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REPORT ON FOREIGN DIRECT INVESTMENT INLFOWS IN THE ESCWA REGION

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Preface

This report, which was prepared by the Globalization and Regional Integration Division within ESCWA, represents mainly the results of the implementation of the project initiated in 2002, entitled "Networking of expertise on foreign direct investment in the ESCWA member countries". This report provides readers in general and policymakers in particular with accurate and verifiable data on foreign direct investment (FDI) statistics.

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Executive summary

The inflows of foreign direct investment (FDI) to the ESCWA region have witnessed an upturn in the past few years. This has been boosted by several factors, including, among others, the improvement of macroeconomic policies resulting from the implementation of economic reform policies in many countries during the past decade; opening up more economic sectors to the participation of foreign investors, particularly the services sectors; and the increase in oil prices, which in turn has led to concomitant increases in investment by major oil companies. However, this upturn has been uneven among countries in the ESCWA region, given that it has been concentrated in only a few member countries, namely, Egypt, Saudi Arabia, Syrian Arab Republic and United Arab Emirates, while the performance of other member countries has been less favourable and remains below expectations.

Moreover, efforts by Governments aimed at mobilizing FDI have been largely successful, particularly in Egypt, Jordan, Saudi Arabia, Syrian Arab Republic and United Arab Emirates.

This report aims to analyse the FDI data in ESCWA member countries, which were derived mainly from the databases that were established by ESCWA in the eight member countries that are participating in the project, entitled "Networking of expertise on foreign direct investment in the ESCWA member countries".[1] In the cases of member countries that are not participating in the project, the relevant data were compiled from national, regional and international sources.

This report represents a first for the ESCWA region in that it analyses actual FDI data based on the implementation of surveys of enterprises with FDI participation in these countries. Specifically, it aims to provide decision makers with analyses of the inflows of FDI in member countries, the ratios of FDI inflows to their respective gross domestic product (GDP), the sources of FDI inflows and stocks, and the main sectors that were successful in attracting higher shares of FDI. Additionally, it analyses the main issues that guided investors in their investment decisions. The report is based on first-hand data and therefore represents an adequate source for decision makers in formulating FDI policies and strategies.

Within the context of economic restructuring, institutional reforms have been taking place in most ESCWA member countries. A survey of laws and regulations indicates that progress has been made in terms of adopting and/or updating laws and regulations that govern the entry and operations of the FDI enterprises. Most countries have enacted new investment laws; and several have engaged in privatization processes that are open to foreign investors or have formulated new or amended existing corporate, copyrights and tax laws. All these efforts are aimed at providing additional incentives to foreign companies. However, despite the progress that has been made, there are several issues that need to be addressed, including the issue of protecting intellectual property rights, reforming commercial laws and commercial courts, reducing bureaucracy and combating corruption. Equally, efforts are needed to improve investment services and protection, especially by improving Government services and modernizing basic infrastructure. Moreover, the privatization process in the region is still moving at a slow pace, with the public sector largely dominating several economic sectors.

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

Moreover, analysing FDI inflows by country of residence of investors revealed that a couple of countries consistently captured the largest share of FDI inflows. FDI inflows were also found to be

[1] This project is being implemented jointly by ESCWA and the United Nations Conference on Trade and Development (UNCTAD).

distributed unequally among economic sectors, with the manufacturing and financial services sector capturing the largest share of FDI inflows in most ESCWA member countries. Additionally, the effect of FDI inflows on the recipient economy was uneven, with significant differences in terms of creating employment opportunities, employing nationals and expatriates, impacting exports and imports, and encouraging technology transfers.

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

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

(b) To put in place stable macroeconomic policies;

(c) To engage in campaigns aimed at promoting FDI, preferably with the participation of the private sector;

(d) To give more attention with regard to the compilation of accurate and verifiable FDI statistics;

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

(f) To take measures aimed at repatriating Arab investments outside the region;

(g) To formulate regional investment agreements and promote intraregional investments;

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

Introduction

This report aims to shed light on FDI inflows based on the statistical analyses that were derived from the project on "Networking of expertise on foreign direct investment in the ESCWA member countries". The needs assessment reports, which resulted from a field mission to ESCWA member countries in 2002, indicated that countries lack reliable and consistent statistics on FDI stocks and its distribution among economic sectors. Most of the available statistics are rough estimates based on balance of payments rather than on a survey of the companies and the projects with FDI participation. In addition to the lack of accurate data on FDI, there is a significant difference among countries in terms of data collection given the absence of harmonized techniques and definitions. Moreover, there is a difference in the definitions of FDI and portfolio investment. Often, several governmental agencies, including, most prominently, central banks, ministries of economy and finance, and departments of statistics, deal with foreign investment projects and are involved in data compilation.

In 2002, ESCWA and the United Nations Conference on Trade and Development (UNCTAD) launched the project on "Networking of expertise on foreign direct investment in the ESCWA member countries" with the following aims: (a) to address the challenge posed by the lack of accurate data based on international methodologies; (b) to enhance the capacity of governmental agencies in ESCWA member countries related to the compilation, dissemination and analysis of FDI data by implementing international methodological standards; (c) to obtaining accurate statistics on FDI stock and its distribution; (d) to strengthen networking among investment promotion offices and concerned agencies in the region, with the purpose of facilitating the exchange of expertise and experiences; (e) to assist ESCWA member countries in formulating suitable policies and in adopting adequate measures aimed at promoting FDI inflows; and (f) to determine the main challenges faced by foreign direct investors in order to provide an adequate climate for investment.

The project covers eight ESCWA member countries, namely, Bahrain, Jordan, Kuwait, Qatar, Oman, Saudi Arabia, Syrian Arab Republic and United Arab Emirates; and five countries completed the survey of enterprises with FDI participation, namely, Bahrain, Oman, Saudi Arabia, Syrian Arab Republic and United Arab Emirates.

This report, which presents the analysis of the performance of ESCWA member countries in terms of FDI inflows and regulations, comprises the following two sections:

(a) The first section deals with the institutional arrangements that govern the entry and operations of FDI in ESCWA member countries, and reviews the regulations that have been established and/or reformed in the past few years in the majority of these countries. The institutional arrangements are vital measures needed by each country as part of a strategy aimed at promoting FDI. Equally, these arrangements play an integral role in improving the investment climate and in creating an adequate investment environment that can promote FDI inflows. Consequently, this section focuses on the laws that govern foreign investment, which represents a major concern for foreign investors, particularly the lack of accurate information and regulations in FDI, unpredictable changes in regulations, and Government policies on FDI. In addition, this section reviews the indicators of corruption, which constitute a major obstacle in terms of conducting business in the Arab region;

(b) The second section analyses the performance of FDI inflows. The figures were obtained mainly from the FDI databases that were established in the above-mentioned eight ESCWA member countries, with the technical assistance provided by ESCWA. For other countries that have not yet established FDI databases, data was obtained from governmental and international sources.

I. ASSESSMENT OF THE INVESTMENT CLIMATE

A. INSTITUTIONAL ARRANGEMENTS

This section analyses the main institutional reforms that have been undertaken by ESCWA member countries aimed at promoting FDI inflows. It focuses on the major changes to laws and regulations that govern the entry and operations of FDI that have been introduced by these countries and, in particular, analyses the laws in each country in the areas of investment, company, corporate, competition, property rights and other related laws and regulations.

1. *Egypt*

In Egypt, the regulatory framework for investment has improved substantially owing to the efforts and determination by the Government aimed at implementing economic reforms. Egypt was among the first Arab countries to engage in economic transformation. Since the late 1980s, the Government has issued a wide range of new and/or amended laws and regulations to improve the investment climate in order to promote FDI inflows. The most important laws and regulations that have been issued are set forth below.

(a) *Law No. 8 of 1997*

This Law stipulates the following: (a) protection against nationalization and confiscation; (b) maintaining non-interference in terms of price-setting and profits of products; (c) safeguarding the right of companies and establishments covered by the Law to own land necessary for operating and expanding their activities; (d) upholding the right of companies and establishments to import production requirements, equipments, spare parts and means of transport needed for production and/or expanding their activities; (e) establishing tax exemptions on revenues of commercial and industrial activities and corporate tax for a period of five years;[2] and (f) maintaining custom tariff at a fixed rate of 5 per cent on companies with regard to the imports needed for these establishments.

(b) *Capital Market Law No. 95 of 1992*[3]

This Law stipulates the procedures of establishing companies that perform such activities as underwriting subscriptions, brokerage, clearance and settlement of transactions. Companies that cover securities of public subscription are required by this Law to provide biannual reports on their activities; to prepare the annual budgets according to established accounting standards; to disclose any information that could affect their financial positions in widely circulated newspapers. Additionally, this Law specifies that tax on capital gains at 2 per cent has to be paid by the seller; and stipulates that, with exception of Cairo and Alexandria, no securities can be listed in more than one market while listing and de-listing of securities is to be decided by the stock exchange.

Under this Law, shares are categorized as follows: list "A" shares of public subscription companies that own at least 30 per cent of shares to the public, and the subscribers to the offered shares are not less than 150; and list "B" shares that do not meet the conditions of those in list "A" and the foreign securities. The Law gives the chairman of the stock exchange the authority to suspend trading, particularly in cases of price manipulation; and the chairman of the market authority the power to place maximum and minimum trading prices on all stock exchanges in cases of emergencies. Moreover, article 23 of the Law calls for the establishment of an insurance fund to ensure securities against non-commercial risks pertaining to activities of intermediary companies; article 28 requires all securities intermediation companies to obtain licensing and registration from the market authority before going into operation; and article 35 regulates the establishment of investment funds, which need to be incorporated as a joint stock company.

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[2] This period is extended to 10 years for companies that operate in the new industrial zones, new urban communities and remote areas; and to 20 years for companies that operate outside the Delta areas (old valley).

[3] The Capital Market Law is available at: http://www.investment.gov.eg/NR/rdonlyres/34BF3D6F-977E-42BF-9665-D9F9572016BA/819/cmlaw.pdf.

(c) *Company Law No. 3 of 1998*

This Law organizes and stipulates specific measures to establish and operate various types of companies in Egypt. The aim is to facilitate the establishment of private companies, including joint stock companies. Under this Law, subscribers need only to notify the administrative authority of the establishment of a company, which can subsequently only be challenged by the authority in the case of any violation of the articles of the Law. The establishment of a company that violates public order implies that the founder is not eligible to establish such a company; and the founder is provided a grace period of 15 days to correct the situation, failing at which results in the authority cancelling the company from the register.

Moreover, shares for subscription can only be issued through banks that are licensed to carry out such operations. Under article 41 of the Law, company employees are entitled to at least 10 per cent of distributed earnings, providing these do not exceed their total annual wages. In the case of losses reaching 50 per cent of a company's capital, article 69 stipulates that the board of directors must call for a general assembly of the company. Furthermore, the General Authority for Investment and Free Zones (GAFI) became responsible for the establishment of new companies in 2002.

(d) *Law No. 82 of 2002*

Articles 1 and 2 of this Law stipulate when patents can and cannot apply to industrial inventions. It also provides foreigners with the right to apply for patents at the patent office; and calls for special registers for patent applications, utility models and data in accordance with the provision of the Law. Accordingly, the right of patents is given to investors or their successors and, where there is joint ownership of a patent, to the equal partners. Article 9 of the Law sets the duration of the patent period to 20 years, starting from the date of application in the country; and article 10 ends the right of the patent's owner to prevent others from importing, using, selling or distributing the protected product when that product is commercialized in any country or is authorized to do so by a third party. The accepted application can be opposed by other parties deposited in writing within 60 days.

The granting of patents is published after one year starting from the application date and is kept confidential during the one-year period. Moreover, article 21 of the Law stipulates that the patent can be transferred with or without compensation, and can be subject to mortgage or disposal. The right of a patent expires or falls into public domain upon its expiration, relinquishment by the holder, failure to pay the annual fees, or exportation in Egypt within 2 years or abuse by the patent owner. In the area of copyrights, article 139 stipulates that the protection of copyright covers Egyptians and foreigners, legal entities and member countries of the World Trade Organization (WTO). The protection covers a wide range of activities, including, among others, books, computer programs, databases and musical works.

(e) *Law No. 3 of 2005*

This Law stipulates that economic activities must not be based on preventing competition and describes market control as the ability of an individual to own more than 25 per cent of a given market. Moreover, agreements and/or contracts between competitors are prohibited given that these can lead to monopolistic practices and with the aim of stabilizing prices of products. Article 8 of the Law stipulates that the controller of a concerned market is prohibited from carrying out actions that can impede the manufacture or distribution of products, thereby refraining such controllers from concluding contracts with other parties that limit entry or exit from the market, discriminate between sellers or buyers with similar commercial standing, sell products with prices that are lower then their marginal costs, or force suppliers to refrain from dealing with competitors. The Law stipulates the establishment of a governmental agency, namely, the Agency for Protection of Competition and Prohibition of the Monopolistic Practices, aimed at monitoring the implementation of the Law and whose board of directors is formed by ministerial decree. Violating the provisions of this Law can incur fines in the range of 30,000-10,000,000 Egyptian pounds.

(f) *Income Tax Law No. 91 of 2005*

This Law sets the residency period at 183 days of continuous stay per year, or one year of non-continuous stay; and determines such residency for companies starting from the date of establishment under Egyptian law.[4] Article 8 determines the tax rate according to the income levels, varying from 10 per cent on net income between 5,000-20,000 Egyptian pounds, 15 per cent for net income between 20,000-40,000 Egyptian pounds, and a maximum of 20 per cent on net income that exceeds 40,000 Egyptian pounds. The Law also determines penalties for tax evasion, which include imprisonment for six months to one year, fines of the same value as the tax or combinations of both.

(g) *Law No. 83 of 2002*

This Law establishes a special governmental agency to develop and attract investment to economic zones, and institutes the principal companies that develop and manage the infrastructure for these zones. The zones have a special system of custom management, which are issued by a decree from the Ministry of Finance, with a special tax management system issued by the board of directors and approved by the Ministry. Under article 34 of the Law, the board of directors has the authority to provide work permits to foreign workers. Moreover, the income tax rate in the zones is set at 10 per cent without prejudice to any tax exemption provided by the tax law. However, a unified tax rate of 5 per cent is applied on wages, salaries and incentives for employees in the zones, equally without prejudice to any tax exemption provided by the tax law. Article 51 stipulates the establishment of a centre in the zones to settle disputes by recommendation.

The Government established the Ministry of Investment in 2004 to carry out investment policies and the General Authority for Investment and Free Zones (GAFI) as the main governmental agency for regulating and facilitating the servicing of investment. Within the context of promoting investment, GAFI established a portal to service investors called “One Stop Shop”.

2. *Jordan*

The Government has taken several measures aimed at improving the investment climate as part of its efforts to promote FDI. In that regard, the Government issued a number of laws and regulations that are outlined below.

(a) *Investment Promotion Law No. 16 of 1995 and its amendments in 2000*

This Law stipulates the establishment of the Higher Council for Investment, chaired by the Prime Minister, with the following aims: (a) to approve the national strategy for investment; (b) to approve investment policy, particularly policies aimed at promoting investment; and (c) to review investment regulations. Additionally, the Law calls for the establishment of a trade investment board, with the aim of promoting investment, enhancing confidence in the investment environment, structuring and facilitating project registration, and creating an investment window to facilitate and service investors.

Moreover, the Law determines the sectors where projects can enjoy exemptions, namely, industry, agriculture, hotels, hospitals, maritime transport and railways. Article 4 of the Law classifies the investment into three areas according to the development level, ranging from the most developed (referred to as development area A) to the least developed (referred to as development area C). Article 6 stipulates that fixed assets of an investment project are exempted from fees and taxes on exports provided that the project was exported within three years from the date of the project’s approval. Additionally, article 7 sets the exemption from income tax and social services taxes at 25 per cent for projects in the development area A, at 50 per cent for those in development area B, and at 75 per cent for those in development area C. The duration of the exemption is 10 years in all three development areas.

[4] According to this requirement, the headquarters are based in Egypt and the Government owns 50 per cent of the capital.

(b) *Patent Law No. 32 of 1999*

This Law calls for the establishment of a patent register at the Ministry of Trade and Industry to store all data and information concerning patents; and stipulates the protection of the manufacture, sale or use of any product subject to a patent and without the approval of the owner of the patent. However, the Law provides the Minister of Trade and Industry the right to license protected patents to third parties and without the approval of the owner in the following cases: in order to meet national security needs; as a result of a failure by the owner to use the patent within three years from the date of approval; and where the owner has been found to be using the patent simply in order to obstruct fair competition. Article 32 of the Law stipulates that violating a patent can incur imprisonment for three months to one year, or a fine 100 Jordanian dinars or more.

(c) *Copyrights Law No. 22 of 1992 and its amendments by Laws No. 14 of 1998 and No. 29 of 1999*

This Law stipulates the protection of copyrights for, among others, books, lectures, plays, photography, applied arts and computer programs. This protection lasts 25 years for works created in the areas of photography and applied arts, and 50 years for copyrighted material in other areas, after which the ownership is placed in the public domain.

(d) *Privatization Law No. 25 of 2000*

This Law calls for the establishment of a privatization council, whose tasks include selecting public enterprises that can be privatized; approving the sale, lease or transfer of rights; selecting consulting companies, where needed, to provide advice and undertake studies on restructuring and privatization of companies and enterprises; and submitting recommendations to the Council of Ministers concerning the establishment of an independent regulatory commission aimed at regulating sectors in preparation for privatization.

Under article 3 of this Law, the privatization process is aimed at improving economic efficiency, promoting FDI inflows, stimulating the role of the private sector, and introducing modern management systems and tools. Moreover, article 5 stipulates that the implementation of the privatization transactions needs to be transparent and apply fair competition.

Moreover, the Law calls for the establishment of an executive privatization commission to report to the Prime Minister on various tasks, including undertaking studies and reports on restructuring and privatization transactions; following up on the implementation of these transactions; and carrying out other assignments recommended by the privatization council. This Law also calls for the establishment of a privatization proceeds fund to pay for Government losses incurred while carrying out the restructuring and privatization of public institutions and enterprises.

(e) *Law No. 32 of 2000*

This Law establishes the Aqaba Economic Zone aimed at promoting economic capacities, efficiencies and investments; and the Aqaba Special Economic Zone Authority with judicial, financial and administrative autonomy. The Authority aims to develop the zone to attract FDI to such sectors as industry, tourism and services; to promote job opportunities; to promote the role of the private sector; and to enhance competition. Interested parties are required to register with the Authority, with concomitant incentives and tax exemptions as provided by the Law, particularly custom duties, report duties and other input taxes and fees. These registered enterprises are also exempted from income tax on their activities and on their dividend on shares and stocks.

3. *Kuwait*

(a) *Law No. 8 of 2001*

This Law was issued in 2001 to regulate foreign capital and investment by providing the Council of Ministers with the authority to decide which economic activities could be opened up for foreign investment.

Foreign investors in Kuwait are required to apply for a licence, which is decided upon within eight months of the application date. While the Law permits 100 per cent foreign ownership, this is granted only subsequent to the approval of the Ministry of Commerce and Industry, and upon the recommendation of the Investment Committee.

Article 5 of the Law stipulates the establishment of a foreign capital investment committee, chaired by the Minister of Commerce and Industry, whose main tasks are as follows: (a) to study investment applications and provide recommendations to the Minister; (b) to promote investment, including FDI; (c) to provide exemptions and other incentives aimed at promoting FDI; (d) to facilitate the administrative procedures for investors, including those related to pending licences and registrations; and (e) to publish regular statistics and reports on FDI inflows.

Moreover, the Law stipulates for the establishment of a foreign investment capital office to assist the investment committee; prohibits the nationalization of foreign investment and permits expropriation only in the public interest and with fair compensation; and provides the right to foreign investors to repatriate capital, profits and compensations. The investment committee can grant foreign investors exemption from income tax or any other taxes for up to 10 years; can grant total or partial exemption from custom duties in machinery equipments, raw materials and semi-processed goods; and can allot land and real estate for investment purposes and according to the prevailing laws and regulations in this respect.

(b) *Law No. 31 of 1990*

This Law was issued to organize the dealing in stocks and investment funds, including listing of stocks of corporations in the stock market, the brokerage system and activities. Article 3 of this Law stipulates that foreigners are only allowed to pursue activities in Kuwait through local agents. Moreover, representatives licensed to trade foreign stocks and shares or foreign investment funds inside Kuwait are put under the supervision of the Ministry of Trade and Industry.

4. *Oman*

(a) *Foreign Capital Investment Law No. 102 of 1994*

This Law represents one of the most important laws issued by the Government. It stipulates the directions for engaging in economic, industrial and tourist activities, including, chiefly, placing a limit of 49 per cent in foreign ownership; and calling for the establishment of a foreign capital investment committee to deal with investment applications. Among other activities and responsibilities, this committee aims to provide views on investment applications where foreign shares exceed 49 per cent; and to identify projects, complaints and conflicts that could result from the implementation of the Law.

Article 6 of the Law provides a grace period of 30 days for investors to appeal rejected applications. Moreover, foreign investment projects can be exempted from income tax for five years, renewable for a further five years; and from custom duties on imports of machinery required for the establishment of projects and on raw materials necessary for production.

(b) *Corporate Tax Law No. 47 of 1981*

This Law seeks to narrow the tax differences between Omani and foreign companies by increasing income tax on locally-owned companies to 12 per cent, while lowering the income tax rate on foreign companies to 30 percent, down from a high of 50 per cent.[5] Moreover, local companies with incomes of 30,000 Omani riyals or less are not exempted from income tax, while foreign companies benefit from an exemption for the first 5,000 Omani riyals.

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[5] Within that context, local companies are defined as those owned by nationals of the Gulf Cooperation Council (GCC), including Omanis; and foreign companies relate to those where non-GCC nationals own more than 70 per cent of capital.

(c) *Capital Market Law No. 80 of 1998*

This Law calls for the establishment of a capital market authority to oversee the security market, and divides the market into a primary market where securities are offered to the public; and a secondary market where securities are traded either directly or through brokers. It also defines the regular market where dealing is regulated with regard to corporate shares subject to special costing conditions, and the parallel market where dealing is regulated with regard to companies subject to simplified listing requirements. Article 3 of the Law stipulates that securities of stock companies cannot be offered to the public without the approval of the market authority, which, additionally, has the right to reject the assessment of shares in kind and can refer the issue to experts for assessment.

Under this Law, companies offering securities for public subscription are required to submit annual, semi-annual and quarterly reports to the market authority on their activities and financial results and positions. Individuals with 10 per cent or more of shares of any stock company are required to notify the market authority. Moreover, a person or a group with 15 per cent of a joint stock company who wish to control the company by owning 35 per cent or more of its shares need to notify the board of directors of the authority, which in turn can disallow the purchase of the shares if the transaction is deemed harmful to the interest of the national economy.

(d) *Privatization Law No. 77 of 2004*

This Law aims to contribute towards the diversification of the economy away from the heavy dependency on oil and gas, to promote the role of the private sector in economic development, to reduce the financial burden on the Government, to promote employment opportunities and to promote FDI inflows. The Law stipulates that public enterprises that have been privatized need to be restructured and that privatization can take place by selling State-owned public enterprises, and through partnerships in public enterprises and in capital or management. Moreover, the Law calls for the establishment of a ministerial committee to implement the privatization process, whose tasks include deciding the sectors and projects that need to be privatized and setting out the rules and regulations that govern the process.

Additionally, the Law stipulates the establishment of a technical committee to assist the ministerial committee in the privatization process by preparing relevant technical papers and studies, putting forward proposals and programmes for privatization, coordinating with the Ministry of Finance on issues related to the sale of Government shares in public enterprises, and ensuring that the privatization process is implemented with a maximum level of transparency.

(e) *Law No. 37 of 2000*

This Law stipulates that the issue of copyrights encompasses both moral and financial rights. Article 7 of the Law sets the duration for the protection of copyrights at 50 years after the death of the copyright owner in the case of books,[6] and at 50 years from the date of the publication in the case of cinematic and photographic works, works that were published under pseudonyms or anonymously, and works and publications that were issued after the death of the copyright owner. Article 10 stipulates that copyright owners have the right to transfer ownership to others freely or at a set price provided that this is done within the framework of a written contract. Moreover, publishers' rights cannot be confiscated as a result of a court order.

(f) *Law No. 254 of 2004*

This Law allows foreigners to own land and real estate for housing and investment in tourist complexes, and calls for the establishment of a governmental committee to issue licences for tourist complexes.

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[6] This protection covers equally the lifetime of the copyright owner.

5. *Qatar*

(a) *Investment Law No. 13 of 2000*

This Law deals with regulatory investment of foreign capital in the economic activities of the country. The most important issues stipulated by the law include the following: (a) foreign investors can invest in all economic sectors, albeit with the participation of Qatari nationals who must own at least 51 per cent of a given project or enterprise;[7] (b) foreign investors have the right to lease real estate needed for their activities up to 50 years, which is renewable; (c) foreign investments can be exempted from income tax and import customs for up to 10 years, and industrial projects are exempted from customs on imports of raw material and semi-manufactured goods provided these are not available locally; (d) foreign investments cannot be nationalized unless for the public interest;[8] and (e) foreign investors are entitled to repatriate returns on investment, proceeds resulting from the liquidation of their investment, and compensation from settling investment disputes as a result of expropriation of their projects. Moreover, this Law does not apply to projects that are assigned by the Government to extract natural resources through concessions or other agreements, particularly with regard to the management of oil and gas contracts.

(b) *Law No. 7 of 2002*

This Law provides copyright protection to the authors of original literary and artistic works, including, among others, books, audiovisual and photographic works, applied arts and computer programs. Protection under the provisions of this Law covers all published works irrespective of the nationality or place of residence of authors, provided that such works were published in Qatar within 30 days of the first publication date. Moreover, the authors or copyright owners can transfer the rights to other persons provided that the transfers are made through written declarations. Article 15 of the Law stipulates that economic rights are protected for the lifetime of the author in addition to 50 years after his death; and, in the case of audiovisual works, for 50 years from the date of publication.

Moreover, the Law calls also for the establishment of an office in the Ministry of Economy and Trade to enforce the provisions of this Law.

(c) *Law No. 25 of 2002*

This Law governs the establishment of investment funds for investment in Qatar under the purview of the Central Bank and with the approval of the Ministry of Economy and Trade, and those investments outside the country under the purview of the Central Bank. The Law stipulates that while foreigners are allowed to invest in such funds, all investments that deal with local stocks, real estate and other projects are to be decided and determined by the Ministry of Economy and Trade after consultations with the Ministry of Finance and the Central Bank.

(d) *Law No. 14 of 1995*

This Law regulates the establishment and operations of the Doha Stock Exchange aimed at the following: (a) providing investment opportunities to service the economy; (b) preparing studies, reports and statistics on listed stocks and publishing relevant reports; (c) promoting relations with other stock markets; and (d) promoting professionalism and self-monitoring between brokers and others dealing with stocks. Additionally, the Law permits the listing of stocks of companies from other countries of the Gulf Cooperation Council (GCC), and Arab and foreign countries, subsequent to the approval of the Council of Ministers.

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[7] However, foreign ownership can extend to 100 per cent of a project's capital with the sanction of Ministry of Finance, Economy and Commerce in such sectors as agriculture, industry, health care, education, and the exploration of national resources, energy and mining.

[8] In such cases, foreign investments must be nationalized in a non discriminatory manner and with appropriate compensation.

Article 6 of the Law stipulates the membership in the market that includes the Central Bank, approved and registered banks in the country, lending institutions, local corporations and brokerage firms dealing in the market. Moreover, the market committee that regulates the operation of the stock market is entrusted with several tasks, including setting market policies; recommending external regulations and structure of the market; setting rules for market operations, including those dealing with registered and listing of companies, and monitoring the operations; reviewing the operations of brokers; halting temporarily market trading whenever necessary and in order to safeguard the stability of the market; approving the owned budget of the market; and proposing legal tools to develop the market. The Law prohibits dealing in stocks using inside information and false declarations.

(e) *Labour Law No. 14 of 2004*

This Law discriminates employment in the favour of Qatari nationals whereby foreign workers can only be employed where there is a lack of local workers for a given job. Contracts for foreign workers, who must reside in Qatar and be medically fit, are limited to five years, subject to renewal upon the approval of the administration. Moreover, the Law stipulates that the Ministry of Labour and Social Affairs decides the ratio of foreign to local workers in each sector; encourages employers who hire foreign experts to train a suitable number of Qatari nationals in relevant skills and experiences; prohibits the employment of children aged under 16; establishes salary scales according to the work and sector that are equal for women and men; stipulates the establishment of workers' committees in establishments that employ 100 Qatari workers or more; and safeguards the right of workers to strike.

6. *Saudi Arabia*

Saudi Arabia has provided additional incentives in the past four years to attract higher shares of FDI inflows through the Saudi Arabian General Investment Authority (SAGIA). In this regard, the Government enacted a foreign investment law in 2000, which provided a wide range of incentives and investment protection measures to foreign investors, including, most prominently, the following: (a) approval decisions on applications of projects within 30 days of submission by investors; (b) licensed foreign projects enjoy similar benefits and guarantees provided to national projects; (c) the right to repatriate shares derived from selling of equities owned by foreign investors; (d) the right to possess real estate required for projects, including the housing of staff; (e) foreign investments cannot be confiscated without a court order and only in the public interest and with equitable compensations; and (f) foreign investment projects are subject to tax codes valued in the country.

Foreign investment is prohibited in the following activities and sectors: (a) oil exploration, drilling and production; (b) manufacturing of military equipment and uniforms, and catering to the military; (c) insurance services; (d) real estate investment in Mecca and Madina and real estate brokerage; (e) broad areas in printing and publishing; (f) distribution services, including wholesale and retail trade; (g) audiovisual and media services; (h) broad range of activities in telecommunication services; (i) land and air transport; (j) satellite transmission services; and (k) fisheries.

In 1997, the Government established a ministerial committee to coordinate the privatization programme and to define the objectives of privatization. Moreover, the Government established the Supreme Economic Council in 1999 to monitor the implementation of the privatization process;[9] and approved a new draft health regulation aimed at transferring some public hospitals to the private sector.

7. *United Arab Emirates*

The continuous liberalization and diversification process in the United Arab Emirates led to significant increases in FDI inflows in 2005 and 2006. Among the most important steps taken by the Emirate of Dubai was the policy to allow foreign ownership of land and real estate, which has contributed to the construction boom and a substantial boost in FDI inflows. These inflows can equally be attributed to the continuous

[9] The Council approved the privatization strategy in June 2002, which encompasses, among others, roads and railways, water desalination, telecommunications, air transport and its services, postal services and seaport services. More information is available at: www.sagia.gov.sa.

expansion of the duty free zones in the country. However, there is a need to establish an investment law aimed at promoting FDI, and to reform the company laws that currently limit foreign ownership to 49 per cent.

Commercial Companies Law No. 8 of 1984

This Law regulates the activities of foreign companies whereby such companies are not authorized to open new branches or offices without prior approval from the Ministry of Economy and from the authority specialized in issuing licences. The relevant licences are granted to a national intermediary after specifying the economic activity of the company and subsequent to a deposit of 50,000 dirhams in a national banks as a guarantee.

8. *Yemen*

Despite an overall improvement in the investment climate and regulatory framework in Yemen, there are still issues that need to be addressed to improve investments, including creating a one-stop shop to service investors in the country, facilitating project approvals and registration, and reforming the current investment laws. Moreover, the lack of both human and financial resources represent major constraints in terms of promoting FDI, which is further exacerbated by the slow pace of implementation of relevant laws and regulations; bureaucracy and inefficient administrative systems; and an insufficiently trained commercial judiciary system, particularly in terms of settling investment disputes.

(a) *Investment Law No. 22 of 2002*

This Law sets the rules for the inflow and operations of private investment, including FDI, and lists the sectors where private investment is prohibited, including the exploration and extraction of oil, gas and other minerals; the weapons industry; and those industries that can cause environmental damage.

Moreover, the Law calls for the establishment of a general investment authority; establishes equal treatment between foreign and local investments without discrimination; and provides foreign investors with the right to buy property to be used for their projects. Such registered projects cannot be nationalized, and assets can only be expropriated in the interest of the public and with a court order and equitable compensation. Additionally, the Law allows investors to repatriate funds in foreign currency, including profits; and to import all materials needed to start or expand projects, with the relevant exemptions from custom duties and tax. Registered projects are also exempted from profit taxes for seven years, which can be extended for another seven years upon approved by the general investment authority.

Additionally, the main responsibilities of the general investment authority are as follows: (a) receiving applications and registrations for approval for registered properties; (b) providing services to investors, including granting approvals needed to launch registered projects; (c) assigning land required for these projects; (d) preparing lists of investment opportunities; (e) helping investors to understand relevant laws and regulations, and increasing awareness of the investment climate and conditions in the country; and (f) approving the repatriation of funds and profits of registered projects.

(b) *Presidential Law Decree No. 19 of 1994*

This Law provides copyright protection to the authors of original literary and artistic works, including, among others, books, audiovisual and photographic works, applied arts and computer programs. The Law stipulates that the right to benefit financially from published works is extended for the lifetime of the author; and, in the case of photographic and audiovisual works, for 10 and 25 years, respectively, from the date of publication. Third parties cannot benefit from a protected work without prior approval from the copyright owners.

Such protection applies equally to holders of patents, which extends for a period of 15 years starting from the date of application. During this period, third parties are prohibited from applying the inventions without the approval of the patent holder. In cases of violation, either by imitation or counterfeiting of protected works, copyright or patent owners can seek a court order to remove and seize the imitated products or goods, deduct sales return and/or destroy the imitated products.

B. IMPROVING THE INVESTMENT CLIMATE

1. *The judiciary system*

Despite concerted efforts aimed at passing laws and regulations and at reforming national economies, the judicial system in ESCWA member countries still needs to be reformed in order to contribute positively to the investment climate. The performance of ESCWA member countries in reforming the judicial system varies from one country to another. Specifically, Qatar has the most independent system with an index of 5.6, followed by the United Arab Emirates at 5.0, Jordan at 4.6, Oman at 4.5, Bahrain at 4.4, Saudi Arabia at 3.3, Yemen at 2.9, Lebanon at 2.4, and Egypt at 2.0.[10] By contrast, developed countries have a complete independent judicial system, with an index close to 7.

Corruption is perceived as a major obstacle to doing business in the Middle East region. A survey conducted by the Organization for Economic Cooperation and Development (OECD) showed that the perception of corruption as an obstacle to business in the ESCWA region was high compared to other regions.[11] Within that context some ESCWA member countries are doing better in fighting corruption, namely, Bahrain, Jordan, Kuwait, Oman, Qatar and United Arab Emirates.[12]

2. *Procedures for starting a business*

In addition to the formulation of proper and adequate regulatory frameworks, improving the investment climate requires, among others, reducing the cost of establishing businesses, reducing the cost of enforcing contracts, and improving labour laws in order to reduce the labour cost of hiring and firing. The countries of the ESCWA region have made substantial progress towards improving the regulatory framework. Most of these countries have formulated adequate investment laws; several have formulated laws to protect property rights, particularly those countries that are members of WTO; some have formulated competition laws and company laws; and several countries have engaged in privatization programmes.

However, there are other important factors that are essential to the improvement of the investment climate and where the region has not yet been very successful. For example, starting a business in most ESCWA member countries still requires a relatively large number of procedures and takes considerable time compared to other countries, particularly developed countries. In Kuwait and Saudi Arabia, starting a business requires 13 procedures and takes an average of 35 and 64 days, respectively. In other countries, starting a business requires 6 procedures and 46 days in Lebanon, 9 procedures and 34 days in Oman, and 12 procedures and 54 days in the United Arab Emirates. By contrast, starting of a business in Australia requires only 2 procedures and takes 2 days to complete, and 2 procedures and 3 days in Canada (see table 1).

TABLE 1. STARTING A BUSINESS

Country	Number of procedures	Number of days	Cost (percentage of per capita income)	Minimum capital (percentage of per capita income)
Egypt	10	34	104.9	739.8
Iraq	11	77	37.4	31.6
Jordan	11	36	45.9	1 011.6
Kuwait	13	35	2.2	133.8
Lebanon	6	46	110.6	68.5

[10] An index close to 7 implies that the judicial system is independent, while an index close to 1 implies one that it is heavily-influenced. K. Schwab, *The Arab World Competitiveness Report 2005* (World Economic Forum, 2005), pp. 294-298; and K. Schwab and M. Porter, *The Global Competitiveness Report 2004-2005* (World Economic Forum, 2004), pp. 522-525 and 528-530.

[11] A. Böhmer and K. Davies, “Investment climate and regulation of international investment in MENA countries”, Working Group 1 (MENA-OECD Investment Programme, 2005).

[12] Ibid., p. 11.

TABLE 1 (*continued*)

Country	Number of procedures	Number of days	Cost (percentage of per capita income)	Minimum capital (percentage of per capita income)
Oman	9	34	4.8	97.3
Saudi Arabia	13	64	68.5	1 236.9
Syria	12	47	34.5	5 111.9
United Arab Emirates	12	54	44.3	416.9
Yemen	12	63	240.2	2 703.2
Australia	2	2	1.9	0.0
Canada	2	3	0.9	0.0

Source: The World Bank, *Doing Business in 2006* (2005), pp. 95-109.

3. *Cost of starting a business*

The cost of starting a business in most ESCWA member countries remains high compared to other countries. For example, starting a business costs 110.6 per cent of per capita income in Lebanon, 104.9 per cent in Egypt and reaches a high of 240.2 per cent in Yemen. Kuwait is the only country in the region where the percentage, at a modest 2.2 per cent, is close to that in developed countries. Minimum capital required to start a business in ESCWA member countries as percentages of per capita income is also high, ranging from a high of 5,111.9 per cent in the Syrian Arab Republic to 68.5 per cent in Lebanon. In several developing and developed countries, there is no minimum capital required to start a business.

4. *Getting licences*

ESCWA member countries have made progress in reducing the number of procedures related to getting licences for starting businesses. While ESCWA member countries compare well with other developing countries in this regard, they remain behind developed countries. The number of procedures varies between 30 days in Egypt, 16 in Lebanon to 13 in Yemen (see table 2). Similarly, while the time taken to complete these procedures compares favourably with a large number of developing countries, it is still far below that in developed countries. For example, completing the 16 procedures in Lebanon can take up to 275 days, up to 263 days to complete the 30 procedures in Egypt, approximately 122 days for the 17 procedures in Jordan, and 131 days to complete the 13 procedures in Yemen. By contrast, a licence for a new business requires 14 procedures in Austria that take 195 days, and 15 procedures in Canada that take 87 days to complete.

TABLE 2. GETTING A LICENCE FOR A NEW BUSINESS, 2005

Country	Number of procedures	Number of days	Cost (percentage per capita)
Egypt	30	263	1 067.1
Iraq	14	210	311.5
Jordan	17	122	506.3
Kuwait	26	149	278.9
Lebanon	16	275	214.6
Oman	16	271	1 014.6
Saudi Arabia	18	131	82.1
Syria	20	134	359.8
United Arab Emirates	21	125	2.1
Yemen	13	131	274
Austria	14	195	81.6
Canada	15	87	123.0

Source: The World Bank, *Doing Business in 2006* (2005), pp. 95-109.

The cost of getting a licence for a new business remains relatively high in most ESCWA member countries, with the exception of the United Arab Emirates where the cost is lower than in some of developed countries. In Egypt, the cost can be as high as 1,067.1 per cent of per capita income, and in Oman the cost is some 1,015 per cent. On the other hand, the cost is only 82.1 per cent in Saudi Arabia, while the rate is a modest 2.1 per cent in the United Arab Emirates. Both Saudi Arabia and the United Arab Emirates are making substantial progress in reducing the cost of licenses for new businesses, thereby contributing to a better investment climate in both countries. Other countries in the region need to follow the steps of these two countries in order to encourage larger numbers of foreign investors.

5. *Enforcing contracts*

Another important issue where several ESCWA member countries still need to make progress to improve the investment climate is reflected in the procedures needed to enforce contracts in court proceedings. Specifically, the number of court procedures varies from 55 in Egypt that can take up to 410 days from court to reach a decision, to 39 procedures in Lebanon that can take up to 721 days. In the Syrian Arab Republic, court procedures are estimated at 47 and final verdicts can take up to 672 days. In Yemen, the situation is notably better, with an estimated 37 procedures, which is the lowest across the ESCWA region, and an estimated 360 days for a final verdict (see table 3).

TABLE 3. ENFORCING CONTRACTS, 2005

Country	Number of procedures	Number of days	Cost (percentage of debt)
Egypt	55	410	18.4
Iraq	65	320	10.5
Jordan	43	342	8.8
Kuwait	52	390	13.3
Lebanon	39	721	26.7
Oman	41	455	10
Saudi Arabia	44	360	20
Syria	47	672	34.3
United Arab Emirates	53	614	16
Yemen	37	360	10.5
Canada	17	346	12.0
Australia	11	157	14.4

Source: The World Bank, *Doing Business in 2006* (2005), pp. 95-109.

Note: The cost of enforcing contract measures is part of the court system or related systems that are engaged in the collection of debt. It measures the process whereby investors collect debt either through court rulings or other methods applied in a given country. The number of procedures refers to the total number of procedures investors have to complete either through the court system or other administrative methods in order to settle disputes; the time reflects the number of days needed for the settlement of disputes; and the cost of going through the court system is measured as a percentage of the debt value.

6. *Settling disputes*

In the ESCWA region, the cost of settling disputes as a percentage of the debt varies between 34.3 per cent in the Syrian Arab Republic, 27 per cent in Lebanon, 11 per cent in Yemen, to a low of approximately 9.0 per cent in Jordan. ESCWA member countries compare well in the cost factor, with some countries reflecting lowers costs than several developed countries. This can be attributed to lower fees of lawyers, compared to those in developed countries. However, ESCWA member countries still need to do more in order to reduce the number of procedures and days required to settle disputes, particularly in Lebanon, the Syrian Arab Republic and the United Arab Emirates, where the time for such settlements exceeds 600 days. Only Iraq, Jordan, Saudi Arabia and Yemen made progress in reducing the time needed to settle investment disputes.

7. *Closing businesses*

Improving the investment climate equally encompasses improving the procedures and diminishing the number of days needed for closing businesses, given that potential foreign investors are concerned by both the speed of establishing a business and a business environment where closing businesses is not a cumbersome process. In most ESCWA member countries, closing a business can take up to seven years in Oman, five years in the United Arab Emirates, and approximately four years in Egypt, Jordan, Kuwait, Lebanon and the Syrian Arab Republic. The procedures to close a business are lowest in Saudi Arabia and Yemen, at some three years. However, even these two countries lag behind developed countries where, for example, it takes one year in Canada and in Australia to close a business (see table 4).

TABLE 4 . CLOSING BUSINESSES, 2005

Country	Number of years	Cost (percentage of estate)	Recovery rate (United States cents)
Egypt	4.2	22	16.1
Jordan	4.3	9	27.9
Kuwait	4.2	1	38.3
Lebanon	4	22	18.6
Oman	7	3.5	24.9
Saudi Arabia	2.8	22	28.4
Syria	4.1	9	28.5
United Arab Emirates	5.1	30	5.5
Yemen	3	8	28.2
Australia	1	8	80
Canada	0.8	4	90.1

Source: The World Bank, *Doing Business in 2006* (2005), pp. 95-109.

Note: The recovery rate indicates how many cents can be recovered from a $1 investment in the business.

On the other hand, the cost of bankruptcy proceedings measured as a percentage of debt indicates that some ESCWA member countries compare favourably to developed countries. In Kuwait, for example, the cost of bankruptcy proceedings is 1 per cent of debt, which is less than those in Canada and Australia at 4 and 8 per cent, respectively. The cost of bankruptcy proceedings were 3.5 and 8 per cent in Oman and Yemen, respectively; 9 per cent in both Jordan and the Syrian Arab Republic; 22 per cent in Egypt, Lebanon and Saudi Arabia; and 30 per cent in the United Arab Emirates.

Moreover, the recovery rate was very low in all ESCWA member countries, ranging from a high of 38.3 United States cents in Kuwait to a low of 5.5 United States cents in the United Arab Emirates, compared to 90.1 United States cents in Canada in 2005 (see table 4).

According to the World Bank, less progress was made in areas of reform in the countries of the GCC, despite the open-market economies and friendly-business and investment climate pursued by these countries.[13] This can be attributed to higher oil prices and revenues, which in the past have slowed down progress in economic reform. One area where the countries of the GCC have made notable progress in the past five years was in improving public sector performance and accountability.[14] However, the region still lags behind the rest of the world in terms of public sector accountability and issues related to governance in general.[15]

[13] The World Bank, *Doing Business in 2006* (2005), p. 69.

[14] Ibid., p. 70.

[15] Ibid., p. 71.

8. *Trade reforms*

In the area of trade policies, the region has made substantial progress to reduce trade tariffs. The implementation of the Greater Arab Free Trade Area (GAFTA), launched in 1998, has led to the elimination of trade tariffs on goods produced in these countries. Since January 2005, with the complete implementation of the provisions of GAFTA, trade tariffs on goods from Arab countries have been totally eliminated. Trade barriers have further been reduced by the signing of free trade agreements between several ESCWA member countries and the United States of America, various association agreements with the European Union, and the Agadir Agreement between Egypt, Jordan, Morocco and Tunisia. Moreover, accession to WTO achieved by several ESCWA member countries has led also to further trade liberalization, thereby contributing to structural reform in these countries.

According to the World Bank, five ESCWA member countries have made substantial progress in trade policy reform, namely, Egypt, Jordan, Lebanon, Yemen and Saudi Arabia. These countries showed greater progress in improving their rank during 2000-2005, with Egypt achieving the highest score of 100. In terms of current status, there are four countries in the ESCWA region that are in a good position, namely: Oman, at 71; Yemen, at 62; Lebanon, at 61; and Kuwait, at 53.[16]

In terms of business climate, three countries are in a relatively good position in international ranking, namely: Oman, at 78; Saudi Arabia, at 80; and Jordan, at 89, which recorded the strongest progress in business climate reform. In terms of quality of public administration, four countries are in a good position, namely: Bahrain, at 77; Jordan, at 66; Oman, at 68; and Saudi Arabia, at 57. Moreover, the strongest progress was made by Egypt at 92; Saudi Arabia, at 89; Yemen, at 71; and Qatar, at 75.[17]

C. IMPROVING THE MACROECONOMIC POLICIES IN THE ESCWA REGION

In addition to issuing more liberalized and open laws in the areas of investment, competition and trade, several ESCWA member countries have engaged in more active and wider privatization programmes, particularly in such sectors as telecommunications and financial services. For example, Egypt sold Government shares in public commercial banks and, in 2006, licensed a company to provide mobile phones. Bahrain continued its efforts to be the regional financial centre through offshore banks, and signed a free trade agreement with the United States to encourage trade and investment. Dubai in the United Arab Emirates expanded the main airport and continues to engage in significant construction projects aimed at covering the shortage in residential buildings, thereby attracting additional FDI resources.

Investment climate includes those increases that directly and indirectly affect the entry and operations of private sector investment, including FDI. Specifically, it covers a broad range of issues, including as follows: (a) trade, monetary and financial policies; (b) governance, including corporate governance; (c) laws and regulations related to investment, trade, privatization, companies, competition and property rights; (d) the protection of private investment, including FDI, with a clear undertaking against nationalization of private assets, and expatriation of profits and assets; (e) the right of private investors to adequate methods of settling disputes; and (f) issues related to transaction costs, labour cost, length of procedures related to starting and/or closing businesses, complexity of hiring and firing employees, trade openness and the cost of enforcing contracts.

Consequently, improving the investment climate to attract higher shares of private investment, particularly FDI, requires addressing the above issues as a package. These measures need to be integrated into the economic policies of each country aimed at boosting private investment. Promoting FDI is not limited to the formulation of adequate macroeconomic policies and issuing of investment laws that provide concessions and incentives to foreign investors. Rather, it requires addressing other important issues related to the operations, services and protection of these investments. In addition to measures in the domestic economy, countries need to address issues related to external measures. These measures include improving

[16] The World Bank, *Economic development and prospects 2006: financial markets in a new age of oil*, Middle East and North Africa Region (the World Bank, 2006).

[17] Ibid.

the image of a country abroad and engaging in promotion campaigns by, among others, participating in regional and international fairs, and conferences and meetings; signing bilateral investment agreements with other countries; facilitating entry visas for major investors; and engaging the media in promotional campaigns.

The majority of the countries in the ESCWA region have largely succeeded in addressing macroeconomic policies as part of these economic reforms. Moreover, the economic environment has become more stable; trade policies have become relatively open, compared to the past few years; and foreign exchange policies are more market-oriented and less administratively controlled than in the past.

Having achieved a relatively stable macroeconomic environment, these countries are engaged in a deeper structural reform process, including the formulation of laws in investment, companies, privatization, trade, copyrights and property rights. Equally, most of these countries have made progress in improving the performance of the public sector as part of their efforts to achieve their target of good governance; and have engaged in promotion campaigns by participating actively in international and regional conferences and meetings, signing trade and investment agreements, and easing travel restrictions for businessmen and investors. They have also established investment promotion agencies dealing with the promotion of FDI inflows by, among others, providing better services for investors.

Furthermore, they have opened up more economic sectors to private sector participation, including FDI. In most countries, the restriction on foreign ownership of domestic companies and projects has been eased or eliminated, thereby encouraging foreign participation through capital and technology. While many countries have established business councils aimed at promoting private sector participation, ESCWA member countries still lag behind the rest of the world in some important areas, including the cost and length of time needed for getting licences for projects, the cost of hiring and firing labour, the high cost of registering property, and the costs of enforcing contracts and settling disputes. These are important issues given that their impact on transaction costs that make the countries of the region less competitive. Within that context, bureaucracy, corruption and irregular payments that investors are compelled to pay in order to pursue their businesses represent significantly negative aspects for promoting FDI.

D. SUMMARY OF EFFORTS BY GOVERNMENTS AIMED AT IMPROVING THE INVESTMENT CLIMATE

As part of efforts aimed at improving the investment climate, Governments have offered incentives on foreign investments, including removing restrictions and limitations on FDI and developing free economic zones. One of the most important incentives offered to foreign investors in ESCWA member countries were tax incentives (see table 5).

TABLE 5. TAX INCENTIVES FOR FDI ENTERPRISES IN SELECTED ESCWA MEMBER COUNTRIES

Egypt	Five-year tax exemption to companies and projects operating in those fields specified by the Investment Law, with a possible extension to 20 years for some projects
Jordan	Ten-year exemption from income and social services tax, at 25 per cent of the tax rate in development area A, 50 per cent in development area B and 75 per cent in development area C
Kuwait	Ten-year exemption from tax for new foreign investors
Lebanon	Two-year exemption from income tax
Oman	Five-year tax exemption for projects in industrial companies
Qatar	Ten-year exemption from income tax
Syrian Arab Republic	Seven-year exemption from income and real estate taxes for joint stock companies, and five-year exemption for new joint stock companies
Yemen	Seven-year tax exemption on fixed assets of investment projects, with possible extension to up to 18 years

Source: Compiled by ESCWA.

On the other hand, foreign investments in ESCWA member countries suffer from a number of restrictions and limitations. In several countries, there are restrictions on foreign ownership of real estate, and in others there are restrictions on FDI in some sectors. Tables 6 and 7 summarize the main restrictions and limitations on foreign investments in selected ESCWA member countries.

TABLE 6. LIMITATIONS ON OWNERSHIP OF REAL ESTATE IN SELECTED ESCWA MEMBER COUNTRIES

Egypt	Foreigners are not allowed to sell property they have bought within five years of the purchase date
Oman	Ownership of real estate is limited to nationals of the GCC
Qatar	Ownership of real estate is limited to nationals of the GCC

Source: Compiled by ESCWA.

TABLE 7. RESTRICTIONS ON FDI IN ALL SECTORS IN SELECTED ESCWA MEMBER COUNTRIES

Bahrain	Up to 49 per cent foreign ownership is allowed for public joint stock companies incorporated for the duration of specific projects, and 100 per cent is allowed for foreign ownership in new industrial and services projects
Jordan	Limitations of 50 per cent for foreign ownership in companies and projects in several sectors, including trade, distribution of goods and supply of services excluding food catering
Oman	While foreign ownership is usually limited to 70 per cent, it can exceptionally be raised to 100 per cent. However, the limit for foreign ownership in portfolio investment is fixed at 10 per cent of shares of Omani companies
Qatar	For investment in agriculture, industry, health, education and tourism, foreign ownership is allowed up to 100 per cent. In other sectors, the foreign ownership is set at 49 per cent; and foreign ownership is prohibited for banks, insurance companies and purchases of real estate
Saudi Arabia	Foreign projects enjoy similar benefits to national companies
United Arab Emirates	Foreign ownership is limited to 51 per cent in companies that are not branches of foreign companies. For nationals of the GCC, the ownership limit is 75 per cent of companies in agriculture, fisheries and construction activities
Yemen	Foreign ownership is limited to 45 per cent in investment companies, which can be increased following approval by the Council of Ministers

Source: Compiled by ESCWA.

Additionally, Governments in the ESCWA region have concluded a number of bilateral investment agreements with developed and developing countries. A total of 293 bilateral investment agreements were signed by ESCWA member countries. These agreements offer foreign investors guarantees in terms of the adoption of high standards and of enforceable contracts and agreements. Egypt has concluded the largest number of agreements, at 78 agreements; followed by Lebanon, at 36 agreements; and Jordan and Kuwait, each at 33 agreements (see table 8).

Countries perceive free economic zones as a new approach to attract foreign investors and FDI, given that they offer investors a package of incentives and broad market access. The United Arab Emirates has the most successful at establishing such zones, particularly the Jebel Ali Free Zone in Dubai, whose success encouraged other countries to establish similar zones. There are currently a total of 44 free economic zones in eight ESCWA member countries, 16 of which are in the United Arab Emirates. Oman, Qatar and Saudi Arabia have yet to develop free economic zones (see table 8).

TABLE 8. BILATERAL INVESTMENT AGREEMENTS AND THE NUMBER OF FREE ZONES IN THE ESCWA REGION

Country	Total number of treaties	Total number of free zones
Bahrain	11	2
Egypt	78	8
Jordan	33	7
Kuwait	33	1
Lebanon	36	2
Oman	17	0
Qatar	16	0
Syrian Arab Republic	15	7
Saudi Arabia	8	0
United Arab Emirates	19	16
Yemen	27	1

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

II. FDI STATISTICS IN ESCWA MEMBER COUNTRIES

This chapter analyses the performance of ESCWA member countries in terms of FDI inflows, based mainly on the results of the survey of enterprises with within the framework of the project, entitled “Networking of expertise on foreign direct investment in the ESCWA member countries”.

A. BAHRAIN

Bahrain was among the first countries to participate in the above-mentioned project. The Ministry of Finance, which is the agency committed to the implementation of that project, conducted the first survey of enterprises with FDI participation in the first half of 2004 and covered the period 2001-2002. The survey covered 268 companies, 233 of which cooperated with the field surveyors, thereby yielding a response rate of 87 per cent.

The survey of enterprises with FDI participation and data obtained from international sources indicated that there was significant increase in FDI inflows to Bahrain from $80 million in 2001 to $865 million in 2004, representing an increase of 981 per cent. In terms of FDI inflows as a percentage of GDP, the growth rate in FDI inflows outweighed the growth rate in GDP over that period, from 1.01 per cent in 2001 to 7.82 per cent in 2004 (see table 9).

TABLE 9. FDI INFLOWS TO BAHRAIN, 2001-2004
(*Millions of United States dollars*)

Year	FDI inflows	Growth rate in FDI inflows (percentage)	FDI inflows (percentage of GDP)
2001	80		1.01
2002	332[a/]	315.00	3.93
2003	517	55.72	5.38
2004	865	67.31	7.82

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

a/ This figure is based on the survey of enterprises with FDI participation conducted by Bahrain.

The sectoral distribution of FDI stock in the national economy clearly shows the domination of financial services and banking and insurance sectors which, in 2001 and 2002, captured some 76 and 70 per cent of total FDI stock, respectively. This large share can be attributed to the efforts of the Government aimed at turning Bahrain into a financial hub of the region. The real estate sector took second position in 2001 and 2002, with 10 and 16 per cent of total FDI stock, respectively; followed by the manufacturing sector, with 10 and 9 per cent for the same years; and some 5 per cent of FDI sock captured by other sectors in 2001 and 2002 (see table 10).

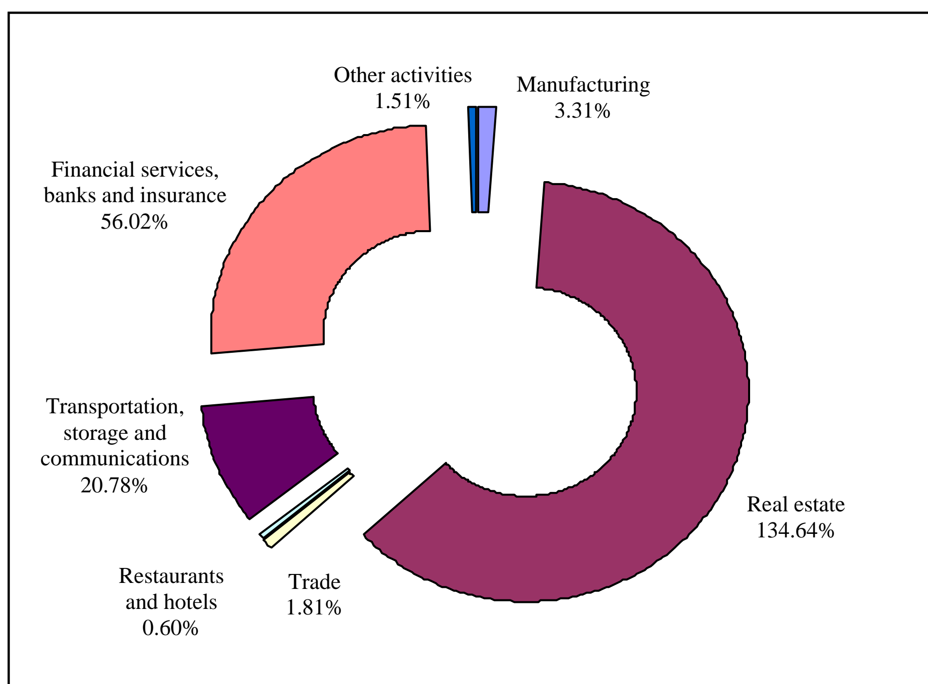
TABLE 10. FDI STOCK IN BAHRAIN BY TYPE OF ECONOMIC ACTIVITY AND MAJOR SECTORS, 2001 AND 2002
(*Millions of United States dollars*)

Economic activity	2001	2002	As a percentage of total FDI stock	
			2001	2002
Manufacturing	668	657	9.65	9.06
Real estate	705	1 152	10.18	15.88
Trade	66	72	0.95	0.99
Restaurants and hotels	56	58	0.81	0.80
Transportation, storage and communications	184	253	2.66	3.49
Financial services, banks and insurance	5 234	5 048	75.60	69.58
Other activities	16	11	0.23	0.15
Total of all economic activities	6 923	7 255	100.00	100.00

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

There were significant FDI inflows to the real estate sector in 2002, estimated at $447 million, representing some 135 per cent of total FDI inflows for that year (see figure I). Moreover, transportation, storage and communications sectors received $69 million of FDI inflows in 2002, or 21 per cent of total FDI for that year. A major sector in the national economy witnessed outflow in 2002, namely, the financial services and banking and insurance sector, with some $186 million from that sector leaving Bahrain in 2002.

Figure I. FDI inflows by type of economic activity and major sectors, 2002
(*Percentage*)



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

In terms of FDI stock and during 2001 and 2002, nationals of Kuwait and Saudi Arabia represented the major investors in Bahrain, with 25 and 23 per cent of total FDI stock in 2001, and 25 and 22 per cent in 2002, respectively (see table 11). However, in 2002, Denmark was the major investor in Bahrain, with $348 million or some 105 per cent of total FDI inflows in 2002 (see figure II).

TABLE 11. FDI STOCK IN BAHRAIN BY MAJOR COUNTRIES, 2001 AND 2002
(*Millions of United States dollars*)

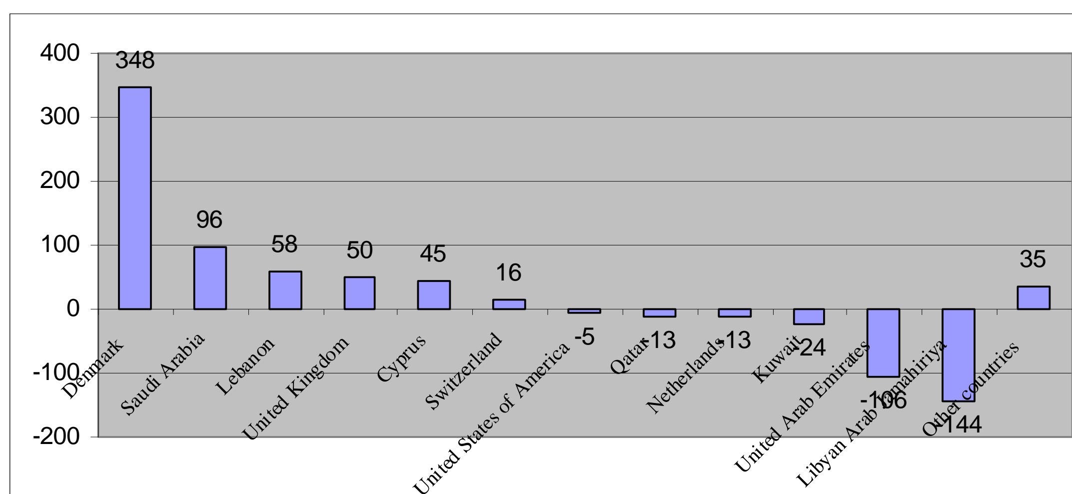
Country	2001	2002	As percentage of total FDI stock	
			2001	2002
Saudi Arabia	1 721	1 817	24.86	25.04
Kuwait	1 593	1 569	23.01	21.63
United Arab Emirates	811	705	11.71	9.72
Libyan Arab Jamahiriya	585	441	8.45	6.08
Cyprus	455	500	6.57	6.89
Qatar	364	351	5.26	4.84
Denmark	24	372	0.35	5.13
United Kingdom	261	311	3.77	4.29
Switzerland	160	176	2.31	2.43
Lebanon	141	199	2.04	2.74

TABLE 11 (*continued*)

Country	2001	2002	As percentage of total FDI stock	
			2001	2002
Netherlands	133	120	1.92	1.65
United States of America	98	93	1.42	1.28
Other countries	574	609	8.29	8.39
Total FDI stock	6 923	7 255	100.00	100.00

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

Figure II. FDI inflows to Bahrain by major countries, 2002
(*Millions of United States dollars*)



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

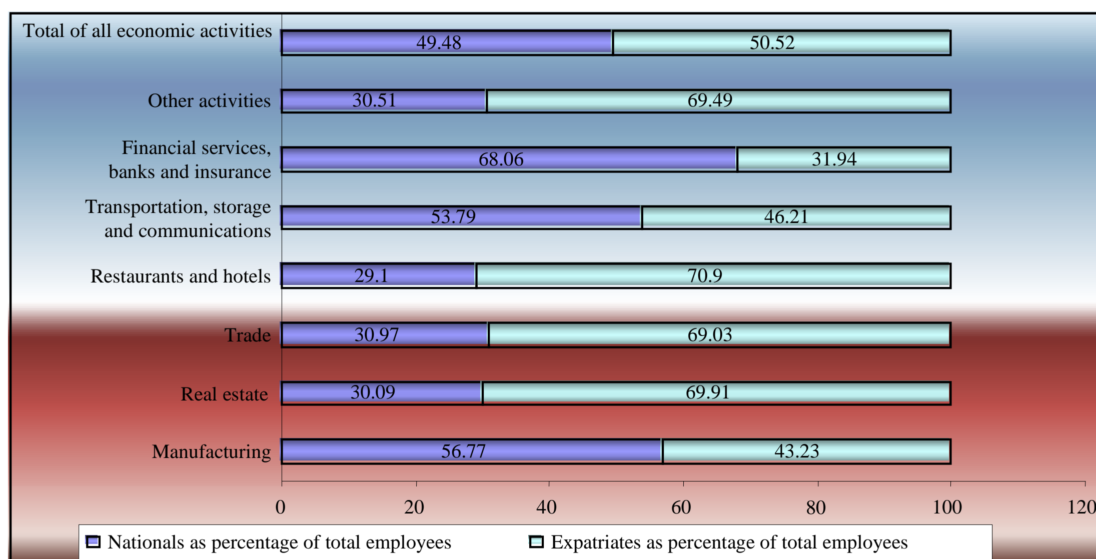
FDI enterprises had a positive impact on the national economy in terms of creating job opportunities, and created a total of 28,643 new job opportunities in 2002, 51 per cent of which were taken up by foreign workers and the remaining 49 per cent by local nationals (see table 12). While these FDI inflows had a positive impact on the economy, the distribution of foreign to local labour varied across sectors. Specifically, expatriate workers dominated three sectors, namely, real estate, trade, and restaurants and hotels sectors, where they represented some 70 per cent of all employees; while national workers dominated the financial services, banking and insurance sector, at some 68 per cent of total employees (see figure III).

TABLE 12. EMPLOYMENT IN FDI ENTERPRISES BY ECONOMIC SECTOR, 2002

Economic activity	Nationals	Expatriates	Total number of employees
Manufacturing	5 683	4 327	10 010
Real estate	1 896	4 406	3 404
Trade	372	829	1 201
Restaurants and hotels	238	580	818
Transportation, storage and communications	3 653	3 138	6 791
Financial services, banks and insurance	2 276	1 068	3 344
Other activities	54	123	177
Total of all economic activities	14 171	14 471	28 643

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

Figure III. Number of employees among economic sectors as a percentage of total employees
(*Percentage*)



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

While most FDI enterprises in Bahrain considered the country to be a gateway to regional and international markets, the main challenges they faced during their investments were a lack of qualified labour, inadequate local partners and bureaucratic obstacles.[18]

B. EGYPT

FDI inflows to Egypt fluctuated during the period 2001-2004. They increased by 26.9 per cent from $510 and $647 million between 2001 and 2002, respectively, decreased sharply in 2003 to reach $237 million, representing a fall of 63.4 per cent; and rose significantly by 428.7 per cent to reach $1,253 million in 2004 (see table 13).

TABLE 13. FDI INFLOWS TO EGYPT, 2001-2004
(*Millions of United States dollars*)

Year	FDI inflows	Growth rate in FDI inflows (percentage)	FDI inflows (percentage of GDP)
2001	510		0.56
2002	647	26.9	0.75
2003	237	(63.4)	0.29
2004	1 253	428.7	1.60

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

Note: Parentheses ( ) indicate negative numbers.

Table 13 illustrates that FDI inflows to Egypt represented a small share of total GDP during the period 2001-2003, fluctuating at around 0.5 per cent; and increased by 429 per cent in 2004, with a percentage of GDP estimated at 1.6 per cent.

[18] This is based on the survey of enterprises with FDI participation conducted by Bahrain.

C. Jordan

While Jordan was among the first countries to join the FDI project in 2002, the survey of enterprises with FDI participation was delayed until 2006 owing to some internal problems at the implementing agency, and is expected to cover two consecutive years 2004 and 2005.

Based on international sources, FDI inflows increased by 417 per cent between 2001 and 2004. However, this increase was staggered whereby FDI inflows decreased between 2001 and 2002 from $120 to $64 million, increased to $424 million in 2003, and reached its highest value of $620 million in 2004 (see table 14).

Table 14. FDI inflows to Jordan, 2001-2004
(*Millions of United States dollars*)

Year	FDI inflows	Growth rate in FDI inflows (percentage)	FDI inflows (percentage of GDP)
2001	120		1.34
2002	64	(46.7)	0.67
2003	424	562.5	4.17
2004	620	46.2	5.38

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

Note: Parentheses ( ) indicate negative numbers.

Moreover, an examination of FDI inflows as a percentage of GDP in Jordan indicates that it fluctuated during this period, decreasing from 1.34 per cent in 2001 to 0.67 per cent in 2002; and increasing in 2003 in line with significant increases in FDI inflows to register the highest figures among Arab countries at 4.17 and 5.38 per cent in 2003 and 2004, respectively.

D. Kuwait

In 2005, the Ministry of Planning in Kuwait signed a letter of agreement with ESCWA to implement the above-mentioned project in Kuwait. However, owing to some internal problems, the implementation of the survey of enterprises with FDI participation was delayed.

Based on international sources, FDI inflows to Kuwait during the period 2001-2004 fluctuated significantly and witnessed the following: FDI outflows of $147 million in 2001; inflows of $7 million in 2002; and outflows of $67 million and $20 million in 2003 and 2004, respectively, thereby signifying an inability to sustain the positive inflows of 2002 (see table 15).

Table 15. FDI inflows to Kuwait, 2001-2004
(*Millions of United States dollars*)

Year	FDI inflows	Growth rate in FDI inflows (percentage)	FDI inflows (percentage of GDP)
2001	(147)		(0.43)
2002	7	(104.8)	0.02
2003	(67)	(1 057.1)	(0.15)
2004	(20)	(70.2)	(0.04)

Sources: ESCWA based on MENA-OECD Investment Programme, *Investment Climate and Regulation of International Investment in MENA Countries*, Annex 4, Table A.1; and *Unified Arab Economic Report*, September 2005.

Note: Parentheses ( ) indicate negative numbers.

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

E. LEBANON

Based on international sources, FDI inflows to Lebanon during the period 2001-2004 were almost stable, ranging between $249 million in 2001, $358 million in 2003 and $288 million in 2004. This stability in FDI inflows reflects the efforts by the Government aimed at stabilizing the economy and improving investor confidence in the national economy (see table 16).

TABLE 16. FDI INFLOWS TO LEBANON, 2001-2004
(*Millions of United States dollars*)

Year	FDI inflows	Growth rate in FDI inflows (percentage)	FDI inflows (percentage of GDP)
2001	249		1.49
2002	257	3.2	1.48
2003	358	39.3	1.98
2004	288	(19.6)	1.46

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

Note: Parentheses ( ) indicate negative numbers.

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

F. OMAN

The Ministry of National Economy in Oman has been implementing the above-mentioned project since 2003. While the first survey of all enterprises with FDI participation was completed, official results have not been published yet.

Based on international sources, FDI inflows to Oman fluctuated significantly during the period 2001-2004. FDI inflows decreased from $390 million to a modest $26 million, representing a decrease of 93 per cent. In 2003, FDI inflows increased significantly to $528 million and decreased again in 2004 to reach a negative value of $18 million (see table 17).

TABLE 17. FDI INFLOWS TO OMAN, 2001-2004
(*Millions of United States dollars*)

Year	FDI inflows	Growth rate in FDI inflows (percentage)	FDI inflows (percentage of GDP)
2001	390		1.95
2002	26	(93.33)	0.13
2003	528	1 930.77	2.43
2004	(18)	(103.41)	(0.07)

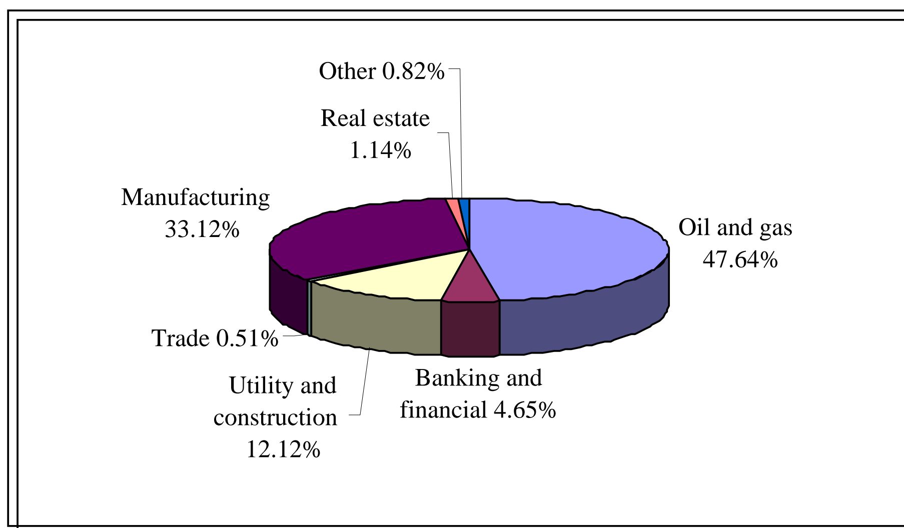
Source: Compiled by ESCWA, based on A. Böhmer and K. Davies, "Investment climate and regulation of international investment in MENA countries", Working Group 1 (MENA-OECD Investment Programme, 2005), Annex 4, Table A.1; and the Arab Monetary Fund (AMF), *Joint Arab Economic Report* (AMF, September 2004).

Note: Parentheses ( ) indicate negative numbers.

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

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

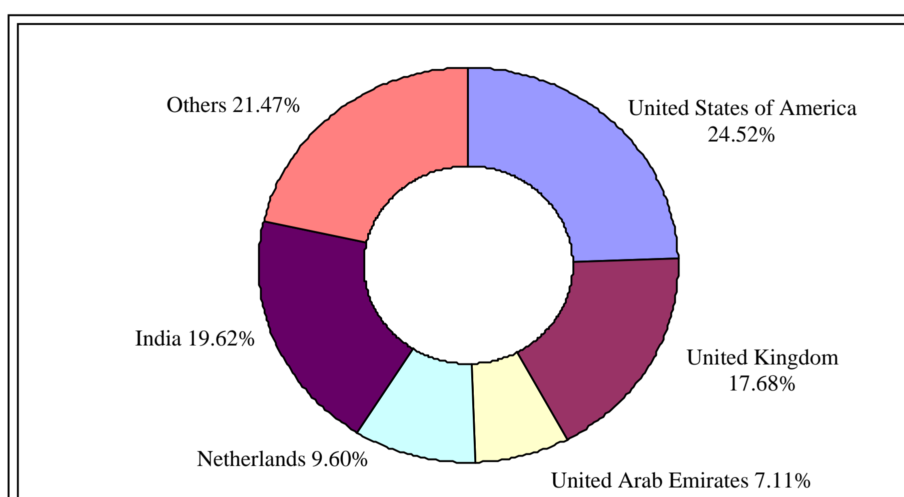
Figure IV. FDI inflows to Oman by economic sector, 2003
(*Percentage*)



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

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

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



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

G. QATAR

The Planning Council in Qatar is the implementing agency of the above-mentioned project and, moreover, is committed to the construction of a database on FDI based on a comprehensive survey of all enterprises with FDI participation. While the first survey of all enterprises with FDI participation was completed, official results have not been published yet.

Based on international sources, FDI inflows to Qatar during the period 2001-2004 witnessed a significant increase from $296 million in 2001 to $624 million in 2002, representing an increase of 110 per cent, to reach $679 million in 2004, or an overall increase of 129.4 per cent (see table 18).

TABLE 18. FDI INFLOWS TO QATAR, 2001-2004
(*Millions of United States dollars*)

Year	FDI inflows	Growth rate in FDI inflows (percentage)	FDI inflows (percentage of GDP)
2001	296		1.67
2002	624	110.8	3.17
2003	625	0.2	2.64
2004	679	8.6	2.39

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

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

H. SAUDI ARABIA

As the implementing agency of the above-mentioned project in Saudi Arabia, SAGIA supervised two surveys of enterprises with FDI participation in 2005 and 2006; and data obtained covers the period 2003-2005. However, these surveys did not include companies working in oil and gas exploration, mining, branches of banks from the GCC, and enterprises owned exclusively by nationals of the GCC.

The Government adopted a number of actions to reform the economy and to improve the investment climate. Moreover, new policies were adopted and two important sectors were opened to foreign investment, namely, telecommunications, and the banking and insurance sectors. These efforts had a positive impact on FDI inflows, which increased from $504 million in 2001 to $778 million in 2003, and $4,628 million in 2005, representing an increase of 495 per cent between 2003 and 2005 (see table 19).

TABLE 19. FDI INFLOWS TO SAUDI ARABIA, 2001-2005
(*Millions of United States dollars*)

Year	FDI inflows	Growth rate (percentage)
2001	504	175.4
2002	453	(10.1)
2003	778	71.7
2004	1 942	149.6
2005[a/]	4 628	138.3

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

Notes: Parentheses ( ) indicate negative numbers.

a/ Figures for 2005 represent preliminary data.

This increase was mainly captured by two sectors, namely: the manufacturing and energy sector, at $595 million in 2003 to $2,977 million in 2005, representing an increase of 400 per cent; and the real estate, rentals and business services sector, at $29 million in 2003 to $1,374 million in 2005, representing an increase of 4,638 per cent. The transport and communications sectors witnessed fluctuating FDI inflows from $1 million in 2003 to $840 millions in 2004, and $1 million in 2005 (see table 20).

TABLE 20. FDI INFLOWS TO SAUDI ARABIA BY TYPE OF ECONOMIC ACTIVITY AND MAJOR SECTORS, 2003, 2004 AND 2005
(*Millions of United States dollars*)

Economic activity	2003	2004	2005[a/]	Growth rates (percentage) 2004	Growth rates (percentage) 2005
Manufacturing and energy	595	436	2 977	(26.7)	582.8
Contracting	94	57	92	(39.4)	61.4
Wholesale and retail trade	6	7	4	16.7	(42.8)
Restaurants and hotels	12	7	10	(41.7)	42.9
Transportation and communications	1	840	1	83 900.0	(99.9)
Financial services, investments and insurance	40	188	170	370.0	(9.6)
Real state, rentals and business services including education, training, health, social services and temporary contract	29	408	1 374	1 306.9	236.8
Total of all economic activities	778	1 942	4 628	149.6	138.3

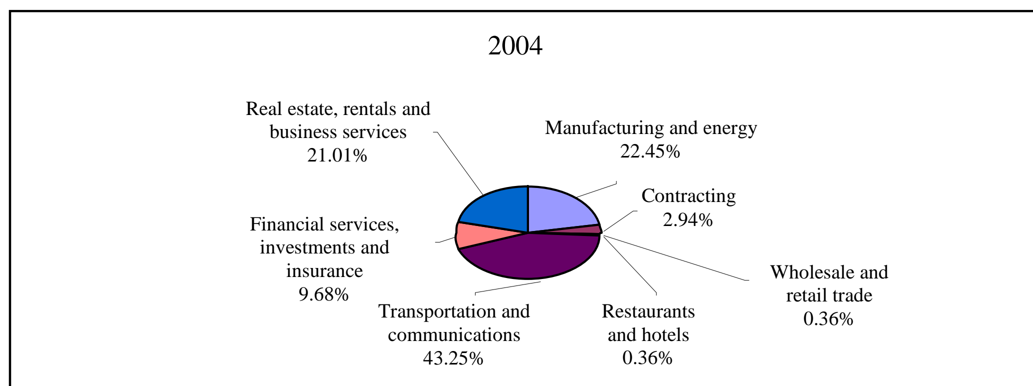
Source: Compiled by ESCWA, based on the survey of enterprises with FDI participation conducted by Saudi Arabia.

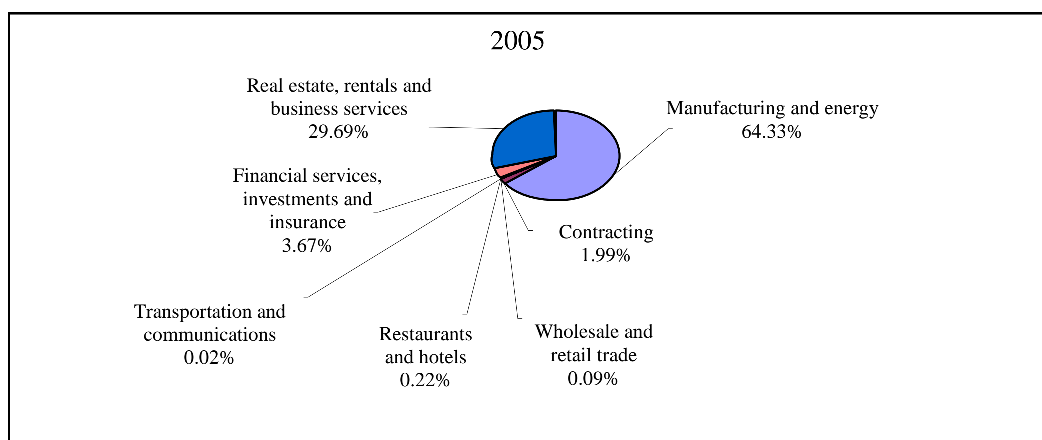
Notes: Parentheses ( ) indicate negative numbers.

a/ The preliminary data for 2005 exclude investments in oil and gas exploration, mining, branches of banks from the GCC, and enterprises owned exclusively by nationals of the GCC.

Additionally, the Government intensified its efforts to diversify the economy and to change the structure of FDI activities by opening new sectors to foreign investors; removing restrictions on investments in such areas as education, training, restaurants and hotels; and removing the minimum required capital for new investment projects. This is reflected by the manufacturing and energy sector, which captured a modest 22 and 64 per cent of FDI inflows in 2004 and 2005, respectively, compared to approximately 91 per cent that it used to capture in the period 1960-2000 (see figure VI). The real estate, rentals and business services sectors remained attractive to foreign investors, with shares of 21 and 30 per cent of total FDI inflows in 2004 and 2005, respectively.

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





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

While the largest share of FDI inflows to Saudi Arabia during the period 2001-2005 originated from some 20 countries, a closer examination indicates that in each of the examined years two countries captured the bulk of inflows, namely: Germany and Sweden in 2001, which together accounted for 51 per cent of FDI inflows; Switzerland and the Syrian Arab Republic, which accounted for 33 per cent in 2002; Bermuda and Pakistan, at some 45 per cent of total inflows in 2003; the United Arab Emirates and the United States, which accounted for 57 per cent in 2004; and Japan and the United Arab Emirates, at some 80 per cent of total FDI inflows to Saudi Arabia (see table 21).

TABLE 21. FDI INFLOWS TO SAUDI ARABIA BY MAJOR COUNTRIES, 2001-2005
(*Millions of United States dollars*)

Country	2001	2002	2003	2004	2005	Share of total inflows (percentage) 2001	2002	2003	2004	2005
Bahrain	..	2	42	116	305	0.00	0.44	5.40	5.97	6.59
Bermuda	..	..	268	..	..			34.45	..	..
Canada	6	7	10	4	4	1.19	1.55	1.29	0.21	0.09
Egypt	10	29	26	34	30	1.98	6.40	3.34	1.75	0.65
France	5	16	28	2	43	0.99	3.53	3.60	0.10	0.93
Germany	52	5	3	..	9	10.32	1.10	0.39	..	0.19
India	4	6	34	13	11	0.79	1.32	4.37	0.67	0.24
Japan	..	..	1	1	2 318	..	..	0.13	0.05	50.09
Jordan	27	34	32	42	73	5.36	7.51	4.11	2.16	1.58
Lebanon	31	18	29	34	51	6.15	3.97	3.73	1.75	1.10
Netherlands	..	..	10	2	49	..	..	1.29	0.10	1.06
Pakistan	14	20	82	18	27	2.78	4.42	10.54	0.93	0.58
Palestine	32	35	22	31	45	6.35	7.73	2.83	1.60	0.97
Syrian Arab Republic	34	62	43	32	62	6.75	13.69	5.53	1.65	1.34
Sweden	205	..	..	..	..	40.67	..	..	..	..
Switzerland	1	86	26	..	..	0.20	18.98	3.34	..	..
United Arab Emirates	5	1	10	846	1 369	0.99	0.22	1.29	43.56	29.58
United Kingdom	2	36	4	68	47	0.40	7.95	0.51	3.50	1.04
United States	16	8	268	269	84	3.17	1.77	34.45	13.85	1.82

TABLE 21 (*continued*)

Country	2001	2002	2003	2004	2005	Share of total inflows (percentage)				
						2001	2002	2003	2004	2005
Yemen	14	28	49	19	26	2.78	6.18	6.30	0.98	0.56
Other countries and temporary contracts	46	62	101	527	380	9.13	13.68	12.96	27.14	8.18
Total FDI inflows	504	453	778	1 942	4 628	100.00	100.00	100.00	100.00	100.00

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

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

Concerning intraregional FDI inflows, FDIs from nine Arab countries accounted for 36, 48, 27, 54 and 36 per cent of total FDI inflows in 2001, 2002, 2003, 2004 and 2005, respectively. These Arab countries were, principally, the Syrian Arab Republic in 2001 and 2002, with 7 and 14 per cent of FDI inflows, respectively; Yemen in 2003, with 6 per cent; and the United Arab Emirates, whose share of FDI inflows to Saudi Arabia reached 44 per cent in 2004 and 30 per cent in 2005 (see table 22).

TABLE 22. INTRAREGIONAL FDI INFLOWS TO SAUDI ARABIA, 2001-2005
(*Millions of United States dollars*)

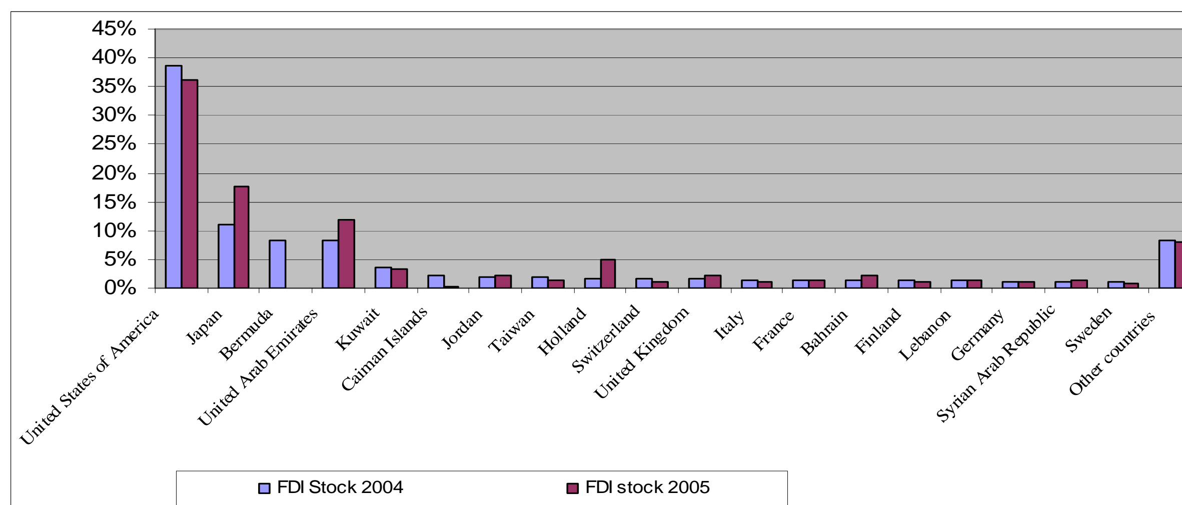
Country	2001	2002	2003	2004	2005	Share of total inflows (percentage)				
						2001	2002	2003	2004	2005
Bahrain	..	2	42	116	305	..	0.44	5.40	5.97	6.59
Egypt	10	29	26	34	30	1.98	6.40	3.34	1.75	0.65
Jordan	27	34	32	42	73	5.36	7.51	4.11	2.16	1.58
Kuwait	30	9	2	13	7	5.95	1.99	0.26	0.67	0.15
Lebanon	31	18	29	34	51	6.15	3.97	3.73	1.75	1.10
Palestine	32	35	22	31	45	6.35	7.73	2.83	1.60	0.97
Syrian Arab Republic	34	62	43	32	62	6.75	13.69	5.53	1.65	1.34
United Arab Emirates	5	1	10	846	1 369	0.99	0.22	1.29	43.56	29.58
Yemen	14	28	49	19	26	2.78	6.18	6.30	0.98	0.56
Total Intraregional FDI inflow	183	216	213	1 051	1 663	36.31	47.69	27.39	54.12	35.93

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

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

Efforts by the Government resulted in an increase in FDI stock of 27 per cent from $20,454 million in 2004 to $26,066 million in 2005. A total of four countries in 2004 and three countries in 2005 captured some 67 and 66 per cent of FDI stock, respectively, namely: the United States of America, followed by Japan, Bermuda (in 2004 only) and the United Arab Emirates (see figure VII).

Figure VII. FDI stock by country of origin, 2004 and 2005
(*Percentage*)



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

The increase in FDI inflows between 2001 and 2005 outweighed the increase in GDP during that same period, rising, as a percentage of GDP, from 0.3 per cent in 2001 to 0.97 per cent in 2004, albeit with a modest decrease in 2002. This indicates that the growth rate in FDI inflows was larger than the growth rate in GDP during the same period (see table 23). On the other hand, given that the FDI surveys undertook by SAGIA did not cover the oil sector, FDI inflows as a percentage of non-oil GDP can equally be examined, amounting to 0.41 and 1.35 per cent in 2001 and 2004, respectively.

TABLE 23. FDI INFLOWS TO SAUDI ARABIA AS A PERCENTAGE OF GDP AND NON-OIL GDP, 2001-2004

	2001	2002	2003	2004
FDI inflows as a percentage of GDP	0.3	0.27	0.43	0.97
FDI inflows as a percentage of non-oil GDP	0.41	0.36	0.59	1.35

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

SAGIA expects a sustainable increase in FDI inflows in the coming years, particularly after the accession of Saudi Arabia to WTO in November 2005, which is expected to boost the investment climate in the country and promote investor confidence, thereby resulting in the creation of more job opportunities. Within that context, FDI enterprises created some 243,000 job opportunities in 2005, 26 per cent of which were filled by local workers.[19] Moreover, FDI inflows contributed significantly towards increasing exports, with exports from FDI enterprises estimated at 65 per cent in 2005, equivalent to $17.4 billion.[20]

I. SYRIAN ARAB REPUBLIC

In the Syrian Arab Republic, the above-mentioned project is being implemented by the State Planning Commission and the Central Bureau of Statistics, in close cooperation with the United Nations Development Programme (UNDP). Within that framework, two surveys were conducted covering, respectively, 48 companies with FDI participation in 2003, and 62 such companies in 2004 and 2005.

[19] This is based on the survey of enterprises with FDI participation conducted by Saudi Arabia.

[20] Ibid.

FDI Inflows to the Syrian Arab Republic during 2001-2005 fluctuated between $947 million in 2001, to $1,084 million in 2003 and dropping to $736 million in 2005. Similarly, while FDI inflows as a percentage of GDP fluctuated between 4.68 per cent in 2001 and 2.93 per cent in 2005, the growth rate in FDI inflows matched the growth rate in GDP between 2001 and 2003, and 2004 and 2005 (see table 24). However, the growth in GDP was larger that the growth in FDI inflows in 2004, thereby reflecting a decrease in FDI inflows as a percentage of GDP from 2003 to 2004.

TABLE 24. FDI STOCK AND INFLOWS TO THE SYRIAN ARAB REPUBLIC, 2001-2005
(*Millions of United States dollars*)

Year	FDI stock	FDI inflows	FDI inflows growth rate (percentage)	FDI inflows (percentage of GDP)
2001		947		4.68
2002		1 030	8.76	4.98
2003	1 779[a/]	1 084	5.24	5.00
2004[a/]	2 401	692	(36.21)	2.94
2005[a/]	3 040	736	6.48	2.93

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

Notes: A flexible exchange rate was adopted in the Syrian Arab Republic whereby it was at 49.21 Syrian pounds to the United States dollar in 2003; 51.21 Syrian pounds to the dollar in 2004; and 53.36 Syrian pounds to the dollar in 2005.

Parentheses ( ) indicate negative numbers.

a/ This figure is based on survey of enterprises with FDI participation conducted by the Syrian Arab Republic.

Based on the survey of enterprises with FDI participation, the distribution of FDI inflows by economic activity during 2004-2005 indicates the predominance of two sectors, namely, the manufacturing, sector, which captured some 55 and 33 percent of total FDI inflows in 2004 and 2005, respectively; and the financial intermediation sector, which captured an estimated 66 per cent of total FDI inflows to the Syrian Arab Republic in 2005 (see table 25 and figure VIII).

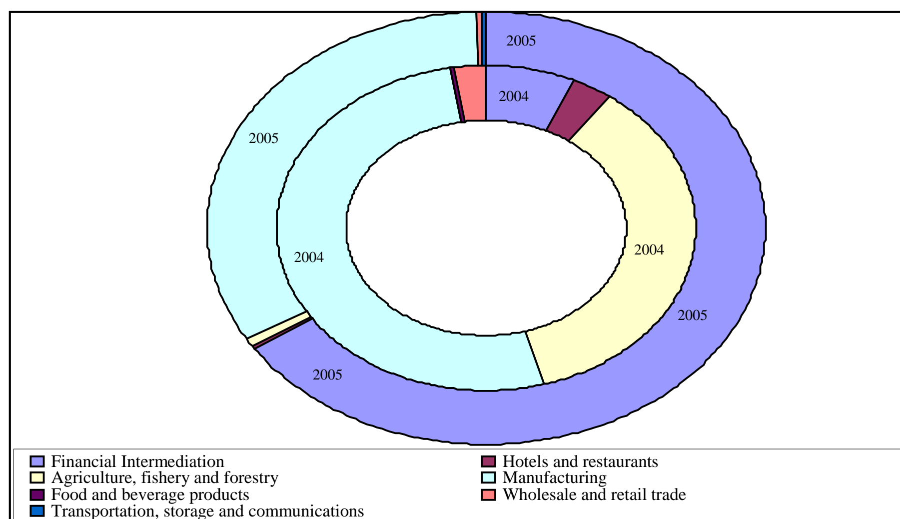
TABLE 25. FDI INFLOWS TO THE SYRIAN ARAB REPUBLIC BY ECONOMIC ACTIVITY AND MAJOR SECTORS, 2004 AND 2005
(*Millions of United States dollars*)

Activities	FDI inflows		Share of total FDI (percentage)	
	2004	2005	2004	2005
Financial intermediation	51.3	487.7	7.42	66.23
Hotels and restaurants	(23.0)	2.2	(3.33)	0.29
Agriculture, fisheries and forestry	261.7	3.9	37.84	0.53
Manufacturing	381.2	245.0	55.12	33.27
Food and beverage products	1.4	(1.0)	0.20	(0.13)
Wholesale and retail trade	18.1	1.0	2.62	0.14
Transportation, storage and communications	0.9	(2.4)	0.13	(0.32)
Total	691.5	736.3	100.00	100.00

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

Note: Parentheses ( ) indicate negative numbers.

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



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

Furthermore, while FDI inflows from 10 countries captured 97 and 98 per cent of total inflows in 2004 and 2005, respectively, these were not distributed equitably (see table 26). Specifically, in 2004, the Netherlands represented an estimated 41 per cent of total FDI inflows, at $271 million; followed by Canada, at 10 per cent or $66 million; and Saudi Arabia, at 9 per cent or $58.8 million. In 2005, Lebanon was the source of more than 66 per cent of total FDI inflows, at $480 million; followed by the Netherlands, at 20 per cent or $147 million; and Canada, at 12 per cent or $84 million.

The considerable increase in FDI inflows from Lebanon was mainly captured by the financial intermediation sector, particularly banks, subsequent to the decision by the Government to open up the banking sector for the private sector, which in turn encouraged several Lebanese banks to establish branches in the Syrian Arab Republic (see table 26).

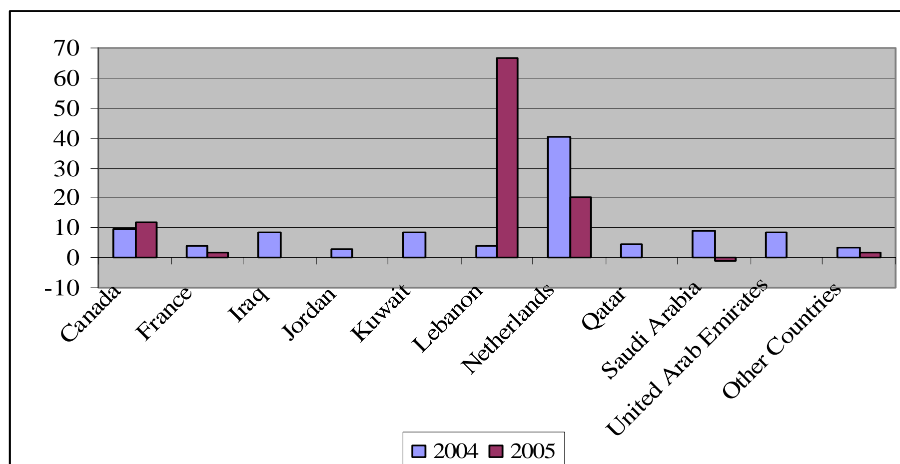
TABLE 26. FDI INFLOWS TO THE SYRIAN ARAB REPUBLIC BY MAJOR COUNTRIES, 2004 AND 2005
(*Millions of United States dollars*)

Country	FDI inflows		As a percentage of total FDI inflows	
	2004	2005	2004	2005
Canada	65.6	84.2	9.81	11.67
France	25.3	11.2	3.78	1.56
Iraq	57.6	0.9	8.62	0.12
Jordan	20.2	1.8	3.02	0.25
Kuwait	55.3	1.0	8.27	0.14
Lebanon	25.8	479.7	3.87	66.44
Netherlands	271.0	147.1	40.56	20.38
Qatar	31.4	0.5	4.70	0.06
Saudi Arabia	58.8	(5.8)	8.81	(0.80)
United Arab Emirates	57.2	1.3	8.56	0.18
Other countries	22.6	14.1	3.38	1.95
Total	691.5	736.3	100.0	100.0

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

Note: Parentheses ( ) indicate negative numbers.

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



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

The share of ESCWA member countries from total FDI inflows to the Syrian Arab Republic represented some 44 and 66 per cent in 2004 and 2005, respectively. Saudi Arabia ranked first in 2004 with 8.5 per cent of total FDI inflows, followed by Iraq and the United Arab Emirates (see table 27). In 2005, Lebanon headed the Arab countries with 65 per cent; and the share of other Arab countries did not exceed 0.75 per cent of total FDI inflows in that year.

TABLE 27. INTRAREGIONAL FDI INFLOWS TO THE SYRIAN ARAB REPUBLIC BY MAJOR COUNTRIES, 2004 AND 2005
(*Millions of United States dollars*)

Countries	FDI inflows		As a percentage of total intraregional FDI inflows	
	2004	2005	2004	2005
Bahrain	(1.2)	2.6	(0.17)	0.35
Egypt	2.5	3.2	0.36	0.43
Iraq	57.6	0.9	8.33	0.12
Jordan	20.2	1.8	2.92	0.24
Kuwait	55.3	1.0	8.00	0.14
Lebanon	25.8	479.7	3.73	65.15
Qatar	31.4	0.5	4.54	0.07
Saudi Arabia	58.8	(5.8)	8.50	(0.79)
United Arab Emirates	57.2	1.3	8.27	0.18
Total	307.6	485.2	44.48	65.90

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

Note: Parentheses ( ) indicate negative numbers.

FDI enterprises had a significantly positive impact on the economy, particularly in terms of creating employment. Specifically, such companies offered job opportunities to 6,564 persons in 2003, 7,202 in 2004 and 7,320 in 2005, the vast majority of whom were drawn from the local labour force. Indeed, the percentage of expatriate workers was low even at the level of senior management, at 5.7 and 17.8 per cent in 2003 and 2005, respectively (see table 28).

TABLE 28. DISTRIBUTION OF EMPLOYEES IN FDI ENTERPRISES
BY GENDER AND NATIONALITY

	2003	2004	2005
Total number of employees	6 564	7 202	7 320
Males	5 727	6 606	6 580
Females	837	596	740
Males as a percentage of total	87.25	91.72	89.89
Females as a percentage of total	12.75	8.28	10.11
Nationals	6 503	6 843	7 034
Expatriates	61	359	286
Nationals as a percentage of total	99.07	95.02	96.09
Expatriates as a percentage of total	0.93	4.98	3.91
Number of employees in senior management	317	200	197
Males	286	184	185
Females	31	16	12
Males as a percentage of total	90.22	92.00	93.91
Females as a percentage of total	9.78	8.00	6.09
Nationals	299	168	162
Expatriates	18	32	35
Nationals as a percentage of total	94.32	84.00	82.23
Expatriates as a percentage of total	5.68	16.00	17.77

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

The share of women in FDI enterprises was low, at 12.75 per cent in 2003, 8.28 per cent in 2004 and 10.11 per cent in 2005; and similarly unfavourable in terms of senior positions where women represented less than 10 per cent of total employees during the three-year period (see table 28).

J. UNITED ARAB EMIRATES

The United Arab Emirates was eager to develop a database on FDI based on international methodologies. In fact, the figures shown in national and international sources on FDI stock and inflows in the United Arab Emirates do not reflect the actual status.

The Ministry of Economy in the United Arab Emirates, which is the implementing agency of the above-mentioned project, conducted the first survey of enterprises with FDI participation in 2005 and data was issued in the first half of 2006. The survey covered 465 companies from the seven Emirates in 2004.

The results of the survey indicate an FDI stock of $9.2 billion, which is almost double the figure found in national and international publications, and reflects the current boom in the country. In 2004, FDI stock was an estimated 8.5 per cent of GDP and 40 per cent of gross fixed capital formation (GFCF).[21]

On the other hand, there was a fluctuation in FDI inflows to the United Arab Emirates during 2001-2004, at $1,184 million in 2001, increasing to $1,307 million in 2002 and down significantly to $30 million in 2003 (a decrease of 98 per cent) as a result of the beginning of the war in Iraq. In 2004, following efforts by the Government aimed at absorbing the costs incurred from that war, FDI inflows increased to $840 million. Moreover, the growth rate in FDI inflows was significantly less than the growth rate in GDP between 2003 and 2004 (see table 29).

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

TABLE 29. FDI INFLOWS TO THE UNITED ARAB EMIRATES, 2001-2004
(*Millions of United States dollars*)

	2001	2002	2003	2004
FDI inflows	1 184	1 307	30	840
Growth rate in FDI inflows		10.4	(97.7)	2 700.0
FDI inflows (*percentage of GDP*)	1.70	1.73	0.03	0.81

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

Note: Parentheses ( ) indicate negative numbers.

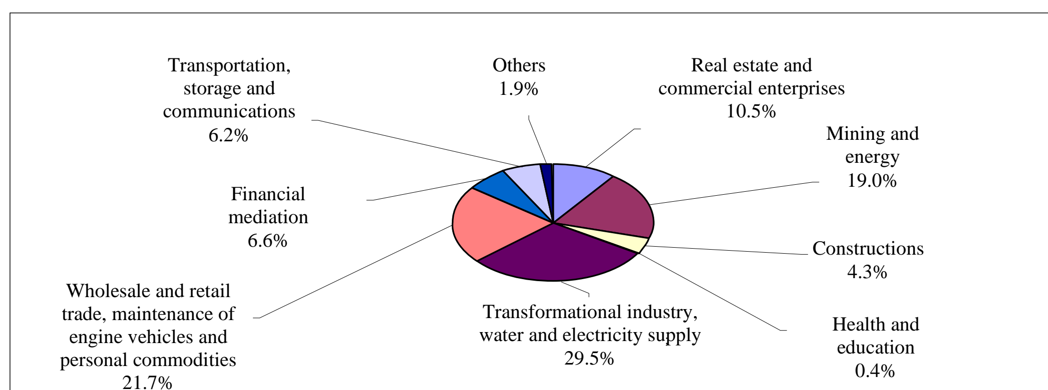
In terms of structural distribution of FDI stock among industries, four industries attracted the largest share of FDI in the economy by capturing approximately 81 per cent of total FDI stock in 2004, namely: transformational industry, water and electricity supply, at 29.5 per cent; wholesale and retail trade, maintenance of engine vehicles and personal commodities, at 21.7 per cent; mining and energy, at 19.0 per cent; and real estate and commercial enterprises, at 10.5 per cent (see table 30 and figure X).

TABLE 30. FDI STOCK IN THE UNITED ARAB EMIRATES BY TYPE OF INDUSTRIAL CLASSIFICATION, 2004
(*Millions of United States dollars*)

Economic activity	FDI stock	FDI stock as a percentage of total
Transformational industry, water and electricity supply	2 714	29.5
Wholesale and retail trade, maintenance of engine vehicles and personal commodities	1 996	21.7
Mining and energy	1 748	19.0
Real estate and commercial enterprises	966	10.5
Financial mediation	607	6.6
Transport and storing communications	570	6.2
Construction	396	4.3
Health and education	37	0.4
Others	175	1.9
Total of all economic activities	9 200	100.0

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

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



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

The survey indicated that most of the direct investors in the United Arab Emirates in 2004 were nationals of the European Union, at 35 per cent of total FDI stock, and of the GCC, at some 20 per cent.[22] Moreover, spending on technology in FDI enterprises reached $1.1 million in 2004, while expenditures on research and development amounted to $29.3 million; and the value of exports and sale of goods and services by FDI enterprises reached $12.1 million, while the value of imports and purchases of goods and services was close to $6.5 million.[23]

Furthermore, while FDI enterprises were creating job opportunities, the share of nationals in FDI enterprises was low, at a modest 6 per cent of total employees compared to 94 per cent of expatriates.[24]

K. YEMEN

FDI inflows to Yemen were comparatively small in 2001-2004. The highest level of FDI inflows to Yemen during that period was $136 million in 2001, which decreased to its lowest value of $6 million in 2003. However, efforts by the Government aimed at improving the investment environment contributed to increasing FDI inflows to $21 million in 2004, representing a rise of 250 per cent (see table 31).

TABLE 31. FDI INFLOWS TO YEMEN, 2001-2004
(*Millions of United States dollars*)

Year	FDI inflows	Growth rate in FDI inflows (percentage)	FDI inflows (percentage of GDP)
2001	136		1.41
2002	102	(25.0)	0.99
2003	6	(94.1)	0.05
2004	21	250.0	0.16

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

Note: Parentheses ( ) indicate negative numbers.

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

[22] Ibid.

[23] Ibid.

[24] Ibid.

III. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

ESCWA member countries, particularly non-major oil producing countries, have made substantial progress in improving the institutional framework to stimulate the inflows of FDI. While the significant jump in oil revenues in the major oil-exporting countries in the region has effectively slowed down the process of economic reform, this slowdown has been more modest than in the previous oil boom.

Specifically, ESCWA member countries have continued to focus on long-term growth sustainability, which requires additional structural reform, as reflected in trade liberalization, business climate and governance. However, progress in this area has been less evident in the countries of the GCC.

Moreover, while several ESCWA member countries have passed laws and regulations to improve the investment climate, the results have been hampered by, among others, the slow implementation of these reforms in many countries; the additional burden on investors that such laws have inadvertently provoked; and protracted reform on other important issues and laws, thereby affecting negatively the implementation of the institutional framework in general and, consequently, the promotion of FDI inflows.

The impact of FDI inflows on the economies of ESCWA member countries is not apparent yet. From the results of the surveys conducted by Bahrain, Oman, Saudi Arabia, Syrian Arab Republic and United Arab Emirates, there is a limited impact on the economies of these countries. This can be seen from the relatively modest share of FDI inflows on national GDP, exports and technology transfers. The lower share of FDI on GDP signifies a limited role in promoting economic growth, while lower spending on technology by enterprises with FDI participation means that they are not technology-oriented or that these enterprises are cautious owing to the lack of proper enforcement of property rights. However, the impact on the economies of these countries could increase in the coming years if the current trend in increasing FDI inflows is maintained, in addition to rigorous enforcement of laws and regulations that govern the activities of FDI.

The most important conclusions of this report are as follows:

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

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

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

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

B. RECOMMENDATIONS

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

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

(b) To put in place stable macroeconomic policies;

(c) To engage in campaigns aimed at promoting FDI, preferably with the participation of the private sector;

(d) To give more attention with regard to the compilation of accurate and verifiable FDI statistics;

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

(f) To take measures aimed at repatriating Arab investments outside the region;

(g) To formulate regional investment agreements and promote intraregional investments;

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