UN-ESCWA

United Nations Economic and Social Commission for Western Asia

Booklet on Foreign Direct Investment Inflows in the ESCWA Region

INTRODUCTION

This booklet provides readers in general, and policymakers in particular, with accurate and verifiable data on foreign direct investment (FDI) statistics and analyses the inflows of FDI in member countries, the ratios of FDI inflows to their respective gross domestic product (GDP), the sources of FDI inflows and stocks, and the main sectors that were successful in attracting higher shares of FDI. Additionally, it analyses the main issues that guided investors in their investment decisions and attempts to assist decision makers in formulating FDI policies and strategies.

ASSESSMENT AND IMPROVEMENT OF THE INVESTMENT CLIMATE

Important institutional reforms have been undertaken by ESCWA member countries aimed at promoting FDI inflows.

Within the context of economic restructuring, institutional reforms have been taking place in most ESCWA member countries. A survey of laws and regulations indicates that progress has been made in terms of adopting and/or updating laws and regulations that govern the entry and operations of the FDI enterprises.

Most countries have enacted new investment laws which stipulate mainly the directions for engaging in economic, industrial and tourist activities, as well as placing a limit on foreign ownership. Such laws determine the type of foreign investment projects which can be exempted from income tax and custom duties on imports of machinery required and raw materials necessary for production.

Countries such as Oman also engaged in privatization processes that are open to foreign investors or have formulated new or amended existing corporate, copyrights and tax laws. Privatization laws usually aims at contributing towards the diversification of the economy away from the heavy dependency on oil and gas in oil-producing countries, to promote the role of the private sector in economic development, to reduce the financial burden on the Government, to promote employment opportunities and to promote FDI inflows. In the case of Oman for example, the privatization law stipulates that public enterprises that have been privatized need to be restructured and that privatization can take place by selling State-owned public enterprises, and through partnerships in public enterprises and in capital or management. Moreover, the Law calls for the establishment of a ministerial committee to implement the privatization process, whose tasks include deciding the sectors and projects that need to be privatized and setting out the rules and regulations that govern the process. Countries such as Egypt, Oman, Qatar, Saudi Arabia, Yemen and others adopted investment laws that are similar in many ways.

These efforts are aimed at providing additional incentives to foreign companies. However, despite the progress that has been made, there are several issues that need to be addressed, including the issue of protecting intellectual property rights, reforming commercial laws and commercial courts, reducing bureaucracy and combating corruption. Equally, efforts are needed to improve investment services and protection, especially by improving Government services and modernizing basic infrastructure.

Moreover, the privatization process in the region is still moving at a slow pace, with the public sector largely dominating several economic sectors.

Efforts aiming at attracting foreign investors to ESCWA countries include, among other things, reforms in the judiciary system, procedures for starting a business, cost of starting a business, getting licenses, enforcing contracts, settling disputes, closing businesses and trade reforms. Corruption, for example, which is perceived as a major obstacle to doing business in the Middle East region is high compared to other regions. Within that context some ESCWA member countries have achieved good results in fighting corruption, namely, Bahrain, Jordan, Kuwait, Oman, Qatar and the United Arab Emirates.

However, there are other important factors that are essential to the improvement of the investment climate and where the region has not yet been very successful. For example, starting a business in most ESCWA member countries still requires a relatively large number of procedures and takes considerable time compared to other countries, particularly developed countries. Another important area where several ESCWA member countries still need to make progress to improve the investment climate is in the procedures needed to enforce contracts in court proceedings.

In the area of trade policies, the region has made substantial progress to reduce trade tariffs. The implementation of the Greater Arab Free Trade Area (GAFTA), launched in 1998, has led to the elimination of trade tariffson goods produced in these countries. Since January 2005, with the complete implementation of the provisions of GAFTA, trade tariffs on goods from Arab countries have been totally eliminated.

In addition to issuing more liberalized and open laws in the areas of investment, competition and trade, several ESCWA member countries have largely succeeded in addressing macroeconomic policies as part of economic reforms. Moreover, the economic environment has become more stable; trade policies have become relatively open, compared to the past few years; and foreign exchange policies are more market-oriented and less administratively controlled than in the past.

Table 1- Investment Climate in ESCWA member countries, and comparison with two developed countries, 2005

	Starting a Business		Closing Businesses	Getting a license		Enforcing Contracts	
Country	No. of Procedures	No. of Days	No. of years	No. of Procedures	No. of Days	No. of Procedures	No. of Days
Egypt	10	34	4.2	30	263	55	410
Jordan	11	36	4.3	17	122	43	342
Kuwait	13	35	4.2	26	149	52	390
Lebanon	6	46	4	16	275	39	721
Oman	9	34	7	16	271	41	455
Saudi Arabia	13	64	2.8	18	131	44	360
Syria	12	47	4.5	20	134	47	672
United Arab Emirates	12	54	5.1	21	125	53	614
Yemen	12	63	3	13	131	37	360
Australia	2	2	1	14	195	17	346
Canada	2	3	0.8	15	87	11	157

FDI STATISTICS IN ESCWA MEMBER COUNTRIES

The performance of almost all ESCWA member countries in terms of FDI inflows improved considerably in 2001-2004.

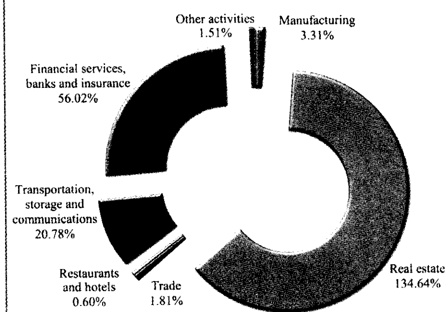
As part of efforts aimed at improving the investment climate, Governments have offered incentives on foreign investments, including removing restrictions and limitations on FDI and developing free economic zones. One of the most important incentives offered to foreign investors in ESCWA member countries were tax incentives. Several countries have also removed their limitation on the foreign ownership, allowed for 100 per cent foreign ownership and allowed foreign ownership of land and real estate. Additionally, Governments in the ESCWA region have concluded a number of bilateral investment agreements with developed and developing countries which aim to protect global trade and investment.

FDI data from Bahrain, Jordan, Oman, Saudi Arabia, Syrian Arab Republic and United Arab Emirates were derived from the survey of enterprises with FDI participation, which was conducted by the respective Governments with technical assistance from ESCWA. In general, FDI statistics indicate that ESCWA member countries witnessed an important growth in FDI inflows, with the exception of Kuwait and Yemen where FDI inflows fluctuated considerably during 2001-2004. An analysis of FDI inflows as a percentage of GDP revealed that growth outweighed the increase in GDP in four countries, namely, Bahrain, Oman, Jordan and Saudi Arabia.

The survey of enterprises with FDI participation and data obtained from international sources indicated that there was significant increase in FDI inflows to Bahrain from $80 million in 2001 to $865 million in 2004, representing an increase of 981 per cent. In terms of FDI inflows as a percentage of GDP, the growth rate in FDI inflows outweighed the growth rate in GDP over that period, from 1.01 per cent in 2001 to 7.82 per cent in 2004. The sectoral distribution of FDI stock in the national economy clearly shows the domination of financial services and banking and insurance sectors. The real estate sector took second position followed by the manufacturing sector.

FDI enterprises had a positive impact on the national economy in terms of creating job opportunities, 51 per cent of which were taken up by foreign workers and the remaining 49 per cent by local nationals. While these FDI inflows had a positive impact on the economy, the distribution of foreign to local labour varied across sectors.

Figure 1- FDI inflows by type of economic activity and major sectors in Bahrain, 2002
(Percentage)

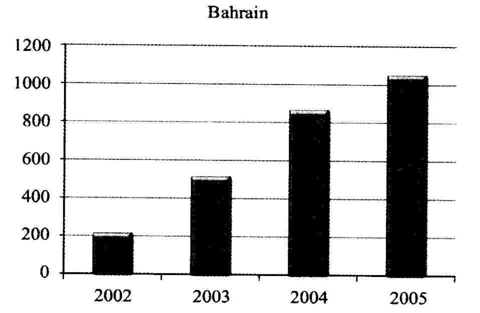


Source: Compiled by ESCWA, based on the survey of enterprises with FDI participation conducted by Bahrain.

While most FDI enterprises in Bahrain considered the country to be a gateway to regional and international markets, the main challenges they faced during their investments were a lack of qualified labour, inadequate local partners and bureaucratic obstacles*.

* This is based on the survey of enterprises with FDI participation conducted by Bahrain.

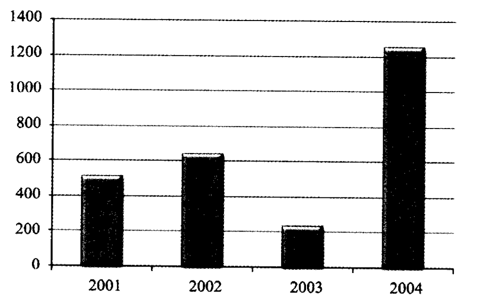
Figure II. FDI inflows to Bahrain, 2002-2005
(Millions of United States dollars)



Source: World Investment Report, 2004, Annex table B.1. World Investment Report, 2006, Annex table B.1.

FDI inflows to Egypt fluctuated during the period 2001-2004. They increased by 26.9 per cent from $510 and $647 million between 2001 and 2002, respectively, decreased sharply in 2003 to reach $237 million, representing a fall of 63.4 per cent; and rose significantly by 428.7 per cent to reach $1,253 million in 2004. In Egypt, the regulatory framework for investment has improved substantially owing to the efforts and determination by the Government aimed at implementing economic reforms.

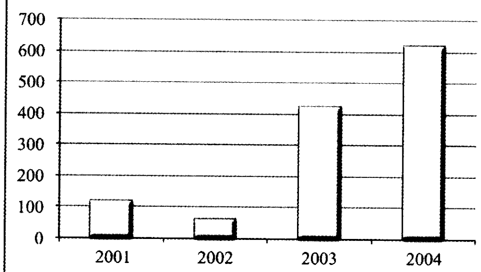
Figure III. FDI inflows to Egypt, 2001-2004
(Millions of United States dollars)



Source: Compiled by ESCWA, based on A. Böhmer and K. Davies, "Investment climate and regulation of international investment in MENA countries", Working Group 1 (MENA-OECD Investment Programme, 2005), Annex 4, Table A.1; and the Arab Monetary Fund (AMF), Joint Arab Economic Report (AMF, September 2004).

In the case of Jordan, FDI inflows increased by 417 per cent between 2001 and 2004. However, this increase was staggered whereby FDI inflows decreased between 2001 and 2002 from $120 to $64 million, increased to $424 million in 2003, and reached its highest value of $620 million in 2004.

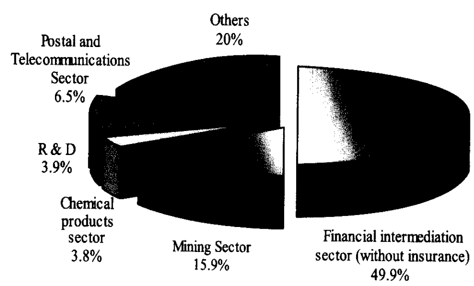
Figure IV. FDI inflows to Jordan, 2001-2004
(Millions of United States dollars)



Source: Compiled by ESCWA, based on A. Böhmer and K. Davies, "Investment climate and regulation of international investment in MENA countries", Working Group 1 (MENA-OECD Investment Programme, 2005), Annex 4, Table A.1; and the Arab Monetary Fund (AMF), Joint Arab Economic Report (AMF, September 2004).

Based on the survey of enterprises with FDI participation, FDI stock in Jordan reached $5.4 billion in 2004 to increase again by 18.8 per cent in 2005 to around $6.4 billion. According to the same survey, the distribution of FDI inflows by economic activity during 2005 indicates the predominance of two sectors, namely the financial intermediation sector (49.9 per cent) and the mining sector (16.8 per cent). It is also worth noting that investments in the chemical products industry have increased to surpass the share of the hotels and restaurants sector in investments for the year 2005.

Figure V. FDI inflows to Jordan by economic activity, 2005



Source: Based on the survey of enterprises with FDI participation in 2006, conducted by the Department of Statistics and the Central Bank of Jordan

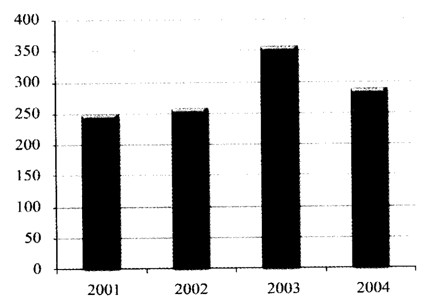
FDI inflows to Kuwait during the period 2001- 2004 fluctuated significantly and witnessed the following: FDI outflows of $147 million in 2001; inflows of $7 million in 2002; and outflows of $67 million and $20 million in 2003 and 2004, respectively, thereby signifying an inability to sustain the positive inflows of 2002.

These low levels of FDI inflows to Kuwait during the period 2001-2004 are reflected in the inflows as a percentage of GDP, which fluctuated between negative 0.43 per cent in 2001, up to 0.02 per cent in 2002 and negative 0.04 per cent in 2004.

FDI inflows to Lebanon during the period 2001-2004 were almost stable, ranging between $249 million in 2001, $358 million in 2003 and $288 million in 2004. This stability in FDI inflows reflects the efforts by the Government aimed at stabilizing the economy and improving investor confidence in the national economy.

During the period 2001-2004, FDI inflows as a percentage of GDP moved in parallel with FDI inflows to Lebanon and hovered at approximately 1.5 per cent, with a high of 1.98 per cent in 2003 as a result of an increase in FDI inflows in that year.

Figure VI. FDI inflows to Lebanon, 2001-2004
(Millions of United States dollars)



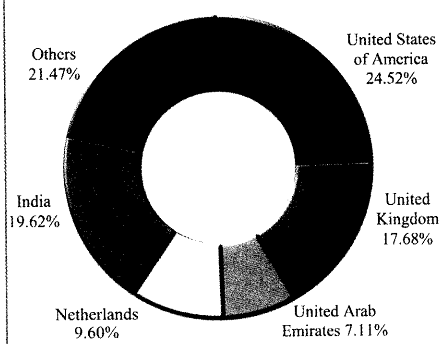
Source: Compiled by ESCWA, based on A. Bohmer and K. Davies, "Investment climate and regulation of international investment in MENA countries", Working Group 1 (MENA-OECD Investment Programme, 2005), Annex 4, Table A.1; and the Arab Monetary Fund (AMF), Joint Arab Economic Report (AMF, September 2004).

In Oman, FDI inflows fluctuated significantly during the period 2001-2004. FDI inflows decreased from $390 million to a modest $26 million, representing a decrease of 93 per cent. In 2003, FDI inflows increased significantly to $528 million and decreased again in 2004 to reach a negative value of $18 million.

During the same period, FDI inflows as a percentage of GDP fluctuated significantly, decreasing from 1.95 per cent in 2001 to 0.13 per cent in 2002, and increasing to 2.43 in 2003. This indicates that fluctuations in FDI inflows were not reflected by concomitant changes in GDP.

Moreover, FDI inflows in 2003 were mostly directed towards the oil and gas and the manufacturing sectors at some 48 and 33 per cent of total FDI inflows, respectively; while the utility and construction sector captured 12 per cent of total FDI inflows.

Figure VII. FDI inflows to Oman by country of origin, 2003
(Percentage)

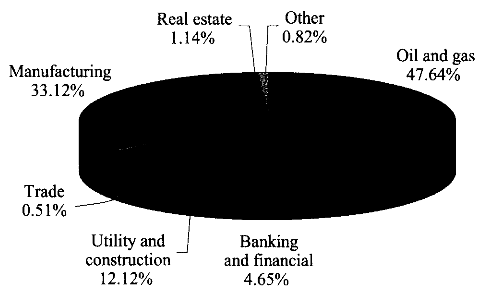


Source: Compiled by ESCWA, based on the survey of enterprises with FDI participation conducted by Oman.

Additionally, some 78 per cent of total FDI inflows to Oman in 2003 came from five countries, namely: United States of America, at 24.5 per cent; India, at 19.6 per cent; United Kingdom of Great Britain and Northern Ireland, at 17.7 per cent; Netherlands, at 9.6 per cent; and United Arab Emirates, at 7.1 per cent.

Efforts have been made by the Government of Oman in order to enhance the investment climate. Changes in laws and regulations have been adopted to improve the regulatory framework of the country.

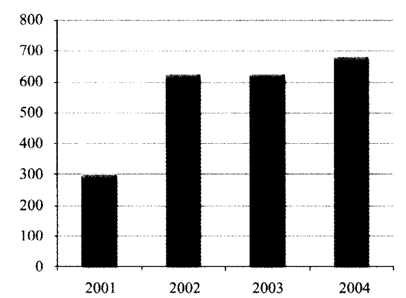
Figure VIII. FDI inflows to Oman by economic sector, 2003
(Percentage)



Source: Compiled by ESCWA, based on the survey of enterprises with FDI participation conducted by Oman.

Based on international sources, FDI inflows to Qatar during the period 2001-2004 witnessed a significant increase from $296 million in 2001 to $624 million in 2002, representing an increase of 110 per cent, to reach $679 million in 2004, or an overall increase of 129.4 per cent.

Figure IX. FDI inflows to Qatar, 2001-2004
(Millions of United States dollars)



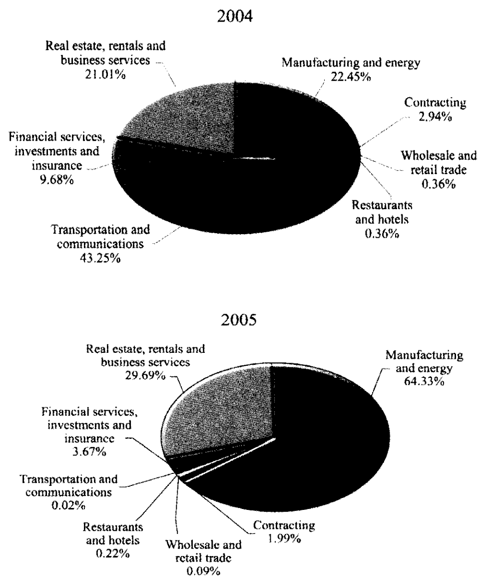
Source: Compiled by ESCWA, based on A. Böhmer and K. Davies, "Investment climate and regulation of international investment in MENA countries", Working Group 1 (MENA-OECD Investment Programme, 2005), Annex 4, Table A.1; and the Arab Monetary Fund (AMF), Joint Arab Economic Report (AMF, September 2004).

FDI inflows as a percentage of GDP were at 1.67 per cent in 2001. The large increase in FDI inflows in 2002 outweighed the growth in GDP, and FDI inflows as a percentage of GDP increased significantly to reach 3.17 per cent in that year, which subsequently decreased in 2003 and 2004 and in line with the levels of FDI inflows.

In Saudi Arabia, FDI inflows increased from $504 million in 2001 to $778 million in 2003, and $4,628 million in 2005, representing an increase of 495 per cent between 2003 and 2005.

This increase was mainly captured by two sectors, namely: the manufacturing and energy sector, at and the real estate, rentals and business services sector. The transport and communications sectors witnessed fluctuating FDI inflows.

Figure X. FDI inflows to Saudi Arabia by economic activity, 2004 and 2005
(Percentage)



Source: Compiled by ESCWA, based on the survey of enterprises with FDI participation conducted by Saudi Arabia.

Additionally, the Government intensified its efforts to diversify the economy and to change the structure of FDI activities by opening new sectors to foreign investors; removing restrictions on investments in such areas as education, training, restaurants and hotels; and removing the minimum required capital for new investment projects. Efforts by the Government resulted in an increase in FDI stock of 27 per cent from $20,454 million in 2004 to $26,066 million in 2005.

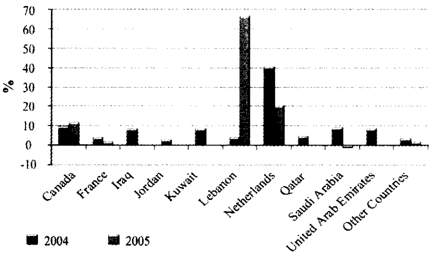
The increase in FDI inflows between 2001 and 2005 outweighed the increase in GDP during that same period, rising, as a percentage of GDP, from 0.3 per cent in 2001 to 0.97 per cent in 2004, albeit with a modest decrease in 2002. This indicates that the growth rate in FDI inflows was larger than the growth rate in GDP during the same period.

FDI enterprises created some 243,000 job opportunities in 2005, 26 per cent of which were filled by local workers*. Moreover, FDI inflows contributed significantly towards increasing exports, with exports from FDI enterprises estimated at 65 per cent in 2005, equivalent to $17.4 billion**.

FDI Inflows to the Syrian Arab Republic during 2001-2005 fluctuated between $947 million in 2001, to $1,084 million in 2003 and dropping to $736 million in 2005. Similarly, while FDI inflows as a percentage of GDP fluctuated between 4.68 per cent in 2001 and 2.93 per cent in 2005, the growth rate in FDI inflows matched the growth rate in GDP between 2001 and 2003, and 2004 and 2005. However, the growth in GDP was larger that the growth in FDI inflows in 2004, thereby reflecting a decrease in FDI inflows as a percentage of GDP from 2003 to 2004.

Based on the survey of enterprises with FDI participation, the distribution of FDI inflows by economic activity during 2004-2005 indicates the predominance of two sectors, namely, the manufacturing, sector, and the financial intermediation sector.

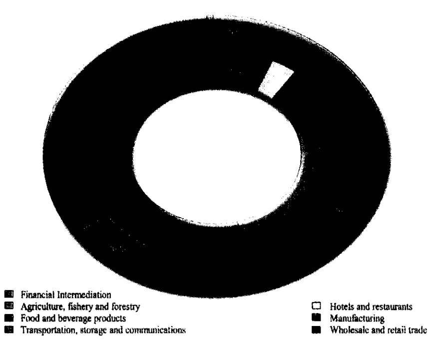
Figure XI. FDI inflows to the Syrian Arab Republic by major countries, 2004 and 2005
(Percentage)



Source: Compiled by ESCWA, based on the survey of enterprises with FDI participation conducted by the Syrian Arab Republic.

FDI enterprises had a significantly positive impact on the economy, particularly in terms of creating employment. Specifically, such companies offered job opportunities, the vast majority of whom were drawn from the local labour force.

Figure XII. FDI inflows to the Syrian Arab Republic by economic activity and major sectors, 2004 and 2005
(Millions of United States dollars)



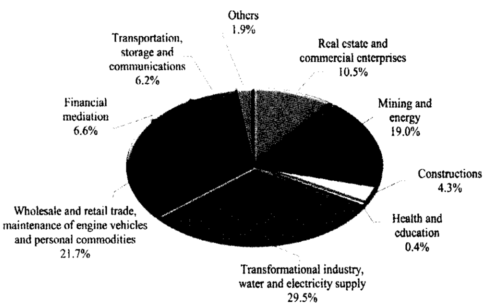
Source: Compiled by ESCWA, based on the survey of enterprises with FDI participation conducted the Syrian Arab Republic.

The United Arab Emirates was eager to develop a database on FDI based on international methodologies. The results of the survey indicate an FDI stock of $9.2 billion, which is almost double the figure found in national and international publications, and reflects the current boom in the country. In 2004, FDI stock was an estimated 8.5 per cent of GDP and 40 per cent of gross fixed capital formation (GFCF)*.

On the other hand, there was a fluctuation in FDI inflows to the United Arab Emirates during 2001-2004, at $1,184 million in 2001, increasing to $1,307 million in 2002 and down significantly to $30 million in 2003 (a decrease of 98 per cent) as a result of the beginning of the war in Iraq. In 2004, following efforts by the Government aimed at absorbing the costs incurred from that war, FDI inflows increased to $840 million. Moreover, the growth rate in FDI inflows was significantly less than the growth rate in GDP between 2003 and 2004.

In terms of structural distribution of FDI stock among industries, four industries attracted the largest share of FDI in the economy, namely:

Figure XIII. FDI stock in the United Arab Emirates by industrial classification, 2004
(Percentage)



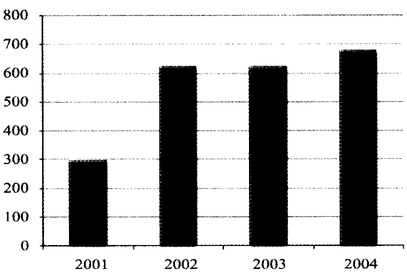
Source: Compiled by ESCWA, based on the survey of enterprises with FDI participation conducted by the United Arab Emirates.

transformational industry, water and electricity supply; wholesale and retail trade, maintenance of engine vehicles and personal commodities, mining and energy, and real estate and commercial enterprises.

Furthermore, while FDI enterprises were creating job opportunities, the share of nationals in FDI enterprises was low, at a modest 6 per cent of total employees compared to 94 per cent of expatriates**.

FDI inflows to Yemen were comparatively small in 2001-2004. The highest level of FDI inflows to Yemen during that period was $136 million in 2001, which decreased to its lowest value of $6 million in 2003. However, efforts by the Government aimed at improving the investment environment contributed to increasing FDI inflows to $21 million in 2004, representing a rise of 250 per cent.

Figure XIV. FDI Inflows to Yemen, 2001-2004
(Millions of United States Dollars)



Source: Compiled by ESCWA, based on A. Böhmer and K. Davies, "Investment climate and regulation of international investment in MENA countries", Working Group 1 (MENA-OECD Investment Programme, 2005), Annex 4, Table A.1; and the Arab Monetary Fund (AMF), Joint Arab Economic Report (AMF, September 2004).

Yemen was able to attract a small share of FDI during 2001-2004. In 2001, it represented approximately 1.4 per cent of GDP, which subsequently decreased owing to the large drop in FDI inflows to the country during that period.

* This is based on the survey of enterprises with FDI participation conducted by the United Arab Emirates.

** Ibid.

CONCLUSIONS AND RECOMMENDATIONS

The most important conclusions of this report are:

a) While there has been a progress in the implementation of the institutional framework in most ESCWA member countries, the investment climate still needs to be improved in order to attract higher shares of FDI, particularly those laws related directly to the operation of FDI, including property, company and commercial laws;

b) There has been an increase in FDI inflows to the region in recent years. However, FDI inflows were not equitably distributed among countries;

c) Two sectors capture the largest shares of FDI inflows to the ESCWA region, namely, the manufacturing and the financial services sectors;

d) While FDI inflows have had a positive impact on employment and exports, this impact is expected to increase substantially if member countries succeed in making sound and sustainable improvements to the investment climate.

This report also provides a set of recommendations to ESCWA member countries aimed at improving the investment climate and at promoting FDI inflows to the region, thereby contributing towards financing development. These are as follows:

a) To update and/or reform laws and regulations that govern the entry and operation of FDIs;

b) To put in place stable macroeconomic policies;

c) To open up more economic sectors to the private sector, including foreign investors;

d) To formulate regional investment agreements and promote intraregional investments;

e) To expand and speed up privatization programmes in order to attract higher shares of FDI.

UN-ESCWA

United Nations Economic and Social Commission for Western Asia

This booklet is a summary of the Report on Foreign Direct Investment Inflows in the ESCWA region.

Designed & Printed in UN-ESCWA,
Beirut

E/ESCWA/GRID/2007/Booklet.1
07-0312