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

**FOREIGN DIRECT INVESTMENT REPORT**

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New York, 2008

08-0286

## **Preface**

This report, prepared by the Economic Development and Globalization Division of the United Nations Economic and Social Commission for Western Asia (ESCWA), focuses mainly on the performance of ESCWA member countries in terms of attracting foreign direct investment (FDI). This report not only reviews the latest developments in the institutional framework governing the activities of FDI enterprises, but also provides readers in general and policymakers in particular with an overview of the most recent large-scale FDI activities in ESCWA member countries.



## CONTENTS

	<i>Page</i>
Preface .....	iii
Executive summary .....	iv
Introduction .....	1
<i>Chapter</i>	
<b>I. REGIONAL SITUATION AND OUTLOOK</b> .....	2
<b>II. COUNTRY PERFORMANCE</b> .....	5
A. Large FDI recipients: Egypt, Saudi Arabia and the United Arab Emirates .....	5
B. Smaller, high-performing economies: Bahrain, Jordan, Lebanon, Oman and Qatar ...	10
C. Below-potential performers: Kuwait, Palestine, Syrian Arab Republic and Yemen ...	11
<b>III. MAIN CHALLENGES FOR ESCWA COUNTRIES</b> .....	14
A. Inflation .....	14
B. Weak enforcement of legislation .....	14
C. Bureaucracy, corruption and red tape .....	14
D. Dominance of Government sectors and slow implementation of privatization programmes .....	15
<b>IV. CONCLUSIONS AND RECOMMENDATIONS</b> .....	16
A. Conclusions .....	16
B. Recommendations.....	16

### LIST OF TABLES

1. FDI inflows to the world and selected regions, 2003-2006.....	2
2. FDI inflows to ESCWA member countries, 2003-2007.....	6
3. FDI inflows to ESCWA member countries as a percentage of GDP, 2003-2007 .....	7
4. Doing business in ESCWA member countries in 2006 and 2008 .....	8

### LIST OF FIGURES

I. Geographical distribution of FDI in the ESCWA region, 2006 .....	4
II. FDI as a percentage of GDP, 2003 and 2006 .....	9

## Executive summary

FDI inflows to ESCWA member countries, excluding Iraq, witnessed rapid growth in 2006, building on the upward trend that started in 2002. Total FDI inflows in 2006 reached a new record high of US\$ 55.6 billion, up from US\$ 10.8 billion in 2003, which represents 14.6 and 6.2 per cent respectively of total inflows to developing countries. Preliminary data for 2007 indicate that the positive trend is expected to continue.

Three main sectors capture large-scale FDI enterprises: telecommunications, banking and construction. Most of these investments take the form of greenfield investments or cross-border mergers and acquisitions, in particular in the first two sectors. The largest inflows to ESCWA member countries during the period 2003-2007 were from Arab countries, followed by investors from the European Union and the United States of America.

Several factors contributed to the unprecedented increase in FDI inflows to ESCWA member countries, among which were the increase in oil prices, along with stable macroeconomic conditions in several member countries, coupled with economic reforms and improvements in business climate, and the privatization of state-owned enterprises in certain countries.

Although the ESCWA region benefited from high rates of FDI inflows in 2006, these flows were not evenly distributed between member countries. In fact, ESCWA member countries, excluding Iraq, can be divided into three clear categories, depending on FDI performance and potential. The first category comprises high-performing countries, and groups together the largest economies and major recipients of FDI in the region, namely, Egypt, Saudi Arabia and the United Arab Emirates. These three countries were determined to increase their share of FDI inflows, undertook a number of reforms and invested heavily in improving their overall infrastructure. In 2006, they captured around 74 per cent of total FDI inflows to the region.

The second category comprises smaller, high-performing economies and includes Bahrain, Jordan, Lebanon, Oman and Qatar. These countries are known as favourable destinations for FDI, and were successful in attracting FDI in the last 4 years, although their combined share of total FDI inflows to the region was only 22 per cent in 2006. In contrast, Kuwait, Palestine, the Syrian Arab Republic and Yemen, which represent the third category, were able to attract only 3.5 per cent of total flows in 2006. This category comprises below-potential performers: countries which need to engage in significant reforms in order to boost their investment climate and increase their share of total FDI inflows.

The uneven distribution of FDI flows between ESCWA member countries is caused in part by a number of challenges that restrain further inflows. While the significance of these challenges may differ between countries, they are common to the ESCWA region. In fact, ESCWA member countries all face the common challenges of high rates of inflation, weak enforcement of legislation, high levels of bureaucracy and corruption, a dominant Government sector and slow implementation of privatization programmes.

Finally, this report provides policymakers in ESCWA member countries with the following recommendations, aimed at improving the investment climate and increasing FDI inflows:

1. To continue working towards achieving a stable macroeconomic environment.
2. To ensure that legislation has a clear and unique interpretation.
3. To speed up the implementation of new laws and amendments to existing legislation.
4. To improve the business climate.
5. To take measures to combat bureaucracy, corruption and red tape, including establishing a powerful, independent supervisory authority.
6. To encourage the participation of the private sector, increase the pace of implementation of privatization programmes and work on changing negative cultural perceptions of privatization.

## **Introduction**

This Foreign Direct Investment Report provides an overview of the performance of ESCWA member countries in terms of attracting foreign direct investment (FDI), reviews the most recent laws and regulations governing FDI flows and presents the major large-scale FDI deals concluded in the last couple of years. It also presents some of the main challenges that hinder further FDI inflows to the ESCWA region.

The report comprises four chapters: chapter one reviews FDI performance at the regional level and the position of the ESCWA region in global FDI flows, while chapter two reviews the FDI performance of each country. This chapter divides countries into three categories: the first comprises large FDI recipient countries, the second covers smaller, high-performing economies and the third groups together below-potential performers.

Chapter three sets out the main challenges facing ESCWA member countries in the area of FDI, namely, inflation; weak enforcement of legislation; bureaucracy, corruption and red tape; and the dominance of Government sectors and the slow rate of implementation of privatization programmes. Chapter four concludes the report and presents a set of policy recommendations on how to improve the investment climate and increase FDI inflows to ESCWA member countries.

## I. REGIONAL SITUATION AND OUTLOOK

Foreign direct investment (FDI) flows to the countries of the ESCWA region increased at a rapid pace in 2006, continuing the strong upward trend that began in 2002. The region as a whole (excluding Iraq) recorded total net FDI inflows of US\$ 55.6 billion in 2006, an increase of 46 per cent on 2005 and approximately five times the value in 2003.<sup>1</sup> This makes Western Asia the fastest-growing destination for FDI flows worldwide. As illustrated in table 1, global FDI flows and FDI flows to developing countries increased by a factor of approximately 2.2 between 2003 and 2006. Currently, FDI flows to developing countries account for some 30 per cent of total FDI flows. While all major developing regions registered increased FDI inflows, growth has been particularly strong in Western Asia, which saw its share of total flows to developing countries more than double from 6.2 per cent in 2003 to 14.6 per cent in 2006. As a result in particular of strong intraregional direct investment activities, in 2006 the ESCWA region surpassed South-East Asia in terms of FDI inflows and considerably narrowed the gap with China and Latin America.

TABLE 1. FDI INFLOWS TO THE WORLD AND SELECTED REGIONS, 2003-2006  
(Million US\$)

	2003	2004	2005	2006
World	557 869	742143	945 795	1 305 852
Developing countries	175 138	283 030	314 316	379 070
Latin America and the Caribbean	46 137	94 290	75 541	83 753
South-East Asia	19 920	35 245	41 071	51 483
Africa	18 513	18 018	29 648	35 544
China	53 505	60 630	72 406	69 468
Hong Kong, China	13 624	34 032	33 618	42 892
ESCWA Region	10 844	19 992	37 943	55 563

Source: UNCTAD, *World Investment Report*, 2006 & 2007, Annex Table B.1, except for figures for the ESCWA region, which are compiled from table 2 below.

Preliminary official data from a number of ESCWA countries and information on large-scale FDI activities in such sectors as telecommunications, banking and construction all indicate that the overall positive trend continued in 2007, even though a slowdown in FDI inflows was expected in a number of Western Asian countries. While the medium-term outlook for the ESCWA region remains favourable, the prospects for 2008 are somewhat clouded by the global economic slowdown and the credit crunch that began in mid-2007. In the United States and other developed economies, the availability of credit to companies has fallen sharply during the past year, causing a significant decline in cross-border mergers and acquisitions (M&A). On the other hand, the surge in oil prices and the resulting increase in liquidity in the oil-exporting countries of the Gulf Cooperation Council (GCC) are expected to improve the balance sheets of domestic firms, potentially promoting intraregional FDI activities.

The observed strong growth in FDI inflows to the ESCWA region over recent years reflects buoyant economic conditions, particularly in the oil-rich GCC countries, considerable improvements in the business environment and the privatization of state-owned enterprises in several countries. The region has also benefited from a benign global economic environment, characterized by robust and broad-based growth and stability in international financial markets. During the period 2003-2007, the ESCWA region enjoyed average real GDP growth of more than 6 per cent, low inflation rates and large current account surpluses. In GCC countries, surging oil revenues, coupled with high rates of population growth, boosted domestic consumption demand as well as investment spending by companies. At the same time, most Governments in the ESCWA region undertook legal and regulatory reforms to improve the environment for doing business. The World Bank report *Doing Business 2008* ranked Egypt as the top reformer globally, with Saudi Arabia

<sup>1</sup> Due to the lack of reliable data on foreign direct investment activities, Iraq is excluded from this study. The analysis covers the following 12 ESCWA member countries: Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Palestine, Qatar, Saudi Arabia, Syrian Arab Republic, United Arab Emirates and Yemen.

taking seventh place.<sup>2</sup> To varying degrees, ESCWA countries also opened up previously state-controlled industries to foreign investment and strengthened the role of the private sector. The combination of these factors has led to an unprecedented increase in FDI flows to the Western Asia region.

Also of significance is the fact that a considerable proportion of the recent FDI flows to ESCWA countries has been in the form of greenfield investment, that is, investment that directly creates or expands production capacities. At the same time, the region has witnessed a surge in cross-border mergers and acquisitions, especially in the telecommunications and banking sectors. Faced with potential saturation and competition in their home markets, several large regional telecom companies, including Etisalat (United Arab Emirates), Qtel (Qatar), and Zain (formerly MTC, Kuwait), entered new markets within the ESCWA region. They have done so either by acquiring newly-issued mobile licences – which is considered greenfield investment – or by taking over local operators. Recent major transactions include the acquisition by Etisalat of Egypt's third mobile licence for US\$ 2.9 billion in July 2006, the acquisition by a Zain-led consortium of Saudi Arabia's third mobile licence for US\$ 6.1 billion in March 2007 and the acquisition of a 51 per cent stake in Kuwait's Wataniya Telecom by Qtel for US\$ 3.7 billion in March 2007.<sup>3</sup> In the banking sector, the National Bank of Kuwait (NBK) entered the Egyptian market in April 2008 through the acquisition of AlWatany Bank for US\$ 1 billion. There have also been a number of major FDI activities in the banking and telecommunications industries involving European companies. Most notably, in December 2006 Italy's Sanpaolo IMI acquired an 80 per cent stake in Egypt's Bank of Alexandria for US\$ 1.6 billion. The selling-off of the smallest of Egypt's four main state-owned banks has given rise to speculation about further major privatizations.

While the ESCWA region as whole is experiencing record levels of FDI inflows, individual countries vary significantly in their capacity to attract foreign direct investment. Table 2 shows annual net FDI inflows to ESCWA countries during the period 2003-2007, based on data from national agencies and international sources. The vast majority of ESCWA countries have witnessed considerable increases in FDI inflows over recent years. However, the gap between high- and low-performing countries remains broad. As illustrated in figure I, Egypt, Saudi Arabia and the United Arab Emirates – the three largest economies in the ESCWA region – together captured 74 per cent of total net FDI flows to the region in 2006. By contrast, Kuwait, Palestine, the Syrian Arab Republic and Yemen barely benefited from increased FDI inflows to the region, together receiving only 3.5 per cent of total flows in 2006. The principal factors that explain the considerable gap in FDI inflows between ESCWA countries include the pace of economic and investment reforms, the assessment of political risks by potential investors, the access to inexpensive production factors (land, energy, and physical and human capital) and the integration into regional and global markets.

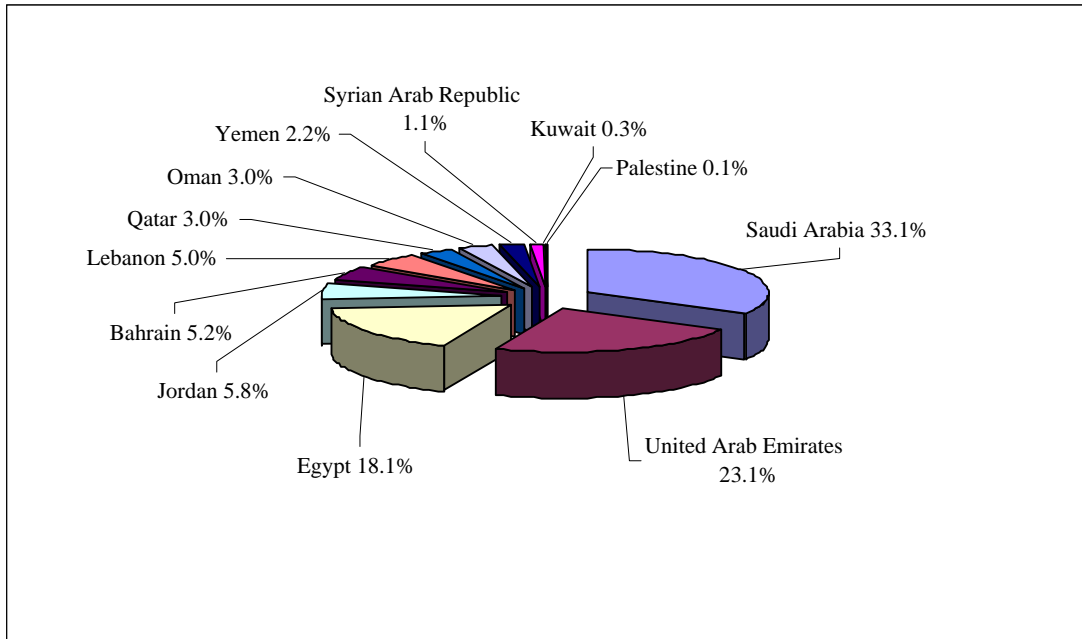
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<sup>2</sup> *Doing Business 2008*, The World Bank Group.

<sup>3</sup> For an overview on recent developments and perspectives in the telecommunications sector in Middle East and North Africa (MENA) countries, see De Gaetano, Hasbani, Mourad and Sabbagh: 2007, *Beyond License Acquisitions – The Way forward for Telecom Investments in the MENA Region*, Booz Allen Hamilton. Available at: [http://www.boozallen.com/media/file/Beyond\\_License\\_Acquisitions.pdf](http://www.boozallen.com/media/file/Beyond_License_Acquisitions.pdf).



**Figure I. Geographical distribution of FDI in the ESCWA region, 2006**  
(By percentage)



Source: Compiled from table 2 below.

## II. COUNTRY PERFORMANCE

### A. LARGE FDI RECIPIENTS: EGYPT, SAUDI ARABIA AND THE UNITED ARAB EMIRATES

In Egypt and Saudi Arabia, two countries long characterized by large and dominant public sectors and very low levels of foreign investment, Governments have increasingly recognized the importance of FDI in expanding national productive capacities. As a result, both countries have witnessed a surge in foreign investment inflows over recent years, closing the gap on the United Arab Emirates, which was one of the first countries in the region to identify FDI as a key driver of growth and which continues to be one of the main destinations of FDI flows to the Western Asian region. Since 2004, the Egyptian Government has undertaken a wide-ranging programme of reforms aimed at creating a more market-oriented and business-friendly environment, with a special focus on attracting foreign direct investment. Enhanced macroeconomic stability – including lower inflation, restructured public debt, a stable foreign exchange market and a higher level of foreign reserves – coupled with successful tax and administrative reforms have considerably improved the investment climate in Egypt and have resulted in significant foreign capital inflows. From a low of US\$ 450 million in 2003, net FDI increased to US\$ 10.0 billion in 2006 and to US\$ 11.6 billion in 2007. Net FDI flows to Egypt in 2007 were thus approximately 25 times higher than in 2003. As a percentage of GDP, net FDI flows rose from a mere 0.6 per cent in 2003 to 8.8 per cent in 2006 (see table 2).

Major policy reforms by the Egyptian Government have included the establishment of a new Ministry of Investment and the reorganization of the General Authority for Investment and Free Zones (GAFI). In both entities, key positions have been filled by professionals with strong private sector experience. Having a clear mandate to promote foreign direct investment, GAFI now serves as a one-stop shop for investment. The success of policy reforms in Egypt is exemplified by the fact that the World Bank Doing Business Report 2008 ranked Egypt as the top reformer globally, moving up from 165<sup>th</sup> position (out of 175) in 2006 to rank 126<sup>th</sup> (out of 178) in 2008. Even more remarkable is the development in the category ‘starting a business’, in which the country moved up 70 places to occupy 55<sup>th</sup> position in the 2008 report. That improvement is primarily due to the efforts of GAFI in reducing the time-consuming and burdensome procedures required to start a business and in decreasing the minimum required capital from 694.7 per cent of income per capita to only 12.9 per cent. Furthermore, in 2005 the Egyptian Government introduced a new tax law (The Income Tax Law No. 91 of 2005), which helped to create a more effective overall tax system by providing investors, both domestic and foreign, with uniform tax treatment and a number of tax incentives. By decreasing the average tax rate, widening the tax base and improving the tax collection system, this new tax law has contributed significantly to the improvement of the investment climate in Egypt.

Recent data published by the Central Bank of Egypt indicate that in 2006 and 2007, greenfield investment outside the petroleum sector accounted for approximately 50 per cent of total FDI inflows. With FDI flows to Egypt surging, the geographical distribution of investors has undergone important changes. The share of Arab investment as a proportion of total FDI has increased, mainly due to large transactions in the telecommunications and finance sectors. In 2006, direct investment from Arab countries accounted for 25 per cent of gross FDI inflows to Egypt. In the last few years, companies based in Kuwait, Lebanon, Saudi Arabia and the United Arab Emirates have undertaken major investments in Egypt. About 33 per cent of total FDI flows to Egypt in 2006 originated from the European Union and 29 per cent from the United States of America. In addition to major transactions in the telecommunications and banking industries, there have been significant FDI inflows in the energy and construction sectors. In December 2007, Lafarge S.A. of France, the world's largest cement maker, announced the acquisition of Egypt's Orascom Construction Industries Cement Group for US\$ 12.9 billion, thus gaining access to a region that is undergoing a construction boom. The deal exemplifies the fact that Egypt is increasingly perceived by international investors as a gateway to Africa and the Arab region. The strong improvement in its business climate, coupled with the large number of investment opportunities, is likely to render Egypt one of the most attractive destinations for FDI in the region.

TABLE 2. FDI INFLOWS TO ESCWA MEMBER COUNTRIES, 2003-2007  
(Million US\$)

	2003	2004	2005	2006	2007
Bahrain <sup>a/</sup>	517	865	1 049	2 915	1 756*
Egypt <sup>b/</sup>	450	2 161	5 376	10 043	11 578
Jordan <sup>c/</sup>	440	811	1 762	3 245	1 937*
Kuwait <sup>d/</sup>	-67	51	620	157	--
Lebanon <sup>e/</sup>	2 977	1 993	2 751	2 794	2 530*
Oman <sup>f/</sup>	542.6	42.6	1 757.7	1 656.4	--
Palestine <sup>g/</sup>	18	49	47	38	--
Qatar <sup>h/</sup>	640	1 081	1 196	1 687	--
Saudi Arabia <sup>i/</sup>	778	1 942	12 107	18 400	--
Syrian Arab Republic <sup>j/</sup>	160	693	636	600	--
United Arab Emirates <sup>k/</sup>	4 292	10 089	10 901	12 815	--
Yemen <sup>l/</sup>	96.3	214.6	-259.1	1 212.4	--
Total	10 843.9	19 992.2	37 943.6	55 562.8	--

(--) Indicates data is not available.

\* Preliminary data.

Sources:

a/ Data taken from various issues of the *Statistical Bulletin*, Central Bank of Bahrain, <http://www.cbb.gov.bh/>

b/ Data obtained from various issues of *The Financial Monthly*, Ministry of Finance, Egypt, <http://www.mof.gov.eg/english>.

c/ Data taken from various issues of the *Monthly Statistical Bulletin*, Central Bank of Jordan, <http://www.cbj.gov.jo/>

d/ Data for 2003 taken from the *Quarterly Bulletin, January–March 2008*, Central Bank of Kuwait, <http://www.cbk.gov.kw/WWW/index.html>. Figures for 2004-2006 based on information on FDI projects obtained from the Kuwait Foreign Investment Bureau, <http://www.kuwaitfib.com/en/>. Those figures are higher than those reported by the Central Bank of Kuwait in the Balance of Payments Statistics.

e/ Data extracted from the *Quarterly Bulletin* of the Central Bank of Lebanon, *Banque du Liban, Q4-2007*, <http://www.bdl.gov.lb/>. The figure for the fourth quarter of 2007 is based on ESCWA estimates.

f/ Data taken from the *Foreign Direct Investment Statistics Bulletin 2002-2005*, Sultanate of Oman, Ministry of National Economy and Ministry of Commerce and Industry, February 2007, and the *Foreign Investment Statistical Bulletin 2005-2006*, Sultanate of Oman, Ministry of National Economy, Ministry of Commerce and Industry and Central Bank of Oman, February 2008.

g/ Data for 2003-2005 extracted from *Balance of Payments in Palestinian Territory*, Palestinian Central Bureau of Statistics, <http://www.pcbs.gov.ps/Portals/pcbs/Balance/fa87f1bf-e29a-4d2a-b8ce-b2260f85ecff.htm> and the figure for 2006 from UNCTAD, *World Investment Report, 2007*.

h/ Data taken from *The Millennium Development Goals in the State of Qatar*, July 2008.

i/ Figures for 2003-2004 based on the survey of enterprises with FDI participation conducted by Saudi Arabia General Investment Authority; figures for 2005-2006 taken from the annual report of the Saudi Arabian Monetary Agency (the Central Bank of Saudi Arabia), *Forty-third Annual Report*, <http://www.sama.gov.sa/indexe.htm>.

j/ Figures for 2004-2005 based on the survey of enterprises with FDI participation conducted by the Syrian Arab Republic; figures for 2003 and 2006 extracted from the quarterly bulletin of the Central Bank of Syria, *Banque Centrale de Syrie, 45<sup>th</sup> Quarterly Bulletin*, <http://www.banquecentrale.gov.sy/index.html>.

k/ Data extracted from economic bulletins from the Central Bank of the United Arab Emirates, June 2005, June 2006 and June 2007. <http://www.centralbank.ae/index.php>.

l/ Figures compiled by ESCWA, based on the *Balance of Payments Report* from the Central Bank of Yemen and the *Annual Report on Investments* from the General Investment Authority in Yemen.

In Saudi Arabia, continuous efforts by the Government to increase the contribution from the non-oil sector have led to a significant rise in FDI inflows. In 2006, net FDI inflows stood at US\$ 18,400 million, up by 52 per cent from 2005 and a vast 23 times higher than in 2003, when inflows of only US\$ 778 million were recorded (see table 2). As a percentage of GDP, FDI inflows increased from 0.36 per cent in 2003 to 5.3 per cent in 2006 (see table 3). According to the Saudi Arabian General Investment Authority (SAGIA), the United States of America captured the largest share of FDI inflows in 2006, followed by Japan and the United Arab Emirates. Bahrain, France, the Netherlands, Malaysia and the United Kingdom were also major investors that year. The increase in FDI was primarily facilitated by the opening up to foreign investment of

such key sectors as petrochemicals, telecommunications, power, mining and infrastructure, and through the development of six economic cities and special economic zones across the country. In addition, the minimum capital requirement for starting a business was completely removed and foreign businessmen can now obtain a multiple-entry visa, valid for 12 months, without requiring a letter of invitation from a Saudi host and without approval from the local Chamber of Commerce. These reforms have led to a considerable improvement in the country's ranking in the World Bank Ease of Doing Business Index and Saudi Arabia now ranks 23<sup>rd</sup> out of 178 countries, 15 places higher than in 2006. In the category 'starting a business', the country moved from 156<sup>th</sup> position to 36<sup>th</sup> by decreasing the number of procedures and the time required to start a business from 13 procedures and 39 days to 7 procedures and 15 days.

The oil and gas sector in Saudi Arabia has registered considerable FDI inflows in recent years through the establishment or expansion of joint ventures between Saudi Aramco, the world's largest oil corporation, and international energy companies. Most importantly, Saudi Aramco and Sumitomo Chemical Co. of Japan have embarked on a 50-50 joint venture, the Rabigh Refining and Petrochemical Company (PETRORabigh), to transform the company's Rabigh Refinery into a fully integrated refining and petrochemical complex. The US\$ 10 billion project, which was launched in September 2005, is scheduled for completion in the third quarter of 2008. Saudi Aramco has also recently signed agreements with Total (France) and ConocoPhillips (USA) for the construction of two grass-roots export refineries and with the Dow Chemical Company (USA) on construction, ownership and operation of a global chemicals and plastics production complex. In addition, a series of joint venture agreements has been signed with Shell, Total, Lukoil, Sinopec and a consortium between ENI and RepsolYPF for the exploration, development and production of non-associated gas. The six economic cities, which the country is scheduled to build by 2020, aim to promote energy- and transport-related industries, knowledge-based industries and logistical services. They are expected to further increase the inflow of foreign direct investment from both Arab and international companies. The Saudi Arabia Government aims to position the country in the top ten world destinations for FDI inflow by 2010.

TABLE 3. FDI INFLOWS TO ESCWA MEMBER COUNTRIES  
AS A PERCENTAGE OF GDP, 2003-2007

	2003	2004	2005	2006	2007
Bahrain	5.38	7.82	7.62	18.46	8.82
Egypt	0.61	2.62	5.46	8.79	8.35
Jordan	4.33	7.04	13.70	22.76	12.32
Kuwait	(0.15)	0.09	0.77	0.15	--
Lebanon	16.43	10.09	12.48	12.00	--
Oman	2.50	0.17	5.92	4.65	--
Palestine	0.46	1.18	1.04	0.91	--
Qatar	2.70	3.80	3.50	3.20	--
Saudi Arabia	0.36	0.78	3.94	5.30	--
Syrian Arab Republic	0.74	2.95	2.53	1.84	--
United Arab Emirates	4.84	9.72	8.16	7.77	--
Yemen	0.85	1.66	(1.59)	5.72	--
ESCWA average	2.00	3.18	4.87	5.99	--

Sources: Based on table 1 above and Unified Arab Economic Report, September 2007.

(--) Indicates data is not available.

In the early 2000s, the United Arab Emirates were the main recipient of FDI flows to the ESCWA region. By investing heavily in infrastructure, promoting private sector development and improving the business climate, the Government created a favourable environment for foreign investment. During recent years, the positive trend in FDI flows to the United Arab Emirates has continued. In 2006, the country received net FDI inflows of US\$ 12.8 billion, three times as much in 2003 and the second highest in the ESCWA region. Due to exceptionally strong growth in real GDP, the ratio of FDI inflows to GDP fell from 9.7 per cent in 2004 to 7.8 per cent in 2006. The leading sectors for foreign investment in 2006 were the oil and gas industry, financial intermediation and insurance, construction, wholesale and retail trade, and

manufacturing. In the Ease of Doing Business Index, the United Arab Emirates climbed 9 places in the 2008 report to reach 68<sup>th</sup> position (table 4). Benefiting from the best infrastructure among ESCWA member countries, the United Arab Emirates continues to improve its investment climate in order to constantly increase FDI inflows.<sup>4</sup> In 2006, the Government established the Abu Dhabi Investment Council, which is responsible for managing Government capital investments inside and outside the United Arab Emirates, and in 2007 it created the Emirates Investment Authority. The Ministry of Economy has prepared a draft Foreign Investment Law, which is expected to be passed shortly. This law will regulate FDI inflows to the United Arab Emirates and establish a one-stop shop for investment, with the objective of increasing FDI inflows and enhancing economic diversification. Furthermore, in 2006 a number of decisions aimed at improving transparency, combating corruption and decreasing bureaucracy were enforced, along with a Consumer Protection Law. Overall, the perspectives of the United Arab Emirates to attract large amounts of FDI remain favourable in both the short-and medium-term, although sharp increases in the cost of living and a potential bubble in the housing market constitute significant risks.

TABLE 4. DOING BUSINESS IN ESCWA MEMBER COUNTRIES IN 2006 AND 2008

	Ease of doing business		Starting a business		Dealing with licences		Protecting investors		Enforcing contracts		Closing a business	
	Rank 2008	Rank 2006	Rank 2008	Rank 2006	Rank 2008	Rank 2006	Rank 2008	Rank 2006	Rank 2008	Rank 2006	Rank 2008	Rank 2006
Saudi Arabia	23	38	36	156	47	44	50	99	136	97	79	87
Kuwait	40	46	121	104	85	109	19	19	99	79	67	63
Oman	49	55	107	81	130	127	64	60	110	101	59	60
United Arab Emirates	68	77	158	155	38	79	107	118	144	112	139	137
Jordan	80	78	133	133	71	70	107	118	128	75	87	84
Lebanon	85	86	132	116	113	99	83	83	121	148	117	111
Yemen	113	98	175	171	35	39	122	118	41	37	83	82
Palestine	117	127	166	173	132	108	33	99	125	100	178	151
Egypt	126	165	55	125	163	169	83	118	145	157	125	120
Syrian Arab Republic	137	130	169	142	86	87	107	118	171	153	77	77

Source: Doing Business Reports, 2006 and 2008.

#### B. SMALLER, HIGH-PERFORMING ECONOMIES: BAHRAIN, JORDAN, LEBANON, OMAN AND QATAR

The massive surge in FDI inflows to Egypt, Saudi Arabia and the United Arab Emirates has somewhat overshadowed the recent success of several smaller ESCWA economies in attracting foreign direct investment. As illustrated in Table 2, Bahrain, Jordan, Oman and Qatar have emerged as important destinations of FDI within the region, alongside Lebanon, which continued to receive considerable inflows during the period 2005 to 2007, despite the political turmoil that paralysed the economy. In fact, Bahrain, Jordan and Lebanon were the only ESCWA countries that attracted net FDI inflows in 2006 in excess of 10 per cent of current GDP.<sup>5</sup>

Over recent years, the Bahraini Government has followed a liberal approach to foreign investment, constantly aiming to improve the attractiveness of the country to international investors and businesses. Although direct investors still face restrictions in certain areas, such as the real estate sector, they benefit from an investment-friendly environment. Incentives for investors include the absence of personal and corporate taxes, and free repatriation of capital and profit, all within a well-developed infrastructure and a strong financial system. The Bahrain one-stop shop for investment, the Bahrain Investors Centre, was established in 2004 for local and foreign companies and has since contributed to a steady improvement in the

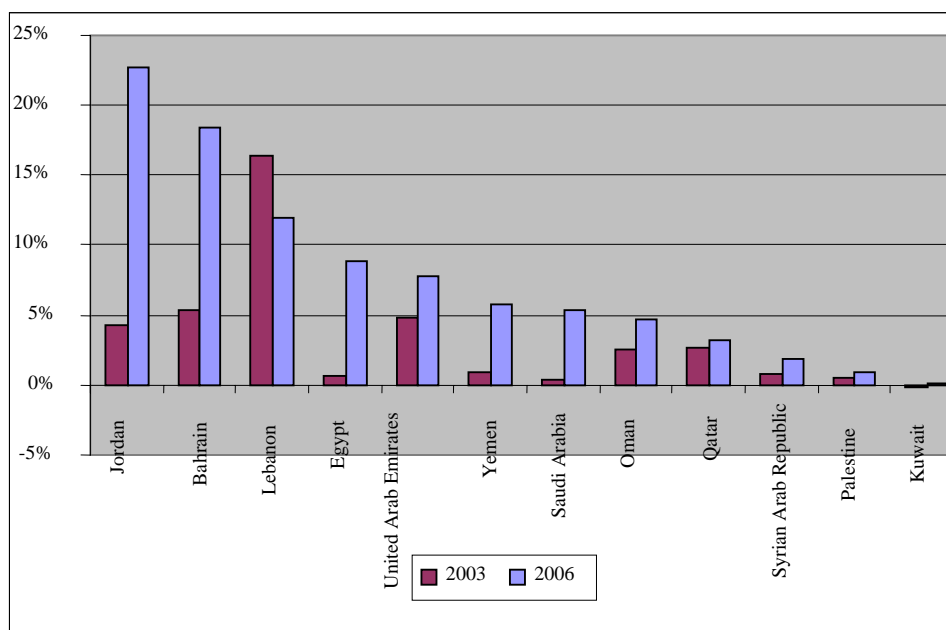
<sup>4</sup> Worldwide, in 2007 the United Arab Emirates occupied 17<sup>th</sup> position (out of a total of 131 countries) in the area of infrastructure, according to the World Economic Forum Global Competitiveness Index.

<sup>5</sup> The combined GDP of these three countries in 2006 was less than one sixth of Saudi Arabia's GDP in that year.

business environment. The success of the Bahrain FDI strategy can be seen in the six-fold increase in FDI inflows between 2003 and 2006, which was mainly driven by investment in real estate, the financial sector, and the aluminium and petrochemical industries. As a share of GDP, net FDI inflows rose to 18.5 per cent in 2006, the second highest ratio in the ESCWA region. While preliminary data of net FDI inflows in 2007 show a decrease compared to the record inflows of 2006, the overall perspectives for the country to attract foreign capital remain favourable.

Unlike the oil- and gas-rich GCC countries, Jordan possesses only limited natural resources and therefore depends more heavily on external financing. During recent years, the Jordanian Government has taken important steps towards improving the business climate and attracting larger inflows of FDI, especially from Arab countries. The investment drive has included the development of several investor-friendly economic zones and the privatization of major national infrastructure and utilities companies (including transport, electricity, water and telecommunications). At the same time, Gulf-based investors have increasingly invested in the property market in Jordan, principally in the capital Amman and the burgeoning tourist area of Aqaba. Demand in the housing and real estate market has also been underpinned by non-resident Jordanians investing in domestic property in their home country. As a result, net FDI inflows to Jordan rose to US\$ 3.25 billion in 2006, almost eight times the amount of FDI inflows in 2003. As a percentage of current GDP, FDI inflows stood at 22.8 per cent in 2006, the highest ratio among ESCWA countries (Figure II). For 2007, preliminary figures indicate a decrease in FDI inflows to approximately US\$ 1.94 billion. This slowdown in FDI inflows is partly accounted for by lower growth in the construction and real estate sector. While the outlook for foreign direct investment in Jordan is generally positive, one area of concern for policymakers is the relatively low share of greenfield investment as a proportion of total FDI. In an effort to address this challenge, the Jordan Investment Board is currently developing a new FDI strategy that focuses on export-oriented industries and targets 12 countries for new FDI, including three Arab states: Kuwait, Saudi Arabia and the United Arab Emirates. In July 2006, the Ministry of Industry and Trade announced a new draft investment law, which is expected to further strengthen the incentives for investors, thus encouraging additional inflows.

**Figure II. FDI as a percentage of GDP, 2003 and 2006**  
(Percentage)



Source: Compiled from table 3.

The FDI performance of Lebanon in recent years contrasts sharply with that of most other ESCWA countries. In 2003, the country was the second largest recipient of FDI flows in the region, attracting almost 28 per cent of total inflows. Lebanon also had by far the highest FDI to GDP ratio among ESCWA countries. Foreign direct investment activities were mainly concentrated in the real estate and financial sectors, with Lebanese expatriates accounting for a significant proportion of total inflows. Since 2004, political instability and volatile security conditions have constrained FDI activities in Lebanon. In 2006, the country reported total net inflows of US\$ 2.8 billion, slightly below 2003 levels. Preliminary data show a further decrease in 2007, with FDI inflows estimated at US\$ 2.5 billion. This decline in FDI inflows has, however, been mitigated by strong ongoing demand for housing and real estate from Lebanese expatriates and Gulf investors.

According to data from the Investment Development Authority of Lebanon (IDAL) more than 50 per cent of total FDI in 2006 was directed to the residential and real estate sector, while financial services and tourism received approximately 40 per cent. By contrast, FDI in industrial sectors and agriculture continued to be insignificant. The geographical distribution of FDI flows to Lebanon is heavily biased towards Arab countries, with almost 90 per cent of total FDI in 2006 originating from just four Gulf countries: Kuwait, Qatar, Saudi Arabia and United Arab Emirates. Non-Arab foreign direct investment in Lebanon remained very low, accounting for a mere 2.3 per cent in 2006. Despite the political instability and fragile security situation that prevailed from 2005 to 2007, the Government was aware of the important role that FDI plays in Lebanon and continued to address the needs of foreign investors.

In January 2007, at the Paris III International Conference for Support to Lebanon, the Government expressed its commitment to engage in a series of economic and social reforms. At the top of those came improvement in the investment climate, enforcement of intellectual property rights and the implementation of long-planned privatization activities. In the context of that framework, and in an effort to improve the investment climate, Lebanon launched the Investors Support and Information Center (ISIC) in the third quarter of 2007. ISIC is a databank comprising multiple indicators to provide foreign investors with an overall picture on the economic framework in Lebanon. Furthermore, in September 2007 the Ministry of Economy and Trade, along with the International Finance Corporation (IFC), simplified business registration procedures and developed a detailed guide for investors, available online. This guide provides a “step-by-step roadmap” to starting and registering a business in Lebanon, including information on the documents required, relevant fees and the timescale for registration. The overall aim of this guide is to further improve the environment for doing business in the country. In the World Bank Doing Business report in 2008, Lebanon was ranked in 85<sup>th</sup> position. Its prospects for attracting larger inflows of FDI depend mainly on developments on the political front, as economic conditions in the country remain largely favourable. The agreement reached by the opposing political factions in May 2008 and the subsequent establishment of a unity Government have significantly improved the FDI outlook for Lebanon.

Prior to 2003, Oman received relatively little foreign direct investment and economic progress in the country was mainly financed by oil profits. Recognizing the need to diversify the economy, the Omani Government undertook a series of reforms to strengthen the business environment and attract higher FDI inflows, including new tax and privatization laws. The improved investment climate has resulted in a considerable increase in FDI flows to Oman in the years since. In 2006, the country registered net FDI inflows of US\$ 1.66 billion, more than three times the amount received in 2003. Yet FDI inflows as a share of GDP have remained relatively small, at 5.9 per cent in 2005 and 4.7 per cent in 2006. Most foreign direct investment has been directed to three sectors: oil and gas, manufacturing and financial services. In the oil and gas sector, several multinational companies have undertaken large investments in recent years through partnerships with domestic entities. Major deals during the period 2004 to 2006 included the establishment of a petrochemical complex through a joint venture between The Dow Chemical Company (USA), the Omani Government and the Oman Oil Company (OOC), and the construction of an aluminium smelter under a joint venture between Alcan, the Abu Dhabi Water and Electricity Authority and the OOC. The majority part of FDI inflows to Oman in 2006 originated from the United Kingdom, the GCC countries, the USA and India.

In recent years, Qatar has seen a sizeable increase in foreign direct investment inflows, primarily in the sectors of enhanced oil recovery and production, and in the development of the gas industry. From 2003 to 2006, net FDI inflows almost tripled from US\$ 0.64 billion to US\$ 1.69 billion.<sup>6</sup> As is the case in Oman, FDI flows to Qatar as a percentage of current GDP are fairly small, not exceeding 4 per cent in the last few years. In the petrochemical sector, state-owned Qatar Petroleum has entered into several production-sharing contracts with leading international oil companies. As Qatar has the third largest natural gas reserves in the world, its liquefied natural gas (LNG) and gas to liquids (GTL) industries are strongly expanding. Both sectors have attracted large foreign direct investment flows in recent years by such global energy firms as Exxon Mobile and Royal Dutch Shell. However, foreign investors still face significant restrictions in the fields of banking, insurance, commercial representation and real estate purchase.

### C. BELOW-POTENTIAL PERFORMERS: KUWAIT, PALESTINE, SYRIAN ARAB REPUBLIC AND YEMEN

In contrast to most other countries in the Western Asia region, Kuwait, Palestine, the Syrian Arab Republic and Yemen have not witnessed a robust increase in FDI inflows in recent years. Total net FDI flows to those four countries have generally remained weak and account for only a small percentage of domestic GDP.<sup>7</sup> The factors that constrain the inflow of FDI vary significantly between the countries and include both direct barriers, such as foreign ownership restrictions, and indirect barriers, such as shortages in skilled labour.

Foreign direct investment flows to Palestine continued to be insignificant in 2005 and 2006 as the economic dependency of the territory on foreign aid further increased. As a result of lower levels of foreign assistance and continuous restrictions on the movement of goods, people and capital, the Palestinian economy contracted by almost 9 per cent in 2006. Both domestic and foreign private investment activities fell even further from the low levels registered in 2004 and 2005. Net FDI inflows to Palestine in 2006 were estimated at merely US\$ 38 million, representing less than one per cent of GDP. In the second half of 2007, the Palestinian economy began to stabilize and full-year growth is now estimated at 0.7 per cent. However, private investment has remained sluggish and unless a comprehensive political solution for the West Bank and Gaza is reached, foreign direct investment will not act as a catalyst for economic development.

Until 2005, Yemen recorded low – in some years even negative – net FDI inflows.<sup>8</sup> Oil and gas exploration, production and related services accounted for the bulk of foreign direct investment activities as the Yemeni Government entered into production-sharing agreements with several large international enterprises, including companies from the United States, Canada, France, South Korea and Norway. Until recently, foreign direct investment in the non-oil sector remained very limited. In the last few years, the Yemeni Government has embarked on a series of reforms and initiatives that aimed to improve the investment climate and attract higher FDI inflows, especially in the non-oil sector. The principal reforms include the amendment of the investment law in 2002, which established equal treatment between foreign and Yemeni investment, and the restructuring of the General Investment Authority (GIA). In 2007, the Government passed anti-corruption legislation and established a specialized authority to combat corruption and mismanagement.

In April 2007, the Ministry of Industry and Trade organized a conference on Investment Opportunities in Yemen, aiming to promote investment opportunities in multiple economic sectors. At this conference, the Government expressed its willingness to modernize the legislation governing activities of foreign investment companies and remove the numerous obstacles hindering an increase in the inflow of investment to Yemen.

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<sup>6</sup> Quantitative and qualitative information on foreign direct investment flows to Qatar remains limited. Actual FDI inflows during the period 2003-2006 may have been higher than indicated by the data presented in this report, which are based on Qatar's Second Report on the Millennium Development Goals (2008).

<sup>7</sup> Providing comprehensive and detailed information on FDI activities remains a significant challenge in each of these four countries.

<sup>8</sup> Negative figures for FDI inflows represent the repatriation of previous investment, implying a reduction in the FDI stock of a country.



Furthermore, it expressed its readiness to offer land to potential investors on condition that projects start operating within a period of six months. The conference principally targeted investors from the GCC. Benefiting from the economic boom in those countries and from improved domestic investment conditions, Yemen had already experienced a sharp increase in FDI inflows in 2006.

Following negative net FDI inflows of US\$ 259 million in 2005, inflows in 2006 are estimated at US\$ 1.2 billion, corresponding to 5.7 per cent of current GDP.<sup>9</sup> The positive trend in FDI inflows is also reflected in a higher number of projects outside the oil and gas sector registered by the General Investment Authority in 2006. While foreign investment in the oil and gas sector continues to account for most of the total inflows, there has also been increased foreign participation – especially from Gulf investors – in the cement industry and in the service and tourism sectors. Foreign direct investment in agriculture and fisheries, by contrast, has remained low. The medium-term prospects for attracting larger and more stable FDI inflows depend on the ability of the Government to address the main obstacles to foreign investment successfully. Those include the lack of adequate infrastructure, security problems, insufficient enforcement of existing legislation and a generally low-skilled workforce.

Unlike other GCC countries, Kuwait has not established itself as a major destination for FDI flows to the Western Asia region. Direct foreign participation in the Kuwaiti economy remains very limited and restricted to a small number of sectors and activities, despite the fact that Kuwait enjoys a high degree of macroeconomic stability and a creditable ranking on the ease of doing business.<sup>10</sup> In 2003, the country registered negative net FDI inflows of US\$ 67 million, followed by positive net inflows of US\$ 51 million in 2004. The formation of a new joint venture between a subsidiary of Kuwait Petroleum Corporation and The Dow Chemical Company (US) contributed to a substantial increase in total FDI inflows in 2005. The two companies agreed to construct a new ethylene and derivatives complex, referred to as the Olefins II project, for a total estimated cost of US\$ 2.5-3 billion. Moreover, several international banks, including the National Bank of Abu Dhabi, HSBC and Citibank established branches in Kuwait in 2005, following the opening up of the sector the previous year. As a result, FDI inflows increased to an estimated US\$ 620 million in 2005, before dropping to US\$ 157 million in 2006, corresponding to a mere 0.15 per cent of Kuwait's GDP. While total figures for FDI flows to Kuwait in 2007 are not yet available, preliminary data indicate a significant increase, as Qatar Telecom (Qtel) acquired 51 per cent of Kuwait's Wataniya Telecom in a US\$ 3.7 billion deal.

The difficulties experienced by Kuwait in attracting foreign direct investment during recent years result from a combination of geographical and economic factors. On the economic front, endowments of production factors are not favourable to foreign direct investment. An acute shortage of land has resulted in steep increases in commercial land prices. Likewise, skilled labour remains in short supply, with labour costs being high and on the rise. Conversely, Kuwait enjoys a number of competitive advantages, including very good infrastructure, a generally favourable business environment and a new tax law (passed in February 2008) that is expected to promote foreign investment by reducing tax liability, and simplifying and clarifying matters for foreign companies. The key feature of the new legislation is the replacement of the old progressive structure (with tax rates on earnings between 5 and 55 per cent) by a flat tax rate of 15 per cent. The adoption of the new tax law is an important step in the process of making Kuwait a more attractive destination for international investors. However, if FDI is expected to play a key role in achieving long-term sustainable growth, an increased willingness to privatize and to allow for foreign competition will be required.

During the period 2004-2006, the Syrian Arab Republic enjoyed robust economic growth and fairly stable foreign direct investment inflows. After having quadrupled in 2004 to reach US\$ 693 million, FDI inflows dropped slightly to US\$ 636 million in 2005 and US\$ 600 million in 2006. As a percentage of GDP, FDI inflows remained below 3 per cent, significantly lower than in neighbouring Jordan and Lebanon. The gradual liberalization process initiated by the new Government in 2000 has led to a general improvement in

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<sup>9</sup> The figure of \$US 1.2 billion for 2006 is based on revised data taken from the Balance of Payments Report issued by the Central Bank of Yemen and from the Annual Report on Investments produced by the General Investment Authority.

<sup>10</sup> In the 2008 Doing Business Report, Kuwait is ranked 40<sup>th</sup> out of 178 countries.

the business climate, but regional political uncertainties and a relatively weak legal and regulatory environment continue to deter foreign investors. Before 2004, the oil and gas sector was by far the most important destination of FDI to the Syrian Arab Republic, accounting for 80-90 per cent of total inflows. Royal Dutch Shell (Netherlands) and Petro-Canada are among the international oil companies that have undertaken significant investments in oil and gas exploration and production in recent years. In 2004, the share of FDI directed to the oil and gas sector dropped to 50 per cent as agricultural activities benefited from increased foreign participation.

In 2005, following the partial liberalization of the banking sector, several Lebanese banks created joint ventures with Syrian counterparts.<sup>11</sup> In that year, Lebanon accounted for two thirds of total FDI flows to the Syrian Arab Republic. In 2007, two new Islamic banks were established with foreign participation. In January 2007, the Syrian Government passed its long-awaited new investment law. This law not only aims to regulate FDI flows to the Syrian Arab Republic, but also to increase inflows by providing investors with a set of incentives, including the freedom to transfer money and profit, the freedom to own real estate, the protection of investors and a new dispute settlement mechanism. Furthermore, a new investment authority has been established and efforts are being directed towards the development of a single window for investors in order to speed up the process of starting a business and combat bureaucracy. Given significant business opportunities in the industrial and service sectors, the perspectives for the Syrian Arab Republic to attract higher FDI inflows appear to be relatively favourable.

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<sup>11</sup> Foreign banks are permitted to hold a maximum of 49 per cent in joint ventures.

### III. MAIN CHALLENGES FOR ESCWA COUNTRIES

While the vast majority of countries in the Western Asia region have experienced a remarkable improvement in the business climate over recent years and a subsequent surge in foreign direct investment activities, there are several factors that continue to constrain FDI inflows. Clearly, the relevance of those factors varies significantly from country to country. This chapter aims to address some of the main challenges that the countries of the ESCWA region are currently facing in the area of foreign direct investment, including relatively high and increasing rates of inflation, weak enforcement of legislation, excessive levels of bureaucracy and corruption, the dominance of Government sectors and slow implementation of privatization programmes.

#### A. INFLATION

The favourable macroeconomic situation in the ESCWA region has recently been clouded by rising inflation rates, which have resulted in an erosion of local purchasing power and subsequent pay increases, particularly in GCC countries. The strong rise in consumer prices is mainly driven by buoyant domestic demand, the global surge in food prices and the weakening of the US dollar, to which most ESCWA countries have pegged their currencies. In the GCC countries, surging oil revenues have been accompanied by rapid growth of credit to the private sector, thereby increasing liquidity and stimulating demand. The need for most ESCWA member countries to reduce interest rates in line with recent moves of the US Federal Reserve has further increased consumption and investment demand. According to latest official figures and estimates, inflation rates in all ESCWA countries except Bahrain and the Syrian Arab Republic have surpassed the 10 per cent mark. Egypt, Lebanon, Qatar, the United Arab Emirates and Yemen are expected to record the strongest price increases in the region in the first half of 2008. Even though empirical evidence on the impact of inflation on foreign direct investment remains incomplete, it is likely that a further acceleration of price increases will negatively affect FDI flows to ESCWA countries. In most countries of the region, particularly Jordan and Egypt, macroeconomic stability has been an important factor in the recent surge in FDI inflows. Spiralling inflation rates may shake the confidence of foreign investors. As uncertainty increases, both domestic and foreign firms may be reluctant to invest in new plants and equipment. Export-oriented sectors are likely to experience a particularly strong decrease in investment activities, since higher costs for input factors will reduce competitiveness in global markets.

#### B. WEAK ENFORCEMENT OF LEGISLATION

As illustrated in the previous chapter, the majority of ESCWA countries have undertaken far-reaching economic reform programmes to increase their attractiveness to foreign investors, notably by introducing new tax and investment legislation. However, many of those countries suffer from a weak and inconsistent enforcement of regulations. In fact, almost all countries have laws governing the activities of direct investment enterprises and regulating foreign companies, yet misinterpretation of legislation on the one hand and slow, inconsistent implementation of the laws on the other hand, continue to hinder FDI inflows. In Kuwait, for example, foreign investors have frequently reported significant difficulties and delays in obtaining ownership approval, despite the fact that Law Decree No. 8 of 2001 regarding organization of direct investment of foreign capital in the State of Kuwait authorizes full foreign ownership in certain sectors. Investors in Yemen suffer from weak enforcement of property legislation, both physical and intellectual, while poor land ownership records and a weak property registration system also represent major challenges for the country. Today, almost all ESCWA member countries have passed legislation to ensure the protection of intellectual property rights. However, several countries, including Egypt, Lebanon and the Syrian Arab Republic, have not yet been able to enforce these laws.

#### C. BUREAUCRACY, CORRUPTION AND RED TAPE

To varying degrees, ESCWA countries face the challenge of excessive bureaucracy, corruption and red tape. Numerous and lengthy Government procedures, inconsistent interpretation of Government regulations and favouritism in decisions of Government officials often constitute an additional burden for foreign investors. According to the World Economic Forum, Bahrain, the Syrian Arab Republic and Kuwait were ranked 56<sup>th</sup>, 72<sup>nd</sup> and 78<sup>th</sup> respectively out of a total of 117 countries in terms of favouritism by

Government officials, a clear indication that Government officials are not providing fair and equal treatment for all. With respect to the burden of Government regulations, Kuwait, Egypt and the Syrian Arab Republic were ranked 73<sup>rd</sup>, 74<sup>th</sup> and 86<sup>th</sup> respectively out of 127 countries.<sup>12</sup> Yemen also suffers from high levels of bureaucracy and investors frequently report that Government regulations constitute a heavy burden.

Despite serious efforts undertaken by Governments to combat and limit corruption, resulting in some notable achievements, corruption remains present in many business activities in the ESCWA region. Transparency International, a civil society organization dedicated to curbing both national and international corruption, ranks countries according to the degree of public sector corruption. The index ranges between 10 and 0, with 10 implying a highly clean public sector and 0 a highly corrupt public sector. Among ESCWA member countries, 9 countries have indices between 4.7 (Oman and Jordan, ranked joint 53<sup>rd</sup>) and 1.5 (Iraq, ranked 178<sup>th</sup>). Kuwait, Saudi Arabia, Lebanon, Egypt, Yemen and the Syrian Arab Republic were ranked 60<sup>th</sup>, 79<sup>th</sup>, 99<sup>th</sup>, 105<sup>th</sup>, 131<sup>st</sup> and 138<sup>th</sup> respectively out of 179 countries.<sup>13</sup>

#### D. DOMINANCE OF GOVERNMENT SECTORS AND SLOW IMPLEMENTATION OF PRIVATIZATION PROGRAMMES

Many ESCWA member countries continue to suffer from the dominance of the Government sector. Several countries have passed new laws and developed privatization programmes; however, the implementation of these programmes is frequently extremely slow and in certain countries faces resistance. In fact, there is a perception that privatizing state-owned companies will harm the poor for the benefit of the rich and foreigners, and a negative cultural perception has therefore developed in some quarters. In Kuwait, for example, the oil sector, which contributes more than three quarters of Gross Domestic Product, is still managed by the public sector. Furthermore, a privatization bill was submitted to Parliament in 1992, yet is still awaiting approval.

In the Syrian Arab Republic, the public sector remains dominant and the privatization process is not a priority for reform. On the contrary, the Government has adopted a strategy to reform the public sector, transforming public entities into joint public-private companies and separating management from ownership, with the latter remaining in public hands. However, implementation continues to be very slow.

In Lebanon, privatization plans date back more than a decade and have been part of the reform plans of every successive government. Telecommunications, electricity and transportation are the principal sectors to be privatized; however, strong opposition to these plans has delayed their implementation.

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<sup>12</sup> World Economic Forum, *Arab World Competitiveness Report*.

<sup>13</sup> Transparency International, *2007 Transparency International Corruption Perceptions Index*.

## IV. CONCLUSIONS AND RECOMMENDATIONS

### A. CONCLUSIONS

FDI flows to ESCWA member countries, excluding Iraq, witnessed an increase in 2006, maintaining the upward trend that started in 2002, to reach a total inflow of US\$ 55.6 billion in 2006, an increase of 46 per cent on 2005. This significant increase is principally due to vast intraregional flows and is directed mainly towards the telecommunications, banking and construction sectors. The increase in oil prices and favourable economic conditions, particularly in the GCC countries, coupled with an improvement in the business climate and the launching of privatization programmes in a number of member countries are all expected to contribute to the maintenance of this upward trend in 2007 and 2008.

However, FDI flows to ESCWA member countries in 2006 were not equally distributed. In fact, member countries can be divided into three categories: the first of these comprises Egypt, Saudi Arabia and the United Arab Emirates, which constitute the high-performing countries of the region in terms of FDI inflows, capturing some 74.3 per cent of total inflows in 2006. The second category includes Bahrain, Jordan, Lebanon, Oman and Qatar and represents the smaller, high-performing economies, that together captured some 22 per cent of total inflows in 2006. The third category comprises Kuwait, Palestine, the Syrian Arab Republic and Yemen, which constitute the low-performing countries in the region, receiving only 3.7 per cent of total inflows in 2006.

All ESCWA member countries face a number of challenges that hinder further increases in FDI flows. While the size and significance of these challenges may differ from one country to another, they all suffer from high inflation rates, weak enforcement of legislation, high levels of bureaucracy and corruption, a dominant Government sector and slow implementation of privatization programmes.

### B. RECOMMENDATIONS

In the light of this, and in order to improve the investment climate and increase FDI inflows, the following recommendations should be taken into consideration by ESCWA member countries:

1. To continue working towards achieving a stable macroeconomic environment.
2. To ensure that legislation has a clear and unique interpretation.
3. To speed up the implementation of new laws and amendments to existing legislation.
4. To improve the business climate.
5. To take measures to combat bureaucracy, corruption and red tape, including establishing a powerful, independent supervisory authority.
6. To encourage the participation of the private sector, increase the pace of implementation of privatization programmes and work on changing negative cultural perceptions of privatization.