Preface

This report, which was prepared by the Economic Development and Globalization Division (EDGD) within the 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). The report reviews the latest developments in the institutional framework governing the activities of FDI enterprises and aims to provide readers in general and policymakers in particular with an overview of the latest large-scale FDI activities in ESCWA member countries.
CONTENTS

Preface ............................................................................................................................................. iii
Executive summary ......................................................................................................................... iv
Introduction ..................................................................................................................................... 1

Chapter

I. REGIONAL SITUATION AND OUTLOOK ................................................................ 2

II. COUNTRY PERFORMANCE ....................................................................................... 5
    A. Large FDI recipients: Saudi Arabia, the United Arab Emirates and Egypt .......... 5
    B. High-performing economies: Bahrain, Jordan, Lebanon and Oman ................... 10
    C. Below-potential performing economies: Kuwait, Palestine, Qatar, the Sudan, Syrian Arab Republic and Yemen .......................................................... 14

III. CONCLUSIONS AND RECOMMENDATIONS ......................................................... 21
    A. Conclusions .............................................................................................................. 21
    B. Recommendations ....................................................................................................... 22

LIST OF TABLES

1. FDI inflows into selected regions, 2005-2007 ................................................................. 2
2. FDI inflows to ESCWA member countries, 2004-2008 ..................................................... 2
3. FDI inflows to ESCWA member countries as a percentage of GDP, 2004-2008 .......... 3
4. Doing business in ESCWA member countries, 2008 and 2009 ...................................... 4
5. FDI inflows to Yemen by region, 2008 ............................................................................. 18

LIST OF FIGURES

I. FDI inflows to Saudi Arabia by sector, 2008 .................................................................. 5
II. FDI inflows to Saudi Arabia by source, 2008 ................................................................. 7
III. FDI inflows to Egypt by source, 2008 ............................................................................ 9
IV. FDI inflows to Jordan by sector, 2008 .......................................................................... 11
V. FDI inflows to Jordan by source, 2008 .......................................................................... 11
VI. Arab FDI inflows to Lebanon by source, 2007 .............................................................. 12
VII. Arab FDI inflows to Lebanon by sector, 2007 ............................................................... 13
VIII. FDI inflows to Oman by sector, 2007 ......................................................................... 13
IX. FDI inflows to Oman by source, 2007 ......................................................................... 14
X. FDI inflows to Yemen by source, 2008 .......................................................................... 19
XI. FDI inflows to Yemen by sector, 2008 ......................................................................... 19
Executive summary

Foreign direct investment (FDI) inflows to the ESCWA region started to drop in 2008 for the first time since 2001 and are expected to decline further in 2009. Specifically, FDI inflows to the ESCWA region were an estimated $60 billion in 2008, compared to $64 billion in 2007, thereby registering a decrease of 6.3 per cent. Preliminary data show that the downward trend in FDI accelerated in the first quarter of 2009. The drop in FDI inflows to the region can be attributed to several factors, including falling oil prices, the sharp correction in the housing sector, the slowdown in economic activity and financial problems of multinational corporations which represent the major source of the FDI inflows.

In 2008, Saudi Arabia, the United Arab Emirates and Egypt continued to receive the lion’s share of total FDI inflows to the ESCWA region, accounting for 75.7 per cent of total FDI flows. FDI inflows increased in five countries, namely: Bahrain, Jordan, Lebanon, the Sudan and Syrian Arab Republic. Within that context, Lebanon and the Syrian Arab Republic witnessed a significant increase in FDI inflows in 2008, with growths of 32 and 43 per cent, respectively. Conversely, FDI inflows decreased in six member countries, namely: Egypt, Kuwait, Oman, Saudi Arabia, United Arab Emirates and Yemen.

Moreover, in 2008, the brightest sectors from the perspective of foreign investors were the energy and energy-related industries; services, notably financial services; and the real estate sector. During that year, the principal FDI sending countries were the United Kingdom of Great Britain and Northern Ireland, France, Japan and the United States of America.

In the medium term, the ESCWA region is expected to continue to attract foreign investors, particularly in the oil sector. Enhancing the infrastructure can increase the overall economic competitiveness, which in turn promotes FDI inflows. In the long term, human capital needs to be enhanced in order to promote innovation and increase productivity, which in turn can draw domestic and foreign capital.

Despite the recent increase in FDI inflows to ESCWA member countries in the period 2002-2007, the percentage of FDI inflows remains small as a function of the size of the ESCWA region compared to other emerging markets. In addition, foreign investments have largely targeted the energy sector. Consequently, ESCWA member countries need to develop further their investment policies in order to direct foreign investments towards the most productive and strategic sectors in the national economy, such as industry and agriculture.

ESCWA member countries need to encourage more investments, both domestic and foreign, and there is a need for greater progress at the economic, structural and regulatory levels. There are still several factors that constrain FDI to ESCWA member countries, including weak enforcement of legislation, excessive levels of bureaucracy and corruption, dominance of the public sector and slow implementation of privatization programmes.1

ESCWA member countries need to take appropriate measures aimed at encouraging both domestic and foreign investments. Within that context, the following policy options are recommended:

(a) To enhance the existing institutional environment by making it more efficient and transparent;
(b) To promote governance standards given that private investors are highly sensitive to good governance;
(c) To enhance the infrastructure sector, particularly transport and communication infrastructures. To that end, embedding partnerships with the private sector could be a valuable option;
(d) To facilitate access to credit and strengthen the legal rights of borrowers and lenders;
(e) To reinvigorate regional integration, including services liberalization and investment flows.

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1 For more details on the challenges confronting FDI inflows to ESCWA member countries, see ESCWA, Foreign Direct Investment Report (E/ESCWA/EDGD/2008/Technical Paper.1).
Introduction

The ESCWA region has witnessed a significant increase in foreign direct investment (FDI) inflows in recent years, thereby reflecting the region’s strong macroeconomic foundations, improved policy and regulatory environment aimed at attracting foreign and domestic investments. FDI inflows to ESCWA member countries have increased from less than $11 billion in 2003 to slightly over $60 billion in 2008. Over the past two years combined, FDI inflows were higher than the cumulative total of the previous 15 years.

The ESCWA region has been relatively sheltered from the consequences of the international financial crisis in terms of incoming FDI, with FDI inflows achieving a record-high amount of $64 billion in 2007. However, given its repercussions on the real economy worldwide, the international crisis had significantly negative impacts on several real estate projects and oil-related investments in the region, starting from the last quarter of 2008 and throughout the first half of 2009. As a result, FDI inflows dropped from $64 billion in 2007 to nearly $60 billion in 2008. This translates into a negative FDI growth (-6.3 per cent) for the first time since 2001.

However, the upturn in oil prices and the continuing endeavours of many ESCWA member countries aimed at further enhancing the business environment are likely to bear fruit in terms of attracting FDI inflows, albeit at a more modest rate compared to the period 2003-2007.
I. REGIONAL SITUATION AND OUTLOOK

Worldwide FDI flows continued on an upward trend during 2007, reaching an all-time high of $1.8 trillion. The increase of FDI flows resulted from improved economic conditions in many regions in the world, particularly developing countries, and from high corporate profits that were partially reinvested. In 2007, the ESCWA region managed to attract some $64 billion in FDI, up from $58.8 billion in 2006, thereby representing a year-on-year increase of 9 per cent (see table 1). As in recent years, the ESCWA region continued to account for a fair share of FDI inflows into developing countries, at 13 per cent of total FDI inflows to developing countries.

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
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<td>1 411 018</td>
<td>1 833 324</td>
</tr>
<tr>
<td>Developing countries</td>
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<td>Africa</td>
<td>29 459</td>
<td>45 754</td>
<td>52 982</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>76 412</td>
<td>92 945</td>
<td>126 266</td>
</tr>
<tr>
<td>South, East and Southeast Asia</td>
<td>167 404</td>
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<td>247 840</td>
</tr>
<tr>
<td>Southeast Europe and the Commonwealth of Independent States (CIS)</td>
<td>30 971</td>
<td>57 167</td>
<td>85 942</td>
</tr>
<tr>
<td>ESCWA</td>
<td>39 339</td>
<td>58 776</td>
<td>64 041</td>
</tr>
</tbody>
</table>

Table 2 indicates that FDI inflows to the ESCWA region barely exceeded the threshold of $60 billion in 2008, thereby representing a substantial decrease of almost 6 per cent relative to 2007. Three countries held the lion’s share of total FDI inflows to the ESCWA region in 2008, namely Saudi Arabia, the United Arab Emirates and Egypt, which together accounted for 75.7 per cent of total FDI flows to the region in 2008. FDI inflows increased in five countries, namely: Bahrain, Jordan, Lebanon, the Sudan and the Syrian Arab Republic. Within that context, Lebanon and the Syrian Arab Republic witnessed a significant increase in FDI inflows in 2008, with growths of 32 and 43 per cent, respectively. Conversely, FDI inflows decreased in six member countries, namely: Egypt, Kuwait, Oman, Saudi Arabia, the United Arab Emirates and Yemen.

Moreover, in 2008, the brightest sectors from the perspective of foreign investors were the energy and energy-related industries; services, notably financial services; and the real estate sector. During that year, the principal FDI sending countries were the United Kingdom of Great Britain and Northern Ireland, France, Japan and the United States of America.
TABLE 2 (continued)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<td>The Sudan</td>
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<td>3 541</td>
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<tr>
<td>Syrian Arab Republic</td>
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<td>503</td>
<td>603</td>
<td>897</td>
<td>1 282</td>
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<tr>
<td>United Arab Emirates</td>
<td>10 003</td>
<td>10 898</td>
<td>12 804</td>
<td>14 184</td>
<td>13 733</td>
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<tr>
<td>Yemen</td>
<td>143</td>
<td>-302</td>
<td>1 121</td>
<td>917</td>
<td>415</td>
</tr>
<tr>
<td>Total</td>
<td>20 859</td>
<td>39 339</td>
<td>58 776</td>
<td>64 041</td>
<td>60 350</td>
</tr>
</tbody>
</table>


Notes: Two dots (..) indicate that data are not available or are not separately reported.
* These denote provisional figures.

Table 3 highlights the growing role played by FDI in several ESCWA economies, with an increase in the average ratio of FDI inflows to GDP from approximately 6.3 per cent in 2007 to 6.4 per cent in 2008. This ratio was highest in Lebanon, at 12.6 per cent, followed by Jordan, at 9.7 per cent, the United Arab Emirates, at 8.4 per cent, and Oman and Bahrain, both at approximately 8.2 per cent. On the other hand, FDI inflows represent a small percentage of GDP in Kuwait, at 0.05 per cent, and Yemen, at 1.7 per cent.

**TABLE 3. FDI INFLOWS TO ESCWA MEMBER COUNTRIES AS A PERCENTAGE OF GDP, 2004-2008 (Percentages)**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>7.70</td>
<td>7.79</td>
<td>18.42</td>
<td>9.50</td>
<td>8.19</td>
</tr>
<tr>
<td>Egypt</td>
<td>2.75</td>
<td>6.00</td>
<td>9.35</td>
<td>9.05</td>
<td>5.83*</td>
</tr>
<tr>
<td>Jordan</td>
<td>7.15</td>
<td>14.07</td>
<td>23.18</td>
<td>12.32</td>
<td>9.7</td>
</tr>
<tr>
<td>Kuwait</td>
<td>0.04</td>
<td>0.29</td>
<td>0.12</td>
<td>0.11</td>
<td>0.05*</td>
</tr>
<tr>
<td>Lebanon</td>
<td>8.84</td>
<td>12.17</td>
<td>11.75</td>
<td>11.10</td>
<td>12.58*</td>
</tr>
<tr>
<td>Oman</td>
<td>0.45</td>
<td>4.98</td>
<td>4.72</td>
<td>7.74</td>
<td>8.20*</td>
</tr>
<tr>
<td>Palestine</td>
<td>1.16</td>
<td>1.00</td>
<td>0.4</td>
<td>0.60</td>
<td>..</td>
</tr>
<tr>
<td>Qatar</td>
<td>3.80</td>
<td>3.50</td>
<td>3.20</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0.77</td>
<td>3.84</td>
<td>5.20</td>
<td>6.45</td>
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</tr>
<tr>
<td>Sudan</td>
<td>5.68</td>
<td>6.95</td>
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<td>4.24</td>
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<td>Syrian Arab Republic</td>
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<td>1.81</td>
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<tr>
<td>United Arab Emirates</td>
<td>9.41</td>
<td>8.16</td>
<td>7.78</td>
<td>7.39</td>
<td>8.41*</td>
</tr>
<tr>
<td>Yemen</td>
<td>1.03</td>
<td>-1.80</td>
<td>5.87</td>
<td>4.34</td>
<td>1.69</td>
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<tr>
<td>ESCWA Average</td>
<td>3.84</td>
<td>5.29</td>
<td>7.68</td>
<td>6.25</td>
<td>6.38</td>
</tr>
</tbody>
</table>

Sources: Compiled by ESCWA, based on table 2 above; and on Arab Monetary Fund, Unified Arab Economic Report (September 2008).

Notes: Two dots (..) indicate that data are not available or are not separately reported.
* National GDP data as provided by the World Bank.
Since the unfolding of the international financial crisis and its impact on the real economy worldwide, several investment projects have been delayed in a number of ESCWA member countries. The conjunction of squeezed credit and plummeting oil prices has impacted investments, particularly in the oil sector. Moreover, the bursting of the real estate bubble in a number of Gulf Cooperation Council (GCC) member countries, notably the United Arab Emirates, has halted projects in both the commercial and residential segments of the sector. In addition, the decrease in cross-border mergers and acquisitions has delayed some of the projected privatization schemes in the region. These factors explain the significant decrease of FDI inflows to the ESCWA region in 2008.

However, there is little reason to be pessimistic about the capacity of the ESCWA region to continue to attract substantial FDI flows in the medium term. First, oil prices seem to be steadily recovering from the decline triggered in 2008. If this trend is confirmed, the oil sector is expected to attract foreign investors. Secondly, several countries in the region, particularly GCC countries, have sustained and, in some cases, increased their capital expenditure in order to dampen the negative impact of the international crisis on their economies. These expenditures have often been in transport and communication infrastructures, and education. In the medium term, enhancing the infrastructure could increase the overall economic competitiveness, which will help to attract FDI inflows.

In the long term, enhancing human capital would promote innovation and increase productivity, which in turn can draw domestic and foreign capital. Moreover, the international financial crisis has a silver lining in that it has subdued inflation and considerably reduced the prices of raw and construction materials, thereby reducing investment costs. Finally, many countries in the region that are lagging in terms of the quality of the business and investment environment have recently embarked on reform strategies aimed at increasing the private sector’s participation in the economy. These strategies, which can translate into higher FDI inflows, are credible as underscored by improved rankings in Doing Business 2009 (see table 4).

<table>
<thead>
<tr>
<th>Ease of doing business</th>
<th>Starting a business</th>
<th>Dealing with licences</th>
<th>Protecting investors</th>
<th>Enforcing contracts</th>
<th>Closing a business</th>
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<tr>
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<td>175</td>
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</tbody>
</table>

Two dots (..) indicate that data are not available or are not separately reported.

4 For more information, see the World Bank, Doing Business 2009, which is available at: http://www.doingbusiness.org/.
II. COUNTRY PERFORMANCE

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

1. Saudi Arabia

The performance of Saudi Arabia’s economy has been remarkable during the past few years, especially since 2002, with the national economy more than doubling to $481.6 billion owing mainly to rising oil revenues. The combination of additional Government spending towards the ongoing programme of economic liberalization and greater foreign participation in the economy has sparked numerous investment projects. Saudi Arabia recently announced a $400-billion plan over the next five years aimed at upgrading energy projects, and the social and physical infrastructure in such areas as power, water, transportation, education and housing.

Saudi Arabia is becoming a significant emerging economy able to attract substantial FDI. Since 2000, the investment environment has benefited from significant progress on structural reform involving liberalization and greater transparency. In the past two years, the country topped the regional list of FDI inflows, with $24.3 billion in 2007 and $22.5 billion in 2008, despite the adverse impact of the global financial turmoil in the last quarter of 2008. Moreover, FDI continues to play an important role in the national economy, despite a drop from 6.4 per cent of GDP in 2007 to some 4.7 per cent of GDP in 2008. Within that context, it is estimated that around 20 per cent of the aggregate private sector projects in Saudi Arabia are on hold owing to the global financial and economic crisis, thereby adversely affecting FDI inflows to the country.5

Figure I illustrates the distribution of FDI inflows to Saudi Arabia by economic sector in 2008. Most FDI projects have been joint ventures, principally in the energy sector and in energy-intensive manufacturing and petrochemical projects. However, as the national economy continues to open up to foreign competition and to diversify, FDI is set to expand to areas outside the oil and petrochemical sectors.

Figure I. FDI inflows to Saudi Arabia by sector, 2008


5 Bank Audi, Saudi Economic Report (June 2009).
Figure I shows that the real estate sector represented the major recipient of foreign investment, with a share of total FDI to the Kingdom of 20.8 per cent. This reflects the importance of the construction activities in the national economy, which accounted for 7 per cent of GDP in 2008. While this sector was hit by the downturn in the last quarter of 2008, it experienced a slow revival in 2009 given the Government’s fiscal stimulus programme.

The FDI inflows also reflect the position of Saudi Arabia as the largest global oil producer and exporter, holding one-fifth of the world’s oil reserves. In 2008, FDI inflows to the chemical and petrochemical industries sector accounted for 16.4 per cent of total FDI inflows, while FDI in mining, oil and gas represented 9.9 per cent of the total. Moreover, refined petroleum products accounted for 14.9 per cent of FDI inflows.

Specifically, Ras Tanura, which is a combined refinery and petrochemicals project with an estimated cost of $22 billion, involves establishing a grassroots petrochemicals plant in order to produce more than 300 different products. Equally, the Petro-Rabigh complex, which is nearing completion, is another major combined refinery and petrochemicals project, spreading over eight square miles and involving 38,000 workers. Construction costs of the plant have reached $10 billion. Furthermore, Aramco and its partner in France, Total, are delaying some petrochemical projects in order to encourage lower bids as global construction costs ease.

In 2007, construction started in six planned economic cities in addition to the King Abdullah Financial District in Riyadh. The new city focuses mainly on heavy industry, comprising oil industry and an integrated petrochemical complex, a copper refinery and smelter, an aluminum complex and an integrated aluminium refinery. Moreover, it is expected that projects worth more than $300 billion are under way for execution over the next few years. In turn, these projects are set to boost the construction, transportation and communication sectors.

The sources of FDI inflows to Saudi Arabia are well diversified and not dominated by one region (see figure II). Specifically, in 2008, FDI inflows to Saudi Arabia came primarily from the United Arab Emirates (15.4 per cent), the United States (13.6 per cent), Kuwait (11.7 per cent), France (9 per cent), the Netherlands (8.8 per cent) and Japan (6.1 per cent).

In January 2008, the countries of the GCC launched a common market whereby both labour and capital were free to move within the GCC economies, offering equal rights in all economic sectors to GCC nationals. Such a development is expected to boost the volume of intraregional FDI inflows.

Since 2000, the investment environment has substantially improved in Saudi Arabia. As a result, Doing Business 2009 placed Saudi Arabia at position 16 among 181 countries, which constitutes an improvement from its former rank, at 23, in the previous edition of the report. Consequently, Saudi Arabia is currently ranked first in the Arab region in that indicator.

Additionally, Saudi Arabia was in the top ten countries in terms of the level of reforms that were undertaken in 2007, including, among others, reducing the number of days needed for a company start-up from 39 to 15. In 2008, the number of days fell again to 12 days. Moreover, Saudi Arabia launched a commercial credit bureau whose reports include the credit exposure of companies. It also accelerated trade by reducing the number of documents required for importing and by cutting handling time at ports and terminals by two days for both imports and exports.

Furthermore, Saudi Arabia amended provisions of its company law such that directors with a vested interest can no longer vote at shareholder meetings to approve related-party transactions. The country continued to simplify commercial registration formalities and reduced fees by 80 per cent. Saudi Arabia introduced a comprehensive electronic system aimed at registering title deeds at the First Notary Public Department, thereby making it possible to transfer property in two procedures and two days.
2. The United Arab Emirates

In 2008, the United Arab Emirates attracted 2.8 per cent of all global FDI projects, and accounted for 2.1 per cent of all global jobs created. This placed the United Arab Emirates at the ninth position in the global arena, attracting roughly the same number of FDI projects as Germany and Spain. FDI into the United Arab Emirates has grown on average by 29 per cent annually since 2003, with a total of 1,632 FDI projects and resulting in the creation of more than 267,000 jobs.\(^6\)

Since January 2003, 15 FDI projects have been registered in the United Arab Emirates with a value of over $1 billion.\(^7\) Out of these, 11 were involved in construction activities, while the remaining four projects related to the electrical and oil sectors. The largest FDI project, namely, al-Salam City in Umm al-Quwain, was launched in July 2005 by Tameer Holding. Moreover, in January 2009, British Petroleum announced plans for a hydrogen-fuelled power plant in Abu Dhabi, which is set to generate 420 megawatts of electricity and come into operation in 2013.\(^8\)

In 2008, the United Arab Emirates attracted a total of 480 FDI projects, which are expected to create more than 87,000 jobs. According to a comprehensive survey undertaken by the Ministry of Economy, the financial intermediation, insurance and construction sectors were able to attract more than 60 per cent of the FDI inflows in 2006. In that year, the value of FDI to the financial intermediation and insurance sector was approximately $6.4 billion, with a growth rate of 8 per cent, and accounted for nearly 34.4 per cent of total FDI. The construction sector attracted some $5.4 billion, with a growth rate of 8 per cent, representing nearly 29 per cent of total FDI inflows.

\(^7\) Ibid.
\(^8\) Ibid.
Other economic sectors received far fewer resources from the FDI inflows. For example, in 2006, the wholesale and retail trade sector and the manufacturing sector received about 14 per cent and 10 per cent of total FDI inflows, respectively. On the other hand, the mining sector and the agriculture, and the fishing and forestry sector received 2.8 per cent and 0.2 per cent, respectively, of total inflows.

Additionally, that survey showed that the United Kingdom represented the main source of FDI to the United Arab Emirates, with a total of $4.6 billion or 24.6 per cent of total FDI inflows. Japan came second, at $3.9 billion or 20.7 per cent, followed by India at $2.1 billion or 11.2 per cent, the United States, at $1.2 billion or 6.2 per cent, and Iran at $800 million or 4.1 per cent.

These top five countries contributed more than 66 per cent of total FDI inflows into the United Arab Emirates. With respect to Arab countries, Kuwait topped the list, at a modest $0.7 billion or 3.7 per cent of total FDI in the United Arab Emirates. Saudi Arabia came second in that list, with a total investment of $650 million or 3.6 per cent of the FDI. However, the United Arab Emirates has witnessed a growing number of Arab investors over the past few years, especially from other countries in the GCC and Lebanon. In the wake of the attacks on the United States of 11 September, the United Arab Emirates oriented a significant part of its investments abroad towards several Arab countries. This, in turn, had a positive impact on Arab investments in the United Arab Emirates, which concentrated largely on light industries, real estate and stocks.9

Foreign investors in the United Arab Emirates enjoy a set of substantial incentives and benefit from first-rate transport and communication infrastructures. The United Arab Emirates grants 100 per cent ownership to foreign investors in its free zones, does not levy taxes, and dispenses with restrictions on the transfer of capitals to and from the country. In addition, the cost of gas and electricity is moderate and the exchange rate of the national currency, the dirham, against the United States dollar has been stable since 1980.

3. Egypt

Over the past five years, FDI has become a major financing mechanism in Egypt capable of driving macroeconomic growth. The Government continued to press ahead with the economic structural reforms aimed at boosting productivity and increasing growth potential. For the third time in four years, the World Bank’s Doing Business placed Egypt among the top 10 global reformers. Net FDI inflows to Egypt have kept a positive trend since 2003, leaping from $450 million in 2003 to $10 billion in 2006 and $11.6 billion in 2007. As a result, FDI as a percentage of GDP has increased from less than 1 per cent in 2003 to a sizable 9 per cent in the past three years.

While Egypt’s external position remained sound throughout 2008, the external sector was negatively affected by the global financial crisis and began to show signs of weakness. During the first nine months of 2008, net FDI inflows reached $7 billion. However, in the last quarter of 2008, FDI inflows recorded $2.4 billion. Overall, FDI inflows to Egypt in 2008 were an estimated $9.4 billion, thereby ensuring a surplus of $210 million in the balance of payments. This translates into a decline of nearly 19 per cent compared to the level of FDI in 2007.

Looking ahead, 2009 is set to be marked by the challenging global economic conditions. Consequently, the Government has stepped up its efforts aimed at attracting new investments in order to counteract the impact of the global economic recession.

According to the figures from the Central Bank of Egypt, the oil sector absorbed about 57 per cent of total FDI inflows to Egypt in 2008. Green-field investments and capital increases in established companies

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9 A.H. Mohamed, “Most FDI in the UAE comes from non-Arab nations”, Emirates Business 24/7 (23 June 2008).
accounted for 31 per cent of total FDI, while proceeds from privatizations and direct real estate investments of non-residents accounted for 9 per cent and 3 per cent, respectively. The sectoral distribution of FDI inflows in Egypt indicates that apart from the oil sector, which is the main destination for FDI, the industrial sector ranked first accounting for $1.6 billion, the services sector received some $937 million, and the financial sector received about $843 million in 2008. In that year, FDI inflows into the real estate sector and the construction sector recorded $468 million and $270 million, respectively. However, FDI continues to neglect the agriculture and telecommunication sectors in Egypt, totalling $188 million in the agriculture sector and a very modest $21 million in information technology in 2008.

With respect to the sources of FDI in Egypt, more than 36 per cent of FDI stemmed from the European Union in 2008, particularly the United Kingdom, at 17 per cent; Belgium, at 8 per cent; and France, at 8 per cent. The United States was also a major source of FDI inflows to Egypt, representing 33 per cent of total FDI. On the other hand, Arab FDI inflows to Egypt form a small portion of the total, at 18 per cent, which is roughly equivalent to the investments from the United Kingdom in 2008. The figures indicate that Saudi Arabia and the United Arab Emirates were the main Arab sources of FDI in Egypt in 2008.

Figure III. FDI inflows to Egypt by source, 2008


The streamlining of investment procedures has been reflected by the increase in the number of newly established companies and by expansions of companies already in operation. Egypt reduced the registration costs for business start-ups and paid-in minimum capital in order to facilitate the process of establishing businesses. Specifically, the paid-in minimum capital requirement was reduced by more than 80 per cent and bar association fees were abolished. Egypt has implemented one-stop shops for imports and exports and business start-ups. Moreover, the port of Alexandria continued to upgrade its facilities and expedited customs clearance, thereby reducing export delays by one day and import delays by three days.

Additionally, Egypt was among a few countries in the region to reduce the time to process applications for building permits. A new building code, which was introduced in 2008, reduced the procedures and time required to deal with construction permits. A single-window was established with an enforcing 30 day statutory time limit for processing construction-related approvals. Simplified administrative procedures for registering property and new time limits have reduced the time to transfer property in Egypt from 193 to 72 days.
Furthermore, the Capital Market Authority in Egypt enhanced the disclosure requirements in order to increase transparency before and after related-party transactions. Currently, such transactions have to be reviewed by an independent financial advisor before they can take place. With respect to credit information, new regulations issued by the Central Bank of Egypt give the borrowers the right to access their credit information in the private credit bureau.

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

1. Bahrain

FDI inflows into Bahrain increased from $1.76 billion in 2007 to nearly $1.8 billion in 2008 (see table 2). On the other hand, FDI plays an important role in the national economy, given that some 8 per cent of GDP was generated by foreign investments in 2008.

Bahrain has a reform programme based on three main pillars, namely: (a) privatization; (b) phasing out barriers to market entry; and (c) transforming the role of the State from that of an operator to a regulator. These factors have helped the authorities to diversify the economy away from oil and to stimulate domestic and foreign investments. Indeed, FDI inflows to Bahrain have doubled during the period 2004-2008. However, Bahrain needs to develop innovation and upgrade its business practices. Tackling these challenges is necessary in order to promote sustainable growth and attract FDI inflows.

2. Jordan

The value of FDI inflows to Jordan, which has no natural resources, increased very modestly to $1.954 billion in 2008 from $1.950 billion in 2007. This slight increase stemmed from the success of the Government policy aimed at attracting FDI despite the current global financial crisis. This policy is based on three dimensions, namely: (a) privatization of the main State-owned companies; (b) facilitating foreign-domestic partnerships; and (c) creating free trade zones.

During the past decade, Jordan has improved its business and macroeconomic environments, thereby leading to substantial flows of investment from both domestic and foreign sources, which averaged some 27 per cent of GDP in the period 2000-2008. Jordan has a network of agencies that work to attract investments into the country. Specifically, these agencies offer a variety of incentives and exemptions to different businesses depending on the region and the applicability of the given investment. Moreover, Jordan’s investment-related laws are comprehensive, covering all major aspects of investing, registering and operating businesses. Some of these laws are being reformulated in order to maintain Jordan’s competitive position in the region and globally.

FDI inflows concentrate in free trade zones, such as industrial and development zones. Currently, there are nine industrial estates that incorporate foreign and foreign-domestic projects and that operate in different sectors within each estate. Figure IV illustrates the distribution of FDI inflows to different economic activities. In 2008, manufacturing was the most attractive activity for FDI, receiving the lion’s share of total FDI inflows, at 56 per cent. Tourism, particularly hotels, is a very attractive sector for foreign investment in Jordan, with hotels attracting the second highest share of FDI, at 36 per cent. The remaining 8 per cent of FDI inflows was distributed among several economic sectors, including rail and sea transport at 4 per cent, hospitals at 2 per cent, recreation parks at 1 per cent, and agriculture at 0.7 per cent.


11 Ibid.

12 Jordan is planning to establish new industrial estates in the future, including, for example, Al Muwaqar Industrial Estate.
Figure IV. FDI inflows to Jordan by sector, 2008

![Diagram of FDI inflows by sector]


Figure IV indicates the relative distribution of FDI in Jordan according to the countries of origin. In 2008, 79 per cent of total FDI inflows to Jordan stemmed from four countries, namely: the United Kingdom, which has the largest foreign investment at 29 per cent; the United Arab Emirates, at 26 per cent; Kuwait, at 16 per cent; and Saudi Arabia, in fourth place with 11 per cent. The figure illustrates that Arab investments formed more than half of FDI inflows in Jordan in 2008.

Figure V. FDI inflows to Jordan by source, 2008

![Diagram of FDI inflows by source]


The World Bank’s Doing Business 2009 ranked Jordan at 101 out of 181 globally, which constitutes one of the better performing ESCWA member countries in that context. However, further improvements in the investment environment are needed to advance the development of the private sector. An investment climate survey, which was sponsored by the World Bank Group, revealed favourable scores in terms of perceptions of corruption, security and property rights. In addition, the financial sector has been able for the most part to meet the needs of operating enterprises, and infrastructure is not a major constraint.
assistance from the World Bank Group, Jordan is focusing on addressing some of the remaining constraints, including streamlining civil procedures; reforming taxation and tax administration; providing demand-driven skills training for workers; providing greater opportunities for private employment agencies to operate in Jordan’s labour market; and developing the capacity of insolvency administrators.

3. Lebanon

By stark contrast to many countries in the region, FDI inflows to Lebanon witnessed a sharp increase in 2008, totalling $3.6 billion and registering an increase of 32 per cent relative to 2007. Moreover, Lebanon registered the highest FDI to GDP ratio among ESCWA member countries in 2008, at 12.6 per cent, up from 11.1 per cent in 2007.

According to the Investment Development Authority of Lebanon (IDAL), non-Arab FDI in Lebanon remained very modest in 2007 and more than 90 per cent of total Arab FDI inflows originated from four countries of the GCC, namely: Saudi Arabia, at 70 per cent; Kuwait, at 22 per cent; the United Arab Emirates, at 4 per cent; and Qatar, at 2 per cent (see figure VI).

Figure VI. Arab FDI inflows to Lebanon by source, 2007

![Figure VI](image)

*Source: Investment Development Authority of Lebanon (IDAL).*

Figure VII shows that more than 50 per cent of Arab FDI inflows into Lebanon in 2007 targeted the real estate sector, while financial services and tourism received approximately 33 per cent of incoming FDI. By contrast, FDI in industrial sectors and information and communications technologies (ICTs) continued to be insignificant.
The investment climate in Lebanon benefits from a series of incentives, including full exemption from income taxes for up to 10 years, full exemption from land registration fees, a reduction of up to 50 per cent on work and residence permit fees, full exemption from taxes on project dividends for up to 10 years, and a reduction of up to 50 per cent on construction permit fees. In addition, Lebanese authorities have recently pursued efforts aimed at improving the investment environment, notably by establishing one-stop shops.

4. Oman

According to preliminary results published in February 2009 by the Ministry of National Economy in Oman, FDI inflows witnessed a sharp annual increase of 54.6 per cent in 2007, reaching $3.1 billion. However, the international financial and economic crisis adversely affected FDI flows to Oman during 2008, which totalled $2.9 billion, representing a decrease of 6 per cent compared to 2007. However, FDI continued to account for a larger share of Omani GDP, given its growth from 7.7 per cent in 2007 to 8.2 per cent in 2008.

In 2007, four main sectors received large amounts of FDI, namely: oil and gas, at 41.5 per cent; manufacturing, at 17.3 per cent; the financial sector, at 17.1 per cent; and real estate, renting and business activities, at 8.8 per cent of total FDI inflows (see figure VIII).

Source: Investment Development Authority of Lebanon (IDAL).

Source: Central Bank of Oman, Foreign Investment (February 2009).
While FDI inflows to Oman originated from 59 countries in 2007, 81 per cent of all FDI inflows stemmed from nine countries (see figure IX). The United Kingdom was the major sending country in 2007 with a share of 24 per cent of total FDI flows, followed by the United Arab Emirates, at 18.6 per cent, and the United States, at 18.3 per cent.

**Figure IX. FDI inflows to Oman by source, 2007**

![Pie chart showing FDI inflows to Oman by source, 2007](chart)

*Source: Central Bank of Oman, *Foreign Investment* (February 2009).*

According to *Doing Business 2009*, Oman’s position in the rankings remained unchanged from the previous edition, at 57. This stems from efforts by Oman aimed at providing a friendly and liberal environment for businesses and investments by allowing foreign ownership up to 70 per cent within the framework of the World Trade Organization (WTO), and full foreign ownership in specific cases under free trade agreements between Oman and the United States.

Moreover, there are no restrictions on the repatriation of capital or income earned on invested foreign capital, and FDI enterprises are eligible for five-year tax breaks that can be extended up to 10 years. The new tax law, namely, Royal Decree no. 28/2009, could help to stimulate economic development and attract more foreign investment into the country. Oman also offers quality physical infrastructure in terms of roads, sea ports, airports, as well as electricity and water supply.

**C. BELOW-POTENTIAL PERFORMING ECONOMIES: KUWAIT, PALESTINE, QATAR, THE SUDAN, SYRIAN ARAB REPUBLIC AND YEMEN**

1. **Kuwait**

Kuwait witnessed a steep decline in FDI inflows in 2008, registering $57 million, down from $121 million in 2007 (see table 2). Approximately 53 per cent of these inflows were investments made by the Swiss manufacturer, Marine Cement Limited.\(^{13}\) In 2008, FDI represented a meagre share of GDP, at 0.05 per cent, which is significantly below the regional average.

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\(^{13}\) Arab Investment and Export Credit Guarantee Corporation (AIECGC), “The Arab Investment Climate” (2008).
However, preliminary data suggests that FDI inflows into Kuwait are likely to increase in 2009. Indeed, data for the first quarter of 2009 reveals that investment demands from foreign companies amounted to nearly $63 million. Among these demands, the Swiss bank, Credit Suisse, is looking to expand its consultancy services, with an investment cost of $50.6 million. Moreover, the American manufacturer, Advanced Refining Technologies, is set to establish a plant for hydroprocessing catalyst production at an estimated cost of $6.1 million. The expected increase in FDI flows to Kuwait could well reflect the positive impact of the recently introduced tax law, which streamlined procedures for foreign firms and replaced the complex progressive structure of the tax by a flat rate of 15 per cent.

Most notable among the efforts recently pursued by Kuwaiti authorities in terms of attracting foreign investors is the signing of five bilateral investment treaties, which will encourage FDI inflows into Kuwait from the counterparties. Moreover, Kuwait has opened its storage and logistical services for foreign investors, thereby encouraging FDI inflows, particularly in the service sector. However, significant factors still hinder FDI inflows into Kuwait, including the weight of the public sector in the economy and the sectoral restrictions on foreign investors.

2. Palestine

Between 2006 and 2007, Palestine witnessed an increase of approximately 47 per cent of incoming FDI flows. Specifically, FDI inflows to Palestine totalled $28 million in 2007, representing 0.6 per cent of GDP. The significant fluctuations in FDI inflows reflect their dependency on the political situation.

According to the Arab Investment and Export Credit Guarantee Corporation (AIECGC), the Palestinian authorities have recently amended three laws that could positively impact the business and investment climate. These amendments increase the incentives provided to investors, streamline the procedures for business start-ups and increase the number of sectors in which foreign firms can invest. According to Doing Business 2009, registration formalities were recently computerized in Palestine, thereby significantly reducing the time needed to register new businesses. However, only a comprehensive political solution can stabilize the Palestinian economy and promote a sustainable business environment.

3. Qatar

In 2008, Qatar witnessed record growth, with a real growth rate estimated at around 16 per cent, thereby making the country the region’s fastest growing economy. Despite the recent slowdown in economic activity, owing mainly to the impact of the international economic crisis on oil prices and global oil demand, Qatar is predicted to grow in real terms at a respectable 7 per cent in 2009.

The outstanding pace of this economic growth reflects the commitment of the Government to diversify the economy away from the oil sector. In fact, fluctuations in oil prices have led the Government to exploit the country’s reserve of natural gas and to promote investment in non-oil sectors. However, available data suggest that FDI inflows to Qatar are relatively low when compared with other countries of the GCC. Moreover, the FDI to GDP ratio is well below the regional average.

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14 Ibid.
15 ESCWA, Survey of Economic and Social Developments in the ESCWA Region, 2007-2008 (E/ESCWA/EDGD/2008/3).
17 Ibid.
18 ESCWA, Survey of Economic and Social Developments in the ESCWA Region, 2007-2008 (E/ESCWA/EDGD/2008/3).
The efforts by the Government were reflected in *Doing Business 2009*, which ranked Qatar at 37 among 181 countries. Recent endeavours undertaken by Qatar are aimed at further simplifying business and investment procedures and at rendering the overall climate more investment friendly. For instance, the introduction of the “investment visa” is designed to facilitate the procedures for obtaining a visa and residency permit for Qatar. Moreover, the new corporate income tax law, currently under discussion by the Council of Ministers, is expected to lower the tax rate from 35 per cent to 12 per cent, which will represent the lowest income corporate tax in the GCC. In addition, a new investment law is under review by the Council of Ministers aimed at encouraging foreign investment in the country, which could further boost growth prospects.

One of the most significant efforts recently put into effect is the survey of FDI inflows and outflows to and from Qatar currently under implementation by the Statistics Authority. The ambitious project seeks to construct a large statistical database covering all aspects of FDI flows, notably in three major sectors: oil and gas, real estate and the financial sector. In addition to its expected use for internal purposes, the completion of the project, most probably in mid-2010, will provide researchers and institutions with a precious and useful database.

There is little evidence to suggest that Qatar has been severely impacted by the international economic crisis. In fact, private investments continued at a strong pace during late 2008 and early 2009. This can be attributed to several factors. First, easy credit conditions for the private sector have greatly helped to fund investment projects. This was made possible by the prompt reaction of the Government in terms of shoring up the banking sector during the first months of the international crisis. Secondly, the decline in construction and raw material prices reduced investment costs, thereby contributing to the steady level of overall investment. Moreover, given that gas prices have not been significantly affected by the international crisis, the liquefied natural gas and gas to liquids industries continued to expand.

Regarding public capital expenditures, the Government increased the budget allocations for public projects for the fiscal year 2008/2009 to some $16.3 billion, which represents an increase of 160 per cent relatively to the previous budget. Public services and infrastructure accounted for nearly 51 per cent of the projected public capital expenditures. Such expenditures could enhance the economy’s global competitiveness and help to attract foreign investors.

### 4. The Sudan

While FDI inflows into the Sudan increased modestly from $2.4 billion in 2007 to $2.6 billion in 2008, this represents a drop of approximately 36 per cent relative to 2006. The ratio of FDI inflows to GDP increased slightly from 4.2 per cent in 2007 to 4.5 per cent in 2008. However, again compared to 2006, the FDI to GDP ratio dropped by about 45 per cent in 2008. The petroleum and mining sector topped the list of the most attractive sectors to foreign investors, followed by the production of construction materials, such as granite and marble.

The Sudan’s economy has grown by over 10 per cent in recent years, underpinned by higher oil production, good harvest seasons, and a continuing boom in construction and services. While the fiscal impact of the international economic crisis has been felt nationwide, it has especially affected the south of the country where oil constitutes 97 per cent of total revenue.

According to *Doing Business 2009*, the Sudan dropped to 147, from 142 in the previous edition. This comes despite efforts by the Ministry of Investment to implement a single window aimed at removing bureaucratic barriers, shortening delays and unifying all procedural channels for investors.

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20 Ibid.
5. Syrian Arab Republic

FDI inflows into the Syrian Arab Republic continued on an upward trend, totalling almost $1.3 billion in 2008 up from nearly $900 million in 2007. In addition, the contribution of FDI inflows in the economic activities of the country increased from 1.81 per cent in 2006 to 2.3 per cent in 2008.

The more vigorous involvement of the private sector in the economic activities, coupled with the gradual liberalization of the economy has been reflected in a number of investment projects in several sectors. In the oil sector, the Ministry of Oil and Mineral Resources concluded a deal with China National Petroleum Corporation (CNPC) in order to build a refinery to process heavy Syrian crude oil. A similar contract was concluded between the Ministry and Iran, Malaysia and Venezuela.

The more vigorous involvement of the private sector in the economic activities, coupled with the gradual liberalization of the economy has been reflected in a number of investment projects in several sectors. In the oil sector, the Ministry of Oil and Mineral Resources concluded a deal with China National Petroleum Corporation (CNPC) in order to build a refinery to process heavy Syrian crude oil. A similar contract was concluded between the Ministry and Iran, Malaysia and Venezuela.

The manufacturing sector witnessed a significant number of new investment projects during 2008 and early 2009. The Iranian car manufacturer, Iran Khodro (IKCO), launched the second phase of its assembly line in the Syrian Arab Republic after the completion of the first phase in 2007. In 2008, a new joint venture led by domestic investors and foreign counterparts in Italy and Saudi Arabia established a cement factory. Moreover, the Turkish cement manufacturer, Guris Group, recently started a clinker milling plant, with the objective of producing one million tons of cement on an annual basis to serve the local market. In early 2009, a joint venture of a Danish paints manufacturer along with a number of investors from the Gulf subregion commissioned a plant at an estimated cost of $10.6 million.

Recent investments in real estate projects have been estimated at $2 billion, often taking the form of joint ventures between domestic and foreign parties, particularly Arabs. Services are also among the most attractive sectors for foreign investors. Firms are becoming increasingly interested in opportunities in the tourism sector, either in direct participation or under management contracts. In an attempt to increase private investments in that sector, the Ministry of Tourism offered 65 sites for development and investment, with an estimated cost of nearly $3 billion. Moreover, the banking sector has witnessed a number of joint ventures.

The increase of FDI flows to the Syrian Arab Republic reflects the recent efforts by the Government aimed at enhancing the private sector’s participation in the overall economic activity. In particular, the authorities have embarked on a large-scale development programme aimed at enhancing the investment climate and increasing investments in non-oil sectors, particularly in the light of the gradual depletion of national oil reserves.

In fact, the tenth five-year plan, which was implemented with the cooperation of the United Nations Development Programme (UNDP), has set intermediate objectives ranging from developing new laws and regulations, to diversifying investment incentives and guarantees, and encouraging partnerships with the private sector.

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21 The private sector’s share of GDP was an estimated 65.8 per cent in 2007 up from 56 per cent in 2000. See Syrian Investment Agency, Quarterly Magazine (April 2009).


23 Ibid.

24 Ibid.

25 The Bank of Jordan, the Lebanese-owned Bank al-Sharq and the Qatar National Bank have all entered the Syrian market; and Fransabank Syria started operating in early 2009. Ibid.

26 Ibid.


17
country, SIA launched an “investment map” in 2008 aimed at providing potential investors with information on investment opportunities, implemented projects and regulations.\textsuperscript{28}

These efforts by SIA are in line with the legislative decree number 8 of 2007 that seeks to provide investors with a substantial set of incentives and guarantees, and widen the array of investment opportunities to cover agriculture, industry, transport and other services.\textsuperscript{29} Specifically, the decree allows foreign investors to own or lease land and property, and to repatriate capital and profits after a relatively short period.\textsuperscript{30}

According to \textit{Doing Business 2009}, the Syrian Arab Republic improved its business environment from the previous year and was consequently rewarded with a better ranking, at 137 among 181 countries. In particular, the Syrian Arab Republic was the second best reformer in the Middle East and North Africa region in terms of starting a business. However, the national economy still suffers from a burdensome bureaucracy that hampers the business and investment climate, including, for example, an inefficient judicial system in terms of resolving commercial disputes. In addition, recent endeavours aimed at facilitating access to credit need to be expedited in order to encourage private sector investments.

6. Yemen

FDI flows to Yemen registered a meagre $415.5 million in 2008, down from nearly $917 million in 2007. In addition to security concerns, the dwindling FDI inflows can be attributed to the international economic crisis, particularly its impact on oil prices. Tighter credit conditions worldwide and lower oil prices have reduced both the capacity and propensity for foreign investment, thereby affecting overall investments in Yemen. This trend continued throughout the first half of 2009, as suggested by preliminary data from the General Investment Authority of Yemen.

Arab countries, including ESCWA member countries, were the major sending region of FDI flows to Yemen, with a substantial share of nearly 95 per cent of total FDI inflows into Yemen in 2008 (see table 5). Countries in Southeast Asia stood up as a distant second, with a 4 per cent share of total FDI inflows. Such a geographical concentration of FDI suggests that there is still a great opportunity for attracting foreign investors from Europe and North America.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|}
\hline
Region & Share of total FDI inflows \\
\hline
Arab region & 94.54 \\
Southeast Asia & 4.13 \\
Europe & 1.29 \\
America & 0.04 \\
Total & 100 \\
\hline
\end{tabular}
\caption{FDI inflows to Yemen by region, 2008 (Percentage)}
\end{table}

\textit{Source:} General Investment Authority of Yemen.

In 2008, Saudi Arabia was the top FDI sending country to Yemen, with investments amounting to $166.5 million and representing some 41 per cent of total FDI inflows into Yemen, followed by Oman, Lebanon and Kuwait (see figure X). In 2007, among ESCWA member countries, only Saudi Arabia and Egypt were among the top five sending countries, totalling some 25 per cent of FDI inflows in that year.

\textsuperscript{28} Ibid.
\textsuperscript{29} Ibid.
\textsuperscript{30} The United Nations Conference on Trade and Development (UNCTAD), \textit{World Investment Report 2008}.
Figure X. FDI inflows to Yemen by source, 2008

![Pie chart showing FDI inflows by source. Saudi Arabia accounts for 41%, Oman 24%, Lebanon 20%, Kuwait 5%, China 3%, United Arab Emirates 2%, Iraq 1%, Turkey 1%, Other 3%.]

Source: General Investment Authority of Yemen.

Figure XI illustrates that the industrial sector held the lion’s share of FDI inflows to Yemen in 2008, capturing almost 71 per cent of FDI flows. Services accounted for 29.1 per cent of total FDI inflows into Yemen, while 0.22 per cent of foreign funds were invested in tourism and an even more meagre 0.12 per cent targeted agriculture.

In order to develop fully its tourism investment opportunities, the authorities need to increase capital expenditures in transport and communication infrastructures. Another field that could attract FDI inflows is the fishery sector, where Yemen has a significant comparative advantage that could help to attract financial resources from abroad and establish joint ventures with local investors.

Figure XI. FDI inflows to Yemen by sector, 2008

![Pie chart showing FDI inflows by sector. Industry accounts for 71%, Services 29%.]

Source: General Investment Authority of Yemen.
Despite the direct impact of the international economic crisis on investments in Yemen and the overall economic activity, investment projects valued at more than $9 billion are scheduled for the period 2009-2011. The bulk of these planned investments consists of transport and shipping projects. This could deepen the integration of Yemen with its neighbours as well as world markets, which could further attract FDI.\footnote{According to UNCTAD, one of the most cited reasons for investing in Western Asia is access to regional and international markets. Ibid.}

Such projected investments partially reflect the reforms recently introduced by the Government aimed at enhancing the business environment. According to Doing Business 2009, Yemen was the top reformer among 181 countries in terms of starting a business given its efforts to streamline the required procedures for start-ups. As a result, Yemen’s rank in the report jumped from 123 in 2007 to 98 in 2008 in the overall ranking on the ease of doing business. Moreover, a number of laws currently under discussion by the Council of Ministers, particularly the new investment law, could further facilitate the business and investment climate in Yemen.

In order to continue its efforts in strengthening the attractiveness of the national economy, Yemen needs to deal with two factors that still hamper investment prospects, namely: (a) the difficulty of gaining credit by businesses, which owes mainly to the lack of disposable information on credit conditions and to weaknesses in the legal rights of borrowers and lenders; and (b) the weak protection of investors.\footnote{Yemen ranked 172 in the indicator on “getting credit”, and 126 on “protecting investors”. See the World Bank, Doing Business 2009.}
III. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

Over the past few years, ESCWA member countries have implemented a number of measures aimed at boosting the attractiveness of the business environment. Those measures included the reduction in corporate taxes, creation of one-stop shops to reduce the time needed to approve and register investments, and the reduction in minimum capital requirements. As a result, FDI inflows to ESCWA member countries have increased from less than $11 billion in 2003 to reach more than $60 billion in 2008. Over the past two years combined, FDI inflows were higher than the cumulative total of the previous 15 years. A significant amount of these inflows have largely stemmed from within the region, as evidenced by a sharp increase in the number of GCC companies and banks that have expanded their businesses into other ESCWA member countries.

The outstanding performance of the FDI inflows to ESCWA member countries did not persist in the face of the ongoing turmoil in the global financial markets and the deterioration of the world economic growth. In 2008, ESCWA member countries witnessed a decline in FDI inflows for the first time since the year 2001. FDI inflows deteriorated to $60 billion in 2008 compared to $64 billion in 2007, which represents a drop of 6.3 per cent. Further deterioration in the level of FDI inflows to ESCWA member countries is expected in 2009.

Indeed, preliminary data show that the downward trend in FDI accelerated in the first quarter of 2009, with FDI declining by 50 per cent in the countries of the Organisation for Economic Co-operation and Development (OECD). Moreover, for 2009, the United Nations Conference on Trade and Development (UNCTAD) has predicted a decline of 50 per cent in global FDI inflows and of 60 per cent in FDI inflows to developing countries.

Looking ahead, the ESCWA region is expected to continue to attract FDI flows in the medium term. The oil sector in particular is expected to attract significant FDI. In the medium term, enhancing the infrastructure could increase the overall economic competitiveness, which in turn will help to attracting FDI inflows. In the long term, human capital needs to be enhanced in order to promote innovation and increase productivity, which in turn can draw domestic and foreign capital.

One of the main features of FDI inflows into the ESCWA region is its heavy concentration in three countries, namely, Saudi Arabia, the United Arab Emirates and Egypt. These countries captured more than three quarters of total FDI in the region in 2008. In addition, foreign investments have largely targeted the energy sector. Consequently, the oil-exporting countries in the region need to accelerate their efforts aimed at diversifying their economies, while the non-oil exporting countries need to develop further their investment policies in order to direct FDI towards the most productive and strategic sectors in their economies, such as industry and agriculture.

Despite the recent increase in FDI inflows to ESCWA member countries in the period 2002-2007, the percentage of FDI inflows remains small as a function of the size of the ESCWA region compared to other emerging markets. ESCWA member countries need to encourage more investments, both domestic and foreign, and there is a need for greater progress at the economic, structural and regulatory levels. There are still several factors that constrain FDI to ESCWA member countries, including weak enforcement of legislation, excessive levels of bureaucracy and corruption, dominance of the public sector and slow implementation of privatization programmes.33

33 For more details on the challenges confronting FDI inflows to ESCWA member countries, see ESCWA, Foreign Direct Investment Report (E/ESCWA/EDGD/2008/Technical Paper.1).
B. RECOMMENDATIONS

ESCWA member countries need to take appropriate measures aimed at encouraging both domestic and foreign investments. Within that context, the following policy options are recommended:

(a) ESCWA member countries suffer from bureaucratic institutional frameworks that impose high entry and exit costs to firms. These burdens impede commercial transactions and deter FDI. Endeavours must therefore aim to create a more transparent and efficient institutional environment;

(b) ESCWA member countries need to continue their efforts aimed at enhancing their governance standards given that private investors are highly sensitive to good governance. In particular, inconsistent implementation of laws continues to be a powerful deterrent to foreign investments in many countries of the region;

(c) In order to develop fully their investment opportunities, ESCWA member countries need to pursue endeavours aimed at enhancing transport and communication infrastructures. To that end, embedding partnerships with the private sector could be a valuable option;

(d) Facilitating access to credit is paramount for drawing investors. This can be achieved by disseminating information on credit conditions and strengthening the legal rights of borrowers and lenders;

(e) Many ESCWA member countries still suffer from a weak protection for small stakeholders. Increasing the protection of investors could attract private capital. In particular, strengthening investor rights could increase intraregional investments in a number of promising sectors in industry and agriculture;

(f) ESCWA member countries need to pursue more investment in education. By upgrading the educational system and making it more compatible with business needs, ESCWA member countries could attract technology-transferring FDI inflows;

(g) ESCWA member countries need to reinvigorate their regional integration. In particular, the integration process needs to include the liberalization of services and investment flows.