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# MAIN FINDINGS OF A SURVEY OF FDI ENTERPRISES IN BAHRAIN, JORDAN AND LEBANON

by

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ESCWA

Draft for discussion (not to be quoted)

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## TABLE OF CONTENTS

# MAIN FINDINGS OF A SURVEY OF FDI ENTERPRISES IN BAHRAIN, JORDAN AND LEBANON

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## I. INTRODUCTION

This report presents the main findings of a survey of a sample of foreign direct investment (FDI) enterprises in three selected ESCWA member countries: Bahrain, Jordan and Lebanon. The sample consists of 50 enterprises in each of Jordan and Lebanon, and 35 enterprises in Bahrain. It was selected randomly from a list of FDI enterprises, provided by concerned government agencies and investment promotion offices in the three countries. In the selection of the sample, however, due consideration was given to the three following criteria: companies that represent various sectors of the economy, are of different size, and established at different periods: before 1990, from 1990 to 1995 and after 1996. In this connection, it is important to note that the results of the survey cannot be fully extrapolated to the whole FDI sector; these results represent more trends than an accurate state of the sector. These trends, however, would help policy makers to better design FDI policy.

This report is part of ESCWA "Comparative Study on National Strategies and Policies with regard to FDI in Selected ESCWA member Countries". The objectives of this study are to review the existing shortages in the ESCWA member countries' strategies and policies with regard to FDI, and examine their consistency and adequacy to achieve the aim of promoting FDI in the region.

The survey of a sample of FDI enterprises in the three selected countries aims to:

(1) Discuss the major reasons of interest of FDI enterprises in investing in the three selected countries

(2) Identify the major problems encountered by FDI enterprises in the start-up phase

(3) Identify the impediments faced in operating in the host country

(4) Examine to what extent foreign investment enjoys the same treatment given to national investment

(5) Identify the major risk factors than may endanger the FDI business.

## II. CHARACTERISTICS OF THE SAMPLE

### 1. Date of establishment

As indicated above, the date of establishment of the companies selected in the sample was taken into consideration. More than two-third of the sample in Jordan and Lebanon, and half of the sample in Bahrain, were established in the 1990's. The table below shows the distribution of the sample according to the period of establishment: before 1990, from 1990 to 1995 and after 1996

*Date of establishment of the company*
*(In percent of the sample)*

| | JORDAN | LEBANON | BAHRAIN |
|---|---|---|---|
| Before 1990 | 23 | 20 | 50 |
| 1990-1995 | 23 | 20 | 32.4 |
| 1996-2000 | 54 | 60 | 17.6 |
| Total | 100 | 100 | 100 |

### 2. Share of foreign investment in total capital of the FDI enterprise

More than three-quarter of the companies selected in the sample in Jordan and Lebanon have more than 50% of foreign participation in total capital, against 57% in Bahrain, as indicated in the following table.

*Share of foreign investment in total capital of the company*
*(In percent of the sample)*

| Share (in per cent) | JORDAN | LEBANON* | BAHRAIN |
|---|---|---|---|
| 10-49 | 20 | 13.2 | 43 |
| 50 | 20 | 2.6 | 5.6 |
| 51-100 | 60 | 84.2 | 51.4 |
| Total | 100 | 100 | 100 |

* Only a total of 38 companies answered this question.

### 3. Nationality of the Director of the company

The Directors of the companies of the sample are of foreign nationality in more than two-third of the sample in both Jordan and Bahrain, and only one third in Lebanon.

*Nationality of the Director of the foreign company*
*(In percent of the sample)*

| Nationality | JORDAN | LEBANON* | BAHRAIN |
|---|---|---|---|
| Foreigner | 71.2 | 35 | 67.6 |
| Local | 28.8 | 65 | 32.4 |
| Total | 100 | 100 | 100 |

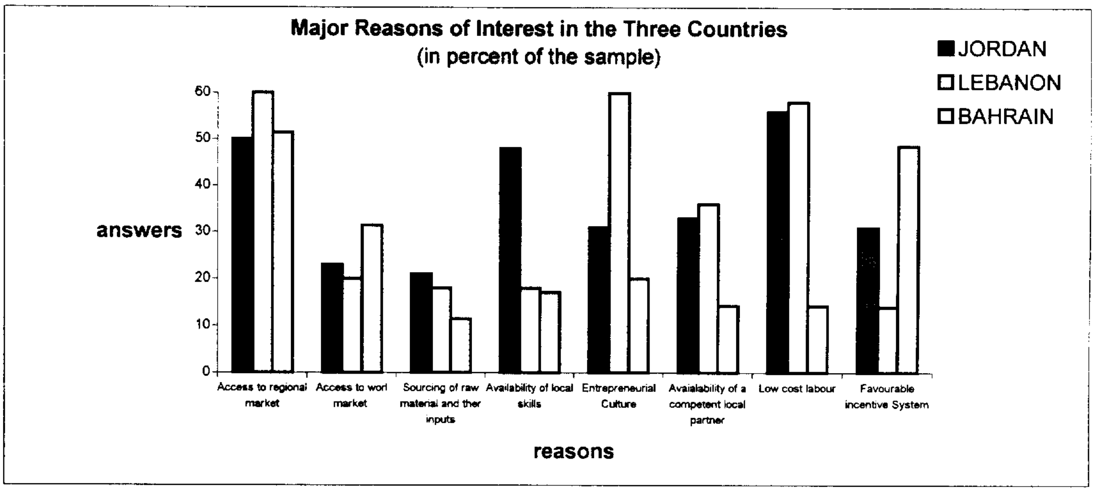
## III. MAJOR REASONS OF INTEREST OF THE FOREIGN PARTNER TO INVEST IN THE COUNTRY

The major reasons of interest indicated by foreign companies to invest in the host country vary among the three countries. When investing in the three selected countries, foreign companies seem to be interested with different degrees by: the domestic market, the access to regional and world market, the availability of local skills, the low-cost labour, the favourable incentive system, and the existence of an entrepreneurial culture and a competent local partner.

The following table shows the percentage of companies in the sample that indicated their major reasons of interest to invest in Jordan, Bahrain and Lebanon.

*Major reasons of interest of the foreign partner to invest in the country*
*(In percentage)*

| Major reasons | JORDAN | LEBANON | BAHRAIN |
|---|---|---|---|
| Size of domestic market | **42** | 28 | 22.9 |
| Access to regional market | **50** | **60** | **51.4** |
| Access to world market | 23 | 20 | **31.4** |
| Sourcing of raw materials and other inputs | 21 | 18 | 11.4 |
| Availability of local skills | **48** | 18 | 17.1 |
| Low-cost labour | **56** | **58** | 14.3 |
| Existence of a technological base | 35 | 22 | 17.1 |
| Favourable incentive system (tariffs and taxes) | 31 | 14 | **48.6** |
| Existence of an entrepreneurial culture | 31 | **60** | 20 |
| Availability of a competent local partner | 33 | 36 | 14.3 |
| Other | 42 | 30 | 17.1 |




## 1. Access to regional market

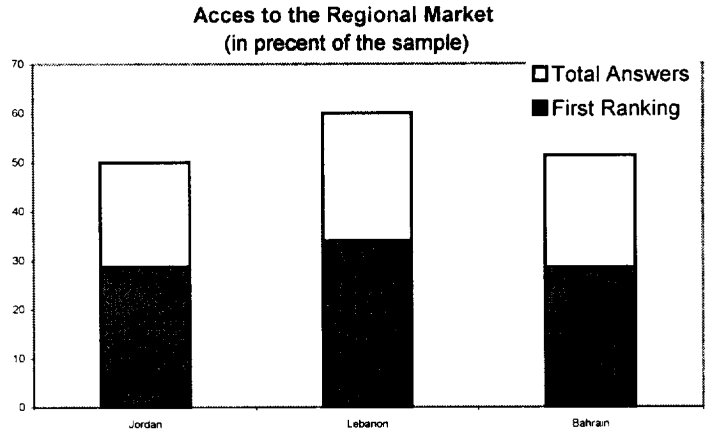
Access to regional market is considered one of the most important reasons for the inflow of FDI in Bahrain, Jordan and Lebanon. 60% of the sample in Lebanon, and half of the sample in both Jordan and Bahrain have considered this reason as the major one to invest in the country.

Many companies have established branches in Jordan to cater to the needs of the Iraqi market, though export to Iraq has dropped after the imposition of the economic sanctions. Jordan is attracting FDI in services activities, mainly tourism and hotels. Some foreign companies indicated their preference for Lebanon rather than to any other countries in the region, as Lebanon is considered the most "adequate" country to

> *The percentage of interviewed enterprises that considers **access to the regional market** as one of the major reasons for investing in the host country varies in each of the three countries as follows:*
>
> ***50% in Jordan***
> ***60% in Lebanon***
> ***51.4% in Bahrain***

live and operate in at the regional level. Many foreign companies revealed their intent to establish their regional office in Lebanon especially if a free zone is created in the Levant area. Foreign investors consider Bahrain as a gateway to the GCC market, particularly Saudi Arabia. Its geographical location enables Bahrain to access the GCC (particularly Saudi Arabia market) and Middle East market. In this connection, it should be mentioned that the Government of Bahrain encourages FDI, especially in export-oriented activities, and in those that do not compete with national enterprises.

It is important to note that more than half of the companies that selected "Access to the regional market" as one of the most important reason gave this reason the first ranking.




## 2. Labour cost

Low-labour cost is the most important reason considered by foreign companies when investing in Jordan, as skilled and unskilled labour in Jordan has relatively low wages as compared to Bahrain and other ESCWA member countries. While Lebanese labour is relatively expensive, foreign investors are attracted by the availability of low-wage labour from Syria in Lebanon, particularly in construction and contracting works. In Bahrain, this reason is shared by only 14% of the sample.

*The percentage of interviewed enterprises that considers **low-labour costs** as one of the major reasons for investing in the host country varies in each of the three countries as follows:*

***56% in Jordan***
***58% in Lebanon***
***14.3% in Bahrain***

## 3. Availability of local skills

The availability of local skills is a major reason for foreign companies to invest in Jordan, but it is considered of second importance in both Bahrain and Lebanon, though skills are available in Lebanon. Jordan has a high rate of unemployment, and enjoys the availability of skilled labour (engineers, IT specialists, etc.). The educated work force in Jordan constitutes one of the major factors in attracting FDI, though enhancing training and re-education in promising sectors (such as IT, vocational training and management) is needed if Jordan is to improve its competitive advantage vis-a-vis other countries in the region.

*The percentage of interviewed enterprises that considers the* ***availability of local skills*** *as one of the major reasons for investing in the host country varies in each of the three countries as follows:*

***48% in Jordan***
***18% in Lebanon***
***17% in Bahrain***

## 4. Size of the domestic market

In Jordan, foreign companies seem interested by the size of the domestic market, more than in Bahrain and Lebanon. Although the size of the market in Jordan is small, the fact is that Jordan had in the 1990s potential for market growth in import-substitution goods and services. In this connection, it is to be noted that with trade liberalization and the reduction in the effective protection of the domestic production, foreign companies will be reluctant to invest in Jordan to produce for the local market. Trade and production under licensing agreements and franchise will thus replace inflows of foreign investment.

*The percentage of interviewed enterprises that considers the* ***size of the domestic market*** *as one of the major reasons for investing in the host country varies in each of the three countries as follows:*

***42% in Jordan***
***28% in Lebanon***
***23% in Bahrain***

## 5. Access to world market and sourcing of raw materials

Access to world market and sourcing of raw materials and other inputs have not been cited as a major reason, though this is more pronounced in Bahrain than in Lebanon and Jordan.

The smallness of the sample does not enable to capture the impact of a few large companies that are operating in major sectors in Bahrain and Jordan, and which contribute significantly to total country's exports. In Jordan, the mining sector and the qualifying industrial zones have attracted major TNC companies. Sourcing constitutes a major factor that is attracting FDI, particularly that foreign investors can have now ownership of 100% of the capital in the mining sector. Joint ventures are being established with US, Japanese and Indian companies to produce chemicals and fertilizers to exploit the Dead Sea minerals. The creation of the Qualifying Industrial Zones (QIZ) in Jordan constitutes, in fact, an important reason for several foreign companies to establish in this zone with the aim of taking advantage of the free access to the USA market.

In Bahrain, several foreign companies have entered into joint ventures in the aluminium-based industries, and in the garment sector to take advantage of the free quota the Bahraini garment sector enjoys in the US market.

Lebanon has very few natural resources, and sourcing of raw materials and other inputs by foreign companies is very limited. Nevertheless, raw materials and other inputs are sometimes available in the Lebanese market through importations that are made easy from neighbouring countries.

*The percentage of interviewed enterprises that considers* ***sourcing of raw materials and other inputs*** *as one of the major reasons for investing in the host country varies in each of the three countries as follows:*

***21% in Jordan***
***18% in Lebanon***
***11.4% in Bahrain***

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***23% in Jordan***
***20% in Lebanon***
***and 31.4% in Bahrain:***
*consider that* ***the access to world market*** *is one of the main reasons to invest in the host country.*

## 6. Favourable incentive system

Around half of the sample in Bahrain indicated that the favourable incentive system is a major reason for investing in this country. With the difference of the other countries, Bahrain does not impose any tax on income and profits of companies. Imports of capital equipment, machinery and raw materials are also exempted from customs duties.

In Jordan and Lebanon, the incentive system is not as important to the foreign investors as it is in Bahrain. In Jordan, though fixed assets are exempted from customs duties, the projects that fall within one of the sectors listed in the Investment Promotion Law are exempted from income and social services taxes by a certain percentage depending on the development area the project is located: 25% in Area A, 50% in B and 75% in development area C. A recent study showed that the business community considers that the incentive system is complicated and cumbersome to access[1]. It is not known, however, to what extent the various incentives are determinant factors in attracting FDI in Jordan.

[1] Euro-Jordanian Business Service Team, **Jordan – Foreign Direct Investment: Opportunities and Constraints,** Draft report, Amman, January 2001.

*The percentage of interviewed* ***enterprises that considers the favourable incentive system*** *as one of the major reasons for investing in the host country varies in each of the three countries as follows:*

***31% in Jordan***
***14% in Lebanon***
***48.6% in Bahrain***

In Lebanon, there are no specific policy to attract FDI through special incentives. There are some incentives for projects established in the industrial, agriculture, and tourism sectors and recently in the IT sector. They include mainly fiscal exemptions for companies located in a Free Zone (the infrastructure of which has not been yet created), financial incentives through the Central Bank (subsidized interest rates), and reduction of custom duties on certain imports of machinery or equipment.

## 7. Existence of an entrepreneurial culture and of a competent local partner

Unlike Jordan and Bahrain, Lebanon enjoys the existence of an entrepreneurial culture, which has been considered among the most important reasons attracting foreign investment. This is coupled with the existence of competent local partners, who have better communication skills than in other countries. Many have successful experiences with their local partner. Many local partners are in fact Lebanese expatriates who encouraged investment in Lebanon and formed partnerships with foreign investors and moved their office to Lebanon.

*The percentage of interviewed enterprises that considers* ***the existence of an entrepreneurial culture and the availability of a competent local partner*** *as major reasons for investing in the host country varies in each of the three countries as follows:*

| ***Entrepreneurial culture*** | ***Competent local partner*** |
|---|---|
| ***31% in Jordan*** | ***33% in Jordan*** |
| ***60% in Lebanon*** | ***36% in Lebanon*** |
| ***20% in Bahrain*** | ***14.3% in Bahrain*** |

Jordan could offer more opportunities to foreign investors to enter into joint ventures, as Jordanian entrepreneurs are generally reluctant to provide information on their performance, and to share ownership authority.

## 8. Other reasons of interest to foreign investors

Other less important reasons are the availability of a technological base, the absence of discrimination against foreigners, and the fact that particularly Jordan and Bahrain are considered stable countries and safe for investment.

*The percentage of interviewed enterprises that consider* ***the existence of a technological base*** *as one of the major reasons for investing in the host country varies in each of the three countries as follows:*

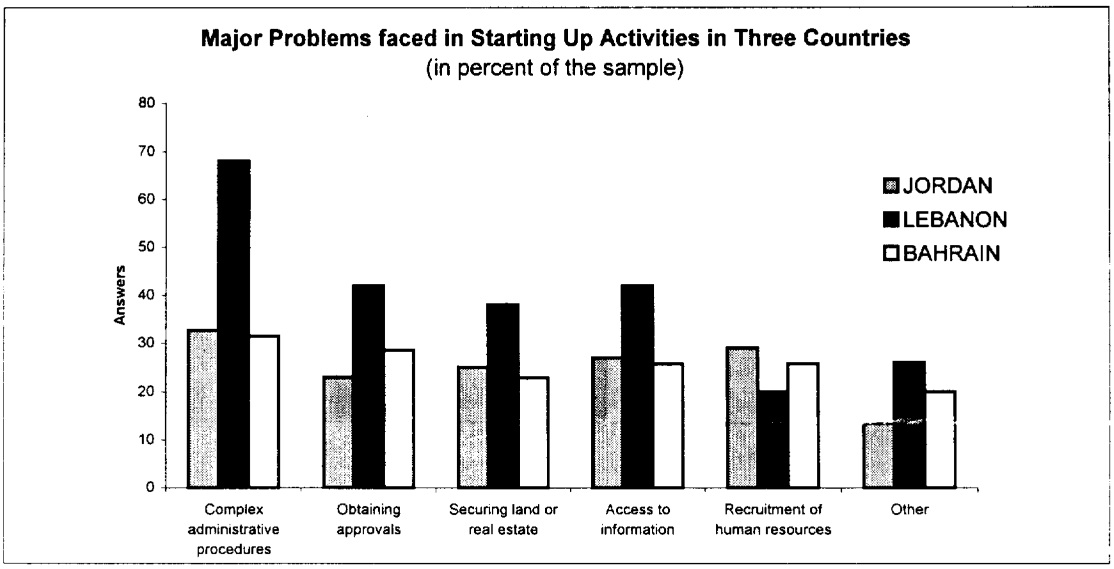
***35% in Jordan***
***22% in Lebanon***
***17.1% in Bahrain***

## IV. PROBLEMS FACED IN STARTING-UP ACTIVITIES IN THE HOST COUNTRY

The complex administrative procedures, access to information, recruitment of human resources and securing land or real estate are with varying degrees the four major problems faced by foreign companies when starting-up activities in the three selected countries.

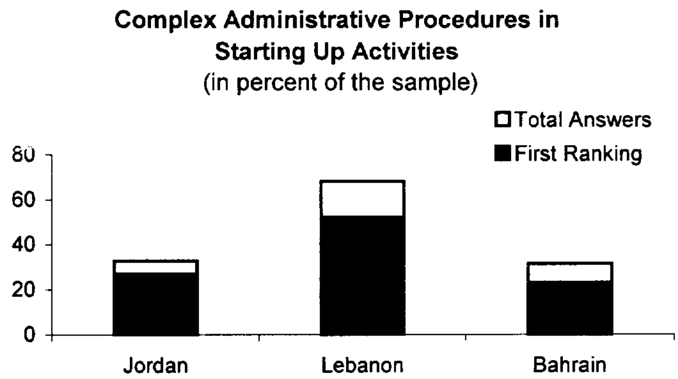
***Major problems faced in start-up phase***
*(In percent of the sample)*

| Major problems | JORDAN | LEBANON | BAHRAIN |
|---|---|---|---|
| Complex administrative procedures | **32.7** | **68** | **31.4** |
| Obtaining approvals | 23 | **42** | **28.6** |
| Securing land or real estate | 25 | **38** | 22.9 |
| Access to information | **27** | **42** | **25.7** |
| Recruitment of human resources | **29** | 20 | **25.7** |
| Other | 13.4 | 26 | 20 |

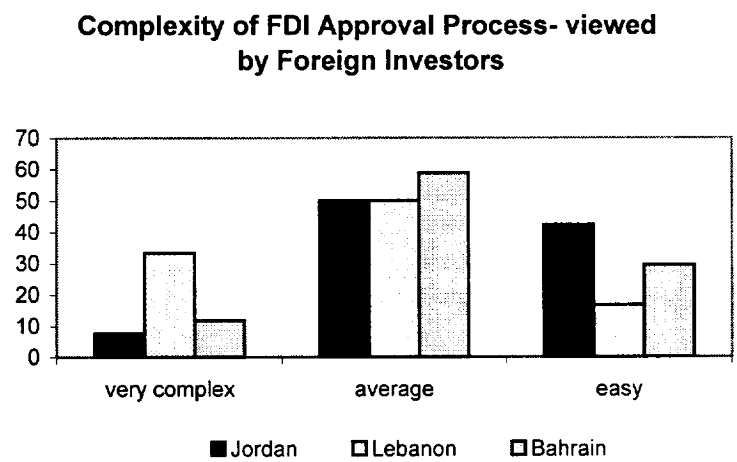


## 1. Complex administrative procedures and obtaining approvals

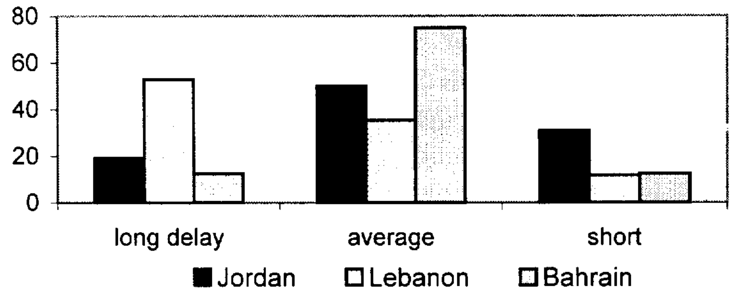
The most important and common problem faced by foreign investors in starting up activities in the three countries is the complex administrative and bureaucratic procedures. More than two-third of the sample in Lebanon and the third of the sample in both Bahrain and Jordan complain about these procedures. The majority of those enterprises that considered this problem as the most important one have also ranked it as the first most important constraint.




The majority of the sample (52.9%) in Lebanon considers the delay for FDI admission too long, against 19.2% in Jordan and 12.5% in Bahrain. In Lebanon, foreign investors complain about the very long delays to get permit to start a business; the time needed to process an approval exceeds in many cases one year. In Jordan, very few companies believe that the procedures to approve a foreign investment are very complex. A significant number (42.3%) in Jordan considered them an easy process, against 16.7% in Lebanon, and 29.4% in Bahrain.



**Length of FDI Approval Process- as viewed by Foreign Investors**




In Jordan, significant improvements have been achieved in the last three years with regard to the reduction in the administrative barriers; administrative procedures to register a company are becoming less cumbersome. The Jordan Investment Board has simplified its procedures, while economic policies witnessed increased liberalization.

In Lebanon, some believe that the complexity of administrative procedures is due to the political set up in the country, others complain about the behavior of government employees who are given excessive authority. In order to finalize any official paperwork, or to obtain any license or permit, one has to pay excessive amounts of money in bribery. Moreover, there is no effective coordination between these authorities to facilitate the course of the procedure. In particular, each ministry and public body has its own procedures to secure necessary authorizations and acts independently careless of the fact that the procedure, which comprises several authorizations from different sources, requires coherence and coordination. The Investment and Development Authority of Lebanon (IDAL), however, is playing an increasing role in facilitating procedures. Almost all the interviewees who had an experience with the Lebanese one-stop-shop were satisfied with the services provided. In fact, IDAL supports investors in establishing a company, a representative office, and obtaining approvals required by various ministries, obtaining required work permits and visas.

Investors in Bahrain have to deal with different parties, and in some cases two licenses have to be secured: one from the Ministry of Industry and the second from the Ministry of Commerce. The Bahraini government established a year ago the Economic Development Board (EDB) which role is to design laws, regulations and policies with the aim of creating a conducive environment for national and foreign investment. The Marketing Promotion Board, which was responsible of the promotion of foreign direct investment, is now part of EDB. In order to reduce administrative barriers, EDB has recently established a one-stop-shop for investors.

*The percentage of interviewed enterprises that faces* ***complex administrative procedures*** *in the start-up phase varies in each of the three countries as follows:*

***32.7% in Jordan***
***68% in Lebanon***
***31.4% in Bahrain***

## 2. Access to information

Access to legal and business information is a common problem faced by foreign investors, though this problem is more acute in Lebanon than in the two other countries. Little information/advise is in fact available for the foreign investor with regard to opportunities and possible investment projects. There is also a lack of data on FDI in the three countries.

Data on FDI enterprises in the three countries are unreliable. Foreign companies are not required by law to declare the actual amount of investment made. Data on FDI enterprises are scattered among various government agencies. In Jordan, various agencies deal with FDI: the Jordan Investment Board (responsible only for the sectors that enjoy special treatment and incentives), the Ministry of Industry and Trade, the Free zones, the Special Economic Zone of Aqaba, etc. In Bahrain and Lebanon, sources of information are dispersed among various agencies: the Ministry of Industry, the Ministry of Commerce, the Central bank, etc. In these two countries, there is no yet a unified investment law that regulates foreign investment; foreign investors have therefore to gather the information from different sources.

In Bahrain, foreign investors lack information on the market of neighbouring countries (such as Saudi Arabia and Iran), as many foreign companies aimed at using Bahrain as a gateway for a regional market.

*The percentage of interviewed enterprises that has difficulties in having* ***access to information*** *is:*

***27% in Jordan***
***42% in Lebanon***
***25.7% in Bahrain***

Around half of the enterprises in Jordan and Bahrain, which considers "Access to information" as a major difficulty, have ranked it first among the most important difficulties faced.

## 3. Recruitment of human resources

The availability of proficient labor force well acquainted with modern technology is a basic condition for the success of investment projects. The recruitment of human resources is considered more a problem in Bahrain and Jordan than in Lebanon. Lebanese people have a high educational level and linguistic abilities.

Foreigners evaluate high the quality of the services provided in Lebanon notably by lawyers, auditors, architects, engineers, and IT technicians. Unskilled and semi-skilled foreign labour (particularly from Syria) is available in Lebanon at low costs. Local labour is relatively expensive, particularly that the Social Security rate is high, despite the recent reduction in the rate (from 38.5% to 23.5% of the salary).

*The percentage of interviewed* ***enterprises that has*** ***difficulties*** *in* ***recruitment of human resources*** *is:*

***29% in Jordan***
***20% in Lebanon***
***25.7% in Bahrain***

Some companies in Lebanon had difficulties to obtain work permit for their foreign management staff. Moreover, work permits are considered expensive. The new draft law on Investment in Lebanon, however, gives authority to IDAL to facilitate the issuance of work permits for foreign labour.

Despite the fact that Bahrain offers well-educated and skilled indigenous workforce, foreign companies have to rely, to a large extent, on imported labour, particularly from Asia, which is not readily available. There are still, however, restrictions on the employment of foreign labour, as a percentage of the total employees of a company should be Bahraini nationals; this percentage varies with the nature of the project. More than 55% of the companies, which have considered "Human resources" as the most important problem have ranked it as the first most important constraint. The Economic Development Board (EDB) is now working on the removal of labour restrictions, so that demand on employment will be market-driven.

### 4. Securing land or real estate

Securing land and real estate is considered to be more a problem in Lebanon than in the two other countries. In Lebanon, however, a recent amendment of the law reduced the limitations on foreigners' appropriation of land and real estate.

In Bahrain, there are ten industrial estates with adequate infrastructure and services for investment projects (power supply, water, telecommunications, etc.). Land is leased at reduced prices in these sites for establishing industrial projects. A new law in Bahrain has authorized foreign ownership of real estate, but in specific locations of the country.

*The percentage of interviewed enterprises that has difficulties in* ***securing land or real estate*** *is:*

***25% in Jordan***
***38% in Lebanon***
*22.9% in Bahrain*

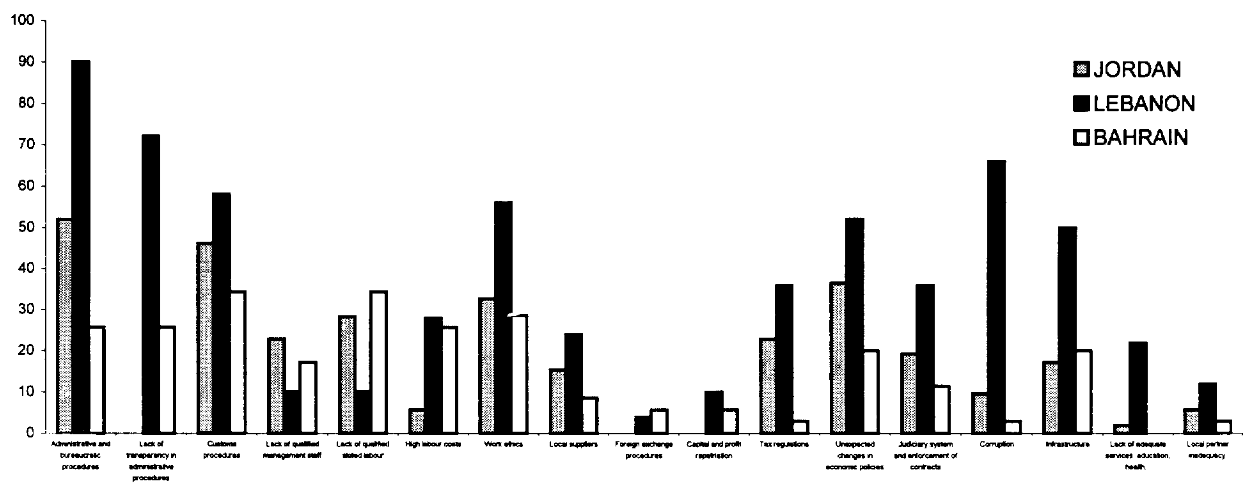
## V. IMPEDIMENTS FACED IN OPERATING IN THE COUNTRY

Foreign companies faced in their operation a number of constraints: administrative and customs procedures, contradictions in some of the regulations, inappropriate judiciary system, lack of transparency in the tax system, and relative absence of technical skills among the labour force.

***Difficulties faced by companies in operating in the country***
*(In percent of the sample)*

| Difficulties | JORDAN | LEBANON | BAHRAIN |
|---|---|---|---|
| Administrative and bureaucratic procedures | **51.9** | **90** | **25.7** |
| Lack of transparency in administrative procedures | | **72** | **25.7** |
| Customs procedures | **46.1** | **58** | **34.3** |
| Lack of qualified management staff | **22.9** | 10 | 17.1 |
| Lack of qualified skilled labour | **28.3** | 10 | **34.3** |
| High labour costs | 5.7 | 28 | **25.7** |
| Work ethics | **32.7** | **56** | **28.6** |
| Local suppliers | 15.3 | 24 | 8.6 |
| Foreign exchange procedures | | 4 | 5.7 |
| Capital and profit repatriation | | 10 | 5.7 |
| Tax regulations | **22.9** | **36** | 2.9 |
| Unexpected changes in economic policies | **36.5** | **52** | 20 |
| Judiciary system and enforcement of contracts | 19.2 | **36** | 11.4 |
| Corruption | 9.6 | **66** | 2.9 |
| Infrastructure | 17.2 | **50** | 20 |
| Lack of adequate services: education, health.. | 1.9 | 22 | 0 |
| Local partner inadequacy | 5.7 | 12 | 2.9 |

**Difficulties Faced by the Company in Operating in the Country**
(in percent of the sample)



## 1. Administrative and customs procedures

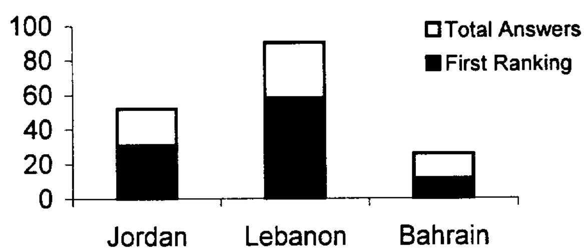
The administrative and bureaucratic procedures, lack of transparency in the procedures, and customs procedures are the most important difficulties faced by foreign investors when operating in the three countries, though they are less pronounced in Bahrain. Foreign investors consider the administrative and bureaucratic procedures in Lebanon and Jordan as more acute problem during operation of the company than in the start-up phase. This may be explained by the fact that in the start-up phase, IDAL and JIB are contributing to alleviate the difficulties faced by foreign investors when established in the country. In Lebanon, there is almost a consensus among foreign investors (90% of the sample) regarding the difficulties they faced with regard to the administrative procedures.

*The percentage of interviewed enterprises that faces **administrative and bureaucratic procedures** in operating in the country varies as follows:*

***51.9% in Jordan***
***90% in Lebanon***
***25.7% in Bahrain***

This difficulty has been given the first ranking by more than 60% of those companies that selected this impediment in Lebanon and Jordan, and by around 45% in Bahrain.

**Administrative and Bureaucratic Procedures**
(in percent of the sample)




The majority of the sample in Lebanon complains about the corruption and bribery, customs procedures and the lack of transparency in the administrative procedures. Around two-thirds of the interviewed companies consider corruption as the most important problem faced, and almost all these companies ranked this problem as the first one.

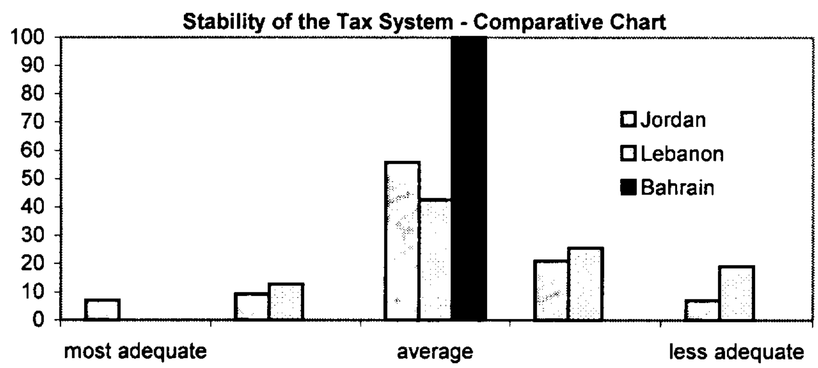
*66% of the interviewees in Lebanon believes that **Corruption and Bribery** is the major barrier that hinders the operation of the company*
*While only **9.6%** in Jordan and **2.9%** in Bahrain face the problem of corruption*

In Jordan, though administrative procedures became recently less cumbersome in the start-up phase, foreign firms continue to face bureaucratic barriers in their operation, as the half of the sample complains about these procedures. They face the hurdle of customs officials, tax collectors, and labour and health authorities.

*The percentage of interviewed enterprises that considers* ***lack of transparency in administrative procedures*** *a difficulty in operating in the country varies as follows:*
***72% in Lebanon***
***25.7% in Bahrain***

## 2. Unexpected changes in economic policies

Half of the sample in Lebanon and more than the third of the sample in Jordan consider the unexpected changes in economic policies as one of the major impediments in operating in the country. Foreign investors in Bahrain do not consider this issue as a major problem. Bahrain has in fact a stable business environment, good incentive system, a stable market, stable currency and minimum government interference.




Economic instability reduces trust and confidence of foreign investors; it is reflected in Lebanon in the constantly changing tax regulations, which negatively affect businesses. Companies cannot predict their forecast in a reliable manner, and have difficulties in finalizing a proper business plan. The unpredictability of the regulatory system is risking the viability of the business. But in spite of the latest reduction of customs tariff rate, the instability in that respect, which witnessed many successive amendments since 1994, is creating a source of worry to investors, making them reluctant to invest in Lebanon. Moreover, foreign investors are affected negatively by changes that occurred in the various government administrations of the country. The two successive changes of the Cabinet in 1998 and in 2000 led to a lack of continuity in government policy.

*The percentage of interviewed enterprises that believes that* ***unexpected changes in economic policies*** *in the country is a difficulty in operating in the host country varies as follows:*

***36.5% in Jordan***
***52% in Lebanon***
***20% in Bahrain***

## 3. Judiciary system and enforcement of contracts

More than one third of the sample in Lebanon complains about the judiciary system and the fact that contracts are not enforced. Only few companies in Bahrain and Jordan considered it as a constraint in operating in the country. It has been frequently said by foreign companies in Lebanon that the judicial system is not quite an independent system; it favours locals and discriminate against foreigners, mainly because of political interference. Thus, foreigners have often recourse to foreign arbitration overseas since they do not trust the judicial system in the country.

*The percentage of interviewed enterprises that believe that* ***the judiciary system and enforcement of contracts*** *is a difficulty in operating in the host country varies as follows:*

***19.2% in Jordan***
***36% in Lebanon***
***11% in Bahrain***

## 4. Work ethics

Some foreign investors complain about individualism attitude among Lebanese and the absence of teamwork. More than half of the sample in Lebanon and the third of the sample in Jordan, and only 11% in Bahrain, consider existing work ethics as an obstacle for doing business in the country.

*The percentage of interviewed enterprises that consider* ***work ethics*** *as a problem is:*

***32.7% in Jordan***
***56% in Lebanon***
***11% in Bahrain***

## 5. Infrastructure conditions and cost

With the exception of Lebanon where half of the sample suffers from the infrastructure conditions, in Jordan and Bahrain, foreign companies consider generally the infrastructure conditions as adequate.

In Jordan, around half of the sample rated infrastructure conditions as the most adequate. Infrastructure costs are considered average, except for the electricity where 39 % of the sample indicated that electricity is very expensive. It is hoped that with the privatization of the newly formed Central Electricity Generating Company and the Electric Distribution Company, electricity costs will drop. Telecommunications are not considered cheap yet by most of the sample, despite the privatization of the Jordan Telecom Company (JTC), in which France Telecom acquired 40% of the shares of JTC.

In Lebanon, foreign companies consider infrastructure conditions as adequate except for roads conditions and electricity. Electricity services are considered very bad and expensive. However, when it comes to the International Airport of Beirut, clear efforts have been made since the beginning of 1990s and the result is very satisfactory to foreign investors. Costs of production and labour, transportation and utility and costs of energy are high.

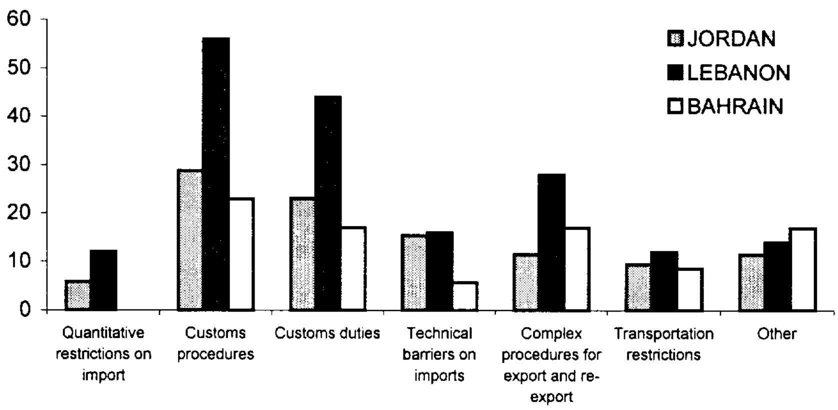
## 6. <u>Trade barriers</u>

Customs procedures and customs duties are considered with varying degrees the two major important trade barriers in the three countries; they are more pronounced in Lebanon than in the other two countries. The level of customs duties constitutes one of the major trade barriers that is hindering the operation of the companies in Jordan. Few companies considered the customs duties on raw materials and intermediate goods as low or very low; most of them considered these duties either medium or high. Other related barrier indicated by some companies is the lack of technical background of the customs' department employees.

***Major trade barriers that hinder the operation of the companies***
*(In percent of the sample)*

| **Major trade barriers** | **JORDAN** | **LEBANON** | **BAHRAIN** |
|---|---|---|---|
| Quantitative restrictions on import | 5.8 | 12 | 0 |
| Customs procedures | **28.8** | **56** | **22.9** |
| Customs duties | **23.1** | **44** | 17 |
| Technical barriers on imports | 15.4 | 16 | 5.7 |
| Complex procedures for export and re-export | 11.5 | 28 | 17 |
| Transportation restrictions | 9.5 | 12 | 8.6 |
| Other | 11.5 | 14 | 17 |

**Major Barriers**



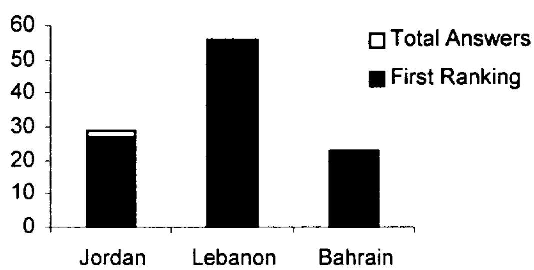

In Lebanon, too many complains about the customs procedures. First, procedures to clear goods from the customs are slow and very costly. Second, the process of sorting products and defining them in the customs is a major problem to foreign investors.

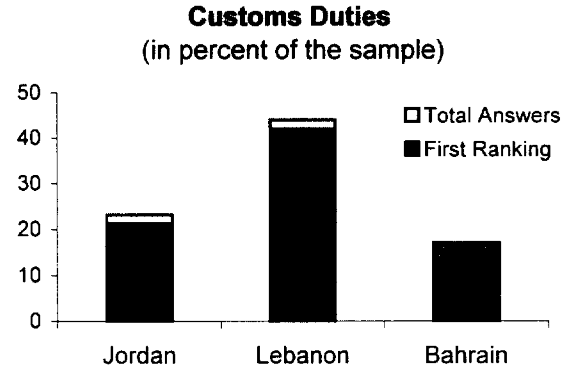
> *The percentage of interviewed enterprises that view* ***customs procedures*** *in the country as the first major trade barrier that hinders the operation of their company varies as follows:*
>
> ***29% in Jordan***
> ***56% in Lebanon***
> ***23% in Bahrain***

In Bahrain, foreign investors face technical barriers (standards) when exporting to Saudi Arabia and Kuwait. In fact, the flow of goods to Saudi Arabia and Kuwait is protected by various standard organizations, thus posing a problem for suppliers in Bahrain. Bahrain, in fact, is not used to have such strict standards.

When asked to rank each major trade barrier by order of importance, almost all companies ranked first two major trade barriers: customs procedures and customs duties.

**Customs Procedures**
**(in percent of the sample )**



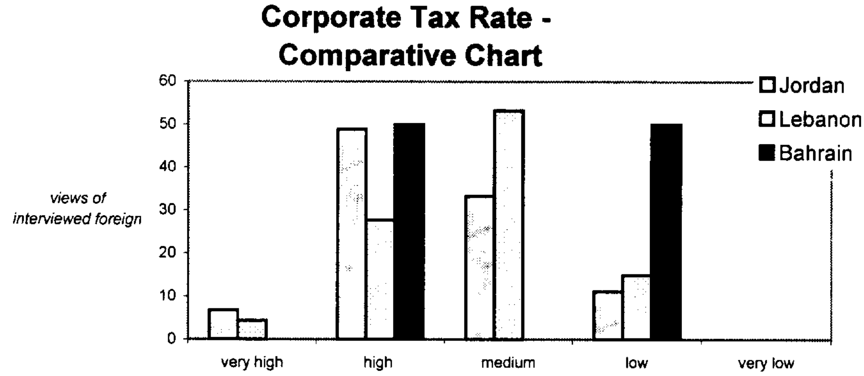



## 7. Fiscal system

In Jordan, the corporate tax rate is considered by the majority of companies as high; around the third indicated that the rate is average. Interviewees didn't rate high the tax system as transparent and stable. When asked about the practices related to tax assessment collection, a number of companies complain about the fact that tax collectors are unprofessional and incompetent, and usually base their tax assessment on personal views rather than on a systematic and objective way.

In Jordan also, foreign companies that are of small and medium size complain about the high sales tax, the high import license fees (including university taxes, social services taxes), the municipality tax, and the restrictions imposed by the law on the minimum of capital to be invested by foreigners (JD 50,000) and which increases other government fees such as professional license fees and chamber of commerce fees.

In Lebanon, in spite of the latest reduction of customs tariff rate, the instability in that respect, which witnessed many successive amendments since 1994, is creating a source of worry to investors, making them reluctant to invest in Lebanon. The government suggestion to impose taxes on the annual turnover of the companies instead of the taxes on the profits, led many foreign parties to declare their intentions to withdraw from Lebanon and to move to another country, like Dubai or Cyprus. In Lebanon, even though the capital gains tax and the corporate tax rates are not considered high but rather medium especially if compared to Western countries, the ambiguity and instability of the tax system is a disadvantage. It is important to note that the Lebanese government has initiated since the beginning of the 1990s an incentive program, which embraced a fiscal policy adjustment, that have led recently to a clear reduction of customs tariff rates.



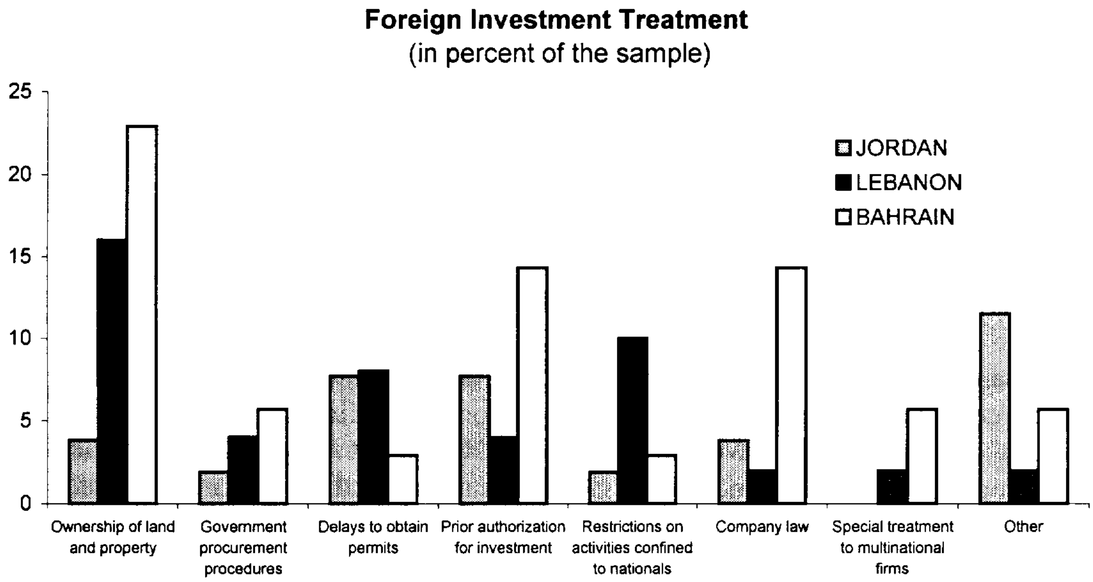

## VI. NATIONAL TREATMENT TO FOREIGN INVESTMENT?

Foreign companies do not generally complain about discriminatory treatment in the three selected countries. The results of the survey in Jordan confirm that there is little discrimination against foreign investors. The same treatment is provided by the Investment Promotion Law (Law no. 16 of 1995) to national and foreign investment, with few exceptions. The share of foreign ownership in total investment has been clarified in Regulation No. 39 of 1997 and its amendment for the year 1999. This regulation allowed non-Jordanian investor to own the full project except in the following sectors where foreign ownership is limited to 50 per cent: Construction and contracting sector, Commercial and commercial services sector, and the mining sector. Recently (2001), the Jordanian government allowed foreign investors to own 100% of capital in the mining sector. Israeli investors, in particular, felt discriminatory treatment by business associations and others in Jordan.

***Treatment of foreign investment***
*(In percent of the sample)*

| | JORDAN | LEBANON | BAHRAIN |
|---|---|---|---|
| Ownership of land and property | 3.8 | 16 | 22.9 |
| Government procurement procedures | 1.9 | 4 | 5.7 |
| Delays to obtain permits | 7.7 | 8 | 2.9 |
| Prior authorization for investment | 7.7 | 4 | 14.3 |
| Restrictions on activities confined to nationals | 1.9 | 10 | 2.9 |
| Company law | 3.8 | 2 | 14.3 |
| Special treatment to multinational firms | | 2 | 5.7 |
| Other | 11.5 | 2 | 5.7 |

There is also little discrimination against foreign investors in Lebanon. The recent government law has relaxed the land and real estate ownership by foreigners. In Bahrain, some restrictions exist on foreign investment. For example, the Ministry of Industry rarely approves projects that are energy-intensive, consume large quantity of water and use excessive land. Usually, the Government of Bahrain does not license companies that would compete with existing government-owned companies. The Economic Development Board has removed very recently some of the restrictions on FDI. Foreign ownership of companies up to 100% of the capital is now permitted in all economic sectors, except in the oil sector. Foreign ownership of real estate has been recently authorized, but in specific locations of the country.




## VII. RISK FACTORS ENDANGERING THE FDI BUSINESS

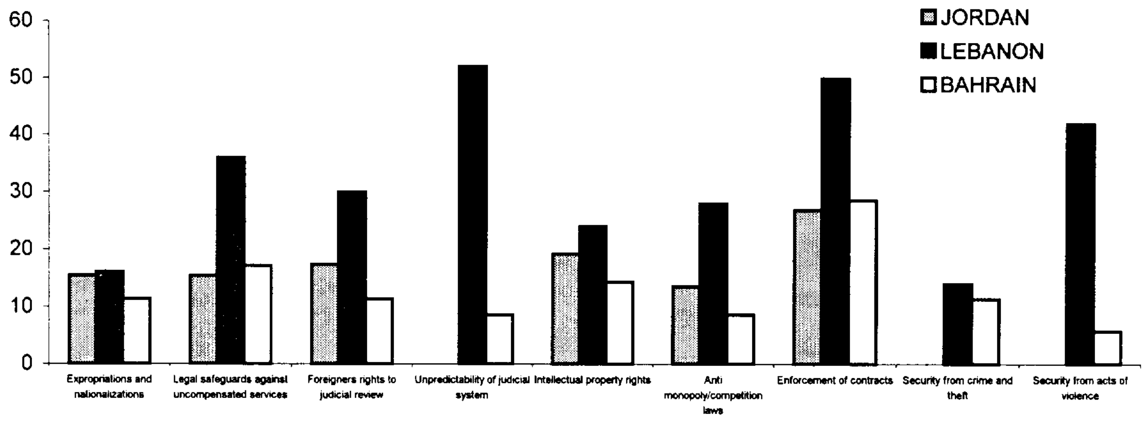
Foreign investors' concerns are: legal protection guaranties; profit repatriation; protection against expropriation and nationalization; resolution of dispute with the government, and enforcement of contracts. The risk factors endangering the survival of the business are more pronounced in Lebanon than in the other two countries.

In Lebanon, foreign investors are operating with very high risks; they don't have confidence in the system; half of the sample considers the enforcement of contracts and the unpredictability of the judiciary system as the most important risk factors. Enforcement of contracts is also a risk factor indicated by more than 25% of the sample in Jordan and Bahrain.

***Risk factors endangering the business***
*(In percent of the sample)*

| Risk factors | JORDAN | LEBANON | BAHRAIN |
|---|---|---|---|
| Expropriations and nationalizations | 15.4 | 16 | 11.4 |
| Legal safeguards against uncompensated services | 15.4 | **36** | **17.1** |
| Foreigners rights to judicial review | 17.3 | 30 | 11.4 |
| Unpredictability of judicial system | | **52** | 8.6 |
| Intellectual property rights | 19.2 | 24 | 14.3 |
| Anti monopoly/competition laws | 13.5 | 28 | 8.6 |
| Enforcement of contracts | **26.9** | **50** | 28.6 |
| Security from crime and theft | | 14 | 11.4 |
| Security from acts of violence | | **42** | 5.7 |

**Risk Factors Endangering the Business**
(in percent of the sample)




Security from act of violence is still felt by a significant percentage of foreign investors in Lebanon (42% of the sample). The high political risks that are due to the regional political instability affect the decision of the foreign investors. Several foreign companies emphasized the fact that the reluctance of foreign investors to invest in Lebanon is due more to the conflict with Israel than to the political debate over Syrian role in Lebanon. Nevertheless, some believes that wherever there is good business profit, political instability is not an obstacle to foreign investment initiatives. The Jordanian economy is very sensitive to the political instability in the West Bank and the Gaza Strip: FDI has declined drastically during the Intifada, while the tourism sector witnessed a considerable drop in the number of tourists.

Jordan is considered more as a safe country for investment with little risk factors, as between 15 and 20% are the companies which considered there are risks in investing in Jordan. These companies have ranked first important risks those related to the judicial system and legal safeguards against uncompensated services.

Bahrain is considered by foreign investors as a safe and stable country. Very few enterprises have cited the risk factors as major factors endangering their business.