, however, did not participate in the growth of global FDI. The share of Africa rose only modestly during the same period, from US$ 3.0 billion to US$ 7.7 billion. Therefore, the share of Africa as a percentage of global inflow of FDI actually declined during that period. It fell from 1.8 per cent to 1.2 per cent, while as a percentage of inflow to the developing countries it dropped from almost 10 per cent to only 3.2 per cent.

In the ESCWA region, substantial progress has been made in economic reform since the early 1990s. Several countries have been implementing reforms, either on their own or in consultation and cooperation with the International Monetary Fund (IMF) and the World Bank. In addition, the countries in the ESCWA region have been generous in providing incentives—financial, fiscal and others—to attract a higher share of FDI. In terms of economic determinants of the inflow of FDI, which include the availability of natural resources, market size and skilled labour, ESCWA members, in general, can provide for such determinants. Several countries are rich in terms of natural resources; others enjoy a relatively large market size and relatively skilled labour. Substantive progress has been made in terms of macroeconomic policy determinants, particularly with regard to sound, predictable and investment-friendly policies, economic liberalization and deregulation, and regulatory frameworks as well as active privatization programmes. However, much effort is still needed to catch up with the rest of the developing countries. At the macro level, progress has been made by several countries in the region, particularly Egypt and Jordan, in reducing their respective internal imbalances, as shown by lower budget deficits and inflation rates. In the Gulf Cooperation Council (GCC) countries, Oman has been very active in terms of implementation of its privatization programme. Other countries in the ESCWA region are implementing economic reforms at a much slower rate and/or on an ad hoc basis. However, while there has been substantive progress at the macroeconomic level in terms of trade and capital liberalization as well as economic deregulation, the progress in reforming the institutional framework has been relatively slow.

Despite these efforts, the current level of inflow of FDI to the ESCWA region remains far below other regions. In 1998, for example, the total inflow of FDI to the ESCWA region was only US$ 4.4 billion, representing only 0.7 per cent of the world total and 2.7 per cent of the total inflow of FDI to the developing countries. Several factors contributed to this unsatisfactory performance of FDI in the region. They are analysed in chapter II below.

However, despite the current limited role played by FDI in the economic growth and development in the ESCWA region, its importance has prompted the ESCWA secretariat to give priority to this issue. The

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[1] UNCTAD, *World Investment Report, 1998: Trends and Determinants* (New York and Geneva, 1998), p. 2.

[2] Ibid.

[3] Ibid.

present study is one tangible aspect of the increased importance and priority given to FDI by ESCWA. The main conclusions of the study are based on surveys of companies with FDI participation in Egypt or Saudi Arabia. Those countries were selected on the basis of several factors, including the following:

(a) Egypt represents the countries with more diversified economies in the region, while Saudi Arabia represents the GCC countries;

(b) Egypt and Saudi Arabia represent the two most important countries in the ESCWA region in terms of FDI inflows;

(c) Data availability. The above-mentioned surveys were mainly based on a questionnaire for each company selected.

The present study comprises four chapters.

Chapter I deals with the issues of definition of FDI, its role in economic development and the conditions related to FDI inflow to a particular country and economy.

Chapter II analyses the global and regional setting of FDI, the global inflow and the regional distribution among various regional groups, including, in more detail, FDI inflow and conditions in the ESCWA region.

Chapter III consists of the two case studies on Egypt and Saudi Arabia. The sectors chosen are affected by FDI not only in financial terms, but also in terms of technology, know-how and managerial techniques. The analysis concentrated on the inflow of FDI to these countries and not the outflow. This is because of the current limited volume of outflow and because the major theme of the study is the role of the FDI in the domestic economy of these two countries.

Chapter IV contains policy recommendations and a summary of the findings of the study.

I. DEFINITION AND IMPORTANCE OF FOREIGN DIRECT INVESTMENT

A. DEFINITION OF FDI

There are several known definitions of investment in general and FDI in particular. There are broad definitions of investment and narrow definitions. Among the broad definitions of investment is that included in the agreement by the Association of South-East Asian Nations (ASEAN) for the promotion and protection of investment. Its definition of the term investment is that:

> "the term 'investment' shall mean every kind of asset and in particular shall include though not exclusively:
>
> "a) Movable and immovable property and any other property rights such as mortgages, liens and pledges;
>
> "b) Shares, stocks and debentures of companies or interests in the property in such companies;
>
> "c) Claims to money or to any performance under contract having a financial value;
>
> "d) Intellectual property rights and goodwill;
>
> "e) Business concessions conferred by law or under contract, including concession to reach for, cultivate, extract or exploit natural resources."[4]

Moreover, direct investment is defined by several international bodies, such as the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF). According to the OECD definition,

> "investment [is] for the purpose of establishing lasting economic relations with an undertaking such as, in particular, investments which give the possibility of exercising an effective influence on the management thereof:
>
> "A. In the country concerned by non-residents by means of:
>
> > "1. Creation or extension of a wholly-owned enterprise, subsidiary or branch, acquisition of full ownership or an existing enterprise;
> >
> > "2. Participation in a new or existing enterprise;
> >
> > "3. A loan of five years or longer.
>
> "B. Abroad by residents by means of:
>
> > "1. Creation or extension of a wholly-owned enterprise, subsidiary or branch, acquisition of full ownership of an existing enterprise;
> >
> > "2. Participation in a new or existing enterprise;
> >
> > "3. A loan of five years or longer."[5]

[4] *Scope and Definition, UNCTAD Series on issues in international investment agreements* (United Nations publication, Sales No. E.99. II.D.9), vol. II, p. 19.

[5] Ibid., p. 16.

The IMF defines direct investment as:

"the objective of obtaining a lasting interest by a resident entity in one economy in an enterprise resident in another economy. The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise."[6]

In addition, the OECD defines direct investment as "an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise."[7]

According to the definition provided in the Balance of Payments Manual, "FDI refers to investment made to acquire lasting interest in enterprises operating outside the economy of the investor."[8]

The FDI has also been defined as "an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in another economy (FDI enterprise or affiliate enterprise or foreign affiliate)."[9]

However, despite those definitions, the term FDI has several interpretations, depending on the agreements that define its scope, the activity involved and the rules governing its participation. The definition, scope and limitations of FDI are all clearly stated in the investment law of each country that aims at attracting FDI. FDI also defined in the investment agreements that are concluded between the host and the home country of the FDI.

The definitions of FDI, though varying, all emphasize the fact that FDI implies control over the production process in the host country. This control implies control over other means of production and management of the enterprise. In this, it differs from other forms of private transfer and/or private investment such as portfolio investment and bank lending. Both portfolio investment and bank lending are financial transfers; they have no influence over production or management of the domestic enterprise that they may contribute to financing.

B. TYPES OF FDI

The inflow of FDI can take several forms, depending on the objectives, scope and activity that the Government of the host country wants the FDI to participate in or exploit. The type of FDI depends, to a great extent, on the priorities of the host country, its investment law and incentives provided, as well as the interests of the foreign investor and its objectives, the comparative advantage that the host country provides, the competition, and the opportunities provided by other host countries.

The following are the main types of FDI inflows to the developing countries. They have been selected on the basis of their importance and broad contribution to economic development in these countries.

1. *Resource-extracting FDI*

This is among the first types of FDI inflow to enter the developing countries. It has been involved, in particular, in the mining sector for oil exploration, exploitation, refining, marketing and distribution. This form of inflow was among the first to be allowed by the developing countries, in order to ensure that they benefited from the oil technology available in the developed countries, particularly the United Kingdom of Great Britain and Northern Ireland and the United States of America. This form of FDI had been allowed

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[6] Ibid., p. 27.

[7] Ibid.

[8] UNCTAD, *World Investment Directory 1996: Foreign Direct Investment, Legal Framework and Corporate Data, Volume VI, West Asia* (UNCTAD/ITE/IIT/3) (New York and Geneva, 1997), p. X1ii.

[9] UNCTAD, *Investment in the Arab World: Issues and Policies*, p. 12.

even in those developing countries that applied a socialist doctrine of economic development and banned other forms of FDI inflow. The spillover effect of the FDI on the economy had been limited, owing to its narrow degree of participation. However, there was a positive impact on trade leading to higher exports of mineral resources and hence to higher export earnings.

2. *Labour-seeking FDI*

This type of inflow reflects the need of foreign investors to take advantage of the abundant and cheap labour in several developing countries. The main aim behind this inflow is to cut labour costs, which are relatively high in the home countries of the FDI. However, cheap labour alone is not a strong incentive for the inflow of FDI, except in countries that are in close geographical proximity to the home country, such as Mexico for the United States, and Indonesia for Japan. Because of the restrictions on labour movement from developing to developed countries, large industrial corporations moved parts of their production process to these developing countries where labour is relatively cheap and in abundant supply. This is particularly important where there is an availability of skilled or semi-skilled labour that can promptly absorb modern technology and production techniques. Moreover, this can be even more successful with the availability of adequate infrastructure and other important services, such as communications and transportation.

3. *Service-seeking FDI*

This form of FDI has gained importance in recent years with the acceleration and expansion of the economic reform process in a large number of developing countries. The services sector used to be relatively closed to FDI before the changes in economic policies brought about by the application of economic liberalization and deregulation. The opening up of the services sector to FDI was resisted by the developing countries in the past and even now several countries still consider this sector beyond the activities of FDI. However, the general trend is towards an increased participation of FDI in this important sector. This stems from the fact that the modernization, upgrading and expansion of modern services require the inflow not only of financial resources but of modern technology, know-how and management theory and techniques. In most of the developing countries, the services sector had been dominated by the public sector and faced with a shortage of financial resources, particularly during the period of economic recession in the 1980s; for this reason, the services sector badly needs to be upgraded and modernized. This includes not only basic physical infrastructure but also basic economic, social and financial services. Modernization of basic services leads to greater productivity and efficiency, and hence increases the competitiveness of the economy.

4. *Market-seeking FDI*

This type of FDI has targeted large populated developed countries with large market size. A clear example is the automobile industry, in which the major automobile companies opened up branches in the developing countries to meet the needs of their domestic markets. This type of FDI prefers those countries that apply import substitution policies, which usually include protective measures to support the domestic industry against unfair foreign competition. The FDI benefits from the protective measures. Here again, though the market size is important, this alone is not sufficient to attract large sums of FDI. It has to be complemented by the availability of skilled labour and relatively high purchasing power to be able to distribute its production through the domestic market and/or exports. Although this type of FDI still operates in the developing countries, its role has diminished since the implementation of economic reform programmes that promote export-oriented macroeconomic policies. Its role will be further diminished by the implementation of further liberalization of world trade.

5. *Outsourcing FDI*

This type of FDI inflow is relatively new. It involves moving parts of the production process of an industry from the home country of the FDI or TNC to the host country. Clear examples in this context are the automobile industry and the pharmaceutical industry. The main purpose is to cut costs and reduce the impact of trade restrictions. Here also, the host country is preferred when it is in close geographical proximity, as in the case of Mexico and the United States. Several large United States corporations have

established branches of their production process in Mexico to take advantage of both cheap labour and the reductions in customs tariffs as a result of the North American Free Trade Agreement (NAFTA). This type of FDI inflow has gained momentum with trade liberalization and further economic deregulation around the world. The implementation of WTO requirements will give a boost to this type of inflow, as it further reduces trade barriers. However, for a country to be able to attract this type of investment, and other types of investment as well, it must upgrade, expand and modernize its human resources. Geographical proximity will continue to be an important factor in outsourcing types of investments, as it cuts transportation costs.

C. IMPORTANCE OF FDI

With the stagnation and subsequent decline of ODA from the developed to the developing countries in recent years, the inflow of private finance gained importance and became the most important source of development finance for the developing countries in the 1990s. Private inflow has replaced both ODA and lending by the international financial institutions as the primary source of foreign investment, and FDI has become the most important source of private finance. By 1998, FDI represented 56.4 per cent of the total inflow to the developing countries, up from just 24.3 per cent in 1990. The share of official sources of finance dropped to only 17.4 per cent, down sharply from its 1990 level of 56.4 per cent.[10] As a percentage of private transfer, FDI increased from 55.8 per cent in 1990 to 68.3 per cent in 1998.[11] Had it not been for the slight increase in the inflow of official sources, representing the package of aid delivered by the World Bank and the IMF to the Asian countries that were hit by the financial crisis in 1997, the ratio of FDI to the total transfer to the developing countries would have been even higher.

The inflow of FDI has been encouraged and prompted by the implementation of economic liberalization and deregulation programmes by a large number of the developing countries during the second half of the 1980s and the 1990s. Major components of their economic reform have been the liberalization of trade and investment as well as the promotion of the role of the private sector, including the foreign private sector.

The sharp rise in the inflow of FDI has also been helped by the downward trend in the interest rates in the developed countries, the need for risk diversification, the globalization of financial markets, and the advances in information technology. The importance of the FDI stems from its advantages not only in financial terms, but also in technology transfer and the transfer of know-how and modern management techniques. The major advantages of the FDI are summarized below.

1. *Relative stability*

FDI is a long-term investment and hence is less susceptible to the volatility associated with short-term capital movement. In addition, FDI involves the production process, and controls part of the assets of the firm or company as well as its management. This control makes it difficult to liquidate during economic and political crises and hence reduces the element of volatility. Moreover, the long-term character of FDI gives it an advantage over other forms of private transfers such as portfolio transfers. The clearest example of the relative stability of FDI during a period of economic crisis was provided by the recent Asian financial crisis. During the crisis, portfolio investment in the developing countries dropped 53.3 per cent in 1998 and investment from international capital markets declined by 46.8 per cent, while FDI dropped by only 5.1 per cent.

2. *Contribution of FDI to bridging the domestic savings-investment gap*

FDI contributes to bridging the domestic savings-investment gap in the host country by providing financial resources to boost investment, which is the engine for economic growth. In this regard, it compensates for the recent decline in ODA to the developing countries. FDI is preferable to debt-financing

[10] Calculated from the World Bank, *Global Development Finance Analysis and Summary Tables, 1999* (Washington, D.C.).

[11] Ibid.

and/or area portfolio investment, which usually focus on short-term capital gain rather than long-term economic development.

3. *Spillover effect on the rest of the economy*

Owing to its direct involvement in the production process in the domestic economy of the host country, FDI has a spillover advantage for the rest of the economy. The spillover can be brought about through the interaction between the FDI-dominated activities, usually controlled by branches of TNCs, and the domestic firms or companies. This interaction can be carried out through the exchange of ideas, management techniques, skilled labour, and training. However, the most important spillover is through technology transfer, which promotes the productivity of the domestic firms. A spillover effect can also be realized through trade between the FDI-dominated activity or industry and those dominated or controlled by local firms.

4. *Promoting the role of the domestic private sector*

FDI contributes to the promotion of the role of the domestic private sector in the host country. The inflow of FDI and its contribution to the production process in the economy encourages the otherwise hesitant domestic private sector to participate more actively in economic development. This is not only because of the psychological impact that the inflow of the FDI might have over the local private sector, but also because of the incentives and benefits provided with the FDI, which might benefit the domestic private sector. Moreover, the current rules and regulations that govern investment promotion in the developing countries, particularly those adopted as a result of the economic reform programmes, provide equal treatment for FDI and domestic private investment. Thus, the expected interaction with, and hence benefits from, the FDI encourage the domestic private sector to participate more actively in the economy.

5. *Reducing balance-of-payment deficits*

FDI helps to reduce balance-of-payment deficits. This importance is a by-product of the inflow of FDI and therefore is not the main factor behind the efforts of Governments to attract FDI inflow. However, the inflow itself has a positive impact in the balance of payments, particularly in the initial stages of the inflow.

6. *The promotion of modern technology*

This may be the most important benefit that the FDI provides for the host country, as well as the advantage that distinguishes FDI from other sources of private transfers. This stems from the fact that FDI is more than a financial transfer like other forms of private transfers; it also includes transfers of financial resources, technology, management methods and techniques. It is involved directly in the productive process and its application of new and modern technology leads to the promotion of productivity, efficiency and cost-cutting, and hence enhances the competitiveness of the products. This, together with the spillover effect on the rest of the economy, leads to the enhancement of productivity and thus to an increase in the competitiveness of the economy in general.

7. *Trade benefits*

This is the second most important advantage of the inflow of FDI. The trade benefits of FDI can be realized through its contribution to productivity efficiency, and thus competitiveness of the products. Benefits are also realized through the introduction of new packaging and handling techniques and methods. However, the most important factor is access to new markets. The affiliates of the TNCs in the domestic economy (the host country) provide access to the products of the domestic economy into either the home country of the TNCs and/or into new markets that would otherwise be difficult for those products to penetrate. The role of the FDI in trade, particularly exports, is usually determined in the investment agreement between the host country and the TNCs or their affiliates. It states the amount and the conditions for exports. In some cases, the percentage of products to be exported is also specified in these agreements. In some cases, the promotion of exports is not among the immediate objectives of the FDI in the initial stages; instead the satisfaction of the domestic market needs is given priority over exports. FDI promotes

internal trade as well as exports: the internal trade is promoted through the interaction between the FDI-controlled activities and the rest of the economy.

8. *Promoting the integration of the economy into the global economy*

FDI helps to integrate the domestic economy into the global economy. This integration is provided through the promotion of trade, the transfer of technology, and capital movement, as well as the share in global production. It is also realized through adherence to the multilateral investment guarantee treaties as well as multilateral and bilateral investment treaties.

However, the above-mentioned advantages and benefits provided by the inflow of FDI are not automatic, and therefore, should not be taken for granted. To benefit from these and other advantages and benefits, host countries should make concerted efforts to attract the most suitable FDI. Only types of FDI that can promote and enhance their comparative advantage should be allowed to participate in the domestic production process. In the area of technology, only those technologies that can promote domestic productivity and skills may be imported. The complicated modern technology that cannot be adapted to the domestic needs of the economy can have more of a negative rather than positive impact on the economy. In particular, the very complex technologies cannot have a positive spillover effect on the rest of the economy, and hence may create a dual economy in which part of the production process is dominated by this overly complicated technology while the rest of the economy is using less advanced technology. This is particularly evident when the technology of the host country is still in the early stages of modernization.

Before attracting and/or inviting FDI, a check of cost-benefit analysis is needed to maximize its impact on the domestic economy. This is particularly important in view of the fact that attracting FDI is usually associated with fiscal and financial costs to the economy in terms of incentives provided. Therefore, the benefit gained should outweigh the cost incurred as a result of this inflow.

D. CONDITIONS REQUIRED TO ATTRACT FDI

Owing to its importance as a catalyst to economic growth and development, demand for FDI has increased sharply during the last few years. Demand for FDI is not confined to the developing countries, but is also present in developed countries, which still dominate the inflow and outflow of global FDI, as well as the economies in transition. However, the inflow of FDI is conditional upon the availability of a suitable and stable macroeconomic environment, the availability of natural resources, skilled human resources, adequate infrastructure, a legal and institutional framework, active privatization programme, adequate institutional management, and fiscal and financial incentives. These factors, which are reviewed below, are a prerequisite to attracting a sufficient volume of FDI.

1. *Sound and stable macroeconomic policy*

Achieving a stable, sound and investment-friendly macroeconomic policy is a key factor in attracting FDI. The elimination of both external and internal imbalances is an important element for the encouragement and promotion of investment in general, particularly FDI. Controlling both inflation and budget deficits, as well as reducing or controlling trade deficits, are key factors in achieving a sound macroeconomic environment that gives the right signals to both domestic and foreigner investors. Moreover, a sound macroeconomic policy contributes to economic liberalization, deregulation and openness, which are the prerequisites for the inflow of FDI. Such a policy is achieved through the implementation of economic reform programmes and the application of outward-looking export promotion economic policies.

2. *Availability of natural resources*

The inflow of FDI can be greatly enhanced by the availability of natural resources in the host country. The resource-seeking FDI had been among the first, if not the first, types of FDI inflows to the developing countries that had been seeking the exploration and exploitation of their natural resources. The availability of natural resources can provide a comparative advantage to the host country in attracting FDI, particularly if it is coupled with the availability of adequate infrastructure, basic services and relatively skilled labour.

However, the availability of natural resources, though important, cannot in itself attract FDI. Investment-friendly policies and other incentives are necessary for the attraction of FDI.

3. *The availability of skilled labour*

The availability of skilled and semi-skilled labour is another important factor in attracting FDI. This is particularly important for labour-seeking and outsourcing types of FDI. A cheap labour supply is one of the elements that FDI is looking for in its investment decision-making process. The importance of this factor increases when it is coupled with geographical proximity to the home country. This factor is more important for those TNCs that are trying to cut costs, particularly when the labour costs in the home country are very high compared with the host country. Other considerations include the restrictions on the movement of labour from the developed to the developing countries, which led those TNCs to move part of their production process to the developing countries, where skilled and cheap labour is available. The removal of trade barriers also encourages both the labour-seeking and outsourcing types of FDI to move to developing countries, where one important factor of production (labour) is available, particularly if trade or investment liberalization treaties are signed between the host and the home country of the FDI.

4. *The availability of adequate infrastructure*

Upgrading, expansion and modernization of basic infrastructure are basic elements in the process of attracting FDI to the host country. Modern transportation services provide easy access, while the availability of modern telecommunication facilities provides easy and speedy contacts between the affiliates of the TNCs in the host country and their home country headquarters. It also facilitates the exchange of data and information between the branches and the centre. The importance of the services sector in attracting FDI has been fully realized by a large number of developing countries, which have put forward plans to modernize their infrastructure and other services. Several countries have also opened up their infrastructure to FDI participation as part of their privatization programmes.

5. *Legal and institutional framework*

One of the most important steps to be taken by countries that seek to attract FDI is to formulate a legal framework that is conducive to its inflow. The legal framework is not just a domestic concern of the host country; it has become an international issue, with several international agencies created to deal with the insurance, guarantees for, and protection of FDI. The provision of a domestic legal framework for the attraction, regulations, protection and governance of FDI should be adequate and comparable with the international rules and regulations issued to govern and protect FDI. This issue is a complex one, as it touches upon cultural, financial, legal and even religious factors that need to be taken into consideration. Therefore, the changes in legal frameworks are among the most difficult and time-consuming of the economic reform process. A legal framework includes not just the formulation of new laws and investment regulations, but also the establishment and/or expansion of a commercial jurisdiction system (commercial courts and retailed issues) that govern the entry and operations of FDI, including the settlement of disputes. The legal framework also includes bankruptcy laws and arbitration laws dealing with the liquidation of investments in the host country.

The institutional framework also includes the building of an institutional capacity for dealing with the application of rules of law, reducing bureaucracy and promoting transparency. The provision of an adequate institutional capacity is an important factor in determining investment decisions by FDI. It greatly enhances investment in the host country.

The importance of stable and predictable institutional capacity is a vital factor in determining investment decisions by foreign investors. In a survey by the World Bank conducted in 1996, 80 per cent of the entrepreneurs in the Commonwealth of Independent States (CIS) considered sudden changes in rules governing private investment as a serious obstacle to doing business.[12] In Latin America, this percentage of

[12] Aymo Brunetti, Gregory Kisunko and Beatrice Weder, "Institutional obstacles for doing business: data descriptions and methodology for a worldwide private sector survey" (World Bank, 1997), pp. 10-11.

entrepreneurs of the same opinion, although having dropped to 60 per cent, remains very high, while in East and South-East Asia the percentage dropped to only 30 per cent.[13] This indicates that, in East and South-East Asia, laws and regulations are more developed than in other regions of the developing countries.

The survey also showed the importance of stable and credible institutional arrangements that govern investment, including FDI. Irregular changes of government constitute another important factor that negatively affects the inflow of FDI. About 60 per cent of the entrepreneurs surveyed indicated that sudden and irregular changes of government represent a discouraging factor affecting decisions on the location of their business.[14]

The settlement of disputes is another institutional element that affects investment decisions. The same survey indicated that this issue is a high priority for entrepreneurs, particularly in the least developed countries, where more than 70 per cent of entrepreneurs expressed concern over the unpredictability of the legal system.

6. *Implementation of an active privatization programme*

Privatization, which is an integral part of the implementation of the economic reform process in the developing countries, is an important factor in attracting FDI. Implementation of an active privatization programme provides an opportunity for the private sector, including the foreign private sector, to take control of established production units, or to establish new ones (mainly through BOT and BOOT). This leads to the inflow, not only of financial revenues in case of the sale of domestic units to foreign investors, but also to the inflow of technology as well as new management techniques. This is particularly important for those sectors for which technology is crucial, such as transportation and telecommunications, and for which the technology available is not just costly for the domestic investors but also has a short-term lifespan.

7. *Provision of incentives*

Both developed and developing countries provide incentives to attract FDI. The provision of incentives, particularly by the developing countries, is made to compensate for the shortcomings in the market factors and the deficiencies in their investment laws and regulations. These incentives are fiscal, financial and others. The fiscal incentives include tax and customs duty exemptions, reductions in income and corporate taxes, tax holidays and exemptions from sales tax. Financial incentives include subsidized loans and export credits and government insurance at preferential rates as well as government protection from imports. Other incentives include preferential treatment for the FDI in the area of foreign exchange or providing basic government services at subsidized prices. Most countries that are seeking to attract FDI are providing one or more forms of such incentives, and there is considerable competition among countries on this issue, as some countries are more generous than others. However, despite the importance the incentives have gained and their relatively wide usage, their impact on promoting the inflow of FDI has been below the expectations of the host countries. Apparently, incentives played a less important role in attracting FDI than other economic factors that are more important in the decision-making process of the major investors.

Incentives have a fiscal and financial cost to the host countries; therefore, they should only be used after a cost-benefit analysis has been completed, in order to maximize their advantages and minimize their disadvantages. Moreover, the incentives should only be used on a temporary basis until investment laws and regulation are amended, upgraded and/or liberalized to attract FDI. Because of their economic cost, incentives should be used on a selective basis and targeted at those sectors, industries or activities on the Government's list of priorities. Their use should be part of the economic liberalization process, and in particular their use should lead to more economic openness.[15] Furthermore, their use should not result in

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[13] Ibid.

[14] Ibid., p. 16.

[15] Mohamed El-Erian and Mahmoud El-Gamal, *Attracting Foreign Investment to Arab Countries: Getting the Basics Right*, Working Paper 9718 (Economic Research Forum for the Arab Countries, Iran and Turkey, 1997), p. 9.

discrimination against domestic private investment in the host countries nor should it replace the implementation of a structural reform process.

Another type of incentive provided by countries to attract FDI is the establishment of duty-free zones, where investors are provided with generous exceptions in different units and, in several cases, for an unlimited time- frame. Projects in these free zones are exempted from export and import duties, at different levels. However, the future of the free zone is expected to be more concerned with areas of technology transfer rather than financial transfer. This stems from the fact that tax reductions have been widely used in economies as a whole and not limited to the free zone areas alone. The implementation of the economic reform programmes that included trade liberalization led to a gradual reduction of customs and other taxes to encourage investment. Therefore, the future role of the free zone may be expected to concentrate on technology transfers. The free zones should act as nets to attract modern technologies and know-how, particularly in the manufacturing sector.

8. *Promotion of regional cooperation*

Bilateral, regional and international cooperation facilitate the inflow of FDI between countries and regions. Many bilateral, regional and international agreements and treaties have been signed for the promotion and protection of FDI. Bilateral investment treaties provide not only for the liberalization of policies but also for specific protection measures that safeguard the interests of the foreign investors in the host countries. There has been widespread use of bilateral investment treaties, the number of which totalled 1,500[16] worldwide by the end of 1997.

Regional cooperation can provide regional arrangements for the promotion of FDI inflow. Regional cooperation can take several forms, in particular the establishment of free trade areas. Examples of active regional cooperation include NAFTA and the Asia-Pacific Economic Cooperation (APEC). The Arab countries decided to create the Arab Free Trade Area, which went into effect in January 1998. The Area Free Trade Area is the result of the latest of a series of agreements concerning Arab economic cooperation and integration. In 1970, the Arab countries signed the Agreement on Investment and Free Movement of Arab Capital among Arab countries and established the Inter-Arab Investment Guarantee Corporation. However, the implementation of Arab regional economic cooperation so far has been disappointingly slow. The implementation of economic reform programmes and the economic liberalization and deregulation that followed are expected to lead to closer economic and trade cooperation when the private sector in the region takes a leading role.

The promotion of regional cooperation will stimulate the inflow of regional FDI in the ESCWA region, and might even lead to the repatriation of billions of dollars invested abroad. For this goal to be realized, however, stable macroeconomic policies must be implemented, and there must be greater liberalization of the ESCWA region's investment laws and regulations, including laws related to the settlement of investment disputes. The establishment of a regional capital market may have a strong, positive impact on the inflow of regional FDI. Moreover, the promotion of the inflow of regional FDI will also have a positive impact on the inflow of FDI from other regions to the ESCWA region, as it will act as a catalyst.

[16] UNCTAD, *World Investment Report, 1998: Trends and Determinants*, p. 117.

II. GLOBAL AND REGIONAL INFLOW OF FOREIGN DIRECT INVESTMENT

A. GLOBAL INFLOW

The growth rate of FDI during the period 1971-1996 provides a mixed picture of its performance both at the global level as well as at country group level. While during the period 1971-1979, the average annual growth rate of the global inflow was relatively low, compared with the 1980s and the 1990s, at about 4.2 per cent, and the growth of the inflow to the developed countries was as low as 2.1 per cent, the inflow to the developing countries was impressive at 14.0 per cent.[17] This can be attributed to the sharp rise in oil prices, particularly during the period 1973-1974, which led to a surge in oil exploration and exploitation in a large number of developing countries. However, during the 1980s, the picture was reversed as the inflow of the global FDI rebounded strongly to an average annual growth rate close to 16.0 per cent, more than triple the average growth recorded during the period 1971-1979.[18] Most of this inflow was directed to the developed countries. The inflow of FDI to this group of countries reached an average annual growth rate of 18.4 per cent during the period 1980-1989, more than triple the average during the period 1971-1979. However, the inflow to the developing countries dropped sharply. This may be attributed partly to the drop in the commodity prices, including oil, which led to a sharp drop in investment in this sector. The sharp fall in economic growth in the majority of the developing countries can be also considered another factor that led to the drop in the inflow of FDI to this group of countries.[19] In 1997, the global inflow of FDI reached US$ 464 billion, an increase of 29.4 per cent over 1996. In 1998, the inflow of FDI at global level grew by 38.7 per cent to a record high of US$ 643.9 billion. Most of this increase went to the developed countries, which shared 71.4 per cent of the global inflow in 1998, up from 58.9 per cent in 1997.[20]

The inflow of global FDI has been characterized by a high concentration in the developed countries, particularly during the 1980s which, as noted above, witnessed a drop in the share of the developing countries in the global inflow of FDI. The share of the developing countries in global FDI dropped from 26 per cent in the mid-1970s to only 17 per cent in 1990.[21] One of the main factors that led to the drop in the share of the developing countries in the global inflow of FDI was the redirecting of Japanese FDI to the developed countries, particularly the United States, taking advantage of the strong yen. As a result, the share of Japan in the inflow of FDI to the developing countries dropped to 27.8 per cent in 1988 from 35.2 per cent in 1985.[22] The dominance of the developed countries in the global inflow of FDI can be attributed to, among other things, the following.

1. *The availability of varieties of investment opportunities*

The developed economies provide a wide range of investment opportunities to the FDI. These countries allow the participation of FDI in various sectors, including the services sector, which gained additional importance in recent years. The restrictions in the activity of the FDI are at a minimum and far less than those in the developing countries.

2. *Application of a sound, credible and stable macroeconomic environment*

In the developed countries, macroeconomic policies are usually stable with prudent monetary policies that are decided, monitored and reviewed by credible central banks. Fiscal policy is also sound and

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[17] Calculated from UNCTAD, *World Investment Report, 1997: Transnational Corporations, Market Structure and Competition Policy*, annex table A.6.

[18] Ibid.

[19] Some analysts may also argue that the sharp decline in FDI contributed partly to the decline in economic growth in developing countries.

[20] UNCTAD, *World Investment Report, 1999*, annex table B.1.

[21] *Foreign Investment and Trade Linkages in Developing Countries* (United Nations publication, Sales No. E.93.II.A.12), p. 10.

[22] Ibid., p. 13.

conducive to the inflow of FDI, as budget deficits are contained in a large number of developed countries, particularly those that use the euro currency. Even in the United States, where the budget deficit was one of the most serious economic issues on the economic agenda for many years, the deficit has been eliminated. Prudent monetary and fiscal policies contributed to controlling inflation rates in a large number of developed countries.

3. *Relative free trade and investments flows*

Barriers to trade and investment movement have been dismantled in the majority of the developed countries, which added another incentive for an acceleration of the inflow of FDI.

4. *Sharp increases in mergers and acquisitions*

This relatively new type of FDI has accelerated globally, particularly among the developed countries. Large multinational corporations have been merged and/or purchased by other corporations, particularly in the automobile, aviation, chemical, telecommunications and computer industries. This has added a new momentum to the inflow of FDI among developed countries.

5. *Availability of skilled labour*

This is an important factor that investors take into consideration in making their investment decisions. The availability of skilled labour in the developed countries in various fields represents additional assets in attracting FDI inflow. However, it should be noted that developing countries have been competing with developed countries in certain areas, and several multinational corporations have outsourced parts of their productive process to the developing countries, where skilled and relatively cheap labour is available.

6. *Availability of financial resources and financial intermediaries*

The availability of credit is another important issue in the inflow of FDI. The modern financial sector in which mutual and investment banks are operating efficiently may be regarded as an additional important factor considered by foreign investors in determining their investment decisions.

However, despite the relative concentrations of the global inflow of FDI to the developed countries and the drop in the share of the developing countries during the 1980s, the 1990s witnessed a rebound in their share of global inflow of FDI. The share of the developing countries in global FDI rose from an annual average of 20.2 per cent during the period 1987-1992 to 36.1 per cent in 1993, and by 1997 their share had reached 37.1 per cent. The share of the developing countries has been boosted by the implementation of structural adjustment and economic reform programmes. These programmes led, in many cases, to the application of an outward-looking and investment-friendly macroeconomic environment. The implementation of economic reform programmes also led to the dismantling of trade and investment barriers and the application of trade and capital liberalization policies. This policy attracted additional inflow of FDI to the developing countries. Moreover, the economic diversification that coincided with economic reform programmes opened additional sectors to FDI. The inflow of FDI during the 1960s, 1970s, and early 1980s was concentrated mainly in the primary sector (principally mining) while other sectors, in particular the service sector, remained relatively closed to FDI participation.

The acceleration of the inflow of FDI to the developing countries in the 1990s compensated for the drop in official inflow of concessional aid, which used to be the main source of long-term flows in the developing countries. ODA dropped from US$ 56.9 billion in 1990 to US$ 32.2 billion in 1996, a decrease of 43.4 per cent (table 1) and, despite the slight rebound recorded in 1997 and 1998 when ODA increased by 21.4 per cent and by 22.5 per cent in 1997 and 1998 respectively, the 1998 level of ODA remained 15.8 per cent below its 1990 level. The slight rebound in both 1997 and 1998 may be considered a temporary event resulting from the aid packages from donor countries and international financial institutions for the Asian countries hit by the financial crisis.

TABLE 1. AID TO DEVELOPING COUNTRIES: NET OFFICIAL LONG-TERM FLOW IN DEVELOPING COUNTRIES, 1990 -1998
(Billions of US dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Official development assistance	56.9	62.6	54.0	53.3	45.5	53.4	32.2	39.1	47.9
Concessional aid	44.8	51.0	44.0	41.5	45.8	44.7	40.1	33.4	32.7
Non-concessional aid	12.1	11.6	10.0	11.8	(0.3)	8.8	(7.9)	5.7	15.2

Source: World Bank, *Global Development Finance, Analysis and Summary Tables, 1999.*
Note: ( ) indicates negative.

As noted above, there has been a declining trend in the net long-term flows to the developing countries. The concessional flows have been concentrated in sub-Saharan Africa, which received in 1998 about 39 per cent of the concessional aid, compared with less than 10 per cent for Latin America and the Caribbean (table 2). This concentration was prompted by the fact that these sub-Saharan African countries were not able to attract non-concessional official aid or private financial resources.

The regional distribution of FDI inflow among the developing countries reveals that South, East, and South-East Asia remain in the lead. In 1997 this group of countries received US$ 95.5 billion, up by 16.5 per cent from its 1996 level of US$ 82.0 billion. The inflow of FDI to this group of countries in 1997 represented about 55.6 per cent of the inflow of FDI to the developing countries and 20.1 per cent of the world total. This group of countries took the lead from the Latin American and Caribbean group in the 1980s, boosted by the sharp increase in the Japanese FDI to this group owing to geographical proximity. However, in 1998, the inflow of FDI to this group of countries dropped to US$ 84.9 billion, reflecting in part the impact of the Asian financial crisis of 1997. Despite this slight drop, this region remains in the lead in terms of inflow of FDI to the developing countries.

TABLE 2. REGIONAL DISTRIBUTION OF CONCESSIONAL FLOW, 1990 AND 1996-1998
(Percentage)

	1990	1996	1997	1998
East Asia and the Pacific	16.7	13.5	14.7	15.6
Latin America and the Caribbean	10.0	10.2	9.0	9.8
Middle East and North Africa	19.2	12.0	11.7	10.7
South Asia	11.8	10.5	8.4	12.5
Sub-Saharan Africa	37.1	35.4	39.2	38.8
Europe and Central Asia	4.9	18.5	17.1	12.5
All developing countries	100.0	100.0	100.0	100.0

Source: World Bank, *Global Development Finance, Analysis and Summary Tables, 1999.*
Note: Figures may not add up owing to rounding.

Latin America and the Caribbean remain in second place, with a recorded net of US$ 71.6 billion in 1998, up by 4.8 per cent from the 1997 level of US$ 68.3 billion (table 3 and chart 1). The share of the inflow of FDI to this group of countries in the world total reached 11.1 per cent in 1998, down from 14.7 per cent in 1997, while its share in the total inflow to the developing countries reached 43.1 per cent in 1998 compared with 39.6 in 1997.

Africa still lags behind other developing countries in terms of the inflow of FDI. In 1998, the African continent received US$ 7.9 billion, or about 17 per cent of what China received during the same year. Another comparison is that in 1998 the entire African continent received about the same volume of FDI that went to Singapore. The share of Africa in the global inflow of FDI remained very modest. Africa is the only continent for which the share in the total world FDI actually dropped during the 1990s, decreasing from 1.6

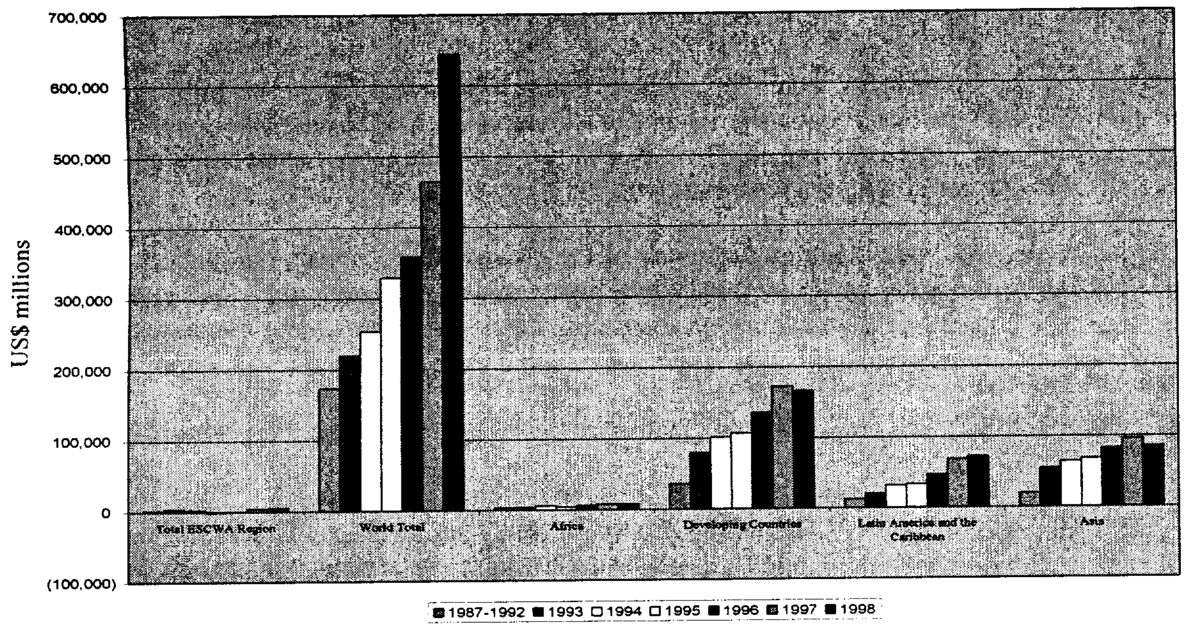
per cent in 1993 to 1.2 per cent in 1998. As a percentage of the inflow of FDI to the developing countries, the share of Africa reached 4.8 per cent in 1998, up from 4.5 per cent in 1996 but significantly lower than the annual 8.5 per cent average during the period 1987-1992.

TABLE 3. REGIONAL AND GLOBAL FDI INFLOWS, 1987-1992 AND 1993-1998
ANNUAL AVERAGE
(Millions of US dollars)

	1987-1992	1993	1994	1995	1996	1997	1998*
The world total	159 530	219 421	253 506	328 862	358 869	464 341	643 879
ESCWA total	1 289	3 531	2 133	(843)	250	4 169	4 349
Africa	3 010	3 469	5 313	4 145	5 907	7 657	7 931
Developing countries	35 326	78 813	101 196	106 224	135 343	172 533	165 936
Latin America and the Caribbean	12 400	20 009	31 451	32 921	46 162	68 255	71 652
South, East and South-East Asia	19 613	54 835	63 844	68 126	82 035	95 505	84 880

Source: UNCTAD, *World Investment Report, 1999: Foreign Direct Investment and the Challenge of Development.*
* Estimates.

Chart 1. Regional and global FDI inflows, 1987-1998



Source: Table 3.

Despite the dominance of the developed countries in terms of FDI inflows, the share of those inflows in gross fixed capital formation remains very low. The percentage of global FDI in gross fixed capital formation registered an average annual rate of 4.2 per cent during the period 1987-1992, decreased to 3.7 per cent in 1994 and then rebounded to 6.5 per cent in 1997 (table 4 and chart 2). The share of the inflow of FDI in gross fixed capital formation in the developing countries accelerated during the past few years and recorded an average annual rate of 3.9 per cent during the period 1987-1992 (slightly less than the average for the developed countries during the same period); it more than doubled in 1997 to 10.3 per cent (table 4). This reflects the fact that the growth of the inflow of FDI was much higher than the growth in gross fixed capital formation. The regional distribution among the developing countries reveals that in Latin America and the Caribbean, the share of the FDI in gross fixed capital formation jumped from an average annual ratio of 5.4 per cent during the period 1987-1992 to 16.1 per cent in 1997, the highest in the world. This reflects the fact that this group was among the first in the developing countries to attract FDI.

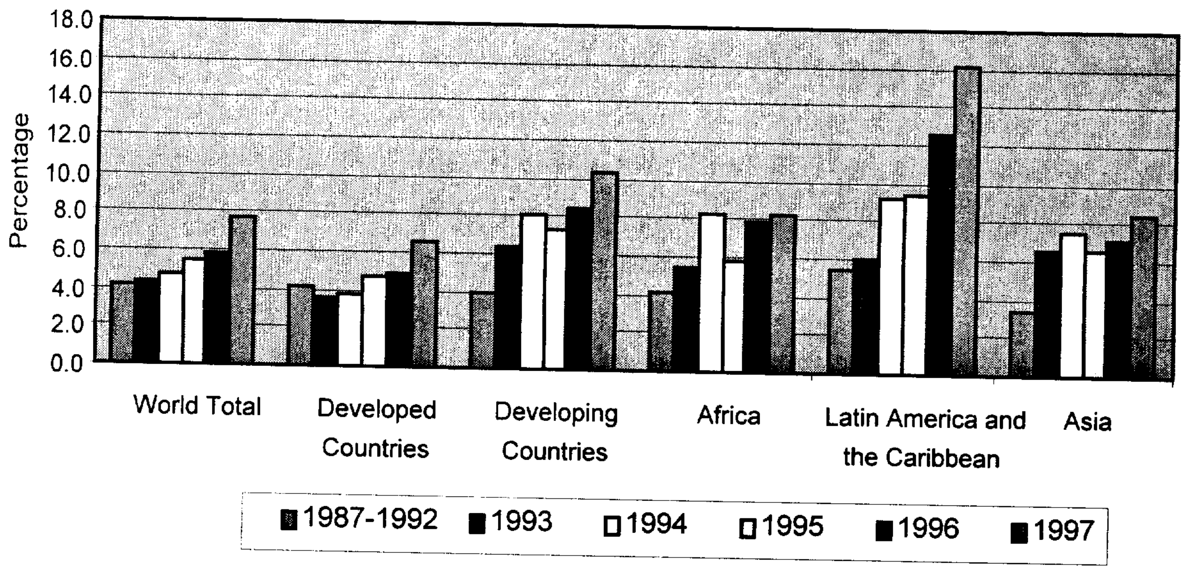
TABLE 4. REGIONAL AND GLOBAL FDI INFLOWS AS PERCENTAGE OF GROSS FIXED CAPITAL FORMATION, 1987-1997
(Average and annual average percentages)

	1987-1992	1993	1994	1995	1996	1997
World total	4.1	4.3	4.6	5.4	5.8	7.7
Developed countries	4.2	3.6	3.7	4.7	4.8	6.5
Developing countries	3.9	6.4	8.0	7.3	8.4	10.3
Africa	4.2	5.5	8.3	5.9	7.8	8.3
Latin America and the Caribbean	5.4	6.0	9.1	9.4	12.5	16.1
Asia	3.3	6.5	7.5	6.6	7.2	8.4

Source: UNCTAD, *World Investment Report, 1999: Foreign Direct Investment and the Challenge of Development*, annex table B.5.

Note: ( ) indicates negative.

Chart 2. Regional and global FDI inflows as percentage of gross fixed capital formation, 1987-1997



Source: Table 4.

In terms of share in GDP, global inward FDI stocks increased steadily during the last 17 years, rising from 5.0 per cent in 1980 to 8.7 per cent in 1990 and 11.7 per cent in 1997 (table 5 and chart 3). This more than double increase in the share of global inward FDI stocks in world GDP indicates that the inward FDI stocks had been growing much faster than world GDP. The percentage for the developed countries doubled between 1980 and 1997, from 4.8 per cent to 10.5 per cent. For the developing countries the percentage almost tripled during the same period, rising from 5.9 per cent to 16.6 per cent. This was a reflection of the rapid growth in the importance of FDI to the economies of these countries. The regional distribution among the developing countries reveals that the highest share of the inward FDI stocks in GDP was in Latin America and the Caribbean, where it reached 17.2 per cent in 1997, up from 6.4 per cent in 1980. Africa was in second place, with a share of 14.7 per cent in 1997, up from only 4.8 per cent in 1980. The relatively high share of inward FDI stocks in GDP in Africa, despite the fact that Africa received the lowest inflow of FDI, can be explained by the low level of GDP more than by the speed of growth of FDI. In Asia, the share of inward FDI stocks as a percentage of GDP reached 16.5 per cent in 1997, up from 6.0 per cent in 1980. The data reveal that although the developing countries received the highest share in the global inflow of FDI, the

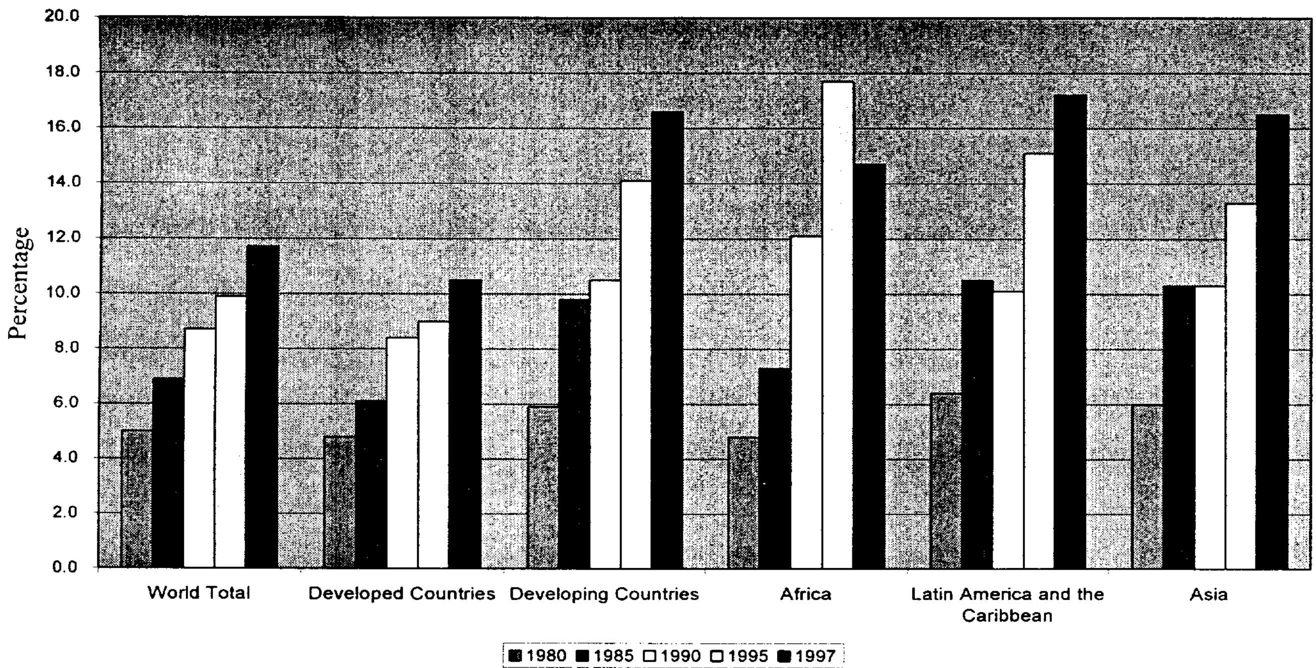
relative importance of FDI is defined in relative terms. This is particularly important for the share in investment, which is the engine for economic growth.

TABLE 5. REGIONAL AND GLOBAL INWARD FDI STOCKS AS PERCENTAGE OF GDP (1980, 1985, 1990, 1995 and 1997)
(Percentages)

	1980	1985	1990	1995	1997
World total	5.0	6.9	8.7	9.9	11.7
Developed countries	4.8	6.1	8.4	9.0	10.5
Developing countries	5.9	9.8	10.5	14.1	16.6
Africa	4.8	7.3	12.1	17.7	14.7
Latin America and the Caribbean	6.4	10.5	10.1	15.1	17.2
Asia	6.0	10.3	10.3	13.3	16.5

Source: UNCTAD, *World Investment Report, 1999: Foreign Direct Investment and the Challenge of Development*, annex table B.5.

Chart 3. Regional and global inward FDI stocks as percentage of GDP (1980, 1985, 1990, 1995 and 1997)



Source: Table 5.

B. FDI INFLOW IN THE ESCWA REGION

1. *Preparing the ground for FDI*

Substantial progress has been made in the ESCWA region to improve the conditions that attract the inflow of FDI. Several countries in the region have been implementing economic reform programmes to reduce and eliminate internal and external imbalances, apply stable and credible macroeconomic policies, promote the role of the private sector and reactivate economic growth. Several countries have implemented privatization programmes as part of their effort to promote private initiatives and promote the role of the private sector in economic growth and development. Substantive progress has been made concerning the external and internal imbalances and in particular the internal imbalances. Budget deficits have been reduced in several countries, particularly those implementing economic reform in cooperation with international financial institutions. External debt has been reduced in several countries of the region, as part of the implementation of economic reform programmes. The implementation of economic reform led to an improvement in the domestic conditions and economic environment, and economic reforms led, in some countries, to progress in areas of structural reform. Intensive efforts have been made to reform investment laws, trade laws, corporate laws, tax laws, competition laws and investment protection laws. With the completion of structural reform, the ESCWA member countries will be able to create stable, sound and investment-friendly macroeconomic environments that can attract an additional share of the FDI to promote domestic investment and hence bridge the investment-savings gap.

Several ESCWA member countries have enacted new investment laws. This is an indication of the importance these countries attach to the role of the private sector. Several countries have also introduced incentives to attract FDI, particularly for trade and industry as well as for technology transfer. As of the end of 1997, 11 ESCWA members had enacted specific laws to attract FDI. These countries have thus demonstrated their interest in attracting a higher share of FDI to promote domestic investment and facilitate the inflow of modern technology, and know-how. They enacted these laws to facilitate the entry and operation of FDI even before fully implementing their comprehensive economic reforms .

In their regulatory and institutional frameworks, several countries have made progress. Egypt, for example, enacted a new investment law (Investment Law No. 8 for 1997). This law replaces Law No. 23 for 1989 and provides for several incentives to domestic, Arab and foreign investors. These incentives include 100 per cent ownership of projects under the law, although the law encourages the establishment of joint ventures between Egyptian and foreign investors. The law also provides for tax holidays that vary from one development area to another. The law encourages, in particular, the establishment of projects that lead to export promotion. The law also provides for tax exemption for five years, starting from the first financial year. The exemption can be extended to 10 years for projects that are allocated in the new industrial zones and/or new urban centres. The exemption can be extended to 20 years for projects that are established outside the Delta area.

In the area of institutional arrangements in Egypt, the General Authority for Investment and Free Zones (GAFI) is the sole agency responsible for preparing new projects for investment, and proposing additional projects that can be included in those projects that are governed by Law No 8 for 1997.

In Saudi Arabia, FDI is governed by the Foreign Capital Investment Act of 1979. The Act provides for several incentives provided that more projects satisfy several conditions including the following:

(a) They must be within the framework of the development plan;
(b) The inflow of FDI should involve foreign expertise;
(c) The project should be registered and licensed.

The institutional framework in Saudi Arabia is represented by the Committee on Foreign Capital Investment, which is responsible for the regulation, review and approval of FDI projects.

The main incentives provided are as follows:

(a) FDI in agricultural and manufacturing projects is exempted from corporate and income taxes for 10 years, while other projects are exempted for five years starting from the year of production, provided that the project has at least 25 per cent local equity participation;

(b) There is no restriction on the repatriation of project capital, royalty and technical assistance fees;

(c) Projects in the industrial sector are entitled to apply for local credit from the Saudi Industrial Development Bank;

(d) Land for the activity of the project is allocated at subsidized prices.

The institutional arrangements assign the Saudi Arabian Ministry of Industry and Electricity the responsibility for granting approval and licensing of FDI projects. This is done in close cooperation with the Committee on Foreign Capital, which acts as an advisory body to the Ministry.

In addition to the domestic incentives that several ESCWA members have provided to attract FDI, these countries have made efforts to promote bilateral and regional cooperation. In this context, they have signed a large number of bilateral investment treaties to promote investment inflows with other countries, both in the region and outside. By the end of 1997, ESCWA member countries had signed approximately 187 such treaties. Egypt has signed the greatest number of these treaties, followed by Kuwait, Jordan, the United Arab Emirates and Lebanon.[23] Many of these treaties were signed with other Arab countries and/or other developing countries. The main objectives of these treaties are to provide:

(a) Incentives to encourage and facilitate the inflow of investment among the signing countries;
(b) Protection for the inflow of FDI;
(c) Insurance against non-commercial risks.

In addition, several ESCWA member countries are also members in regional investment arrangements for the promotion, protection and guarantee of FDI. Several ESCWA members are parties to the International Convention on the Settlement of Investment Disputes Between States and Nationals of other States and the Convention on the Multilateral Investment Guarantee Agency (MIGA) which provides guarantees against non-commercial risks. As of January 1999, 10 ESCWA member countries were also parties to MIGA.[24] At the regional level, ESCWA member countries are also members of the Intra-Arab Investment Guarantee Corporation (IAIG), which was established in 1971, and have signed the Unified Agreement for the Investment of Arab Capital in the Arab States.[25] These regional arrangements represent part of the efforts to promote the inflow of regional FDI. They facilitate, encourage, insure and protect such inflow. They also represent part of the regional efforts to promote closer regional economic cooperation and integration. An additional incentive could be provided by encouraging the expatriated regional investment back to the region. All indicators point to the existence of large regional funds invested abroad, mainly in the developed countries. If the ESCWA member countries succeed in encouraging the repatriation of a large portion of these investments, it would give a boost to regional investment, and hence to regional economic growth and development.

However, two points should be noted. First, only a few countries have implemented comprehensive reform programmes; others are taking a consecutive one step at a time or applying an overall gradual approach. Secondly, the privatization programmes in the region are, with only a few exceptions, limited in scope and speed. The private sector in the region still operates under the heavy shadow of the public sector.

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[23] UNCTAD, *Investment in the Arab World, Overview, 1999, Regional Symposium on Investment in the Arab World, 16-18 June, 1999, Rabat, Morocco*, p. 12-14.

[24] Ibid., p. 12.

[25] Ibid.

In the area of deregulation and liberalization, progress made has been slow and efforts must be accelerated to match the success achieved in reducing the internal and external imbalances in the region. This is particularly important in areas of trade and investment liberalization. Trade and investment laws remain to be amended and upgraded to take into consideration changes in economic policy that shifted from inward- looking import-substitution to outward-looking export-promoting macroeconomic policy. In the area of investment promotion, insurance and protection, including the settlement of disputes, substantive work needs to be undertaken to enact these laws in order for the ESCWA members to be able to better compete with other countries, particularly for FDI.

2. *FDI inflow*

The inflow of FDI to the ESCWA region has fluctuated sharply during the last few years. The main reasons have been the developments in the oil sector, which has been the most important sector in attracting FDI inflow into the major oil-producing and oil-exporting countries in the region. Ten of the 13 ESCWA members produce and export oil.[26] The drop in oil prices during the second half of the 1980s led to a decline in investment in the oil sector both by Governments in the oil-producing countries and by major international oil companies. The inflow of FDI to the ESCWA region increased from an annual average of US$ 1.3 billion during the period 1987-1992, to US$ 2.1 billion in 1994, before falling to a negative US$ 843 million in 1995. However, the inflow of FDI rebounded strongly in both 1997 and 1998 to US$ 4.2 billion and US$ 4.3 billion respectively, owing mainly to the sharp increase in the inflow to both Egypt and Saudi Arabia (table 6 and chart 4). The inflow of FDI to the more diversified economies was more stable and experienced a rising trend during the last few years. In Egypt, for example, the inflow of FDI increased from US$ 493 million in 1993 to US$ 1,256 million in 1994 and, despite the drop in FDI inflow in 1995 to only US$ 598 million, it rebounded strongly in 1997 and 1998 to reach US$ 891 million and US$ 1,076 million respectively (table 6 and chart 4). In Jordan, the inflow of FDI, which dropped sharply during the period 1993-1995, also rebounded in 1998 to reach US$ 223 million, compared with a negative US$ 34 million in 1993 and an average annual inflow of US$ 21 million during the period 1987-1992. In Lebanon, there has been a rebound in the inflow of FDI during the past three years, boosted by the implementation of a reconstruction programme after 15 years of civil strife. In the Syrian Arab Republic, the inflow of FDI responded positively to the issuance of Law No 10 for 1991, which provided a wide range of incentives to the private sector, both domestic and foreign. However, the inflow of FDI stagnated during the past two years owing, in part, to the slow implementation of economic reform programmes and the lack of progress in the peace process.

The inflow of FDI to the more diversified economies in the ESCWA region remains closely linked to the implementation of economic reform programmes. Egypt, which is the most active ESCWA member in terms of the implementation of economic reform programmes, including an active privatization programme, in 1998 accounted for about 62.2 per cent of the total inflow of FDI to the more diversified economies and 24.7 per cent of the total inflow to the ESCWA region. The inflow of FDI to other more diversified economies remains limited by lack of comprehensive economic reform programmes and limited privatization initiatives.

In the GCC countries, the inflow of FDI has fluctuated over the past few years depending on the developments in the oil sector, which in turn is vulnerable to developments in oil prices. In Saudi Arabia, the inflow of FDI rose sharply in 1993, reflecting an increase in investment in the oil sector to increase production capacity. However, there had been negative inflows in both 1995 and 1996 of US$ 1,877 million and US$ 1,129 million respectively (table 6). This was a reflection of drop in investment in the oil sector. In the Republic of Yemen, the region's least developed country, the inflow of FDI followed closely the developments in the oil sector. In 1993, there was a sharp increase in FDI inflow boosted by the Government's efforts to increase the country's oil production capacity, as the Government signed several agreements with oil companies for that purpose. The inflow of FDI to the Republic of Yemen dropped sharply in 1994, 1995, and 1996, to only US$ 11 million in 1994 and to a negative inflow of US$ 218 million and US$ 60 million in 1995 and 1996 respectively. In 1998, the inflow of FDI rebounded strongly to US$ 100 million, the largest inflow since 1993.

[26] Of the 13 ESCWA members, Bahrain, Egypt, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and Yemen produce and export oil; Jordan, Lebanon and Palestine do not.

It is obvious that there is a close link between the inflow of FDI and the developments in the oil sector. The oil markets have been characterized by high volatility during the past few years, which led to similar volatility in the inflow of the FDI to the region, in particular to the GCC countries. Among the GCC countries, only Oman experienced stability in the inflow of FDI in recent years, owing to the more diversified nature of its economy and also to the relatively active privatization programme compared with the rest of the GCC countries. Qatar also achieved relative stability in the inflow of FDI owing to the fact that most of the inflow was directed to the gas industry, which has not been subject to the same volatility as the oil market. Thus, the inflow of FDI to Qatar has been stable with an increasing trend, rising from an annual average of only US$ 10 million during the period 1987-1992 to US$ 70 million in 1998.

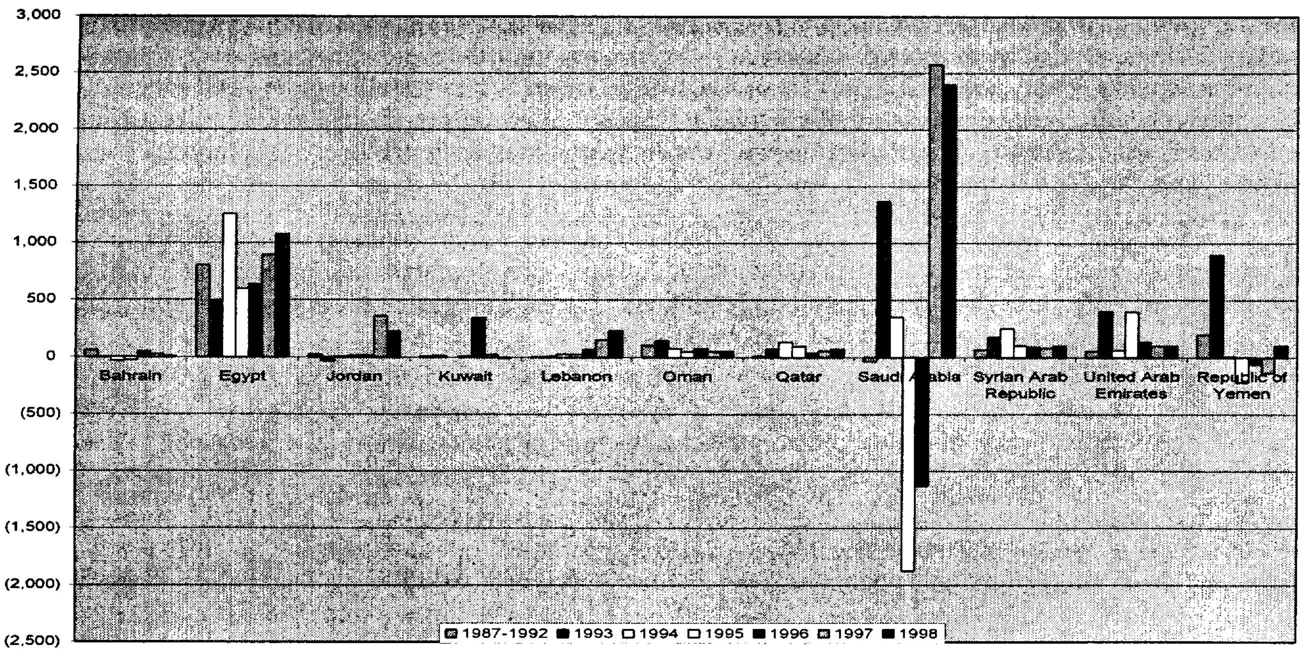
TABLE 6. ESCWA REGION: FDI INFLOWS, 1987-1998
ANNUAL AVERAGES
(Millions of US dollars)

	1987-1992	1993	1994	1995	1996	1997	1998*
Bahrain	58	(5)	(31)	(27)	47	26	10
Egypt	806	493	1 256	598	636	891	1 076
Jordan	21	(34)	3	13	16	361	223
Kuwait	7	13	--	7	347	20	(10)
Lebanon	2	7	23	22	64	150	230
Oman	103	142	76	46	75	49	50
Qatar	10	72	132	94	35	55	70
Saudi Arabia	(35)	1 369	350	(1 877)	(1 129)	2 575	2 400
Syrian Arab Republic	67	176	251	100	89	80	100
United Arab Emirates	52	401	62	399	130	100	100
Yemen, Republic of	198	897	11	(218)	(60)	(138)	100
ESCWA total	1 289	3 531	2 133	(843)	250	4 169	4 349

Source: UNCTAD, *World Investment Report, 1999: Foreign Direct Investment and the Challenge of Development*, annex table B.5.

Notes: ( ) indicates negative.
* Estimates.

Chart 4. The ESCWA region's FDI inflows, 1987-1998



Source: Table 6.

3. *FDI stocks in the ESCWA region*

The FDI inward stock in the region, which totalled US$ 30.3 billion in 1985, increased by 24.8 per cent to US$ 37.8 billion in 1990. In 1998, the FDI inward stock in the region reached US$ 54.2 billion, representing an increase of 19.4 per cent from its 1995 level of US$ 45.4 billion. As a percentage of the world total, this represented 3.9 per cent in 1985 before falling to 2.1 per cent in 1990. During 1995 the ESCWA share in the world FDI inward stock dropped to only 1.6 per cent or less than half its rate in 1985. By 1998, the share had dropped further to 1.3 per cent. This indicates that the growth rate of the inflow of FDI to the ESCWA region is slower than the growth rate of FDI at the global level.

Saudi Arabia accounts for most of the region's FDI inward stock. In 1985, the share of Saudi Arabia in the ESCWA total reached 71.9 per cent. Despite the relative drop in the share of Saudi Arabia to 48.5 per cent in 1998, it still represents the most important country in the region with respect to FDI inward stock. Egypt's share in the region's FDI stock has increased over the past 14 years from just 18.8 per cent in 1985 to 29.1 per cent in 1990 to 30.8 per cent in 1998. Egypt currently is in second position after Saudi Arabia in terms of FDI stock. This has been achieved by a steady growth in the inflow of FDI to Egypt during the period under review. Egypt and Saudi Arabia accounted for more than 79 per cent of the total FDI inward stock of the ESCWA region in 1998.

The inflow of FDI to the region can be characterized by the following:

(a) Concentration in the resource-extracting type of FDI, particularly in the GCC countries. The largest share of the inflow went to oil and gas exploration and exploitation activities;

(b) High, and rising, share of the services sector in terms of the inflow of FDI, particularly in the more diversified economies such as Egypt, where the services sector attracted more than 40 per cent of the inflow of FDI in 1995. The share of this sector is expected to increase further as the communications and transportation sectors are opened to the participation of FDI;

(c) Concentration in a few countries. For example, both Egypt and Saudi Arabia received more than 79 per cent of the total inflow of FDI to the region in 1998. If Lebanon and the United Arab Emirates are added, the share for these four countries increases to more than 88 per cent of the region's total;

(d) A high degree of volatility and inconsistency in the inflow to the region during the last few years. The total inflow more than doubled from an annual average of US$ 1,289 million in the period 1987-1992 to US$ 3,531 million in 1993, before falling by 40.0 per cent in 1994 and recording a negative rate in 1995. The inflow in 1996 was only 19 per cent of the average annual inflow during the period 1987-1992;

(e) A decline in the region's share in the world total FDI in recent years. The region's share in world FDI dropped from an annual average of 0.7 per cent during the period 1987-1992 to only 0.1 per cent in 1996 before rebounding to 0.7 per cent in 1998. As a percentage of the inflow to the developing countries, the region's share dropped from 3.6 per cent during the period 1987-1992 to only 0.2 per cent in 1996 before increasing to 2.6 per cent in 1998 (table 7 and chart 5). Among the developing regions, only Africa and the ESCWA region witnessed a decrease in their respective shares in world total FDI during the past few years;

TABLE 7. THE SHARE OF FDI FOR THE ESCWA REGION IN TERMS OF OTHER REGIONS AND THE WORLD AS A WHOLE (1987-1998)

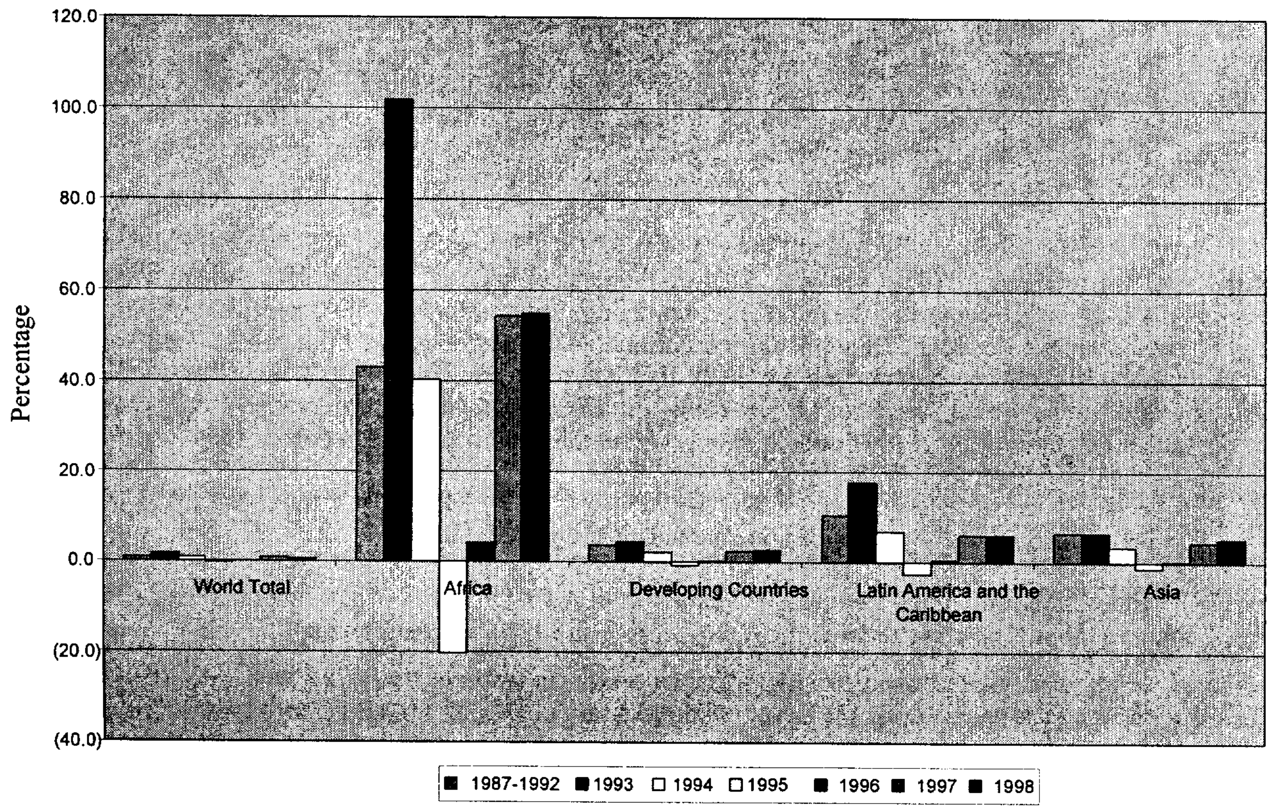
(Percentage)

	1987-1992	1993	1994	1995	1996	1997	1998
The world total	0.7	1.6	0.8	(0.3)	0.1	0.9	0.7
Africa	42.8	101.8	40.1	(20.3)	4.2	54.4	54.8
Developing countries	3.6	4.5	2.1	(0.8)	0.2	2.4	2.6
Latin America and the Caribbean	10.4	17.6	6.8	(2.6)	0.5	6.1	6.1
Asia	6.6	6.4	3.3	(1.2)	0.3	4.4	5.1

Source: UNCTAD, *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*, annex table B.5.

Note: ( ) indicates negative.

Chart 5. The share of the ESCWA region in regional and global FDI inflows, 1987-1998



Source: Table 7.

(f) The relatively low level of FDI inflow reduced its overall contribution to the gross fixed capital formation compared with other developing countries. While the average for the developing countries reached 10.3 per cent in 1997, the highest share of FDI in gross fixed capital formation in the ESCWA region was recorded by Jordan in 1997 at 20.3 per cent, followed by Saudi Arabia (11.0 per cent) Lebanon 10.8 per cent and Egypt 6.1 per cent (table 8 and chart 6). However, in 1997, the share in China reached 14.3 per cent and the share in Singapore reached 27.3 per cent;[27]

(g) In terms of share of inward FDI stock in GDP in 1997, the highest share was recorded in the Republic of Yemen, at 32.1 per cent, followed by Egypt at 20.7 per cent and Saudi Arabia at 18.7 per cent (table 9 and chart 7). Although this share is higher than the average for the developing countries, which was 16.6 per cent in 1997, it was still much lower than other developing countries such as Malaysia (38.1 per cent). It should be noted that the increases in the Republic of Yemen in 1995 and 1997 were a reflection of both low GDP and a greater increase in the inward FDI stocks and were more or less exceptions compared with other years. In 1985, the share of the Republic of Yemen was only 2.5 per cent and dropped to only 0.8 per cent in 1990. In Saudi Arabia, the trend of the share of FDI stock in GDP has been declining. It dropped from 25.2 per cent in 1985 to 21.5 per cent in 1990 and 18.7 per cent in 1997. Only in Egypt did the trend record a steady increase in the period 1980-1999 as it rose from 10.2 per cent in 1980 to 10.9 per cent in 1985, to 31.2 per cent in 1990 and 20.7 per cent in 1997;

[27] UNCTAD, *World Investment Report, 1999: Foreign Direct Investment and the Challenge of Development* (New York and Geneva, 1999), annex table B.5.

TABLE 8. FDI AS PERCENTAGE OF GROSS FIXED CAPITAL FORMATION IN COUNTRIES OF THE ESCWA REGION (1987-1997)

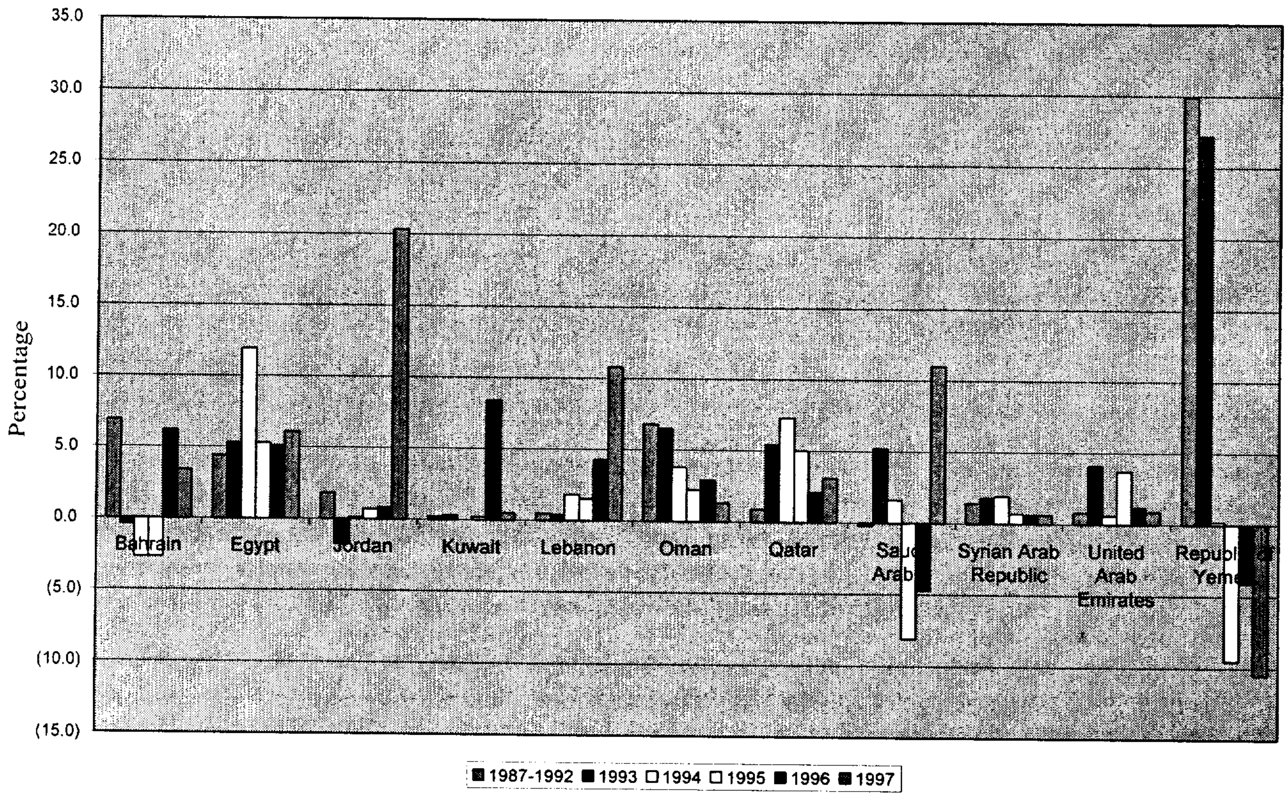
(Average and annual average percentages)

	1987-1992	1993	1994	1995	1996	1997
Bahrain	6.9	(0.4)	(2.7)	(2.7)	6.2	3.4
Egypt	4.4	5.3	11.9	5.3	5.1	6.1
Jordan	1.8	(1.8)	0.1	0.7	0.8	20.3
Kuwait	0.2	0.3	--	0.2	8.4	0.5
Lebanon	0.5	0.4	1.8	1.5	4.3	10.8
Oman	6.8	6.5	3.8	2.2	2.9	1.3
Qatar	0.9	5.4	7.3	5.0	2.1	3.1
Saudi Arabia	(0.2)	5.2	1.6	(8.1)	(4.7)	11.0
Syrian Arab Republic	1.4	1.8	1.9	0.7	0.6	0.6
United Arab Emirates	0.8	4.1	0.6	3.7	1.2	0.9
Republic of Yemen	29.9	27.2	0.2	(9.5)	(4.1)	(10.5)

Source: UNCTAD, *World Investment Report, 1999: Foreign Direct Investment and the Challenge of Development*, annex table B.5.

Note: ( ) indicates negative.

Chart 6. ESCWA FDI inflows as percentage of gross fixed capital formation, 1987-1997



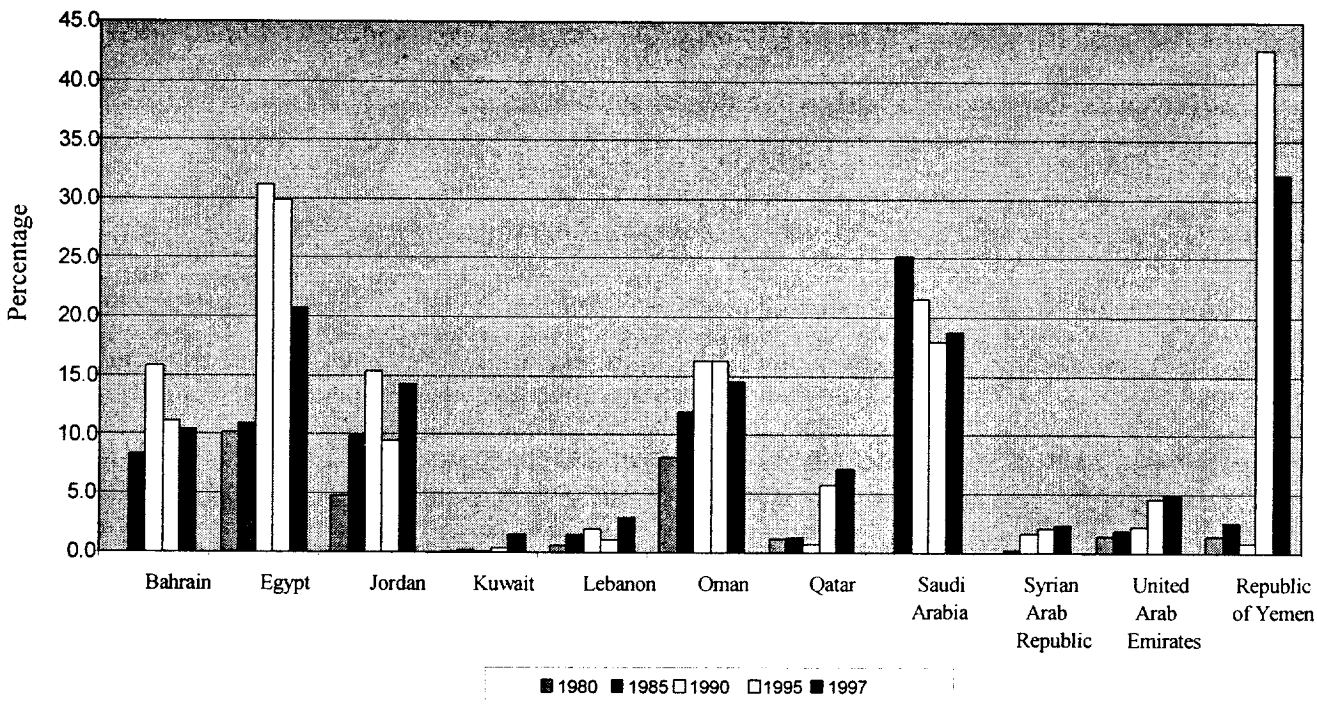
Source: Table 8.

TABLE 9. STOCK OF THE INFLOW OF FDI AS A PERCENTAGE OF GDP IN COUNTRIES OF THE ESCWA REGION (1980, 1985, 1990, 1995 and 1997)
(Annual average percentages)

	1980	1985	1990	1995	1997
Bahrain	..	8.3	15.8	11.1	10.4
Egypt	10.2	10.9	31.2	29.8	20.7
Jordan	4.7	9.9	15.3	9.4	14.2
Kuwait	0.1	0.2	0.1	0.3	1.5
Lebanon	0.5	1.5	1.9	1.0	2.9
Oman	8.0	11.9	16.3	16.2	14.5
Qatar	1.1	1.2	0.7	5.7	7.1
Saudi Arabia	..	25.2	21.5	17.9	18.7
Syrian Arab Republic	..	0.2	1.6	2.1	2.3
United Arab Emirates	1.4	1.8	2.2	4.5	4.9
Republic of Yemen	1.3	2.5	0.8	42.6	32.1

Source: UNCTAD, *World Investment Report, 1999: Foreign Direct Investment and the Challenge of Development*, annex table B.5.

Chart 7. Inward FDI stocks as percentage of GDP in the countries of the ESCWA region (1980, 1985, 1990, 1995 and 1997)



(h) Investment in the ESCWA region has been relatively low during the last few years compared with other regions, in particular Asia and Latin America. Investment allocations have been the first to be cut during economic recessions. The figures available for the Arab economies reveal that gross fixed capital formation actually dropped during the 1990s compared with the 1980s. It declined from about 26 per cent of GDP in 1984 to less than 20 per cent in 1996.[28] In Asia, however, gross fixed capital formation rose sharply from over 24 per cent in 1980 to 30 per cent in 1996;

[28] El-Erian and El-Gamal, op. cit., p. 18.

(i) The size of the inflow of intraregional FDI among the ESCWA member countries has been small. The interregional inflow of FDI reached about US$ 7.0 billion during the period 1985-1997, which is much lower than the total inflow of FDI to the region, which in 1997 totalled about US$ 65.5 billion.[29] Regional cooperation in the area of FDI inflow is still far below expectations The 10.7 per cent share of the regional stock of FDI in total stock inflow during the past few years was low despite various agreements and treaties signed between member countries for the purpose of promoting, encouraging and protecting the inflow of regional FDI;

(j) In terms of share in gross fixed capital formation, FDI played a relatively less important role in the region compared with other developing regions. However, although this statement holds true for the past, in the future the role of FDI is expected to increase significantly as the ESCWA member countries take measures to boost the inflow of FDI. The shift in economic policies in the late 1980s and 1990s, and the application of more outward-looking macroeconomic policies will contribute, within a reasonably short time-frame, to boosting the inflow of FDI, which will have a more positive impact on the economies of the region.

4. *Constraints on the inflow of FDI*

Despite the progress made by the ESCWA member countries in promoting FDI, there are several constraints, listed below, that still limit the inflow.

(a) Most of the member countries started their economic reforms relatively late compared with other developing countries. Privatization programmes in the region are still limited in scope and slow in pace, with the exception of Egypt, and have been implemented in several countries on an ad hoc basis without an integrated and comprehensive approach;

(b) Although most of the ESCWA member countries achieved substantial progress in economic stabilization, their structural reforms are still incomplete. This is particularly true in the area of liberalization of trade and investment policies. Reforms of trade laws, investment laws, competitive laws, corporate laws and tax laws in several member countries are still in the process of being amended and updated;

(c) The private sector is still in the early stages of active participation in economic development in the region. This stems from the slow pace of implementation of economic reform programmes, particularly the privatization programmes in the region. The assumption of an active role by the domestic private sector can induce an inflow of global private investment in the region;

(d) The degree of openness has been slow and limited because of the incomplete economic reform processes in the region since most of the economic liberalization and deregulation measures are currently still being implemented in several countries of the region;

(e) Although the domestic conditions that attract FDI, particularly the creation of an investment-friendly macroeconomic environment, are still not completely in place, there is still another important factor that limits inflow of FDI: the lack of adequate progress in the Middle East peace process. This has caused relative political instability in the region, and hence discouraged the inflow of FDI. This factor will remain an obstacle to the inflow of FDI as long as the peace process remains deadlocked;

(f) The slow pace of regional economic cooperation, including cooperation in the areas of trade and investment, has contributed to the slow pace of FDI inflow to the region;

(g) The infrastructure in several ESCWA member countries is inadequate;

(h) Institutional arrangements in the region, though improved in several countries, still need to be matched with capabilities.

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[29] UNCTAD, *Investment in the Arab World, Overview, 1999*, p. 18.

III. CASE STUDIES

A. Egypt

1. *Background*

Egypt was among the first countries in the ESCWA region to introduce and implement an economic stabilization and reform programme. In addition, Egypt and Jordan were the first two countries in the ESCWA region to introduce economic reforms in consultation and cooperation with the International Monetary Fund and the World Bank. The implementation of an economic adjustment and reform programme in Egypt, which began in 1991, achieved most of its objectives during the period 1991-1998. Macroeconomic policy has stabilized, and both internal and external imbalances have been addressed. The inflation rate has been restrained to a relatively low level, and budget deficits dropped to about 1 per cent of GDP, while external debt declined both in absolute terms and as a percentage of GDP. Investment increased in the last few years, fuelled in particular by a sharp rise in private investment, thus boosting economic growth in Egypt. During the last two years, economic growth in Egypt has been the highest in the ESCWA region, in sharp contrast to the economy's performance before the implementation of the country's economic reform programme.

The application of a prudent and investment-friendly macroeconomic policy in Egypt, together with economic liberalization and deregulation, led to a sharp increase in private sector participation in economic development. It also led to a surge in the inflow of FDI to the country in the last few years. In 1997, the inflow of FDI to Egypt represented more than 21 per cent of the total inflow to the ESCWA region. The inflow of FDI has also been helped by the implementation of an active privatization programme in Egypt, which is an integral part of the economic reform programme. The implementation of economic reform programmes has also led to the diversification of sources of economic growth away from traditional sectors such as agriculture and oil and towards tourism and the manufacturing sectors.

Egypt has concluded several bilateral international treaties with a large number of countries, both developed and developing: Egypt has signed the largest number of these treaties in the ESCWA region. By the end of 1997, Egypt had signed more than 40 bilateral international treaties. At the regional level, Egypt has been admitted to membership in several economic blocs, both within the Arab region as well as with other developing countries, particularly in Africa. In addition, Egypt is currently negotiating a partnership agreement with the European Union (EU). All these efforts are part of a comprehensive government policy to promote cooperation in the areas of trade and investment. This policy is being pursued in two tracks. The first, the domestic track, is aimed at promoting economic liberalization and deregulation to enhance economic openness and to create an economic environment conductive to export promotion and inflow of FDI. The second track is a regional and/or an international track aimed at promoting regional and international ties to open new markets for Egyptian exports and attract a higher share of FDI inflows.

The present case study analyses the current situation regarding FDI inflows, investment regulations and economic conditions in Egypt. It also reviews the main sectors that are attracting the inflow of FDI, particularly the manufacturing and servicing sectors, as well as the impact of this inflow on employment, exports and transfer of technology. The case study then analyses the findings of the questionnaire, which covered the activities of 25 private sector companies in various fields that attracted FDI inflow.

2. *Current trends, policies and conditions*

The inflow of FDI to Egypt in the last few years has been characterized by diversification, as the FDI has been spread over several sectors, including manufacturing, infrastructure and services. This is in contrast to the inflow of FDI to the major oil-producing and -exporting countries, where it has been directed mainly to the primary sector. The inflow of FDI to Egypt has also been characterized by stability; it experienced an increasing trend during the period 1991-1997, despite the drops in both 1994 and 1995, which occurred along with similar drops throughout the ESCWA region. This is in contrast to the oil-exporting countries, where the inflow of FDI has been characterized by high volatility depending on the level of oil prices.

The inflow of FDI to Egypt increased steadily during the period 1987-1998. With the exception of 1995, when the inflow dropped, FDI achieved accelerated growth during that period. It increased from an annual average of US$ 806 million during the period 1987-1992 to US$ 1,256 million in 1994 (see table 6 above). Despite the drop of 52.4 per cent recorded in 1995, the inflow of FDI rebounded in 1996 and 1997 to US$ 636 million and US$ 891 million respectively. The inflow of FDI in 1998 reached US$ 1,076 million, representing a growth rate of 20.8 per cent over 1997. During the period 1993-1998, FDI inflow to Egypt recorded an annual average growth rate of 20.0 per cent. The growth of the inflow of FDI has been much higher than that of GDP, which during the same period recorded an average annual growth rate of 4.0 per cent.

As a percentage of GDP, the inward FDI stock in Egypt increased from 10.2 per cent in 1980 to 10.9 per cent in 1985, and by 1997 it had reached 20.7 per cent (table 9). This is an indication that the inflow of FDI to Egypt achieved substantial growth during the period 1990-1998. However, in terms of gross fixed capital formulation, the share remained limited. During the period 1987-1997, the share of FDI in the country's gross fixed capital formation increased from 4.4 per cent on average during the period 1987-1992 to 6.1 per cent in 1997 (table 8). Despite this, the role of FDI in total investment remains limited and below 10 per cent. The share in both GDP and gross capital formation, however, is expected to increase, reflecting the robust growth recorded by the FDI inflows.

The share of Egypt in the global inflow of FDI during the period 1990-1997 indicates a declining trend. This share which reached 0.58 per cent in 1990, dropped to 0.2 per cent in both 1997 and 1998. Therefore, the high ranking of Egypt among the developing countries in terms of receiving FDI dropped from 16 in 1994 to 23 in 1997.

The share of the inflow of FDI to Egypt in the total inflow of FDI to the developing countries, which averaged 3.2 per cent during the period 1986-1991, dropped to only 0.6 per cent in both 1997 and 1998.[30] Even as a percentage of the share of Africa, the inflow of FDI to Egypt dropped during the same period, from 32.5 per cent to 18.0 per cent and to only 13.6 per cent in 1998.[31] This is not an indication of lack of efforts by the country to attract a higher share of GDP, but an indication of the fact that other countries are doing more in terms of economic liberalization and deregulation to attract a higher share of the inflow of global FDI. For example, the share of Egypt in 1997 was only 1.7 per cent of the inflow of FDI to China, 5.0 per cent of the inflow to Brazil, and 8.0 per cent of the total inflow of FDI to Singapore. There is stiff competition among the developing countries to attract a higher share of global inflow of FDI, and only those countries that are able to provide the best investment opportunities to foreign investors will be able to obtain a higher share of the global FDI. One reason that could explain the drop in the share of Egypt in the global inflow of FDI was the relatively slow pace of the implementation of the privatization programme in Egypt, particularly before 1996. However, the privatization programme was accelerated in 1996, a measure that was expected to have a positive impact in the coming years. Moreover, the new investment law (Investment Law No. 8 for 1997) enacted in 1997 is more liberal in terms of treatment of FDI than the previous law (Law No 230 for 1989).

Another factor that can explain the slow growth of investment in Egypt is the declining ratio of investment to the country's GDP. The investment/GDP ratio dropped from 23.3 during the period 1991/1992 to 17.0 per cent during the period 1996/1997. However, the role of the private sector in investment finance has increased during the past few years. It rose from 34.5 per cent in the period 1991/1992 to 65.2 per cent during the period 1998/1999.[32] This shift in investment policy is a reflection of the Government's goal in promoting the role of the private sector, including the foreign private sector, in investment finance.

This, together with the current wave of economic liberalization and deregulation, is expected to have a positive impact on the inflow of FDI, both in absolute terms and as a percentage of GDP and gross fixed

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[30] Calculated from UNCTAD, *World Investment Report, 1998: Trends and Determinants*, annex table B.1.

[31] Ibid.

[32] Egypt, Ministry of Planning.

capital formulation. The future inflow of FDI is also expected to be helped by the expansion of new investment opportunities in Egypt, both in areas of agriculture and manufacturing. The establishment of new industrial cities, free trade areas, and ambitious agricultural project at Toushka provide new investment opportunities to the private sector, both domestic and foreign.

These projects are expected to attract an additional volume of FDI, particularly since the Government has already provided the basic physical infrastructure that will further stimulate the inflow of private investment to those projects. In 1997, for example, the total number of projects approved by the Government in the eight industrial cities was 1,093, with a total capital of 28 billion Egyptian pounds (LE), equivalent to more than US$ 8.0 billion.

Moreover, the total number of inland projects approved was more than 5,000 by 1997, up from only 591 in 1978 and 1,380 projects in 1988.[33] The distribution of these projects, of which 27.3 per cent are operational, indicates the importance that the Government attaches to the manufacturing sector. The share of the manufacturing sector in the total number of approved projects reached 66.7 per cent in 1997, up from 19.9 per cent in 1988. The total investment cost of the approved inland projects reached over LE 100 billion in 1997, up from only LE 14.3 billion in 1988. The projects that did become operational accounted for LE 35.2 billion in 1997, representing about 35 per cent in terms of investment cost and 27.3 per cent in terms of number of projects.

In the free zone areas, the total number of projects for foreign investors approved by the Government reached 1,003 by mid-1997, with a total investment cost of LE 46.3 billion. Foreign investment accounts for 30 per cent of the total investment cost.[34]

3. *The regulatory framework*

Owing to the great importance given to the role of FDI in the economy, the Government of Egypt has been active in laying the ground for the promotion of FDI. In addition to the success achieved in reducing internal and external imbalances, the Government has succeeded in improving the regulatory framework that governs the entry and operations of FDI. The evolution of the regulatory framework started in the early 1970s with the application of the open door economic policy. Law No. 43 for 1974 was the first law during the period aimed at promoting the role of FDI. Law No. 43 covered, in particular, land reclamation, industry, tourism and real estate development. The second law enacted in this area was Law No. 18 for 1975, which governed the import regime. These laws provided incentives for the operations of the private sector, including FDI, in Egypt. The importance of these laws and regulations stemmed from the fact that they were enacted after years of socialist economic policies. These laws reflect the first Government attempt to pursue different macroeconomic policies that encourage private initiatives and allow the private sector to operate along with the public sector. However, the implementation of the open door policy had achieved only partial success. There were two constraints on the implementation of this policy limiting its success. The first was the fact that the policy had not been pursued as part of a comprehensive reform programme but rather as a limited policy initiative. The investment laws were enacted in isolation from the applied macroeconomic policies, which remained largely heavily dependent on the public sector for both investment and employment. These investment laws could have achieved better results had they been implemented as part of a comprehensive economic adjustment and reform programme. Secondly, the regional economic and political environment at that time was not conducive to the inflow of a large volume of FDI.

The Government, realizing the limited success of Investment Law No. 43 of 1974, formulated a new economic reform package in 1988, including Investment Law No. 230 for 1989 which was more comprehensive than Law No. 43 and included the implementation of the privatization programme.

Law No. 230 for 1989 was later amended by Law No. 8 for 1997, which is more comprehensive in its coverage than both law No. 43 for 1974 and Law No. 230. Law No. 8 for 1997 covers a large number of

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[33] Data provided by the General Authority for Investment and Free Zones, Egypt.

[34] Ibid.

economic sectors, activities and industries. It includes land reclamation; animal poultry and fish farming; industry; mining; tourism; transport in general as well as transport in the field of aviation; affiliated oil services; housing; infrastructural operations covering in particular water, electricity, roads and communications; housing projects; hospitals and medical centres; financial leasing; computers and software; and projects funded by the country's Social Development Fund.

Law No. 8 for 1997 deals with the important issue of investment guarantees. Article 9 of this law states that "administrative guardianship shall not be imposed on companies or establishments, nor shall their property and funds be detained, seized, retained in protective custody, frozen or confiscated."[35] Moreover, Law No. 8 clearly states that neither the Government nor its agencies will interfere with the pricing of products of companies or establishments covered by this law.

Law No. 8 for 1997 also deals in a more liberal way with land ownership, an issue that had been dealt with only implicitly in previous investment laws. Law No 8 states clearly that companies and establishments have the right to own land for building, regardless of their nationality or the percentage of their shareholding.

In the areas of incentives, Law No. 8 for 1997 stipulates that profits of companies and establishments are exempted from tax on revenues of commercial and industrial activities for five years, starting from the first fiscal year that follows the beginning of production. This exemption is provided for 10 years for those companies that engage in an activity in the new industrial zones and/or new urban communities. The exemption is extended to 20 years for those companies that engage in activities outside the old valley.

In addition, returns on investment in bonds, financial deals, and income from other similar securities issued by joint stock companies are exempted from the taxes on revenues of movable capital, provided that the stock companies are registered on the stock exchange. Profits resulting from mergers of companies or changes in legal structure are also exempted from taxes and duties.

The law considers imports from duty-free zones as imports from abroad; therefore, they are subject to the customs taxes payable on imported goods. However, the profits realized from activities in the free zones are not subject to Egyptian taxes and regulations.

The other most important provision in Law No. 8 for 1997 is land ownership for investors. Law No. 8 is also more flexible with regard to the areas of economic sectors open to foreign participation. Despite the fact that the law sets a number of priority sectors and priority developmental areas and zones, it is flexible in that it gives the Prime Minister the authority to add new sectors or industries to be covered by the law. This provision will depend on the needs of the country and/or the economy, taking into consideration the economic strategy of the Government. This flexibility is very important, as it provides the Government with the possibility of taking rapid action as the need arises without the need to issue a new law or to amend the existing law. This is important during a period of rapid changes in domestic, regional and international economic agendas. Law No. 8 also includes the promotion of exports as a priority area. Article 13 of Law No. 8 states that companies and establishments have the right to import themselves or through a third party, without registration in the register of importers, whatever they require for their establishment, expansion and operations. These companies and establishments also have the right to export without being licensed and without registration in the register for exports. However, in the area of imports, they have to be without prejudice to the provisions of Egyptian laws, regulations and decrees.

Article 13 of Law No. 8 for 1997 gives flexibility to exporters, and hence reduces the amount of paperwork needed for exports in such areas as licensing and export permission. This flexibility is prompted by the need to promote exports to reduce the trade deficit, which is currently one of the most important problems facing the Egyptian economy. Reducing the trade deficit will reduce the external imbalance, which is one of the priority areas in the implementation of the economic reform programme. The promotion of the inflow of FDI is a major factor in promoting exports.

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[35] GAFI, *Law of Investment Guarantees and Incentives & its Executive Regulations*, article 9 (Cairo).

4. *The institutional framework*

The institutional arrangements in Egypt are dealt with by the General Authority for Investment and Free Zones (GAFI), which is part of the new investment policy in Egypt and was established by Presidential Decree No. 284 for 1997. GAFI is the main body responsible for the investment projects governed by Law No. 8 for 1997. Article 3 of this law called for the establishment of an administrative authority concerned with the implementation of the law, to replace the General Authority for Investment. The objectives of GAFI, which are defined by the Presidential Decree, include the following:

(a) Putting forward proposals concerning the new investment fields that may be included in those specified by Law No. 8 for 1997;

(b) Preparing, promoting and marketing new investment projects in various fields;

(c) Arranging, preparing and participating in investment and business conferences, meetings, workshops and symposia;

(d) Issuing books, publications, magazines and pamphlets to enhance investment opportunities in Egypt;

(e) Reviewing the investment law as well as other investment regulations with a view to proposing new recommendations for the improvements of these laws and regulations.

These functions make GAFI the most important government agency with regard to investment promotion, including the promotion of FDI. Therefore, the success of the investment policy and programme in the country will depend, to a large extent, on the way that GAFI carries out its functions and responsibilities.

The organizational structure of GAFI is headed by a Board of Directors. The Board, which is presided over by the head of GAFI, is composed of 11 members, including the chairman and the deputy of the Governor who represents the Central Bank. Four members are heads of the Departments of Agriculture, Tourism, Finance and Mineral Wealth, fields included in Law No. 8 for 1997. Five investors represent the private sector and are selected by the Prime Minister. The term of the Board members is three years and can be renewed for another three-year term. The selection of the Board of Directors is an indication of the Government's keen interest in including the various departments that are responsible on the fields for which investment is governed by Law No. 8. The inclusion of members from the private sector on the Board gives an indication of the priority given by the government to the role of the private sector in investment promotion. The participation of the representatives of the private sector will enhance the chances for further investment liberalization.

At the regional level, Egypt has also been active in promoting regional cooperation in FDI inflows. In this respect, it has signed a number of regional agreements for the promotion and guarantee of investment flows. Egypt is a signatory to 11 regional conventions for the promotion of regional cooperation. These include the Convention establishing the Arab Investment Guarantee Agency, the Convention on Investment of Arab Capital, the Convention on Settlement of Investment Disputes between Arab Hosting Countries, the Convention for the Protection of Industrial Property, the Convention on Recognition and Enforcement of Foreign Arbitration, and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Moreover, Egypt has been very active in the area of avoidance of double taxation, and has signed a number of treaties and agreements for the avoidance of double taxation with a number of countries both developed and developing. By the end of 1997, the total number of these treaties had reached 25. However, most of these treaties were signed with developed countries (12 treaties), four were signed with economies in transition, and the rest with developing countries. Moreover, another 13 agreements were initiated but have not been formally signed. These efforts represent and reflect the determination of the Government to support its domestic investment liberalization efforts with regional and international support and cooperation. Both tracks are important, necessary and complementary to each other. The international efforts, particularly with regard to investment protection and settlement of investment disputes, are necessary to promote the inflow of FDI. The application of sound, predictable and investment-friendly macroeconomic policies and Egypt's international commitment to the protection, guarantee and issuance of

FDI are also indispensable for the promotion of higher volumes of FDI. This is particularly important during a period of tough competition for global FDI.

5. *The Government's FDI strategy*

The strategy of the Government in Egypt concerning FDI has both short-term and long-term dimensions. In the short term, the focus is on attracting the highest possible inflow of FDI, within the existing economic environment, which is undergoing a great deal of change to make it more conducive to the inflow of FDI. This strategy is being pursued in the context of a comprehensive economic reform programme aimed at taking advantage of the inducements provided to FDI by the Egyptian economy. This includes the large size of the domestic market, which can attract market-seeking FDI. It also includes available resources such as oil, gas, agriculture and manufacturing. In addition, Egypt offers relatively skilled labour at a lower cost, which can provide another comparative advantage to labour-seeking FDI. At the macroeconomic level, Egypt has already succeeded in correcting internal imbalances through the implementation of its economic reform programme. Egypt is currently implementing a wide range of economic liberalization measures that started with the formulation of the law on investment guarantees and incentives, Law No. 8 for 1997. The country has also opened up its service sector, which has become one of the most important sectors in terms of FDI inflows: this includes in particular the tourism sector. Egypt receives close to 4 million tourists every year, and there is a high potential for growth, taking into consideration the richness of the country in historic sights, geographical location and climate variations. The opening up of the transport and communications as well as the telecommunications sectors will boost the inflow of FDI to the services sector, which already receives more than 40 per cent of the total inflow of FDI to Egypt. In the manufacturing sector, FDI can be attracted to the consumer goods area, taking advantage of the availability of a large market (population of more than 60 million), the textile industry, and the availability of raw material (cotton) which is among the best in the world in terms of quality.

The long-term FDI strategy in Egypt involves more focusing on vertical expansion of the inflow of FDI. This is aimed at attracting FDI to upgrade skills, and improve market competition for Egyptian exports, and includes the adoption of appropriate technology in selected industries such as electronics. In this regard, Egypt has established a technology valley to upgrade and expand its technological base to enable the country to compete in highly competitive industries, including the software industry.

6. *Impact on selected sectors*

To assess the impact of the FDI in various economic sectors, industries and activities, a questionnaire was prepared and distributed to 25 companies engaged in different economic activities (see annex I to the present study). The questionnaire was prepared taking into consideration the type of activity carried out by each company, the size of the company, the share of FDI in total capital, the type of FDI, and the nationality of the FDI investor. The questionnaire covered the growth in sales, exports and imports and the percentage of exports in total sales as well as the distribution of the labour force between local and foreign workers, the percentage of women in the total labour force, and the distribution of the labour force between skilled, semi-skilled and unskilled workers. The questionnaire also included the type of technology transfer, if any, whether patent rights, know-how or licensing and, in the area of research, it included questions on the percentage of revenues spent on research and development as well as the percentage of revenues spent on training of the labour force. The areas of quality control were also covered in the questionnaire. There were also questions on the government services provided, the government incentives to the private sector, in particular FDI investors, as well as the availability of research centres in the country. This comprehensive questionnaire was distributed to 25 companies, chosen because of their importance in their fields. The companies included six in the pharmaceutical industries, four in the auto industry, two in the oil industry, two in telecommunications, two in cosmetics and detergents, and one company in each of the following fields: electrical cables, vegetable oil-processing, soft drinks, tyre manufacturing, dairy products, razor blades, copy machines, air-conditioner assembling, and electrical appliances.

This widely distributed sample represents the main activities of FDI in Egypt and the major sectors that attracted its inflow in recent years. There are other companies, perhaps equally important, which were not covered owing to time constraints. However, the sample included in the questionnaire is widely

representative and hence it provides **broad sectoral coverage of FDI in Egypt.** Most of the companies selected are branches of multinational corporations and/or joint ventures with the Egyptian private sector. In terms of the nationality of the companies, they represent several countries. Six of these companies are based in the United States, four are based in Switzerland, three in Germany, three in Italy, one in the Republic of Korea, and the rest are a mix of nationalities. This wide distribution of nationalities is responsible for the diversification of the source of FDI inflow to Egypt.

In terms of the percentage of FDI in the total capital of these companies, it varies from less than 50 per cent in 32 per cent of these companies to 90 per cent in 9.1 per cent of them (see annex II). However, in the majority of these companies, the share of FDI was between 50 and 70 per cent.

(a) *The pharmaceutical industry*

The pharmaceutical industry in Egypt is becoming increasingly dominated by the private sector. The share of the private sector in total pharmaceutical output rose from just 6.4 per cent in 1984/1985 to over 55 per cent in 1994/1995, and in 1997 it reached 76 per cent. The foreign private sector involvement in the pharmaceutical industry goes back to the 1960s. The participation of FDI was governed by Law No. 132 for 1949, the "patent law", which gave the patents a maturity of 10 years after which they expired. This period provided a golden opportunity for the pharmaceutical industry to record fast growth rates, driven mainly by the private sector. The fast growth of domestic demand is the main reason for the active involvement of FDI in the pharmaceutical industry in Egypt. The domestic demand for pharmaceutical products is expected to reach LE 4.5 billion by fiscal year 2004/2005, up by 21.6 per cent from its projected level of LE 3.7 billion in 1999/2000.

Owing to the importance of the pharmaceutical industry to the Egyptian economy and its success as one of the most promising industrial activities, the sample included six companies in this field representing 24 per cent of the total sample. The sample represents 44 per cent of the pharmaceutical industry in Egypt.

This sample represents most of the important companies in the pharmaceutical industry in Egypt, and most of these companies were established as a result of licence agreements. The inflow of FDI to the pharmaceutical industry in Egypt is directed by two main factors: (a) the attraction of Egypt for market-seeking FDI owing to the country's large consumer market, the availability of research centres and institutions, the availability of skilled, and relatively cheap labour and modern infrastructure; and (b) the availability of an export outlet for the pharmaceutical industry in Egypt. The pharmaceutical industry in Egypt goes back to the 1960s and is well established. FDI has been involved in this industry ever since its establishment. This had a positive impact as the industry's development during the last few years even before the implementation of the economic reform and liberalization policy during the 1990s. The availability of basic infrastructure in this industry and its long history of association with FDI encouraged the expansion of FDI activity. The survey concluded that the share of FDI in the capital of the companies included in the sample was relatively high, varying from 49 per cent in one company to 70 per cent or higher in two companies (table 10). This is an indication to the importance given by FDI to the fast developing pharmaceutical industry in Egypt. Moreover, the type of investments involved gives also indications of their diversified nature. The types of investments include both financing and provision of technical know-how. This means that there has been a transfer of know-how and possibly of technology to Egypt as a result of this inflow of FDI. This is clearly indicated by the fact that pharmaceutical companies in Egypt spend between 5 and 10 per cent of their earnings on research and development (R and D), which makes them rank among the highest in Egypt in terms of company spending on research and development. This is, of course, over and above the main research, which is undertaken by the mother companies in the home countries and in other branches of the same company in various countries.

In terms of their impact on exports of pharmaceutical products, the survey showed that these companies have been active in export promotion despite the relatively large domestic market in Egypt. The survey showed that the export of pharmaceutical products represented as much as 50 per cent of the total sales of most of these companies. Only one company indicated that 100 per cent of its sales were in the domestic market. In the other five pharmaceutical companies included in the survey, exports represented

between 20 per cent and as high as 50 per cent of total production. Most pharmaceutical exports go to the Middle East, North Africa and Eastern Europe.

In the area of imports, the survey indicated that between 30 and 60 per cent of the intermediate inputs used by these companies are imported. This share, though relatively high, indicates that the value added in Egypt is satisfactory, taking into consideration the technology-oriented, capital-intensive industry. However, there is room for a further drop in imports of intermediate inputs in the coming few years.

With regard to employment generation, since the pharmaceutical industry is a capital-intensive and technology-driven industry, its impact on employment generation is not very significant. The companies surveyed indicated that they employed between 100 and 740 employees, and as many as 1,512 employees. The distribution of the workforce in these companies indicates that skilled labour represented between 15 and 50 per cent of the companies' total labour force (table 10). Two companies did not indicate the distribution of their workforce. Foreign workers represented, in general, a low share of the total labour force employed by these companies, ranging between 0.5 per cent and 2.0 per cent, while three companies or 50 per cent of the sample indicated they had absolutely no foreign workers. This gives a clear indication of the availability of skilled and relatively cheap labour in Egypt. Foreign companies should take advantage of this and increase their reliance on Egyptian labour to cut costs and enhance competitiveness. It also indicates that although this industry is capital-intensive and plays only a modest role in employment generation, it relies heavily on domestic sources of employment, which has a positive effect on overall employment in Egypt. Moreover, most, if not all, of the foreign workers in these companies are at management level.. This is an indication that local labour is engaged in and controls, relatively, not only the technical operation but also the management and administration of those companies. This is one of the most important objectives of the inflow of FDI.

In the area of training, most of the companies indicated that they concentrated on job training in the factory and not in the mother company. This can be attributed to two factors: (a) the high quality of training courses on job training; and (b) the need for cost-cutting in order to reduce overall production costs. Only one company indicated that training consisted of both on the job training and technology training in factories in the mother company.

With regard to government incentives, most of these companies indicated that they were satisfied with the incentives provided, including taxes and customs exemptions, settlement of disputes and financial and fiscal incentives. They also indicated that they found government services, including infrastructure, transport and communications as well as research centres, satisfactory. None of these companies indicated problems faced during their operations. In terms of research activity; most of these companies are taking advantage of the research facilities in the mother companies, and many rely only particularly on the research facilities provided in Egypt. Therefore, these companies have a comparative advantage over other companies that rely mainly on the local research facilities, particularly in this technology-sensitive industry, where research is vital to the growth and overall existence of the company. Whether they depend on local research facilities or on those provided by the mother companies, they contribute positively to the inflow of science and technology to Egypt, and hence contribute to the development of the technological base of the country in this important and fast-growing industry.

TABLE 10. EGYPT: THE IMPACT OF FDI ON THE PHARMACEUTICAL INDUSTRY

Industry	Number of companies	Share of FDI	Employment as percentage of total employment		Training as % of total sales	Exports as % of total sales	Imports of intermediate inputs as % of total inputs
			Skilled	Semi-skilled			
Pharmaceutical	6	49-90 per cent	15-50 per cent	45-65 per cent	5-25 per cent	20-50 per cent	30-60 per cent

Source: Compiled from the conclusions of the survey conducted for this study.

(b) *The auto industry*

The auto industry in Egypt, which goes back to the late 1950s and early 1960s, recorded high growth rates during the past four years. The number of passenger cars produced in Egypt increased from 21,491 in 1994/95 to 35,015 units in 1995/96, representing a growth rate of over 62.9 per cent. Despite the drop of 38 per cent recorded in 1996/97, the growth rate rebounded strongly and registered 78 per cent in 1997/98. The main factor that led to the drop in production of passenger cars in Egypt in 1996/97 was the decline in the production of one company, namely El-Nasr for Cars. It is estimated that the domestic demand for passenger cars in Egypt during the period 2000-2005 will grow by an average annual rate of 10 per cent. In the area of trucks and buses, the demand is even higher and is also projected to grow at an even higher rate. The growth rate of the domestic demand for trucks and buses is boosted by the expansion in huge development projects in the Suez area and in Toushka. The domestic production of trucks and buses is estimated to expand at higher rates, boosted by the establishment of new production lines by both Dawoo Egypt and Samsung as well as Volvo, which signed a contract to supply 750 trucks in 1999 and 1,500 trucks in the year 2000.

There are currently 13 factories for different types of cars, trucks and buses, with a total investment of LE 5,000 million, producing between 50,000 and 65,000 units per year. The domestic production satisfies about 50 per cent of the local demand. The auto industry in Egypt is relatively protected by high customs tariffs on imported cars, which makes the domestically produced cars cheaper, and hence more competitive in the local market. The car industry in Egypt has contributed both to employment generation, and currently there are more than 30,000 workers in this industry and in import substitution. Export promotion is not on the list of priorities. Priority is instead being given to satisfying domestic demand and employment generation.

The sample used includes 30 per cent of the auto manufacturing capacity in Egypt, which represents a relatively detailed picture of developments in this important industry in the areas of import substitution, employment, human development and transfer of technology.

The sample included four auto companies operating in Egypt. The inflow of FDI to the auto industry in Egypt reflects wide diversification, as it involves companies representing several countries. This has a positive impact on the consumers in the Egyptian market, as the companies provide different types of cars and different levels of quality and price. All the companies chosen have sales exceeding LE 10 million annually. The four companies chosen for the sample represent 16 per cent of the total sample of the survey, which is the third largest. The sample represents 30 per cent of the total production of the auto industry in Egypt. The share of FDI in the total capital of these companies ranges from 30 per cent to as high as 60 per cent (table 11). The types of FDI involved include finance as well as technical know-how, which indicates a transfer of technology involved with the inflow of FDI. The multinational auto corporations are attracted to Egypt by its relatively large market, skilled and relatively cheap labour, the availability of supporting industries, financial incentives and the availability of a stock market. The products of these companies are currently relatively protected by the high customs tariffs on imported cars, which gives these companies a production advantage in the domestic market. Most of the companies interviewed in the auto industry indicated an increase in their annual sales, which is another indicator of the growing demand for cars in the local market. Because of the high customs tariffs, the domestically produced cars are relatively cheaper than the imported ones, even those of the same brand. Only one company indicated fluctuations in its annual sales, without providing reasons for the fluctuations. The impact of the production on exports remains very limited, as most of the production is directed to the domestic market. Among the companies reviewed, only one company indicated that 10 per cent of its annual production is exported to other Arab countries. However, this percentage is very small to have an impact on the total exports of the country. It should be noted that though most of the annual production of the auto companies in Egypt is directed to the domestic market and hence does not contribute significantly to the country's total exports, the production satisfies the domestic market, and hence has contributed to the decrease in auto imports into the country. The domestic production provides import substitution activity, taking advantages of both the large market and relative protection provided and reflected in high customs tariffs. The domestic production thus has a positive impact on the balance of trade, not through raising exports but by reducing imports of cars into the Egyptian market.

In terms of imports, the companies indicated that they import large parts of their intermediate inputs from abroad, ranging from 35 per cent to 85 per cent. This is a relatively high share of imported inputs in total inputs, and hence an indication that for some companies the local value added remains low. Only one company depends less on imported inputs for its production; one factor that could account for this could be the company's relatively long experience with the Egyptian market, as it was established in 1983.

In terms of employment generation, the companies reviewed indicate that they each employ from 650 to 3,100 employees; one company did not indicate the total number of its labour force in Egypt. Skilled labour represents between 10 per cent of the total labour force to as much as 50 per cent. These percentages are another indication of the relatively low share of imported inputs in several of these companies, as they may depend more on their skilled labour, and less on imported inputs, for a higher share of technical operations in Egypt. Therefore, there is a clear correlation in these companies between the level of skilled labour employed and the level of imported intermediate input.

Semi-skilled labour represents most of the labour force of the auto companies in Egypt. In the sample surveyed, semi-skilled labour ranged between 35 and 50 per cent, to as much as 80 per cent in 25 per cent of the sample. The positive factor in all companies was the high share of local labour in total employment: 80 per cent or over in all four companies. This is a clear indication that those companies are taking advantage of the relatively cheap labour in Egypt, which represents one of the most important incentives attracting FDI to the manufacturing sector. Foreign labour is either very small or non-existent in these companies, as only one company indicated that it employed between 20 and 30 foreign workers. However, none of those companies provided specific figures on the percentage of their female labour force.

In the area of training funds, the results vary significantly from as low as 0.5 per cent of total revenues in 25 per cent of the sample to over 5 per cent in 50 per cent of the sample. One company did not indicate any percentage assigned for training. In terms of type of training courses provided, most of these companies indicate that they provide training both on the job and at technological centres in the mother companies. This is a very positive factor that will lead to the upgrading of skills of the national labour working in these companies which, in turn, will have a positive impact on the skills of the Egyptian labour force in general. However, in terms of R and D resources, only one company indicated that it assigns 1.0 per cent of its total sales to R and D; the rest did not indicate any percentage. This could be attributed to the fact that they rely totally on the mother company for these R and D activities as they are still relatively new in the Egyptian market and need time to establish R and D activities in Egypt. It could be attributed also to the relatively small size of these companies, which makes it difficult to established a separate scientific base in every country in which they invest. It is important for the Egyptian economy that these companies increase their local R and D activities, not just for their own benefit but for the benefit of R and D activities in the country in general. There should be more integration of the R and D facilities in Egypt in order to promote interaction and cooperation. However, three companies, or 75 per cent of the sample, indicated that the research centres in Egypt are not sufficient to carry out research activities in their areas of interest. This could be one factor that has led to the heavy reliance on outside research centres for R and D. The inadequacy of the R and D centres in the country is the only disadvantage about which these countries complained. They indicated their satisfaction with the infrastructure and transport and communications available. In terms of incentives provided by the Government, the companies indicated their satisfaction with these incentives, including tax and customs tariffs exemptions and the settlement of investment disputes. These companies are satisfied in particular with the customs tariffs imposed on the imported cars, which makes these cars more expensive compared with those produced in Egypt. This provided them with protection from competition from automobile producers based outside Egypt.

The sample indicates that the auto industry in Egypt is mainly for import substitution and at least until now has not contributed significantly to exports. Moreover, the domestic value added remains relatively small as the majority of the companies in the sample indicated their heavy reliance on imported intermediate input. This, of course, leads to higher total imports, and hence has a negative impact on the balance of trade.

TABLE 11. EGYPT: THE IMPACT OF FDI ON THE AUTOMOBILE INDUSTRY

Industry	No of companies	Share of FDI	Employment as percentage of total employment		Training as % of total sales	Exports as % of total sales	Imports of intermediate inputs as % of total inputs
			Skilled	Semi-skilled			
Auto Industry	4	30-60 per cent	10-60 per cent	35-80 per cent	0.5-7 per cent	Only one company export 10% of products	35-80 per cent

Source: Compiled from the conclusions of the survey conducted for this study.

(c) *The oil sector*

Despite the fact that Egypt is not among the major oil-producing and -exporting countries in the ESCWA region, oil revenues play a major role in the Egyptian economy. Oil production in Egypt averaged 760,000 barrels per day (b/d) during the 1980s and 887,000 b/d during the period 1990-1997.[36] Owing to the increased domestic oil consumption, Egypt exports only about one half of its oil production. In 1980, Egypt's oil production represented 3.2 per cent of the ESCWA total. This rate increased to 6.1 per cent in 1990 owing to the drop in the average production of the ESCWA region from 17.431 m/b/d to 14.263 m/b/d in 1990. In 1997, Egypt's average daily oil production, as a percentage of the total from the ESCWA members, dropped to 5.3 per cent, mainly owing to the rebound in the average daily production of the ESCWA region to 17.324 m/b/d, up from an average of 14.263 m/b/d in 1990.[37] Oil revenues in Egypt reached their highest level of US$ 2.6 billion in 1985 and dropped to as low as US$ 1.02 billion in 1989, reflecting the sharp drop in oil prices. During the 1990s, Egypt's oil revenues reached their lowest level of US$ 1.17 billion in 1993.[38]

The FDI in the oil sector was represented in the sample by two companies, comprising 8 per cent of the total sample used in the survey. The sample represented 15 per cent of the total number of oil companies with FDI participation in Egypt. One of these companies produces about 23 per cent of oil production in Egypt, which makes it among the major players in oil production in the country. Its activity includes also gas exploration and exploitation. Gas production in Egypt has gained increased importance, particularly for domestic consumption. The government policy in this regard has aimed at replacing oil with natural gas for domestic consumption, thus making more oil available for export.

The share of the FDI in the two companies used in the survey ranged from 49 to 51 per cent (table 12). The type of FDI in both companies is financial, and not technical know-how.

The analysis of the sample indicates that there has been an increase in production, and hence sales, in one company while there has been a drop in oil production in other company. The mixed results were caused by the drop in the productivity of several oil wells owned by the latter company. The annual total sales of one company were estimated at over LE 440 million, or about US$ 132 million.

In terms of exports, both companies export a high share of their daily production. For one company, exports represent 90 per cent of its production, while for the other company they represent only 50 per cent. This is an indication that the latter company concentrates on the domestic market as well as foreign markets. Italy is the main export market for the products of one company, while for the other company the export market is more diversified and includes the United States, Turkey, Italy and Israel.

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[36] *Survey of Economic and Social Developments in the ESCWA Region 1998-1999* (United Nations publication, Sales No. E.99.II.L.9), table 12.

[37] Ibid.

[38] Ibid., table 14.

In terms of imports, while no specific percentages were provided, one company indicated that it imports 100 per cent of its intermediate inputs. This is an exceptionally high rate and indicates that the company does not rely on the domestic market for its intermediate inputs.

In the area of employment, both companies employ mostly Egyptian labour. One company employs 3,500 employees, of whom 95 per cent are Egyptian, while the other company employs 4,000 of whom 90 per cent are Egyptian. At the management level, 95 per cent of the managers are Egyptian in both companies. The distribution of the workforce is evenly divided between skilled and semi-skilled workers in both companies. In one company the distribution is 40 per cent for both skilled and semi-skilled workers, while in the other company the distribution is 25 per cent for both skilled and semi-skilled workers. Both companies employ foreign labour, ranging from 7 per cent of total employment in one company to 10 per cent in the other.

Female employment is very low in both companies. One company employs only 250 female employees out of a labour force of 4,000 which makes female employment account for only about 6.3 per cent of the total. The other company indicated that it employs only a few female workers in administration and no numbers were given.

With regard to R and D, both companies spend a relatively high share of their revenues on research activity, ranging from 5 to 20 per cent. Training activity spending represents 7.0 per cent of the total revenues of one company and only 1.0 per cent in the case of the other company. The sample showed that one company spends about 27 per cent of its revenues on R and D and training. This figure, if credible, is higher not only for this company, but higher than for companies in the auto and pharmaceuticals industries. This is a positive factor for the development of R and D in Egypt, particularly in the area of oil and gas production.

With regard to government incentives provided, the picture was mixed. One company indicated that it is satisfied with the facilities provided by the Government for the FDI activities and with the mechanism for the settlement of disputes, but was less satisfied with the tax exemptions provided and with the tariff exemptions. The other company did not indicate any problems concerning facilities, exemptions and settlement of disputes.

With regard to government services provided. one company was satisfied with both infrastructure and research centres and less satisfied with transport and communications facilities and networks. The other company did not indicate any major problems concerning government services provided. However, it indicated that there are problems concerning oil agreements as these agreements were not commensurate with the current level of gas exploration. One company also complained that several oil wells had been completely exploited, which led to a drop in average daily oil production. This drop in oil production made the current employment level relatively high. However, there was no indication of employment retrenchment by the company.

TABLE 12. EGYPT: THE IMPACT OF FDI ON THE OIL INDUSTRY

Industry	Number of companies	Share of FDI	Employment as percentage of total employment		Training as % of total sales	Exports as % of total sales	Imports of intermediate inputs as % of total inputs
			Skilled	Semi-skilled			
Oil exploration and production	2	49-51 per cent	25-40 per cent	25-40 per cent	1-7 per cent	50-90 per cent	Only one company indicated 100%

Source: Compiled from the conclusions of the survey conducted for this study.

(d) *Electronics and telecommunications*

Although electronics and information technology is a relatively new industry in Egypt, it has recorded relatively high growth rates during the past few years. Total production rose from US$ 117 million in 1992 to US$ 861.2 million in 1996. The industry employs more than 50,000 worker in Egypt, which represents about 0.3 per cent of the total labour force. There are currently about 500 companies involved in electronics production and 500 companies in information technology.[39] Electronics and information technology have been given high priority on the Government's economic agenda. The aim of the Government's strategy is to develop, upgrade and expand the domestic electronics industry to enable it to compete with other countries in the region and at the international level. To achieve the objective of this strategy, the Government included this industry as one of the priority areas covered by Investment Law No. 8 for 1997. This gives this industry the opportunity to benefit from the various tax and custom exemptions provided by the law. The Government has also established a technology valley near the Suez area to attract private sector companies in this industry, especially those financing or managed by FDI. Moreover, the Government has established a large number of information centres to expand the scientific research base of the country. Currently there are about 1,400 information centres[40] in Egypt that are part of its effort to expand the scientific infrastructure of the country. In this regard, the Government has provided training at various levels to about 180,000 Egyptian employees as part of its human development strategy.[41] Export promotion in the area of electronics and information technology is also given priority by the Government. The first step in this direction is to gain a large share in the regional market. The role of FDI in the electronics industry in Egypt goes back to the 1960s and 1970s. However, the large expansion of the inflow of FDI to this growing sector has followed the implementation of the economic reform and liberalization programme in the 1990s. Currently, several of the multinational corporations in the field of electronics, telecommunication and information technology have established their presence in the Egyptian market. This includes Alcatel, Xerox, Microsoft, Intel and Oracle. These companies are attracted to Egypt by (a) its large consumer market; (b) the availability of a skilled and relatively cheap labour force; (c) generous incentives provided by Investment Law No. 8 for 1997; (d) the availability of scientific research centres; and (e) the strong possibility of exporting to other countries in the region.

Most of these multinational corporations opened offices in new industrial cities such as the 10th of Ramadan and the 6th of October. These new industrial cities provide generous investment incentives and are close to consumers and in particular to the capital city of Cairo. Moreover, these multinationals benefited from the privatization programme being implemented in the country, which included the privatization of State-owned companies. In the area of telecommunications, the Government privatized the mobile telephone network in 1996. This was the first step in privatizing the telecommunications sector, which is a huge sector including Telecom Egypt, with assets of US$ 20 billion. The privatization of this fast-growing sector will provide investment opportunities for increased FDI participation. FDI has already been active through its participation in the mobile phone network represented by the French company Alcatel, which currently operates one of the country's mobile phone networks.

In the area of computers (software and hardware) and information technology, there are about 500 companies in Egypt producing about 60 per cent of market needs. The current market in Egypt for this industry is estimated at more than US$ 600 million, growing at 32 per cent annually.[42] This estimated growth rate makes the Egyptian market among the fastest growing in the world, and higher than the world growth average of 20 per cent. However, part of the country's strategy in the area of computers and information technology is for the country to become the main export centre in the region in the coming few years. This is in line with the Government's strategy of export diversification away from the country's current heavy dependence on oil and cotton exports. If the planned strategy is successful, Egypt will be a major exporter of computers and computer software as well as information technology by the year 2002. However, though this goal is achievable, it requires more economic liberalization, including changes in the

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[39] Ibid.

[40] *Al-Hayat*, 25 September 1999.

[41] Ibid.

[42] Ibid.

property rights protection laws to boost FDI investment in this highly competitive sector. It also requires the integration of Egypt's scientific and technological base with global networks. This can be achieved through the promotion of privatization in the areas of computer and information technology. It also requires the adaptation of the country's education system to the needs of the market in various specializations, in particular, the needs in the field of technology. The Government of Egypt has established a ministerial committee to review the laws and legislation covering the electronics and technological industries in Egypt with a view to modernizing and liberalizing these laws to attract a high participation level of FDI in this important and highly competitive field.

Four companies in electronics and telecommunications were included in the survey sample, accounting for 16 per cent of the total number of companies represented in the sample.

The contribution of the FDI in the total capital of these companies was raised from 4.5 per cent to 80 per cent. Most of the FDI inflow is in the area of finance and technical know-how. The only exception was one company, which indicated that the inflow of FDI was concentrated on finance alone.

In the area of operations, three companies, or 75 per cent of the sample, indicated an increase in sales, while one company indicated that its sales grew and then declined. The company gave no particular reason for the drop in sales. It could have been a result of operational problems and well as subscription problems, since the company is involved in mobile telephone networking, an area in which the demand is high.

In the area of export promotion, none of the surveyed companies indicate any exports. The activities of these companies are concentrated on satisfying the domestic demand in Egypt. The main objective in the short run is not to promote exports but to promote technology in the respective areas of activities. This objective is clearly stated as a condition for participation in the equity of these companies. All four companies indicated that there has been a correlation between the transfer of technology and their equity share. This satisfies the government objective of attracting FDI to electronics and information technology, to ensure the adaptation of the latest available technology.

In the area of employment, the total labour force of these companies varied from 260 employees in two companies to 1,100 in another company. Skilled employment, as expected, has the leading share in the total employment of these companies: it rose from 50 per cent in two companies to 80 per cent in one company. Only one company indicated that skilled labour represented only 10 per cent of its total employment. This can be attributed to the fact that all the company's technical operations are undertaken outside Egypt, and the same company imports 100 per cent of its intermediate inputs. Foreign employment is relatively high in some of these companies, and reached 40 per cent in one company, or 25 per cent of the sample. In another company, foreign employment represented 1 per cent of total employment. The other two companies did not specify any percentage of the share of foreign employment in their total labour force. Female employment represents as much as 45 per cent in one company, which is the highest among the companies represented in the survey. Two other companies, representing 50 per cent of the sample, indicated female employment, ranging from 15 employees in the first company to 150-200 employees in the second.

The share of domestic employment in management ranged from 85 per cent in one company to 95 per cent in another company, while the other two companies in the sample did not provide any percentages.

In the area of training, two companies, or 50 per cent of the sample, allocated 5 per cent of their total revenues for training, while one company spent between 2 and 3 per cent of its revenues on training. The highest percentage allocated for training was 35 per cent in one of these companies. In the area of R and D, two companies, or 50 per cent of the sample, indicated that they spent 5 per cent of their total revenues on R and D, while one company did not spend any of its revenues on R and D. The highest share was again registered by one company (35 per cent). This share looks relatively high, and no reason was given by way of explanation. However, one factor that could explain this company's high share is the fact that it is a small company and needs to penetrate the market. The high spending on both training and R and D will make it more competitive, and hence increase its share in the Egyptian market. The drop in its sales could be another factor that prompted the company to increase R and D and training activities to regain its market share.

The analysis of the sample indicates the following:

(i) There has been a growth in the activity of these companies, with only one exception, as indicated by growth in the sales of their products;

(ii) A transfer of technology accompanied the inflow of FDI to the industry. This is clearly indicated by the close correlation between the equity share of FDI and the transfer of technology. It can also be indicated by the relatively high share of R and D and training activities in these companies' revenues. However, here again the impact is expected to be small and limited, as these companies remain relatively small players and thus lack the resources to build an independent technological base. Moreover, the interaction with the domestic research centres remains limited;

(iii) There has not been any export promotion associated with the inflow of FDI. This can be attributed to the fact that the main objective of the inflow of the FDI to this industry is to satisfy the domestic demand. Domestic demand, particularly in the area of mobile telephones as well as the electronics industry, is growing at a high rate, which encourages these companies to concentrate on satisfying this higher growth. Moreover, export promotion requires increased productivity and hence competitiveness to be able to gain market share in this highly competitive industry;

(iv) There has been active participation in female employment in this industry. Three companies indicated female employment ranging from one per cent to as high as 45 per cent.

(e) *Other industrial activities*

The sample included several other industrial activities that attracted a high rate of FDI inflows. The main objective of including such activities is to point out the diversification of the inflow of FDI to Egypt. This sample included nine companies, or 36 per cent of the total sample, and included companies representing a wide range of industrial activities such as electrical appliances, air-conditioner assembly, dairy products, tyre manufacturing, cosmetics and detergents, soft drinks and vegetable oil-processing. Several of those companies are among the major players in their respective fields.

The share of FDI in these companies or in the percentage of their total capital varied from 30 per cent to 80 per cent, as shown in table 13. However, in one company, the FDI rate is very low (about 4.0 per cent). Most of the FDI inflow is in the area of finance, with the exception of one company, where the inflow of FDI is in the form of technical know-how.

The impact of the inflow of FDI in these companies has, in general, been positive. Six companies, or 66.7 per cent of the sample, indicated an annual increase in sales. Only two companies, or 22.2 per cent of the sample, indicated a slow-down in sales. The main reason for this slow-down was the seasonal nature of the demand for company products and the relative slow-down in real estate growth in Egypt. One company indicated stable sales.

In the area of export promotion, the picture was mixed. Two companies, or 22.2 per cent of the sample, indicated that they had not exported any of their products because they concentrated on meeting the domestic demand. The first company indicated that exports represented 20 per cent of its sales while the second company indicated that exports represented 30 per cent of its sales. Three companies, or 33.3 per cent of the sample, indicated exports represented 40 per cent of their sales. Most of their exports are directed to Arab countries and Europe. In general, there has been progress made in the area of export promotion, which is one of the main objectives of the Government in its efforts to attract FDI. However, the current priority of these companies is to meet the needs of the local market.

TABLE 13. EGYPT: THE IMPACT OF FDI ON OTHER INDUSTRIES

Industry	Number of companies	Share of FDI	Employment as percentage of total employment		Training as % of total sales	Exports as % of total sales	Imports of intermediate inputs as % of total inputs
			Skilled	Semi-skilled			
Others	9	30-80 Per cent	--	30-90 Per cent	--	0-40 Per cent	20-65 Per cent

Source: Compiled from the conclusions of the survey conducted for this study.

With regard to imports of intermediate inputs, the companies surveyed indicated that they imported part of their intermediate inputs. The rate differs from one company to another. The lowest rate (20 per cent) was for assembling of air-conditioners, while the highest was for electrical appliances, razor manufacturing and dairy products, which was between 60-65 per cent.

In the area of employment, the nine companies included in the sample employed altogether a total of about 12,000 employees, ranging from as few as 190 employees in one company to as many as 7,000 employees in another. Semi-skilled labour represented a high percentage of total labour in all of these companies, ranging from 30 per cent to 90 per cent. Foreign employment varied from one company to another, with the exception of the one company where no foreign labour was employed. The range was between 0.1 per cent and 10 per cent. One company did not provide any specific percentage regarding foreign labour.

Spending on R and D as well as training varied from one company to another. Four companies, or 44.4 per cent of the sample, indicated that their spending on R and D had either not been quantified, or was nil. In other companies, the rate varied from 10 per cent on R and D in one company to 2 per cent in another company, to 20 per cent for other two companies. The relatively high and to some extent unrealistic spending as R and D is an indication of the highly competitive nature of industrial activity, such as in the cosmetics industry and the electrical appliances industry. Other companies, which either do not spend on R and D or spend a low percentage of their revenues on it, are either in a non-competitive industry such as the tyre- manufacturing industry, or depend on the mother company for R and D.

In the area of transfer of technology, most of these companies indicated the existence of close linkage between FDI equity participation and the transfer of technology: only two companies indicated that there had not been close linkage between the two factors. One company did not indicate whether there was a link between the equity participation of FDI and the transfer of technology, while another company indicated that there was no link between the two. The case of the latter company can be explained by the small share of FDI in the total capital, amounting to less than 4.0 per cent.

In the area of tax and customs tariffs exemptions as well as other facilities provided by the Government for FDI inflows, five companies, or 55.6 per cent of the sample, indicated their satisfaction with these issues. Four companies, however, indicated that tax and customs tariffs exemptions were not satisfactory. As for the adequacy of government services, five companies, or 55.6 per cent of the sample, indicated that they faced problems, particularly in the areas of transport and communications and infrastructure. Only two companies, or 22.2 per cent of the sample, indicated that they had problems relating to the inadequacy of local research centres. This could explain the relatively high share of R and D spending in one of these companies. Three companies, or 33.3 per cent of the sample, indicated problems in the areas of customs clearance and employment protection provided to the employees by the privatization law.

7. *The main conclusions of the survey in Egypt*

The analysis of the findings of the above-mentioned sample indicated the following main results:

(a) The sample indicated high FDI participation in the total capital of the companies selected. In most of these companies, the share exceeded 50 per cent, while in several of them it exceeded 70 per cent. This is another indication that the industrial sector, with its various activities, has attracted a large share of FDI inflow to Egypt. It is another sign of the diversification of FDI inflow to Egypt;

(b) The types of FDI inflow are concentrated in either finance or technical know-how;

(c) There has been a growth in sales of over 80 per cent in these companies, with only a few exceptions, which is a reflection of the positive contribution of the FDI inflow to both production and sales;

(d) The contribution to export promotion has been mixed. About 48 per cent of the companies in that sample indicated that 100 per cent of their production was directed to the domestic market. Only six companies, or 24 per cent of the sample, indicated that they exported over 40 per cent of their sales. However, though most of these companies can be considered as producers for the domestic market (import substitution), they contribute positively to the balance of trade by reducing the imports of these products, which otherwise would have been imported from abroad. Moreover, several of these companies are relatively new in the market and many lack the competitiveness needed to penetrate foreign markets;

(e) With regard to imports of intermediate inputs, a large percentage of these companies' imports are intermediate inputs, with the exception of three companies. In 32 per cent of the companies included in the sample, imported intermediate inputs represented 30-50 per cent of the companies' intermediate inputs. In 44 per cent of the companies, imports made up from 50 to 90 per cent of intermediate inputs, while in 8 per cent imports constituted 100 per cent of the companies' intermediate inputs. This is a comparatively high percentage, which reduces the domestic value added and negatively affects the balance of trade. The inflow of FDI led to a sharp rise in imports of capital goods and other intermediate inputs, which contributed to the sharp increase in total imports. The impact of the FDI on the balance of trade has been negative in the short run. This is normal, as most of the established companies and projects needed to import their capital goods;

(f) In the area of human development, these companies have contributed positively. Their contribution came mainly as a result of the training provided to the local labour force, which represents the highest percentage of their workers. Skilled labour represented over 30 per cent of the total labour force in 50 per cent of those companies that provided information on the distribution of their employment. It represented over 50 per cent in seven companies;

(g) With regard to R and D, the picture is mixed. While several companies in the sample have had positive interactions with the local R and D institutions and centres, others, particularly those that are branches of TNCs, are mainly dependent on the R and D activities in their mother companies. The impact on R and D in Egypt, however, remains limited compared with the impact on human development and employment generation. The main reason for this relatively limited impact could be the small size of most FDI industrial activity in Egypt, which does not allow for independent R and D activity;

(h) Most of the technology transfer is in the area of technical know-how (44.0 per cent), followed by patent rights (36 per cent); for the rest of the companies, it is in the area of licensing know-how;

(i) In the area of facilities, tax exemptions and settlement of disputes, only six companies, or 24 per cent of the sample, indicated that the facilities and exemptions were insufficient. In the rest of the companies in the sample, the facilities were either satisfactory or sufficient. In the area of public services, which include infrastructure, transport and communications and research centres, most of the companies indicated they were sufficient. Only seven companies indicated that the research centres were insufficient;

(j) The inflow of FDI into Egypt has been, in general, very positive. However, it has been more positive in some areas than in others. FDI has had a positive impact on human development and on employment, but it has had a less positive impact on transfer of technology and export promotion. The main factor behind its less positive impact on transfer of technology can be attributed to the relatively small size of several companies, which makes them less capable of building their own technological bases. In the area of

export promotion, the contribution has been rather limited owing to the fact the priority of FDI is the domestic market.

B. SAUDI ARABIA

1. *Background*

The Saudi Arabian economy, despite significant diversification efforts, remains heavily dependent on oil. Its oil sector is the main sector in terms of GDP contribution, exports and government revenues. In 1997, the oil sector contributed 37 per cent of the country's GDP, 75 per cent of the total government revenues and over 85 per cent of total exports.[43] This relatively high contribution of the oil sector to the country's GDP makes the economy more vulnerable to external shocks, particularly sharp declines in oil prices. The sharp drop in oil prices in 1998 had a significant negative impact on oil revenues, and hence on government revenues in the country, as was the case for other major oil-exporting countries. Oil revenues in Saudi Arabia dropped to US$ 33.7 billion in 1998, a decline of 16 per cent from their 1990 level, and were equivalent to only 33.3 per cent of their 1980 level of US$ 101.4 billion.[44]

The fluctuations in oil prices and revenues led to a similar fluctuation in total government revenues, which are closely linked to the changes in oil prices. This led to internal imbalances, reflected in a widening budget deficit in Saudi Arabia which began in fiscal year 1983/84. In 1987, the budget deficit worsened as a direct result of the sharp drop in oil prices in 1986. As a percentage of GDP, the budget deficit in 1987 reached 19.1 per cent. However, since then the budget deficit as a percentage of GDP dropped as a result of a combination of the relative improvement in oil prices in the early 1990s and the measures taken by the Government in 1995 to cut spending. These measures included an increase in the domestic prices of oil products, as well as the prices of basic services such as electricity, telephone and water consumption. These measures led to a sharp increase in non-oil government revenues from 5 billion Saudi Arabian riyals (SRIs) in 1994 to SRIs 19 billion in 1995. This, in turn, led to a sharp drop in budget deficit as a percentage of GDP, from a negative 7.3 per cent in 1994 to a negative 2.1 per cent in 1995.[45] However, by 1997, the budget deficit had risen to 3.3 per cent of GDP, owing mainly to the 20.6 per cent increase in government expenditures. Despite the increase in the budget deficit in 1997, the fiscal situation in Saudi Arabia improved in comparison with both the mid-1980s and the first five years of the 1990s.

The structure of GDP still reflects the dominance of the oil sector, which represents about 37 per cent of the total GDP, while the agriculture sector remain small in terms of its contribution to the GDP, which is still below 10 per cent. The service sector's contribution has increased rapidly during the last few years and reached 42.4 per cent in 1997.

The external sector's performance is also closely linked to the developments in the oil sector. In terms of exports, crude oil represents more than 80 per cent of total exports. This high dependency makes the external sector vulnerable to the performance of international oil markets, and hence causes instability in terms of exports. Total exports in Saudi Arabia, which achieved an average annual growth rate of 24 per cent during the period 1970-1979, dropped sharply during the period 1980-1989 to a negative annual average of 20.8 per cent.[46] The sharp drop in the growth of total exports in the period 1980-1989 was a direct result of the steep decline in oil prices and revenues during the decade. However, with the rebound in oil prices during the period 1990-1996, the total exports of Saudi Arabia recorded an annual average growth rate of 3.1 per cent. Although this growth remained sharply below the brisk growth rate of over 20 per cent recorded during the 1970s, it represented a strong rebound from the slump in the 1980s. The volatility in the performance of exports, which depends to a high degree on the performance of oil prices, represents a real constraint on the external trade policy of the country. The narrow base of the export sector limits the

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43 Economist Intelligence Unit (EIU), "Country Profile, Saudi Arabia, Basic data-Saudi Arabia 98/99".

44 *Survey of Economic and Social Developments in the ESCWA Region, 1998-1999*, table 14.

45 EIU, "Country Profile, Saudi Arabia, Basic data-Saudi Arabia 98/99", p. 38.

46 *Survey of Economic and Social Developments in the ESCWA Region, 1998-1999*, table 27.

Government's flexibility in diversifying the export base. It also puts a constraint on the Government's efforts to reduce external imbalances, during periods of low oil prices, without sharp cuts in imports. The total exports of Saudi Arabia are characterized by high volatility dependent on oil prices, and hence oil revenues. Oil revenues in Saudi Arabia have fluctuated sharply during the past 25 years, reflecting similar fluctuations in world oil prices and oil demand. Prices dropped from a 1981 peak of US$ 111 billion to only US$ 20 billion in 1986.[47] During the period 1990-1994, total oil revenues totalled US$ 211.6 billion compared with US$ 367.3 billion during the period 1980-1984.[48] During the period 1995-1998, oil revenues totalled US$ 180.4 billion, a decline of 50.8 per cent from the 1980-1989 level.

Saudi Arabia's imports have stabilized during the past few years as a result of the Government's relatively restrictive import policy, which led to a cut in public spending, while the activity of the private sector has not led to a sharp increase in imports. The main imports have been for machinery, transport uses and equipment, and ranged in cost between US$ 8 billion and US$ 10 billion during the period 1994-1997. However, there has been a declining trend due to the Government's restrictive import policy.

The trade balance in the country has always registered a surplus, though fluctuating with the performance of oil exports. During the period of low oil exports, the trade surplus dropped sharply but remained positive, mainly owing to cuts in imports. However, despite the fact that the trade deficit is always in surplus, it remains closely linked to the performance of oil exports, and hence is vulnerable to external economic and political shocks. There is a need for export diversification, taking into consideration the fact that the country has a comparative advantage in the petrochemical industry. This industry, however, has faced export barriers in most of the developed countries, and that has been the main factor behind its limited share in total exports. In 1996, for example, petrochemical exports represented only 4.9 per cent of total exports. In dollar terms, the exports of petrochemical products rose from US$ 1.5 billion in 1992 to US$ 2.8 billion in 1996.[49]

The inflow of FDI in Saudi Arabia fluctuated from an average annual negative of US$ 35 million during the period 1987-1992 to US$ 1,369 million in 1993, before falling to a negative US$ 1,877 million in 1995.[50] The inflow of FDI rebounded strongly in 1997 to US$ 2,575 million before dropping by 6.8 per cent in 1998 to US$ 2,400 million.[51]

As a percentage of the country's GDP, the inflow of FDI inward stock, which reached 25.2 per cent in 1985, dropped to 18.5 per cent in 1997. This is another indication of the inconsistency of the inflow of FDI to the country during the period under review. The inflow of FDI as a percentage of gross fixed capital formulation followed the same trend in its share in the country's GDP. It increased from an annual average negative rate of 0.2 per cent during the period 1987-1992 to 5.2 per cent in 1993, before falling into a negative rate of 8.1 per cent in 1995. However, in 1997, the share of FDI in the country's gross fixed capital formation rebounded to 11.0 per cent, reflecting a strong rebound in the inflow of FDI during that year.

2. *The role of the private sector*

Although the public sector in Saudi Arabia remains in a dominant position in terms of its control over large industrial projects, including those in the oil industry, the private sector is very active in the Saudi Arabian economy, particularly in trade, agriculture and manufacturing. The private sector in Saudi Arabia has always been active in these areas, in addition to its activities in the services sector, particularly financial services. In terms of its participation in the county's GDP, the private sector in Saudi Arabia contributed

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47 Ibid., table 14.

48 Ibid.

49 EIU, "Country Profile Saudi Arabia, Basic data-Saudi Arabia 98/99", p. 50.

50 UNCTAD, *World Investment Report, 1999, Foreign Direct Investment and the Challenge of Development*, annex table B.1.

51 Ibid.

about 45 per cent in 1995, up from only 21 per cent in 1975.[52] Outside the oil sector, the private sector contributes about 72 per cent of GDP.[53] In terms of the contribution of the private sector to the country's gross domestic fixed capital formation, it was projected to reach 67 per cent by 1995, up from only 34 per cent in 1975[54] and 45 per cent in 1995. In the area of employment generation, the private sector employed 1.4 million workers in 1975, and this figure was expected to reach more than 6.0 million by 1995, the last year of the Fifth Five-Year Development Plan.[55]

These figures give a clear indication of the importance of the private sector in the Saudi Arabian economy during the past 25 years. This role is expected to gain additional importance during the coming few years. For example, in terms of the volume of investment, private sector investment rose from SRls 28 billion in 1990/91 to SRls 46 billion in 1995, representing an average annual growth of 13 per cent.[56] The total private sector investment during the country's Fifth Five-Year Development Plan reached SRls 200 billion.

The role of the private sector during the implementation of the Sixth Five-Year Development Plan grew even larger, boosted by the incentives provided by the Government, which included the opening up of additional industries to private sector participation. This was part of the Government's drive to give a larger share in terms of investment to the private sector, particularly during the period of volatility of oil prices and revenues and the application of a restrictive fiscal policy by the Government. The role of the private sector in Saudi Arabia will be particularly important in the areas of investment and employment, including the employment of a higher share of Saudi Arabian nationals, economic diversification and the expansion of the economic base away from the current heavy dependency on the oil sector. It will also include a larger share of investment allocations to reduce the burden on the public sector in a period of slow economic activity. In this regard, the Plan assigned 57 per cent of its total investment allocation to the private sector.[57]

The Government wanted to increase the contribution of the private sector to Saudi Arabia's non-oil GDP from 72 per cent in 1995 to 67 per cent in the year 2000.[58]

In terms of economic policies, Saudi Arabia's Sixth Five-Year Development Plan calls for the promotion of the private sector through further economic liberalization and the provision of an investment-friendly economic environment for the private sector. One important factor that will lead to higher participation of the private sector in economic development is privatization. In this regard, the Government aims, during the Sixth Five-Year Development Plan, at selling part of its assets in public shareholding companies in phases. The Government also wants to expand the contribution of the private sector in management control as well as operational control of public projects. The Plan aims at gradual privatization of public assets on a case-by-case basis rather than through the implementation of a comprehensive privatization programme as in Egypt. The Government is applying a more cautious policy towards privatization, and its main focus is not on the sale of public enterprises and vertical privatization but rather on the expansion of the role of the private sector horizontally, through the building and implementation of new projects, including those projects planned by the Government in the Sixth Five-Year Development Plan.

The Government also aims at providing the basic physical infrastructure as well as the basic services to cater for the expanding of the role of the private sector. This includes the provision of transport and communications, electricity and new industrial zones and industrial cities. Furthermore, fiscal incentives are being provided to the private sector, including credit and finance. In this regard, the goal of the Sixth Five-

[52] Saudi Arabia, Ministry of Planning, Sixth Five-Year Development Plan, 1995-2000 (in Arabic), p. 156.

[53] Ibid.

[54] Ibid.

[55] Ibid., p. 157.

[56] Ibid.

[57] Ibid., p. 168.

[58] Ibid., p. 169.

Year Development Plan is to allocate more than SRls 24 billion to the various banks and funds that are active in providing credit to the private sector, including the Industrial Development Fund, the Real Estate Development Fund and the Saudi Credit Bank: this is in addition to the SRls 245 billion provided by these financial institutions to the private sector up to 1995.[59] The commercial banks have also expanded their credit facilities to the private sector during the past few years. The total volume of loans provided by the commercial banks to the private sector rose from SRls 65.3 billion in 1990 to SRls 108.6 billion in 1995.[60] Hence the total financial resources provided by both the specialized banks and the commercial banks during the period 1990-1995 totalled more than SRls 130 billion, or over US$ 40 billion. Among the moves towards liberalization by the Government was its initiative in 1994 that opened the door for the private sector to invest in basic industries, including the petrochemical industry. The Government is also providing credit and loans to the private sector as an incentive to invest in the manufacturing sector. The Industrial Development Bank is the main agency providing such credit and loans to the private sector. In the area of power generation, the Government decided in 1998 to merge the electricity enterprises into one joint stock company with private sector participation in the management of the electricity projects.[61] This is just the first step in allowing the private sector to participate in the development of power generation, which is expected to require SRls 438 billion in new investment in the coming 25 years.[62] This is in line with the Government's privatization policy, which calls for the horizontal expansion of the role of the private sector in the economy through financing of new projects and new investment rather than the sale of existing public assets to the private sector. The private sector is encouraged by the Government's commitment to the promotion of its role, particularly in the productive and service sectors. This commitment is also reflected in the provision of credits and loans to the private sector to enable it to participate in the implementation of the country's development plans. The private sector has been active in the Saudi Arabian economy, particularly in trade, industry, agriculture and financial services. It is also active in joint activities with the public sector, as it participates in a large number of industrial companies, including the largest one, namely the Saudi Basic Industries Corporation (SABIC), as well as a large number of cement companies, transportation companies, agricultural companies and several commercial banks, such as the Riyadh Bank, the Saudi Bank for Investment, and the Saudi American Bank.

3. *Foreign direct investment*

The Government's policy on the entry and operations of FDI is aimed at encouraging the inflow of FDI to joint projects. This policy is stressed in Saudi Arabia's Sixth Five-Year Development Plan, which states that FDI represents one of the Government's tools to encourage the implementation, establishment and expansion of joint projects.[63] To achieve this objective, the Government stresses the expansion of bilateral investment treaties, particularly with developed countries, and has streamlined the procedures for the entry and licensing of FDI projects and expanded the activities, sectors and industries that are open for the participation of FDI. Since the adoption of the Sixth Five-Year Development Plan, additional government initiatives have been introduced. Among those are the initiatives by the Ministry of Industry and Electricity in 1997 that allowed for the participation of FDI in establishing power generation plants.[64] This includes a new power plant in Shuaiba with a capacity of 1,750 megawatts (MW) on a Build Own and Operate (BOO) basis.[65]

With regard to telecommunications, the Government, as a first step, decided to transform the telecommunications company into a joint stock company with private sector participation, including FDI.

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[59] Ibid., p. 172.

[60] Ibid., p. 173.

[61] EIU, The Economist Intelligence Unit, "Investing, Licensing & Trading, Saudi Arabia, April 1999", p. 4.

[62] Ibid., p. 5.

[63] Saudi Arabia, Ministry of Planning, Sixth Five-Year Development Plan 1995-2000, (in Arabic), p. 171.

[64] EIU, "Investing, Licensing & Trading, Saudi Arabia, April 1999", p. 7.

[65] Ibid.

Moreover, the Government, as part of its offset programme, which is being overseen by the offset committee within the Ministry of Defence and Aviation, requested the company AT&T, which won a government contract to supply 1 million telephone lines, to invest 35 per cent of the volume of the contract locally to manufacture telecommunications equipment through joint ventures.

Moreover, the Government has put recently put emphasis on the development of the mining sector. In this respect, the Government announced its desire to allow foreign oil companies again to invest in oil exploration in the country. This will open up huge investment opportunities and will lead to a sharp increase in FDI, particularly if the current rebound in oil prices continues during the next few years. This would also lead to an increase in foreign investment in the oil sector, which could once again be the leading sector in terms of FDI inflow as was the case during the 1970s. In addition, this could also boost the country's attractiveness to FDI, particularly if it coincides with further economic liberalization and deregulation. Owing to the huge investments required by the mining sector, particularly in oil exploration and exploitation, the inflow of FDI to the oil sector will boost Saudi Arabia's standing in terms of its share in the region's FDI inflow.

4. *Legislative and institutional framework*

The main legislation that governs the entry and operations of FDI in Saudi Arabia is the Foreign Capital Investment Act, which was issued by a Royal Decree in 1979. This act covers the operations of FDI, the exemptions provided and the conditions attached to these incentives in economic activities, industries and sectors, with the exception of the oil sector. However, priority is given to agriculture, manufacturing, health services and the services sector. The inflow of FDI should be in compliance with the following conditions:

(a) The activity of the FDI should be within the scope and orientation of Saudi Arabia's development plans and meet the objectives of the country's overall economic policy;

(b) The inflow of FDI should result in the transfer of technology and know-how;

(c) It should receive licensing and registration from the Ministry of Industry and Electricity.

FDI that meets the above-mentioned conditions qualifies for various exemptions as incentives to its entry and operations in Saudi Arabia. These incentives include waivers of customs tariffs on imports, including raw materials and intermediate goods, as well as exemptions from corporate taxes. These foreign companies are also eligible to apply for local credit and/or subsidized loans. In addition, FDI operating in the manufacturing sectors is exempted from corporate taxes for 10 years, which is double the period granted to other projects.[66] In addition, there are no restrictions on profit repatriation or on the transfer of royalties and fees. In 1996, the FDI in the mining sector (excluding oil the sector) was provided with a five-year tax holiday.

Tax exemptions for FDI, which vary from 10 years for investment in the manufacturing sector to five years for other economic sectors including the services sector, constitute a very important incentive, in view of the fact that corporate taxes on foreign companies in Saudi Arabia can reach 45 per cent in industrial projects. FDI in industrial projects is subject to this rate after the 10-year exemption period is completed. This is considered a constraint on the inflow of FDI, particularly since it involves a long-term investment commitment (greater than 10 years). This is because there is a relatively high corporate tax, particularly in the manufacturing sector, but also because Saudi Arabia has not signed many double taxation avoidance agreements. Therefore, FDI can face a double taxation problem in the host country (Saudi Arabia) and in the home country when there is no double taxation avoidance agreement between the two countries.

In terms of ownership of assets, there are no specific rules that prohibit 100 per cent foreign ownership, but the policy favours the establishment of joint ventures between Saudi Arabian and foreign investors. The establishment of joint ventures is favoured, and hence is provided with additional incentives such as credit from the Saudi Industrial Development Fund.[67] The minimum required Saudi Arabian participation in joint ventures is 25 per cent.[68]

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[66] UNCTAD, *Investment in the Arab World, Issues and Policies*, p. 210.

[67] EIU, "Investing, Licensing & Trading, Saudi Arabia, April 1999", p. 10.

[68] Ibid.

With regard to real estate, it is possible for joint ventures between Saudi Arabian citizens and foreign investors to own real estate.[69] However, there is no provision regarding the ownership of real estate for wholly foreign-owned FDI projects, though in general real estate ownership is reserved for Saudi Arabian projects and entities.[70] This issue is one of the main constraints limiting FDI, not only in Saudi Arabia but in several other countries in the ESCWA region. However, some countries such as Egypt, have allowed foreign investors to own land for these projects, while others are still putting restrictions and/or limits on land ownership for FDI projects.

In addition to the tax holidays granted, licensed and registered FDI is eligible for additional incentives, such as preferences with regard to local products and protection from competing imports. Moreover, owing to its increased interest in attracting additional inflows of FDI to different economic sectors, in 1996 the Government started to review the existing rules and regulations governing FDI. The main purpose of the review, which was scheduled to be completed in 1999, was to boost the incentives provided to FDI invested in the country, or at least to compete with the regulations on FDI provided by other countries in the region. The findings of the review will greatly determine FDI policy in Saudi Arabia, and hence could have a major impact on the level of FDI in the coming years. This policy review, together with the planned opening of the mining sector to FDI, will enhance the share of the country in the region's FDI inflows. These steps could be further enhanced by the activation of a privatization programme.

5. *The institutional framework*

The overall monitoring and supervision of FDI is assigned to the Ministry of Industry and Electricity. This includes the granting of licences for FDI. The Ministry's functions with regard to FDI involve overall policy orientation and control over the activities, entry and operations of FDI, not just in the industrial sector but in the economy as a whole. The Ministry is working in close cooperation and coordination with the Foreign Capital Investment Committee, which handles the daily activities of FDI operations, including providing recommendations to the Ministry of Industry and Electricity on FDI projects and/or companies for its final approval. The Committee is composed of representatives of several government ministries and agencies, including the Ministry of Industry and Electricity, the Ministry of Planning, the Ministry of Finance and National Economy, and the Ministry of Petroleum and Mineral Resources. It also includes representatives of the Ministry of Agriculture and Water as well as the Ministry of Commerce.

The recommendations of the Committee are submitted to the Minister of Industry and Electricity for approval before they become binding and final. In addition, other ministries are involved in the entry and operations of FDI in Saudi Arabia, such as the Ministry of Commerce, which is responsible for the registration of FDI companies.

The Ministry of Finance is also involved, though indirectly, in the operations of FDI. This is in addition to the membership of the Ministry in the Foreign Capital Investment Committee, through its involvement and control of tax policies, including income tax and corporate tax.

In the area of settlement of disputes, which is of utmost importance to foreign investors, the Grievances Bureau is the main authority. The Bureau is an independent body handling all disputes relating to FDI in Saudi Arabia, in addition to its other function of handling administrative disputes. The arbitration system is also used in Saudi Arabia to settle commercial and investment disputes. The main agency in this regard is the International Center for Settlement of Investment Disputes, with which Saudi Arabia signed an agreement in 1979. Saudi Arabia is also a member of the arbitration centre for the GCC countries, which was agreed upon in 1993 and became operational in 1995. However, the main concern of the centre is commercial arbitration.

Legislative authority for FDI in Saudi Arabia was first granted in 1979, which puts the country among the leaders in the ESCWA region in terms of specific legislation governing the entry and operations of FDI. The 1979 law governing FDI made Saudi Arabia the second country in the ESCWA region after Egypt to

[69] Ibid., p. 11.

[70] Ibid.

issue specific legislation for FDI operations. However, because of the time that has elapsed since their early adoption, the investment laws in Saudi Arabia need comprehensive review and amendment, in view of recent developments in the area of FDI entry and operations. The developing countries that recently enacted FDI legislation are more generous in terms of incentives to FDI, and provide more flexibility to FDI in terms of operations as well as in areas of activity. In Egypt, tax exemptions can be for 20 years for certain types of FDI activities, whereas in Saudi Arabia, the maximum is 10 years. However, as noted above, the important fact is that the Government did initiate a review of its FDI legislation, and the review was scheduled to be completed in 1999.

6. *The impact of FDI on the industrial sector*

The industrial sector in Saudi Arabia currently attracts more than 80 per cent of the total inflow of FDI. This gives the industrial sector the lion's share in total FDI inflows to Saudi Arabia. The inflow of FDI to the industrial sector provided capital to 350 factories, representing 15 per cent of the total number of factories in Saudi Arabia. The share of FDI in total investment in the industrial sector in 1997 reached 44.8 per cent (table 14). The FDI in the industrial sector in Saudi Arabia is concentrated on public sector industrial projects. The bulk of the FDI in the industrial sector is concentrated on 13 projects, with heavy government involvement through its main establishments such as SABIC and ARAMCO. These projects represent 80 per cent of the joint venture total capital; only 20 per cent of the FDI in the industrial sector goes to projects with private sector involvement. Over 80 per cent of the FDI in industrial joint ventures is concentrated in these projects. The distribution of the FDI inflows to the industrial sector in Saudi Arabia indicates heavy concentration on the chemical and plastic industries (87.4 per cent), followed by building materials (5.53 per cent) and the metal industry (3.7 per cent) (table 15 and chart 8).

This concentration clearly indicates that the inflow of FDI is attracted by the availability of raw materials and a relatively large domestic market. All FDI inflows to the industrial sector are to joint ventures with Saudi Arabian participation in either the public or the private sector.

One factor that could explain the concentration of FDI in joint ventures with government or public sector projects is the fact that the private sector projects are small in terms of capital. About 39 per cent of the joint industrial projects have a capital below SRls 10 million, and 10.7 per cent of the projects have a capital between SRls 101 million and SRls 300 million, while only 5.0 per cent of the projects have a capital greater than SRls 300 million. Most of the large industrial projects are public sector projects. FDI is concentrated on projects that have a capital of more than SRls 300 million and that represent only 5.2 per cent of the total joint venture industrial projects. Eighty per cent of FDI is invested in a small number of joint industrial projects, while only 20 per cent of the FDI is distributed among the 327 joint projects that are owned by the private sector and that represent 94.8 per cent of the total joint venture industrial projects.

TABLE 14. SAUDI ARABIA: TOTAL JOINT INDUSTRIAL PROJECTS WITH FDI PARTICIPATION AS OF 1997

	Number of projects	Capital (millions of SRls)	Employment	FDI share (percentage)
1. Food-processing industry	29	1 511	3 953	52.2
2. Textile and leather	9	307	1 089	45.6
3. Wood and furniture	17	189	1 078	96.3
4. Paper and publishing	19	1 349	3 755	43.6
5. Chemical and plastic industry	98	93 245	20 174	46.7
6. Building materials, ceramics and glass	42	5 868	9 104	10.7
7. Metal industry	129	3 974	12 659	41.3
8. Others	5	244	570	27
9. Transport and storage	1	5	41	60
Total	350	106 692	51 441	44.8

Source: Saudi Arabia, Ministry of Foreign Affairs, Seminar on FDI in Saudi Arabia: Incentives and Obstacles (in Arabic), Riyadh, November 1997, p. 95.

TABLE 15. SAUDI ARABIA: THE SHARE OF FDI IN JOINT INDUSTRIAL PROJECTS IN THE INDUSTRIAL SECTOR

(Percentage)

Industry	Share
Food processing	1.40
Textiles, leather, footwear	0.30
Wood and furniture	0.17
Paper industry	1.30
Chemicals and plastic	87.40
Building materials, ceramics and glass	5.53
Metal industry	3.70
Others	0.20
Total	100.00

Source: Table 14.

The inflow of FDI in Saudi Arabia is characterized by high concentration in one sector, namely the manufacturing sector, including in particular the petrochemical industry. This industry, which depends on oil as a primary commodity, has a comparative advantage in Saudi Arabia, which is one of the major oil-producing countries in the ESCWA region and one of the world's major oil producers. The FDI is also characterized by heavy concentration on the major public sector industrial projects and less concentration on the private sector projects. FDI is therefore engaged in activities that are directly or indirectly related to the oil sector. This concentration has been the main factor behind the relative fluctuations in the inflow of FDI to Saudi Arabia, depending on the developments in the oil sector. Most of these petrochemical projects are located in the industrial cities such as Jubail, and offer a modern infrastructure plan as well as other incentives such as exemptions from corporate taxes for 10 years and exemptions from export taxes in order to encourage exports of petrochemical products. The petrochemical industry provides the country with an opportunity to diversify its export base, which is currently dominated by the export of crude oil. It provides FDI with a comparative advantage reflected in the availability of oil and gas as well as other incentives.

Chart 8. Share of FDI in joint venture projects in the industrial sector, 1997

Source: Table 15.

As noted above, a survey was made to assess the impact of the inflow of FDI on the Saudi Arabian economy. The survey consisted of a questionnaire which was distributed to various companies with FDI participation in various industries.

The survey, which included 24 companies, covered various industrial activities. The distribution was as follows: (a) 29.2 per cent of the sample covered the chemical industry; (b) about 33 per cent covered building materials, ceramics and glass; (c) about 12.5 per cent covered the electrical industry; (d) over 8 per cent covered maritime and geological services; (e) about 4 per cent covered the pharmaceutical industry; and (f) 12.5 per cent covered the metal industry. The experience of SABIC was also analysed. An analysis of the main conclusions of the survey is presented below.

7. *The impact of FDI on various industries in Saudi Arabia*

(a) *The chemical industry*

The chemical industry, which attracts the highest share of FDI in Saudi Arabia, represents one of the most important and promising industries in the country. This is because of the availability of oil at relatively low prices. In the survey sample, the chemical industries were represented by seven companies, or 29.2 per cent of the total sample.

The types of FDI inflows provided either financial capital or technical know-how, while the share of the FDI ranged between 31 and 50 per cent (table 16).

TABLE 16. SAUDI ARABIA: THE IMPACT OF FDI ON THE CHEMICAL INDUSTRY

Industry	Number of companies	Share in the total survey	Share of FDI	Impact of FDI on:			
				Employment of nationals	Sales	Exports	Technology
Chemical and petrochemical	7	29.2 per cent	Between 31-50 per cent	Limited; most employment went to expatriates	Positive in 83 per cent of the sample	Positive in 50 per cent of the sample	Positive

Source: Compiled from the results of the survey conducted for this study.

The impact of the inflow of FDI on sales has been positive in six companies, or 85.7 per cent of the sample, while the seventh company did not indicate the impact on sales. In terms of exports, three companies, or 42.9 per cent of the sample, indicated that they exported part of their products, mainly to other GCC countries. In one of the companies, exports represented 35 per cent of its products, with consumers in the domestic market making up the other 65 per cent.

In terms of technology transfer, these companies indicated that the inflow of FDI had a positive impact on technology transfer, which contributed to improving the quality of products. The inflow of FDI led to the transfer of new production technology that was previously not available in the domestic market, and this had a positive impact on the quality of production, and hence on sales growth.

With regard to research, the impact of FDI has been limited. One company indicated that its main research was conducted by the mother company in the United States. Another company indicated that there was no impact on research, while two companies, or 28.6 per cent of the sample, indicated that the impact of FDI on research had been positive.

However, the impact of the inflow of FDI on employment, particularly on the employment of Saudi Arabian nationals, has been limited. Foreign labour represents a relatively high percentage in the total employment of these companies: around 75 per cent in three companies, or 42.9 per cent of the sample. One

company indicated that over 97 per cent of its employees were foreign, which was the highest share among the companies reviewed. The high percentage of foreign labour in these companies reflects the high percentage of foreign workers in Saudi Arabia in general; it should be noted that these companies do not represent an unusual situation. The percentage of foreign labour is high in both large companies and small ones. Moreover, none of the companies in the sample indicated the percentage of Saudi Arabian nationals at the management level or the number or rate of female employment in their labour force. Several companies in the survey expressed complaints about shortages of skilled labour.

In terms of government incentives provided to FDI, only two companies stated that tax and customs exemptions needed to be amended and that procedures for application and approval of FDI projects needed to be speeded up and facilitated to save time and effort for foreign investors. Three companies, or 42.9 per cent of the sample, did not indicate any problem concerning incentives provided for FDI. As for government services provided for FDI, two companies expressed complaints about unavailability of adequate research centres in the country. One company expressed complaints about bureaucracy in a number of government departments such as customs and ports.

In general, the main concerns expressed involved research centres, bureaucracy in several government departments and offices, and the long lapse of time between the application and the approval periods. These issues, though important, could be easily corrected by the introduction of amendments to the current law governing the inflow and operations of FDI in the country. The Government is currently reviewing the investment law with the aim of addressing these areas of concern. The results of this review are expected in the coming year.

(b) *Building materials, ceramics and glass industries*

The share of this industry in the total of joint venture projects with FDI participation in the industrial sector in Saudi Arabia reached 5.53 per cent. Its share in employment is even higher at 19.2 per cent.

The sample covered eight companies, representing 33.3 per cent of the total sample in the survey. The share of FDI ranged from 45 to 49 per cent, which is an indication that FDI provides a minority share of the capital of those companies (table 17). It is interesting to note here the relatively high share of FDI from other ESCWA member countries in this industry. Three companies represented in the sample receive FDI inflow from other ESCWA member countries, namely Egypt, Jordan and the Syrian Arab Republic.

TABLE 17. SAUDI ARABIA: THE IMPACT OF FDI ON THE BUILDING MATERIALS, CERAMIC AND GAS INDUSTRIES

Industry	Number of companies	Share in the total survey	Share of FDI	Impact of FDI on: Employment of nationals	Sales	Exports	Technology
Building materials, ceramics and gas	8	33.5 per cent	Between 45 and 49 per cent	Limited, with expatriate workers over 80 per cent in 62 per cent of the sample	Mainly positive	N.A.	Limited

Source: Compiled from the results of the survey conducted for this study.
N.A.: Data not available.

Most of the inflow of FDI in this industry is in the form of financial inflows and/or technical know-how. The impact of the inflow of FDI on sales is mixed. Five out of the seven companies included in the sample, or 62.5 per cent of the sample, indicated that the inflow of FDI had had a positive impact on total sales. Three companies, or 37.5 per cent of the sample, indicated either that FDI had had no impact on sales, or they did not respond to the question. However, most companies in the sample indicated a positive impact, which can be a reliable indicator concerning the impact of FDI on the total sales in this important industry.

The impact of the inflow of FDI on the employment of Saudi Arabian nationals is limited. More than 80 per cent of the labour force in four companies, or 50 per cent of the sample, are expatriate workers; in some cases, the percentages reach over 90 per cent. The other three companies did not indicate the share of foreign labour in their total labour force. However, those three companies are relatively small both in terms of production and labour force. The high share of foreign labour is common in all industries in Saudi Arabia and not only in the building materials industry. One company indicated that Saudi Arabian nationals represent 40 per cent in the management of the company. The impact on technology transfer is limited, as this industry is not as technology-driven as the petrochemical industry or electronics industry. Only three companies, or 37.5 per cent of the sample, indicated that there had been an impact on technology transfer. However, one company indicated that the impact had been negative, as foreign investors have not been interested in technology transfer. This answer is not totally credible because foreign investors want to cut costs and boost profits, and one way in doing so is by introducing new technology. The other two companies indicated a positive impact of FDI on technology transfer.

The impact of FDI on the quality of production is positive. Four companies, or 50 per cent of the sample, indicated that FDI inflow led either to new products with lower costs or to the promotion of the quality of existing products. This had a positive impact on total sales in four of the seven companies. This is a positive development and is in line with the objectives of the Government in attracting FDI inflows.

In the area of research, four companies indicated a positive impact. The inflow of FDI is positive as it leads to the creation and promotion of a domestic research base to take advantage of the new technologies which, in turn, is positive for productivity, quality and cost. Three companies did not provide any information on the impact of FDI on research, mainly because they are relatively small and lack resources for building a research base. In addition, the industry in general is not a technology-driven industry.

With regard to the government incentives provided to FDI, three companies indicated that the incentives were adequate, and one company indicated that it had no information on the issue. However, three companies indicated that the available research centres were not adequate to provide the needed research facilities for these companies. Concerning investment disputes, none of the companies indicated problems in that regard. Other government services such as transport and communications were considered adequate, as none of the companies surveyed indicated that they had any problems or difficulties in that regard. This is understandable as there are modern infrastructure facilities all throughout Saudi Arabia.

(c) *The experience of the Saudi Basic Industries Corporation**

SABIC represents the largest industrial entity in Saudi Arabia. Its capital reached US$ 18 billion in 1997, representing over 60 per cent of the capital of industrial projects with FDI participation. Its share of FDI reached 33 per cent. The impact of FDI on sales has been positive, as total sales increased to 23 million tons in 1996, up from 10 million in 1987. Petrochemicals represent 49 per cent of its total production.

In terms of employment, the total number of the labour force in SABIC and its affiliated companies reached 13,000 in 1996, up from 7,200 in 1987, representing 25 per cent of total employment in the industrial projects with foreign investment participation. National labour represents a relatively high share; in 1996, it represented 67 per cent of the total labour force. This high percentage of national labour is in contrast to other companies with FDI participation.

The inflow of FDI had a positive impact on the transfer of technology, particularly in the petrochemical industry, which represents the main activity of SABIC. The inflow of FDI provided the company with an opportunity to deal with various research centres in the world, which had an overall positive impact on the quality of products and hence promoted sales and exports.

The inflow of FDI had a positive impact on the exports of its products. Although the company gave no figures, it indicated that there had been a growth in production; SABIC exports to over 80 countries in the

* This subsection is based on a report by SABIC on its experience with FDI and the impact of FDI. The report was submitted to the Seminar on FDI held by the Saudi Arabian Ministry of Foreign Affairs in Riyadh on 24 and 25 November 1997.

world. Foreign partners had a major role in the opening up of new markets for SABIC at the start of the its operations. However, SABIC now has its own separate department for sales marketing, and has gained marketing and exporting experience of its own.

(d) *The pharmaceutical industry*

The pharmaceutical industry in Saudi Arabia was represented by one company in the survey. The share of FDI in the capital of the company was 25 per cent, divided between financial FDI (25 per cent of the total FDI) and expertise and technical know-how.

The total sales of the company reached SRls 45 million in 1998, up by almost 95 per cent from the 1997 level of around SRls 23 million. The company share in the domestic market is about 2 per cent.

The inflow of FDI had a positive impact on the total sales of the company, as indicated by the jump in the total sales. FDI also had a positive impact on exports, though no figures were provided by the company.

The inflow of FDI also had a positive impact on the quality of products. This was achieved through the introduction of new production technology and modern expertise in pharmaceuticals, which is a technology-intensive industry.

The impact of FDI on employment of Saudi Arabian nationals has not been positive, as 81 per cent of the total labour force in the company were foreigners. However, at the management level the impact was positive, as 75 per cent of those employed at the management level were Saudi Arabian nationals, though the number was small, only nine employees.

In terms of government incentives provided to FDI, the company indicated that there was a need to modernize and amend the current investment law governing the entry and operations of FDI inflows into the country. There was in particular a need to amend the exemptions on customs taxes to make them more flexible. In terms of government services provided, the company indicated its satisfaction with those services, with the exception of the research centres, which remained inadequate for the company's operations. The inadequacy of the research centres in the country was a common problem facing FDI in the country. The company also expressed complaints about inadequacy of the local experts and expertise in its field of operations and about shortages in training centres.

(e) *The electrical industry*

The electrical industry was represented in the survey by three companies, or 12.5 per cent of the total sample. The share of FDI ranged between 49 and 50 per cent (table 18). The type of FDI inflow was financial and technical know-how. Sales in one company totalled SRls 350 million (US$ 93.3 million) in 1998, the same amount as in 1997, while in the second company, total sales reached SRls 500 million. Sales in the third company reached US$ 70 million in 1998. One company indicated that its share of the domestic market was about 25 per cent, which makes it among the major players in the Saudi Arabian market. The second company indicated that its share reached 35 per cent, while the third company shared 30 per cent of the market. The impact of the inflow of FDI in total sales was positive according to the three companies. All indicated that the impact was positive in terms of sales growth. In the area of export promotion, these companies did not provide any figures on their exports, if any. Therefore, it is difficult to assess the impact of FDI on exports. However, owing to the relatively high share of the domestic market, it can be concluded that the companies concentrate on meeting the needs of the domestic market. Though the first company indicated that the impact of FDI on exports had been positive, no figures or percentages were provided. In the area of technology transfer, all three companies indicated that the inflow of FDI had a positive impact on technology.

TABLE 18. SAUDI ARABIA: THE IMPACT OF FDI ON THE ELECTRICAL INDUSTRY

Industry	Number of companies	Share in the total survey	Share of FDI	Impact of FDI on: Employment of nationals	Sales	Exports	Technology
Electrical industry	3	12.5 per cent	49–50 per cent	Limited	Positive	No figures provided	Positive

Source: Compiled from the results of the survey conducted for this study.

In the area of employment generation, these companies rely heavily on foreign labour. In the first company, the share of foreign labour reached 70 per cent, or 350 employees out of a total labour force of 500 employees. In the second company, the share of foreign labour reached 70 per cent. The share of expatriate workers in the third company reached 70 per cent. None of the companies indicated that they had any female employees.

As for the adequacy of government incentives provided to FDI, these companies indicated that it was relatively adequate, but that improvements were needed to match the incentives provided by other countries. However, the very limited number of research centres remained a problem that needed to be addressed. The most important incentives that attracted these companies were inexpensive energy supplies, and customs exemptions. One company complained about marketing problems, particularly in several Asian countries. However, no particular reasons were given as to whether those problems were associated with the Asian financial crisis. One company also requested that the customs tax on imported air-conditioners be increased from 20 per cent to between 40 and 80 per cent as a form of protection for the company's own products. One company also requested more information on the Saudi Arabian investment climate, laws and regulations.

(f) *Maritime and geological services*

The services sector in the survey is represented by two companies, one in the area of maritime services and the other in geological survey services. The first company was engaged in the operation of one of the ports in Saudi Arabia. This is a new area opened by the Government for the participation of FDI. The second company was engaged in conducting a geological survey in the country for mining purposes. FDI in the first company is mainly financial, while in the second it is technical. The share of FDI is 50 per cent in the first company and 30 per cent in the second (table 19). The first company employs 1,200 employees, about 70 per cent of whom are foreigners, while the second company employs 250 employees, a high percentage of whom—90 per cent—are Saudi Arabian nationals. Saudi Arabian nationals represented 70 per cent of the employment at the management level in the maritime company and 95 per cent in the American geological mission project. As for the impact of FDI on technology transfer, both companies indicated a positive impact as it led to the introduction of new technologies that were not available in the Saudi Arabian market. This was particularly important for the geological survey, as it is a technology-driven industry that requires the latest available technology for mining exploration.

Both companies indicated the importance of research in their fields of specialization. The impact of FDI on research has not been positive, as both companies relied on the research available from their mother companies and utilized it in their activities in Saudi Arabia; however, up-to-date research is crucial for the quality of the services provided. Both also indicated that FDI had a positive impact on employment generation as well as the introduction of new management techniques.

One company indicated that government incentives, particularly in the area of tax exemptions, needed to be reviewed. Both companies indicated that the procedures for project registration and approval needed to be facilitated and shortened to save time and efforts for foreign investors. One company indicated that there was a need to have one government department of offices responsible for all procedures related to FDI (one stop shopping). The main objective of this proposal was to reduce the bureaucracy involved in project approval and registration.

With regard to research centres provided by the Government, both companies indicated that they needed to be expanded and upgraded. One company expressed a complaint about shortages of skilled labour in the country.

TABLE 19. SAUDI ARABIA: THE IMPACT OF FDI ON MARITIME AND GEOLOGICAL SERVICES

Industry	Number of companies	Share in the total survey	Share of FDI	Impact of FDI on: Employment of nationals	Sales	Exports	Technology
Maritime and geological services	2	8.3 per cent	30-50 per cent	Mixed	Positive	N.A.	Positive

Source: Compiled from the results of the survey conducted for this study.

(g) *The metal industry*

The metal industry received about 3.7 per cent of the total finance of joint ventures with FDI participation. The industry was represented in the sample by three companies, or 12.5 per cent of the total sample. The share of FDI ranged between 16 and 40 per cent (table 20). The type of FDI inflow was both financial and technical know-how.

TABLE 20. SAUDI ARABIA: THE IMPACT OF FDI ON THE METAL INDUSTRY

Industry	Number of companies	Share in the total survey	Share of FDI	Impact of FDI on: Employment of nationals	Sales	Exports	Technology
Metal industry	3	12.5 per cent	16-40 per cent	Mixed	Positive	Mixed	Positive

Source: Compiled from the results of the survey conducted for this study.

The impact of FDI has been positive in the case of two of the companies, while the third company did not provide any information on sales development. The impact on exports has been limited, as one company was only recently established, while another company did not provide any information on the share of exports in its total sales. Only one of the three companies indicated that it exported a small part of its production.

The impact of FDI on employment of Saudi Arabian nationals was positive in one company, reaching over 90 per cent, while in the other two companies the percentage of Saudi Arabian nationals was very low, as over 71 per cent of their total labour force were expatriates.

The impact of FDI on technology transfer has been positive in these companies, and one company received a certificate for the quality of its products in 1994. All three companies indicated that FDI inflows had a positive impact on the quality of their products as a result of the transfer of technology and modern management techniques.

As for government incentives provided to FDI inflows, the companies indicated that the incentives were adequate, with the exception of the research centres. One company indicated that there was a need for further development of the country's research base.

The main problem faced concerned the lack of quality control laws as well as environmental protection laws and regulation. One company indicated that the other main problem was the inadequate supply of water to the plants. Two companies indicated a need for the facilitation of procedures relating to

workers as well as a need to establish a database for the manufacturing sector in the country. One company indicated the need for the Saudization of employment.

(h) *Summary of the survey on the impact of FDI in Saudi Arabia*

1. The inflow of FDI in Saudi Arabia is concentrated in the large industrial projects that are under the control of SABIC and ARAMCO. Projects controlled by the two companies attract over 80 per cent of the FDI in Saudi Arabia. These companies managed to benefit from the inflow of FDI to the country in various fields, including growth of sales, transfer of technology, opening up of nearby markets and export promotion. SABIC has managed to export to over 80 countries, and FDI has played a major role in this market diversification.

2. The impact of FDI on projects controlled by the private sector in Saudi Arabia has so far been limited. The inflow of FDI to private sector industrial projects represented only 20 per cent of the total inflow to the country. This small share can be attributed to the small size of the private sector projects, as 38 per cent of these projects are capitalized with less than SRls 10 million (about US$ 2.7 million). The small size of the majority of these projects makes it difficult to build up a scientific base or credible research facilities.

3. The impact of the inflow of FDI has been limited with regard to employment of Saudi Arabian nationals. The majority of the employment generated by the inflow of FDI went to expatriate workers. The high share of foreign workers in Saudi Arabia, however, is not limited to FDI projects, but it is a general situation for the economy as a whole.

4. There has been a general complaint about the lack of modern research centres in Saudi Arabia. Most of the companies reviewed indicated that the available research centres in Saudi Arabia were inadequate.

5. There has also been a general request for the amendment of the current investment law in the country to make it more in line with laws in neighbouring countries. There was a particular request for the reduction of corporate taxes on those companies with FDI participation, which can reach as high as 45 per cent.

6. There was a general request to simplify bureaucratic procedures to save time and facilitate the efforts of foreign investors in Saudi Arabia.

7. There has been a complaint about the length of time needed for project registration and approval, which currently represents one of the main obstacles to investment in the country along with visa procedures.

8. The impact on exports was limited to large industrial projects that are partly controlled by the public sector.

9. The inflow of FDI to Saudi Arabia has been below the country's potential. There is a need to promote further inflows of FDI. This can be done by introducing amendments to the current investment law, pursuing an active privatization programme, and opening up new sectors to the participation of FDI. Moreover, there is also a need for flexibility concerning the share of FDI in the capital of joint projects and for allowing for total control by FDI. The 100 per cent foreign control, though is not forbidden, is not eligible for government incentives.

10. The impact of FDI on the employment of Saudi Arabian nationals has been rather limited. However, at the managerial level, Saudi Arabian nationals represent the majority in most of these companies, which is a positive development and could be related to the fact that the Saudi Arabian private sector holds the majority equity in most of those companies.

IV. SUMMARY AND RECOMMENDATIONS

A. SUMMARY

The following section summarizes the findings of this study.

1. *The ESCWA region*

1. The ESCWA region receives a lower share of global FDI than its potential as measured in terms of availability of natural resources, market size, relatively modern infrastructure, political stability and relatively skilled and cheap labour in most of the ESCWA members. The main obstacles to achieving a higher share of global FDI are the relatively slow pace of economic reform, particularly privatization, and the lack of a comprehensive peace in the region. Once these two obstacles are removed, the share of the ESCWA region in global inflow is expected to increase considerably.

2. The global inflow of FDI increased from an annual average of US$ 159.3 billion during the period 1987-1992 to US$ 219.4 billion in 1993, and more than doubled in 1997 to reach US$ 464.3 billion. In 1998, the global inflow of FDI increased by 38.7 per cent to US$ 643.9 billion.

3. The developed countries dominate the inflow of global FDI. Their share averaged US$ 129.6 billion during the period 1987-1992, or 81.4 per cent of the world total. Despite the slight drop in the share of the developed countries in the last few years, their share remains in a dominant position. The share of the developed countries in global FDI inflows declined to 58.3 per cent in 1997 before rebounding strongly in 1998 to 71.5 per cent.

4. The share of the developing countries in global FDI flows has increased over the past few years. A large number of developing countries implemented economic reform programmes that promoted private initiatives and opened the door for the participation of FDI in economic development in these countries. The share of the developing countries in global FDI, which averaged US$ 19.1 billion or 18.3 per cent during the period 1987-1992, rose to 29.1 per cent in 1992. By 1997, the share of the developing countries rose to 37.2 per cent of the world total.

5. Asia is the leading region in terms of global share of FDI inflows. Its average annual share reached 55.5 per cent of the total FDI inflows to the developing countries during the period 1987-1992. Despite the slight drop in the share of Asia in 1998 to 51.1 per cent of the total inflow to the developing countries, Asia remains the most important group among the developing countries in terms of FDI inflows.

6. In the ESCWA region, the inflow of FDI has accelerated but at a slower rate compared with other developing countries. The inflow of FDI to the region, which averaged US$ 1.8 billion during the period 1987-1992, or 1.1 per cent of the world total, dropped in 1995 to a negative US$ 1.1 billion. In 1997 FDI inflow rebounded back, to US$ 4.2 billion. The inflow of FDI to the ESCWA region also increased in 1998, reaching US$ 4.4 billion, about 0.7 per cent of the world total and 2.7 per cent of the total inflow to the developing countries in that year.

7. Among the ESCWA member countries, Egypt and Saudi Arabia are the leading countries in terms of FDI inflow. The inflow of FDI to Egypt has been boosted by the implementation of an economic reform programme that includes very active privatization. The inflow of FDI to Egypt represented an average of 62.5 per cent of the total inflow to the region during the period 1987-1992. In 1997 the inflow to Egypt represented 46.3 per cent, and in 1998 Egypt received about 24.5 per cent of the total inflow of FDI to the ESCWA region.

8. Saudi Arabia is in second place in terms of FDI inflow to the region. Its share, however, has fluctuated during the past few years, reflecting the fluctuations in the inflow of FDI. The share of Saudi Arabia in the total flow of FDI to the ESCWA region reached an average of 29.5 per cent during the period 1987-1992, increasing to 45.2 per cent in 1993 before falling to 22.2 per cent in 1997. In 1998 the share of

Saudi Arabia increased to 54.5 per cent. In **1998, Saudi Arabia replaced Egypt** as the ESCWA member country with the largest FDI inflow in the region.

9. The inflow of FDI to the region in the past, and particularly in the major oil-producing and -exporting countries, has been closely linked to developments in the oil sector. This factor—developments in oil prices—has been the main cause of the fluctuations in the inflow of FDI.

10. The implementation of economic reform in the region, with the exception of Egypt, Jordan, Oman and the Republic of Yemen, has been slow in pace and limited in scope. Moreover, the implementation of privatization programme has been limited to Egypt and to a lesser extent Jordan and Oman. Privatization is one of the main factors attracting FDI inflow, and as long as the privatization process in the region remains limited it will continue to restrict the inflow of FDI to the ESCWA region.

11. Most of the inflow of FDI to the ESCWA region has been in form of resource extraction or market seeking to take advantage of the region's natural resources. The percentage of export-oriented FDI has been limited, as most of the FDI is concentrated on import substitution.

2. *Egypt*

12. Egypt was among the first countries in the region to implement an economic reform programme in cooperation and coordination with the IMF and the World Bank. The economic reform programme in Egypt has achieved most of its objectives, particularly in the area of macroeconomic policy reform. Both the inflation rate and budget deficit are under control, and economic growth has accelerated in the past several years compared with the 1980s.

13. Egypt has introduced a new investment law in 1997 that represents part of the Government's efforts to provide an investment-friendly economic environment to attract a higher share of global FDI. The investment law, which became Investment Law No. 8 for 1997, provides a number of incentives for FDI, including a five-year exemption from taxes on revenues from commercial and industrial activities. This exemption is extended to 10 years for those companies that engage in activities in new industrial zones or new urban communities. The same exemption in extended for 20 years for activities outside the old valley. The law is also more flexible in terms of land ownership.

14. GAFI, which was created by a Presidential Decree in 1997, represents the institutional arrangements for investments in Egypt. GAFI is responsible for the investment projects governed by Law No. 8 for 1997. Its main objectives include the forwarding of proposals concerning new investment fields that may be included in those specified by Law No. 8. GAFI objectives also include preparing, promoting and marketing of new investment projects in various fields, as well as arranging, preparing and participating in investment and business conferences, meetings and workshops.

15. The inflow of FDI to Egypt achieved robust growth during the past few years. FDI has also been more stable compared with other countries in the ESCWA region. Egypt and Saudi Arabia are the leading countries in terms of FDI inflow to the ESCWA region. However, the inflow of FDI has been more diversified in the case of Egypt, compared with other countries in the region. It covers several sectors such as manufacturing, tourism and finance.

16. The impact of the inflow of FDI on the economy of Egypt has been, so far, positive, though limited. A survey of 25 companies with FDI participation, covering several fields, indicated that the inflow of FDI on the economy in general has been positive. However, its effect has been limited, particularly with respect to export promotion and technology inflow. The availability of natural resources, a large market and the availability of cheap and relatively skilled labour attracted most of the FDI in Egypt. The impact has been positive in the area of human development, as the FDI contributed positively to the upgrading of the skills of the labour force employed by the companies with FDI, and there was positive interaction, though limited, between companies with FDI participation and other domestic companies.

17. With regard to transfer of technology, **the results have varied, and** progress remains limited. Most of the companies with FDI participation are too small to build their own technological base. They have to rely on mother companies for technology or on external markets. Moreover, interaction with mother companies in research and development has been limited. This interaction is a prerequisite to facilitating FDI inflow and to the adaptation of new technology.

18. The impact of the inflow of FDI on employment in Egypt has also been positive. The FDI relied on the local employment for its operations in Egypt in various fields, particularly in the oil and automobile sectors. The positive impact on employment also includes employment at the management level. Most of these companies are managed by Egyptian directors or chief executives, and the administration of most of these companies is controlled and managed by local offices.

19. The impact on exports has been limited to two industries, namely the oil and the pharmaceutical industries. Other industries have concentrated on domestic demand. This is particularly evident in the auto industry and in telecommunications. The objectives of FDI during the past few years have been to satisfy the needs of the domestic market, taking advantage of the relative protection provided by high customs taxes on imported items. However, in the next few years, export promotion is expected to be given priority by the FDI.

3. *Saudi Arabia*

20. In Saudi Arabia, more than 80 per cent of the total FDI inflow is directed to the manufacturing sector, particularly the petrochemical industry, which attracted more than 87 per cent of the total inflow of FDI to the industrial sector. The inflow of FDI in Saudi Arabia is less diversified compared with Egypt.

21. FDI in the industrial sector in Saudi Arabia averaged 44.8 per cent. The highest shares were in petrochemicals, food-processing, and the wood and furniture industries.

22. The share of FDI in joint projects in Saudi Arabia remained at a maximum of 50 per cent, while in Egypt the share was much higher on average, in some companies reaching 90 per cent.

23. The impact of FDI in Saudi Arabia has generally been positive, particularly with regard to sales growth, quality of products and, to a lesser extent, technology transfer. The impact has been rather limited on exports, with the exception of the exports of SABIC, which produces more than 25 products, including petrochemical products.

24. The impact on employment of Saudi Arabian nationals, however, has not been as positive as desired. Expatriate workers represent most of the labour force in the companies surveyed. The share of Saudi Arabian nationals in management was, however, relatively large.

25. The impact on research development has also been limited. Most of the companies surveyed indicated that the available research centres in the country were not adequate.

26. Government incentives provided to FDI need to be amended and updated to compete with incentives provided by other developing countries in the region and elsewhere. In this regard, the Government was in the final stages of a review of a new investment law, and the results were expected to be announced in the near future.

27. FDI inflow to Saudi Arabia is attracted by the relatively large market, the incentives provided by the Government, the availability of modern infrastructure and the availability of natural resources, particularly oil and gas.

B. Recommendations

1. ESCWA member countries need to accelerate the implementation of economic reform processes in the region to match the ongoing process in other countries, particularly the developing countries and the

countries of Eastern Europe. The implementation of economic reform programmes that provide stable and predictable macroeconomic environments is a prerequisite to the promotion of the inflow of FDI. Moreover, these countries need to pursue macroeconomic policies that lead to a greater economic opening to the rest of the world. This step is important in the integration of the ESCWA members' economies with the global economy, through trade, capital and technology.

2. The ESCWA member countries need to promote private sector initiatives through the implementation of privatization programmes. The promotion of privatization is important in attracting a significantly higher share of global FDI. Privatization in the region has been carried out at a slow pace and has been limited in scope, with the exception of the privatization programme being implemented in Egypt.

3. The ESCWA member countries need to introduce and promote institutional reforms that include investment laws, commercial and corporate laws, antitrust laws and investment dispute laws. These laws will provide stability for the investment and business climate in the region. They will also provide the investment protection needed to allay the concerns of private investors, both domestic and foreign.

4. The ESCWA member countries are urged to promote regional economic cooperation, including cooperation in the areas of trade and capital movement. This will promote the inflow of regional FDI, and contribute to an overall increase in FDI inflow to the region. These objectives can be achieved by, *inter alia*, the signing of bilateral investment treaties among the ESCWA member countries, as well as the signing of agreements among these countries regarding double taxation.

5. At the global level, the ESCWA member countries need to be more active at the global level by participating more actively in global conferences and meetings on FDI-related issues. These countries also need to be more active in the area of global investment protection and guarantees by signing the relevant conventions and treaties governing the protection, insurance and guarantees for global investment, particularly investments related to FDI.

6. These countries need to provide more generous incentives to attract higher rates of global FDI. Because the ESCWA member countries introduced economic reform programmes relatively late in comparison with the other developing countries, they need to do more in terms of incentives to attract a higher share of global FDI. Incentives, however, can not replace the application of sound, predictable, stable and investment-friendly macroeconomic policies, but they can complement these policies.

7. The ESCWA member countries need to open up new economic sectors other than the petroleum sector to FDI participation. Most of the FDI, particularly in the major oil-producing and -exporting countries in the region, is in the oil or oil-related industries. The primary sector and related activities have dominated the inflow of FDI to these countries; this contributed to the volatility of the inflow, which was dependent on conditions in the oil market. Opening up other economic sectors would make it possible to reduce the level of volatility, as well as to attract a higher share of FDI and promote the transfer of technology.

8. In the case of Saudi Arabia, there is a need to amend the current investment law that governs the entry and operations of FDI. There is also a need, in particular, to reduce the corporate tax, which is currently as high as 45 per cent for those companies with FDI participation.

9. There is a need to open new sectors to FDI to reduce the current concentration of FDI in the manufacturing sector. There is also a need for diversification of the economic sectors that are open to FDI in order to reduce the current volatility of the inflows of FDI in Saudi Arabia.

10. There is a need to sign agreements with other countries to avoid double taxation and thus attract a higher share of FDI.

11. There is a need to speed up the privatization programme in Saudi Arabia to provide additional opportunities for the participation of FDI in economic development in the country.

Annex I

QUESTIONNAIRE
FOR COMPANIES IN EGYPT

- Project name: ....

- Type of activity:...

- Address: ....

- Tel: (   )   Fax: (   )

- Starting date of operation: ....

- Manager in charge: ....

- Percentage of foreign equity participation: ....

- Nationality of foreign investor: ....

- Type of foreign investment:

  ☐ co-finance   ☐ know-how   ☐ other

- Project lifetime: (year)

- Sales trend:

  ☐ growth   ☐ stable   ☐ decline

- Annual sales value:

  ☐ less than LE million   ☐ 1-10 LE million   ☐ more than LE 10 million

- Exports as % of total sales: (%)

- Imports as % of total intermediate inputs: (%)

- Total number of workers: ....

- Relative distribution of workforce :

  ☐ skilled (%)   ☐ semi-skilled (%)   ☐ unskilled (%)

- Percentage of foreign manpower: (%)

- Means of recruitment:

  ☐ advertisement   ☐ direct contact   ☐ other

- Percentage of nationals in management: (%)

- Type of foreign technology:

  ☐ patent rights ☐ know-how ☐ know-how licensing

- Terms of technology transfer (royalty):

  ☐ lump sum ☐ % of sales

  ☐ % of profits ☐ other

- Duration of technology transfer contract: (years)
- Percentage of revenues allocated for R&D: (%)
- Percentage of revenues allocated for training: (%)
- Place of training:

  ☐ factory site ☐ technology transfer or headquarters

- Source of machinery purchase:

  ☐ technology owners ☐ other sources

- Source of materials purchase:

  ☐ technology source ☐ other sources

- Is there any correlation between equity participation and transfer of technology agreements?

  ☐ yes ☐ no

- Do you have a quality control unit?

  ☐ yes ☐ no

- Does the company have a TQM certificate?

  ☐ yes ☐ no

- Number of female workers: ....
- What is the average productivity of labour?
- What are the main export market distinctions?

  ....

  ....

  ....

  ....

- Level of public services provided by the State:
  - Facilities ☐ sufficient ☐ satisfactory ☐ insufficient
  - Custom duties and tax exemptions

    ☐ sufficient ☐ satisfactory ☐ insufficient
  - Settlement disputes

    ☐ sufficient ☐ satisfactory ☐ insufficient
- Level of public services:
  - Infrastructure

    ☐ sufficient ☐ satisfactory ☐ insufficient
  - Transport and communications

    ☐ sufficient ☐ satisfactory ☐ insufficient
  - Research centres

    ☐ sufficient ☐ satisfactory ☐ insufficient

What are the main problems facing your company's investment in Egypt?

Procedural difficulties:

....

....

Problems during the foundation of the project:

....

....

Operational problems:

....

....

....

Financial and fiscal problems:

Administrative and labour problems:

Others:

Proposals:

Annex II*

PRELIMINARY RESULTS OF THE QUESTIONNAIRE FOR COMPANIES IN EGYPT

Companies by activity

Activity	No. of companies
Telecommunications	2
Cosmetics and Detergents	2
Electrical Cables and Distribution Networks	1
Vegetable Oil-Processing	1
Soft Drinks Bottling	1
Petroleum	2
Pharmaceuticals	6
Tyres Mfs	1
Dairy Products	1
Razor Blades	1
Motor Vehicles Assembly	4
Copying and Printer Machines	1
Air Conditioning Assembly	1
Electrical Appliances	1
Total	25

Companies by nationality

Nationality	No. of companies
United States of America	6
Switzerland	4
United Kingdom	3
France	3
Italy	2
Germany	2
United States of America/United Kingdom	1
Saudi Arabia/United Kingdom	1
Saudi Arabia/United States of America	1
Saudi Arabia/France	1
Republic of Korea	1
Total	25

* Prepared by Mohamed Sakr, who worked as a consultant during the preparation of the study.

Percentage of foreign equity participation

% Foreign Equity	No. of companies	% of companies
Less than 50 %	7	31.8
50 -	5	22.7
70 -	8	36.4
90	2	9.1
Total	22	100

Missing = 3.

Type of investment

Type	No. of companies
Co-Finance	22
Know-how	11
Other	3

Sales trend

Trend	No. of companies	%
Growth	21	84
Stable	3	12
Decline	1	4
Total	25	100

Annual sales value

Sales Value	No. of Companies	%
Less than LE Million	0	0
1-10 LE Million	2	8
More than 10 LE Million	23	92
Total	25	100

Exports as percentage of total sales

% of Exports	No. of companies	% of companies
0	12	48
10 -	2	8
20 -	2	8
30 -	3	12
40 -	4	16
50 -	2	8
Total	25	100

Imports as percentage of total intermediate inputs

% of Imports	No. of companies	% of companies
0	3	12
Less than 30	1	4
30-50	8	32
50-70	7	28
70-90	4	16
100	2	8
Total	25	100

Is there any correlation between equity participation and transfer of technology agreements?

	Yes	No
No. of companies	20	2

Do you have a Quality Control Unit?

	Yes	No
No. of companies	24	1

What are the main export market destinations?

Export Market	No. of companies
Arab Countries	6
Europe	4
North Africa	5

Labour
Total number of workers

Labour	No. of companies	%
100 -	7	30.4
500 -	6	26.1
1000 -	6	26.1
3000 -	3	13.1
5000 -	1	4.3
Total	23	100

Missing = 2.

Percentage of foreign manpower

%	No. of companies	%
0	6	27.3
Less	7	31.8
5-10	4	18.2
10-50	5	22.7
Total	22	100

Missing = 3.

Percentage of nationals in management

% of Nationals	No. of companies	% of companies
Less than 50	2	10 %
50 -	2	10 %
80 -	10	50 %
100	6	30 %
Total	20	100 %

Missing = 5.

Number of female workers

Female	No. of companies
Less than 200	3
200-500	3

Missing = 19.

Relative distribution of workers

As percentage of Labour Force	Skilled	Semi-Skilled	Unskilled
Less than 10	1	1	4
10-20	4	0	8
20-30	6	2	6
30-50	4	8	2
50-70	5	8	2
70-100	2	3	0
Total	22	22	22

Percentage of skilled labour to total labour force

% of Skilled	No. of companies	% of companies
Less than 10%	1	4.5%
10-20	4	18.2%
20-30	6	27.3%
30-50	4	18.2%
50-70	5	22.7%
70-100	2	9.1%
Total	22	100%

Technology
Type of foreign technology

	Patent Rights	Know-how	Know-how licensing
No. of companies	9	11	6

Percentage of revenues allocated for R and D

%	No. of companies
0	6
5-10	6
10-20	3
20-40	4

Percentage of revenues allocated for training

%	No. of companies
0-5	7
5-10	10
10-30	1
30-40	1

Means of recruitment

Advertisement	Direct contact	Other
16	16	7

Level of public services provided by the State

	Sufficient	Satisfactory	Insufficient
Facilities	5	17	1
Custom Duties and Tax Exemptions	8	9	4
Settlement Dispute	5	15	1

Level of public services

Type	Sufficient	Satisfactory	Insufficient
Infrastructure	13	11	
Transport and Communications	8	13	1
Research centres	9	6	7

Annex III

QUESTIONNAIRE FOR COMPANIES IN SAUDI ARABIA

1. Name of the project or firm

2. Main area of activity

3. Main objectives of the project or firm

4. Share of the FDI in total investment of the project or firm

5. Sources of FDI (country of origin)

6. Kind of FDI

   (a) Financial
   (b) Technical
   (c) Others

7. Duration of the project

8. Conditions of the terms of the inflow of FDI

9. Number of employees of the project or firm since establishment

10. Share of the foreign employees in the total since establishment

11. Share of the local employees in management since establishment

12. Total sales value

13. Share of the local market in the total sales of the project or firm

14. The impact of the FDI on

    (a) Research
    (b) Sales
    (c) Management techniques
    (d) Transfer of technology
    (e) Exports and new markets
    (f) Employment
    (g) Labour productivity
    (h) Has there been any increase in the employment of women?

15. The impact of the FDI on product quality

16. Provision of legal investment legislation, including:

    - Facilities
    - Tax and custom exemption
    - Dispute settlement

17. Provision of adequate services

    - Infrastructure
    - Transportation
    - Research centres

18. Your view on the investment climate

19. Incentives provided that attracted the inflow of FDI

    - Fiscal
    - Financial
    - Others

20. Problems faced

21. Recommendations to policy makers

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