Foreign Direct Investment in The Arab World: Creating The Missing Link

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Abstract

Levels of FDI in MENA are characterized by four main features. First, FDI flows into MENA have not kept pace with flows to the rest of the world, and they have been lower than the average for all other regions of the world. Second, most FDI flows have gone only to a handful of countries, and have been concentrated in a few sectors with limited investment scope. The third feature is that FDI stocks and flows have constituted a small part of the region's economies both in terms of gross fixed capital formation and gross domestic product. The fourth feature, possibly the only piece of good news, is that intra-Arab investment comprises a significant proportion of FDI inflows to countries in the region, and is likely to be underestimated in international financial statistics.

This paper suggests a more variegated, even case-by-case look at the way we approach FDI. After reviewing the global and regional picture on FDI, and taking a look at the record for Arab countries, the paper suggests some fine-tuning in the way we structure efforts to attract FDI. For the non-oil economies in particular, where entrepreneurial talent abounds among the highly educated members of the populations, I suggest a shift in policy balance that might re-formulate some FDI incentives for strategic sectors such as information and communication technology, and services. Such efforts might very well yield relatively higher positive externalities than what Arab countries have reported to date. The argument becomes even more compelling when we consider that many of the requisite conditions necessary to attract higher levels of "traditional" FDI to the Middle East are not likely to become more abundant soon for structural and geopolitical reasons. There has been reform in the region, but it has been slow and time has increasingly high opportunity costs for countries with large proportions of unemployed youth, a good number of them fairly well skilled.

ملخص

تتسم مستويات الإستثمار الأجنبى المباشر فى منطقة الشرق الأوسط وشمال افريقيا بأربع سمات رئيسية. أولاً، لم تتواكب التدفقات الإستثمارية داخل منطقة الشرق الأوسط وشمال أفريقيا مع التدفقات لسائر أنحاء العالم. ثانياً، توجهت معظم التدفقات الإستثمارية لعدد قليل من الدول، وتم تركزها فى قطاعات قليلة ذات مجال استثمارى محدود. وتشير السمة الثالثة إلى أن الأرصدة والتدفقات لم تمثل سوى نسبة ضئيلة فى إقتصادات المنطقة، سواء من حيث إجمالى تكوين رأس المال الثابت أو من حيث الناتج المحلى الإجمالى. أما السمة الرابعة، والتى تعتبر الخبر السار الوحيد، هى أن الإستثمارات العربية البينية تمثل نسبة كبيرة من التدفقات الإستثمارية إلى داخل دول المنطقة، وغالباً ما تنخفض تقديراتا فى الإحصاءات المالية الدولية.

وتقترح هذه الورقة الخلوص إلى نظرة متنوعة لكل حالة على حدة عند تناول موضوع الإستثمار الأجنبى المباشر. وبعد استعراض الصورة الدولية والإقليمية للإستثمار الأجنبى المباشر، وبعد النظر فى سجل الدول العربية، تقترح الورقة إجراء بعض التعديلات لضبط أسلوب هيكلة الجهود لجذب الإستثمار الأجنبى المباشر.

وبالنسبة للإقتصادات غير البترولية على وجه الخصوص، حيث تنتشر موهبة أنشطة الأعمال بين الأفراد ذوى التعليم العالى، فإننى أقترح إجراء تحول فى توازن السياسات، يمكنه إعادة صياغة بعض حوافز الإستثمار الأجنبى المباشر بالنسبة للقطاعات الإستراتيجية مثل تكنولوجيا المعلومات والاتصالات، والخدمات. والأغلب أن تسفر هذه الجهود عن ظهور آثار خارجية ايجابية، تكون أعلى نسبياً من تلك الآثار التى حققتها الدول العربية حتى الآن. وتصبح المنافشة أكثر اقناعاً عندما نضع نصب أعيننا أن كثيراً من الشروط اللازمة لجذب مستويات أعلى من الإستثمار الأجنبى المباشر "التقليدى" إلى داخل منطقة الشرق الأوسط، من غير المتوقع أن يزداد توافرها فى وقت قريب، نظراً لأسباب هيكلية وأسباب جغرافية- سياسية. ولقد تم بالفعل إتخاذ خطوات للإصلاح فى المنطقة، إلا إنا اتسمت بالبطء؛ وخاصة فى ضوء ارتفاع تكلفة الفرصة البديلة بالنسبة لعامل الوقت، وذلك للدول التى ترتفع لديها نسبة البطالة بين الشباب، الذين تتوافر لدي عدد كبير منهم المهارات الجيدة.

1. Introduction

Foreign Direct Investment (FDI) is capital provided by an investor in one country to an enterprise in another country where the capital consists of any combination of equity, re-invested earnings, and intra-company loans, and involves varying degrees of control over the recipient enterprise (IMF 1993; UNCTAD 2001). Two features are considered central to FDI: 'control' and a 'lasting interest.' These features have been the basis of a distinction increasingly drawn in the literature between FDI and portfolio investment, on the grounds that the latter involves relatively low levels of control and can be short term, thus precluding the generation of economic benefits that can accrue from FDI. Naturally, the distinction between FDI and portfolio investment is not a clear-cut one. Some FDI involves very low levels of control and is reversible in many ways including intra-firm financial transactions (Loungani and Razin 2001). And some portfolio investment can involve a significant controlling interest and can be fairly lasting in duration—features made possible by innovations in international financial instruments over the past decade, such as closed private equity and venture capital funds (Album 1997; Cattanach, Kelley, and Sweeney 2000).

The literature on FDI, however, has tended to draw more and more of a distinction between FDI and portfolio investment, with the former being increasingly associated with the operations of multinational corporations (MNCs), and during the 1990s, mergers and acquisitions (M&A) carried out by MNCs. Now that the dust is settling from the recent market bust, however, two important developments are apparent. One is that recent innovations in financial instruments have created ways of channeling international finance directly to dynamic entrepreneurial firms that are privately held. The other related development is the emergence of some small firms as perfectly viable and competitive dealers on the regional/global business scene, thanks to irreversible economies of scale and efficiency gains (in marketing, distribution, advertising, inventory management, and access to larger markets). These gains were made possible by recent developments in technology.

In the United States, firms employing 100 people or less account for approximately 50% of jobs in the economy and for 60% of net jobs created annually (Fitzgerald and Ribar 2001; Joel Popkin and Co. 2001). These firms accounted for 50% of the share of non-farm GDP in the United States in 1997, and they are known to be more resilient to business cycles than large firms. The experience appears to be similar in many countries at various levels of industrialization including several in the Arab world. Some small firms are good targets for FDI through M&A operations but some are not. Of those that are not good targets in the Arab world today, some have the potential of becoming attractive to acquire, given proper access to finance and some growth. But many of those that do not constitute good M&A targets tend to survive for longer than we think (Kirchhoff 1994) and are perfectly viable economic units as they stand, with the jobs they create, the taxes they pay, and the value-added they contribute. In either case, efforts to attract FDI might be refocused and repackaged to capitalize on small firms.[1]

One way to do so would be through portfolio investment instruments, such as specialized private equity funds that finance small firms. It is interesting to note that through private equity funds, portfolio investment can be promoted without going through stock markets for the time being. A critical mass of firms supported through private funds would eventually serve to create new opportunities and increase investment volume both for Arab stock markets and for 'traditional' FDI. It appears that the missing link is the infrastructure necessary to support the entrepreneur.

Furthermore, while the empirical evidence on the effects of traditional FDI points to clear success cases in industrialized countries and varying levels of success in developing countries, the record for Arab countries has not been impressive. FDI flows to the Arab countries have been the lowest in the world, and, in some cases, FDI appears to have yielded very few of the positive externalities expected. At least with respect to some countries in the Arab world, particularly the non-oil economies, policies complementary to the 'traditional' FDI model might be worth exploring.

This paper suggests a more variegated, even case-by-case look at the way FDI is approached. After reviewing the global and regional picture on FDI, and taking a look at the record for Arab countries, the paper suggests some fine-tuning in the way efforts to attract FDI are structured. For the non-oil economies in particular, where entrepreneurial talent abounds among the highly educated members of the populations, a shift in policy balance is suggested that might re-formulate some FDI incentives for strategic sectors such as information and communication technology, and services. These are sectors already witnessing pockets of innovation in

[1] Not the "micro-enterprises" that Grameen Bank type financing targets.

countries such as Lebanon, Jordan, Syria, Egypt, and Tunisia, and where, unfortunately, the highest 'brain-drain' figures are encountered. Where new budgets cannot be created, part of the resources for the promotion and attraction of traditional FDI might be reallocated to support (or at least to market) new portfolio FDI instruments that target innovative entrepreneurial firms. Such efforts might very well yield relatively higher positive externalities than what Arab countries have reported to date.

The argument becomes even more compelling when we realize that many of the requisite conditions necessary to attract higher levels of traditional FDI to the Middle East are not likely to become more abundant soon, for structural and geopolitical reasons. There has been reform in the region, but it has been slow and time has increasingly high opportunity costs for countries with large proportions of unemployed, fairly well-skilled youth.

This discussion is presented in the form of a concept paper. After reviewing the evidence, and presenting some empirical counterfactuals from Arab countries, I suggest a shift in the approach both in research and policy that would complement efforts to attract traditional FDI. Instead, the building of a financial infrastructure that might yield significant returns through investment in assets with the highest potential for return—the human element with ideas as initial capital, and in need of funds, should be explored. This refers to investments that, on average, could turn out to be comparatively smaller in magnitude than traditional FDI investments. In addition, investments that could be more diversified than traditional FDI, where the risks might not be higher, and where returns are likely should be considered. The IFC-financed Proa Fondo de Inversions de Desarollo de Empresas in Chile is one such example; an example in the Middle East is the Jordan Technology Fund. Many more such instruments are necessary. But for the instruments to succeed, a host of complementary policies and programs must be created, as is suggested below.

First, a look at the arguments for and against traditional FDI seems crucial.[2] The arguments for FDI from the perspective of developing countries can be summarized as follows (Moosa 2002):

FDI is a means of transferring financial capital, technology, and other skills needed by developing countries. The effect can be to boost employment and growth, fill savings and foreign exchange gaps, and strengthen capital markets in recipient countries.

FDI is likely to boost productivity if (i) it is export-promoting, and; (ii) the underlying conditions allow the installation of plants designed to achieve economies of scale. It can help upgrade the skill levels of local workers through training, and provide local firms with increased opportunities by establishing links with local suppliers for locally produced goods.

Unless there are distortions caused by protection, monopoly, and externalities, FDI can raise social welfare and income in the recipient country.

The list of objections to FDI is sizable (Moosa 2002):

MNCs exist and operate primarily because of market imperfections, which preclude conditions under which FDI can improve welfare. MNCs are also often in a position to obtain incentives (from the host country) in excess of the benefits they bring to the host country, exacerbating market distortions. The power they come to wield allows them to engage in monopolistic or oligopolistic practices, which worsen market concentration and can translate into excessive control over various aspects of the host economy.

FDI does not play an important role in technology diffusion because of (i) the inappropriateness of the technology they provide (often too capital-intensive), and; (ii) the availability of cheaper sources of technology. It is argued that R&D activities tend to be concentrated in MNC home countries.

FDI is often blamed for negative balance of payments effects which begin with a sudden deficit when the FDI investment first occurs, and could lead to a protracted deficit in the host country because of profit repatriation.
FDI can reduce employment through divestment and closure of production facilities. Empirical evidence shows that the overall employment effects of activities of MNCs on the host country are small, and that outward FDI destroys jobs in the source country because output of foreign subsidiaries becomes a substitute for exports from

2 "FDI" in this discussion and throughout the rest of the paper refers to what I have defined above as "traditional" FDI.

the home country. FDI has also led to increases in wage inequality in some host countries, and there has been evidence that labor training by MNCs is not appropriate to host countries' labor markets beyond the MNC's activities, and that it is often the case that MNCs reserve key managerial and technical positions for expatriates.

In addition, a series of ideological and socio-political objections are made against MNC-led FDI, related to cultural and political domination, loss of sovereignty, alliances with corrupt elites in developing countries, and disproportionate power and leverage on the part of investor firms.

After presenting a historical overview of FDI flows (Section 2) and a discussion of their regional distribution in Section 3, the situation with respect to Arab countries is discussed in Section 4. Section 5 offers a summary of empirical research on the impact of FDI internationally. In Section 6, some ideas are proposed for new instruments and policies to attract higher levels of FDI to the Arab world. Section 7 concludes the paper.

2. Overview of Global FDI: Origins, Evolution, and Rationale

Britain was the earliest major player in foreign direct investment, which, in the nineteenth century, consisted of lending to finance development projects in other countries and of ownership of financial assets. After the First World War, international capital flows receded, but FDI in particular gained in importance to constitute about a quarter of total flows; Britain ceased to be the major creditor, and the US replaced it as the major economic and financial power. After World War II, FDI began to grow due to technological advancement, as well as to the need for US capital by Europe and Japan to finance reconstruction. This trend continued until the 1960s, when countries started resisting US ownership and control of their industries. The 1970s witnessed lower FDI flows as the USA became a net debtor and major recipient of FDI due partly to the depreciation of the US dollar and to the fact that the US savings rate was low. Japan replaced the US as a major supplier of FDI, mainly to the USA and Europe, and maintained this position until the burst of its "bubble economy" in the early 1990s. Japan also expanded direct investment in South East Asia, where labor is relatively less expensive.

FDI became more important on the global scale after the fall of the Berlin Wall in 1989, and it expanded to new locations and new sectors such as electronics, small computers, and air transport, as well as the infrastructure relevant to these sectors. Regional agreements and the freedom of movement of goods and services have played an important role in this recent expansion, as have international organizations such as the World Bank Group and the IMF. Aggregate flows of FDI from industrial countries more than quadrupled from 1984 to 1990. The major development of the 1990s was that FDI began to involve smaller, 'globalized' firms as opposed to just MNCs. Technological developments created international 'market access' to a greater number of countries as well as a wider range of products, with a notable increase in service products. The 1990s also witnessed a wave of privatization and deregulation; obstacles impeding FDI were being removed, while foreign investors were offered incentives by local governments (Figure 1). The late 1990s witnessed an unprecedented growth in global FDI, from $384.9 billion in 1996, up 80% to $692.5 billion in 1998, or up 230% to $1,270.8 billion in 2000 (UNCTAD 2001), mainly due to the growth of inflows to the US (up 233% from $84.5 billion in 1996 to $281.1 billion in 2000) and the developed countries of Europe (up 451% from $114.9 billion in 1996 to $633.2 billion in 2000) (UNCTAD 2001).

3. The Distribution of Global FDI Flows: Trends and Developments

With 62.6% of global FDI inflows in the run-up to the EU in 1992, a decline to 56.8% in 1997 and an increase to 70% after the Asian crisis, developed countries get the lion's share of FDI. The developed countries' share of global inflows reached 70% in 1998 and 79% in 2000. Developed countries also provide most of global FDI, with about 91% of total outflows in 2000. That same year, the EU, the US, and Japan accounted respectively for 67%, 12%, and 3% of global FDI outflows (UNCTAD 2001).

The residual inflows went mainly to East Asia (9.5% in the year 2000) and Latin America (4.3% in 2000), and increasingly to Eastern Europe (from 0.01% in 1987, to 0.3% in 1990, to 4.3% in 1995, down to 2% in 2000) (UNCTAD 2001)

During 1990–2000, FDI inflows to developing countries increased by 545% from $29.1 billion to $49 billion after remaining almost the same at around $82.6 billion during the debt crisis of the 1980s. During the 1990s, the ratio of FDI inflows to GDP remained constant in the developed countries at 0.9%, but increased from 0.8% to 1.9% for developing countries, indicating that FDI in the developed countries grew with the market, whereas in the developing countries it grew faster, an indication of efficiency seeking FDI expansion. This change is also attributed to improvements in macroeconomic fundamentals and to reduced communication and transaction costs in developing countries, as well as to lower interest rates in the developed countries (Sadik and Bolbol

2001). The share of this expansion going to the Arab countries during the 1990s was negligible, at an average of 2.9%. The regions that captured most of this effect were South America, with an average of 37.5% for the decade, and East Asia, which captured an average of 22.5% (UNCTAD 2001). Figure 2 provides a comparison of FDI flows across regions/countries of interest. The raw data is presented in Appendix B.

By 1994, net resource flows to developing countries had increased 2.7 times from 1989 levels to $220.4 billion. They peaked in 1997 at $343.73 billion, but were disrupted by the East Asian crisis. In 1998, flows to Asia and the Pacific fell by 11% and by 1999 the net flows to developing countries were only at $290.7 billion (Sadik and Bolbol 2001).[3] FDI inflows to developing countries fell sharply between 1997 and 1998 (a 0.5% increase, compared to 65% from 1995 to 1997, 38% from 1993 to 1995, and 122% from 1990 to 1993). Besides the East Asian crisis, one reason for the decline in the FDI share of some developing countries was the increase in the share going toward Central and Eastern Europe, where several countries were preparing to apply for EU membership (Imam 1999). But perhaps more interestingly, the share of FDI going toward some developing countries has declined due to the recent increase in demand for more technologically advanced products: FDI invested in developing countries is concentrated in the labor-intensive manufacturing sector, while the FDI in developed countries is attracted by high levels of skills and knowledge and concentrated in the services and medium and high-technology industries. One view is that soon the developing world's inexpensive labor and incentives will not be sufficient for attracting FDI, and will have to be complemented with an increase in the levels of skills and technology (Imam 1999). This conclusion has important implications as to the type of FDI the Arab world should be looking to attract and/or promote.

FDI flowing from the largest players has tended to be market-seeking, which explains why the bulk of their investments went to large markets: the EU and Canada for the US, the US and the EU for the EU, and the US and the EU for Japan. Such investments are increasingly horizontal, mostly specializing in differentiated service products. When market size is adjusted for, the investment patterns of the large FDI initiators indicate that they favor geographical locations closer to home: Mexico and South America for the US, Eastern Europe for the EU, and East Asia for Japan. Most of this investment is efficiency-seeking and vertical, specializing in products that are at different stages of the production process, and in final products for exports to regional markets (Sadik and Bolbol 2001).

The implication for developing countries that are potential recipients of FDI is that their markets have to either be deep and large enough to attract market-seeking FDI, or they have to be close, skilled, and cheap enough to attract efficiency-seeking FDI. The Arab region does not score well on either of these counts. Despite their total size of 270 million, the combined Arab markets are small because they do not constitute a free trade area, and the individual economies remain largely disjointed from the production chain of major direct investors. One conclusion is that the only viable option for Arab economies is to act as export platforms for low- to medium-technology goods and services. Especially in countries with highly educated populations (Lebanon, Jordan, Tunisia, and in many ways Morocco, Palestine, and some GCC states), the role of "new economy" small firms is key here. In areas such as software production and online service provision, successful firms can contribute to, or integrate into, the production chain of major investors. Only they must first be created and amount to a critical competitive mass. The experience of Indian firms in ICT product delivery over the past ten years is extremely relevant here. Some Lebanese firms have already established themselves as software houses benefiting from language advantages to export to Europe.

Another interesting feature is that the bulk of FDI operations over the past 15 years have taken the form of M&As, 97% of which are better described as "acquisitions," as opposed to "greenfield" investments. This is the case because M&As maximize investor firms' capacity to exploit capital market imperfections, exchange rates, and tax differentials (McCann 2001). The literature contains a sizable debate on the trials and tribulations of keeping transfer pricing fair. Naturally, developing countries tend to prefer the greenfield investments for both real and perceived reasons. M&As accounted for 80% of FDI inflows and 90% of outflows in developed countries. They accounted for 63% of outflows in developing countries, but only for 8.9% of inflows. Since the level of development of the host country determines the supply of target firms, one way of increasing the attractiveness of a country to FDI is to maximize the number of 'acquirable' firms. But the supply of lean and dynamic firms tends to be limited in many developing countries. Remedying this situation also entails leveraging local entrepreneurial talent. In economies like those of Tunisia, Lebanon, Jordan, and increasingly the UAE, entrepreneurs abound who seek "make it" and get "bought out," largely inspired by the U.S. venture start-up culture of the last few years, and mostly educated there as well. What they typically lack is the capital necessary to get them to the stage attractive for acquisition. In 1997, M&As constituted 58% of global FDI. In 1998, 90% of M&As were conducted between developed countries (Yue and Freeman 1999). This surge could

[3] This fall was actually milder than expected, thanks to currency devaluation and FDI liberalization.

be caused by increased corporate competition resulting from liberalization policies in various countries including Europe and the trend for consolidating corporate profit margins, conditions likely to continue for the foreseeable future. Developing countries that are not invested in the types of reforms that facilitate the creation and financing of attractive firms are incurring a double opportunity cost: forgone local growth and job creation, as well as FDI potential. Many of the Arab countries fall in this category for geopolitical reasons, save for a few pockets of innovation that, this paper argues, we need to capitalize on.

Another important development of the 1990s was the growth of private financial flows as emerging capital markets became more sophisticated. Equity investments began to constitute a sizable share of total capital flows (the largest after FDI), followed by portfolio investment, at the expense of bank lending, bonds, other private flows, and official flows. These developments could have important implications as to the evolution of FDI in developing countries, including the Arab world. The nature of the interaction between FDI and private financial flows would be interesting to examine. For instance, if increased financial flows result in a better-prepared terrain for FDI transactions, increased FDI activity could be expected. If, on the other hand, new financial flows are actually displacing funds that would have otherwise constituted FDI flows, a different set of conclusions can be drawn.

4. FDI in Arab Countries

The stock of FDI in the Arab world has been historically low. Between 1914 and 1960, while developing countries received significant shares of global FDI stocks (62.8% in 1914, 65.7% in 1938, and 32.3% in 1960), the Middle East received 2.8%, 2.6%, and 2.8% respectively for the same years. Africa received 6.4%, 7.4%, and 5.5% for the same years respectively (Onyeiwu 2000). Appendix C presents comprehensive figures for FDI inflows and outflows for Arab countries. Table 1 presents the percentage share of FDI inflows for individual Arab countries.

At least two features characterize the position Arab economies have occupied on the world economic and financial arena in recent history and help explain the low levels of capital flows the region has received. The first is the lack of integration of Arab countries into world financial markets, which has meant that the region did not benefit from the surge of capital flows to developing countries in the 1990s.[4] For the last two decades, capital flows into the Arab world remained constant at about $10 billion, while they increased by four times in the developing world as a whole (Sadik and Bolbol 2001). Total capital flows to the region have averaged 2.5% of total flows to developing countries, against a share of GDP of 8% for the region (Sadik and Bolbol 2001). Since 1985, the ratio of FDI to GDP has hovered between 0.5% and 0.75% in the MENA region, whereas it has been over 1% in Asia (Onyeiwu 2000).

The second feature that has hindered capital flows to the Arab countries has been the lack of growth. During 1990–98, the average annual growth rate for the region was 3%, and was mainly driven by the price of oil. In terms of GDP per capita, the region experienced growth stagnation as the population growth rate averaged 2.8% for the same period. The oil economies of the region (and the remaining economies affected by them to varying degrees) have experienced two distinct periods of economic performance: one of growth and one of decline. During 1970–85, the Arab economies' terms of trade (due mainly to the price of oil) tripled, while during 1985–2000, they almost halved. During the first period, Arab per capita GDP grew at an average annual rate of 3.5%, elevating the Arab countries to middle income status, and then declined at an average rate of 1.5% annually in the second period. Subsequently, in the second period, the annual average of Arab investment as a percentage of GDP dropped by 5%, and the Arab countries moved from a net creditor position to a net debtor position (net capital flows as a percentage of GDP were at an annual average of -10.5% during the first period, and increased to 3.5% over the second period). Also, during the 1990s, Arab investment remained constant at about 21% of GDP, while savings fluctuated between 17.6% and 22.47% of GDP, indicating that in comparison with other developing countries, more of Arab net external funds fueled consumption rather than investment. This impedes the enhancement of capital formation and growth (Sadik and Bolbol 2001).

4.1 Some Country Highlights

Taking a closer look at individual cases, six countries are getting the bulk of FDI flows into the Arab World: Saudi Arabia, Egypt, Morocco, Tunisia, Jordan, and Oman[5] (Table 1, Appendix C). FDI investments have mostly gone to the oil sector (Oman), petrochemicals (Saudi Arabia), tourism (especially Egypt), and manufacturing, mainly textiles, metals, and minerals. At the end of the last decade, the ratio of the stock of FDI inflows to GDP in all six countries was comparable to that of the other developing countries at around 16.5%

4 Perhaps the only advantage was that the Asian crisis went largely unfelt in Arab countries due to low levels of portfolio investment.

5 With Bahrain, Qatar, and Sudan moving ahead sporadically.

(UNCTAD 2001). However, the picture differs when figures are presented in terms of FDI inflows as a percentage of GDP across Arab countries (Figure 3).

Saudi Arabia has received annual FDI investments inflows averaging $2.4 billion for the 1980s, $828.5 million for 1990–93, $96.8 million for 1994–97 and $1.5 billion for 1998–2000 (UNCTAD 2001). Saudi Arabia enjoys the richest natural resources of the region (in addition to excellent infrastructure), a developed financial sector, and a good geographic location, but, it is argued, the country does not attract higher levels of FDI because its FDI-related regulatory framework is at times complicated and restrictive for foreign capital (Imam 1999).

Egypt has always been, along with Saudi Arabia, a major FDI recipient among the Arab countries, partly because of the sheer size of its market. The yearly average FDI inflows to Egypt was $860 million for the 1980s, $485 million during 1990–93, $845 million during 1994–97, and $1125 million during 1998–2000 (UNCTAD 2001). With $1.08 billion worth of inflows, Egypt was the second largest Arab recipient of FDI in 1998, when inflows increased by 21% from 1997 levels. This investment went mainly into the tourism, chemicals, construction, engineering, and food, metal, and textile industries (Azzam 1999). Particularly in the case of Egypt, economic and political stability as well as transparency and a good infrastructure appear to be more important than tax incentives in attracting FDI. As an additional incentive, taxes on foreign firms have been lowered recently (Imam 1999).

Morocco also witnessed increased FDI inflows over the past two decades from a $65 million yearly average during 1980s, to $349 million during 1990–93, $580 million during 1994–97 and before declining to $459 million during 1998–2000 (UNCTAD 2001). After being North Africa's largest recipient in 1997, Morocco's share declined by the end of the decade due to the end of its privatization drive (Azzam 1999). Like Tunisia, it is starting to act as an export-platform to the EU, with which it signed a free-trade agreement in 1995.

In 1995, Tunisia signed a partnership agreement with the EU, which has contributed to its economic liberalization and to its ability to attract higher levels of FDI. It is already starting to act as an export-platform for the EU. FDI flows to Tunisia increased from a yearly average of about $157 million over the 1980s to an average of $375 million over 1990–93, to $415 million over 1994–97, to $606 over 1998–2000 (UNCTAD 2001). Approximately 75% of the investments in the late 1990s went to the construction of the Transmed gas pipeline and the rest went to the tourism and textile sectors. In 1998 Tunisia ranked as one of the top five destinations for FDI in Africa for the years 2000–03, for having done well throughout the 1990s, and in 1999, it was singled out by UNCTAD as being among the "African FDI front runners" (Azzam 1999).

Jordan is making progress in economic reform and privatization. It has recently embarked on a new privatization program that is supposed to attract higher levels of FDI (Imam 1999). The privatization of Jordan Telecom Company (JTC) was expected to draw $508 million. Companies have also bid for Jordan's first independent power project. The EU Association Agreement and the extension of the Qualifying Industrial Zone (QIZ) privileges to additional industrial estates will render the country more attractive to FDI (Azzam 1999), as well as Aqaba's new Special Economic Zone, which is expected to lead to more investment in medium and high tech industries. FDI into Jordan has averaged $45.6 million per year over the 1980s, $8.23 million for 1990–93, $98.15 million for 1994–97, and $256 million for 1998–2000 (UNCTAD 2001).

Yearly FDI inflows into Lebanon averaged $1.448 million in the 1980s when the war was still on. But the situation gradually improved in the 1990s, such that yearly inflows averaged $8.485 million in 1990–93, $71.89 in 1994–97, and $210 in 1998–2000. However, FDI only constitutes a small part of capital inflows for Lebanon, an economy that receives high levels of remittances, repatriated capital, and, during the 1990s, placements in treasury bills. Construction and real estate account for a large part of foreign investment in Lebanon, a country generally judged to have a liberal investment climate, where barriers to foreign investment are considered moderate by global standards. For example, Lebanon imposes no performance requirements on foreign firms (HSBC 2002) except in the agricultural sector (*The Heritage Foundation* 2002; *The Wall Street Journal* 2002). The government has worked on creating numerous incentives for local and foreign investors equally, including free zones, and tax incentives for industrial investments in remote areas, especially the South. The risk associated with Lebanon's frontier with Israel has been a major factor playing against the attraction of FDI.

FDI inflows into Algeria have been on a downward trend since the beginning of the 1980s. The yearly average of $34.4 million of the 1990s dropped to $9.74 million for 1990–93, to $8.5 million for 1994–97, to $6.11 million for 1998–2000. (UNCTAD 2001). The security conditions in Algeria have played a significant negative role in a country rich in natural resources.

4.2 The Effect of FDI on Some Arab Countries: Initial Empirical Findings

The shift towards manufacturing, one of the main goals of the reform undertaken by Arab governments, has been modest to date. While the share of manufactured exports out of total merchandise exports was 68% for the

developing world in 1998, it was of 17% for the Arab countries, with the lack of technological preparedness being the biggest impediment (Sadik and Bolbol 2001). But what have been the effects of FDI to date, particularly in the areas of technological advancement and productivity growth and its contribution to capital accumulation?

The Effect on TFP and Technology Transfer

Technology is vital for economic growth, and also leads to capital accumulation, improvements in trade, change in the organization of social relations and the relations of production. The spillover effects of FDI concern leaks to the host country of technology and know-how transferred from the MNC to its subsidiary there. This happens either through labor turnover, or through technical assistance to suppliers and customers, or demonstration effects on local firms in the choice of technology, export behavior, managerial practices, and others. While empirical evidence shows that developing countries attracting more FDI are in a better position to develop a strong manufacturing base and export performance, and thus are better integrated into global production networks, however FDI does not appear to have had that effect in the Arab countries (Sadik and Bolbol 2001).[6]

In a study using data from six Arab countries of Oman, Morocco, Saudi Arabia, Jordan, Tunisia, and Egypt for the years 1978–98, Sadik and Bolbol (2001) find that in the cases of Saudi Arabia, Tunisia, and Egypt, the effect of FDI on growth through TFP is significant and negative. The effect is statistically insignificant with respect to Jordan[7] and unclear in the cases of Oman and Morocco economies whose growth rates are vulnerable to external factors (oil prices in the former and rainfall influencing the large agricultural sector in the latter). In the case of Saudi Arabia, most of FDI is imposed on multinationals by the Saudi government, and as such is optimal neither for the firms nor for resource allocation in the country. The Saudi Offset Program, for example, requires foreign defense contractors to reinvest 25% to 35% of their contract values back into the Kingdom. Also, until lately, the Saudi government prohibited foreign investment in the oil and gas sector. In short, in addition to some investment in consumer goods and light manufacturing, the bulk of FDI was going to "non-optimal" investments (Sadik and Bolbol 2001).

For the years used in the study, FDI in Tunisia was most prevalent in the textile industry, where currently more than half the firms are foreign. But this particular type of FDI does not transfer advanced technology. Moreover, the market for this industry lacks integration, for almost all of the raw materials are imported, and it is excessively competitive and segmented, which makes additional FDI harmful to total factor productivity (TFP) growth (Sadik and Bolbol 2001).

As for Egypt, it is the largest market in the Arab world, and is still fairly protected, which leads to the conclusion that foreign firms attracted to the country to serve its market cause trade-induced distortions, resulting in FDI having a negative effect on TFP (Sadik and Bolbol 2001).

The authors also estimate the private marginal product of capital. They compare this estimate with what they call the actual social marginal product of capital, for Jordan, Tunisia, and Egypt over the years 1978–98, to find that in all three countries, the private marginal productivity of capital is greater than the social marginal productivity of capital. FDI investment is less rewarding to society than it is to the individual concerned, despite imports of advanced capital equipment, due to the lack of adequate absorption of imported technology. The conclusion is that FDI in Arab countries is increasing capital stock without contributing to sustained growth because of distorted incentives, the lack of appropriate institutions and the lack of capacity to absorb technological innovation when it is available. They also conclude that until structural requisites are improved, incentives based on positive externalities from FDI are not justifiable and constitute an unnecessary drag on fiscal budgets. They argue that incentives are justifiable when foreign affiliates face international pressures to innovate, or when the technology gap between foreign affiliates and domestic firms is large. Either scenario would warrant investing in capturing efficiency gains from technology spillovers.[8]

[6] The conclusions of this study are valuable because they are one of the few available empirical results using data from Arab countries. It is worth noting however, that recently, endogenous growth theory has argued that measures of TFP that assume sources of growth to be exogenous may not be reliable. This was the approach used by Sadik and Bolbol.

[7] This is possibly because FDI in Jordan is concentrated in the phosphates and potash minerals sectors and in light consumer goods and tourism services, rather than in medium and high-technology industries.

[8] These conclusions constitute the only results from empirical work done on the subject using cases from the Arab world. The authors themselves note that in general, the effect of FDI on TFP tends to come late, and that in the short and medium run, the only perceivable effect of FDI is on capital accumulation, as was the case in the Asian experience up to the early 1980s (Sadik and Bolbol 2001).

The Effect on Capital Accumulation

Other important effects of FDI on the host country include the positive effect of minimizing the savings and foreign exchange gaps, by encouraging the inflow of capital to the country, be it from another MNC or development aid agency, or by mobilizing domestic savings.

FDI has contributed to an estimated xx% of global capital formation during 1987–97 (United Nations World Investment Report 1999). For the same period, FDI to Latin America contributed an average of xx%, while FDI flows to Asia, and Africa contributed xx% and xx% respectively. As for the Arab world, the corresponding proportion for the period 1987–97 varied between 0.7% and 5.1%. The percentage exceeded 10% only in a few countries: Yemen for the period 1987–92 and in 1993, Tunisia in 1993 and 1994, Egypt in 1994, and Morocco, Jordan, Lebanon, and Saudi Arabia in 1997 (United Nations 1999). Factors usually considered to affect capital outflow from a country include exchange rates, the rate of growth of real GDP, interest rates, inflation and net foreign assets.

Onyeiwu (2000) estimates the effect of these factors on levels of capital outflow, for Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Tunisia, and the United Arab Emirates, for the period 1987 to 1997. He shows that, macroeconomic fundamentals aside, Kuwait is more prone to capital outflows, followed by Lebanon, Egypt, and Saudi Arabia. Jordan, Bahrain, Oman, and the United Arab Emirates are the least susceptible, and the effects are low on average, largely because FDI has always constituted a very small portion of gross fixed capital formation in these countries, with public sector investment playing a major role. In what concerns FDI as a percentage of total capital formation, Egypt, Morocco, and Tunisia are doing better than other Arab countries, especially those not endowed with oil (Imam 1999; Sadik and Bolbol 2001). But the public sector-led growth path is precisely what has kept many Arab markets non-competitive, and especially these countries should consider measures that reduce capital outflows, such as low inflationary monetary and fiscal policies.

5. Summary Conclusions on the International Effects of FDI

The following discussion is based on a review of 42 papers published over the past four years, testing for various effects of FDI. The evidence on the effect of FDI on total factor productivity, technology transfer and capital accumulation is also mixed, based on analyses of data from outside the Arab world. The effect on TFP is unclear, with some positive and some negative conclusions based on the empirical studies conducted to date (Moosa 2002; Djankov and Hoekman 2000). The effect on technology transfer is also unclear, with one study yielding clear positive results (Okamoto 1999), another yielding clear negative results (Saggi 1999) and two studies yielding mixed results, and no evidence at all (Glass and Saggi 1999; Xu and Wang 2000).

The effect of FDI on labor and firm productivity is also mixed with some papers reporting positive findings (Barrel and Holland 2000; Bonelli 1999; Chuang and Lin 1999), others reporting negative findings (Zukowska-Gagelman 2000; Aitken and Harrison 1999) and one yielding mixed qualified results (Hsu and Chen 2000).

The most positive conclusions with respect to the effects of FDI come from studies that look at output and growth, where there appears to be overwhelming evidence of a positive impact (Kearns and Ruane 2001; Fan and Dickie 2000; Asafu-Adjaye 2000; Berthelemy and Demurger 2000; Zhang 1999a and 1999b; Elahee and Pagan 1999; De Andrade-Castro and Teixeira 1999). The effect of FDI on capital accumulation, based on the results of one paper, also appears to be positive (Yabuuchi 1999; Moosa 2002). The impact of FDI on trade flows (Stone and Jeon 2000; Castilho and Zignago 2000; Wilamoski and Tinkler 1999), inter-industry linkages (Chen 2000) and employee training (Walkenhorst 2000) also appears to be positive based on this sample of papers.

Finally, studies of the effect of FDI on employment and wages have yielded three negative results (Driffield and Taylor 2000; Glass and Saggi 1999a; Driffield 1999) and one positive result (Yabuuchi 1999) to date. Clearly, the results above are a function of methodology, quality of data, as well as choices of data, variables and time-periods. The only conclusion we can draw from them at this stage is that we can make few generalizations about the effects of FDI internationally, making it difficult to dispel much of the controversy surrounding it.

6. Leveraging FDI for the Arab World

If and where there are benefits to draw from FDI, Arab countries have experienced recent developments that might allow for a brighter picture in the future. Interestingly, the Arab world has experienced more reliance on private capital flows over recent years, as opposed to grants and official flows of concessional and non-concessional loans. Portfolio equity flows increased from being a negligible percentage of aggregate net resource flows during the 1980s and through the mid-1990s to averaging 16.7% in the second half of the 1990s.

FDI flows averaged 32%[9] for the period 1980–95, peaking in 1993 and 1997 at just over 49% and 46% respectively of aggregate net resource flows. In the second half of the 1990s, FDI flows as a percentage of aggregate net resource flows into the Arab world averaged 32.6%[10], in contrast with 26% for the first half of the 1990s and an average of -9% for the 1980s[11] (World Bank 2001).

In addition, the period from 1985 onward saw a series of economic reform efforts in Arab countries, in the direction of liberalization and diversification. The idea driving the reforms in the Arab world is that the Arab countries, to stand up to the external imbalances and stagnant investment they are facing, are under increasing pressure to attract more FDI. The Arab world needs to finance an aging infrastructure; new projects and technology are needed to diversify the productive structure; and social capital is needed for a young and rapidly growing population and labor force.

Several Gulf countries opened their oil and gas sectors to foreign participation in 1998. A new privatization drive started in 1999 (Azzam 1999). Governments tried to avoid the reliance on resource-based exports and shift towards manufacturing (Sadik and Bolbol 2001). Since the beginning of the 1990s, the Arab governments have been reforming their laws and policies to ameliorate their investment climate. Until June 1999, they had signed more than 280 bilateral agreements to encourage and guarantee investments, out of which 61 are between Arab countries, half of which concern Egypt, Libya, Morocco, and Tunisia. They had also signed 65 double taxation agreements, most of which concern developed countries. Many also signed multinational agreements, such as with the International Center for the Settlement of Investments Disputes and the Arab Investment Guarantee Corporation. MIGA holds the signature of 17 Arab countries, a slightly higher proportion (compared with the total number of countries) than Latin America and the Asia-Pacific regions.

The other clear trend has to do with the recent growth of entrepreneurial Arab companies—many of which started fairly small and achieved a global scale over the past 10–15 years—and with the increasing 'appetite' of Arab finance for such companies. The case of Aramex is one such example, which became the only Arab company listed on the NASDAQ in 1999. However there are others, ranging from non-oil service and manufacturing companies that have become regional giants, like the Al-Mabani Group in Lebanon, and the Juffali Group in Saudi Arabia, and the Atlas Group in Jordan and Palestine, to smaller entities founded over the past few years by dynamic entrepreneurs, such as Cyberia.com, Maktoob.com, and CareersMiddleEast.com. While the latter benefited explicitly from what we have come to know as venture capital instruments, the first three were private equity-financed.

6.1 Creating the Infrastructure to Move Forward

The menu of options is clear: both on the research and on the policy side, the pieces of the infrastructure needed for a 'new' FDI must be designed. There are at least four components to this infrastructure—the choice of target firms, the instruments necessary to promote them, the role of multilateral agencies in supporting the effort, and finally, the role of knowledge, beginning with university teaching of entrepreneurial economics and finance. But first and foremost, the promotion of a 'new' FDI requires a change in orientation on the part of developing countries from 'hosts' and 'recipients' of FDI to 'creators,' 'seekers' and 'attractors' of investment opportunities.

6.2 Focusing on Entrepreneurial Firms

Different from the debates about "picking a winning sector or industry," the idea here would be to leverage all comparative advantage sectors by supporting the most successful firms in those sectors, as well as any other firms that are successful because they are adding net value to the economy. On the research side this effort involves data gathering and studies similar to the ones carried out by the Small Business Administration in the United States, to show the value of small businesses to the economy, track their evolution, and reconsider the strategy if needed. Among the questions that need further research are the degree of FDI funds going to small firms directly, as opposed to through M&As, the scale at which small firms become attractive for M&As in various sectors and the factors that render M&As success and, in turn, attract additional FDI.

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[9] This figure was calculated using data for Algeria, Djibouti, Egypt, Jordan, Lebanon, Morocco, Oman, Syria, Tunisia, Yemen, Bahrain, Iraq, Libya, and Saudi Arabia. It is an average of the figures for 1980, 1989, 1993, and 1994 (World Bank 2001).

[10] This and the figure on portfolio equity flows mentioned above, were calculated using data for Bahrain, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and the United Arab Emirates (World Bank 2001).

[11] The last two figures include data for Algeria, Djibouti, Egypt, Jordan, Lebanon, Morocco, Oman, Syria, Tunisia, Yemen, Bahrain, Iraq, Libya, and Saudi Arabia. The first is an average for the years 1980 and 1989. The second is an average for the years 1993, 1994, and 1995 (World Bank 2001).

On the policy side governments, especially investment promotion agencies (IPAs) have an important role to play in marketing small businesses investment opportunities and products, and in putting them in touch with investors. This type of service is a public good, and requires scale and continuity. It has not been the purview of IPAs traditionally. Mechanisms such as business plan competitions are excellent ways of inviting innovation, and supporting those with the highest chances of succeeding and adding value to the economy.

6.3 The Instruments

Private equity instruments in general and venture capital in particular are nearly as old as time. Queen Isabella of Spain was in many ways a venture capitalist, and she was surely not the first. What is new in this field is the popularization of the use of instruments, and their increased availability and accessibility. For example, the oldest private equity fund listed on the website of the International Finance Corporation dates back to 1989 only. About two thirds were created after the mid-1990s. Some basic research could design different structures for different funds, suggest their sectoral foci for different countries, their size and number, and duration. After having reviewed the performance of such funds internationally, research could determine benchmarks for performance evaluation and further strategy. Research could also determine the role of governments in such funds, if any. Of particular interest for Arab markets would be funds that are regional in scope and small in size. Because such funds allow investors to be involved in several companies at a time, they could trade off control for diversification and possibly lower risk. Combined with the smaller size of investments necessary, these features could make private equity portfolio investments more attractive than 'traditional' FDI.

New instruments would need to be invented for this purpose. One possibility would be the creation of options on equity funds so that large hedge funds could cover their volatility risk (and therefore meet international legislation and regulation). Another would be to offer SWAPS on these funds to reduce the risk of one fund failing. This would require a 'clearing house' such as the IMF or the World Bank to underwrite the exchanges where the derivatives on the funds are traded. Naturally, the management and accountability of such funds would be a critical issue. Of course, there is also the issue of funds leading to the extraction of profits out of developing regions by shipping returns off to host country investors (if investors are not regional investors). Recipient countries may be tempted to force a certain fraction of reinvestment, which would be perceived by the investor as an increase in risk. However, this is a common problem in traditional FDI, and is likely to be more easily diversifiable with private equity instruments.

The role of policy would be to create the legal and regulatory structures that allow the formation of such funds, and to provide the public service of marketing them aggressively, encouraging their use, assessing their effectiveness, and if necessary subsidizing them.

6.4 The Role of Multilateral Organizations

Multilaterals provide expertise and credibility to operations in most countries, and certainly in developing countries. The presence of the IFC as a shareholder in a private equity fund targeting start-up firms in Lebanon, for example, is likely to improve the chances of its creation because other investors would be willing to participate. The presence of IFC as an investor would also make it possible to receive multilateral and bilateral grants to subsidize the operating costs of equity funds. From their perspective, multilaterals such as the World Bank Group in general, could devise a new type of private sector conditionality through such instruments, by linking financing to micro-economic financial fundamentals and 'good business' practices, including environmental friendliness. This would be the policy side.[12]

Research would play a role in assessing the effectiveness of such instruments and evaluating their design, especially in reducing risk. The problem is that this sort of risk is difficult to measure because it is usually more complex than just the variance of returns since it involves subjective probabilities of default. There is some new research on measuring default risk. The requirements of good accounting practices and proper auditing are likely to be the biggest payoff—even in these post-ENRON days.

6.5 The Role of Knowledge Management

Beginning with research and teaching of entrepreneurial economics and finance to creating programs that encourage new firm creation, universities have a key role to play. Universities can act as think tanks and clearing houses of information in developing regions, a role that might be undervalued at present because it is taken for granted. An important factor in the rapid development of the agricultural sector in the mid-western USA were the Agricultural Extension Offices created at the Land Grant Colleges throughout the country in the mid 1800s. These centers essentially turned a group of 'sod busters' into a highly educated and mechanized

[12] In terms of creating awareness, activities such as the World Bank's Mediterranean Knowledge for Development conference and the World Economic Forum's idea of creating a regional conference are important efforts in this direction.

agricultural sector. A modern equivalent of this program in the Arab world could turn out to be just as important.[13] An equivalent could take the form of local/regional centers created for small businesses to get help on accounting practices, marketing, and so on, and would have a large impact on the economies of the region. Equity funds that tie their loans to firms that participate in education programs at such centers could yield positive externalities the region does not seem to have obtained from FDI.

The role for research here is to assess the continuum of knowledge provision in this field, and evaluate its effectiveness in adding value to the economy. The role of policy is to encourage (even subsidize such activities where necessary) but most importantly to ensure that they contribute to the primary goal of maximizing the chance of creating successful new businesses that attract finance, and rendering existing firms more attractive for investment.

7. Conclusion

After reviewing the record on FDI internationally and in Arab countries, this paper has shown that the performance in Arab countries has been well below international averages. Some of the reasons for this have been discussed, based on available empirical evidence to date. The paper has also offered a summary review of FDI effects and found that many of the objections to FDI cannot be dispelled based on empirical results to date. Also internationally, the evidence on the impact of FDI is mixed.

Given these findings, the paper suggests a shift in the policy balance on FDI toward more of a focus on portfolio investment in the Arab world. The bases of this recommendation are: (1) the lack of clear evidence that MNC-dominated FDI has yielded the expected positive externalities both in Arab countries and internationally; (2) the low likelihood that Arab countries will rapidly correct some of the conditions that have discouraged MNC-led FDI to date, or that they will succeed to absorb the levels currently flowing; (3) the increased sophistication in international financial instruments; (4) the increased portfolio investment, financial flows and financial sophistication and 'appetite' in Arab markets; and finally, (5) the clear need to promote innovative entrepreneurial firms as engines of growth, of which we already have some solid success stories. Based on these findings, creating and leveraging new financial instruments like private equity funds to promote FDI in the Arab world is proposed. Such efforts have the potential of reinforcing all forms of FDI because they can render Arab markets and firms more attractive.

[13] Examples are the entrepreneurship program and business plan competition launched in 2001 in Lebanon.

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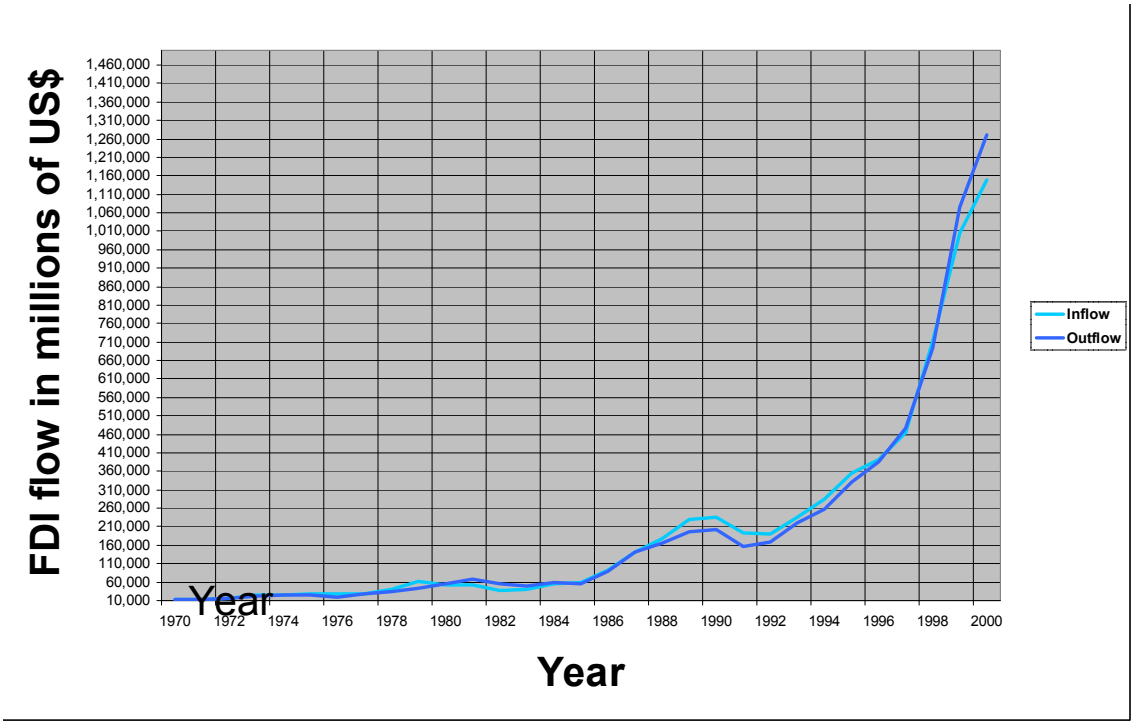
Table 1: Percentage of Arab Country FDI Inflows out of Regional Total

Region/Country	1981–1985	1986–1990	1991–1995	1996	1997	1998	1999	2000
Arab countries	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Algeria	-0.12%	0.42%	0.78%	0.12%	0.10%	0.06%	0.23%	0.11%
Bahrain	1.03%	1.81%	47.46%	61.74%	4.68%	2.18%	14.82%	9.29%
Comoros	0.00%	0.18%	0.11%	0.06%	0.03%	0.02%	0.03%	0.04%
Djibouti	0.00%	0.00%	0.28%	0.15%	0.07%	0.07%	0.17%	0.09%
Egypt	10.47%	64.61%	65.44%	19.17%	12.68%	13.06%	35.23%	22.95%
Iraq	0.01%	0.24%	0.19%	0.00%	0.01%	0.08%	-0.23%	0.00%
Jordan	1.03%	1.45%	1.10%	0.48%	5.14%	3.76%	5.23%	5.57%
Kuwait	0.01%	-0.06%	0.46%	10.46%	0.28%	0.72%	2.38%	0.30%
Lebanon	0.04%	0.24%	3.27%	2.41%	2.13%	2.43%	8.27%	3.34%
Libyan Arab Jamahiriya	-4.14%	1.15%	-7.88%	-4.07%	-1.17%	-1.85%	-4.23%	0.00%
Mauritania	0.13%	0.24%	0.74%	0.15%	0.04%	0.00%	0.07%	0.04%
Morocco	0.76%	5.75%	39.33%	10.76%	5.35%	3.99%	28.02%	3.73%
Oman	2.19%	6.29%	5.41%	1.81%	.92%	1.23%	0.69%	1.15%
Qatar	-0.02%	-0.24%	9.72%	10.22%	5.95%	4.21%	4.76%	5.63%
Saudi Arabia	84.88%	8.17%	-150.53%	-34.04%	43.31%	52.06%	-25.87%	18.58%
Somalia	-0.08%	-0.12%	0.10%	0.00%	0.00%	0.00%	2.02%	0.37%
Sudan	0.15%	-0.24%	-0.01%	0.00%	1.39%	4.50%	12.27%	7.28%
Syrian Arab Republic	0.11%	4.05%	11.14%	2.68%	1.14%	0.97%	3.01%	1.56%
Tunisia	3.17%	4.66%	43.44%	10.58%	5.21%	8.13%	12.17%	14.51%
United Arab Emirates	0.22%	3.27%	37.13%	9.07%	3.30%	3.07%	-0.43%	1.86%
Yemen	0.00%	-1.57%	-7.58%	-1.81%	-1.98%	-3.23%	-10.88%	-3.73%

Source: UNCTAD 2001

Figure 1: World FDI flows



Source: UNCTAD 2001

Figure 2: Regional Distribution of Aggregate FDI Inflows 1991-2000 (In billions of USD)

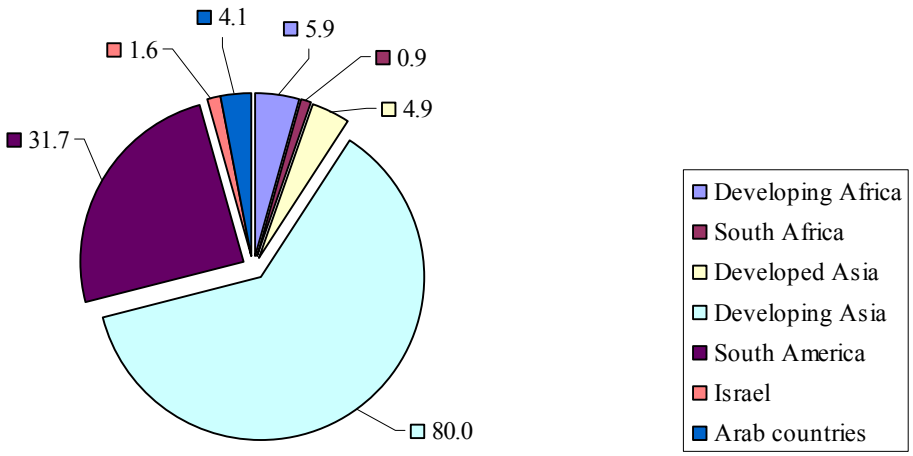
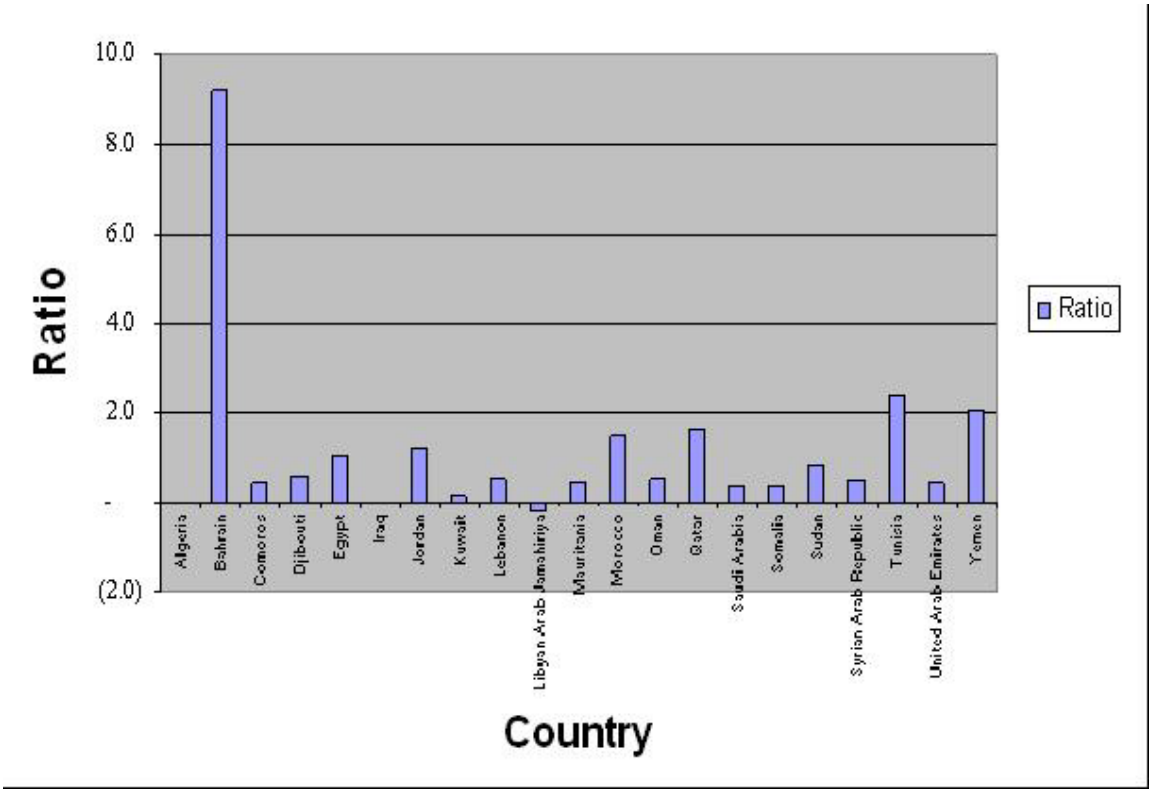


Figure 3: Ratio of FDI Inflows of GDP



Appendices

Appendix A: World FDI Flows (in millions of USD)

Year	Inflows	Outflows	Year	Inflows	Outflows
1970	14,143	12,542	1986	92,663	88,425
1971	14,478	13,711	1987	140,258	141,738
1972	15,783	14,613	1988	177,751	164,598
1973	25,948	20,702	1989	229,262	196,118
1974	24,094	25,657	1990	234,886	202,297
1975	28,405	25,850	1991	194,139	155,583
1976	28,337	20,113	1992	189,393	168,501
1977	28,539	26,855	1993	236,391	221,855
1978	39,466	34,135	1994	285,612	256,518
1979	62,679	43,194	1995	355,284	331,068
1980	52,699	54,725	1996	391,554	384,910
1981	53,300	69,299	1997	466,030	477,918
1982	36,650	57,303	1998	711,914	692,544
1983	39,686	49,856	1999	1,005,782	1,075,049
1984	54,708	59,714	2000	1,149,903	1,270,764
1985	58,572	56,583			

Source: UNCTAD 2001

Appendix B. Global Distributions of FDI Flows (in millions of USD)

Region/ Country	FDI flow	1976-1980	1981-1985	1986-1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	Inflows	35,805	58,551	158,635	155,583	168,501	221,855	256,518	331,068	384,910	477,918	692,544	1,075,049	1,270,764
	Outflows	42,344	48,583	174,964	194,139	189,393	236,391	285,612	355,284	391,554	466,030	711,914	1,005,782	1,149,903
Developed Countries	Inflows	28,005	38,495	130,545	109,088	105,401	132,683	145,041	203,462	219,688	271,378	483,165	829,818	1,005,178
	Outflows	41,634	45,302	163,604	182,797	166,988	197,071	240,376	305,847	332,921	396,868	672,027	945,687	1,046,335
Developing Countries	Inflows	7,784	20,037	27,872	43,971	58,664	82,424	105,545	113,338	152,493	187,352	188,371	222,010	240,167
	Outflows	694	3277	11338	11303	22330	39029	44,951	48,987	57,584	65,745	37,750	57,978	99,546
E.U.	Inflows	14,185	14,199	58,127	73,634	70,459	68,972	76,933	113,480	109,642	127,626	261,141	467,154	617,321
	Outflows	36,363	71,918	197,542	101,867	90,433	86,656	120,733	159,036	183,180	220,416	454,266	720,052	772,949
U.S.	Inflows	7,526	18,581	54,346	22,799	19,222	50,663	45,095	58,772	84,455	103,398	174,434	294,976	281,115
	Outflows	17,059	10,975	24,968	32,696	42,647	77,247	73,252	92,074	84,426	95,769	131,004	142,551	139,257
Japan	Inflows	134	334	329	1286	2760	119	912	39	200	3,200	3,268	12,741	8,187
	Outflows	2,260	5,100	33,392	31,620	17,390	13,834	18,089	22,508	23,442	26,059	24,152	22,743	32,886

Source: UNCTAD 2001

Appendix C:FDI Flows for Arab Countries (in millions of USD)

Region/ Country	FDI flow	1976-1980	1981-1985	1986-1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
World	Inflows	35,805	58,551	158,635	155,583	168,501	221,855	256,518	331,068	384,910	477,918	692,544	1,075,049	1,270,764
	Outflows	42,344	48,583	174,964	194,139	189,393	236,391	285,612	355,284	391,554	466,030	711,914	1,005,782	1,149,903
Arab countries	Inflows	-425	32,884	1,653	2,166	3,414	4,442	3,438	235	3,317	7,029	8,238	3,023	5,382
	Outflows	205	156	954	-1	1,157	137	-1,195	-928	2,228	-191	-1,766	99	677
Algeria	Inflows	175	-39	7	12	12	15	18	5	4	7	5	7	6
	Outflows	12	12	5	50									
Bahrain	Inflows	-49	339	30	619	869	-275	208	431	2,048	329	180	448	500
	Outflows		6	12	50	53	39	199	-16	305	48	181	163	131
Comoros	Inflows			3	3	-1	0	0	1	2	2	2	1	2
	Outflows				0									
Djibouti	Inflows				0	2	1	1	3	5	5	6	5	5
	Outflows													
Egypt	Inflows	450	3,443	1,068	253	459	493	1,256	598	636	891	1,076	1,065	1,235
	Outflows	8	10	14	62	4		43	93	5	129	46	38	51
Iraq	Inflows	2	4	4	-3	8	1	0	2		1	7	-7	0
	Outflows													
Jordan	Inflows	24	338	24	-12	41	-34	3	13	16	361	310	158	300
	Outflows	1	1	-2	14	-3	-53	-23	-27	-43	181	121	5	102
Kuwait	Inflows	1	2	-1	1	-35	13	0	7	347	20	59	72	16
	Outflows	95	72	547	-186	1,211	653	-1,515	-1,022	1,740	-969	-1,867	23	254
Lebanon	Inflows	1	14	4	2	18	7	23	35	80	150	200	250	180
	Outflows		7	5	6	-3	-2	-2	-2	-2	-3	-5	-1	-4

Appendix D: Ratio of FDI Inflow to GDP

Region/Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Avg 1991 - 2000
Algeria	-	-	-	-	-	-	-			-	
Bahrain	14.0	18.1	(5.5)	3.9	7.8	35.3	6.0	3.6	8.5	-	9.2
Comoros	1.0	(0.5)	0.1	0.1	0.4	0.9	1.0	1.0	0.5	-	0.5
Djibouti	-	0.5	0.3	0.3	0.7	1.0	1.0	1.2	1.0	-	0.6
Egypt	0.7	1.1	1.0	2.4	1.0	0.9	1.2	1.3	1.2	-	1.1
Iraq	-	-	-	-	-	-	-	0.1	(0.1)	-	-
Jordan	(0.3)	0.8	(0.6)	-	0.2	0.2	5.2	4.2	2.1	-	1.2
Kuwait	-	(0.2)	0.1	-	-	1.1	0.1	0.2	0.2	-	0.2
Lebanon	-	0.3	0.1	0.2	0.3	0.6	1.0	1.3	1.6	-	0.5
Libyan Arab Jamahiriya	0.3	0.3	0.2	(0.3)	(0.4)	(0.4)	(0.2)	(0.6)	(0.5)	-	(0.2)
Mauritania	0.2	0.6	1.7	0.2	0.7	0.4	0.3	.	0.2	-	0.4
Morocco	1.1	1.5	1.8	1.8	1.0	1.0	3.2	0.9	2.4	-	1.5
Oman	1.2	0.8	1.1	0.6	0.2	0.4	0.4	0.7	0.1	-	0.6
Qatar	0.6	0.5	1.0	1.8	1.1	3.7	4.5	2.5	0.8	-	1.7
Saudi Arabia	0.1	(0.1)	1.2	0.3	(1.5)	(0.8)	2.1	3.3	(0.6)	-	0.4
Somalia	-	-	0.2	0.1	0.1	-	-	-	3.6	-	0.4
Sudan	-	-	-	-	-	-	1.0	3.6	3.7	-	0.8
Syrian Arab Republic	0.5	0.1	0.8	1.7	0.6	0.5	0.5	0.1	0.1	-	0.5
Tunisia	1.3	3.8	4.5	3.6	2.1	1.8	1.9	3.4	1.7	-	2.4
United Arab Emirates	0.1	0.4	1.1	0.2	1.0	0.7	0.5	0.6	-	-	0.5
Yemen	5.8	13.0	19.3	0.4	(5.4)	(1.1)	(2.1)	(4.4)	(4.9)	-	2.1

Source: UNCTAD 2001

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