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**ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)**

**REGIONAL INVESTMENT DIRECTORY REPORT:  
ESCWA MEMBER COUNTRIES**



United Nations  
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## **Preface**

This document which is issued by the Globalization and Regional Integration Division is part of the division's activities in the area of foreign direct investment (FDI). The main objective of this document is to provide foreign investors with an overall picture of the FDI environment in ESCWA member countries, with the aim of enhancing their knowledge of the major efforts of member countries to provide an investment-friendly macroeconomic environment. This publication draws heavily on the "FDI Report for ESCWA Member Countries" E/ESCWA/GRID/2006/Technical Material which covers the institutional framework for FDI for selected ESCWA member countries. Furthermore, this publication refers to two Expert Group Meeting (Beirut, UN-House, 20-22 December 2005 and Doha, 24-25 January 2007) organized by the same division on FDI policies in countries that have joined the project on "Networking of Expertise in the area of foreign direct investment in ESCWA member countries.

This document, together with the "FDI Report for ESCWA Member Countries", analyze statistics obtained from the databases established in 6 member countries with the help from ESCWA. It also provides a substantive review of FDI policies, data and institutional framework adopted by all ESCWA member countries.

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## **Executive summary**

FDI inflows to ESCWA region have increased substantially in the last few years. It has risen from US \$4.98 billion in 2002 to US \$30.13 billion in 2005. However, this increase has not been evenly distributed among member countries. Major oil exporting countries, particularly Saudi Arabia and the United Arab Emirates, together with Egypt, have received high share of FDI inflows to the ESCWA region in the last few years; their combined share increased from 48.3 per cent in 2002 to 73 per cent in 2005.

Several factors have contributed to the increase of FDI inflows to the region: more active privatization programmes, the opening-up of additional sectors to the participation of FDI and more liberal and investment friendly economic policies. Most of FDI inflows to the ESCWA region is in the form of new projects (Greenfield projects) and only a small part is in the form of mergers and acquisitions.

Concerning the distribution of FDI inflows by country of origin, it can be noted that most of the FDI inflows are from outside the region particularly from Europe and the United States of America. However, intraregional FDI inflows have increased in the last few years and represented more than 20 per cent of the total inflows to the ESCWA region in 2005.

The sectoral distribution of FDI inflows to countries that have implemented a comprehensive survey of enterprises with FDI participation indicate that the services sector capture the biggest share of FDI inflows, around 60 per cent of the total FDI inflows to the region.

Furthermore, FDI inflows to the ESCWA region as percentage of gross fixed capital formation have increased from 13.25 per cent in 2003 to 21.5 per cent in 2005, while FDI stock as percentage of gross domestic product has increased from 17.51 per cent in 2000 to 23.64 per cent in 2005.

## **INTRODUCTION**

This document aims to shed light on trends of Foreign Direct Investment (FDI) inflows and outflows in ESCWA member countries during the period extending from 1990 till 2005. Statistics for 2006 are not available yet from the UNCTAD's World Investment Report, or from national authorities.

It also reviews the geographical and sectoral distribution of FDI inflows and outflows, the laws and regulations governing FDI enterprises, and the FDI agreements and treaties signed by ESCWA member countries.

This document analyses the performance of ESCWA member countries in terms of attracting FDI, and consists of three chapters.

The first chapter deals with FDI trends in the ESCWA region on both sides of inflows and outflows, the geographical and sectoral distribution of FDI inflows, the laws and regulations governing FDI, and the FDI agreements and treaties both at the bilateral and multilateral levels.

Chapter two deals with each ESCWA member country, whereby, individual country profiles are drawn by studying FDI trends and distribution according to sectors and destinations, and laws and regulations for each country. This chapter will be faced by data availability constraint.

The third chapter includes conclusions and presents a set of policy recommendations for enhancing the capabilities of ESCWA member countries to attract FDI inflows.

# I. ESCWA REGION PROFILE

## A. FDI TRENDS

### 1. *FDI Flows*

FDI inflows to the ESCWA region have remarkably increased over the past years, growing from nearly US \$2.84 billion as an annual average for the period 1990-2000 to US \$4.98 billion in 2002, US \$10.32 billion in 2003, US \$17.8 billion in 2004 and \$30.1 billion in 2005.

In 2005, five countries received 88 per cent of total inflows to the ESCWA region, headed the United Arab Emirates (40 per cent of total inflows), and followed by Egypt (18 per cent), Saudi Arabia (16 per cent), Lebanon (9 per cent), and Qatar (5 per cent).

Furthermore, FDI inflows to the ESCWA region increased as a share of FDI inflows to developing countries. It increased from 2.1 per cent during the period 1990-2000 to 9 per cent in 2005. Similarly, the share of FDI inflows to the ESCWA region from the inflows to the world increased from 0.57 per cent to 3.3 per cent respectively. However, both shares remain very low and beyond the potentials of the ESCWA region which has, to a large extent, opened its markets for foreign investments and improved the regional investment environment.

As a percentage of gross fixed capital formation, FDI inflows to the ESCWA region have risen from 15.9 per cent during the period 1990-2000 to 21.5 per cent in 2005. In fact, the ratio of FDI inflows to the ESCWA region as percentage of gross fixed capital formation in 2005 is better than both the rate for developing countries (12.8 per cent) and for the world (9.4 per cent).

As for FDI outflows from the ESCWA region, they also increased over the past years, from nearly US \$78 million in the period 1990-2000 to US \$ 6.7 billion in 2004 and US \$14.9 billion in 2005. It should be noted that in 2005 alone, around US \$8.2 billion went abroad, pointing to the huge excess liquidity in some of the region's markets, mainly in the countries of the Gulf Cooperation Council, which are not offering enough investment opportunities in the domestic markets. As percentage of gross fixed capital formation, the level of FDI outflows from the ESCWA region in 2005 (11.87 per cent) was higher than that of both developing countries (5.11 per cent) and the world (8.3 per cent).

**Table 1 - ESCWA Region: FDI Inflows and Outflows, 1990-2005 (USD, million)**

FDI Flows	1990-2000 (annual average)	2002	2003	2004	2005	As a percentage of gross fixed capital formation (Per cent)			
						1990-2000 (annual average)	2003	2004	2005
<b>Bahrain</b>									
inward	458	217	517	865	1049	53.3	27.8	36.4	42.0
Outward	96	190	741	1036	1123	10.9	39.8	43.5	45.0
<b>Egypt</b>									
inward	844	647	237	2157	5376	7.2	2.0	16.8	33.6
Outward	46	28	21	159	92	-	0.2	1.2	0.6
<b>Jordan</b>									
inward	155	75	436	651	1532	8.8	20.9	23.6	53.0
Outward	-14	-	-	-	-	-0.8	-	-	-
<b>Iraq</b>									
inward	1	-2	-	90	300	-	-	-	-
Outward	-	-	-	-	-	-	-	-	-
<b>Kuwait</b>									
inward	58	3	-67	24	250	1.5	-1.0	0.3	3.0
Outward	-445	-76	-4962	2528	4709	-12.4	-73.5	32.0	56.8
<b>Lebanon</b>									
inward	449	1336	2860	1899	2573	11.6	70.8	41.2	53.3
Outward	48	-	611	827	715	1.3	15.1	17.9	14.8
<b>Oman</b>									
inward	84	109	489	200	715	4.1	14.4	4.3	14.7
Outward	2	-	153	250	44	-	4.5	5.4	0.9
<b>Palestine</b>									
inward	155	-5	-	-3	-	11.7	-	-	-
Outward	162	-	-	-	-	12.9	-	-	-
<b>Qatar</b>									
inward	169	624	625	1199	1469	6.2	10.0	18.1	21.2
Outward	11	-21	-2	192	352	-	-	2.9	5.1
<b>Saudi Arabia</b>									
inward	245	453	778	1942	4628	0.9	2.0	4.5	9.4
Outward	73	143	83	709	1183	-	0.2	1.6	2.4
<b>Syrian Arab Republic</b>									
inward	127	115	180	275	500	1.1	3.6	5.4	9.5
Outward	-	-	-	-	-	-	-	-	-
<b>United Arab Emirates</b>									
inward	18	1307	4256	8359	12000	-	21.4	37.8	51.8
Outward	100	407	991	1007	6661	0.7	5.0	4.6	28.7
<b>Yemen</b>									
inward	77	102	6	144	-266	-0.7	0.3	6.8	-12.0
Outward	-1	11	-	-	-	-	-	-	0
<b>Total ESCWA</b>									
inward	2840	4981	10317	17802	30126	15.90	13.25	15.02	21.50
Outward	78	682	-2364	6708	14879	0.97	-0.73	8.40	11.87
<b>Developing Economies</b>									
inward	134670	163583	175138	275032	334285	8.9	9.3	10.7	12.8
Outward	56580	49742	35566	112833	117463	3.3	1.6	4.8	5.1
<b>World</b>									
inward	495391	617732	557869	710755	916277	7.6	7.3	7.7	9.4
Outward	492566	539540	561104	813068	778725	7.7	7.4	9.3	8.3

Source: UNCTAD, World Investment Report, 2006.



## *2. FDI Stocks*

The inward FDI stock of the ESCWA region has remarkably increased over the past years, growing from nearly US \$3.7 billion in 1980 to \$37.3 billion in 1990, \$59.1 billion in 2000, \$102.2 billion in 2004 and further to \$133.2 billion in 2005. This increase in inward FDI stock is due primarily to greater FDI inflows to the ESCWA region over the same period in line with better investment climate.

Five countries captured the largest share of inward FDI stock in the ESCWA region in 2005, namely Egypt (21.7 per cent of total inward FDI stock), United Arab Emirates (21.2 per cent), Saudi Arabia (20 per cent), Lebanon (11.4 per cent), and the Syrian Arab Republic (6.3 per cent). The share of the other ESCWA member countries represented only 19.4 per cent in 2005.

The share of the ESCWA region in total inward FDI stock of both developing countries and the world has grown during the period 1980-2005, though at modest rates, from 3 per cent in 1980 to 5 per cent in 2005 as share of developing countries and from 0.66 per cent to 1.31 per cent respectively as a share of the world's inward FDI stock.

As a percentage of gross domestic product, the ESCWA region's inward FDI stock grew by nearly 3 times to reach 23.64 per cent in 2005 compared to 7.93 per cent in 1990. This points to the fact that inward FDI stock of the region has been growing, on average, over the past years, by levels higher than GDP growth. It should be noted that in 2005, the ratio of inward FDI stock of the ESCWA region to GDP (23.64 per cent) was better than that of the world (22.7 per cent) but relatively lower than that of developing countries (27 per cent).

As for outward FDI stock of the ESCWA region, its level has been on growth since 1980: from nearly US \$1.95 billion to US \$6.6 billion in 1990, US \$7.8 billion in 2000, US \$14.9 billion in 2004 and US \$29.1 billion in 2005. As a percentage of GDP, the outward FDI stock did not increase at a fast pace, recording 4.94 per cent in 2005 against 3.17 per cent in 1990. In 2005, the ratio of outward FDI stock of the ESCWA region to GDP (4.94 per cent) remains lower than that of developing countries (12.5 per cent) and the world (23.9 per cent).

The share of the ESCWA region in total outward FDI stock of developing countries and the world has dropped over the past two decades from 2.7 per cent in 1980 to 2.3 per cent in 2005 as a share of developing countries and from 0.4 per cent to 0.3 per cent, respectively, as a share of outward FDI stock in the world.

**Table 2 - ESCWA Region: FDI Stocks Inward and Outward, 1980-2005 (USD, million)**

FDI Stocks	1980	1990	2000	2004	2005	As a percentage of gross domestic product (Per cent)			
						1990	2000	2004	2005
<b>Bahrain</b>									
inward	61	552	5906	7354	8276	12.8	74.1	67.0	64.1
Outward	598	719	1752	3935	5058	16.8	22.0	35.9	39.1
<b>Egypt</b>									
inward	2260	11043	18254	23506	28882	26.4	17.7	26.5	31.0
Outward	39	163	655	875	967	0.4	0.6	1.0	1.0
<b>Iraq</b>									
inward	-	-	-	57	357	-	-	0.2	1.3
Outward	-	-	-	-	-	-	-	-	-
<b>Jordan</b>									
inward	155	615	2284	3584	5116	15.3	27.0	33.1	39.8
Outward	23	16	-	-	-	0.4	-	-	-
<b>Kuwait</b>									
inward	30	37	608	458	708	0.2	1.6	0.9	0.9
Outward	1046	3662	1677	1412	5403	19.8	4.5	2.7	7.2
<b>Lebanon</b>									
inward	20	53	4988	12534	15107	1.9	30.3	62.8	68.5
Outward	-	43	586	2026	2741	1.5	3.6	10.2	12.4
<b>Oman</b>									
inward	483	1706	2506	3310	4025	14.6	12.6	13.5	13.3
Outward	-	10	33	436	480	0.1	0.2	1.8	1.6
<b>Palestine</b>									
inward	-	-	923	944	944	-	20.1	25.8	25.3
Outward	-	-	-	-	-	-	-	-	-
<b>Qatar</b>									
inward	83	63	1912	4655	6124	0.9	10.8	16.4	16.2
Outward	-	-	74	260	612	-	0.4	0.9	1.6
<b>Saudi Arabia</b>									
inward	-	21894	17577	20454	26066	20.9	9.3	8.4	8.5
Outward	239	1873	2204	2528	3711	1.8	1.2	1.0	1.2
<b>Syrian Arab Republic</b>									
inward	-	374	1699	7939	8439	3.5	8.6	33.9	31.9
Outward	-	-	-	-	-	-	-	-	-
<b>United Arab Emirates</b>									
inward	409	751	1061	16168	28168	2.2	1.5	19.2	21.1
Outward	5	99	819	3426	10087	0.3	1.2	4.1	7.5
<b>Yemen</b>									
inward	195	180	1336	1249	983	4.4	14.0	9.5	6.5
Outward	-	5	-	9	9	0.1	-	0.1	0.1
<b>Total ESCWA</b>									
inward	3696	37268	59063	102212	133195	7.93	17.51	24.40	23.64
Outward	1950	6590	7800	14907	29068	3.17	2.60	4.44	4.94
<b>Developing Economies</b>									
inward	137147	370314	1756394	2349348	2756916	9.8	26.3	27.9	27.0
Outward	72307	148715	871040	1120008	1273612	4.1	13.0	13.3	12.5
<b>World</b>									
inward	561403	1789303	5802933	9544887	10129739	8.5	18.3	23.3	22.7
Outward	571228	1791092	6471435	10325240	10671889	8.6	20.5	25.2	23.9

Source: UNCTAD, *World Investment Report, 2006*.

### 3. International FDI Rankings

Based on some FDI international indices, some ESCWA member countries have achieved progress, while others have retreaded in their rankings.

With respect to the Inward FDI Performance Index, six countries have recorded progress in their rankings over the period 1990-2005, namely Jordan, Bahrain, Lebanon, United Arab Emirates, Qatar and Saudi Arabia. On the other hand, five countries has retreaded in their ranking during the same period, namely Oman, Kuwait, Egypt, the Syrian Arab Republic, and Yemen (Table 3).

**Table 3 - Inward FDI Performance Index Rankings 1990-2005**

Country	1990	2000	2004	2005
Oman	42	125	99	91
Iraq	-	-	-	-
Jordan	76	37	46	19
Palestine	-	-	-	-
Bahrain	25	45	32	22
Kuwait	104	129	138	132
Egypt	15	105	98	66
Syrian Arab Republic	53	107	113	101
Yemen	120	139	117	139
Lebanon	99	31	8	7
United Arab Emirates	96	136	25	15
Qatar	115	99	56	54
Saudi Arabia	118	132	123	110

Source: UNCTAD, *World Investment Report, 2006*.

Note: covering 141 countries. The Index is based on the country's share in global FDI inflows and GDP. Country order is based on the ranking of 2005.

As for the Inward FDI Potential Index, four countries have recorded progress in their rankings during the period 1990-2004, namely Kuwait, Yemen, Lebanon, and Qatar; and seven countries have retarded in their rankings, namely Oman, Jordan, Bahrain, Egypt, the Syrian Arab Republic, the United Arab Emirates, and Saudi Arabia (Table 4)

**Table 4 - Inward FDI Potential Index Rankings 1990-2004**

Country	1990	2000	2003	2004
Oman	35	55	54	57
Iraq	-	-	-	-
Jordan	61	59	61	63
Palestine	-	-	-	-
Bahrain	23	32	29	30
Kuwait	47	30	40	42
Egypt	70	70	82	81
Syrian Arab Republic	77	80	85	95
Yemen	110	90	88	93
Lebanon	74	51	59	60
United Arab Emirates	26	26	23	27
Qatar	19	19	10	10
Saudi Arabia	30	28	31	35

Source: UNCTAD, *World Investment Report, 2006*.

Note: covering 141 countries. The Index is based on 12 economic and policy variables. Country order is based on the ranking of 2004.

As for the Outward FDI Performance Index, four countries have achieved a progress in their rankings between the period 1990 and 2005, namely Oman, Lebanon, the United Arab Emirates, and Qatar.

On the other hand, seven countries have witnessed a deterioration in their ranking, namely Jordan, Bahrain, Kuwait, Egypt, the Syrian Arab Republic, Yemen, and Saudi Arabia (Table 5).

**Table 5 - Outward FDI Performance Index Rankings 1990-2005**

Country	1990	2000	2004	2005
Oman	89	111	88	81
Iraq	-	-	-	-
Jordan	59	139	140	139
Palestine	-	-	=	-
Bahrain	9	16	19	17
Kuwait	11	45	71	58
Egypt	72	90	93	92
Syrian Arab Republic	106	134	134	134
Yemen	83	117	118	117
Lebanon	44	59	51	43
United Arab Emirates	71	88	62	55
Qatar	-	97	104	90
Saudi Arabia	37	80	91	89

Source: UNCTAD, *World Investment Report, 2006*.

Note: covering 141 countries. The Index is based on the country's share in global FDI inflows and GDP. Country order is based on the ranking of 2005.

## B. FDI Distribution

### 1. Sectoral Distribution

FDI inflows to the ESCWA countries have been directed, over the past years, to key or leading sectors in these countries. It can be noted that apart from the oil and gas sector, the services sector along with the real estate and manufacturing sectors attracted most of the FDI inflows in ESCWA member countries (Table 6).

**Table 6 - Leading Sectors Attracting FDI Inflows in some ESCWA Countries**

Country	Leading Sectors
Bahrain	Financial services, real estate and manufacturing.
Oman	Oil and gas, manufacturing, and utility and construction.
Saudi Arabia	Manufacturing and energy; real estate, rentals and business services including education, training, health, and social services, and transportation and communication.
Syrian Arab Republic	Financial intermediation and manufacturing.
United Arab Emirates	Transformational industry, water and electricity supply, whole sale and retail trade, maintenance of engine vehicles and personal commodities, mining and energy, and real estate and commercial enterprises.
Lebanon	Financial services, IT and real-estate.
Jordan	Manufacturing and Agriculture.
Kuwait	Petrochemical industry, electricity and telecoms.

Source: Compiled from chapter two on individual country profiles.

## 2. Geographical Distribution

As for the geographical distribution of FDI inflows to the ESCWA region, investors from the countries of the Gulf Cooperation Council were the major investors in ESCWA member countries, followed by investors from the United States and European countries (Table 7).

**Table 7 - FDI Inflows Distribution by Key Destination in some ESCWA Countries**

Country	Main Investing Countries
Bahrain	Saudi Arabia, Kuwait, United Arab Emirates, Libyan Arab Jamahiriya and Cyprus
Oman	United States, India, United Kingdom and United Arab Emirates.
Saudi Arabia	Japan, United Arab Emirates, and Bahrain.
Syrian Arab Republic	Lebanon, Netherlands, and Canada.
United Arab Emirates	European Union and Gulf Cooperation Council countries.
Jordan	United Kingdom, United States and Germany.

Source: Compiled from chapter two on individual country profiles.

### C. FDI Laws

All ESCWA member countries have issued laws, regulations or legislations over the past years to encourage, directly or indirectly, foreign investment in their national economies, and to improve the investment climate. The laws or regulations issued cover a wide range of investment or investment – related areas, such as competition, privatization, industrial or economic zones, capital markets, patents, taxation, copyrights, intellectual property rights, land and real-estate, labor, establishment and conduct of business, offset, banking expropriation and compensation, and others (Table 8).

**Table 8 - FDI Laws in ESCWA Region, end of 2006**

Country	Laws
<b>Bahrain</b>	<ul style="list-style-type: none"> <li>• Commercial Companies Law.</li> <li>• Foreign Investors' Ownership Law.</li> <li>• Privatization Decree.</li> <li>• Industrial Zones Legislations.</li> </ul>
<b>Egypt</b>	<ul style="list-style-type: none"> <li>• Investment Law.</li> <li>• Capital Market Law.</li> <li>• Company Law.</li> <li>• Patents Law.</li> <li>• Competition Law.</li> <li>• Income Tax Law.</li> <li>• Economic Zones Law.</li> </ul>
<b>Iraq</b>	<ul style="list-style-type: none"> <li>• Investment Law.</li> </ul>
<b>Jordan</b>	<ul style="list-style-type: none"> <li>• Investment Promotion Law.</li> <li>• Patent Law.</li> <li>• Copyrights Law.</li> <li>• Privatization Law.</li> </ul>

	<ul style="list-style-type: none"> <li>• Aqaba Economic Zone Law</li> </ul>
<b>Kuwait</b>	<ul style="list-style-type: none"> <li>• Foreign Capital and Investment Law.</li> <li>• Stock and Investment Funds Law.</li> </ul>
<b>Lebanon</b>	<ul style="list-style-type: none"> <li>• Investment Law.</li> <li>• Intellectual Property Protection Law.</li> </ul>
<b>Oman</b>	<ul style="list-style-type: none"> <li>• Foreign Capital and Investment Law.</li> <li>• Corporate Tax Law.</li> <li>• Capital Market Law.</li> <li>• Privatization Law.</li> <li>• Copyrights Law.</li> <li>• Land and Real-Estate Law.</li> </ul>
<b>Palestine</b>	<ul style="list-style-type: none"> <li>• Investment Incentive Law.</li> </ul>
<b>Qatar</b>	<ul style="list-style-type: none"> <li>• Investment Law.</li> <li>• Copyright Protection Law.</li> <li>• Investment Funds Law.</li> <li>• Capital Market Law.</li> <li>• Labor Market Law.</li> </ul>
<b>Saudi Arabia</b>	<ul style="list-style-type: none"> <li>• Foreign Investment Law.</li> <li>• Privatization Legislation</li> <li>• Intellectual Property Rights Law.</li> <li>• Capital Market Law.</li> </ul>
<b>Syrian Arab Republic</b>	<ul style="list-style-type: none"> <li>• Investment Law</li> <li>• Taxation Regulations</li> <li>• Financial Laws</li> <li>• Customs Law.</li> <li>• Intellectual Property Regulations</li> <li>• Establishment and conduct of Business Regulations</li> <li>• Offset program</li> <li>• Banking Regulations</li> <li>• Conversion and Transfer Policies.</li> <li>• Expropriation and Compensation</li> <li>• Property Rights Protection Regulations</li> <li>• Commercial Code.</li> <li>• Outside Free Trade Zones.</li> </ul>
<b>United Arab Emirates</b>	<ul style="list-style-type: none"> <li>• Commercial Companies Law</li> </ul>
<b>Yemen</b>	<ul style="list-style-type: none"> <li>• Investment Law.</li> </ul>

Source: Compiled from chapter two on individual country profiles.

The major objectives of these laws, regulations and legislations can be summarized as follows:

- (a) Opening-up domestic economic markets to foreign investors and companies in order to attract foreign investment;
- (b) Establishing key financial centers in some domestic markets (such as Dubai, Bahrain, Qatar), in order to attract regional and international banks and financial institutions.
- (c) Attracting strategic foreign investors to key economic enterprises or institutions, such as electricity and telecommunication sectors, in line with the ongoing privatizations in some domestic economies.

- (d) Creating an enabling investment and economic environments in domestic markets, mainly through the provision of incentives, as a matter of example the exemption from certain types of taxes for a certain period, ownership of real estate for business or housing needs, encouragement of investment in financial markets.
- (e) Enhancing trade and establishing trade gateways to the region and key international markets, through the establishment of economic and industrial zones in domestic markets.
- (f) Creating competitive markets capable of attractive foreign players to domestic economies by fighting monopolistic and oligopolistic types of markets.
- (g) Encouraging innovations, by protecting copyrights and patents, in areas of strategic significance to the growth of domestic economies, and key sectors that are drivers of economic growth or development.
- (h) Encouraging the private sector and promoting its role in economic growth and development, and protecting private investment in financial and productive sectors.
- (i) Strengthening governance at the levels of corporations, public sector and the macro-economy as a whole, as a prime factor of foreign investment promotion.

#### **D. FDI Agreements**

The governments in the ESCWA member countries have concluded both bilateral and multilateral agreements or treaties with both developing and developed countries in the areas of investment. This besides agreements or treaties related to free trade areas, free zones, double taxation and others. The total number of bilateral investment agreements concluded by ESCWA member countries reached 434 agreements, besides 44 free zones agreements. Egypt has concluded the largest number of bilateral investment agreements (78 agreements), followed by Lebanon (48), Kuwait (47), Jordan and Iraq (41 agreements each), Yemen (35), Bahrain (34), the United Arab Emirates (32) and the Syrian Arab Republic (31) (Table 9).

On the other hand, the United Arab Emirates has concluded the largest number of free zones agreements (16 agreements), followed by Egypt (8), the Syrian Arab Republic and Jordan (7).

Bilateral investment agreements are perceived by ESCWA member countries as a means to enhance investment exchanges between these countries and the rest of the world. Also, these countries perceive free zones agreements as a means to attract foreign investors and transnational corporations.

**Table 9 - Bilateral Investment Agreements and the Number of Free Zones in the ESCWA Region**

<b>Country</b>	<b>Total number of treaties</b>	<b>Total number of free zones</b>
Bahrain	34*	2
Egypt	78	8
Jordan	41*	7
Kuwait	47*	1
Lebanon	48*	2
Oman	20*	0
Qatar	19*	0
Syrian Arab Republic	31*	7
Saudi Arabia	8	0
United Arab Emirates	32*	16
Yemen	35*	1
Iraq	41*	-
<b>Total</b>	<b>434</b>	<b>44</b>

Sources: A. Böhmer, "Inventory of international investment agreements concluded by MENA countries", Working Group 1 (MENA-OECD Investment Programme, 2005); and H. Christiansen, "Incentives and free zones in the MENA region: a preliminary stocktaking", Working Group 2 (MENA-OECD Investment Programme, 2005).

Note: (\*) indicates that information was updated from chapter two on individual country profiles.



## II- MEMBER ESCWA COUNTRIES PROFILES

### A. BAHRAIN

#### 1. *FDI Trends*

##### (a) *FDI Inflows*

The Bahrain has been experiencing a growth in FDI inflows over the past years in line with increased openness and encouragement of foreign, as well as local investments, both in the financial and production sectors. In 2005, FDI inflows to Bahrain reached a record level of more than US \$1 billion. This number is expected to increase further in 2006. In fact, FDI inflows to Bahrain recorded an annual average of US \$458 million during the period 1990–2000, US \$217 million in 2002, US \$517 million in 2003, and US \$865 million in 2004. As a ratio of gross fixed capital formation, FDI inflows grew from 27.8 per cent in 2003 to 42 per cent in 2006, but the ratio remains lower than the annual average of the period 1990–2000 of 53.3 per cent (Table 1).

However, the share of FDI inflows to Bahrain from total FDI inflows to ESCWA member countries decreased from 16.1 per cent on average during the period 1990-2000 to 3.48 per cent in 2005. This decrease indicate that FDI inflows to Bahrain during the period 1990-2005 increased at a slower pace than the increase in other ESCWA member countries during the same period.

On the other hand, the inward FDI stock of Bahrain grew substantially from US \$61 million in 1980 to a level of US \$8276 million in 2005. It represented 1.65 per cent of the total inward FDI stock of ESCWA member countries in 1980 and 6.2 per cent in 2005. Consequently, its ratio to gross domestic product increased sharply from 12.8 per cent to 64.1 per cent, respectively.

Bahrain's ranking substantially improved to 22 in 2005, from 32 in 2004 and 45 in 2000 in terms of inward FDI Performance index. However, its ranking in terms of inward FDI Potential Index did not improve remarkably, standing at 30 in 2004 from 29 in 2003, 32 in 2000 and 23 in 1990.

##### (b) *FDI Outflows*

FDI outflows from Bahrain followed a similar trend to those of FDI inflows. These outflows increased continuously from a level of US \$96 million as an annual average for the period 1990–2000, to US \$1123 million in 2005 and a higher level in 2006. Consequently, the ratio of these outflows to gross fixed capital formation grew remarkably from 10.9 per cent to 45 per cent respectively. In addition, the outward FDI stock experienced a substantial growth over the period 1980–2005 from US \$598 million to US \$5058 million. Its ratio to gross domestic product also increased remarkably from 16.8 per cent to 39.1 per cent respectively.

The ranking of Bahrain in terms of outward FDI Performance Index fluctuated during the period 1990-2005, where it moved from 9 in 1990, 16 in 2000, 19 in 2004, and 17 in 2005.

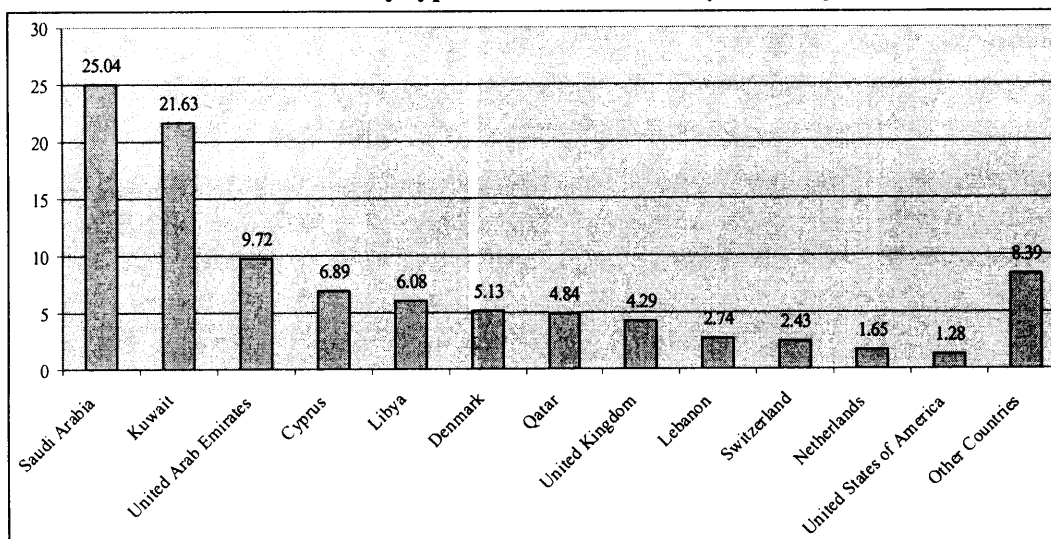
## 2. FDI Distribution

According to a survey of enterprises with FDI participation undertaken by official authorities in Bahrain in February–March 2004, which covered 233 companies, it can be noted that the financial services sector captured around 70 per cent of FDI stock in 2002, followed by real estate and business sector (16 per cent), and the manufacturing sector (9 per cent), and transportation and telecommunication sector (3.5 per cent)<sup>1</sup>.

Also, according to this survey, FDI inflows were distributed unevenly to different regions in Bahrain, whereby Manama captured around 71.2 per cent of FDI institutions, 84.2 per cent of invested capital, 31.6 per cent of total paid wages, and 37 per cent of total labor.

The distribution of FDI stock by country of origin indicate that investors from the Gulf Cooperation Council contributed in the largest share of FDI with 61.23 per cent, followed by European countries (21.67 per cent) and other Arab countries (8.82 per cent).

**Figure 1 – FDI stock in Bahrain by type of economic activity and major sectors, end of 2002**



Source: Based on the survey of enterprises with FDI participation conducted by Bahrain in February–March 2004.

On the other hand, according to this survey, FDI outflows from Bahrain were primarily towards the banking, finance, and insurance sector which attracted alone around 87.5 per cent of total FDI outflows for

<sup>1</sup> Based on the survey of enterprises with FDI participation conducted by Bahrain in February–March 2004.

2002, followed by the transformational manufacturing sector with 6.5 per cent, the construction and real estate sector with 2.7 per cent and the health services sector with 1.4 per cent<sup>2</sup>.

As for the geographical distribution of these FDI outflows, most of FDI outflows from Bahrain were directed towards the European Union with 50.6 per cent of total FDI outflows in 2002, followed by United States with 17.7 per cent and the other countries of the Gulf Cooperation Council with 13.5 per cent.

### 3. FDI Laws

In an effort to attract and encourage foreign investment, Bahrain has created a remarkable economic environment that is business-friendly, and is supported by several investment-oriented laws. The Bahraini government has recently issued a new investment law that reflects the domestically attractive market. Following are some laws and legislations that are related to FDI promotion in Bahrain:

(a) *Commercial Companies Law of 1975:*

This law was subject to some amendments and entered in force at the beginning of 2002. The amendments focused on the following:

- Facilitating of the change of corporate legal form and status,
- Allowing individuals to establish and own limited responsibility enterprises,
- Establishing holding companies,
- Establishing joint stock companies,
- Enforcing corporate governance in companies in order to enhance foreign investors' confidence in the domestic market<sup>3</sup>.

(b) *Foreign Investors' Ownership Law*

This law comprises several facilities, exemptions and incentives for foreign investors, including the following basic ones:

- No taxes on personal or corporate income, and no withholding or value-added tax,
- Raw materials, improved semi-finished commodities, imports required for development projects, machinery for manufacturing, and goods imported for re-export are all exempted from duties,
- International investors and companies are guaranteed 100 per cent ownership for their interest in sectors including technology and training, manufacturing services, business services and industrial services,
- Foreign investors can have 100 per cent ownership of land in predetermined areas,
- There are no restrictions on capital repatriation, guaranteeing full transferability of profits and dividends,
- "Fast track" commercial registration procedure for qualifying companies,
- Easy access to visas,

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<sup>2</sup> Ibid.

<sup>3</sup> Decree by law no. 21 for 2001.

- No restrictions on foreign exchange and currency transfers<sup>4</sup>.

(c) *Privatization Decree of 2002*

In Bahrain, a legislative Decree no.51 dated 14 October 2002 related to privatization was issued. The decree assumes that privatization is a component of the state's economic policy. The sectors which are open for privatization included productive and services sectors, mainly the tourism, telecommunications and transportation, electricity, water, airports, gas and oil, and postal services sectors. The Decree granted the Council of Ministers the right of issuing a golden share in the privatization activities<sup>5</sup>.

(d) *Telecommunication law of 2002*

This law was issued by a Decree no.48 to liberalize the telecommunication sector in Bahrain. It also established a special commission which enjoys full financial and administrative autonomy, and is responsible for the liberalization of this sector<sup>6</sup>.

(e) *Industrial Zones Legislation of 1999*

To promote foreign investment and stimulate ownership by foreign companies, the Bahraini government issued a special legislation for establishing industrial zones (Decree no.28 for 1999). This Decree grants lots for investors whose business is in manufacturing and other related activities. The Decree allows banks and financial industries to build industrial complexes in industrial zones for the sake of leasing them to private investors. The concerned Minister has the right to exempt the investor from leasing fees on temporary basis<sup>7</sup>.

#### 4. *FDI Agreements*

The Government of Bahrain pays special attention to join international agreements, especially those related to foreign investments. In March 2003, the government authorized the Ministry of Media to undertake all necessary legal and organizational measures to join international agreements which guarantees property rights and facilitates the entry of Bahrain into free trade agreements with other countries<sup>8</sup>.

Furthermore, Bahrain has signed some 34 bilateral investment agreements with countries of the world, and the number reaches nearly 103 agreements if we include the agreements under study, negotiation or exchange of draft agreements. These agreements cover areas related to investment, trade and economic cooperation. Bahrain has also signed in September 2004 a bilateral free trade area with the United States of

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<sup>4</sup> Website of Bahrain Economic Development Board, [www.bahrainedb.com](http://www.bahrainedb.com)

<sup>5</sup> ESCWA, "Policies for Attracting FDI and Inter – investments in the ESCWA Region", 2002, pp.62.

<sup>6</sup> Legal Department, Council of Ministers Secretariat, <http://www.bahrain.gov.bh/legalaffairs>.

<sup>7</sup> Minister of Finance and National Economy, [www.mofine.gov.bh/agreement-main.asp](http://www.mofine.gov.bh/agreement-main.asp).

<sup>8</sup> Statement of the Minister for the Council of Ministers Affairs to Gulf News, 31 March 2003.

America which opens the door for US investors to transform Bahrain into a center for distributing or producing products and services of American origin. Also, Bahrain has signed the Greater Arab Free Trade Area Agreement in 1997, and it is a member of the Gulf Cooperation Council and hence the related free-trade area and customs union<sup>9</sup>.

## **B. EGYPT**

### *1. FDI Trends*

#### *(a) FDI inflows*

FDI inflows to Egypt have increased sharply over the past four years, totaling nearly US \$5.4 billion in 2005, up from US \$2.2 billion in 2004, US \$237 million in 2003, US \$647 million in 2002, US \$510 million in 2001 and US \$844 million the annual average of the period 1990–2000.

Accordingly, the share of FDI inflows to Egypt of gross fixed capital formation rose from 7.2 per cent for the period 1990–2000 to 16.8 per cent in 2004 and 33.6 per cent in 2005 after a sharp drop in 2003 to 2 per cent.

FDI inflows to Egypt represented around 17.85 per cent of total FDI inflows to ESCWA member countries in 2005 up from 12.1 per cent in 2004 and 2.3 per cent in 2003.

Egypt ranked 66th among 141 countries in 2005 in terms of inward FDI Performance Index, against 98 in 2004 and 105 in 2000 and 15 in 1990. It ranked 81st in 2004 in terms inward FDI Potential Index, against 82nd in 2003, and 70<sup>th</sup> in both 2000 and 1990.

The inward FDI stock in Egypt has continued to grow over the past years, increasing from some US \$2.3 billion in 1980 to US \$11.0 billion in 1990, US \$18.2 billion in 2000, US \$23.5 billion in 2004 and US \$28.9 billion in 2005.

As a percentage of gross domestic product, inward FDI stock in Egypt was 31 per cent in 2005, up from the ratio 17.7 per cent in 2000 and 26.5 per cent in 2004.

#### *(b) FDI outflows*

As for FDI outflows from Egypt, there has been some fluctuations, whereby they decreased from an annual average of US \$46 million in the period 1990–2000 to US \$21 million in 2003, then rising sharply to US \$159 million in 2004, and then dropping to US \$92 million in 2005. As a percentage of gross fixed capital formation, FDI outflows from Egypt remains low at below 1.2 per cent.

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<sup>9</sup> Ministry of Finance and National Economy [www.mofine.gov.bh/agreement-main.asp](http://www.mofine.gov.bh/agreement-main.asp)

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<sup>9</sup> Ministry of Finance and National Economy [www.mofine.gov.bh/agreement-main.asp](http://www.mofine.gov.bh/agreement-main.asp)

However, outward FDI stock in Egypt has experienced a growth over the past years, increasing from an annual average of US \$39 million in the period 1990–2000 to US \$967 million in 2005. The share of outward FDI stock in Egypt from overall outward stock in ESCWA member countries stands at nearly 1 per cent of gross domestic product in Egypt.

Egypt's ranking in terms of outward FDI performance Index stood at 92 in 2005, after being 93 in 2004, 90 in 2000, and 72 in 1990.

## 2. Distribution of FDI by Economic Sectors

According to the most recent data available from the Central Bank of Egypt, net FDI inflows – after deducting repatriated capital by the petroleum and non-petroleum sectors – have reached US \$3,237.1 million in the first quarter of the fiscal year 2006/07 compared to US \$1,947 million in the first quarter of the fiscal year 2005/06 (Table 10).

**Table 10 - Net FDI inflows in the petroleum and non-petroleum sectors in Egypt**

	First Quarter - FY 2005/06		First Quarter - FY 2006/07	
	Million of US \$	Share in net inflows (Per cent)	Million of US \$	Share in net inflows (Per cent)
1- Net FDI inflows in non-petroleum sectors	1,527.1	78.4	2,706.3	83.6
2- Net FDI inflows in petroleum sector	419.9	21.6	530.8	16.4
3- Net FDI (1+2)	1,947	100	3,237.1	100

Source: Central Bank of Egypt.

( ) indicates negative figures

With respect to the distribution of net FDI inflows, the petroleum sector absorbed US \$530.8 million in the first quarter of the fiscal year 2006/07 (around 16.4 per cent of net FDI inflows) compared to US \$419.9 million in the first quarter of the fiscal year 2005/06 (around 21.6 per cent of net FDI inflows). Net FDI inflows in the non-petroleum sectors have reached US \$2,706.3 million in the first quarter of the fiscal year 2006/07 compared to US \$1,527.1 million in the first quarter of the fiscal year 2005/06.

**Table 11 - FDI inflows to Egypt**

(million of US \$)

Inflows (total)	First Quarter 2005/06	First Quarter 2006/07
	2,554.7	3,767.6
1- Establishment of new companies and increase in issued capital of companies in operation	1,203.3	2,618.7
2- Purchase of real estate by non-residents	13.2	0.2
3- Sale of companies and productive assets to non-residents	418.7	87.7
4- Investments in the petroleum sector	919.5	1,061.0
Outflows (total)	(607.7)	(530.5)
Repatriated capital	(108.1)	(0.3)



Repatriated capital by foreign and joint petroleum companies	(499.6)	(530.2)
Net FDI	1,947.0	3,237.1

Source: Central Bank of Egypt

In the first quarter of the fiscal year 2006/07 a total of US \$2,618.7 million was accounted for by the establishment of new companies as well as the increase in the issued capital of companies in operation (69.5 per cent of total inflows). The sale of companies and productive assets to non-residents have reached US \$87.7 million (2.3 per cent of total inflows), while FDI inflows for the purchase of real estate have reached US \$0.2 million (0.01 per cent of total inflows) over the same period. The balance of US \$1,061 million was accounted for by inflows into the petroleum sector (28.2 per cent of total inflows).

### 3. FDI Legal Framework

Egypt has issued and/or amended over the past two decades the laws, regulations and legislations that are directly or indirectly related to FDI attraction and promotion. The most important laws, regulations and legislations in this regard are as follows:

(a) *Investment Law*

This is the Law no.8 of 1997 which ensures investors' protection against confiscation and nationalization, free determination of prices and profits of products, the right to own land for operation or expansion of activities, the right to import equipment and machinery at a customs rate of 5 per cent, besides tax exemptions on revenues for a period of five years.

(b) *Company Law*

This is the Law no.3 of 1998 which governs the establishment and operation of different types of corporations, with special focus on private corporations and basically joint-stock corporations. According to this Law, subscription in shares of companies should be done through banks only. The establishment of corporations is the full responsibility of the so-called "General Authority for Investment and Free Zones".

(c) *Competition Law*

This is the Law no.3 of 2005 which includes the conditions of maintaining free competition in economic markets, and prohibiting any form of monopolistic or oligopolistic practices. The Law prohibits any limitations on entry or exit from the markets, or any discrimination between sellers and buyers. The Law establishes the so-called "Agency for Protection of Competition and Prohibition of the Monopolistic Practices" which is entitled to supervising the application of the articles of the law.

(d) *Income Tax Law*

This is the Law that determines the different tax rates on income levels, ranging between 10 per cent on net income between 5000-20.000 Egyptian pounds, 15 per cent on net income between 20.000-40.000

Egyptian pounds, and 20 per cent on net income above 40.000 Egyptian pounds. The Law imposes penalties on tax evaders, including financial fines, imprisonment for a period of six months to one year, and other penalties.

(e) *Economic Zones Law*

This is the Law no.83 of 2002 which pertains to the attraction of investment, mainly foreign investment, to economic zones. The Law stipulates the establishment of a special government agency responsible for achieving this objective. The Law stipulates the following: (i) organization of a special custom-management and tax-management systems; (ii) provision of work permits to foreign workers, (iii) the income tax rate of 10 per cent and the wage tax rate of 5 per cent, (iv) the establishment of dispute-settling center; and (v) “one-stop shop” service regulated by the General Authority for Investment and Free Zones.

(f) *Patents Law*

This is Law no.82 of 2002, which regulates the procedures related to patents for industrial inventions. It stipulates that: (i) patents should be applied for at a special patent office, (ii) registration of patents at special registers; (iii) patents are given to investors or their successors, or to equal partners in case of joint ownership of patents; (iv) the duration of the patent is 20 years since the application date; and (v) one year is the time needed to publish the granting of the patent. Also, the Law includes the conditions and procedures of copyright protection of both Egyptian and foreigners. It applies to different products, including arts such as books, computer programs and similar items.

(g) *Capital market Law*

This is the Law no.95 of 1992 which governs the establishment of companies that perform capital markets’ activities such as investment banking, brokerage, clearance and settlement of transactions and others. The Law prohibits the listing of securities in more than one market except for Cairo and Alexandria Stock Exchanges. It stipulates that the tax rate on capital gains which have to be paid by the seller is 20 per cent on capital gains. This Law also includes articles for suspension of trading or the setting of maximum and minimum trading prices for shares in cases of unfavorable conditions. It also includes articles related to the establishment of an insurance fund against non-commercial risks, and the establishment of investment funds in stock exchanges.

#### 4. *FDI Bilateral and Multilateral Agreements*

(a) *Bilateral Agreements*

Egypt has signed investment agreements with over 78 countries, including Armenia, Belgium, China, Finland, France, Germany, Greece, Italy, Japan, Libya, Luxembourg, Morocco, the Netherlands, Romania, Singapore, Sudan, Sweden, Switzerland, Thailand, Tunisia, the United Kingdom and the United

States. The bilateral investment treaty between Egypt and the United States of America provides fair, equitable, and nondiscriminatory treatment for investors of both nations. The treaty includes provisions for international legal standards on expropriation and compensation, free financial transfers, and procedures for the settlement of investment disputes, including international arbitration.

In addition to specific investment agreements, Egypt is also a signatory to a wide variety of agreements covering trade issues. In July 1999, Egypt and the United States signed a Trade and Investment Framework Agreement (TIFA), a step towards creating freer trade and increasing investment flows between the United States and Egypt. In June 2001, Egypt signed an Association Agreement with the European Union (EU). This agreement was ratified by Egypt in March 2003, and entered into force on June 1, 2004. The agreement provides for immediate duty free access of Egyptian products into EU markets, while duty free access for EU products will be phased in over a twelve-year period. In recent years Egypt has worked on reaching agreements with 11 Arab League members in connection with the Arab Common Market Treaty of the 1960's. These agreements call for phasing out existing tariffs over a 10-year period, however, they all have long negative lists.

In February 2004, Egypt signed a free trade agreement with Jordan, Morocco and Tunisia. The Aghadir Agreement, as it is known, committed the parties to removing substantially all tariffs on trade between them by January 1, 2006, and to intensifying economic cooperation through harmonization of standards and customs procedures. The agreement has not yet entered into force, however, as Morocco has not completed its ratification. The agreement called for an immediate tariff reduction of 80 per cent and complete elimination of tariffs by the end of 2005, if all parties had ratified and exchanged instruments of ratification in 2004. Egypt joined the Common Market for Eastern and Southern Africa (COMESA) in June 1998.

(b) *Multilateral Agreements*

In July 1999, Egypt and the United States signed an updated investment agreement to facilitate the United States' Overseas Private Investment Corporation (OPIC)'s provision of political risk insurance for United States private investment as well as for bid, performance, advance payments, customs bonds and guarantees issued on behalf of United States suppliers and contractors in Egypt.

Egypt is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA)<sup>10</sup>. Also, Egypt has become the first Arab and first African country to sign the OECD Declaration on International Investment and Multinational Enterprises. This marks a new stage in Egypt's drive to attract more foreign direct investment (FDI)<sup>11</sup>.

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<sup>10</sup> <http://www.buyusa.gov/Egypt/en/ccg06.html>.

<sup>11</sup> [http://www.oecd.org/documentprint/0,3455,en\\_2649\\_345295562](http://www.oecd.org/documentprint/0,3455,en_2649_345295562)

## C. IRAQ

### 1. FDI Trends

#### (a) FDI Inflows

Due to an unstable security, political and economic environment in Iraq, the country did not have the chance of being an investment destination in the region during the period 1990–2000 when the annual average level of FDI inflows was only US \$1 million. The level then grew to nearly US \$90 million in 2004 and reached a much higher level of US \$300 million in 2005. This positive development on the level of FDI inflows in the past two years is closely related to the ongoing reconstruction of the country and the entry of foreign investment companies to some infrastructure and productive sectors.

The share of Iraq in total FDI inflows to the ESCWA member countries remains very low, at 0.05 per cent and 1 per cent in 2004 and 2005 respectively.

The inward FDI stock, on the other hand, witnessed similar trends during 2004 and 2005, with its level growing from US \$57 million to US \$257 million respectively. Consequently, FDI inward stock as percentage of gross domestic product increased from 0.2 per cent to 1.3 per cent during this period.

### 2. FDI Laws

The law regulating investment in Iraq is the "Investment Law of 2006", approved by the Council of Representatives and endorsed by the Presidency Council<sup>12</sup>.

This Law calls for:

- a) Promotion of investment and technology to promote development and economic diversification.
- b) Encourage both domestic and foreign private sector to invest in local economies by providing the required facilities for establishing investment.
- c) Development of human resources and provide job opportunities for the Iraqis.
- d) Protect the rights and properties of investors.

The Law established "The National Commission for Investment". This commission enjoys a juridical personality and is represented by the Chairman of the Commission or the person authorized by him. It is responsible for drawing up the national policies for investment and drawing up its plans, regulations and guidelines as well as monitoring the implementation of these guidelines and instructions in investment. It specializes in strategic investment projects of a federal nature exclusively.

The Law allows the regions and governorates not organized in a region to form investment commissions in their areas. The latter enjoy the powers of granting the investment licenses, investment

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<sup>12</sup> Presidency of Council of Iraq, "Investment Law of 2006" and US Department of State, 2006 Investment Climate Statement – Iraq. <http://www.state.gov/e/ib/afd/2006/67643.htm>

planning, promoting investment and opening branches in their areas within the provisions of this law in consultation with National Commission for Investment to guarantee the availability of the legal conditions.

The role of the Commission includes:

- a) Identifying investment opportunities, and promoting and stimulating investment in them.
- b) Facilitating procedures for registration, issuing projects licenses, and obtaining the required approvals for the investor and the project.
- c) Creating one shop window at the National Commission for Investment and the Regions and Governorates Commissions, which comprises of authorized representatives from the ministries, and members nominated by the Councils of the regions and governorates to undertake issuing licenses and obtain the approvals in accordance with the Law.
- d) Providing views, information, and data to investors.
- e) Setting forth and implementing programs to promote investment in different areas of Iraq in order to attract investors.
- f) Establishing free investment areas after the approval of the Council of Ministers.
- g) Any other tasks related to its work and assigned by the Council of Ministers.

The Law stipulated the following benefits:

- (1) The right of the investor to take out the capital he brought into Iraq and its proceeds in accordance with the provisions of this law and pursuant to the instructions of the Central Bank of Iraq in an exchangeable currency after paying all his taxes and debts to the Iraqi Government and all other authorities.
- (2) The right of the foreign investor to exchange shares and bonds listed in the Iraqi stock exchange and form investment portfolios in shares and bonds.
- (3) The investor has the right to rent or lease lands needed for the project for the term of the investment project, provided that it does not exceed 50 years renewable with the agreement of the Commission.
- (4) The investor can insure the investment project with any foreign or national insurance company he prefers.
- (5) The investor can open accounts in Iraqi or foreign currency inside or outside Iraq for the licensed project.
- (6) The investor shall grant priority in recruitment and employment shall be given to Iraqi workers. He has the right to employ and use non-Iraqi workers in case it is not possible to employ an Iraqi with the required qualifications and capable of performing the same task.
- (7) Foreign investor and non-Iraqis working in the investment projects have the right of residency in Iraq.
- (8) Protection against seizure or nationalization of the investment project covered by the provisions of this Law in whole or in part, except for projects on which a final judicial judgment was issued.
- (9) Transfer of salaries and compensation outside the country of non-Iraqi technicians and administration employees working in any project in accordance with the Law after paying their dues and debts to the Iraqi government and all other entities.

The main incentives stipulated in the law include:

(1) Exemption from taxes and fees for a period of ten years as of the date of commencing commercial operations.

(2) The exemption period can be extended to 15 years provided that the Iraqi share of the project reaches 50 per cent or more.

(3) The project that obtains an investment licenses shall also enjoy the following:

a) Exemption from fees for assets imported for the project, provided that they enter the country 3 years from the date of granting investment license.

b) Exemption from fees of imported assets needed for the expansion of the project, provided that they are imported within 3 years from the notification of expansion.

c) Exemption of spare parts imported for the project provided that their value does not exceed 20 per cent of the fixed asset value and not used for different purposes.

d) Additional exemption are provided for hotels, tourist projects, hospitals, health institutions, and educational centers from taxes on imports of furniture provided that it is brought into Iraq or used in the project within three years from the date of the approval.

### 3. FDI Agreements

#### (a) *Bilateral Cooperation*

Iraq is a signatory to thirty-two bilateral, and nine multilateral agreements within the Arab League arrangements on Investments Promotion and Protection (IPPA). Some of the bilateral agreements with other countries include Afghanistan, Bangladesh, India, Iran, Japan, Jordan, Kuwait, Mauritania, Republic of Korea, Sri Lanka, the Syrian Arab Republic, Tunisia, Turkey, the United Kingdom, Vietnam and Yemen. These agreements include general provisions on promoting and protecting investments, including clauses on profit repatriation, access to arbitration and dispute settlements, fair expropriation rules and compensation for losses. Most IPPA contain Most-Favored National (MFN) clauses, as well as a national treatment clause.

In addition, Iraq has bilateral free trade area (FTA) agreements with the following eleven countries: Algeria, Egypt, Jordan, Lebanon, Oman, Qatar, Sudan, the Syrian Arab Republic, Tunisia, Yemen, and the United Arab Emirates. Iraq is also a signatory to several multilateral agreements, including the "Taysir" agreement with Arab countries dated February 27, 1982, and ratified in January 11, 1982.

In July 11, 2005, Iraq and the United States signed a Trade and Investment Framework Agreement (TIFA) as a first step towards creating liberalized trade and increasing investment flows between the United States and Iraq<sup>13</sup>.

#### (b) *Multilateral Agreements*

Overseas Private Investment Corporation (OPIC) finances a variety of investment projects with substantial U.S. participation in Iraq. Some of OPIC's basic programs include structured finance projects,

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<sup>13</sup> <http://www.state.gov/e/eeb/ifd/2006/67643.htm>.

political risk insurance, investment funds and financing for small and medium-sized enterprises. In addition, OPIC and the Government of Iraq have executed an Investment Incentive Agreement (IIA).

The Iraq Middle Market Development Foundation (IMMDF) is a program that offers investment financing. This program began operations in October 2004 with US \$130 million committed debt capital from OPIC, commercial banks, and a grant from the Coalition Provisional Authority. In the initial phase of this program, IMMDF is making direct loans to Iraqi businesses. OPIC is currently evaluating how to expand this program.

OPIC Investment Fund: The Iraq Fund is a new program approved in late 2005, managed by Rathnam, Hayat, MacGuire & Khalifa, Inc. (RHMK), an emerging markets private equity investment firm with offices in New York City and Boston, Massachusetts. The Fund has a ten-year life and will invest exclusively in Iraq and Iraq-related businesses that may be located in adjacent, OPIC-eligible countries. The fund will target total capital of US \$75 million to US \$90 million, including an OPIC Investment Guaranty of up to US \$45 million.

OPIC and Trade Bank of Iraq: OPIC approved US \$150 million in financing for a US Trust to support the letter of credit activities of the Trade Bank of Iraq (TBI). The financing is being undertaken in two phases with OPIC providing guarantees of up to US \$52.5 million for the first phase and commercial lenders, including Citibank, N.A., providing commercial financing of up to US \$17.5 million. This program will result in the US Trust supporting TBI reimbursement obligations for letters of credit with maturities of up to 270 days. Specifically, the Trust will only guarantee reimbursement obligations on TBI letters of credit, which are not, or not entirely, supported by export credit agency cover. Consequently, the project is designed to increase the availability of financing for Iraqi trade transactions and to enable Iraqi funds to be leveraged in a more efficient manner. The Trust represents the first time that commercial lenders, such as Citibank, N.A., are able to confirm Trade Bank of Iraq (TBI) letters of credit that are not fully collateralized<sup>14</sup>.

## **D. JORDAN**

### *1. FDI Trends*

#### *(a) FDI Inflows*

Jordan has exerted growing efforts to attract FDI as a part of its overall strategy of stimulating economic growth and promoting its position as an investment destination.

FDI inflows to Jordan has increased over the past years, and in an accelerated manner in 2005 whereby the level reached US \$1532 million, relative to US \$651 million in 2004 and about US \$155 million in the period 1990–2000. As a result, the share of FDI inflows to gross fixed capital formation grew to 53 per cent from 23.6 per cent and 8.8 per cent respectively during the same periods.

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<sup>14</sup> Ibid

The share of Jordan in total FDI inflows to ESCWA member countries has improved over the past years reaching 5.1 per cent relative to 3.7 per cent in 2004 and 4.2 per cent in 2003.

As a result, the inward FDI stock has grown substantially over the past years, from US \$155 million in 1980 to US \$615 million in 1990 and US \$5116 million in 2005. The ratio of this stock to gross domestic product increased from 15.3 per cent in 1990 to 27 per cent in 2000 and further to 39.8 per cent in 2005.

Jordan achieved a good progress in its ranking in terms of inward FDI Performance Index in 2005 as it ranked 19 after being 46 in 2004, 37 in 2000 and 76 in 1990. However, its ranking did not improve in 2004 in terms of inward FDI Potential Index for it was 63 relative to 61 in 2003, 59 in 2000 and 61 in 1990.

(b) *FDI Outflows*

Jordan is a country that has little FDI outflows. In fact, as of 1990, the outward FDI stock was only US\$16 million, whereas it was US \$23 million in 1980. This is why Jordan is ranked 139 among 141 countries in the world in terms of outward FDI Performance Index in 2005.

2. *FDI Distribution*

According to the statistics available from the Investment Promotion Corporation in Jordan for the year 2003, the distribution of FDI inflows by country of origin indicate that investors from the United Kingdom, Germany and the United States captured around 60 per cent of total inflows in 2003 (Table 12).

**Table 12 – FDI Inflows to Jordan by country of origin, 2003**

Per cent	
United Kingdom	27.3
Germany	21.2
USA	11.5
China	7.7
India	7.6
Turkey	7.3
Saudi Arabia	4.0
Palestine	2.6
Iraq	2.0
Bahrain	1.4

Source: Investment Promotion Corporation in Jordan

From the distribution of FDI inflows by economic sector in 2003, it can be noted that the manufacturing sector was the main destination with around 72.4 per cent of total inflows in 2003, followed by the agriculture sector with 17.5 per cent (Table 13).



**Table 13 – FDI Inflows to Jordan by economic sector, 2003**

Per cent	
Manufacturing	72.4
Agriculture	17.5
Hospitals	9.9
Others (Tourism and Transportation)	0.2

Source: Investment Promotion Corporation in Jordan

Concerning the distribution of FDI inflows according to regions in Jordan in 2003, it can be noted that Amman, the capital, captures the largest share with 78.8 per cent of total FDI inflows in 2003. It is followed by Irbid with 12.7 per cent and Zarkaa with 7.4 per cent.

### 3. FDI Laws

The Government of Jordan has undertaken several actions to improve the investment environment worth the aim of achieving larger shares of FDI inflows. The basic laws that govern FDI directly or indirectly are the following:

(a) *Investment Promotion Law*

This is the Law no.16 which was issued in 1995 and was amended in 2000. Its major articles focus on the following: (i) the establishment of the “Higher Council for Investment” which is responsible for approving investment strategies and policies needed to attract foreign investment; (ii) the establishment of a trade investment board for the sake of promoting trade and investment exchanges with other countries; (iii) provision of exemptions for some sectors namely agriculture, industry, maritime transport and railways, hotels and hospitals; (iv) establishment of three investment zones according to their developmental conditions: zone (A) the most developed, zone (B) the middle developed, and zone (C) the least developed; and (v) the exemption rates from income tax and social services tax are 25 per cent for zone (A), 50 per cent for zone (B), and 75 per cent for zone (C), with 5 years exemption period for all zones.

(b) *Privatization Law*

This is the Law no.25 issued in 2005, and it stipulates: (i) the establishment of a Privatization Council responsible for selections of public enterprises eligible for privatization, approval of the appropriate form of privatization for such enterprises, and extending advice to the Council of Ministers on privatization activities; (ii) the privatization should be a fully transparent and fair process; (iii) the establishment of an executive privatization commission responsible for reporting on privatization activities to the President of the Council of Ministers; and (iv) the formation of a special fund to pool privatization proceeds for the sake of extending financial support to the Government in facing the social and financial implications of privatization.

(c) *Aqaba Economic Zone Law*

The main purpose of this Law is to equip the Aqaba Economic Zone to better attract FDI inflows to some key sectors such as manufacturing, tourism and services. The Law stipulates the establishment of the “Aqaba Special Economic Zone” which enjoys full autonomy on all levels. The Law exempts enterprises licensed to work in this Zone from taxes on income and dividends.

(d) *Copyrights Law and Patent Law*

The copyrights Law no.22 was issued in 1992 and later amended by Law no.14 issued in 1998 and Law no.29 issued in 1999. This Law includes articles related to the protection of copyrights for educational, musical and arts purposes, for a period ranging between 25 years on applied arts and 50 years on other domains.

On the other hand, the Patent Law no.32 was issued in 1999 with the aim of protecting patents related to the manufacture, sale or use of a certain product whether supported or not supported by the approval of owners.

The Law stipulates the establishment of a patent register at the Ministry of Trade and Industry whose ultimate objective is to pool and store information on all patents. The Law also includes certain punishment levels for any violation of patents, including imprisonment (for a period ranging between three months and one year) and financial fines (at least 100 Jordanian dinars).

#### *4. FDI Agreements*

Jordan has signed more than 41 investment agreements with Arab and non Arab countries. These agreements includes the ones with Lebanon (31 October 2002), China (15 November 2001), the Syrian Arab Republic (8 October 2001), Kuwait (21 May 2001), Swiss Confederation (25 February 2001), Austria (23 January 2001), Sudan (30 March 2000), Bahrain (8 February 2000), Spain (20 October 1999), Croatia (10 October 1999), Morocco (16 June 1998), the Netherlands (17 November 1997), Poland (4 October 1997), Czech Republic (20 September 1997), the United States of America (2 July 1997), Indonesia (12 November 1996), Algeria (1 August 1996), Italy (21 July 1996), Egypt (8 May 1996), Yemen (18 June 1995), Tunisia (27 April 1995), Malaysia (1 January 1994), Turkey (2 August 1993), Romania (2 July 1992), United Kingdom and North Ireland (10 October 1979), France (23 February 1978), Swiss Confederation (11 November 1976), and Germany (15 February 1974).

Also Jordan has signed free trade agreements with some Arab and non – Arab countries like the United States (24 October 2000), the European Union (26 March 2002), EFTA, Arab countries (Greater Arab Free Trade Area), Aghadir countries (25 February 2004), and Singapore (23 June 2003).

In addition, Jordan has signed agreements to prevent double taxation with Algeria, Bahrain, Canada, Egypt, France, India, Indonesia, Kuwait, Malaysia, Poland, Romania, Sudan, Tunisia, Turkey, the United Kingdom and Yemen<sup>15</sup>.

## E. KUWAIT

### 1. *FDI Trends*

#### (a) *FDI Inflows*

FDI inflows to Kuwait have experienced substantial fluctuations over the past years. From an annual average of US \$58 million during the period 1990–2000, FDI inflows dropped sharply to a level of US \$3 million in 2002; recorded a negative figure of US \$67 million in 2003, then a positive figure of US \$24 million in 2004; and a record of US \$250 million in 2005.

As a ratio of gross fixed capital formation, capital inflows to Kuwait remain moderate at 3 per cent in 2005, higher than all previous levels of 0.3 per cent in 2004, negative 1 per cent in 2003 and 1.5 per cent as the annual average for the period 1990 – 2000.

The share of FDI inflows to Kuwait from the overall inflows to the ESCWA member countries remain low at 0.8 per cent in 2005.

On the other hand, the inward FDI stock in Kuwait has experienced fast growth over the past three years, recording a high level of US \$708 million in 2005, against US \$458 million in 2004, US \$37 million in 1990 and US \$30 million in 1980.

As a percentage of gross domestic product, the inward FDI stock in Kuwait stands recently at almost 0.9 per cent in 2004 and 2005 up from 0.2 per cent in 1990, but lower than 1.6 per cent recorded in 2000.

As far as the inward FDI performance is concerned, Kuwait experienced a progress in its ranking in 2005, recording 132 which is better than the 2004 ranking (138), but lower than the 2000 ranking (129) and the 1990 ranking (104). As for the inward FDI Potential Index, Kuwait's ranking was better in 2000 (30) than in 1990 (47), 2003 (40), and 2004 (42).

#### (b) *FDI Outflows*

Following a negative figure for FDI outflows of US \$445 million as an annual average for the period 1990–2000, US \$76 million in 2002, and US \$4962 million in 2003, the situation changed drastically in 2004 and 2005 whereby FDI outflows increased from US \$2528 million in 2004 to US \$4709 million in 2005.

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<sup>15</sup> UNCTAD, World Investment Report, 2006

In 2005, FDI outflows from Kuwait represented a record figure of 56.8 per cent as percentage to gross fixed capital formation, after being 32 per cent in 2004, negative 73.5 per cent in 2003 and negative 12.4 per cent as an annual average for the period 1990–2000.

The outward FDI stock experienced sharp fluctuations over the past years, recording a high level of US \$5403 million in 2005, against US \$1412 million in 2004, and US \$1046 million in 1980. As a percentage of gross domestic product, this outward FDI stock has also experienced ups and downs, dropping from 19.8 per cent in 1990 to 7.2 per cent in 2005.

As far as the outward FDI Performance Index is concerned, Kuwait's ranking fluctuated sharply over the past years, reaching 58 in 2005, after being 71 in 2004, 45 in 2000 and 11 in 1990.

## 2. FDI Sectoral Distribution

In 2006, the FDI inflows were basically directed to the petrochemical industry (76.2 per cent) followed by the electricity and telecommunications network projects (23.8 per cent) for a total approved projects of US \$2.1 billion (Table 14).

Besides, there are projects under study that worth some US \$1.85 billion, of which the share of electricity generation and nitrogen production projects is 64.9 per cent, information technology and telecommunications projects 32.4 per cent and banking projects 3 per cent.

**Table 14 - FDI Sectoral Distribution in Kuwait following the issuance of law no.8 of 2001**  
(Billion US dollars)

Sector	Amount	Percentage
1- Petrochemical Industries	1.6	76.2
2- Electricity and telecoms network projects	0.5	23.8
<b>Total approved projects (1+2)</b>	<b>2.1</b>	<b>100.0</b>
3- Electricity Generation and Nitrogen Production Projects	1.2	64.9
4- Information Technology and Telecoms Projects	0.6	32.4
5- Banking Projects	0.05	2.7
<b>Total projects under study (3+4+5)</b>	<b>1.85</b>	<b>100.0</b>

Source: IMF "b", 2005.

## 3. FDI Laws

Economic and financial laws were issued by the Government of Kuwait over the past few years to encourage FDI inflows to its national economy. The following laws are the main ones:

(a) *Foreign Capital and Investment Law*

This is the Law no.8 issued in 2001 which is devoted for the regulation of foreign capital and investment. According to this Law, the Council of Ministers is the entity entitled to determine the economic activities that could be opened for foreign investors.

The Law stipulates that (i) Foreign ownerships could be 100 per cent subject to the approval of the Ministry of Commerce and Industry; (ii) the establishment of an Investment Committee headed by the related Minister whose major responsibilities include the promotion of FDI, provision of different types of FDI encouragement, facilitating the issuance of licenses and registration of investment projects, studying applications of investors and raising recommendations to the related Minister, and publishing information on FDI on regular basis; (iii) the prohibition of nationalization or confiscation of foreign investment; (iv) the right to repatriate capital and profits; (v) exemption from taxes for a period reaching 10 years; (vi) total or partial exemption from customs duties; and (vii) provision of land for investment purposes.

(b) *Financial Investment Law*

This is the Law no.31 issued in 1990, which regulates the capital market activities, and foreign investment in this market. The Law allows foreign investors to invest in securities through local financial institutions. According to this Law, the Ministry of Trade and Industry is responsible for supervising institutions active in trading foreign stocks or investment funds inside the country.

#### 4. *FDI Agreements*

Kuwait has signed over the past years investment agreements with several Arab and non – Arab countries, such as Austria, Belarus, Belgium and Luxembourg, Bosnia and Herzegovina, Bulgaria, China, Croatia, Czech Republic, Denmark, Egypt, Ethiopia, Finland, France, Germany, Hungary, India, Iraq, Italy, Jordan, Kazakhstan, Korea, Latvia, Lebanon, Lithuania, Malaysia, Malta, Moldova, Mongolia, Morocco, the Netherlands, Palestine, Poland, Romania, Russian Federation, Slovenia, Spain, Sweden, Switzerland, the Syrian Arab Republic, Tajikistan, Tunisia, Turkey, the United Arab Emirates and Yemen, according to UNCTAD.

Also, Kuwait signed in February 2004, an agreement with the United States for the development of trade and investment relations. It has free trade agreements with Jordan, and negotiations are ongoing with Singapore since 2004<sup>16</sup>.

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<sup>16</sup> Al- Kawaz, Ahmed, "FDI Encouragement Policies in Kuwait", a working paper presented to the ESCWA's expert meeting group organized in Doha – Qatar, during 24 – 25 January 2007.

## F. LEBANON

### 1. FDI Trends

#### (a) FDI Inflows

Over the past decade, and during the period that witnessed the beginning of the reconstruction drive following the 15 years civil war that left infrastructure as well as productive capacity in ruin, FDI inflows to Lebanon registered an average of US \$449 million. In 2002, FDI inflows have quadrupled to US \$1.3 billion, and then by 2003 it more that doubled to reach US \$2.9 billion. However in 2004 it slowed down to US \$1.9 billion, and by 2005 it went back up again to reach US \$2.6 billion. As a percentage of gross fixed capital formation, FDI inflows to Lebanon has seen a steady rise, increasing form an average of 11.6 per cent over the period 1990-2000, to reach a record high of 70.8 per cent in 2003, reflecting the decline in absolute terms, the percentage dropped down to 41.2 per cent in 2004 and by 2005 it increased to reach 53.3 per cent.

As percentage of FDI inflows to ESCWA member countries, FDI inflows to Lebanon represent only 8.5 per cent in 2005.

Concerning the inward FDI stock, available data reveal a tremendous improvement, which is a logical outcome of Lebanon's reconstruction efforts. In fact, these stocks were only US \$20 million in 1980, then they increased by 2.5 times to US \$53 million in 1999. By the year 2000 they reached US \$5 billion, then US \$12.5 billion in 2004 and US \$15.1 billion by the year 2005, an increase of 285 times in a 15 year-period.

As a percentage of GDP, inward FDI stock in Lebanon was only 1.9 per cent in 1990, where it jumped to 30.3 per cent by 2000 and doubled to 62.8 per cent in 2004 and reached 68.5 per cent in 2005.

As for the inward FDI performance index which ranks 141 countries around the world, Lebanon has improved its position over the years, from rank 99 in 1990, it has climbed the ladder to reach the position number 31 in 2000, then 8 in 2004 and 7 in 2005.

As far as the inward FDI performance index is concerned, Lebanon's' position has slightly improved, then worsened little for the same period under consideration. In fact, it was 74 in 1990, then 10 years later it became 51 in 2000, by 2003 it lost few ranks to become 59 and by 2005 Lebanon's position on the potential index was 60 among the 141 countries surveyed. It was ahead of the Philippines, Panama and Jordan, which occupied positions 61, 62, and 63 respectively, but behind Thailand, Iran and Oman positioning 59, 58 and 57 respectively for the year 2004.\

(b) *FDI Outflows*

In the period 1990-2000, Lebanon's FDI outflows have registered an annual average of US \$48 million. Although no data are available for the year 2002, outflows have increased to US \$611 million in 2003, US \$827 million in 2004. By 2005 they slightly decreased to reach a level of US \$715 million.

As a percentage of gross fixed capital formation, Lebanon's FDI outflows have been 1.3 per cent on average for the period 1990-2000, and increased to 15.1 per cent in 2003, and 17.9 per cent in 2004. However by 2005 they slowed down to 14.8 per cent.

Accordingly, outward FDI stocks have witnessed important improvements in the last few years. In 2002 they were only US \$43 million. A year later they jumped to US \$586 millions. In 2004 outward stocks nearly quadrupled to reach more than US \$2 billion. In 2005 they increased again to new levels of US \$2.7 billion. As a percentage of gross domestic product, the outward stocks have been on the rise, from 1.5 per cent in 1990 to 12.4 per cent 15 years later (in 2005).

Compared to other countries at the FDI performance index, Lebanon's rank was 44 in 1990, 59 in 2000 and 51 in 2004. By 2005 it almost regained its 1990 position by becoming number 43 among 141 countries, to be preceded by Brunei, Brazil and Jamaica, and to be followed by Slovenia, Venezuela and Japan.

## 2. *FDI Laws*

(a) *Investment Law of 2001*

Lebanon adopted Law 360 for 2001 aimed at encouraging investments in Lebanon. The law called for the creation of a "Public Institution for Encouraging Investments in Lebanon" (IDAL). The role of IDAL includes the following<sup>17</sup>:

(1) Receive requests for permits and administrative authorizations related to projects falling under this law, their study from the legal, financial and technical points of view and the preparation of relevant reports.

(2) Prepare studies, research, statistics, and proposals related to the investment climate in Lebanon and the ways of investment in different fields.

(3) Survey the opportunities of investment in Lebanon and prepare relevant studies and distribute them free of charge, or with minimal fees.

(4) Assist the promotion and sale of Lebanese products namely agricultural or food products made in Lebanon.

(5) Grant financial incentives or participate in the capital of joint-stock companies concerned with the organization of exhibitions in Lebanon and abroad, to encourage tourism, and agricultural products and/or industrial of Lebanese origin.

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<sup>17</sup> IDAL, "Law 360: Encouraging Investments in Lebanon (enacted Aug. 16, 2001).

(6) Participate in the capital of joint-stock companies to found and manage Incubators in order to encourage the inventors in the field of technology and data processing and communications.

The law divided the country in 3 investment categories or zones:

Zone (A) includes areas that profit only from exemptions, rebates and facilities mentioned in article 11 of this law. The board of administration can apply on some projects related to tourism and marine wealth intended to be established in zone (A) the same conditions applied to projects intended to be established in zone (B). A list of these projects is established by a decision of the board of administration approved by the council of ministers.

Zone (B) includes areas where exemptions fall under article 12 of this law.

Zone (C) includes areas that the government wishes to developing and that profit from exemptions, rebates and facilities mentioned in article 13 of this law.

This classification can be reviewed after 5 years.

Article (11) of this Law outlines the exemption that was given to projects in Zone (A) as follows::

a) The obtaining of work permits from all categories needed for the project, provided that the condition that local labor be safeguarded by employing two Lebanese for each foreigner and registering them with the Social Security Fund.

b) Exempting from paying taxes from the date its shares are offered at the Beirut Stock Exchange for two years the company owning and/or managing the project and that offers its shares in the stock market on the condition that those shares are not less than 40 per cent of the capital of the company. This exemption period is added to any other exemption period given to the company in accordance with the articles of this law.

Article (12) governs the exemption for projects under Zone (B). The exemption includes a 50 per cent reduction for five years on income taxes and on taxes on profits of the investor. This reduction applies from the date of beginning to exploit the project. In the event the investor benefits from the exemption mentioned in paragraph two of article 11 the reduction starts after the exemption period is over.

Article (13) governs exemption provided to projects under Zone (C). This includes a complete exemption for ten years from any income tax and tax on profits of the investor.

(b) *Law of intellectual property protection*

This Law was intended to give foreign investors guaranties as far as the intellectual property of their products is concerned. This is most apparent in the IT industry, more specifically in the software market. The Law establishes mechanics for legal pursuit against counfeiters black market merchants.

### 3. *FDI Agreement*

(a) *Bilateral Agreements*



Lebanon has signed bilateral investment treaties with the following countries: Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium, Benin, Bulgaria, Canada, Chad, Chile, China, Cuba, Cyprus, Czech Republic, Egypt, Finland, France, Gabon, Germany, Greece, Guinea, Hungary, Iceland, Iran, Italy, Jordan, Kuwait, Luxemburg, Malaysia, Mauritania, Morocco, the Netherlands, Pakistan, Romania, Russia, Senegal, Spain, Sudan, Sweden, Switzerland, the Syrian Arab Republic, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, and Yemen.

Lebanon has also signed a bilateral tax convention with several countries and the Euro-Mediterranean Partnership agreement in 2002. In 2004, Lebanon and the European Free Trade Association (EFTA) signed a free trade agreement.

Lebanon and the Syrian Arab Republic have four bilateral cooperation agreements in the fields of economy, transport, agriculture and health. Lebanon has also signed the Arab Free Trade Zone Agreement as well as bilateral Free Trade Agreements with Egypt, Iraq, Kuwait, the Syrian Arab Republic and the United Arab Emirates<sup>18</sup>.

(b) *Multilateral Agreements*

On February 10, 1981, Lebanon and the United States signed an Overseas Private Investment Corporation agreement (OPIC) in Beirut, but no investment using the OPIC insurance coverage was undertaken until 1996. In January 2006, OPIC is still finalizing negotiations to grant a Lebanese company a loan agreement in the industry sector.

The Lebanese government's National Investments Guarantee Corporation (NIGC), which was established in 1977, continues to insure new investments against political and war risks, riots, losses due to non-convertibility of currencies and transfer of profits. Other major trade/investment insurance programs open for businesses in Lebanon include COFACE (France), ECGD (UK), HERMES (Germany), SACE (Italian) and IAIGC (Arab Consortium). Lebanon has joined the Multilateral Investment Guarantee Agency (MIGA) of the World Bank<sup>19</sup>.

## **G. OMAN**

### *1. FDI Trends*

(a) *FDI Inflows*

In line with foreign investment encouragement policies and measures undertaken by the Government, Oman has succeeded in attracting higher levels of FDI inflows over the past years. In 2005, FDI inflows to Oman reached a record level of US \$715 million, compared to US \$200 million in 2004 and

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<sup>18</sup> <http://www.state.gov/e/eeb/ifd/2006/62371.htm>

<sup>19</sup> Ibid.

US \$84 million as an average for the period 1990–2000. In this sense, FDI inflows to Oman constituted nearly 14.7 per cent of gross fixed capital formation in 2005 against 4.3 per cent in 2004 and 4.1 per cent for the period 1990–2000.

The share of Oman in total FDI inflows to ESCWA member countries increased from 3 per cent in the period 1990–2000 to 4.7 per cent in 2003 to decrease to 2.4 per cent in 2005.

The inward FDI stock has increased substantially over the past few years, reaching a record level of US \$4025 million in 2005, up from US \$3310 million in 2004 and US \$483 million in 1980. However, its ratio to gross domestic product did not improve during this period as it declined from 14.6 per cent in 1990 to 13.3 per cent in 2005.

Oman's ranking in terms of inward FDI Performance Index improved over the past few years, reaching 91 in 2005, after being 99 in 2004 and 125 in 2000, but remains inferior to the 1990 status. However, Oman's ranking in terms of inward FDI Potential Index did not improve in 2004 as it reached 57 after being 54 in 2003, 55 in 2000 and 35 in 1990.

(b) *FDI Outflows*

FDI outflows from Oman declined in 2005 (US \$ 44 million) relative to its level in 2004 (US \$250 million) and 2003 (US \$153 million), but remains higher than its annual average for the period 1990-2000 (US \$2 million). In this sense, its ratio to gross fixed capital formation dropped to 0.9 per cent in 2005 relative to 5.4 per cent in 2004 and 4.5 per cent in 2003.

The share of Oman in total FDI outflows from ESCWA member countries remains low at 0.3 per cent in 2005 down from 3.7 per cent in 2004.

The outward FDI stock of Oman has increased over the past years, reaching US \$480 million in 2005, higher than previous levels. Its ratio to gross domestic product increased to 1.6 per cent in 2005, higher than its level in 2000 (0.2 per cent) and 1990 (0.1 per cent), but lower than its 2004 level (1.8 per cent).

The ranking of Oman in terms of outward FDI Performance Index has improved to 81 in 2005, relative to 88 in 2004, 111 in 2000 and 89 in 1990.

## 2. *FDI Distribution*

(a) *Sectoral Distribution*

FDI inflows are mostly directed towards the oil and gas sectors, the manufacturing sector, and utility and construction sector (Table 15).

**Table 15 – Distribution of FDI inflows to Oman by economic sector, 2003**

Percentage	
Oil and Gas	47.64
Manufacturing	33.12
Utility and construction	12.12
Banking and Financial Services	4.65
Real Estate	1.14
Trade	0.51
Others	0.82

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

(b) *Geographical Distribution*

Additionally, most of the FDI inflows to Oman come from the United States (24.52 per cent), the United Kingdom (17.68 per cent), India (19.62 per cent), the Netherlands (9.60 per cent), the United Arab Emirates (7.11 per cent) and others (21.47 per cent)<sup>20</sup>.

3. *FDI laws*

The Sultanate of Oman has issued, over the past years, a set of laws and regulations aiming at encouraging foreign investment in its national economy. The basic regulations governing FDI are the following:

(a) *Foreign Capital Investment Law*

This is the Law no.102 issued in 1994 which is related to foreign capital investment that allows a foreign ownership of 49 per cent in various economic sectors, and provides investors with exemption from income tax for five years with the possibility of extension for another five years, and exemption from customs duties on imports of machinery required for the establishment and operation of projects.

(b) *Privatization Law*

This is the Law no.77 issued in 2004, which aims at encouraging the role of the private sector in economic growth and development, and attracting foreign investors to sectors that result in better economic diversification. The Law determines that privatization can take several forms, ranging from partnerships in capital or management between private and public sectors, to selling the selected public enterprises. The Law also stipulates the establishment of: (i) a Ministerial Committee in charge of implementing privatizations, and (ii) a Technical Committee which constitutes a supporting aim to the first committee on the technical level.

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<sup>20</sup> Compiled by ESCWA, based on the survey of enterprises with FDI participation conducted by Oman.

## H. PALESTINE

### 1. *FDI Trends*

#### (a) *FDI Inflows:*

Due to the unfavorable security, political and economic conditions prevailing in Palestine, little investments and FDI inflows are observed in the national economy. FDI inflows totaled US \$155 million on average during the period 1990–2000 and recorded negative values in 2002 and 2004.

As a percentage of gross fixed capital formation, FDI inflows averaged 11.7 per cent during the period 1990–2000; a figure that looks quite high due to the fact that the country's gross fixed capital formation were low due to the difficult economic conditions induced by unfavorable security and political developments, which are negatively affecting the domestic investment activity.

As for FDI inward stock, the figure is around US \$900 million over the past few years, which stands at nearly 25 per cent of the country's GDP. The figure looks somewhat high due to the fact the country's GDP remains below its potential level.

The share of Palestine in FDI inflows to the inflows of ESCWA member countries averaged nearly 5.5 per cent during the period 1990-2000.

#### (b) *FDI Outflows*

The FDI outflows from Palestine averaged nearly US \$162 million between 1990 and 2000. This figure represents some 12.9 per cent of the country's gross fixed capital formation. No figures are available since then, thus prohibiting any expectations for the period extending between 2001 and 2006.

In addition, no figures are available for inward FDI stock for the two periods 1990–2000 and 2001–2006, thus allowing no expectations for the development of this indicator for these years. However, one can expect to see increasing levels of FDI outflows and outward stock over the past years in light of unfavorable conditions prevailing at all levels in the country.

### 2. *FDI Legal Framework*

Palestine made progress in creating investment friendly environment to promote the inflows of FDI. It has enacted several laws that ensure protection for foreign investments and promote better investment treatment. One of the laws is the "Law for Investment Incentive in Palestine" which was issued in of 1998. The main aim from this law is to boost FDI inflows, create jobs and higher economic growth. The law opens up several sectors for foreign investments such as:

- 1- Manufacture and distribution of arms or their parts, and ammunition.
- 2- Air industries including airports.

(c) *Corporate Tax Law*

This is the Law no.47 issued in 1998 and aims at narrowing the discrimination between national and foreign companies with respect to income tax. The Law raises the income tax on national companies by 12 per cent, and lowers the similar tax on foreign companies from 50 per cent to 30 per cent.

(d) *Copyrights Law*

This is the Law no.37 of 2000 which contains articles related to copyrights protection. It stipulates the duration of this protection at 50 years after the death of owners of copyrights. It also assures the possibility of transfer of copyright ownership freely to others.

(e) *Land and Real Estate Ownership Law*

This is the Law no.254 of 2004 which provides foreigners the right to own land and real estate for the purposes of housing and investment in tourist locations.

(f) *Capital Market Law*

This is the Law no.80 issued in 1998 which governs the capital market activity and institutions. It specifies the conditions for listing and trading in both the primary and secondary markets. It also assures the control over the market by a Capital Market Authority. The Law subjects the offering of securities to the public to the approval of this Authority. The same goes for ownership of shares of any joint-stock company in excess of 15 per cent by individuals.

#### *4. FDI Agreements*

Oman has signed some 20 investment and investment-related agreements with Arab and non – Arab countries among which Germany, Italy, France, the United Kingdom, China, besides the Gulf Cooperation Council's agreement and the Greater Arab Free trade Area (GAFTA). This in addition to the US – Oman free trade area concluded in January 2006 and approved by a narrow margin by US Congress in July 2006.

These investment encouragement and free trade areas treaties with other countries comes in the context of the Omani Government's investment encouragement in its local economy which would attract foreign investors and enterprises to invest in key economic sectors and infrastructures.

- 3- Generation and distribution of electricity.
- 4- Re – processing of petrol and its by – products.
- 5- Recycling of trash and solid wastes.
- 6- Telecommunication
- 7- Radio and television.

The said Law indicates that the National Authority may grant preferential treatment to investors based on the nationality according to commercial or investment bilateral or multilateral agreements with other countries on the principle of reciprocity, without prejudice to the rights of other investors.

The Law stipulates that the National Authority guarantees the right of all investors for non restricted transfer of all financial resources outside Palestine, such as capital, profits, share - profits, capital profits, salaries, wages, benefits, credit installments, management and technical assistance fees, any other fees, compensation money for dispossession of estates or cancellation of license or decisions and judicial or arbitration rulings or any other payments or financial resources.

The Law established the “Palestinian Board for Investment Incentive” which is an independent judicial person and enjoys full legal jurisdiction to help achieving its goals and objectives stipulated in the Law of 1998. The main responsibilities of the Board include:

- 1- Monitor and evaluate policies and investments.
- 2- Submit recommendations to the Council of Ministries and the Palestinian Legislative Council to amend the criteria of granting incentives, if necessary.
- 3- Attract foreign investors to Palestine.
- 4- Provide the Minister of Commerce and Trade and the Minister of Finance with consultation on Palestinian investment policy.
- 5- Issue of confirmations regarding investment.
- 6- Create and maintain a record for capital investment.
- 7- Monitor projects that benefit from incentives.
- 8- Appoint independent auditors to audit the board’s financial statements.
- 9- Implement resolutions of the Council of Ministries regarding amendments to the criteria of granting incentives.
- 10- Follow-up the implementation of the investment law and submit suggestions to the Council of Ministries and the Palestinian Legislative Council for necessary changes.
- 11- Support the National Authority in abiding by any investment agreement that might be signed with another country or international organization.
- 12- Work in close cooperation with other government agencies to ensure the setting of a unified national strategy to encourage investment.
- 13- Issue an annual investment guidebook on investment opportunities in Palestine.
- 14- Freeze exemptions and preferences granted to investors who violate this Law.
- 15- Establish a central unified center that provide services to the investors to help the completion of all procedures regarding their projects such as the license and others.

The Law also provides taxes and custom tax exemption for fixed assets. It also provides tax exemption for imported spare parts provided that their value does not exceed 15 per cent of fixed assets. The same exemption is provided to fixed assets necessary to expand or develop or modernize the project.

Projects approved by the Board that have the required license according to the Law, shall be granted the following:

a- Exemption from income tax for any investment with a value from US\$ 100,000 to less than 1,000,000 for five years, from the date of the start of production or activities. The investment shall be subject to income tax on net profit at a nominal rate of 10 per cent for an additional eight years.

b- Investment of a value between US\$ 1,000,000 to 5,000,000 shall be granted an exemption from income tax, when due, for five years, from the date of the start of production or activities, and shall be subject to income tax on net profit at a nominal rate of 10 per cent for an additional 12 years.

c- Investment of a value of US\$ 5,000,000 and above shall be granted an exemption from income tax for five years, when due, from the date of the start of production or activities, and shall be subject to income tax on net profits at a nominal rate of 10 per cent for an additional 16 years.

d- The National Authority shall be able to grant preferential treatment or special incentives and guarantees to the national investor.

The Law also stipulates that exemption for 5 years for project expansion which include increase in capital used to add fixed capital and increase production and exemption from income tax after the end of exemption period of profits distributed by the project at 10 per cent of the original value of shareholders' share in the project's capital. This exemption shall be at 20 per cent of the original value of shareholders' share in the project's capital that is established according to the provisions of this law as a shareholder company launching its shares for subscription at no less than 40 per cent of its capital. A project benefiting from investment incentives can be totally transferred to a new owner as appropriate as long as the project continues to operate as an existing investment. The new owner of a transferred project can benefit from investment incentives as long as he continues running the project as an existing investment.

### 3. FDI Agreements

#### (a) *Trade Agreements and Tariff Structures*

Palestine has concluded the following arrangements:

- 1) Interim Association Agreement with the EU (1997).
- 2) Free Trade Agreement with EFTA states (1993).
- 3) Duty-Free Arrangements with the U.S. (1996).
- 4) Free Trade Framework with Canada (1999).
- 5) Preferential trade agreements with Jordan and Egypt (1996 and 1998).
- 6) Unilateral acts by other Arab trade partners extending preferential treatment to trade with Palestine.
- 7) Greater Arab Free Trade Area, to which PA is a party (2003) and

8) Free Trade Agreement with Turkey (2004)<sup>21</sup>.

(b) *Multilateral Agreements*

The Overseas Private Investment Corporation (OPIC) provides a variety of services to qualified U.S. investors in emerging economies and developing nations. During the early stages of investment planning, U.S. investors may contact OPIC for insurance against political violence, inconvertibility of currency, and expropriation in the form of an insurance registration letter. OPIC insurance is not available after the investment has been irrevocably committed. OPIC's Middle East programs encourage long-term stability in the region. It provided US \$48 million in insurance to a subsidiary of Morganti Group, Inc.- a Connecticut-based construction company, to help operate a 140 megawatt power plant in the Gaza Strip, the output of which is sold to the Palestinian Energy Authority, the authorized utility in the West Bank and Gaza. The plant reached full commercial operation in March 2004. In July 2005, the OPIC board approved a US \$75 million fund for financing investments in the Middle East and North Africa in the sectors of food processing, retail and distribution, telecommunications, media, energy, light manufacturing, transportation, chemicals, logistics and financial services.

The World Bank, via a US \$20 million fund administered by its Multilateral Investment Guarantee Agency (MIGA), provides guarantees in the form of insurance against political risk for private investments in the WB/G. Under the terms of the Fund, investors who are nationals of, or companies incorporated in a MIGA member country, or who are Palestinian residents of the WB/G. are eligible to obtain guarantees provided that investment is brought in, from outside the WB/G. The Fund currently has the capacity to issue guarantees for up to US \$5 million per project<sup>22</sup>.

## I. QATAR

### 1. *FDI Trends*

#### (a) *FDI Inflows*

FDI inflows to Qatar witnessed a considerable increase over the past 15 years reaching as high as US \$1.5 billion in the year 2005 up from \$1.2 billion in 2004 and \$625 million in 2003, and the average FDI inflows of US \$169 for the period 1990-2000. This improvement in FDI inflows was reflected in FDI inflows as a ratio of gross capital formation from an increase from 6.2 per cent in 1990-2000 to 18.1 per cent in 2004 and 21.2 per cent in 2005.

Compared to FDI inflows to ESCWA member countries, the share of Qatar decreased from 12.1 per cent in 2002 to 4.9 per cent in 2005.

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<sup>21</sup> <http://www.state.gov/e/eeb/afd/2006/6239.htm>

<sup>22</sup> <http://www.state.gov/e/eeb/afd/2006/6239.htm>



Using the FDI performance index, Qatar's position has improved dramatically from being 115 on a scale of 141. It improved in ranking to reach position 99 by 2000; then ranked 56 by 2004 and 54 by 2005. Accordingly Qatar was ahead of China, Poland and Costa Rica, and just behind the Netherlands, Honduras and Vietnam. Measured by inward FDI potential index, Qatar's position has also improved over the same period under consideration. In the year 1990 it maintained a rank of 19, ahead of Hong Kong (Rank 20) and Ireland (27), the same position was maintained in the year 2000. But in the years 2003 and 2004, its position moved upward to rank 10 ahead of the Netherlands, Iceland, Finland, Belgium and Hong Kong and just behind major industrial countries such as Germany, Sweden and Norway.

Qatar's inward FDI stock as a percentage of gross domestic product improved from 0.9 per cent in 1990 to 16.4 per cent in 2004 and 16.2 per cent in 2005.

(b) *FDI Outflows*

Qatar's contribution to FDI outflows is below its potential and does not reflect its financial ability and available resources especially in the last few years. According to UNCTAD, these flows were only US \$11 million on average over the period 1990-2000. However in 2002 and 2003, FD outflows recorded negative values which implies that Qatari investors withdrew from certain investments overseas. In 2002 disinvestments was twice as much the average investment of the period 1990-2000. In 2004, Qatar witnessed a major improvement in FDI outflows reaching US \$192 million in 2004 and US \$352 million in 2005. As a percentage of gross fixed capital formation, it is in 2004 that Qatar's FDI outflows reached 2.9 per cent in 2004, and 5.1 per cent in 2005.

## 2. *FDI Laws*

The Qatari authorities have issued, over the past few years, some laws and regulations aiming at improving the overall investment climate and attracting further FDI inflows.

(a) *Investment Law*

This Investment Law No. 13 of 2000 regulates foreign investment in the national economy. It includes several incentives for encouraging foreign investment such as: (i) ownership of up to 49 per cent of a project; (ii) exemption from income and import customs taxes for up to 10 years; (iii) protection against nationalization of foreign investments except for cases related to public interest; (iv) leasing real estate for projects up to 50 years; and (v) repatriation of income and profits.

(b) *Copyright Protection Law*

This is the Law no.7 of 2002 which governs the copyrights protection of literary and artistic works. Such protection is the responsibility of a special office at the Ministry of Economy and Trade. This protection covers works of authors without any discrimination among them in terms of the nationality or residence, on condition that their work is published in Qatar. The Law allows for the transfer of rights to

other persons, and the duration of protection is for the lifetime of the authors in addition of up to 50 years after their death.

(c) *Capital Market Laws*

It is the law no.14 of 1995 which governs the activities and operations of the Doha Stock Exchange (DSE), and the Law no.25 of 2002 which regulates the activities of investment funds. The first law related to DSE that stipulates the procedures for listing shares of companies, other GCC Companies, and other Arab and foreign Companies. It also stipulates the types of financial institutions that could work in the DSE. The Law prohibits insider trading. Whereas the second law stipulates the prerequisites for the establishment and management of investment funds for investment purposes in the country. It allows foreign investors to invest in such funds subject to the approval of the Ministry of Economy and Trade and based on the recommendation of both the Ministry of Finance and the Central Bank.

## 2. *FDI Agreements*

(a) *Bilateral Agreements*

Over the past ten years, Qatar has signed bilateral investment protection agreements with several countries, including Belarus (2001), Bosnia and Herzegovina (1998), China (1999), Croatia (2001), Cuba (2001), Finland (2001), France (1996), Germany (1996), India (1999), Iran (1999), South Korea (1999) , Morocco (1999), Pakistan (1999), Romania (1996), Senegal (1998), Sudan (1998), Switzerland (2001), Turkey (2001).

On November 5th 2005, Qatar and Singapore signed a free trade agreement (QSFTA). Both countries are still working on finalizing the text of the agreement.

Although, Qatar has not entered into a bilateral investment, trade or taxation treaty with the United States, but Qatar and the United States signed a Trade and Investment Framework Agreement (TIFA) in April 2004<sup>23</sup>.

(b) *Multilateral Agreements*

Due to concerns about labor practices in Qatar, the United States' Overseas Private Investment Corporation (OPIC) suspended its operations in Qatar in 1995. However, Qatar is working diligently to improve its labor standards in order to reinstate OPIC coverage. In May 2004, Qatar passed a new labor law which provides more rights and protections for Qatari's and non-Qataris.

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<sup>23</sup> <http://www.state.gov/e/eeb/ifd/2006/62371.htm>

## J. SAUDI ARABIA

### 1. *FDI Trends*

#### (a) *FDI Flows*

At the beginning of the new millennium, FDI inflows to Saudi Arabia has increased many folds. From an annual average of US \$245 million over the period 1990-2000, FDI inflows have reached unprecedented levels in the last three years totaling US \$4628 million US dollars up from US \$453 million in 2002, US \$778 million in 2003 and US \$1942 million in 2004.

Accordingly, the share of FDI inflows as a percentage of gross fixed capital formation has increased from 2 per cent in 2003 to 4.5 per cent in 2004 to more than doubled in 2005 reaching 9.4 per cent.

In the same context, the share of FDI inflows in Saudi Arabia of total FDI inflows to ESCWA member countries has increased from 8.6 per cent for the period 1990-2000, to 9.1 per cent in 2002, and 15.4 per cent in 2005.

Among the 141 economies covered by the study of UNCTAD Saudi Arabia's rank on the scale of inward FDI performance Index was 118 in the year 1990. However its position has slightly worsened over in 2000 by dropping to 132, yet to improve in 2004 to 123 and in 2005 to 110. In terms of FDI potential index it ranked 30 in 1990, 38 in 2000, 31 in 2003 and 35 in 2004, a slight decline compared to the year 2003.

The inward FDI stock in Saudi Arabia has witnessed important fluctuations. From close to US \$22 billion in 1990, it dropped to US \$17.6 billion in 2000 to start afterward a continuous increase to US \$20.5 in 2004 and to US \$26.1 in 2005. In terms of percentage of gross domestic product inward FDI stock in Saudi Arabia decreased from 20 per cent in 1990 to 9.3 per cent in 2000 and 8.5 per cent in 2005. If any indication to be drawn from the FDI stock to GDP ratios, it is that the growth of GDP did not match the growth of FDI stock.

#### (b) *FDI Outflows*

As for FDI outflows from Saudi Arabia, there has been a steady growth over the same period of time. They have increased from US \$73 million on average over the period of 1990-2000 to US \$143 million in 2002, US \$83 million in 2003, US \$709 million in 2004 and US \$1183 million in 2005. As a percentage of gross fixed capital formation, FDI outward was 0.2 per cent in 2003, 1.6 per cent in 2004, and 2.4 in 2005.

The share of Saudi Arabia's FDI outflows from ESCWA member countries decreased from 93.6 per cent on average over the period 1990-2000, to 8 per cent in 2005.

As far as FDI outward stocks of Saudi Arabia, they have witnessed a steady notable increase since the 1990 compared to the year 1980. In this sense they have risen from US \$230 million in 1980 to US \$1.9

billion in 1990, US \$2.2 billion in 2000, US \$2.5 billion in 2004 and US \$3.7 billion in 2005. In terms of percentage to GDP, the ratios maintained somewhat stable levels, ranging from 1.8 per cent in 1990, to 1.2 per cent in 2005. Again, the increase in dollar amount FDI outward stocks, did not reflect same levels of increase at the ratio levels due to the fact that the Saudi gross domestic product has been increasing in real terms over the years under consideration.

Saudi Arabia's rankings in terms of outward FDI performance index over the period of 1990-2005 was as follows: 37 in 1990, 80 in 2000, 91 in 2004, and 89 in 2005. Compared to other countries in the region, Saudi Arabia's ranking is slightly above that of Egypt (92 in 2005) and also to that of Qatar (90 in 2005).

## 2. FDI Distributions

### (a) Sectoral Distribution:

In 2005, two sectors, namely the manufacturing and energy; and real estate, rentals and business services sectors have attracted the bulk of FDI inflows. The share of the manufacturing and energy sector was 64.33 per cent whereas the share of the rentals and business services sectors was 26.69 per cent. Other sectors, including contracting, trade and communications, and financial services attracted only 8.9 per cent. The share of manufacturing and energy in total FDI inflows has declined over the past years, whereby it was above 90 per cent prior to the year 2000; a development that reflects the partial success of the official diversification policy of the national economy (table 16).

**Table 16 - FDI Inflows to Saudi Arabia by Type of Economic Sectors, 2004 and 2005**

*Percentage*

<b>Economic Activity</b>	<b>2004</b>	<b>2005</b>
Manufacturing and energy	22.45	64.33
Contracting	2.94	1.99
Wholesale and retail trade	0.36	0.09
Restaurants and hotels	0.36	0.22
Transportation and communications	43.25	0.02
Financial services, investments and insurance	9.68	3.67
Real state, rentals and business services including education, training, health, social services and temporary contract	21.01	26.69

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

### (b) Geographical Distribution

Two countries, namely Japan and the United Arab Emirates are considered the major investors in Saudi Arabia. In 2005, their share was 79.67 per cent, followed by Bahrain (6.59 per cent). It is worth noting that over the past years, investors from Sweden captured the largest share of FDI inflows with 40.67 per cent in 2001, and in 2003 investors from Switzerland headed the list with 18.98 per cent of total FDI inflows in

2002, whereas in 2003, investors from the United States and Bermuda captured the largest share with 34.45 and 34.45 per cent of total FDI inflows in 2003 respectively (Table 17).

**Table 17 - FDI Inflows to Saudi Arabia by Major Countries, 2001-2005 ( per cent)**

Country	2001	2002	2003	2004	2005
Bahrain	0.00	0.44	5.40	5.97	6.59
Bermuda	-	-	34.45	-	-
Canada	1.19	1.55	1.29	0.21	0.09
Egypt	1.98	6.40	3.34	1.75	0.65
France	0.99	3.53	3.60	0.10	0.93
Germany	10.32	1.10	0.39	-	0.19
India	0.79	1.32	4.37	0.67	0.24
Japan	-	-	0.13	0.05	50.09
Jordan	5.36	7.51	4.11	2.16	1.58
Lebanon	6.15	3.97	3.73	1.75	1.10
Netherlands	-	-	1.29	0.10	1.06
Pakistan	2.78	4.42	10.54	0.93	0.58
Palestine	6.35	7.73	2.83	1.60	0.97
Syrian	6.75	13.69	5.53	1.65	1.34
Sweden	40.67	-	-	-	-
Switzerland	0.20	18.98	3.34	-	-
UAE	0.99	0.22	1.29	43.56	29.58
UK	0.40	7.95	0.51	3.50	1.04
USA	3.17	1.77	34.45	13.85	1.82
Yemen	2.78	6.18	6.30	0.98	0.56
Other Countries	9.13	13.68	12.96	27.14	8.18
<b>Total FDI inflows</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

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

### 3. FDI Laws

FDI legislation in Saudi Arabia is clear and ensures enough protection, freedom of capital repatriation and wide economic freedoms as admitted by many independent international institutions. Indeed, investors enjoy many privileges among which investment viability; economic stability; favorable and stable exchange rates; and a big regional market.

#### (a) Foreign Investment Law of 2000

In order to further attract and facilitate FDI inflows, the government enacted a foreign investment law in 2000, which provided a wide range of incentives and investment protection measures to foreign investors, including, most prominently, the following: (a) approval decisions on applications of projects within 30 days of submission by investors; (b) similar benefits and guarantees provided to national projects are provided to licensed foreign projects; (c) the right to repatriate shares derived from selling of equities owned by foreign investors; (d) the right to possess real estate required for projects including the housing of staff; (e) foreign investment cannot be confiscated without a court order and only in the public interest and

billion in 1990, US \$2.2 billion in 2000, US \$2.5 billion in 2004 and US \$3.7 billion in 2005. In terms of percentage to GDP, the ratios maintained somewhat stable levels, ranging from 1.8 per cent in 1990, to 1.2 per cent in 2005. Again, the increase in dollar amount FDI outward stocks, did not reflect same levels of increase at the ratio levels due to the fact that the Saudi gross domestic product has been increasing in real terms over the years under consideration.

Saudi Arabia's rankings in terms of outward FDI performance index over the period of 1990-2005 was as follows: 37 in 1990, 80 in 2000, 91 in 2004, and 89 in 2005. Compared to other countries in the region, Saudi Arabia's ranking is slightly above that of Egypt (92 in 2005) and also to that of Qatar (90 in 2005).

## 2. FDI Distributions

### (a) Sectoral Distribution:

In 2005, two sectors, namely the manufacturing and energy; and real estate, rentals and business services sectors have attracted the bulk of FDI inflows. The share of the manufacturing and energy sector was 64.33 per cent whereas the share of the rentals and business services sectors was 26.69 per cent. Other sectors, including contracting, trade and communications, and financial services attracted only 8.9 per cent. The share of manufacturing and energy in total FDI inflows has declined over the past years, whereby it was above 90 per cent prior to the year 2000; a development that reflects the partial success of the official diversification policy of the national economy (table 16).

**Table 16 - FDI Inflows to Saudi Arabia by Type of Economic Sectors, 2004 and 2005**

*Percentage*

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Manufacturing and energy	22.45	64.33
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Wholesale and retail trade	0.36	0.09
Restaurants and hotels	0.36	0.22
Transportation and communications	43.25	0.02
Financial services, investments and insurance	9.68	3.67
Real state, rentals and business services including education, training, health, social services and temporary contract	21.01	26.69

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

### (b) Geographical Distribution

Two countries, namely Japan and the United Arab Emirates are considered the major investors in Saudi Arabia. In 2005, their share was 79.67 per cent, followed by Bahrain (6.59 per cent). It is worth noting that over the past years, investors from Sweden captured the largest share of FDI inflows with 40.67 per cent in 2001, and in 2003 investors from Switzerland headed the list with 18.98 per cent of total FDI inflows in

2002, whereas in 2003, investors from the United States and Bermuda captured the largest share with 34.45 and 34.45 per cent of total FDI inflows in 2003 respectively (Table 17).

**Table 17 - FDI Inflows to Saudi Arabia by Major Countries, 2001-2005 ( per cent)**

Country	2001	2002	2003	2004	2005
Bahrain	0.00	0.44	5.40	5.97	6.59
Bermuda	-	-	34.45	-	-
Canada	1.19	1.55	1.29	0.21	0.09
Egypt	1.98	6.40	3.34	1.75	0.65
France	0.99	3.53	3.60	0.10	0.93
Germany	10.32	1.10	0.39	-	0.19
India	0.79	1.32	4.37	0.67	0.24
Japan	-	-	0.13	0.05	50.09
Jordan	5.36	7.51	4.11	2.16	1.58
Lebanon	6.15	3.97	3.73	1.75	1.10
Netherlands	-	-	1.29	0.10	1.06
Pakistan	2.78	4.42	10.54	0.93	0.58
Palestine	6.35	7.73	2.83	1.60	0.97
Syrian	6.75	13.69	5.53	1.65	1.34
Sweden	40.67	-	-	-	-
Switzerland	0.20	18.98	3.34	-	-
UAE	0.99	0.22	1.29	43.56	29.58
UK	0.40	7.95	0.51	3.50	1.04
USA	3.17	1.77	34.45	13.85	1.82
Yemen	2.78	6.18	6.30	0.98	0.56
Other Countries	9.13	13.68	12.96	27.14	8.18
<b>Total FDI inflows</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

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

### 3. FDI Laws

FDI legislation in Saudi Arabia is clear and ensures enough protection, freedom of capital repatriation and wide economic freedoms as admitted by many independent international institutions. Indeed, investors enjoy many privileges among which investment viability; economic stability; favorable and stable exchange rates; and a big regional market.

#### (a) Foreign Investment Law of 2000

In order to further attract and facilitate FDI inflows, the government enacted a foreign investment law in 2000, which provided a wide range of incentives and investment protection measures to foreign investors, including, most prominently, the following: (a) approval decisions on applications of projects within 30 days of submission by investors; (b) similar benefits and guarantees provided to national projects are provided to licensed foreign projects; (c) the right to repatriate shares derived from selling of equities owned by foreign investors; (d) the right to possess real estate required for projects including the housing of staff; (e) foreign investment cannot be confiscated without a court order and only in the public interest and

with equitable compensations; and (f) foreign investment projects are subject to tax codes valued in the country.

In this regard, article 5 of the executive rules of this Law act stipulates that foreign investment projects shall enjoy all the benefits, incentives and guarantees extended to national projects

In addition, foreign investment that fulfills the requirements of this Law enjoys all privileges of national capital and is entitled to the same treatment, protection, and incentives accorded to national capital. The Law requires that foreign capital be invested in economic development projects defined by Ministry of Industry and Electricity and other than petroleum and mineral projects, and that need to be accompanied by technological transfer.

Provided that the share of national capital is at least 25 percent, industrial or agricultural projects that fulfill the above requirements enjoy the following benefits:

- An income tax holiday of up to 10 years from the commencement of commercial production.
- Ownership of land according to the regulations governing land ownership by non-Saudis.
- For industrial projects, the same privileges as those enjoyed by Saudi capital under the National Industries Protection and Encouragement Regulations. These include: a) exemption from customs duties on machinery, equipment, tools and spare parts imported for industrial products, b) exemption from customs duties on primary raw materials, semi-finished goods, containers, etc., necessary for industrial projects (provided that similar items are not sufficiently available locally), c) provision by the government of plots of land at a nominal rate for factories and residential quarters for workers; d) low electricity and water rates; and e) no restriction on repatriation of profits.

(b) *Privatization Legislation*

In the same vein, the Government established a ministerial committee in 1997 to coordinate the privatization programme and to define the objectives of privatization. Moreover, the Government established the Supreme Economic Council in 1999 to monitor the implementation of the privatization process; and approved a new draft health regulation aimed at transferring some public hospitals to the private sector.

(c) *Intellectual Property Rights Laws*

The Government of Saudi Arabia revised its intellectual property laws to bring them into conformity with the WTO TRIPS Agreement. An updated Trademark Law took effect at the end of 2002, and an updated Copyright Law took effect in March 2004. Both laws allow for increased deterrent penalties for violators, including fines and prison sentences. A new unified law on patents, industrial designs, plant varieties, and integrated circuits is working its way through the legislative process.

(d) *Capital Market Law of 2003*



In October 2003, the Saudi Government passed the Capital Markets Law. The law took effect in February 2004. It allows for the creation of financial intermediaries (stock brokerages and investment banks). The law creates an independent stock market and an independent stock market regulatory body. The law sets SR 50 million (around US \$13.3 million) capitalization dissemination for brokerages and provides penalties for insider trading and wrongful dissemination of information. The law also allows for the development of long-term investment instruments. The level of foreign participation allowed in investment banks and brokerages have not been finalized. The new law does not repeal the prohibition on foreign direct participation in the Saudi stock market. Foreigners, however, can continue to purchase shares in bank operated investment funds. Foreign participation in these funds is limited to 10 per cent of the total value of the fund<sup>24</sup>.

#### *4. FDI Agreements*

The government of Saudi Arabia has concluded the investment promotion and protection agreements with countries as follows:

- 1- An agreement between the United States of America and Saudi Arabia concerning the development of trade and investment relations intended to promote an attractive trade and investment climate between the two countries. For this purpose, the two countries have agreed to establish a Council on Trade and Investment whose objectives, among others, are to monitor trade and investment relations, to identify opportunities for expanding trade and investment, and to identify issues appropriate for negotiation consultations on specific trade and investment matters of interest to the parties; to identify and work toward the removal of impediments to trade and investment flow; and to promote an attractive trade and investment climate between the two countries.
- 2- Investment protection accord with Switzerland. Saudi Arabia has also bilateral investment agreements with Austria (2001), Belgium and Luxembourg (2001), Malaysia (2000) Switzerland and India.
- 3- Saudi Arabia has concluded Free Trade Agreements with the other countries of the Gulf Cooperation Council.

### **K. SYRIAN ARAB REPUBLIC**

#### *1. FDI Trends*

##### *(a) FDI Inflows*

Over the past 15 years, Syria's share of global and regional FDI has been on steady rise albeit in relatively small amounts compared to other countries in the region especially Egypt and some GCC countries. In this regard inflows to the Syrian Arab Republic in 2005 have reached US \$500 million, almost

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<sup>24</sup> Saudi Arabia, Country Profile Library of Congress, 2007, p.538.

twice as much in 2004 (US \$275 millions). In 2002 it was only US \$180 million. It is worth to mention that over the period 1990-2000, average FDI inflows to the Syrian Arab Republic were US \$127 million.

As it is noted, improvements in FDI inflows to the Syrian Arab Republic is a case in point, yet it was not able to take full advantage of the extra liquidity in the region brought about by the high level oil prices.

As a percentage of gross fixed capital formation, inflows registered notable increases reaching as high as 9.5 per cent in 2005 up from 5.41 per cent in 2004, and 3.6 per cent in 2003. Over the period 1990-2000, the annual average of the ratio was about 1.1 per cent.

Meanwhile, Syria's rank with respect to the inward FDI performance deteriorated sharply reaching as low as position 113, on a scale of 141 representing the countries involved in the UNCTAD's Survey. That rank was 53 in 1990, 107 in 2000 and 101 in 2005.

Similar developments took place, yet less sharply, when using the inward FDI Potential Index. On this scale, Syria's position moved from 77 in 1990 to 95 in 2004. It was 80 in 2000 and 85 in 2003. In 2005 Syria's rank was better than Nigeria, Mozambique and Georgia (96, 97 and 98 respectively) but more than that of Uruguay, Yemen and Indonesia (94, 93, 92 positions respectively).

#### *(b) Inward FDI Stock:*

Inward FDI stock in the Syrian Arab Republic has witnessed a huge leap forward. Unaccounted for in 1980, it reached some US \$8.4 billion in 2005 up from US \$7.9 billion in 2004 and US \$1.7 billion in 2000. In terms of gross domestic product, inward FDI stock represented 3.51 per cent in 1990, 8.6 per cent in 2000, 33.9 per cent in 2004 and 31.9 per cent in 2005.

## *2. FDI Distribution*

### *(a) Sectoral Distribution*

Over the past few years, two leading sectors, namely the financial services and the manufacturing sector, have continued to capture the bulk of FDI inflows to Syrian Arab Republic. In 2005, the financial services sector has captured 66.23 per cent against 7.42 per cent in 2004 and the manufacturing sector has captured 33.27 per cent against 55.12 per cent respectively. This reflects the growing importance of the financial services sector to foreign investors (Table 18).

**Table 18 - FDI Inflows to the Syrian Arab Republic by Economic Activity 2004 And 2005**

Activities	Percentage	
	Share of total FDI (percentage)	
	2004	2005
Financial intermediation	7.42	66.23
Hotels and restaurants	(3.33)	0.29
Agriculture, fisheries and forestry	37.84	0.53
Manufacturing	55.12	33.27
Food and beverage products	0.20	(0.13)
Wholesale and retail trade	2.62	0.14
Transportation, storage and communications	0.13	(0.32)
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

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

Note: Parentheses ( ) indicate negative numbers.

(b) *Geographic Distribution*

Here, one country, namely Lebanon, was the major investor in Syrian Arab Republic in 2005, whose share of total FDI inflows was 66.44 per cent compared to 3.87 per cent in 2004. Besides Lebanon, the Netherlands and Canada are two other major investors in Syrian Arab Republic, with a share of 20.38 per cent and 11.67 per cent respectively in 2005 (Table 19).

The evolution of Lebanon's share in this sense reflects the opening of some Lebanese banks affiliated banks or branches in the Syrian Arab Republic in 2005 and also in 2006 and 2007.

**Table 19 - FDI Inflows to the Syrian Arab Republic by Major Countries, 2004 and 2005**

Country	Percentage	
	As a percentage of total FDI inflows	
	2004	2005
Canada	9.81	11.67
France	3.78	1.56
Iraq	8.62	0.12
Jordan	3.02	0.25
Kuwait	8.27	0.14
Lebanon	3.87	66.44
Netherlands	40.56	20.38
Qatar	4.70	0.06
Saudi Arabia	8.81	(0.80)
United Arab Emirates	8.56	0.18
Other countries	3.38	1.95
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

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

Note: Parentheses ( ) indicate negative numbers.

### 3. FDI Laws

#### (a) *Investment Law of 1991*

The gradual transition of the Syrian economy to a relatively open economy has taken place through the adoption of investment Law no.10 of 1991, which reflected the need for an investment friendly environment.

In this regard, Investment Law no.10 of 1991 which was later on amended in 2000, aims at encouraging Syrian citizens, Arab as well as foreigner to invest in developmental projects in the country. It indeed encourages the establishment of different business firms and the improvement of corporate structures. The rules of this Law apply to the economic and social development projects approved by the Higher Council of Investment in the following fields:

- a- Agricultural projects.
- b- Industrial projects allowed to both private and joint sectors.
- c- Transport projects.
- d- Projects approved by the Council to be governed by the rules of this Law.

Articles 10-18 of the investment law stipulate the exemptions, privileges and facilities for investors concerning the possibility of importing all needed machines vehicles, equipment, and means of transport. Also, these articles set out the rules and regulations concerning shares, funds, profits and dividends which are exempted from all taxes levied on income and real estates owned, by the companies to achieve their purposes and fulfill their tasks for seven years right from the date of actual production or investment according to the nature of the project.

The decision no.6423 "Executive Instructions" of Law no.10 for 1991 amended as per legislative decree no.7 for the year 2000, stipulates in its article 14 that the investor shall have the right to open, for the interest of his licensed project under the investment law, an account in foreign currency with the Commercial Bank of Syria...

Article 15 allows the investor to have the right to employ the current foreign currency in his possession inside the country or the foreign currency abroad which he brings in to the country duly for the financing of his projects covered under the Investment Law or in the contribution to his capital or the purchase of his shares, contrary to any text in face.

The Law no.10 of 1991 established a number of investment institutions, but none of them is specialized in FDI. The Higher Council for Investment is a political body with significant role. The Investment Office at the Prime Ministry works as one-stop shop facilitating investment projects and is the executive hand of HCI. Law 10 of 1991 did not stipulate the establishment of one-stop shop.

(b) *Regulations*

The most important taxes are stipulated in 2003 Law, which reflected the government intention to modernize the tax system and attract and promote investment. Taxes in general are not high and are close to regional levels. As far as income and corporate taxes are concerned, they vary between 5 and 20 per cent (in six categories) for the first, while the highest rate is 35.1 per cent, which is certainly more FDI friendly than the past law that had as corporate tax rate of 40-45 per cent.

(c) *Financial Laws*

After years of restriction, the Syrian legislations liberalized financial regulations on behalf of FDI, but gave the HCI huge powers. This legislative flexibility and modernization need to be supported by actual measures to enable the investors to feel free in investing their money. The new measures (authorizing foreign currency accounts, foreign currency transfers, interest rates reduction) reflect the Syrian government's intention to develop its monetary and financial policy.

(d) *Customs Law*

The Customs procedures are manifold: imports generally need previous licensing. However, since 2003, there was a "negative" list specifying prohibited imports. The Syrian Arab Republic has begun to modernize its Customs Law, simplify custom regulations and narrow the number of customs varieties. It has signed the agreement for facilitating trade among Arab Countries. In fact, joining the WTO would accelerate the customs' legislative reform.

(e) *Intellectual Property Regulations*

The Syrian Arab Republic has several, relatively developed intellectual property regulations though they are old. However, there are many enforcement drawbacks (in prevention and especially in combating counterfeiting), which impede FDI. The Syrian Arab Republic is currently reforming the intellectual property rules after recognizing the impact of this issue on economic growth.

Issuing legislations and joining international agreement is not enough; the Syrian Arab Republic should have enforcement mechanisms in place especially against counterfeiting which promotes illegal business and harm the Syrian industry.

#### 4. *FDI Agreements*

(a) *Bilateral Agreements*

The Syrian Arab Republic has signed bilateral investment agreements with several Arab and non-Arab countries. In the 30 years period since 1976, the Syrian Arab Republic has signed 31 bilateral investment treaties and agreements with Algeria (14 September 1997), Bahrain (11 March 1998), Bulgaria

(21 May 2000), China (9 December 1996), Egypt (28 April 1997), France (28 November 1977), Germany (2 August 1977), Greece (23 February 2003), Indonesia (27 June 1997), Italy (20 February 2002), Jordan (8 October 2001), Kuwait (16 August 2001), Lebanon (12 January 1997), the Libyan Arab Jamahiriya (8 February 1993), Morocco (23 October 2001), Oman (14 September 2005), Pakistan (25 April 1996), Qatar (24 October 2003), Russian Federation (27 January 2005), Senegal (14 November 1975), Spain (20 October 2003), Sudan (7 January 2000), Switzerland (22 June 1977), Tunisia (23 January 2001), Turkey (6 January 2004), Ukraine (21 April 2002), the United Arab Emirates (26 November 1997), and the United States (9 August 1976)<sup>25</sup>.

(b) *Multilateral Agreements*

The Syrian Arab Republic is member in most regional investment-related agreements such as the 1980 Agreement on Investing Arab Capitals in Arab Countries, Inter-Arab Investment Guarantee Corporation Agreement of 1971, and International Investment Guarantee Corporation Agreement of 1985.

## **L. UNITED ARAB EMIRATES**

### *1. FDI Trends*

(a) *FDI Inflows*

Since the beginning of the new millennium, FDI inflows into the United Arab Emirates (UAE hereafter) have registered multiple fold increases. From a negligible average amount of about US \$18 million during the period of 1990-2000, FDI inflows were US \$1.3 billion in 2002, and US \$4.3 billion in 2003. By 2004 this amount doubled to US \$8.4 billion and to register another 50 per cent increase in 2004 to reach US \$12 billion. Compared to the last decade of the nineties, FDI inflows have risen 666 folds, an unprecedented increase compared to many countries in the region.

Accordingly, the share of FDI inflows as a percentage of gross fixed capital formation for the year has reached 51.8 per cent in 2005 up from 37.8 per cent in 2004, and 21.4 per cent in 2003.

Compared to overall ESCWA member countries, FDI inflows into UAE have risen considerably from 0.6 per cent on average in 1990-2000 to 41.3 cent in 2003, to 39.8 per cent in 2005.

Among the 141 countries surveyed by UNCTAD, UAE's rank in terms of FDI performance index has registered important changes. In the year 2000, its position slightly declined to 136 in relation to what it had in 1990 (96th) only to improve afterwards to be positioned 25th in 2004 and by 2005 it became 15th on the above mentioned index.

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<sup>25</sup> UNCTAD, World Investment Report, 2006

Meanwhile, in terms of FDI potential index, compared to the same countries, UAE was capable of preserving its position. According to the statistics of UNCTAD, in 1990 it ranked 26, a position that it kept in 2000. In 2003, it was 23, and moved back again to position 27th on the FDI potential index in 2004.

The inward FDI stock in UAE has continued to grow over the years. From US \$409 million in 1980 it has risen to US \$751 million in 1990. By the year 2000 it reached more than one billion dollars. However, this stock increased about 16 fold in 2004 jumping in fact to US \$16.2 billion and the following year it has registered another big increase which was US \$28.2 billion dollars. This tremendous improvement in inward FDI stock illustrates foreign investors' confidence not only in economic potential of UAE but also in the macro and micro economic environments and fiscal policies pursued by the government of UAE.

In terms of FDI inward stock as a percentage of gross domestic product, the year 2005 registered a record high level, 21.1 per cent up from 19.2 per cent in 2004. This ratio was only a mere 1.5 per cent 2000 down from 2.2 per cent in 1990.

(b) *FDI Outflows*

FDI outflows from UAE increased the past years from a low level of US \$100 million as an annual average over for the period 1990-2000 to US \$407 million in 2002, US \$991 million in 2003, US \$1007 million in 2004 and US \$6661 million in 2005. As a percentage of gross fixed capital formation, these outflows constituted nearly 0.7 per cent in the 1990-2000 period, 5 per cent in 2003, 4.6 per cent in 2004 and 28.7 per cent in 2005.

The share of UAE in total FDI outflows of ESCWA member countries remained high as it moved from 59.7 per cent in 2002 to 44.8 per cent in 2005.

As for the level of outward FDI stock of UAE over the years, it has also improved from US \$99 million in 1990 to more than US \$10 billion in 2005. In 2004 it was US \$3.4 billion up from US \$819 million in the year 2000.

The share of FDI stock to gross domestic product has jumped from negligent percentage of 0.3 per cent in 1990 to 7.5 per cent in 2005, up from 4.1 per cent in 2004 and 1.2 per cent in the year 2000.

Over the same period of time, UAE has improved its position as far as outward FDI performance index is concerned to attain the rank of 55 in 2005, up from 62 in 2004 and 88 in 2000 taking into consideration that the lower the rank the better the position at the scale of the 141 countries.

## 2. FDI Distribution

### (a) Sectoral Distribution

With respect to sectoral distribution of FDI inflows to UAE, three leading sectors capture the largest share, namely the transformational industry, the water and electricity supply, trade, engine vehicle maintenance and personal consumption sector, and mining and energy sector. These sectors have continued to capture the largest share of FDI stock whereby their total share in 2004 was 70.2 per cent, with the first sector capturing 29.5 per cent, the second 21.7 per cent, and the third 19 per cent. Besides, the real estate and commercial business sectors had a share of 10.5 per cent in 2004 (Table 20).

**Table 20 - FDI Stock in the United Arab Emirates by Type of Economic Activating 2004**

Percentage	
Economic Activity	FDI stock as a percentage of total
Transformational industry, water and electricity supply	29.5
Wholesale and retail trade, maintenance of engine vehicles and personal commodities	21.7
Mining and energy	19.0
Real estate and commercial enterprises	10.5
Financial mediation	6.6
Transport and storing communications	6.2
Construction	4.3
Health and education	0.4
Others	1.9
Total of all economic activities	100.00

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

### (b) Geographical Distribution

As for the geographical distribution of FDI inflows, investors from the European Union continue to be a major investors in UAE, at a share of 35 per cent from total FDI stock in 2004, followed by the investos from GCC countries at a share of 20 per cent.

## 3. FDI Laws

The Laws and regulations governing foreign investment in the UAE are evolving, but are expected to remain conducive to foreign investment. Up to this date, there is no foreign direct investment law at the federal level in the UAE. Indeed the government is working on a new law which is still in its early draft stages. This law is expected to be ready by the end of 2007-early 2008. The law will seek to regulate incoming foreign investment into the UAE, introduce best practices, and provide investors with a "one stop" legal reference point for foreign investors.



The new law notwithstanding, the continuous liberalization and diversification government policies in the United Arab Emirates led to significant increases in FDI inflows in 2005 as mentioned above. Among the important steps taken by the Emirate of Dubai was the policy to allow foreign ownership of land and real estate, which has contributed to the construction boom and a substantial boost in FDI inflows. These inflows can equally be attributed to the continuous expansion of the duty free zones in the country. However, there is a need to establish an investment law aimed at promoting and regulating FDI, and to reform the company laws that currently limit foreign ownership to 49 percent.

(a) *Establishment and Conduct of Business*

Regulation of the establishment and conduct of business in the UAE is shared at the federal and emirate levels. In general, foreign companies which undertake business activities in the UAE or make their products available in the UAE have either entered into a joint venture with UAE nationals for the establishment of limited liability companies, appointed commercial agents, or set up branch offices. Except for companies located in the free zones, at least 51 per cent of a business establishment must be owned by a UAE national. A business engaged in importing and distributing a product must be either 100 per cent UAE owned agency/distributorship or a 51 per cent (UAE) - 49 per cent (foreign) limited liability company (LLC). Subsidies for manufacturing firms are only available to those with at least a 51 per cent local ownership<sup>26</sup>.

(b) *Offset Program*

The authorities of Abu Dhabi in the late 1980's instituted an offset program. Under it, defense sales contractors are required to invest an amount which will generate a profit equal to an agreed upon portion of their contract in the UAE. The amount is subject to negotiation with the UAE offset committee, which must approve each investment project. The projects generally must show the required profit after seven years. The contractor may not own more than 49 per cent of the project. The remaining 51 per cent must be held by UAE nationals.

(c) *Banking*

Foreign banks are required to pay a 20 per cent income tax, although there is room to negotiate the actual payment of the tax. Domestic banks pay no income tax. No other foreign companies pay income taxes to the UAE government. Neither foreign nor UAE nationals pay individual income or property taxes in the UAE<sup>27</sup>.

(d) *Conversion and Transfer Policies*

There are no restrictions on the transfer of funds into or out of the UAE, except that the currency of Israel may not be bought or sold in the UAE. All other currencies are traded freely at market determined rates. No license

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<sup>26</sup> STAT-USA on the Internet, US Department of Commerce

<sup>27</sup> Ibid.

is required to change money. The UAE dirham has been pegged to the dollar at 3.671 dirhams per dollar since 1980. At present, there is a divergence of about 2.0 percentage points or more in U.S. and UAE inflation rates. Despite this, the authorities are under no pressure to adjust the peg<sup>28</sup>.

(e) *Expropriation and Compensation*

Most disputes have eventually been satisfactorily handled through arbitration. However, dispute resolution can be difficult and uncertain. Arbitration may commence by petition to the federal courts on the basis of mutual consent, a written arbitration agreement, independently by nomination of arbitrators, or through a referral to an appointing authority without recourse to judicial proceedings. The UAE is a member of the International Center for the Settlement of Investment Disputes. In 1993 the Abu Dhabi Chamber of Commerce and Industry formed the Abu Dhabi Commercial Conciliation and Arbitration Center in an effort to accelerate commercial dispute resolution<sup>29</sup>.

(f) *Protection of Property Rights*

With the exception of intellectual property, private property is protect and respected in the UAE. The UAE remains on USTR's special 301 Watch List because of deficiencies in protection of Intellectual Property Rights (IPR). In 1992 the UAE passed three laws pertaining to intellectual property: a copyright law, a trademark law, and a patent law.

The Ministry of Information is currently amending the copyright law to bring it up to international standards. UAE's patent law provides process, not product, patent protection for pharmaceutical products. In June 1997, the Ministry of Finance and Industry publicly announced that it was in the process of amending the patent law, but little progress has been made and a local pharmaceutical manufacturer continues to produce patent protected products. The UAE has joined the Paris Convention for the Protection of Industrial Property, the first treaty for the protection of IPR to which UAE has acceded. It is also a member of the World Intellectual Property Organization (WIPO)<sup>30</sup>.

(g) *Commercial Code*

The federal commercial code, the last building block in the edifice of federal commercial legislation in the UAE, was promulgated on September 20, 1993. The commercial code devotes an entire chapter to bankruptcy, which is the first comprehensive legislation in the UAE on the subject of bankruptcy. Prior to enactment of the commercial code, creditors of bankrupt persons were often faced with a race to the courthouse with other creditors in order to obtain satisfaction of their claims<sup>31</sup>.

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<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

(h) *Outside Free Trade Zones*

Several federal regulations govern business activities in the UAE outside free trade zones. Activities within the free zones are governed by special bylaws<sup>32</sup>:

(1) The federal companies law: the companies law applies to all commercial companies established in the UAE and to branch offices of foreign companies operating in the UAE. The following provisions are of particular importance: a) Companies established in the UAE are required to have a minimum of 51 per cent UAE national ownership. However, profits may be apportioned differently; b) Branch offices of foreign companies are required to have a national agent unless the foreign company has established its office pursuant to an agreement with the federal or an emirate government; c) All general partnership interest must be owned by UAE nationals; d) Foreign shareholders may hold up to a 49 per cent interest in limited liability companies.

There are seven types of local companies that may be organized under the companies law:

1. General partnership.
2. Limited partnership.
3. Hare partnership.
4. Joint venture company.
5. Limited liability company: it is now considered to be the most suitable form of joint ventures between local and foreign entities.
6. Publicly held company.
7. Private shareholding company.

(2) The commercial agencies law: the commercial agencies law requires that foreign principals distribute their products in the UAE only through exclusive commercial agents that are either UAE nationals or companies wholly owned by UAE nationals. The foreign principal can appoint one agent for the entire UAE or for a particular emirate or group of emirates. The law provides that an agent may be terminated only by mutual agreement of the foreign principal and the local agent, notwithstanding the expiration of the term of the agency agreement.

(3) The federal industries law: the industry law stipulates that industrial projects must have 51 per cent UAE national ownership. The law also requires projects either to be managed by a UAE national or have a board of directors with a majority of UAE nationals. Exemptions from the law are provided for projects relating to extraction and refining of oil, natural gas, and other raw materials. Additionally, projects with a small capital investment or special projects governed by special laws or agreements are exempt from the industry law.

(4) Government tenders law: under the tenders law, a supplier, contractor, or tendered with respect to federal projects must either be a UAE national or a company in which at least 51 per cent of the share capital is owned by UAE nationals. Therefore, foreign companies wishing to bid for a federal project must enter into

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<sup>32</sup> Ibid.

a joint venture or agency arrangement with a UAE national or company. Federal tenders are required to be accompanied by a bid bond in the form of an unconditional bank guarantee for five per cent of the value of the bid objective.

#### 4. FDI Agreements

(a) *Bilateral Agreements:*

The UAE has concluded bilateral investment agreements with a number of countries around the world including Algeria (24 April 2001), Austria (17 June 2001), Belarus (27 March 2000), Belgium and Luxembourg (5 March 2004), China (1 July 1993), Czech Republic (23 November 1994), Egypt (11 May 1997), Finland (12 March 1996), France (9 September 1991), Germany (21 June 1997), Italy (22 January 1995), Korea (9 June 2002), Kuwait (12 February 1966), Lebanon (17 May 1998), Malaysia (11 October 1991), Mongolia (21 October 1991), Morocco (9 February 1999), Mozambique (24 September 2003), Pakistan (5 November 1995), Poland (31 January 1993), Romania (11 April 1993), Sudan (18 February 2001), Sweden (10 November 1999), Switzerland (3 November 1998), the Syrian Arab Republic (26 November 1997), Tajikistan (17 December 1995), Tunisia (10 April 1996), Turkey (28 September 2005), Turkmenistan (9 June 1998), the United Kingdom (8 December 1992) and Yemen (13 February 2001)<sup>33</sup>.

(b) *Multilateral Agreements*

The United States and the UAE signed an agreement on investment guarantees (an OPIC agreement) in September 1991. In 1995 OPIC removed the UAE from the list of countries in which it provides coverage for U.S. companies wishing to invest overseas. OPIC's decision to go "off-cover" was based on statutory requirements which bind it to provide coverage only in countries which are found to be taking steps to adopt or implement internationally-recognized worker rights<sup>34</sup>.

## M. YEMEN

### 1. FDI Trends

(a) *FDI Inflows*

According to available data, Yemen's FDI inflows witnessed high levels of fluctuations. Over the period 1990-2000, the average annual inward FDI flows were US \$77 million. In 2002 it improved to US \$102 million. However, in 2003, these flows dropped very sharply to only US \$6 million, yet in 2004 they moved up again to US \$144 million. Again in 2005, inward FDI has registered a negative growth of US \$266 million.

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<sup>33</sup> UNCTAD, World Investment Report, 2006

<sup>34</sup> <http://www.state.gov/e/eeab/iofd/2006/62371.htm>

As a percentage of gross fixed capital formation, these inflows are as follows: negative 0.7 per cent for the period 1990 – 2000, 0.3 per cent for 2003, 6.8 per cent for 2004, and -12 per cent for 2005.

Among the 141 economies covered by the study of UNCTAD, Yemen's rank on the scale of inward FDI performance Index was 120 in the year 1990. However its position has dropped over in 2000 to 139, yet it improved slightly in 2004 to 117 and in 2005 it went back to its position of 2000.

On the scale of inward potential index, Yemen's position was 110 in 1990, a low position ahead of country such as Mozambique (rank 111) at the scale of UNCTAD's 141 countries under consideration but way behind countries in the region such as, for example, Syria (rank 77).

Inward FDI stock in Yemen has seen considerable improvement in the last fifteen years, rising from US \$195 million in 1980, reaching as high as US \$1,3 billion in 2003 up from US \$180 million in 1990. However, these inward stocks have lost almost 25 per cent of its value in 2005, reaching US \$983 million. As a percentage of gross domestic product, these stocks were as follows: 4.4 per cent in 1990, rising sharply up to 14 per cent in 2000. However this trend has ended and since 2004, this ratio has seen a continuing deterioration going down to 9.5 per cent in 2004 and 6.5 per cent in 2005.

(b) *FDI Outflows*

As far as FDI outflows from Yemen to the world are concerned, there are no worthwhile investments has been done outside the country for all the period under consideration. Concerning its outward FDI stocks, they are close to negligent.

## 2. *FDI Laws*

The Yemeni government has issued an investment law designed to promote and regulate the investment of Yemeni, Arab and foreign capitals. According to this law, investment is permitted in all the sectors except the following:

- 1- Exploration and extraction of oil, gas and minerals that are governed by special agreements;
- 2- Weapons industry and explosive materials;
- 3- Industries that harm the environment and health;
- 4- Banks and exchange bureaus;
- 5- Financial trade, importing, wholesale and retail trade.

In order to oversee the application of this law, article 27 stipulates the establishment of a General Investment Authority as a juridical entity with an autonomous financial status and accountability to the Prime Minister. The Authority's mandate include among others (article 28):

- a- Execution of the provisions of the investment law;
- b- Reception of the applications made by investors;

- c- Issuing exempted project requirement lists related to carrying out, expanding rehabilitating or operating projects, and to the rights, exemptions and benefits accorded to them pursuant to the provisions of the law
- d- Obtaining, on behalf of projects sponsors, all approvals needed to carry out and operate their projects.

The Law grants investors guarantees and benefits such as:

- Arab and foreign capital and Arab and foreign investors shall be on a par with Yemeni capital and Yemeni investors without discrimination with respect to the rights, obligations, rules and procedures set forth in this Law and the decrees and regulations enacted in the execution thereof.
- Investment projects and companies and Arab and foreign investors shall be entitled to purchase or lease land and buildings owned by the private sector or the State to be used for the purposes for which the project is registered under this Law; all rights and dispositions devolving on lands and buildings shall be recorded in accordance with the rules indicated by the executive regulations of this Law.
- Industrial and agricultural projects may open commercial stores, either solely or in collaboration with other projects, from which to sell their products, subject to the business of such stores being restricted to marketing such products regardless of the nationality of those participating in the capital or management of such projects.
- Projects may not be nationalized or seized.
- Funds may not be blocked, frozen, or sequestered by other decision than the courts of Law.
- An investor shall be entitled to transfer abroad his foreign currency funds and net profit earned by investment or any of its accrued returns to any transferable currency.
- Projects may import directly or through some other party, their requirements to establish, expand, rehabilitate or operate the project including fixed assets, means of transportation and production inputs appropriate to the nature of their activity.

The Law exempts fixed assets imported to establish, expand or rehabilitate a project from all types of customs duties and taxes, save for the service fees specified in this Law subject to their being imported during the period specified in the project requirement list. It also exempts fisheries, livestock and agricultural production inputs from customs duty throughout the execution of activity by the project, and production inputs of other projects shall be exempted (50 per cent) fifty per cent of all the customs duty throughout the execution of activity by the project including the established, licensed and registered projects.

It is stipulated that in order to exempt furniture, furnishing and fixtures for hotels, hospitals and educational projects imported for the purpose of replacement and rehabilitating, the furniture, furnishings and fixtures intended to be replaced have already served a project for a period of not less than five years pursuant to the standards and basis described in the executive regulations.

### 3. FDI Agreements

Yemen has signed investment and trade agreements with a number of countries such as Algeria (25 November 1999), Austria (1 July 2002), Bahrain (1 December 2002), Belarus (18 July 2003), Belgium and

Luxembourg (16 December 1998), Bulgaria (12 April 2002), China (16 February 1998), Egypt (6 June 1996), Ethiopia (15 April 1999), France (27 April 1984), Germany (2 February 2005), Hungary (18 January 2004), India (10 October 2002), Indonesia (20 February 1998), Iran (29 February 1996), Italy (25 November 2004), Jordan (18 June 1995), Kuwait (20 February 2001), Lebanon (25 November 1999), Malaysia (11 February 1998), Morocco (24 February 2001), Netherlands (18 March 1985), Oman (20 September 1998), Pakistan (11 May 1999), Russian Federation (1 December 2002), South Africa (1 December 2002 and 1 August 2002), Sudan (10 August 1999), Sweden (20 October 1983), the Syrian Arab Republic (9 October 1996), Turkey (2 September 2000), Ukraine (1 February 2001), the United Arab Emirates (13 February 2001) and the United Kingdom (25 February 1982)<sup>35</sup>.

Also, Yemen and the United States of America have signed a trade and investment agreement whereby, the two sides agreed to establish a United States-Yemen Council on Trade and Investment comprised of representatives from each country and chaired by the Office of the U.S Trade Representative and the Yemen Ministry of Planning and International Cooperation. The objectives of the agreement is to facilitate trade exchange and Investment between the two countries.

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<sup>35</sup> UNCTAD, World Investment Report, 2006

### III. CONCLUSIONS AND POLICY RECOMMENDATIONS

#### 1. *Conclusions*

The most important conclusions of this study are the following:

- (a) The ESCWA region has witnessed growing FDI inflows over the past few years, with some countries such as UAE, Egypt, Saudi Arabia, Lebanon and Qatar attracting the bulk of these inflows (almost 88 per cent).
- (b) Some key economic sectors such as oil and gas, manufacturing and financial services are the dominant sectors attracting the largest shares of FDI inflows to the ESCWA region.
- (c) Although ESCWA member countries have developed their legal frameworks for FDI over the past few years, yet still further efforts are needed in this direction to allow their domestic economies attract higher shares of FDI inflows.
- (d) Despite the fact that ESCWA member countries have concluded several investment and free zones agreements or treaties over the past few years, still greater efforts are needed on this level in order to enhance FDI inflows at a faster pace.

#### 2. *Policy Recommendations*

The major recommendations for policy makers related to FDI in ESCWA countries aimed at improving the investment climate and at promoting FDI inflows to the region are as follows:

- (a) The need to have in place a mechanism and system for compiling accurate and verifiable statistics on FDI inflows and outflows, and on a regular basis.
- (b) The significance of continuously developing and modernizing the laws, regulations and legislations related directly or indirectly to FDI entry, operation, and promotion.
- (c) The need to have an investment-friendly environment supported by stable macroeconomic, financial and trade policies.
- (d) The need for active promotion campaigns aimed at encouraging foreign investors and companies to do business in national economies, supported by the private sector.
- (e) The need to enhance and strengthen interregional trade, investment, and financial exchanges.
- (f) Accelerating privatizations in key economic sectors, that are supportive to economic growth and development.



- (g) The need to at least repatriate both Arab capital and human wealth from outside the region.
- (h) The significance of speeding up economic reform actions aimed at creating competitive and healthier economies.
- (i) The need to speed-up the integration of national economies in the global economy, in order to attract greater shares of trade, investment, and financial flows.