Distr.
LIMITED
E/ESCWA/OES/2002/3
E/ESCWA/ED/2002/2
18 February 2002
ENGLISH
ORIGINAL: ARABIC

# Foreign Direct Investment Flows in the ESCWA Region



Note: This study has been prepared by Mr. Ahmad Samerai. The views expressed are those of the author and do not necessarily reflect the views of ESCWA.

02-0113

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## EXECUTIVE SUMMARY

It is 'now or never' for the Economic and Social Commission for Western Asia (ESCWA) region with regard to its economic development. Several important institutions have recently held meetings in the region. These include the World Trade Organization (WTO), which held a meeting in Qatar from 9 to 13 November 2001. Furthermore some institutions plan to hold meetings in the region. These include the International Monetary Fund (IMF) and World Bank, which will hold meetings in Dubai in 2003. These events can be seen as a vote of confidence in the region. However, will the ESCWA region seize this opportunity to enhance and develop its image?

ESCWA member countries only managed to attract less than 7 per cent of the total flow of foreign direct investment (FDI) intended for Asia in 2000. This amounted to a record US$ 141 billion. This situation is rendered even starker if Saudi Arabia is excluded from this calculation. It alone attracted more than 60 per cent of the ESCWA share. Nevertheless, there has been a small overall improvement in the FDI scenario in the region. This is as a result of increased efforts to make markets more transparent, remove outdated regulations and update them to match the present economic climate in addition to the opening up of new sectors to foreigners and privatization.

Privatization, free zones, capital markets and mergers and acquisitions (M&As) are the four primary channels that can be utilized to attract FDI to the region, beyond the oil and gas sector. With regard to M&As, despite the ongoing positive global trend,[1] most ESCWA countries do not believe that this particular approach will seriously attract FDI. Therefore, unlike other parts of the world, there has been little attempt to capitalize on this method. It follows that free trade zones and privatization are more likely to play a dominant role in encouraging FDI into the ESCWA region in the coming years.

It is therefore hoped that FDI inflow will increase in the near future, particularly with the liberalization of the Saudi Arabian gas sector and the establishment of new technology hubs in the region.

With this in mind, the primary purpose of this paper is to study FDI flows in ESCWA member countries. Furthermore, this paper analyses the impact of governmental policies on rules and regulations as they relate to the growth of FDI.

The second purpose of this paper is to cite and analyse the effect of certain economic trends that have contributed to the flow of FDI in the region.

Finally, this paper proposes various strategies to improve the situation based on the above-mentioned analysis.

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[1] A US$ 25 billion merger was signed between Hewlett-Packard and Compaq on 4 September 2001.

# INTRODUCTION

In the latter half of the 1990s, Asia witnessed a sharp increase in FDI flow. This rose from a modest US$ 74 billion in 1995, to US$ 141 billion in 2000. This represents a 20 per cent growth on a year-to-year basis. In addition, FDI flow contributed to as much as 9 per cent of the domestic capital formation in Asia by the end of the 1990s. This is more than twice its contribution at the beginning of the decade. Asia has been a forerunner in capturing FDI since that time.

However, ESCWA countries have not been able to grab a slice of the recent success that has prevailed in the continent. This success pertains particularly to China, which represents 30 per cent of the FDI flows in Asia.[2] The dominance of China in the FDI market continues as a result of its inward foreign investment in the first seven months of 2001. This amounted to US$ 40.3 billion, an improvement of 46 per cent on the previous year's total.[3] A major reason for the paucity of FDI flows to the ESCWA region has been the lack of professional understanding and expertise with regard to FDI flows and the regional factors that regulate them.

The microeconomic approach can also be cited as a principal cause of the negative trend in FDI growth. The constant rise of oil prices since the 1980s, from US$ 10 to US$ 25 has hugely benefited the economies of the Gulf Cooperation Council (GCC) countries. The gross domestic product (GDP) of these countries has improved by up to 20 per cent during that period and led to an economic boom. Theoretically, the intraregional flow in trade, labour, remittance and financial and development aid as a result of this growth should have reflected in the development of non-oil producing ESCWA members, namely, Egypt, Jordan, the Syrian Arab Republic and Yemen.[4] However, to a large extent, this has not occurred.

Nevertheless, the ESCWA community in general, and the GCC countries in particular, have recently realized the importance of macroeconomic stability and therefore the importance of FDI in the process of economic development. FDI not only initiates investments, it facilitates technology transfer and upgradation. Hence, there is an evident need for FDI mobilization in ESCWA countries.

The ESCWA region is an important constituent of the global economy. Traditionally, the oil and gas sectors have been the most lucrative fields for foreign investment in this region. This sector as a worldwide whole, expects to receive an investment of US$ 950 billion over the next decade. The share of the GCC countries will amount to 25 per cent of this total, or US$ 237 billion. This type of investment is perhaps related to the readiness of some countries to open up to foreign investment. Saudi Arabia, for example, has permitted foreign companies to invest in its gas, power generation and petrochemical industries. Furthermore, it has encouraged companies to expand and upgrade their refineries. Such positive steps, which will be explained in the following chapters, have successfully helped to promote flows of FDI in the region.

The attitude to FDI flow in the ESCWA member countries can be divided into two groups. These are detailed in the following sections.

## A. ANTI-FDI ATTITUDE

There are certain groups of people who are opposed to FDI. They strongly believe that any foreign capital entering their country is a threat to their economic and political interests. This attitude can perhaps be explained by the fact that the majority of ESCWA countries have become independent in the past 30 to 40 years and that particular sections of their respective societies are wary of FDI on the basis that it is just another method of exploitation by imperialist countries. This negative attitude gained momentum in the wake of the Asian economic crisis of 1997 and the subsequent negative impact experienced by various nations. Another demoralizing factor has been that flows of FDI have not improved rates of unemployment in those

[2] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report: Cross-Border Mergers and Acquisitions and Development*, New York and Geneva, 2000 (United Nations publication, Sales No. E.00.II.D.20).

[3] *Weekly Investor Research*, 23 August 2001.

[4] Deutsche Bank Research, *The Middle East and the Arab World*, September 2000. Available at: http://www.dbresearch.de/servelet/reweb.REWEB?rwitem=101&rw=1 &rwlang=EN&rv.

States that have permitted it. This is because foreign establishments depend on cheap Asian manpower rather than local labour, which then turns out to be an additional burden to the administration concerned.

### B. PRO-FDI ATTITUDE

The encouragement of FDI has been strongest in those countries with poorly performing local markets. The practice of utilizing internal resources to motivate the economy in these countries often falters as a result of a lack of capital. This in turn further undermines the stability of these economies. New foreign capital has traditionally been perceived as a means of paving the way for building a powerful industrial base and therefore, Governments in those countries have wholeheartedly encouraged FDI flow.

Egypt, Jordan, Oman and Saudi Arabia are the most actively involved in FDI in the ESCWA region. FDI is largely focused in the manufacturing sector, particularly textiles, metals, minerals and the tourism sector in Egypt, the oil sector in Oman and in the petrochemical industry in Saudi Arabia. At a recent rate of 16.5 per cent, the stocks of FDI inflow to GDP in these four countries are comparable to those of the developing countries.

The benefits of FDI are numerous. Over time, they result in a strong, technologically sound, macroeconomic economy. Those countries that thrive on FDI place themselves on the world trade map. Furthermore, their initial success is likely to generate interest from other more economically sound nations and leads to further investment. This ultimately improves the economic stability of the nation.

However, there are certain problems that plague the growth of FDI in the ESCWA region. These problems and their solutions are discussed at length in the following sections.

## I. FOREIGN DIRECT INVESTMENT FLOW DETERMINANTS IN THE ESCWA REGION

In the first nine months of 2001, the ESCWA region received more global attention as a result of its regional political crisis[5] than it has ever done with regard to enhancements in its regional economic welfare. While the ESCWA region is mired in its political crisis, developing countries in other parts of the world are making significant advances in attracting flows of FDI.

From 1990 to 1998, the developing world share of the global stock of FDI increased from 21 per cent to 30 per cent. However, the developing world witnessed a decrease for the first time in 13 years in 1998. The ESCWA region is attempting to catch up with the developing world in terms of flows of FDI as it still rates poorly compared with other countries. This is evident from the fact that China attracted some US$ 40 billion from FDI flows in 1999 whereas the ESCWA region attracted approximately US$ 7 billion for the same year. It is possible that the disturbing political situation is degrading the growth of FDI in certain countries within the region. However, this is not an excuse for all ESCWA countries, some of which are among the wealthiest nations in the world, to remain far below their possible share of FDI inflow.

Egypt attracted the second highest amount of FDI in 1999, after Saudi Arabia. Inflow of FDI into Egypt increased to US$ 1.1 billion from US$ 1 billion in 1998, which was much higher than the 1997 value of US$ 888 million. Egypt therefore, has a five-year average of US$ 994 million, which is impressive by ESCWA standards. The flow of FDI into Egypt is directed to sectors that include, chemicals, metal, textiles, the silver industry and tourism. Tourism alone generates large amounts of revenue for the Government of Egypt.

Within Asia, FDI flow is expected to increase in the coming years. Nevertheless, given the economic slowdown, FDI flow into Asia was expected to decline from its previous level to US$ 123.1 billion in 2001.

[5] The ongoing Israel-Palestine conflict, the United Kingdom of Great Britain and Northern Ireland and United States of America air strikes against Iraq, the Bahrain-Qatar border conflict, the bombing of a United States navy ship in Yemen in 2000, in addition to the 11 September 2001 attacks on the World Trade Centers in New York are major concerns for prospective investors.

However, it is expected to continue to grow to US$ 170.7 billion in 2005 up from the US$ 141 billion that was invested in the region in 2000, as a result of a wave of M&As activity.[6]

Despite the decline in flow of FDI in 2001, it is most likely that the ESCWA region gained a higher percentage of FDI flow in that year. This is primarily because certain Governments have recently adopted policies that make it possible for foreign investors to establish businesses connected to the global market.

Dubai is a case in point. It established the US$ 250 million Dubai Internet City (DIC) with world-class infrastructure that permits 100 per cent ownership, 50-year renewable land leases and a tax-free environment with high standard regulations. This is a major technological advancement for the whole region. DIC has attracted numerous companies including 200 top American establishments. Bahrain has also been successful. It attracted US$ 300 million in 1999 and convinced Chevron and Coca-Cola to move their regional headquarters from London to its capital, Manama.

In Jordan, FDI inflows have recently been halved from their 1997 peak levels of US$ 360 billion. However, despite its recent dismal FDI performance, Jordan is starting to recover. This is as a result of its ongoing privatization programme, its accession to the WTO and its free-trade agreement with the United States of America. This has encouraged a large number of high-tech companies from the United States to enter into partnerships with Jordan and to participate in the development of the economic zone in Aqaba.[7] Unfortunately, Jordan has not taken advantage of this investment boost to reduce the high unemployment rates in the country.[8]

Qatar, with a population of some 750,000, has failed to attract high volumes of FDI inflow during the past few years. Its highest level of FDI inflow was US$ 132 million in 1994. In 2000, this figure was half of that value. However, as Qatar prepares to become the world's leading producer of clean fuels, using gas to liquid technology,[9] it is possible that the FDI flow into the country could reach world standards.

Saudi Arabia, has succeeded in continuously attracting the largest amount of FDI in the ESCWA region. This pattern is set to continue in the coming years. While it has maintained flows worth US$ 4 billion in the past two consecutive years, the volume is likely to reach new records in 2002-2003 as a result of the implementation of major economic changes, which will be elaborated in the next section.

## A. OUTLOOK FOR FDI IN THE REGION

The historic economic importance of the ESCWA region was magnified by the discovery of vast petroleum and gas resources in the area. Since that time, the oil and gas sector has played a vital role in the economic stratagems of those ESCWA countries with these resources. This role is even more crucial in attracting FDI to the region.

Saudi Arabia opened the door for foreign investment in its upstream gas sector for the first time in June 2001. This was the result of an official meeting held in Riyadh, with the top eight energy companies in the world.[10] Recently, Saudi Arabia also prepared the ground for FDIs to participate in its power generation and petrochemical industries. These require an estimated investment of US$ 200 billion over the next 20 years.

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[6] The Economist Intelligence Unit (EIU), "Biz Asia", February 2001. Available at http://www.eiu.com.

[7] Jordan established a special economic zone in Aqaba in January 2001. Within this zone, corporate taxation will not exceed 5 per cent, retail tax will be less than 7 per cent and service tax will not exceed 5 per cent.

[8] The unemployment rate among new graduates was expected to reach 60 per cent in Jordan by the end of 2001.

[9] The ultra clean fuels produced by gas to liquid technology offer the potential for significant cost-savings in comparison with fuels manufactured from crude oil by conventional refining methods.

[10] In June 2001 executives from ExxonMobil, Royal Dutch/Shell, BP, Phillips, Occidental, Marathon, Conoco and TotalFinaElf met in Riyadh. They agreed to develop three huge gas fields across Saudi Arabia. The total value of the projects was US$ 25 billion according to *Gulf Business*, Motivate Publishing, Dubai, issue 6, July 2001.

At the end of April 2001, 130 foreign companies were granted licences by the Saudi Arabian General Investment Authority (SAGIA), a new Government organization. This generated investments worth US$ 10 billion. In May 2001, another 93 companies were granted licences, bringing the total value of investments up to US$ 366 million.[11] Saudi Arabia also granted 82 licences for foreign investments worth approximately US$ 8 billion. These are to be invested over a span of 15 months. To date, Saudi Arabia has 41 ongoing licensed industrial investment projects worth approximately US$ 4.26 billion and 41 ongoing non-industrial projects worth approximately US$ 3.73 billion.

The monitoring and analysis of certain aspects of FDI in Saudi Arabia reveals the following:

(a) Despite the presence of local partners in recently licensed projects, the majority of shares belongs to foreign partners. They own 82.8 per cent of the total investment and in the case of non-industrial projects, 99 per cent;

(b) Seven of the industrial projects incorporated 93.6 per cent of the investments. The rest of the investment was distributed among the remaining projects. A heavy concentration of investments targeted non-industrial projects, with one project totalling approximately US$ 3.46 billion from a share of approximately US$ 3.78 billion. This project was implemented in the educational sector by American firms;

(c) Most American companies do not invest outside the industrial sector. However this does not affect the relationship between Saudi Arabia and the United States.

On further analysis, it is possible to assess the impact of FDI trends on major businessmen and decision makers in Saudi Arabia. The following analysis is not supported by written data. It is based on extensive research by ESCWA:

(a) Businessmen are generally reluctant to be involved in partnerships with foreign companies. This reluctance is based on a belief that once foreign firms gain an understanding of the domestic market environment, they will pursue further development in the form of private firms;

(b) Leading businessmen in the region have built their fortunes and enterprises from scratch. They are generally interested in becoming dealers or agents for the products of foreign companies rather than entering into strategic partnerships with them. This is primarily to serve their intention of gaining technological know-how.

These factors could explain the lack of cooperation between private Saudi Arabian firms and foreign establishments. Despite the recent easing of rules and regulations[12] in the Kingdom, positive developments still tend to occur, predominantly, between the Government of Saudi Arabia and foreign firms.

In the Syrian Arab Republic, the Government has announced plans to encourage the flow of foreign investment, which stood at US$ 100 million in 2000, into the country. Moves to improve the financial sector and open trade borders with Iraq and other countries will encourage the flow of FDI flow into the country. Recently the Government of the Syrian Arab Republic announced plans to establish a technology city and it has allocated adequate resources towards this end. These include 10,000 hectares (ha) of land and US$ 6 billion. Furthermore, the Government hopes that venture capitalist investments will be attracted to the project. This would enhance the country's information technology (IT) sector and its communication and networking infrastructure. It would also improve the administrative infrastructure.[13]

## B. FACTORS CONTROLLING FDI

FDI is influenced, directly or indirectly, by various social, economic and political factors. These factors include profitability, infrastructure, socio-economic situation, political situation, taxation, law and availability and affordability of manpower. In ESCWA countries, the major influencing factors of FDI flow are as follows:

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[11] For more details, see *Gulf Business*, Dubai, Motivate Publishing, issue 6, July 2001.

[12] The Government has granted foreign investors 100 per cent ownership.

[13] Majid Shehabi, "EU is the strategic partner to develop the Syrian economy", *Business.com*, July 2001. Available at: http://www.business.com.

### 1. *Economic situation*

The constant availability of oil has achieved remarkable economic growth and success in the GCC countries. These States have witnessed a 22.6 per cent growth rate in their economies after their GDPs skyrocketed from US$ 225 billion in 1999 to US$ 312.8 billion in 2000 (see table 1).[14]

The individual Arab average share of total GDP rose from US$ 2,203 in 1998, to US$ 2,277 in 1999, an increase of 3.4 per cent. This share varied among ESCWA countries. In 1999, it was US$ 13,000 in Kuwait and the United Arab Emirates, US$ 9,958 in Bahrain, US$ 6,724 in Oman and Saudi Arabia, US$ 4,676 in Iraq and Lebanon, US$ 1,633 in Egypt, Jordan and the Syrian Arab Republic and less than US$ 500 in Yemen.[15]

TABLE 1. GDP PERFORMANCE FOR THE ESCWA REGION, 2000

| Country | GDP (US$ million) | GDP per capita (US$) | GDP growth (percentage) |
|---|---|---|---|
| Bahrain | 6 866 | 9 809 | 4.0 |
| Egypt | 87 300 | 1 311 | 2.8 |
| Jordan | 8 340 | 1 668 | 3.0 |
| Kuwait | 37 704 | 17 138 | 5.1 |
| Lebanon | 16 600 | 4 486 | 0.3 |
| Oman | 15 818 | 6 327 | 4.6 |
| Qatar | 14 633 | 24 388 | 7.5 |
| Saudi Arabia | 173 000 | 7 621 | 4.5 |
| Syrian Arab Republic | 19 380 | 1 204 | 3.2 |
| United Arab Emirates | 60 700 | 19 581 | 6.0 |
| Yemen | 6 769 | 398 | 6.5 |

*Source*: *MEED*, EMAP Communications vol. 45, No. 29. Available at: http://www.meed.com.

However, in the United Arab Emirates, the Government is attempting to diversify its sources of income to decrease its dependence on oil-related industries. As part of ongoing efforts, it has focused on the tourism sector and has thereby constructed luxury hotels and entertainment facilities. These have been publicized through the print and electronic media. Burj Al Arab, the tallest hotel in the world, is a result of the single-minded dedication on behalf of the Government of the United Arab Emirates to improve its tourism industry. Another major endeavour is the Palm Island project. This promises to be a landmark on the global tourism map. However, latest reports reveal that the expatriate population in the United Arab Emirates has reached a record 75 per cent of the total population of the State as a whole.[16] This translates into a much higher share of expatriate labour in the workforce. This not only has an economic impact, it entails potentially grave social implications.

Qatar has followed in the footsteps of the United Arab Emirates and has taken long-term steps to increase the flow of FDI flow into the country. From 1998 to 2000, GDP increased by 35 per cent, resulting in prosperous economic development and growth. Furthermore, exports increased by 60 per cent for the same period[17] and for the first time in 10 years, Qatar achieved a surplus of US$ 1 billion.

In Oman, investments continue to flood the gas and petroleum sector. In addition, the Government has started to privatize many of its institutions. Furthermore, it intends to privatize the Seeb and Salalah airports. Given that Oman is the most eco-diverse country in the ESCWA region, it also possesses the maximum potential to develop its tourism industry. However, foreign investors remain concerned about certain stringent rules in the country.[18]

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[14] *Al Bayan*, United Arab Emirates, 20 August 2001. Available at: http://www.albayan.co.ae (in Arabic).

[15] *Unified Arab Economic Report*, September 2000, p. 22 (in Arabic).

[16] Emirates Industrial Bank, *Journal of the Emirates Industrial Bank*, July 2001.

[17] *Al Bayan*, 20 August 2001. Available at: http://www.albayan.co.ae (in Arabic).

[18] "The mandatory 51 percent Omani stake in joint venture projects is seen as a barrier to securing overseas capital." J.M. Mobius. *Mobius on Emerging Markets, Investor's Guide to Emerging Markets*, London, Financial Times Pitman Publishing, 1995, p. 114.

After the end of the border conflict with Qatar in 2000, Bahrain has perceptibly increased investment in aluminium and oil refinery projects. Furthermore, Bahrain has a small but growing tourism industry that caters predominantly to tourists from the GCC countries.

### 2. *Political situation*

The economy of Palestine has suffered considerably since the beginning of the recent crisis.

In 2000, Palestine suffered more than US$ 2 billion in economic losses, 35 per cent unemployment and recorded a US$ 100 million budget deficit. These factors are in addition to the restrictions imposed upon it by its present political situation. Therefore, the issue of attracting FDI to Palestine in the near future seems far-fetched.

With regard to Iraq, it remains under United Nations sanctions imposed since its war with Kuwait in 1990. Nevertheless, the implementation of a new foreign policy towards certain Arab countries appears to have evinced a lessening of tension with countries in the region. Furthermore, the expansion of trade zones has allowed Iraqi-Syrian free trade to reach the US$ 1 billion mark. Egypt and Lebanon have also established free trade regulations with Iraq. This is a positive indication for intra-ESCWA trading.

Insurance cover for investments in the Middle East that offer protection from losses that result from unexpected changes in the political climate, could also improve investor confidence. Investment inducing measures could drastically alter the FDI scenario in the region. However, ESCWA has thus far failed to exert its political influence to induce worldwide economic changes in its favour. This would translate into taking steps to implement a system similar to the Euro.[19]

### 3. *Manpower and labour*

Foreign investment companies tend to favour regions with low labour costs and cheap manpower. Unfortunately, Arab countries cannot compete with the labour costs in developing countries. These costs, of course, attract considerable FDI. This has therefore resulted in widespread unemployment among the young people of Arab countries, especially among new graduates.

According to the Arab Labour Organization, Arab markets receive 2.5 million new employees each year. This figure is expected to be 3 million in 2006. The present manpower population of Arab countries is 89 million and expected to climb to 123 million by 2010. The present unemployment rate is 14 per cent in Arab countries, amounting to a total of 12.5 million unemployed people.[20]

New labour laws in some countries in the region address the issue of growing unemployment. Under these regulations, foreign and national organizations must ensure that a certain percentage of employees are nationals of the country concerned, particularly in important sectors such as banking, gas and oil. While this opposes the non-discriminatory regulations of foreign establishments, Governments have been forced to apply this mandatory scheme to reduce unemployment rates in the region.

## C. FDI INFLOW IN DEVELOPING COUNTRIES[21]

Contrary to the opinions of some economists, FDI inflow to east and south Asia increased by 11 per cent from the previous year to reach US$ 93 billion in 1999. Most of the new investment was directed towards industrializing economies, namely, China, Hong Kong, Korea and Singapore. Their FDI inflows increased by 70 per cent.

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[19] Faris Gerdai, *Effect of the Euro on Arab Economies*, Arab Monetary Fund, Abu Dhabi, June 2000, p. 277.

[20] *Al Sharq Al Awsat*, London, 20 August 2001.

[21] UNCTAD, *World Investment Report; Cross-Border Mergers and Acquisitions and Development*. New York and Geneva, 2000 (United Nations publication, Sales No. E.00.II.D.20).

In Korea, FDI inflows reached an impressive record figure of US$ 10 billion in 2000. Furthermore FDI in Taiwan and Singapore recovered from a decline in 1998. With regard to Hong Kong, it was the second largest recipient of FDI in the region after it increased inflows by 50 per cent, to reach US$ 23 billion in 1999 up from the previous year. This leap was the result of huge efforts on behalf of Hong Kong, to regain funds owned by local and foreign investors based in the area in addition to reinvesting large amounts of earnings.

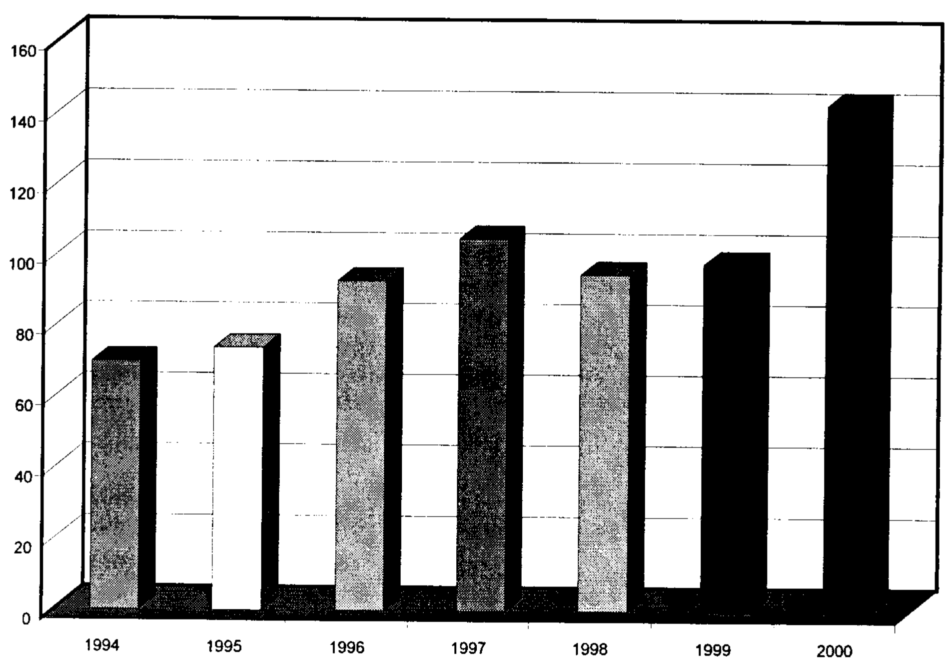
In south Asia, FDI inflows declined by 13 per cent in 1999 to US$ 3.2 billion the previous year. In 1999, India received the largest amount of FDI in the region, US$ 2.2 billion, a decline of 17 per cent from the previous year. With regard to central Asia, FDI declined to US$ 2.8 billion in 1999, down from the previous year. The Pacific Island economies saw a recent increase in FDI inflow, reaching US$ 250 million in 1999. However, FDI flows to west Asia increased to US$ 6.7 billion, with Saudi Arabia receiving most of the new investments for the same period.

FDI inflow to Latin America and the Caribbean increased to US$ 90 billion in 1999, up 23 per cent from 1998. Brazil received the biggest share of FDI among these countries for the fourth consecutive year up to 2000. It gained US$ 31 billion, of which the majority was directed to non-tradable services and domestic market manufacturing. Argentina tripled its share to US$ 23 billion in 2000 and Mexico received US$ 11 billion in 1999.

A significant portion of FDI inflow to Latin America was the result of M&As. These were valued at US$ 37 billion in 1999. Of this, US$ 16 billion was generated by the acquisition of domestic companies by foreign firms.

In 2000, FDI inflow to the developing countries of Asia reached US$ 141 billion. This implies a 44 per cent increase over 1999. This increase can primarily be accounted for by an increase of FDI in Hong Kong and China. Chart 1 illustrates FDI inflow to the developing countries in Asia between 1994 and 2000.

**Chart 1. FDI inflow to the developing countries of Asia, 1994-2000**
*(Billions of US$)*




*Source*: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report: Cross-Border Mergers and Acquisitions and Development*, New York and Geneva, 2000 (United Nations publication, Sales No. E.00.II.D.20).

## II. POSSIBLE METHODS OF ATTRACTING FOREIGN DIRECT INVESTMENT FLOWS TO THE ESCWA REGION

The socio-economic interests of the host economy and the financial interests of foreign investors primarily govern FDI flow into a market. These can be implemented through various methods. However, in the context of the host economy, the advantages and disadvantages of a particular mode of FDI flow vary according to the different economic and social factors existing in that economy.

Recently, two major ESCWA countries were downgraded by Moody's and S&P.[22] Egypt, the second largest recipient of FDI within the ESCWA region was downgraded by Moody's and S&P[23] and Lebanon was downgraded by Moody's. This coincided with the release of an IMF report encouraging the Government of Lebanon to tighten its fiscal stance in the second half of 2001, to approve value-added tax and telecom laws and to progress towards a private and primary surplus.[24]

With this in mind, this chapter attempts to identify and judge the quality of various methods of attracting flows of FDI into the ESCWA region. These methods are as follows:

(a) *M&As*. Despite worldwide success in increasing FDI flows, M&As are not popular in the ESCWA region. This is based on the fact that local markets lack depth and size. In addition, family businesses control approximately 85 per cent of companies in the GCC alone. This leaves little scope for M&As;

(b) *Free trade zones*. Owing to intense Government patronage and clear-cut benefits including technology transfer and increased employment opportunities, these are a potential method of attracting FDI to the ESCWA region;

(c) *Capital markets*. If respective Governments have controlled indexes, these could prove to be a beneficial method of encouraging FDI. However, as the majority of ESCWA stock markets are closed to foreign funds, comprise small markets and low trade volumes, this method is not very promising in the short term;

(d) *Privatization*. This method has already been applied. It assures benefits provided that the proper filtration of foreign investments takes place. There are several ongoing privatization programmes in the region and these could play an important role in attracting FDI.

The next section examines these methods more comprehensively.

### A. MERGERS AND ACQUISITIONS

In the economy of today, speed is an essential prerequisite for the business environment and this fact has been the major cause for the recent wave of cross-border worldwide M&As. M&As act as a mode of FDI flow. They provide speed and proprietary assets. Global M&As are the quickest way to obtain a sound footing in a new market, to gain market dominance and to promote expansion.

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[22] These two agencies rate Egypt BBB-, the lowest level of investment grade. *MEED*, EMAP Communication, 20 July 2001. Available at: http://www.meed.com.

[23] Moody's stated on 6 July 2001 that its rating for Egypt was supported by the modest external debt service of the country, the progress made in offering the private sector a larger role in the economy and the prospects for development of a newly discovered gas reserve. However, the agency says it is concerned about several negative policy developments, in particular the growth of the domestic public sector debt burden and the weakening fiscal position. *MEED*, EMAP Communication, 20 July 2001.

[24] Lebanon's foreign currency debt rating decreased from B1 to B2 in 2001, as did its foreign currency-denominated Eurobonds. Furthermore the Government's domestic currency issues rating dropped from B1 to B3. *MEED*, EMAP Communications, 10 August 2001.

The recent increase of M&As has been associated with a subsequent increase in FDI flows. Global FDI outflows reached US$ 800 billion in 1999, an increase of more than 16 per cent on 1998.[25]

Cross-border M&As involve large sums of money and major corporate restructuring. Therefore, they represent the most evident signs of globalization. However, globalization in developing countries has tended to raise questions about the negative impact of the cost-benefit for host countries. This is largely because transnational corporations (TNCs) have been seen to benefit disproportionately from M&As while local enterprises have been affected adversely. This general trend is clearly visible even in the ESCWA region.

The importance of M&As as the primary source of FDI flow in the ESCWA region is debatable and the rationale for the concern of host countries with regard to encouraging M&As can be illuminated by the following factors:

(a) At the heart of these concerns is the fact that foreign acquisitions do not supplement productive capacity, they only imply a transfer of control and ownership from domestic to foreign entities. This could also lead to the takeover of certain key sectors, namely, banking, by global oligopolists;

(b) In the ESCWA region, M&As operations still lag behind the rest of the world in terms of size and volume (see table 2). However, the generation of FDI through M&As is not expected to alter the economic environment in the ESCWA region in the foreseeable future. However, it is possible that this method could contribute to minor improvements in the flow of FDI and go some way to facilitate economic development.

There have been recent improvements within institutions in the ESCWA region. These include, the merger of banking and investment units of the Saudi Arabian Dallah Albaraka Group and a Kuwaiti firm, The International Investor, creating one of the largest Islamic banking entities in the world,[26] and efforts on behalf of the Kuwait Finance House to acquire 20 per cent of the Al Sharjah National Bank.[27]

TABLE 2. BIGGEST MERGERS AND ACQUISITIONS IN THE GCC DURING THE 1990S

| Institutions | Country | Value (US$ billions) | Status |
|---|---|---|---|
| Saudi Aramco and Smarc | Saudi Arabia | - | 1993 |
| The Saudi Electricity Company | Saudi Arabia | 9.0 | 1999 |
| Ahli United Bank (Bahrain) and United Bank of Kuwait | Bahrain/Kuwait | 0.5 | Expected |
| The Saudi-European Bank (Three Saudi banks and three Gulf banks) | Saudi Arabia | 7.0 | Suggested |

*Source*: Emirates Industrial Bank, *Journal of the Emirates Industrial Bank*, vol. 15, No. 3.

*Note*: A hyphen (-) indicates that the amount is not applicable.

However, not all M&As make a favourable impact on host-country development. This is because in most cases, the commercial objectives of TNCs and the development objectives of host economies do not coincide.

Though FDI through the M&As process engenders adequate financial gains, these financial resources do not always find their way into capital stock for production. This is again detrimental to host-economy

[25] For further information on the relationship between mergers and acquisitions and international foreign direct investment flow, see: UNCTAD, *World Investment Report; Cross-Border Mergers and Acquisitions and Development*, New York and Geneva, 2000 (United Nations publication, Sales No. E.00.II.D.20).

[26] On 6 June 2001, the merger was formalized by a memorandum of understanding. Dallah Albaraka (DBG) has stakes ranging from 50 to 100 per cent in Islamic banking units. These will be merged under The International Investor (TII). DBG will own 35 per cent of the new entity. TII will pay for the banking units in cash and gain stock worth more than US$ 300 million.

[27] In May 2001, the Kuwait Finance House (KFH) became a major shareholder in the Al Sharjah National Bank following its decision to acquire a 10 per cent stake. The Al Sharjah National Bank will have two members from KFH on its board. The shares were acquired for US$ 2.1 each.

development. Furthermore, M&As do not aid technology transfer and upgradation—at least at the time of flow into the host economy—and they do not change the unemployment scenario in the country, as no additions are made to productive capacity.

Therefore, the irregularity of FDI benefits for host countries as a result of M&As, has forced ESCWA members to explore alternative methods of attracting FDI, in particular, free trade zones.

## B. FREE TRADE ZONES

Over the past decade, free trade zones have been set up across the ESCWA region in a bid to attract flows of FDI. This endeavour has proved successful. At a macro level, Governments have stood by their faith in the free trade zone strategy to eliminate over-dependence on oil-related industries and to diversify sources of national income through FDIs.

The original reason for the creation of free trade zones in the ESCWA region was to improve the infrastructure at ports. However, free trade zones have now become the supreme method for economic diversification in the ESCWA region. The huge popularity of free trade zones arises from the fact that they allow foreign investors, both Western and Asian, to totally control investments and profits. These FDIs then reciprocate by handsomely contributing to economic development in the region of their inception.

Further positive economic policies have encouraged healthy competition among existing and emerging free trade zones and have therefore contributed to an evident rise in FDI flow. Interregional and intraregional competition among free trade zones is on the rise.

### 1. *Free trade zones in the United Arab Emirates*

The free trade zone strategy has been particularly successful in the United Arab Emirates where there are 10 operational free trade zones of various kinds. With increased intraregional competition, each of these free zones is striving to best suit foreign investments by reducing the cost of rentals and peripheral services.

Free trade zones are being developed in a bid to attract foreign investment. To this end, Governments in the region aim to provide an adequate infrastructure, including advanced technology, lower rent costs and tax-free imported components. While the competition between free trade zones is fierce, however, there is a clear leader. The Jebel Ali Free Zone in Dubai, comprising 1,900 companies and boasting such investors as Daimler Chrysler, which opened a stock keeping warehouse of 55,000 units in March 2001, is perhaps one of the most successful and largest free trade zones in the region.

Despite the standing of Jebel Ali Free Zone, smaller free trade zones have also fared well. They collectively comprise 1,500 companies.

The Ajman Free Zone is the second largest in the United Arab Emirates. It houses some 600 companies and maintains a dominant manufacturing sector. Plans to establish an IT park are already underway.

Fujairah has also diversified its traditional role as an East Coast port with the opening of the Fujairah Free Zone, home to 138 companies. Its ideal location on the Strait of Hormuz facilitated its development as a manufacturing hub.

Furthermore, Sharjah possesses two important free trade zones, namely, the Saif Free Zone (an airport zone) and the Hamriya Free Zone (a seaport zone). The Saif Free Zone comprises 400 companies and is considered to be the leader among airport zones. While the Hamriya Free Zone comprises only 100 companies, it is expected to expand with the development of an inner harbour at Sharjah.

Abu Dhabi plans to construct a free trade zone on the 3,500-ha Saadiyat Island. Unlike other free trade zones, it would not be in close proximity to either an air or seaport.

The most recent development in the United Arab Emirates is the Ras Al Khaimah Free Zone. It was completed in 2000 and has attracted a number of establishments into the region. To date the favourable cost factors associated with this project have facilitated its rapid development.

### 2. *Free trade zones in Kuwait*

Kuwait has also recently recognized the usefulness of free trade zones and established the 300,000 square metre Kuwait Free Trade Zone (KFTZ) in the commercial port of Shuwaikh. This offers excellent access to regional markets in the ESCWA region. Promotional measures such as the waiving of dock fees and the streamlining of procedures have played a supportive role in the growth of KFTZ.

Kuwait is also dabbling with the concept of a “future zone” aimed at attracting new economy establishments. Furthermore, the Government is studying the possibility of turning the entire State into a free trade zone.

### 3. *Free trade zones in other ESCWA countries*

Bahrain is the latest ESCWA country to enter the free zone market.[28] Its endeavours have been successful so far and the country has already built a certain reputation.

Egypt has registered steady progress in its free trade zones. As of August 2001, its free zones comprised 851 registered companies with a capital of US$ 6 billion and an investment cost of US$ 17 billion. These free trade zones provide 82,000 job opportunities up to August 2001 and are therefore a valuable contributor to the job market.[29]

However, the global lifetime of free trade zones could be limited as an increasing number of countries open up their markets and liberalize trade rules. Nevertheless, these free trade zones in the ESCWA region could encourage flows of FDI into the region, if they focus on niche products and services.

## C. CAPITAL MARKETS

Capital markets are another method of attracting FDI into the ESCWA region. The functioning capability of capital markets depends essentially on how fast an investor can move his capital in or out of the host economy.

After the 1997 Asian crisis, Governments expressed concerns about FDI portfolio investments and as an alternative, encouraged direct investments. These included infrastructure projects. Given this concern, some countries are only willing to receive FDI portfolio investments (and these tend to be controlled by regulations).

In the ESCWA region, the liquidity of the stock markets varies from one country to another. On the whole, though, they are small-sized with low volume trading. Certain countries, namely, Bahrain, Egypt and Lebanon have encouraged FDI flows to their stock markets whereas Iraq and Saudi Arabia have avoided them. However, in Kuwait and the United Arab Emirates, FDI flows are encouraged through funds and not through direct participation in investments. This step has been taken to keep inward and outward FDI flow under control.

A closer look at the stock markets of the ESCWA countries reveals that those countries that have opened their stock markets to flows of foreign investment are not performing well. Bahrain’s index, for example, decreased by 4.5 per cent from January to September 2001, and the Egypt Hermes Index continued its poor performance[30] in 2001, as a result of political tension. However, foreign investment performance has

[28] On 10 May 2001, Bahrain announced the creation of a free zone. *Gulf Business*, June 2001.

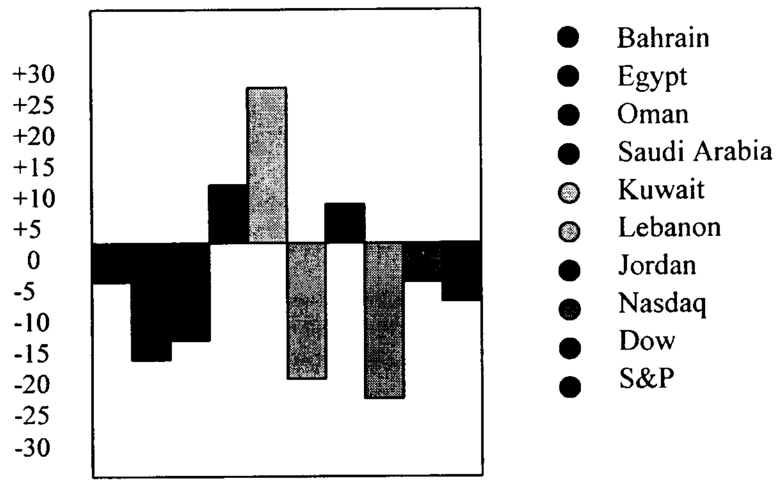
[29] *Al Bayan*, 16 August 2001.

[30] The Hermes Index declined by more than 15 per cent from the previous years as of 16 August 2001.

shown signs of improvement lately. This improvement seems to be a direct impact of increased "buying" operations coupled with reduced "selling" operations. The value of shares traded by foreign investors amounted to approximately US$ 122.18 million and the number of foreign investment deals increased by 8.7 per cent, from 5,653 buying deals and 5,193 selling deals in 2001.[31]

In Kuwait, the Government has ensured that funds are the only means of FDI flows to the local stock market (see chart 2). The Kuwaiti index improved by 33.3 per cent in 2001 and had broken the 1,800 barrier when it closed trading on 25 August 2001.[32]

**Chart 2. Performance of stock markets, end of June 2000-2001**




*Source*: Compiled by ESCWA from various sources.

In the United Arab Emirates, foreign investors are not allowed to invest in stock markets except in one company, EMMAR. Given the humble size of trade in EMMAR shares, this does not provide sufficient scope for prominent profits. Nevertheless, the Hong Kong and Shanghai Banking Corporation Financial Services and the National Bank of Abu Dhabi arranged a recent bond issue. Emirates Airlines bonds were launched on 13 June 2001 to institutional and professional investors with a minimum subscription level of approximately US$ 1,362 million. It was the largest Dirham-denominated bond to be issued to date, and the first to be listed on the Dubai Financial Market. Emirates airlines is the first corporation in the United Arab Emirates to raise finance directly from investors in this manner. This is an encouraging development as it is possible that other institutions will follow suit and adopt the bonds' release method. Furthermore, this would provide the market with another potentially vital money tool. However, the Emirates bond issue could have been even more successful if it had been open to foreign investors. This would have improved the awareness of foreign investors and raised prices.

The Saudi Arabian market continued its bullish trend in 2001 despite the traditionally slow summer season and the index reached an all-time high of 2,558, as of 18 August 2001. The main reasons for the upswing were the recently announced economic reforms in the Kingdom, namely, the reduction in customs duties on imports to 5 per cent and a multi-billion United States dollar gas development project signed between eight major oil companies. This left the year on year (YOY) index ratio at 18 per cent.

The market in Lebanon, the second worst performer within the ESCWA region with regard to YOY performance, attained a dismal record of -20.97 per cent as of 2001. The consequences of the ongoing southern Lebanon and Israel border problems are certain to hinder FDI portfolio flows in the near future.

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[31] *Al Bayan*, 26 August 2001.

[32] *Al Bayan*, 26 August 2000.

The market in Oman continues to struggle, with an almost US$ 2.5 billion market cap as of August 2001. Its index performance was down to -21.3 per cent YOY and as of August 2001, it amounted to 17.6 per cent. The market with its new five-year low has resulted in poor investor confidence.

Furthermore, there is no transparency in the stock markets of ESCWA countries. There are neither terms nor regulations that oblige listed companies to disclose their financial results quarterly. By contrast, listed American companies disclose their earnings quarterly and these results have a strong impact on the performance of the stock market. The results of a leading company could lead to the improvement of the performance of the sector that it belongs to. In addition, transparency increases the awareness of current trends within a certain sector for both companies and investors. This facilitates the identification of weaknesses and encourages officials to find solutions. With regard to the ESCWA region, encouraging transparency would help Governments understand the needs of various sectors and therefore to strengthen their economies.

In general, there have been minute, sporadic improvements in the region.[33] These have made a noticeable improvement over a short period of time. Nevertheless, increased efforts must be made.

## D. PRIVATIZATION

The primary objectives of any privatization plan are to generate higher productivity and faster (yet sustainable) growth. This subsequently increases returns on assets and equity, while raising internal efficiency, improving capital structure and increasing capital expenditure.

The past few years have witnessed an unprecedented rise in privatization in some parts of the ESCWA region. This is a result of the fact that countries realize the acute need for a more liberal economic structure that will boost investor confidence—presently lacking—in the region. Governments have tried to incorporate certain positive modifications in their economic policy and have compromised on certain regulations that have been strictly rejected until now.

The recent acceleration of privatization plans has sparked an increase in FDI and has successfully complemented the role of free trade zones with regard to attracting foreign investors to the region.

Saudi Arabia is also participating in the region's ongoing privatization drive and there are evident signs that the world's largest oil producer is moving toward selling off some of its assets. In 2000, the Government of Saudi Arabia established the Supreme Economic Council, introduced a new foreign investment law and created SAGIA as part of its plans for privatization.

The power generation sector is a key area with regard to privatization. It is moving towards becoming a highly competitive private market. Furthermore, the Government intends to privatize the national airline, Saudi Arabian Airlines,[34] which ranked twenty-third in the region in terms of passengers for 2000. While the oil industry is not yet open to the private sector, Saudi Aramco's monopoly has ended. Foreign companies are now permitted to become involved in the exploitation of natural gas.

The population of Saudi Arabia grows at a rate of more than 3 per cent per year. Therefore, the population of the Kingdom will double during the next decade. The privatization drive is perceived as a means of avoiding the possible economic turmoil that could result from the pressure that this increase would place on all sectors of its economy.

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[33] The implementation of the Arab Financial Markets Network will link all Arab stock markets electronically and enable online trading. The relaunch of the Kuwait secondary market and the United Arab Emirates' stocks markets in Abu Dhabi and Dubai, now linked electronically, will further efforts to improve the market. There are ongoing efforts to establish a new stock market in the Syrian Arab Republic in addition to several other improvements.

[34] As part of its privatization programme, the Government of Saudi Arabia appointed BNP-Paribas consortium, comprising SH&E, Gulf Investment Corporation in partnership with Gulf International Bank and KPMG Consulting as the sole financial advisor for Saudi Arabian Airlines. *Arabies Trends*, Paris, April 2000. Available at: http://www.arabies.com.

In short, Saudi Arabia views privatization as a means to ensure future benefits and to promote economic health.

The United Arab Emirates have implemented a mixed bag of economic policies. While Abu Dhabi has surged ahead with privatization, the majority of the other Emirates have ignored the idea altogether. Fujairah is the only other Emirate to have explored the idea of privatization, with regard to water and desalination projects. However, these projects are primarily backed by the United Arab Emirates Offsets Group, an Abu Dhabi-based organization.

Dubai has maintained Government ownership of key sectors, with firms such as the Dubai Aluminium Company and Emirates airlines remaining wholly State-owned.

Despite efforts on behalf of various Governments, privatization has barely taken off in Lebanon. However, privatization has been identified as a method of reviving Lebanon's flagging economy.

With regard to Oman, privatization is a means of encouraging economic diversity in the face of growing shortages of oil. One example of a recent privatization project is the Salalah Free Zone Company. Two foreign companies hold shares in the company. The Government of Oman would particularly like to encourage large foreign establishments that are capable of initiating projects rapidly to invest in privatization. Furthermore, the privatization of the Seeb and Salah airports is likely.[35]

Previous efforts to privatize State institutions in Jordan were rather haphazard. However, since the accession of King Abdullah II to the throne, the Government of Jordan appears to be genuinely committed to the process. In recent times, it has privatized numerous institutions including the water and telecom sectors. Royal Jordanian airlines was privatized last year and there are plans to privatize various other sectors of the Jordanian economy. While the Government has fared well with regard to privatization-related issues, it has yet to convince the population concerning its related benefits.

Egypt initially made positive moves towards privatization. However, the process appears to have slowed down within recent years. No major privatization accord took place during 1998 and 1999 and of more than 300 institutions scheduled to be privatized less than half have been completed (see table 3).

TABLE 3. PRIVATIZATION IN EGYPT
*(Billions of Egyptian pounds)*[a/]

| Method | Number of companies | Amount raised |
|---|---|---|
| Public offerings on the Cairo and Alexandria Stock Exchange | 38 | 5.7 |
| Sale to anchor and strategic investors | 26 | 6.7 |
| Employee stock ownership programmes | 30 | 0.870 |
| Liquidations | 32 | - |
| Total | 126 | 13.27 |

*Source*: CARANA Corporation's Quarterly Review, Egypt, April-June 2001. Available at: http://www.carana.com.

*Note*: A hyphen (-) indicates that the amount is not applicable.
a/ 1US$ = 4.26 Egyptian pounds.

Nevertheless, privatization remains the cornerstone of Government policies in Egypt. Many organizations are involved in it including the Ministry of Public Enterprise, the Ministerial Privatization Committee, the Public Enterprise Office, the Quattro Committee, the Capital Market Authority, and the Share Pricing Committee.

[35] Oman was scheduled to ratify a new mining law at the end of 2001 that would facilitate investments in various mining sectors. The new legislation would permit foreign firms to invest in mining for copper, gold, chromium, silver, iron and magnesium.

In the context of the ESCWA region, privatization will be a major issue in the next decade, regardless of existing Government policies. The trend of increased privatization will undoubtedly attract FDI to the region. Furthermore, faster implementation of positive economic policies by various Governments will make a discernible difference to the economic standing of ESCWA countries in the future. Therefore, ESCWA countries must utilize privatization to enhance their economic development.

## III. RECOMMENDATIONS

The following recommendations have been drafted to help improve the flow of FDI in the ESCWA region and to enable ESCWA members to gain the maximum benefits thereof. However, various regional developments and the constantly changing trade environment must be borne in mind. These recommendations aim to help concerned ESCWA Governments implement activities that would promote FDI.

### A. RECOMMENDATIONS FOR ESCWA GOVERNMENTS

1. Governments must reduce corporate taxes, provide longer tax holidays, permit losses incurred during tax holidays to be written off against future profits, accelerate depreciation allowances and reduce social security contributions and corporate income taxes charged against marketing and promotional expenditures.

2. Within ESCWA, respective Government investment promotion agencies must cooperate to adopt a unified format that will include suitable policies with regard to the acquisition, calculation and sharing of information.

3. Governments must open their internal markets to foreign investors to expand their markets. This is a primary concern for foreign investors that aspire to invest in the ESCWA region.

4. Governments must encourage the creation of a structured and meaningful public-private sector dialogue. This would promote a healthy business environment. This in turn would promote public-private sector partnerships and the provision of support institutions that would enable technology transfer. It would also create an environment that would foster innovation among local enterprises. Successful public-private partnerships would enable an able business environment, thereby forming a FDI supportive cycle.

5. The GCC countries have committed substantial proportions of their oil revenue to provide benefits for their citizens. The overall cost of this commitment has increased sharply in recent years as populations have expanded and there have been increases in demands on healthcare services and other public service sectors. This trend will be further exacerbated by the need to pay pensions to the growing number of citizens approaching the age of retirement. Governments must re-evaluate their social policies, attempt to eliminate unnecessary spending and implement economic restructuring plans. This would contribute to more streamlined budget plans and would help to further economic development in the region.

6. Governments must aim to provide foreign investors with a positive business environment that is supported by strong macroeconomic policies, a structured and transparent legal and tax system, highly developed physical infrastructure, especially in the transport and telecommunications sectors and skilled labour. These factors must be combined with a stable economical environment and consistency in trade, investment and enterprise development policies. This would facilitate the initiation, growth and retention of FDI.

### B. SUGGESTIONS FOR ESCWA

1. *Research and development (R&D) and data updating.* R&D is relevant to every economic policy. Therefore, it is vital to monitor regional advances with regard to the attraction of FDI and collect relevant data on a monthly or quarterly basis. This would ensure that the ESCWA information database is regularly updated.

2. *Employee training and information gathering.* ESCWA must organize workshops for Government employees, namely, the staff of ministries (particularly the ministry of trade), chambers of commerce and

investment promotion agencies (IPAs). These would serve to upgrade and enhance the skills of employees with regard to information gathering and the calculation and prediction of FDI patterns in the region. ESCWA must also attempt to convince the region to use a united FDI calculation format. Furthermore, it is recommended that ESCWA organize seminars on topics including successful FDI practices and as a by-product, produce a manual on the most successful practices. Intensive research and analysis must also be conducted on topics that include the impact of economic incentives and strategies on FDI flows and the impact of Government WTO commitments on the effectiveness of FDI.

3. *FDI rating index*. It is recommended that ESCWA create a credible FDI risk-rating index. Not only would this indicate the FDI levels of various countries, it would place ESCWA members in a worldwide context with regard to currency convertibility and free repatriation of capital. The index must be accredited and recognized as a source of reliable data by all international organizations, namely the United Nations and its related bodies, IMF and World Bank.

4. *Media and public awareness*. The majority of investors rely on international credit rating agencies when it comes to making investments. The negative outlook of these agencies with regard to the ESCWA region therefore, seriously affects FDI prospects in the area. It follows that ESCWA studies, results and analyses concerning FDI must be readily accessible to the public. This would boost public and investor confidence in the FDI forecasts and data of ESCWA.

5. *IPAs*. It is also recommended that ESCWA create representative IPA bodies in each ESCWA member or geographic sector, namely, Egypt, the GCC, Iraq, Jordan, Lebanon, Palestine, the Syrian Arab Republic and Yemen. They would regularly monitor FDI flows in the region and analyse their impact on the economic development of that member, thus facilitating and improving the information gathering process.

## IV. CONCLUSION

This study has analysed the various aspects of FDI. It is possible therefore, to conclude that each region has its own national stance with regard to FDI and hence, that each ESCWA member country must determine for themselves the most suitable approach to FDI.

It is estimated that during the course of the next decade, a capital expenditure of US$ 350 billion will be required for major infrastructure projects in the oil, gas, electricity and water sectors. It is possible that ESCWA countries will not be able to meet such massive amounts of capital expenditure in all areas unless the price of oil per barrel averages US$ 27 to US$ 30 during this period of time. This is highly unlikely. ESCWA member countries, therefore, require flows of FDI to improve their economies. This would help to make efficient use of existing resources, utilize unused local resources and absorb capital from abroad. Furthermore, it would substantially increase regional output and productivity and improve market access of local goods and services for domestic investors through the global production chain.

Hence, an increase in the flow of FDI in the region is essential. However, this can only be achieved when the various obstacles to FDI development in the region are dismantled. The first step towards increasing flows of FDI is to ensure absolute Government belief in the benefits of FDI and then to increase FDI awareness among the public. This would lay a strong foundation for increasing investor confidence in the ESCWA region.

Free trade zones encourage FDI. Ever since their inception, free trade zones have attracted the attention and recognition of investors with regard to their infrastructure facilities and commercial incentives. The region must maintain this state of affairs and continue to attract FDI through free zones as this will subsequently promote technology transfer between companies in addition to other benefits.

Furthermore, ESCWA member countries must realize the importance of involving the private sector in their economic cycle. ESCWA members have begun to encourage the growth of private sector enterprises and have initiated programmes to privatize State-owned businesses as a means of reducing subsidies and thus conserve cash resources.

Egypt leads the region with regard to privatization. Jordan, Lebanon, Saudi Arabia, the Syrian Arab Republic and the United Arab Emirates have committed themselves to the process (to one degree or another). In addition to reforms on the macroeconomic front, these countries are attempting to create an investor-friendly market by reducing direct Government involvement in the economy, by supporting free zones and privatization bodies and by encouraging private sector participation in infrastructure reforms. However, Governments must be careful when analysing the impacts of privatization on a sector-to-sector basis and must create an economic structure based on streamlined procedures that will speed up transactions and deals in the ESCWA region.

Though the global economic situation is slowing down, it is likely that the region maintained the same or higher levels of flows of FDI during the 2001 financial year. There have been increasingly obvious indications that international investors are increasingly frequenting the region, which is a positive indication for FDI improvement in the area. However, to ensure economic supremacy for the ESCWA region, respective Governments and other concerned officials cannot afford to be complacent and must aim to raise the ESCWA region to global standards, in every aspect and especially with regard to flows of FDI.

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