Executive Summary

INVESTMENT CLIMATE IN ARAB COUNTRIES 2010

September 2011

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(Dhaman)

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المؤسسة العربية لضمان الإستثمار وائتمان الصادرات
The Arab Investment & Export Credit Guarantee Corporation

The Arab Investment and Export Credit Guarantee Corporation (Dhaman) is an autonomous Arab regional organization established in 1974, in accordance with a multi-lateral Convention signed by all Arab states, deposited with the Ministry of Foreign Affairs in the State of Kuwait. With its headquarters in Kuwait and a regional office in Riyadh, Dhaman commenced its operations in mid-1975, encompassing in its membership all Arab states, and a number of Arab international organizations.

In accordance with its establishment convention, Dhaman has two key objectives which are to provide insurance coverage against non-commercial risks for inter-Arab and foreign investments in development projects, in the Arab countries. Furthermore, Dhaman provides insurance against commercial and non-commercial risks, for inter-Arab and worldwide Arab export credits, and to raise awareness of investments in Arab countries by means of a group of complementary activities and ancillary services, aiming at enhancing the business environment & investment climate; identifying available investment opportunities, and developing human capital in Arab countries.

In fulfillment of such objectives, Dhaman provides, wholly or partially, finance to insured operations through factoring, debt collection, insuring bonds, franchises, licenses, and intellectual property rights. In addition to possessing shares and equities in the Arab public and private national guarantee agencies, establishing information corporations, establishing or co-establishing special investment funds owned by governments or institutions in contracting countries.

On April 11th, 2011, Standard & Poor's Rating Services affirmed its "AA" rating for Dhaman's counterparty credit rating as well as its financial strength rating as an insurer. However due to Dhaman's exposure in some Arab countries with political uncertainties, in terms of insured transactions, S&P revised its outlook to "negative" from "stable". Dhaman obtained the same long-term rating on March 25th, 2010, with a "stable" outlook.

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Preface

The **"Investment Climate in Arab Countries 2010"** report is the 26th in a series published by the Arab Investment & Export Credit Guarantee Corporation (**Dhaman**) since 1985. The report aims to deepen the understanding about the investment climate in Arab countries, its components, performance and trends. Prepared by the research and studies division at Dhaman, the report provides a true insight into the reality of the investment climate in the region.

The report features latest developments, improvement or backlash elements in the investment climate, and country promotion efforts targeting more investment flows to the region, Taking into account the impact and repercussions of the ongoing political developments witnessed at the country level, and for all Arab countries collectively. The report depended mainly on hard data provided by official and authentic country sources in member states. Data deficiencies were completed from the databases of international sources.

The report contains two main parts. The 1st part reflects the key components of investment climate, including the significant political developments, highlighting internal issues, Arab joint action, inter-Arab, regional & international relations. It also tackles economic developments covering; growth rates, internal & external balances, inflation rates, exchange rates, and main updates in Arab stock markets.

This year's report introduces a new chapter for the first time, ***"Foreign Indirect Investments in Arab countries (flows and stocks)"***, focusing on portfolio investments. The report also reviews inter-Arab investment flows, estimations of FDI flows, inter-Arab & foreign trade, policy and legislation developments, and new economy components. In addition to bilateral and multilateral agreements, sovereign ratings, country risk and other ratings in selected international indices closely associated with investment environment, particularly, the Ease of Doing Business Index issued by the World Bank. As a continuation to the chapter introduced last year, this year's report includes ***"Investment Flows Outlook, 2011"***, which features the latest investment flow trends for the current year, and future prospects globally and for Arab countries individually.

The 2nd part covers the main theme of this year's report: ***"Maritime Transport in Arab Countries: their performance in light of the global developments"***. This topic comes in correspondence with the increase interest of Arab countries in the growth and development of this sector, and the increase of investments in it, whether governmental or private, seen in the launch of several mega projects in this sector. Maritime transport plays a pivotal role in the economic and social development of countries and economic openness to the world. The maritime transport sector plays a major role in the world's economic activity, stimulating economic growth and providing financial strength, as well as, contributing to FDI flows, trade, tourism, employment and increasing the overall economic efficiency of Arab countries.

Furthermore, the report provides a statistical profile **"FDI at a Glance"** containing recent economic data and indicators, charts showing the recent performance of (inward/outward) foreign direct investment flows in the Arab countries and FDI data by economic sector. Also, data tables of FDI inflows distributed by the host country. In addition, this section provides updated information related to Arab Investment Promotion Agencies (IPAs) logos, websites, addresses, and contact numbers. Due to differences in the degree of response from member countries, these factsheets may vary from one country to another.

Investment Climate Composite Indicator:[1]

This year's report reveals that the investment climate in Arab countries is stabilizing and recovering from the global financial & economic crisis which affected it in the past few years. This is shown in the strong increase of the Composite Indicator of Investment Climate to reach 1.30 in 2010, compared to 0.70 a year earlier. This increase comes as a result of the increase in the sub-indices: External balance index (current account balance as a percent of GDP), to 2.5 in 2010, from -2.0 in 2009. Internal balance index (budget deficit or surplus as a percent of GDP), to -0.4 in 2010, from -3.4 in 2009. On the other hand, the Monetary policy index (measured by the inflation rate based on Consumer Price Index-CPI prevailed in each Arab country) increased, to reach reached 4.8 in 2010, from 2.96 in 2009.

Based on the data available from a total of 19 Arab countries, the external balance index improved in 17 Arab countries and deteriorated in 2 countries, while the internal balance index improved in 13 countries and deteriorated in 6 countries. Nevertheless, inflation decreased in 6 Arab countries, and increased in 13 countries, ranging between 0.90% and 13.00% in 18 countries, while one country witnessed a deflation of 2.40%.

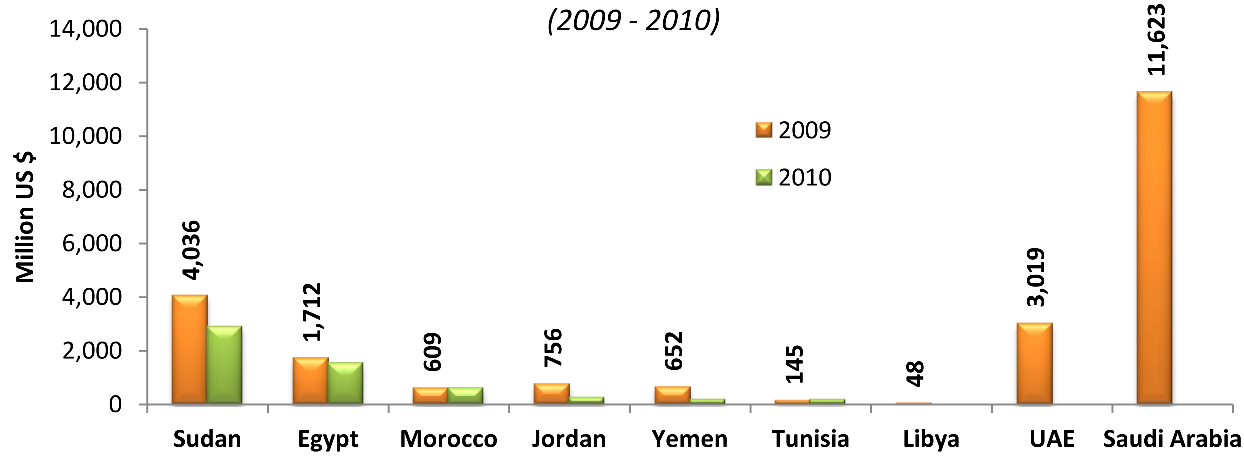
[1] **Statistical Appendix:** ***Table (1)***

Inter-Arab Direct Investments (2010 Estimates):[2]

According to data collected by Dhaman from 6 Arab countries, inter-Arab direct investments totaled only US$ 5.7 billion in 2010 compared to US$ 7.9 billion received by the same 6 countries in 2009. This reflects a decrease in inter-Arab inflows of 28% throughout the year 2010. However, by using the data available for 9 Arab countries[3] in 2009, inter-Arab direct investments reached US$ 22.6 billion during the year 2009. In comparison to that figure, this reflects a severe decline of 75%.

Based on the data for the six countries which provided data for both years 2009 and 2010, inter-Arab direct investments increased in only two countries. Looking at ***Figure (1)***, it is evident that the largest share of inter-Arab direct investments in 2010 was directed to Sudan, with a value of US$ 2.9 billion, followed by Egypt, Morocco, Jordan, Yemen and Tunisia.

Figure (1): **Inter-Arab FDI Inflows** *(2009 - 2010)*



As a result, accumulated stock of inter-Arab direct investment increased to reach around US$ 164.8 billion over the period of 1995-2010. Compared to flows of US$ 1.43 billion in 1995, inter-Arab direct investments amounted to US$ 5.7 billion in 2010. Saudi Arabia tops the list of Arab countries in terms of inter-Arab investment flows during 1995-2010, with an accumulated total of US$ 64.3 billion, followed by Sudan with US$ 23.3 billion, Lebanon US$ 14.8 billion, Egypt US$ 14.4 billion and UAE with US$ 11.3 billion, totaling altogether around US$ 128.2 billion or more than 78% of total inter-Arab direct investments during the period 1995-2009.

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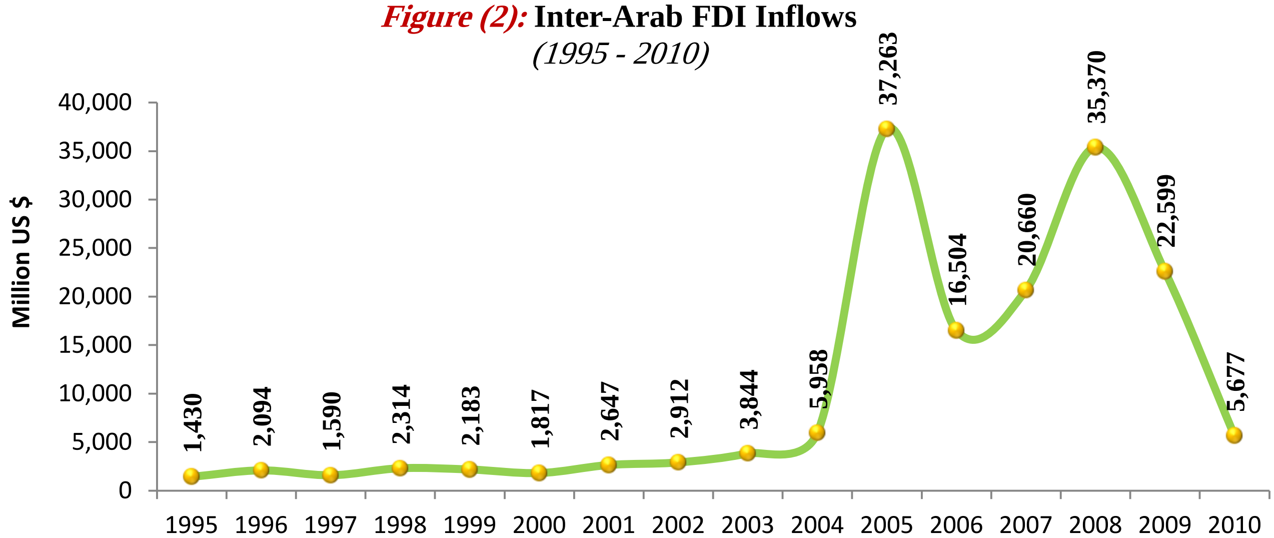
[2] **Statistical Appendix:** ***Table (2)***

[3] **The list includes 5 Arab countries which failed to provide Dhaman with data for inter-Arab investments in 2009.**

Figure (2): **Inter-Arab FDI Inflows**
(1995 - 2010)



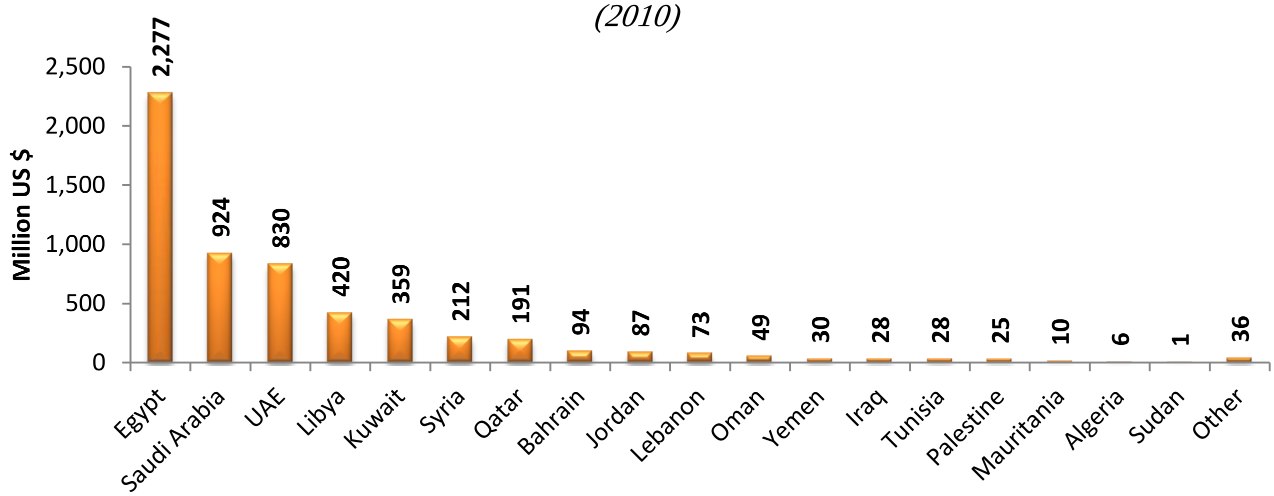
It is evident from ***Figure (2)*** that inter-Arab direct investments have grown slowly but steadily over the period of 1995-2004. Afterwards, they increased sharply in 2005, such a sudden rise may mainly be attributed to higher international oil prices during the past few years on one hand, and the general trend in policy changes over the same period, suggesting the reduction of FDI restrictions and a more welcoming investment climate, as well as the elimination of most tariffs amongst the 17 members of GAFTA (Greater Arab Free Trade Area) in January 2005, which was the peak point of inter-Arab direct Investment flows for the entire period. Then in 2006, flows decreased in comparison to their level in 2005, however this level was still more than doubled that of the 2004, and there has been a continuous increase ever since, until the years 2009/2010 where the repercussions of the global economic and financial crisis played a major role in the decline of Inter-Arab FDI inflows.

Depending on the available geographically distributed data on the inter-Arab direct investment, reported by 6 Arab host countries (Liabilities or inwards) for 2010, the mirror data reflect the inter-Arab direct investment by investor's country of residence (Assets or outwards).

Figure (3)[4], shows that Egypt topped the FDI source countries, accounting for US$ 2.3 billion, or 40% of total inter-Arab direct investment hosted by 5 Arab countries. The runner up was Saudi Arabia, which accounted for US$ 924 million, or 16%, hosted by all 6 countries, followed by UAE with its contribution of US$ 830 million, or 15%, hosted by all 6 countries, then Libya with US$ 420 million and 7.4%, Kuwait with US$ 359 million and 6.3%, Syria with US$ 212 million and 3.7%, and Qatar with US$ 191 million and 3.4% of the total inter-Arab investments. These seven Arab countries alone had a combined total value of US$ 5.2 billion, and their shares accounted for 92% of total inter-Arab direct investment outflows.

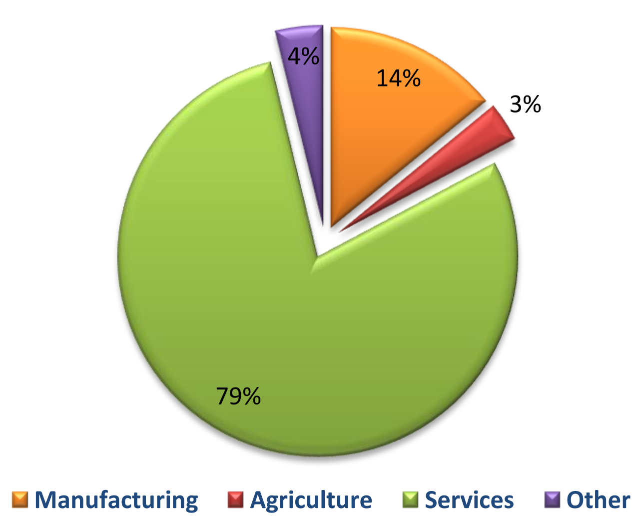
[4] **Statistical Appendix:** ***Table (4)***

Figure (3): **Inter-Arab FDI, by Source Country**
(2010)



As for inter-Arab direct investments breakdown by sector, this year's report witnessed an extremely weak response rate for inter-Arab investments, 6 out of 21 countries, of which, only 4 countries provided a breakdown of their figures by major economic sectors with a total value of US$ 3.9 billion. This breakdown, ***Figure (4)***[5], reaffirms a pattern where the majority of inter-Arab direct investments continue to be directed towards the manufacturing and service sectors. The Services sector accounted for the majority of the investments with 79% of total inter-Arab direct investments, followed by the manufacturing sector with 14%, then other sectors with 4%, and the agriculture sector accounted for a share of only 3%.

Figure (4): **Inter-Arab Direct Investments Inflows by Sector**
(2010)



[5] **Statistical Appendix:** ***Table (5)***

FDI inflows to the Arab Countries (2010 Estimates):

It is very important to clarify which type of information Dhaman works with. Dhaman obtains its data from official contact points in Arab countries and some official governmental websites. However, sometimes Dhaman is provided with two sets of data for some Arab countries as follows;

1. FDI data from the Investment Promotion Agencies (IPAs). This data represents "licensed" investment projects, which may have not even started operating yet. This data in itself doesn't necessarily represent the actual flows of FDI, therefore the flows of capital, may have not actually crossed international borders.

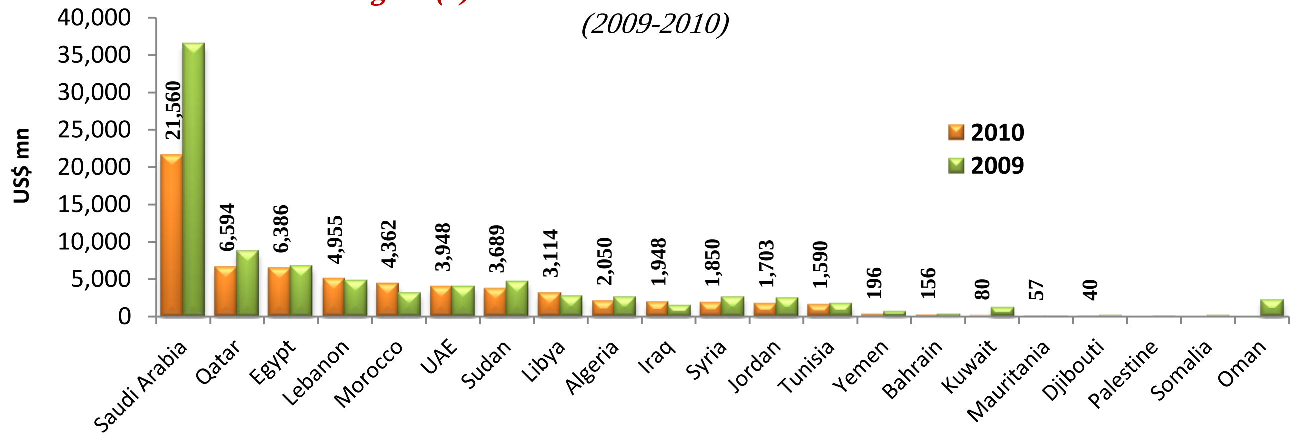
2. FDI data from the Arab countries' official Balance of Payments estimates. This data represents the actual flows of capital which crossed international borders and started to engage in activity.

Arab countries have continued to apply reforms to strengthen and liberalize the region's economies, in order to make them more attractive to foreign capital, as a matter of fact, the rapid growth of Arab countries in the past decade has attracted, and been facilitated by FDI flows, which has increased substantially in recent decades. The global FDI in 2010 has yet to fully recover from the crisis and reach its pre-crisis levels. Based on the information provided from Arab countries, preliminary estimates of FDI by 18 out of 21 Arab countries, report a total FDI inflow of US$ 64.3 billion during 2010. The same group of 18 countries reported a combined FDI inflow of US $ 83.9 billion during 2009, which represents a decrease of 23.4% throughout the year 2010 for that group of countries. However, Dhaman was able to obtain data on all 21 Arab countries for the year 2009, where FDI inflows amounted to US$ 86.3 billion, compared to this figure in 2009, Arab countries witnessed a 25.5% decrease in FDI inflows during 2010.

By looking at the data of countries individually, in which FDI inflows to Arab countries are depicted, ***Figure (5)***[6] shows that only 5 out of 18 countries with the data for both years have witnessed an increase in attracting FDI flows during 2010, on the other hand, 13 Arab countries witnessed a decline in their FDI inflows. The conditions in FDI declines and increases varied vastly from one country to another. The increases varied from US$ 1.3 billion in Morocco, to a US$ 60 million increase in Mauritania. While the decline varied from an astonishing US$ 14.9 billion in Saudi Arabia to a decline of US$ 54 million in UAE.

[6] **Statistical Appendix:** ***Table (6)***

Figure (6): Global FDI inflows to Arab Countries
(2009-2010)

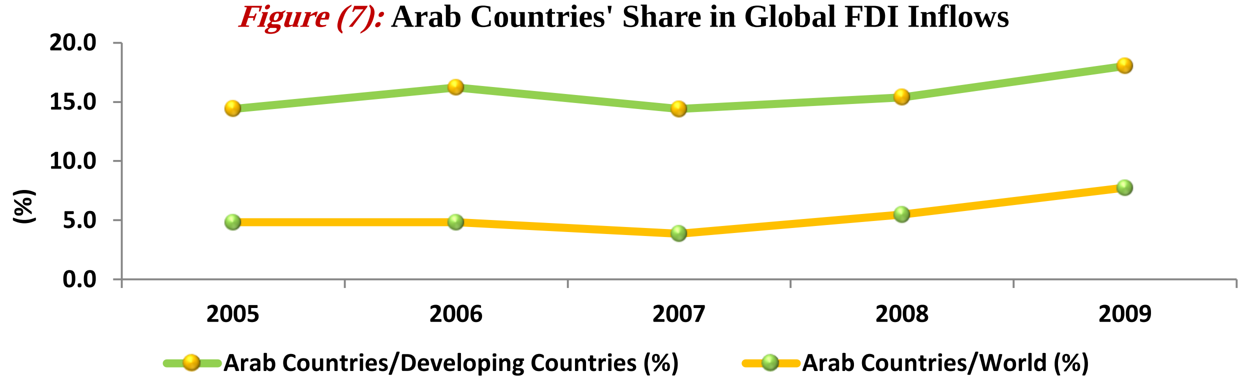


The top five countries combined, accounted for 68% of total FDI inflows to the Arab region. Topping the list was Saudi Arabia with US$ 21.6 billion, then Qatar with US$ 6.6 billion, Egypt US$ 6.4 billion, Lebanon US$ 5.0 billion, and Morocco with US$ 4.4 billion.

Based on UNCTAD's annual World Investment Report 2010 (covering 2008), FDI inflows to the Arab countries have been experiencing continuous growth, which reached a record high of US$ 96.9 billion in 2008, compared to US$ 81.3 billion in 2007, increasing by 19.2% in 2008.
During the year 2009, FDI inflows to Arab countries accounted for 7.7% of global FDI inflows (US$ 1,114 billion), and for 18% of global FDI inflows to developing countries (US$ 478 billion), in comparison to 5.5% and 15.4% respectively a year earlier.

Over the period 2000–2009, FDI stock accumulated from inflows to the Arab countries reached US$ 446.9 billion, i.e. 3.9% of global FDI flows, and accounting for 12.5% of flows to developing countries for the same duration, recording an average annual growth rate of 34.3% for the same period.[7] Arab countries have undoubtedly managed to increase their share in the global FDI flows over the past decade, shooting up from a mere 0.40% of the world's FDI in 2000, to reach a record high of 7.7% in 2009. This also applies to Arab Countries' share in the developing countries' FDI inflows, where Arab countries' accounted for 2.4% of developing countries FDI in 2000, then reached a record high of 18.0% in 2009.[8]

Figure (7): Arab Countries' Share in Global FDI Inflows



[7] Statistical Appendix: *Table (7)*
[8] Statistical Appendix: *Table (8)*

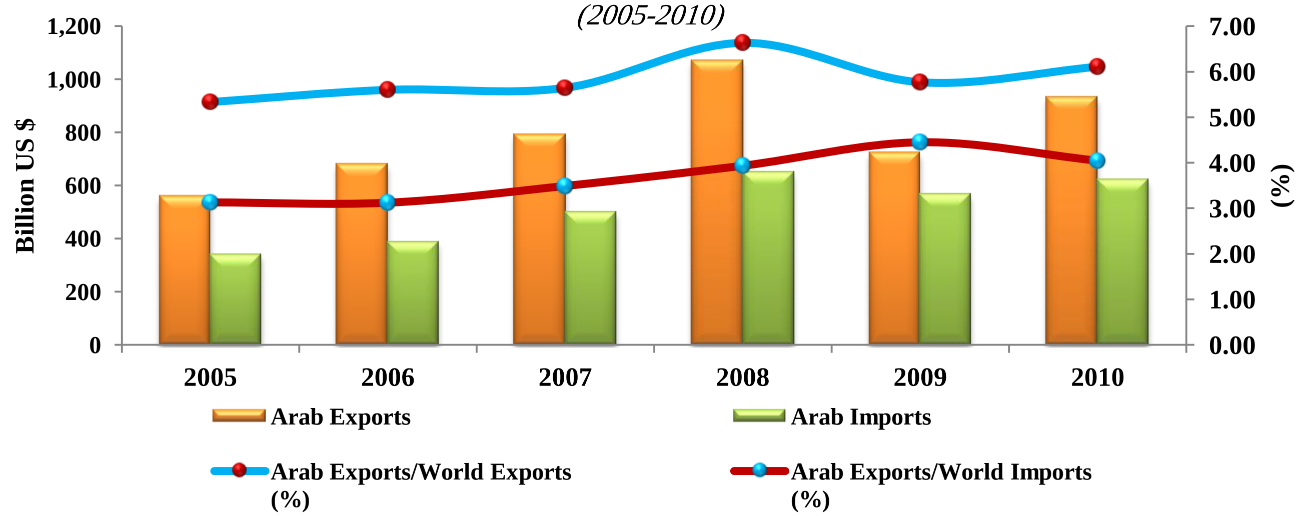
Trade [9]

International trade has always been one of the most important branches of economic activity. According to WTO estimates (April 2011), world trade is expected to witness a 6.5% growth rate during the year 2011. According to preliminary estimates by the WTO (2010), and official data from national Arab contact points, it is clear to see that Arab countries have managed to start overturning the repercussions of the economic and financial crisis, which affected the global foreign trade. In 2010, Arab foreign trade in current prices, increased by around 20.5% from the previous year. Total Arab foreign trade, (excluding Palestine & Somalia), amounted US$ 1.6 trillion, of which exports accounted for 59.9%, i.e. US$ 931 billion, and imports accounted for 40.1%, i.e. US$ 622 billion, compared to a total Arab trade value of US$ 1.3 trillion in 2009 (of which exports' value was US$ 723 billion and imports' value was US$ 566 billion).

Arab Countries' Share in World Trade						
	2005	2006	2007	2008	2009	2010
Exports (US$ mn)						
Arab Countries	559,658	678,816	790,610	1,069,212	722,579	931,108
World	10,489,000	12,113,000	14,000,000	16,116,000	12,522,000	15,238,000
Arab Countries/World (%)	5.3	5.6	5.6	6.6	5.8	6.1
Imports (US$ mn)						
Arab Countries	339,556	388,103	499,050	650,091	566,210	622,077
World	10,855,000	12,437,000	14,300,000	16,520,000	12,718,000	15,376,000
Arab Countries/World (%)	3.1	3.1	3.5	3.9	4.5	4.0

Arab consolidated trade balance in 2010, recorded a surplus of US$ 309 billion, doubling up the realized surplus in 2009, which was US$ 156 billion, this was due to the decrease in the trade balance surplus recorded in 11 Arab countries.

Figure (9): Arab Trade
(2005-2010)



[9] Statistical Appendix: *Table (9)*

Inter-Arab trade accounted to 9.4% of total Arab foreign trade in 2010, compared to 10.5% in 2009. Based on data extracted from Arab Unified Economic Report 2010 and the World Trade Organization (WTO), inter-Arab merchandise trade is expected to have reached US$ 146 billion in 2010, with exports accounting for 49.5% (US$ 72.3 billion) and imports accounting for 50.5% (US$ 73.7 billion).

The list of the **Top 30 global merchandise exporters and importers**, according to the World Trade Organization in 2010, accounted for 82.5% of total world merchandise trade, which amounted to US$ 15.3 trillion. The WTO also issued the global leading 40 services exporters and importers, accounted for 88.3% of total world service trade, which amounted to US$ 3.6 trillion.

Only two Arab countries made it to the list of the top 30 global merchandise exporters and importers, KSA ranked 16th, with 1.7% of the world's exports, US$ 254 billion in 2010. UAE, ranked 19th with 1.5% of the world's exports, US$ 235 billion in 2010. Furthermore, UAE was ranked 25th globally with a 1.1% share of the global merchandise imports, US$ 170 billion in 2010. As for the service trade list, Egypt and Lebanon were the only Arab countries to enter the largest global service exporters, ranking 35th and 39th, with 0.6% and 0.5% (US$ 24 billion and US$ 18 billion) of the world's service imports respectively.

Investment legislations

Arab countries' efforts were continued towards legislative reform, enhancing the doing business environment through deregulating investment laws, tax incentives & exemptions, improving terms and conditions of the bilateral, international & regional agreements, establishing new free & industrial zones, new airports & seaports, and activating the private sector's role within the comprehensive economic process.

Amid the effects of the global financial & economic crisis, the efforts of Arab countries at this level appear to be means of challenging the crisis, especially with the many benefits and advantages of these reforms which are reflected on the societies, economies, institutions and individuals to harness the technical developments and progress faster at a lower cost.

Arab countries composite ratings:
(based on the sovereign rating produced by the international rating agencies)[10]

The periodic international sovereign rating by the Financial Times, based on the sovereign rating of the international credit rating agencies, included eight Arab countries, in comparison to 12 Arab countries a year before. These seven countries ranked as follows:

- **Good investment grade, low risk and moderate repayment ability:**
  - **Tunisia**
  - **Libya**
- **Speculation grade, medium risk, and probability of repayment risks:**
  - **Egypt**
  - **Morocco**
  - **Jordan**
  - **Syria**
- **High speculation grade, high risk, high probability of repayment risks:**
  - **Lebanon**
  - **Yemen**

A number of international credit rating agencies covered 71 Arab banks and financial establishments & companies.[11]

The **Composite Country Risk Index (PRS)** / 18 Arab Countries

UAE, Saudi Arabia, Oman, Qatar, Kuwait and Libya.	**Very Low Risk**	**(80-100)**
Bahrain, Tunisia, Algeria and Morocco.	**Low Risk**	**(70-79)**
Jordan, Syria, Egypt and Yemen.	**Moderate Risk**	**(60-69)**
Sudan, Iraq and Lebanon.	**High Risk**	**(50-59)**
Somalia.	**Very High Risk**	**(<50)**

The **Institutional Investor** for Credit Rating / 20 Arab Countries

--	**Very Low Risk**	**(80-100)**

[10] **Statistical Appendix:** ***Table (11)***
[11] **Statistical Appendix:** ***Table (12)***

Qatar, Bahrain, Kuwait, Saudi Arabia, Oman and UAE.	**Low Risk**	**(70-79)**
Tunisia, Algeria, Morocco, Libya, Egypt and Jordan.	**Moderate Risk**	**(50-69)**
Lebanon, Syria, Iraq, Djibouti, Yemen and Mauritania.	**High Risk**	**(25-49)**
Sudan and Somalia.	**Very High Risk**	**(<25)**

Dun & Bradstreet Country Risk Indicator / 17 Arab Countries

UAE, Bahrain, Tunisia and Qatar.	**Low Risk**	**(DB2)**
Jordan, Saudi Arabia, Oman, Kuwait, Egypt and Morocco.	**Moderate Risk**	**(DB3)**
Lebanon.	**Probable Risk**	**(DB4)**
Algeria, Syria and Libya.	**High Risk**	**(DB5)**
Sudan, Iraq and Yemen	**Very High Risk**	**(DB6)**
--	**Extreme Risk**	**(DB7)**

COFACE Country Rating / 19 Arab Countries

UAE, Bahrain, Tunisia, Algeria, Qatar, Kuwait, Saudi Arabia, Oman, Morocco.	**Investment Grade**	**(A2 – A4)**
Jordan and Egypt.	**Speculation Grade**	**(B)**
Lebanon, Libya, Syria, Djibouti and Mauritania.	**Speculation Grade**	**(C)**
Sudan, Iraq and Yemen.	**High Speculation Grade**	**(D)**

Selected International Indices [12]

Global Competitiveness Index 2010/2011:

Qatar topped the Arab countries by reaching a global ranking of (17), followed by Saudi Arabia (21), UAE (25), Tunisia (32), Oman (34), Kuwait (35), Bahrain (37), Jordan (65), Morocco (75), Egypt (81), Algeria (86), and joining the report for the first time this year Lebanon (92). Then, Syria (97), and Libya (100). Compared to 2009/2010, six Arab countries moved up the ranks (Qatar, Saudi Arabia, Tunisia, Oman, Kuwait and Bahrain), whereas, eight Arab countries were downgraded (UAE, Jordan, Morocco, Egypt, Algeria, Syria, Libya and Mauritania). Whereas, Lebanon was added to the report for the first time this year.

Global Retail Development Index 2010

As a new addition to the report, for the first time this year, newcomer Kuwait topped the Arab countries, and reached the (2) place ranking globally. Followed by Saudi Arabia, ranking (4) globally, then UAE (7), Tunisia (11), Egypt (13), Morocco (15), and Algeria (21). Compared to 2009, four Arab countries recorded improvements in their ranking (Saudi Arabia, Tunisia, Egypt, and Morocco) whereas, UAE and Algeria descended.

The Ease of Doing Business Index 2011

KSA topped the Arab countries, while ranking (11) globally, followed by Bahrain (28) globally, UAE (40), Qatar (50), Tunisia (55), Oman (57), Kuwait (74), Egypt (94), Yemen (105) and Jordan (111). Compared to 2010, four countries saw improvements in their rankings (Saudi Arabia, Tunisia, Egypt, and Mauritania) whereas, 10 countries relatively dropped (Bahrain, UAE, Qatar, Kuwait, Yemen, Jordan, Lebanon, Palestine, Sudan, and Djibouti), whilst five countries kept their same ranking as last year (Oman, Morocco, Algeria, Syria and Iraq).

[12] **Statistical Appendix:** *Table (13)*