FDI TRENDS IN THE ARAB REGION

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Composition of the Arab region

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  - Conflict countries
  - Capital poor, labor abundant countries

- Capital rich countries
  - Oil-exporting countries

- Middle-income countries
  - Labor abundant countries

Arab region
FDI TRENDS IN THE ARAB REGION
There was a strong upward trend between 2002 and 2008 due to a boom in the real estate sector, high oil prices and the opening up of petroleum sector to foreign investments.

Sharp decrease for 3 consecutive years between 2008 and 2011: financial crisis, falling oil prices and declining profit margins within the petroleum sector, economic recession, sharp corrections in the real estate sector and political instability in some countries.

* Source for all FDI statistics: UNCTAD
The Arab region has experienced a heavy drop in outward FDI since 2008, followed by a period of stability. In 2013, outward FDI rose by nearly 60 per cent.

This sharp increase can be attributed mainly to Qatar that rose from US$1.8 billion in 2012 to US$8 billion in 2013.
In 2013, the Arab region accounted for 3 per cent of the global FDI inflows, while this figure stood at around 6 per cent in 2008-2009.
After a decline in 2012, **global FDI** inflows rose again in 2013 by 9 per cent, to US$1.45 trillion.

In the **Arab region**, however, FDI has declined by 11 per cent from 2012 to 2013 and by 53 per cent since 2008.
## FDI TRENDS

### FDI Inflows per country (bn US$)

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<tr>
<th>Country</th>
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FDI TRENDS

FDI inflows per country (% of GDP)

2008

- Arab World, 4.7
- United Arab Emirates, 4.4
- Bahrain, 7.0
- Algeria, 1.5
- Egypt, Arab Rep., 5.8
- Iraq, 1.4

2012

- Arab World, 1.8
- United Arab Emirates, 2.5
- Bahrain, 2.9
- Algeria, 0.7
- Egypt, Arab Rep., 1.1
- Iraq, 1.6

Countries:

- Jordan, 12.9
- Lebanon, 15.0
- Kuwait, 0.0
- West Bank and Gaza, 0.8
- Tunisia, 5.8
- Sudan, 3.1
- Saudi Arabia, 7.6
- Qatar, 3.3
- Oman, 4.9
- Morocco, 2.8
- Libya, 4.4
- Yemen, Rep., 5.1
- Libya, 8.5
- Sudan, 3.7
- Saudi Arabia, 1.7
- Qatar, 0.2
- Oman, 1.3
- Morocco, 3.0
- Lebanon, 4.8
- Kuwait, 1.6
- Jordan, 1.5
- Egypt, Arab Rep., 0.0

FDI TRENDS
FDI Inflows: Major recipients

UAE, Saudi Arabia, Egypt and Morocco, respectively the first FDI attractors of the Arab region, take the lion’s share with 65 per cent of the total FDI inflows to the Arab region in 2013.
• Morocco has seen its FDI inflows increase by 35 per cent since 2008.
• Iraq has increased its FDI inflows by 54 per cent since 2008.
• Saudi Arabia has seen its FDI inflows drop by more than 75 per cent since 2008.
• UAE, after a sharp decline in 2009, experienced a constant rise in FDI inflows.
• Egypt experiences volatile FDI inflows and hasn’t reached its pre-crisis level yet, while remaining the third biggest FDI recipient in the region.
CHARACTERISTICS OF INVESTMENT
CHARACTERISTICS OF INVESTMENT
Doing Business in the Arab region

Source: Doing Business 2015
CHARACTERISTICS OF INVESTMENT

Doing Business in the Arab region

Source: Doing Business 2015
### CHARACTERISTICS OF INVESTMENT

#### Doing Business ranking

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CHARACTERISTICS OF INVESTMENT
Doing Business: UAE

From 2008 to 2015, the UAE have significantly improved in the following sectors: starting a business, dealing with construction permits, getting credit, protecting minority investors, enforcing contracts and resolving insolvency. The relative weakness experienced in 2011 is due mainly to better performances by other countries.

In 2010, the UAE were considered the 5th top reformer in the world as they significantly reduced the burden on starting a business (jumping from 113th position in 2009 to the 44th in 2010) and on dealing with construction permits (from the 41st position in 2009 to the 27th in 2010).
From 2008 to 2015, Morocco improved significantly in the following indicators: dealing with construction permits, getting credit, paying taxes, trading across borders and enforcing contracts. However, it has worsened in resolving insolvency and protecting minority investors.
Morocco was considered the top reformer of the 2012 Doing Business ranking by gaining 21 positions in the overall ranking.

In that year, Morocco made dealing with construction permits easier by opening a one-stop shop. It strengthened investor protections by allowing minority shareholders to obtain any non-confidential corporate document during trial. As well as it eased the administrative burden of paying taxes for firms by enhancing electronic filing and payment of the corporate income tax and value added tax.

In Doing Business 2015, Morocco was acknowledged for making trading across borders easier by reducing the number of export documents required.
From 2008 to 2011, Egypt has significantly eased two business indicators allowing for a relatively better environment for investors: dealing with construction permits, and getting credit. However, over the years, the situation regarding the protection of minority investors has dramatically worsened, as well as the trading across borders indicator.
According to the Doing Business Report 2015, Egypt strengthened minority investor protections by introducing additional requirements for approval of related-party transactions and greater requirements for disclosure of such transactions to the stock exchange.

However, in 2014, Egypt made paying taxes more costly for companies by increasing the corporate income tax rate.

In 2009, Egypt was considered as 10th best reformer globally by further reducing registration costs and paid-in minimum capital.

In 2008, Egypt topped the list of best reformers by cutting the minimum capital required to start a business, from 50,000 Egyptian pounds to just 1,000 and halved the time and cost of start-up. It reduced fees for registering property from 3 percent of the property value to a low, fixed amount. It eased the bureaucracy that builders face in getting construction permits. It launched new one-stop shops for traders at Egyptian ports, cutting the time to import by seven days and the time to export by five. And it established a new private credit bureau that will soon be making it easier for borrowers to get credit.
From 2008 to 2011, Saudi Arabia made it easier to start a business, to deal with construction permits, to register property (ranked first globally from 2009 to 2012), and to trade across borders. However, starting 2012, Saudi Arabia has not been able to catch up with other performances globally, plummeting from the 23rd position to the 49th in the latest Doing Business ranking.
In 2008, Saudi Arabia, the runner-up reformer in the region, eliminated the minimum capital requirement of 1,057 percent of income per capita and reduced the days needed for company start-up from 39 to 15. It launched a commercial credit bureau whose reports include the credit exposure of companies. It also sped up trade, reducing the number of documents required for importing and cutting the time needed for handling at ports and terminals by two days for both imports and exports.
From 2008 to 2015, Kuwait worsened significantly in the following areas: starting a business, getting electricity, getting credit, protecting minority investors, enforcing contracts and resolving insolvency. Kuwait made it especially difficult to start a business in 2015 by increasing the commercial license fee and in 2014 by increasing the minimum capital requirement.
CHARACTERISTICS OF INVESTMENT

FDI Attractiveness

According to Meon and Sekkat (The Determinants of Foreign Direct Investment to Arab countries, Economic Research Forum, May 2013), determinants of FDI differ within the Arab world:

• For the oil rich labor poor countries, investors are mainly attracted towards countries with high real per capita income and human capital.
• For the oil rich labor rich countries, the main determinants are real per capita income, infrastructure and foreign exchange liberalization.
• For the oil poor labor rich countries the main driver of FDI inflows is the quality of institutions.
CHARACTERISTICS OF INVESTMENT

Intra-Arab FDI **versus** extra-Arab FDI

**INTRA-ARAB FDI**
Only the size of the receiving economy (GDP) and the total supply of FDI from the source country are significant determinants.

**EXTRA-ARAB FDI**
GDP, real per capita GDP, institutions, openness and total supply of FDI are significant determinants.
Egypt was ranked 10th best reformer in 2010 by further reducing registration costs and paid-in minimum capital.

Characteristics of Investment

Sectors of investment: Egypt, 2012

- Oil: 74.37%
- Manufacturing: 6.72%
- Agriculture: 0.01%
- Real Estate: 0.66%
- Finance: 3.11%
- Other sectors: 15.13%

Source: Central Bank of Egypt
• Saudi Arabia adopted a consistent reform program and was ranked 12 globally in Ease of doing business.
• Contracting, Oil and Real estate sectors were the main recipients of FDI inflows.
• The sources of these inflows were diverse: 34% from European countries, 16% from other Arab countries; 15% from USA and 7% from China

Source: Saudi Arabian General Investment Authority (SAGIA)
CHARACTERISTICS OF INVESTMENT

Sectors of investment, Morocco, 2010

- More than 75% of FDI Inflows to Morocco originated from European Countries.
- **Telecommunications** sector is the largest recipient.
- **Morocco was the most active Arab country in implementing regulatory reforms in 2010/2011**, improving its global ranking in ease of doing business from 129 in 2008 to 94 in 2012 and 71 in the 2015 Doing Business ranking (out of 189 countries analyzed).

Source: Moroccan Foreign Exchange Office

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CHARACTERISTICS OF INVESTMENT

Main characteristics

• The majority of Arab countries have taken serious steps in upgrading the investment climate as one of the crucial factors attracting foreign investors.
• Oil and gas industries and related manufacturing are the major recipient of FDI;
• Telecommunications, real estate and financial services sectors are increasing their share of FDI inflows;
• Investments from developing countries, in particular India and China, have increased in the recent years;
• A large part of FDI inflows is profit-seeking, and not necessarily employment-generating. The region still faces high rates of unemployment;
• There is also little technology transfer, given that most of the FDI is directed towards the mining or real estate sectors, with low levels invested in the manufacturing sector;
CHARACTERISTICS OF INVESTMENT

Main characteristics (ctd)

- **Sudan** saw an increase in FDI inflows between 2009 and 2012 due to large investments, mainly from China and India, in the exploration and exploitation of natural resources. The agricultural sector, where the country has a comparative advantage, received only about 3%.

- **Libya** witnessed a large FDI inflows in 2012, driven mainly by investments in the petroleum sector.

- In **Lebanon**, FDI inflow was mainly driven by investments in financial services and real estate sectors.

- In **Iraq**, FDI inflows witnessed 3 years of consecutive increase (2011-2013) driven by large investments in the infrastructure and petroleum sectors.

- The **United Arab Emirates** became the major recipient of FDI inflows in 2014 in the Arab region, dethroning Saudi Arabia.
MAIN CHALLENGES
Despite the fact that some countries performed well in attracting FDI in 2009, the global financial crisis proved that these inflows are vulnerable.

While the relevance of these challenges varies significantly from one country to another, the Arab region in general suffers from:

- weak and inconsistent enforcement of regulations,
- high levels of bureaucracy and corruption,
- dominant public sector and
- slow implementation of privatization programs.
Attracting FDI

The financial crisis has put a lot of constraints on the Arab countries. There was a need to adopt policies and reforms to circumvent macroeconomic hurdles, thus a need to perform well in attracting FDI.

**RESILIENCE**
During the crisis year of 2009, the region experienced, on average, a milder decline than developing countries in other regions.

**ADAPTATION**
However, due to the general decline in FDI, Arab countries need to perform better in attracting foreign direct investment. As such, the business environment requires significant changes.

**REFORMS**
The Arab countries have initiated several reforms in the following sectors predominantly: construction permits; getting credit; protecting investors; and enforcing contracts.
MAIN CHALLENGES

Low social added value

- Most FDI is only profit-seeking and not necessarily employment-generating. Therefore, the Arab region still faces high rates of unemployment.

- Furthermore, there is little technology transfer because of low levels invested in the manufacturing sector, as opposed to the oil sector. FDI should lead to increases in productivity and wages, and in the transfer of knowledge and technology, thereby ensuring high levels of economic and social development in the region.

- Therefore, there is a need for a new approach for directing FDI to the sectors that produce higher value added and those that require higher rates of technology and knowledge transfer.
Political instability poses further constraints on economic recovery in the short term of several Arab countries.

Those countries need to undergo a constructive transitional process that needs to be synchronized with sound economic and social policies, and institutional and political reform.
RECOMMENDATIONS
RECOMMENDATIONS

Guidelines

- Need to **improve the institutional environment** in terms of efficiency and transparency.
- To introduce policies aimed at promoting FDI with more impact on long-term growth prospects (like agricultural and manufacturing sectors, instead of mining and real estate sectors).
- To **promote intraregional FDI**.
- To invest in **transportation and communication infrastructure**, thereby improving competitiveness.
- To invest in **education** in order to upgrade skills of workforce and more tailored to needs of potential investors.
- Need more **regional integration** by liberalizing services and investment flows.
- **Redirect outward FDI** into the Arab region.
- **Combating bureaucracy, corruption and red tape**, with the establishment of an independent supervisory authority.
THANK YOU
Khaled Hussein
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